Docket:	:	A.07-01-009 et al.
Exhibit Number	:	
Commissioner	:	Dian Grueneich
Admin. Law Judge	:	Regina DeAngelis
DRA Project Mgr.	:	Victor Chan
	:	

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS OF GOLDEN STATE WATER COMPANY Region I SANTA MARIA DISTRICT for

Test Year 2008 and Escalation Years 2009 and 2010
Application 07-01-014
In Consolidated Proceeding A.07-01-009 et al.

San Francisco, California
May 14, 2007

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MEMORANDUM

In this Report, the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) presents its analyses, findings, and recommendations pertaining to the Golden State Water System (GSWC), general rate case (GRC) Application (A.) 07-01-014, for the Santa Maria District (Santa Maria), Region 1. Unless otherwise indicated, this Report pertains only to Santa Maria. GSWC is requesting Commission authorization to increase rates in Santa Maria charged for water service in 2008 by $2,937,400, an increase of 36.15% over present rates; in 2009 by $455,100, an increase of 4.09%; and in 2010 by $310,900, an increase of 2.67%.

The DRA Project Coordinator for this Report is Victor Chan. Cleveland Lee is DRA's Legal Counsel for this proceeding. The DRA witnesses' qualifications are set forth in Appendix A of this Report.

EXECUTIVE SUMMARY

I. INTRODUCTION

On January 5, 2007, Golden State Water System (GSWC) filed A. 07-01-014 requesting authorization to increase rates charged for water service in 2008 by $2,937,400, an increase of 36.15% over present rates; in 2009 by $455,100, an increase of 4.09%; and in 2010 by $310,900, an increase of 2.67%. For Test Years 2008 and 2009, GSWC requests a return on equity of 11.25% with a return on rate base of 9.41%.

Concurrently with this Report, DRA is separately submitting a Cost of Capital Report and a Regional and District Administrative Offices Report, which will present inter alia DRA's recommended rate of return as well as expenses and capital additions relating to its regional and district administrative offices in this proceeding.

II. SUMMARY OF RECOMMENDATION

DRA submits this Report as its prepared direct testimony in A.07-01-014, which is based on Staff's analyses, reviews, and findings of GSWC's A. 07-01-014. DRA recommends an overall revenue requirement of $8,910,000 in Test Year 2008, an overall increase of 8.03% over present rates for GSWC's ratepayers, as stated in the table below entitled "Summary of Earnings."

Summary of Earnings

Test Year 2008

DRA Present	GSWC Present	DRA Recommended	GSWC's Request
$8,247,600	$8,146,700	$8,910,000	$10,927,000

An overview of DRA's key recommendations is presented in the following Chapters:

a. Chapter 2- Customer, Consumption and Operating Revenue

Tables 2-1 to 2-4 at the end of this Chapter show DRA's recommendations and GSWC's updated estimates (as of February 15, 2007) for the average number of customers, water consumption, and operating revenues. For the Test Year 2008, the total average number of customers estimated by DRA and GSWC is 13,254 customers. DRA's total water supply estimated for the Test Year 2008 is 4,839,562 CCF compared to GSWC's 4,730,893 CCF. At the present and GSWC's proposed rates, DRA calculated operating revenues for the Test Year 2008 are $8,247,600 and $11,096,100 while GSWC's are $8,125,000 and $10,871,500, respectively.

b. Chapter 3-Expenses (O&M, A&G)

DRA recommend $4,299,500 in operating expenses for Test Year 2008. GSWC's propose $5,199,100. DRA's estimate is $899,600 lower than GSWC proposal due to use of different Escalation Factors, assumptions, and methodologies to forecast these future expense amounts.

c. Chapter 4-Plant In Service

GSWC requests plant additions of $45,505,200 for 2007, $48,095,500 for Test Year 2008 and $50,011,100 for Test Year 2009, whereas DRA recommends plant additions of $43,766,000 in 2007, $44,620,200 in Test Year 2008 and $45,341,400 in Test Year 2009. In addition to differences in plant additions, DRA will present different recommendations concerning GSWC's partnership with

engineering firm CH2MHILL, GSWC's Overhead Rate, and GSWC's planned and unplanned project Contingency adder**.**

d. Chapter 5- Depreciation Expenses and Reserve

Differences in DRA and GSWC's estimates are due to differences in GSWC's requested plant additions and DRA recommended plant additions for the Test Years. These differences are discussed in Chapter 4 on Utility Plant Additions. GSWC requests depreciation of $13,636,900 in Test Year 2008 and $15,278,200 in Test Year 2009. DRA recommends $13,663,700 in Test Year 2008 and $15,038,400 in Test Year 2009.

e. Chapter 6-Rate Base

GSWC requests rate base of $27,458,800 for Test Year 2008 and $27,641,600 for Test Year 2009. DRA recommends $23,848,600 for Test Year 2008 and $23,089,500 for Test Year 2009. The differences in rate base between GSWC and DRA involve issues of plant additions and CWIP.

f. Chapter 7-Taxes

DRA estimates higher income taxes for both State and Federal income taxes as shown in Table 7-2. The difference between GSWC's and DRA's estimates is due to different estimates of revenue requirement, expenses, rate base, and other tax issues.

g. Chapter 8-Policy Issues

DRA reviewed various water quality documents provided by GSWC and contacted DHS for information relating to the compliance history of the Santa Maria Water System and found that these water systems have been in compliance with the drinking water standards during 2004 to 2006. DRA also learned through the Public Advisor's office that GSWC has generally been providing satisfactory service to the Santa Maria customers. Additionally, DRA recommends that all litigation costs, except $2.7 million that had been included in prior GRC, be

excluded from its rate base and O&M accounts in the current GRC relating to the Santa Maria Water Rights Litigation. This is consistent with the pending settlement reached among DRA, the Orcutt Area Advisory Group, and GSWC.

h. Chapter 9-Rate Design

GSWC's rate design is consistent with the method set forth in D.86-05-064. Approximately 50% of fixed costs are recovered through the service charge, and the remaining costs are recovered through a single block commodity rate.

i. Chapter 10- Escalation Years

DRA estimates $8,900,000 and $8,865,000 as the revenue requirements for Escalation Years 2009 and 2010, respectively, as compared to $11,453,500 and $11,835,700 estimated by GSWC for the same periods.

List of Chapters and the Sponsoring DRA Witness

Chapter Number	Description	Witness
-	Executive Summary	Victor Chan
1	Summary of Earnings	Victor Chan
2	Customer, Consumption, Operating Revenue	Victor Moon
3	Expenses (O&M, A&G)	Eric Matsuoka
4	Plants in Service	Mehboob Aslam
5	Depreciated and Amortization Expenses	Mehboob Aslam
6	Rate Base	Mehboob Aslam
7	Taxes	Eric Matsuoka
8	Rate Design	Victor Moon
9	Policy Issues	Victor Chan
10	Escalations Years	Victor Chan
	Appendix A (Escalation Factors)	
	Appendix B (Qualifications and Prepared Testimony)	

CHAPTER 1 SUMMARY OF EARNINGS

A. Introduction

This Chapter provides DRA's recommendations pertaining to A.07-01-014, GSWC's general rate increase request for Test Year 2008 and Escalation Years 2009 and 2010.

B. Summary of Recommendations

The GSWC Summary of Earnings shown in Table 1-1 at the end of this Chapter, compares the results of operations for the Test Year 2008, including revenues, expenses, taxes, and rate base.

C. Discussion

The total revenues requested by GSWC are as follow:

Year	Amount of Increase	Percent
Test Year 2008	$2,937,400	36.15%
Escalation Year 2009	$455,100	4.09%
Escalation Year 2010	$310,900	2.67%

GSWC estimates that its proposed rates will produce revenues providing the following returns for Test Year 2008:

Test Year	Return on Rate base	Return on Equity
2008	9.41%	11.25%

D. Conclusion

DRA recommends a revenue increase for Test Year 2008 as follows (Years 2009 and 2010 are covered in Chapter 10:

Test Year	Amount of Increase	Percent
2008	$662,400	8.03%

The last general rate increase for GSWC was authorized by D. 05-05-025 in A. 04-08-042, resulting in a rate of return on rate base of 6.12% in 2005 and 6.68% in 2006. In this Report DRA used the most recent rates filed in AL 1236W which became effective on January 1, 2007.

A comparison of DRA's and GSWC's estimates for rate of return on rate base for the Test Year 2008 at present rates is shown below:

	Rate of Return		
	2008		
	DRA	GSWC	Diff
Present Rates	7.24%	3.73%	3.51%

TABLE 1-1				
GOLDEN STATE WATER COMPANY				
Region I- Santa Maria District				
SUMMARY OF EARNINGS				
Test Year 2008				
	DRA	Utility	DRA	Utility
Item	Present	Present	Recommended	Requested
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Operating Revenues	8,247.6	8,146.7	8,910.0	10,927.0
Total Revenue	8,247.6	8,146.7	8,910.0	10,927.0
Expenses				
Operation & Maintenance	2,839.2	3,175.2	2,839.2	3,176.9
Admininistrative and General	1,458.2	2,021.8	1,458.2	2,021.8
Depreciation & Amortization	1,348.0	1,588.1	1,348.0	1,588.1
Taxes Other Than Income	207.8	218.3	207.8	218.3
CCFT	117.8	(4.8)	176.4	240.9
FIT	548.9	124.7	780.8	1,097.2
Total Expenses	6,519.9	7,123.3	6,810.4	8,343.2
Net Income	1,727.7	1,023.4	2,099.6	2,583.8
Rate base	23,848.7	27,458.7	23,848.7	27,458.7
Rate of Return	7.24%	3.73%	8.80%	9.41%

CHAPTER 2 CUSTOMER, CONSUMPTION, OPERATING REVENUE

A. Introduction

This chapter sets forth DRA's analyses and recommendations regarding the number of customers, water consumption, and operating revenues in the Test Year 2008 for GSWC's Santa Maria CSA in the San Luis Obispo and Santa Barbara Counties.

B. Summary of Recommendations

Tables 2-1 to 2-4 at the end of this Chapter show DRA's recommendations and GSWC's updated estimates (as of February 15, 2007) for the average number of customers, water consumption, and operating revenues. For the Test Year 2008, the total average number of customers estimated by DRA and GSWC is 13,254 customers. DRA's total water supply estimated for the Test Year 2008 is 4,839,562 Ccf compared to GSWC's 4,730,893 Ccf.

At the present and GSWC's proposed rates, DRA's calculated operating revenues for the Test Year 2008 are $8,247,600 and $11,096,100 while GSWC's are $8,125,000 and $10,871,500, respectively.

C. Discussion

D.04-06-018 sets forth the revised Rate Case Plan (RCP) standards and procedures for Class A water utilities filing a general rate case (GRC) application. That Decision requires the applicant utility to forecast customer growth using a five-year average of the change in the number of customers by customer class. The utility and DRA must use the "New Committee Method" to forecast per customer usage for the residential and small commercial customer classes in general rate cases, based on the Standard Practice No. U-2 and "Supplement to Standard Practice No. U-25" with the following improvements adopted by D.04-06-018:

- Use monthly data for 10 years, if available;

- Use 30-year average for forecast values for temperature and rain; and
- Remove periods from the historical data in which sales restrictions were imposed or the Commission provided the utility with sales adjustment compensation, but replace with additional historical data to obtain 10 years of monthly data, if available.[1]

Water sales for classes of service other than residential and small commercial (such as irrigation, industrial, reclaimed, public authority, and other) should be forecasted based on total consumption by class using the best available data.[2] The "New Committee Method" is not applicable to any other classes other than the residential and commercial classes.

1) Customers

DRA concurs with GSWC's methodology for estimating its customer growth based on the last recorded 5-year average of 2002 through 2006, with which the total number of customers was estimated as 13,254 customers by both parties.

2) Average Consumption

With the exception of metered commercial water use, DRA concurs with GSWC's updated water use forecasted for the other customer classifications, which used the methodology to calculate water use based on the last 5-year average from 2002 through 2006.

For the metered commercial water use, DRA forecasted 317.7 Ccf per customer per year for the Test Year 2008 as opposed to GSWC's 310.4 Ccf. The difference in water use is due to the different methodologies used by the parties. DRA's regression model incorporates the time variable while GSWC's does not. Time is an essential factor for forecasting water use because it trends specifically for

[1] D.04-06-018, memo, at App. At 6-7.

[2] (D) 04-06-018, at App. 6-7, sec. IV (1) ©, subsec. "Results of Operation."

the designated time period for the Test Year. DRA's R^2 value calculated for the regression model indicated a higher correlation with 74.1% than GSWC's 73.9%. DRA's forecast for metered commercial water use more reasonably reflects the future pattern of water use than GSWC's.

3) Total Water Supply

The total water supply represents the sum of water sales, and water loss. Water sales are calculated by the product of the number of customers and water use.

The difference in total water supply estimated for the fiscal Test Year 2008 is mainly due to the difference in water use estimated by DRA and GSWC; and GSWC inadvertently erred in its well water supply estimates—it should had been shown as 4,730,893 Ccf instead of 4,718,570 Ccf in its updated Table 4-D because all of its water is produced from wells.

Water loss is the amount of water lost through operations and unaccounted- for water due to leakage. Water used in operations covers water used in flushing the system whereas unaccounted-for water is determined to be the difference between the total amount of water produced and the total amount of potable water recorded for sales.

DRA accepted GSWC's request of 10.54% water loss based on the most recent 5-year recorded average. The trend on the water loss for the last 5 years has been downward from 10.69% in 2002 to 10.23% in 2006.

4) Operating Revenue

Operating revenue is calculated by multiplying the number of customers to applicable water use and to the current tariff rates for the present revenue; and to the proposed rates for the proposed revenue.

The difference in operating revenues estimated by the parties is mainly due to the difference in water use used to calculate the respective revenues.

GSWC erred in calculating its quantity revenue for irrigation customers by using an erroneous water sales amount. GSWC's estimated irrigation water sales of 36,254 Ccf (1,726.4 Ccf * 21) as shown on Sheets Nos. U-1 and U-2 of the updated workpapers are correct; but instead, GSWC used 35,771 Ccf (in U-5) for calculating its quantity revenue with a difference of 483 Ccf (36,254 Ccf minus 35,771 Ccf) resulting in a revenue shortage of $547 ($25,727 minus $25,180 in U-7). DRA agrees with GSWC's estimate of $10,767 for Schedule SM-3ML T/C irrigation quantity revenue. The difference of $547 is due to SM-1 T/C 87 irrigation quantity revenue.

D. Conclusion

Upon investigating and analyzing GSWC's requests for the number of customers, water consumption, and revenues, DRA's estimates are just and reasonable for the reasons discussed above. The Commission should adopt DRA's recommendations.

TABLE 2-1				
GOLDEN STATE WATER COMPANY				
Region I- Santa Maria District				
AVERAGE SERVICES				
2008				
	DRA	Utility	DRA Exceeded GSWC	
Item	Analysis	Estimated	Diff	Percent
	(A)	(B)		
Metered Service:				
Commercial	13,173	13,173	0	0.00%
Industrial	5	5	0	0.00%
Public Authority	16	16	0	0.00%
Irrigation	21	21	0	0.00%
Resale	0	0	0	0.00%
Contract	0	0	0	0.00%
Other	0	0	0	0.00%
Total Metered	13,215	13,215	0	0.00%
Flat Rate				
Commercial	0	0	0	0.00%
Public Authority	0	0	0	0.00%
Private Fire	39	39	0	0.00%
Total Flat Rate	39	39	0	0.00%
Total Average Customers	13,254	13,254	0	0.00%

TABLE 2-2				
GOLDEN STATE WATER COMPANY				
Region I- Santa Maria District				
Average consumption per customer				
2008				
	DRA	Utility	DRA Exceeded GSWC	
Item	Analysis	Estimated	Diff	Percent
	(A)	(B)		
Metered Service:				
Commercial	317.7	310.4	7.3	2.35%
Industrial	38.0	38.0	0.0	0.00%
Public Authority	6,542.6	6,542.6	0.0	0.00%
Irrigation	1,726.4	1,726.4	0.0	0.00%
Resale	0.0	0.0	0.0	0.00%
Contract	0.0	0.0	0.0	0.00%
Other	409.4	409.4	0.0	0.00%
Flat Rate				
Commercial	0.0	0.0	0.0	0.00%
Public Authority	0.0	0.0	0.0	0.00%
Private Fire	72.2	72.2	0.0	0.00%

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TABLE 2-3				
GOLDEN STATE WATER COMPANY				
Region I- Santa Maria District				
OPERATING REVENUES				
(at Present Rates)				
Item	DRA	GSWC	DRA Exceeded GSWC	
	(A)	(B)	Diff.	%
	(Dollars in Thousands)			
Metered Service:				
Commercial	8,004.8	7,882.7	122	1.55%
Industrial	1.5	1.5	0	0.00%
Public Authority	152.1	152.1	0	0.00%
Irrigation	58.2	57.7	1	0.00%
Resale	0.0	0.0	0	0.00%
Contract	0.0	0.0	0	0.00%
Other	0.0	0.0	0	0.00%
Total Metered	8,216.6	8,094.0	123	1.51%
Flat Rate				
Commercial	0.0	0.0	0	0.00%
Public Authority	0.0	0.0	0	0.00%
Private Fire	21.9	21.9	0	0.00%
Total Flat Rate	21.9	21.9	0	0.00%
Public Fire				
Miscellaneous				
Misc. Service	7.9	7.9	0	0.00%
Rent	0.0	0.0	0	0
Other	1.2	1.2	0	0
Revenue Accrued	0.0	0.0	0	0
Supply Bal. Accts	0.0	0.0	0	0.00%
Total Misc.	9.1	9.1	0	0.00%
Total Operating Revenue	8,247.6	8,125.0	123	1.51%

Table 2-4				
GOLDEN STATE WATER COMPANY				
TOTAL CONSUMPTION AND SUPPLY				
TOTAL CONSUMPTION AND SUPPLY				
(CCF PER YEAR - 2008)				
	DRA	Utility	DRA Exceeded GSWC	
Item			Amount	Percent
	(A)	(B)		
Metered Service Sales:				
Commercial	4,185,589.0	4,088,372.3	97,216.7	2.38%
Industrial	190.0	190.0	0.0	0.00%
Public Authority	104,681.6	104,681.6	0.0	0.00%
Irrigation	36,254.4	36,254.4	0.0	0.00%
Resale	0.0	0.0	0.0	0.00%
Contract	0.0	0.0	0.0	0.00%
Other	0.0	0.0	0.0	0.00%
Total Metered	4,326,715.0	4,229,498.3	97,216.7	2.30%
Flat Rate Sales				
Commercial	0.0	0.0	0.0	0.00%
Public Authority	0.0	0.0	0.0	0.00%
Private Fire	2,815.8	2,815.8	0.0	0.00%
Total Sales	4,329,530.8	4,232,314.1	97,216.7	2.30%
Unacct For (% of supply	477,993.4	467,260.4	10,733.0	2.30%
Used in Operations	32,038.0	31,318.6	719.4	2.30%
Total Supply Forecast	4,839,562.2	4,730,893.1	108,669.1	2.30%

CHAPTER 3 EXPENSES

A. Introduction

This Chapter sets forth the analyses and recommendations of DRA for operating expenses. DRA's review is based on GSWC's application, testimonies, supporting work papers, Region I headquarter and district office, discussions with GSWC employees, e-mail from GSWC, and GSWC data responses.

B. Summary of Recommendations

DRA recommend $4,298,100 in operating expenses for Test Year 2008. GSWC proposes $5,199,100. DRA's estimate is $901,000 lower than GSWC's because of issues involving escalation factors, assumptions, and the methodologies used to forecast these future expense amounts.

Table 3-1 below compares DRA's recommended and GSWC's proposed estimates of operating expenses.

C. Discussion

Table 3-1 shows line item expenses recommended by DRA and compares them with those requested by GSWC. Following this is the discussion of each expense estimate listed.

Table 3-1				
Region I Santa Maria				
Test Year 2008				
(Dollars in Thousands)				
	DRA	GSWC		
Purchased Power	$ 1,544.1	$ 1,509.3		
Pump Taxes	-	218.8		
Chemicals	44.0	43.6		
Allocated Common Cust Acct-GO	71.9	106.1		
Uncollectibles 0.062%	5.5	6.7		
Operation Labor	509.0	509.0		
Other Operation Expenses	271.7	298.3		
Total Operation Expenses	2,446.2	2,691.8		
Maintenance Labor	147.6	147.6		
Other Maintenance Expenses	245.4	337.6		
Total Maintenance Expenses	393.0	485.2		
Office Supplies & Expenses	45.2	69.4		
Injuries and Damages	1.3	1.3		
Pension and Benefits	5.9	7.2		
Business Meals	1.2	1.2		
Regulatory Expenses	44.7	93.1		
Outside Services	48.8	130.2		
Miscellaneous	2.1	2.1		
Allocated General Office	804.2	1,178.7		
Allocated Region Office	234.3	259.6		
Allocated District Office	139.7	142.3		
Other Maint. Of Gen. Plt	8.0	8.0		
Rent	72.7	72.7		
A&G Labor	50.8	56.3		
Total A&G Expenses	1,458.9	2,022.1		
Total O&M & A&G	$ 4,298.1	$ 5,199.1		

1. Escalation Factors

GSWC used the escalation factors established by the DRA Energy Cost of Service Branch memorandum dated the October 31, 2006. GSWC applied other factors to determine the future amounts of labor expenses. GSWC also applied a customer growth escalation factor to forecast certain Test Year expenses.

DRA recommends using the most recent escalation factors provided in the DRA Energy Cost of Service Branch, Escalation Memorandum dated February 28, 2007, which is reflected in DRA's estimates. Below DRA analyzes and recommends

amounts different than those proposed by GSWC. DRA also applied a customer growth escalation factor to forecast Test Year expenses.

2. Operation Expenses

a. Purchased Power

DRA recommends $1,544,100 and GSWC requests $1,509,300 for purchased power expenses. DRA estimate is $34,800 higher than GSWC proposal, due to a higher total production quantity estimated by DRA's revenue witness. The total production quantity numbers is found at Chapter 2 in this Report.

DRA and GSWC use the same unit of kilowatt hour per production and the same cost per kilowatt hour.

b. Pump Taxes

DRA reduces GSWC's request of $218,800 for pump taxes expenses in Test Year 2008 by the same amount, because this was requested in A.06-02-023, which pending before the Commission now.

c. Chemicals

DRA recommends $44,000 and GSWC requests $43,600 for chemicals expenses in Test Year 2008. DRA estimate is $400 higher than GSWC proposal, due to a higher total production quantity estimated by DRA's revenue witness. The total production quantity numbers is found at Chapter 2 in this Report.

GSWC requested an amount of $4.01 per acre foot unit cost. GSWC uses an inflated five-year average to 2006 dollars; applied an escalation factor to the adjusted average number to develop the unit cost for 2007; and applied the escalation factor to the unit cost of 2007 number to develop its estimate for Test Year 2008.

DRA uses the same methodology to develop its unit cost estimate of $3.96 per acre foot unit cost for Test Year 2008. It appears that the different publication of the escalation factors may attribute to the difference in estimates.

d. Various Allocated Expenses

The data for the miscellaneous allocated expenses stated below are provided in a separate report and discussed by the DRA Regional witness:

- Allocated Common Customer Accounts-General Office;
- The Allocated General Office Expenses;
- The Allocated Regional Office Expenses; and
- The Allocated District Office Expenses.

e. Uncollectible

DRA recommends the same percentage rate of 0.062% requested by GSWC for uncollectible expenses.

f. Operation Labor Expenses

The discussion below analyzes the labor expenses in Operation, Maintenance, and Administrative and General.

DRA recommends the same level of expenses of $509,000 as requested by GSWC for operation labor in Test Year 2008.

DRA recommends the same level of expenses of $147,600 as requested by GSWC for maintenance labor in Test Year 2008.

DRA recommends $50,800 and GSWC requested $56,300 for administrative and general labor expenses in Test Year 2008, which DRA's recommendation is $5,500 less than GSWC's proposal.

In projecting labor expense, GSWC started with actual and vacant positions for the Coastal District and Santa Maria District and related annual salary expense for 2006. GSWC increased the expenses for labor recorded in 2006 by including the vacant positions, resulting in a restated labor expense for 2006. Then, GSWC applied the allocated percentage of labor expenses for 2006 to the restated labor expenses to determine a number and percentage for capitalized and expensed portion of labor expenses. The expense portion is use for its base labor expenses to project future labor expenses.

DRA replaced the restated labor expenses with the actual recorded labor expenses for 2006, which DRA uses as its base labor expense to project future amount. According to D.05-07-044, mimeo at page 10, the Commission excluded vacant positions, holding that adjustments should not be made for temporary vacancies absent a showing of extraordinary circumstances. In D.05-07-044, the Commission further stated:

> To the extent there were vacancies in the recorded year, we should assume there will also be comparable vacancy savings in the test year and escalation years.

Next, GSWC applied a wage escalation factor of 3.3% to the restated base labor expense to calculate its labor expense for 2007. Then, GSWC applied a merit increase factor of 1.28%, a wage inflation factor of 2.20%, and an overtime factor of 3.52% to the labor expense of 2007 to determine its estimate for Test Year 2008. GSWC management uses the merit increase factor to maintain its experienced and high performing employees. The merit increase factor creates a pool of fund to award employees who perform above the level expected for their positions.

DRA escalated the actual recorded labor expenses for 2006 to Test Year 2008 dollars by using the labor escalation factor of 3.2% for 2007 and 1.5% for Test Year 2008.

DRA removed the merit increase factor of 1.28% because the recorded labor expenses reflect labor activities, such as temporary vacancies, overtime, and other activities, for 2006; the Application failed to show the reasonableness and support for the merit increase factor of 1.28% in this general rate cycle; and the 1.28% merit increase factor boosters the recorded labor expenses of 2006.

g. Other Operation Expenses

DRA recommends $271,700 and GSWC requested $298,300 for other operation expenses, which DRA recommendation is $26,600 less than GSWC's proposal.

Other Operation Expenses consist of many sub accounts or line items expenses. Instead of requesting an estimate for each sub accounts, GSWC consolidated each sub accounts into one estimate for other operation expense. GSWC also requests $4,000 to be added to the five-year average of the conservation expenses sub account and $18,750 to be added, because of a tentative agreement concerning GSWC's share of operation and maintenance expenses in the Nipomo Mesa Management Area.

GSWC uses an inflated adjusted five-year average to 2006 dollars; applied the Escalation Factor to the adjusted average number to develop the expense for 2007; added $4,000 for conservation expense and $18,750 to the 2007 expenses; and applied the escalation factor to the total expenses of 2007 to develop its estimate of $298,300 for Test Year 2008. GSWC boosters its estimate for Test Year 2008 by adding the additional $4,000 for conservation expenses and $18,750 for the operation and maintenance expenses in the Nipomo Mesa Management Area in 2007 or the last year of the last general rate cycle.

DRA uses an inflated adjusted three-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2008; and added $4,000 for conservation expense to the 2008 expenses to develop its estimate of $271,700 for Test Year 2008. DRA uses an inflated adjusted three-year average due to the fluctuation in recorded expenses for the past five years, such as a low of $163,700 in 2002 to a high of $310,100 in 2004, and to provide a continuous level of expenses.

DRA reduces the request of $18,750 for operation and maintenance expenses in the Nipomo Mesa Management Area in Test Year 2008 by the same amount, because this matter is already addressed in A.06-02-026 which is now pending before the Commission now.

3. Maintenance Expenses

a. Maintenance Labor

Refer to Section 2 (“Operation Expenses”), subsection (f) (“Operation Labor”), above for discussion of labor expenses.

b. Other Maintenance Expenses

DRA recommends $245,400 and GSWC requested $337,600 for other maintenance expenses, which DRA recommendation is $92,200 less than GSWC’s proposal.

Other Maintenance Expenses consists of many sub accounts or line items expenses. Instead of requesting an estimate for each sub accounts, GSWC consolidated each sub accounts into one request for other maintenance expenses and included an additional expense of $107,170 for maintenance of three wells in 2007, in its estimate of Test Year 2008.

GSWC uses an inflated adjusted five-year average to 2006 dollars; applied an escalation factor to the adjusted average number to develop the expense for 2007 and added the $107,170 to develop the total estimated expenses for 2007; and applied the escalation factor to the total expenses for 2007 to develop its estimate for Test Year 2008.

DRA uses an inflated adjusted three-year average to 2006 dollars and applied the escalation factor to the adjusted average number to develop the estimate for Test Year 2008. DRA uses an inflated adjusted three-year average due to the fluctuation in the recorded expenses for the past five years, such as a low of $144,800 in 2003 to a high of $316,500 in 2006, and to provide a continuous level of expenses.

DRA reduces the request of $107,170 for maintenance of well expenses in 2007 for Test Year 2008 by the same amount, because this is a 2007 expense, which it is outside this general rate case cycle.

4. Administrative and General Expenses

a. Office Supplies and Expenses

DRA recommends $45,200 and GSWC requested $69,400 for office supplies and expenses, which DRA recommendation is $24,200 less than GSWC's proposal.

GSWC uses an inflated adjusted two-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2007; and applied an escalation factor to the 2007 expense to develop the estimate for Test Year 2008.

DRA use an inflated adjusted three-year average to 2006 dollars and applied the escalation factor to the adjusted average number to develop the estimate for Test Year 2008. DRA use an inflated adjusted three-year average due to the fluctuation in the recorded expenses for the past five years, such as a low of $23,900 in 2002 to a high of $70,700 in 2006, and to provide a continuous level of expenses.

b Injuries and Damages

DRA recommends the same level of expenses of $1,300 as requested by GSWC, for injuries and damages in Test Year 2008.

c. Pension and Benefits

DRA recommends $5,900 and GSWC requested $7,200 for pension and benefits expenses, which DRA recommendation is $1,300 less than GSWC's proposal.

GSWC uses an inflated adjusted three-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2007; and applied an escalation factor to the 2007 expense to develop the estimate for Test Year 2008. GSWC selected the last three years, which recorded the higher expenses for the past five years.

DRA uses an inflated adjusted three-year average to 2006 dollars and applied the escalation factor to the adjusted average number to develop the estimate for Test Year 2008. DRA use an inflated adjusted three-year average due to the fluctuation in

the recorded expenses for the past five years, such as from a low of $1,100 in 2002 to a high of $6,700 in 2005, and to provide a continuous level of expenses.

d. Business Meals

DRA recommends the same level of expenses of $1,200 as requested by GSWC for business meals in Test Year 2008.

e. Regulatory Commission Expense

DRA recommends a regulatory commission expenses amount of $134,000 or a yearly amortized amount of $44,700 over three years. GSWC requests $279,300 or a yearly amortized amount of $93,100 over three years. DRA's recommendation is less than GSWC's in an amount of $145,300, or $48,400 less than GSWC's proposed yearly amortization. Table 3-3 depicts the expense activity for the last general rate case, which DRA uses to forecast Test Year 2008 expenses.

Table 3-2
Region I Santa Maria CSA
Test Year 2008
(Dollars in Thousands)

		2005	2006	2007	DRA	GSWC
D.05-05-025	Adopted	$ 44.4	45.2	46.3		
	Recorded	8.0	23.2	46.3		
	Total Regulatory Expense				134.0	279.3
	Yearly Expense-3 years				44.7	$ 93.1

GSWC uses its last general rate case expenses for Region II, A.06-02-023, as a basis for estimating Region I's regulatory commission expense for Test Year 2008. As of the date of this Report, the Commission has not issued a final decision in A.06-02-023. It is to be noted that A.06-02-023 also addressed GSWC's General Office request to increase its revenue requirements.

GSWC requests a yearly amortization of $93,100 in its Work papers, Summary of Earnings, Sheet No. U-2; however, at Work paper, "Administrative and General Expenses," Sheet No. 3, the data support a yearly amortization of $70,500, which

results in a difference of $22,600 in yearly amortization of regulatory commission expenses. DRA recommendation for a yearly amortization of $44,700 more closely reflects the data in GSWC Work papers that support an estimate of $70,500.

DRA uses an inflated adjusted sum of recorded expenses for three years to 2007 dollars, assuming that GSWC will record the same amount of expenses adopted for 2007; applied an escalation factor to the adjusted sum number to develop the estimate for 2008; and added the estimated expenses for mailing cost, publishing cost, and miscellaneous expenses to the 2008 expenses to develop the expenses for Test Year 2008. DRA has increased the postage rate from 39 cents to 42 cents for mailing cost in anticipation of an increase in May 2007.

f. Outside Services

DRA recommends $48,800 and GSWC requested $130,200 for outside services expenses, which DRA recommendation is $81,400 less than GSWC's proposal.

GSWC uses an inflated adjusted two-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2007; and applied an escalation factor to the 2007 expense to develop the estimate for Test Year 2008. GSWC selected the last two years, which recorded the higher expenses for the past five years.

DRA use an inflated adjusted three-year average to 2006 dollars and applied the escalation factor to the adjusted average number to develop the estimate for Test Year 2008. DRA uses an inflated adjusted three-year average due to the fluctuation in the recorded expenses for the past five years, such as from a low of $1,700 in 2002 to a high of $200,700 in 2006, and to provide a continuous level of expenses.

g. Miscellaneous

DRA recommends the same level of expenses of $2,100 as requested by GSWC for miscellaneous in Test Year 2008.

h. Other Maintenance General Plant

DRA recommends the same level of expenses of $8,000 as requested by GSWC for other maintenance-general plant in Test Year 2008.

i. Rent

DRA recommends the same level of expenses of $72,700 as requested by GSWC for rent in Test Year 2008.

j. Administrative and General Labor Expense

Refer to Section 2 (“Operation Expense”), subsection (f) (“Operation Labor”) above for discussion on labor expenses.

CHAPTER 4 PLANT IN SERVICE

A. Introduction

This Chapter sets forth the analyses and recommendations of DRA for Plant in Service in the Santa Maria CSA. DRA's recommendations are based on GSWC's application, testimonies, supporting work papers, discussions with GSWC employees, e-mail from GSWC, and GSWC data responses.

B. Summary

GSWC requests plant additions of $2,435,400 for 2007, $1,794,000 for Test Year 2008 and $1,731,600 for Test Year 2009, whereas DRA recommends plant additions of $426,800 in 2007, $489,400 in Test Year 2008 and $464,000 in Test Year 2009.

In addition to differences in plant additions, DRA will present different recommendations concerning GSWC's partnership with engineering firm CH2MHILL, GSWC's Overhead Rate, and GSWC's planned and unplanned project Contingency adder**.**

C. Discussion

I. Capital Projects in year 2007

For the year 2007 Company requested an overall amount of $2,435,400 for its capital projects; DRA recommends an amount of $426,800. Following are the details of DRA's recommendations and a summary table:

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Water Rights Adjudiction	955,000	0	-955,000	-100%
Sisquoc- Foxenwood Site- Well Pump Backup Power	162,000	0	-162,000	-100%
Nipomo- La Serena Erosion Control	43,000	0	-43,000	-100%
Nipomo- La Serena Site Paving	64,000	0	-64,000	-100%
Miscellaneous Bowl Replacement	213,000	76,000	-137,000	-64%
Street Improvements	21,000	9,000	-12,000	-57%
Hydrants	27,000	9,000	-18,000	-67%
Valves	32,000	17,000	-15,000	-47%
Tejas/Mesa Zone Split	80,000	0	-80,000	-100%
SCADA-Implementation Plan	53,000	0	-53,000	-100%
Mater Plans_ Orcutt, Nipomo, Lake Marie	359,000	0	-359,000	-100%
Contingency	39,000	29,000	-10,000	-26%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	2,073,000	165,000	-1,908,000	-92%
Blanket Projects				
Meters	96,600	85,300	-11,300	-12%
Services	145,000	128,000	-17,000	-12%
Minor Main Replacement	29,000	5,800	-23,200	-80%
Minor Pumping equipment	29,000	25,600	-3,400	-12%
Minor Purification equipment	4,800	4,300	-500	-10%
Office Furniture	4,800	4,300	-500	-10%
Heavy Duty 1-Ton Vehicle for Towing Backhoe	43,500	0	-43,500	-100%
Miscellaneous Tools and Equipment	9,700	8,500	-1,200	-12%
Total Blanket Projects	362,400	261,800	-100,600	-28%
Total Capital Budget	**2,435,400**	**426,800**	**-2,008,600**	**-82%**

i. Water Right Litigation

GSWC requested an amount of $955,000 in the year 2007 for the purpose of ratebasing the funds the Company spent in defending its water rights in Santa Maria. The Water Rights Litigation in Santa Maria has a history of more than ten years. The Company already included more than one million dollars of its legal expenditures in its rate base during the last Rate Case. The Company is awaiting a Commission decision regarding its application[3] to determine the ratemaking treatment of such legal expenditures.

DRA recommends that because this matter is already before the Commission in another docket, any requests in this proceeding involving these expenses should be excluded to avoid a duplication of effort and to conserve Commission resources. Please refer to Chapter 8, "Policy Issues," for further discussion of this issue.

[3] GSWC's Water Right Adjudication Application, A.06-02-026

ii. Sisquoc- Foxenwood Site- Well Pump Backup Power

GSWC requests $162,000 in the year 2007 for the purpose of purchasing and installing a 20KW, diesel powered generator at the Foxenwood Canyon Well site in the Sisquoc System. DRA performed an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project, and to establish the reasonableness of the Company's cost estimations. Based on this analysis, DRA recommends disallowing this project.

The Company claims[4] that the purpose of this project is to increase water supply reliability for the Sisquoc System. The Foxenwood Canyon Well is the only source of water supply, and reservoir storage is limited to 20,000 gallons. If electric power were interrupted, the customers would be out of water in as little as four hours during a period of high water demand. A power outage in August of 2005 resulted in a low pressure condition and a precautionary boil water order. Due to the presence of overhead power lines, power outages occur twice a year on average.

However, GSWC did not provide any documentation supporting any of its claims. For example, no work papers or other records show how the time estimate of four hours mentioned above was calculated, and no historical data was presented documenting the electric outages in the area. Similarly, GSWC did not provide any support for the cost estimates prepared by the CH2MHILL.

At DRA's request, the Company stated[5] that according to its December 1999 Master Plan, the maximum day demand for this system is 75 gallon per minute (gpm) and therefore with no electric power, the 20,000 gallon storage will last only 4.5 hours. However, the Master Plan[6] inconsistently revealed that the projected maximum day demand would be 100 gpm. When DRA questioned this discrepancy, the

[4] GSWC's workpapers of Santa Maria, page 81

[5] GSWC's response to DRA's Data Request, AMX-25

[6] GSWC's response to DRA's Data Request, AMX-01

Company responded that the projected maximum day demand of 100 gpm never occurred so the recorded maximum day demand of 75 gpm was used.

According to the last six years of electric outage data provided by the Company to DRA's Data Request[7], the duration of an electrical outage varied over the years, ranging from a low of 3 minutes in the 2004 and to a high of 232 minutes in 2006. Therefore, the electrical outage never lasted for more than four hours in the last six years, and on average continued only for 1.2 hours.

Based on such data, DRA concluded that GSWC's existing water storage is sufficient to meet the maximum day demand. The Company only needs to have a reasonable level of water in these tanks. At a full level, the water in these tanks would last more than 4.5 hours of an electrical outage.

During DRA's field trip[8] to the Santa Maria Customer Service Area, DRA discovered that the Company already owns a mobile generator unit, and in less than an hour, mobile unit could be brought to the Foxenwood Canyon Well if an electrical outage occurred. DRA therefore finds the GSWC request for a backup generator is unsupported and unreasonable.

The cost estimation of $162,000 for the generator stated in GSWC workpapers[9] were actually prepared by its outside consultant CH2MHILL. These cost estimations did not support with any time cards, industry standards, or other records the salary expenses and time-spent claimed for CH2MHILL personnel purportedly engaged in the project. Similarly, the CH2MHILL estimates for the cost of the subcontractors' actual construction work were undocumented in terms of rates and hours worked. These estimates included markups for labor, equipment, and the installation, yet no industry standards were provided to calculate these markups.

[7] GSWC's response to DRA's Data Request, AMX-25 (Question-3)

[8] DRA's Filed Trip of the Company's Santa Maria CSA on March 6, 2007

[9] GSWC's workpapers of Santa Maria, pages 87-90

To the industry markups, CH2MHILL adds its own contingency and profit margins to project's costs. Added to that, GSWC charges its own general overhead and contingency. Thus ratepayers are paying for layers of markups and contingencies that have nothing to do with the actual cost of the project. If this project was designed by GSWC in-house engineers, this would obviously reduce the project's costs by the amount of CH2MHILL's markups.

For example, according to data responses[10], in the Simi Valley Customer Service Area, GSWC performed the engineering and design for a 450KW emergency generator. The related General Work Order (GWO) # 16700214[11] indicates that the Company's Permitting/Planning, Engineering/Design, and Project Management costs during the construction phase were only $10,000. Similar cost estimates by CH2MHILL are $60,000, which is an increase of 500% over GSWC's own costs. Therefore, GSWC's cost estimate is unreasonable.

On the other hand, the Company's Master Plan[12] for the Sisquoc System indicates that the Company will replace an old 10,000 gallon tank with a new 10,000 gallon plastic tank, which will provide reliable storage during power outage. During its field trip to GSWC's facilities, DRA learned that in fact this new 10,000 gallon plastic tank was installed in 2003.

In addition, the Master Plan also indicates that the Sisquoc System has no potential for future expansion and the area is built out.[13] As GSWC has stated, the maximum daily demand does not exceed more than 75 gpm year after year. Therefore, DRA found that with the installation of new 10,000 gallon tank in the year 2003, GSWC already met its water supply shortage problem caused by a power

[10] GSWC's response to DRA's Data Request, AMX-25 (Question-6)

[11] GSWC's workpapers of Simi Valley, page 25-26

[12] Sisquoc System, Master Plan, December 1998, Section 10.0

[13] Sisquoc System, Master Plan, December 1998, Section 4.1

outage in the area. Based upon the facts and findings discussed above, DRA recommends disallowing the projects.

iii. I-Nipomo- La Serena Erosion Control and II-Nipomo- La Serena Site Paving

GSWC requests an amount of $43,000 in 2007 for installing, 4,000 square feet of landscaping at the La Serena Plant location to fulfill CEQA Environmental Study/Negative Declaration related to landscaping and screening for the La Serena Plant Improvement Project. Improvements will include ground vegetation and new trees selected from the County-approved list. GSWC also requested $64,000 in a separate capital project for installing all-weather surface to provide vehicular access and plant operation year around at the La Serena Plant location. This portion of the project was taken out of the scope of the La Serena Plant Improvement Project and deferred until 2007. DRA recommends disallowing these two projects.

The two projects mentioned above are part of a larger La Serena Plant Improvement Project. As the Company explained,[14] this Commission in its decision, D.00-12-063 the Commission authorized the following capital projects related to the La Serena Plant Improvement Project (Project).[15]:

2000 Capital Budget

1- La Serena Reservoir Seismic Improvements project- $42,000

2- La Serena Plant Complete Electric Up grades- $104,000

2001 Capital Budget

1- La Serena Automation and Telemetry - $35,000.

[14] GSWC's response to DRA's Data Request, AMX-26

[15] GSWC's GRC Application: A.00-03-064

Since D.00-12-063, the Commission has not approved any more capital projects for the La Serena Project. However, GSWC has made the following capital investments at La Serena, which are part of the historic rate base presented in this proceeding:

2003 Capital Budget

1- La Serena Complete Electric upgrade w/ SCADA- $250,000

2- La Serena Booster D, Magna Drive, Yard Piping - $65,000

3- La Serena Seismic Improvements- $30,000

(These projects closed to the Plant in 2006 for $345,781)

2004 Capital Budget

1- La Serena Tank closed to plant in 2006 for $300,906

2005 Capital Budget

1- La Serena Improvements- total GWO $1,867,000 (includes $287,000 – amounts deposited by the developers to help pay for the tank, booster and electrical upgrades). As of 12/31/2006 $1,811,147 had been closed to Plant, recorded CWIP was $5,961 and GSWC forecasted an additional $49,892 to be spent and closed in 2007.

2006 Capital Budget

1- La Serena Plant Upgrades 2006 ($1,100,000). As of 12/31/2006 $1,062,327 had been closed to Plant, recorded CWIP was $2,936 and GSWC forecasted an additional $34,737 to be spent and closed in 2007.

Apparently, $146,000 worth of projects that were authorized by the Commission in 2000, has now developed into a "mega" project of "La Serena Plant Improvement Project" with a total budget of $3,794,741.[16] Of this total, $3,701,215[17]

[16] ($42,000+$104,000+$35,000+$345,781+$300,960+$1,867,000+$1,100,000 = $3,794,741)Includes $287,000 paid by the developers

[17] ($42,000+$104,000+$35,000+$345,781+$300,960+$1,811,147+$1,062,327 = $3,701,215)

is already closed to the GSWC Plant account. The Commission only had oversight of $181,000[18].

GSWC did not provide any supporting data justifying this enormous increase in the scope of the project and its inclusion in rate base without prior Commission approval. The Company's records[19] show cost overruns were also unreasonably high. For example, according to Company records[20] the Project's costs has increased from the original task order of $1,709,744 (it is not clear that to which GWOs this cost belongs to) to $2,564,420. The Company indicated[21] that this almost 50% cost increase was primarily due to the increase in materials and installation costs.

The enormous cost increase indicates that both the scope of the project and cost overruns were poorly managed by the Company. Without prior Commission approval, GSWC has managed to include in rate base the consequences of its mismanagement. GSWC has deferred the "La Serena-Onsite Paving" project until 2007 but requests $64,000 for that purpose. DRA would like to direct the Commission's attention toward the Company's inherent advantage to over-spend on its capital projects in order to earn a rate of return; therefore, the absence of the Commission oversight increases the probability of such abuse.

A comparison of the Commission's authorized capital additions with GSWC's actual spending illustrates further the mismanagement of capital projects. The following table shows this difference based upon GSWC's data responses.[22]

Santa Maria					
	1997	**2001**	**2002**	**2005**	**2006**
Authorized Plant	1,344,200	2,035,000	1,416,631	1,416,631	1,416,631

[18] ($42,000+$104,000+$35,000 = $181,000)

[19] GSWC' workpapers of Santa Maria, Page 116-119

[20] GSWC's workpapers of Santa Maria, Page-116

[21] GSWC's workpapers of Santa Maria, Page- 118

[22] GSWC's response to DRA's Data Request, AMX-55 and Mr. Edwin Deleon's email to DRA sent on April 17, 2007

Addition Actual Plant Addition	944,700	1,563,300	1,766,800	970,600	5,415,100
% Difference	**-30%**	**-23%**	**25%**	**-31%**	**282%**

It should also be noted that if GSWC reduces it capital expenditures this would reduce the rate base in that particular year. The Commission will not authorize a rate increase in the following year if GSWC does not meet the "earnings test" because of a reduction in capital spending.

On the other hand, no such check-and-balance guards against an abuse of excessive capital expenditures. In that case, GSWC could inflate the rate base, and these unreasonable expenditures would remain in the rate base for ratemaking in the subsequent years. Thus, GSWC has an incentive to increase rate base to the detriment of the ratepayers.

Based on the above stated facts, DRA recommends disallowing the two projects. Further, the DRA recommends removing 12% fee and 10% contingency charged by CH2MHILL for work on portions of La Serena Plant Improvement Project. The Company records[23] show that the Company entered into a contract with CH2MHILL on April 07, 2005. Therefore, CH2MHILL most likely was involved in the design, permitting, construction, and project management of the Project. The total cost booked into Plant in 2006 was $3,233,215[24]. Based on this total, DRA calculates that removal of CH2MHILL's 12% profit fee and 10% contingency would amount to $608,852[25]. DRA removes this amount from the "Utility Plant in Service" end of the year balance for 2006 in the "Utility Plant" schedule, Table 4-M for Santa Maria.

Of course, the above mentioned adjustment does not remove from rate base the unauthorized and enormous costs of the La Serena Plant Improvement Project which

[23] GSWC's response to DRA's Data Request AMX-32 (Question-2)

[24] ($345,781+$300,960+$1,524,147+$1,062,327 = $3,233,215) This cost is adjusted for $287,000 paid by the developers

[25] $3,233,215 – (3,233,215/1.232) = $608,852

is now part of the GSWC recorded rate base. Therefore, DRA recommends disallowing any further requests for the Project and urges the Commission to institute an investigation of GSWC's rate recovery and earnings on Project costs unauthorized by the Commission.

iv. Miscellaneous Bowl Replacement

GSWC requested amount of $213,000, $223,000, and $234,000 in the years 2007, 2008, and 2009, respectively, for emergency replacement of pumps and motors as well as column extensions required due to declining pumping levels. The requested amount will also be used to replace pumps and motors operating at below acceptable efficiencies. The Company claimed[26] that the requested amount is based upon trending past expenditures for this type of projects, but failed to provide any supporting information regarding the past expenditures or the trending methodology used. DRA recommends allowing $76,000, $86,000, and $90,000 in the years 2007, 2008, and 2009, respectively.

Upon DRA's request, the Company provided[27] a 10 year historical data for the Company's expenditures for this project. The data showed that the Company spent various different amounts of funds on this project over the last 10 years, ranging from a low of $47,331 in 2001, to a high of $288,209 in 2003.

DRA used the last five-year cost data for its analysis and adjusted the cost data to determine an appropriate average expenditure for the project in Santa Maria. The adjustment was made for the 2003 expenditure of $288,209, which is abnormally high and out of trend when compared with expenditures of $178,007, $151,839, $99,580, and $170,231 in the year 2002, 2004, 2005, and 2006, respectively. By applying the appropriate inflation factors to the adjusted average of $164,389, DRA estimates the follow amounts of $152,000, $172,000, and $180,000 for the years 2007, 2008, and 2009, respectively.

[26] Ernest Gisler's testimony, Page-88

[27] GSWC's response to DRA's Data Request, AMX-41

However, as the Company mentioned that these funds are used in part for the emergency replacement of the pumps and motors, and as DRA already recommended a 5% contingency rate for the Company's recommended capital budget, DRA believes that only half of the budget calculated above should be allowed, and the rest must be funded from the Company's contingency budget. In addition, the comparatively high level of expenditures on this project in Santa Maria indicates that the Company's preventive maintenance plan is not efficient and therefore, it is recommended that the Company should improve its preventive maintenance efforts to reduce the potential numbers of pump and moor failures in Santa Maria.

v. Street Improvements

GSWC requested amount of $21,000 in the year 2007 and an amount of $12,000 in the year 2008 for the purpose of replacing valve boxes and other water appurtenances associated with County roadway improvement projects such as street overlays, roadway widening, drainage improvements, and other County sponsored improvement projects. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends allowing $9,000 in the year 2007 and $10,000 in the year 2009.

The Company did not provide any support for its cost estimations of this project; however, upon DRA's request, GSWC provided[28] the last 10-year historic cost data. The historical data revealed that GSWC spent various different amounts for the project over the last 10 years, ranging from the lowest amount of $2,452 in year 2006 to the highest amount of $30,136 in the year 2000. During the years 1997, 1998, 2001, 2002, 2004, and 2005, the Company did not spend any capital for the

[28] GSWC's response to DRA's Data Request, AMX-41

project. Therefore, indicating that the requested amount is exaggerated and is unsupportable.

DRA believes that due to lack of support for the Company's cost estimates, an adjusted average based upon funds spent in the year 2003 and 20036 should provide a reasonable estimate. The adjustment was made for the year 2000 expenditure of $30,136 that is being comparatively high is clearly out of trend with the remaining expenditures of $2,452, and $13,828 in the year 2006, and 2003 respectively. By applying the appropriate inflation factors, to the adjusted average value of $9,291 DRA recommends an amount of $9,000 in the year 2007,and an amount of $10,000 in the year 2009.

vi. Hydrants

GSWC requested amounts of $27,000, $22,000, and $23,000 in the year 2007, 2008, and 2009 respectively for the purpose of replacing obsolete fire hydrants located within the older sections of the distribution system with new hydrants. The Company added that occasionally, an inoperable or damaged hydrant cannot be repaired and will be replaced. The Company requested to replace five hydrants in the year 2007, and four in the year 2008 and 2009 each; however, the Company did not provide any supporting documentation that could vouched for any of its claims regarding the obsolescence of the existing hydrants and their numbers in the system. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends amount of $9,000, $10,000, and $11,000 in the year 2007, 2008, and 2009 respectively.

Upon DRA's request, the Company provided[29] a copy of Santa Barbara County Fire Department's Development Standard #2, dated July 1, 2003; the

[29] GSWC's response to DRA's Data Request, AMX-38

document indicted that a general requirement for a fire hydrants' discharge outlet configuration for One-and Two-Family Dwelling is for fire hydrant to have one 4-inch and one 2-1/2 inch discharge outlet. However, the document did not show any time-frame for the Company to comply with these standards for their existing fire hydrants. Upon DRA's request, the Company provided a response[30] that the Fire Department has not set a deadline for the Company to comply with these standards, therefore, proving that there is no urgency in completing this project and the requested amounts are exaggerated.

On the other hand, the Company's 10 year historical expenditures[31] on this project indicate that over the last 10 years the Company did not spend any funds on this project in the years 1998, 1999, 2000, 2001, 2002, 2003, and 2005, thus indicating that the project has no real urgency, Especially after the year 2003 when the Santa Barbara County Fire Department's standards became known, the Company only spent an amount of $4,478 in the year 2004, and no funds in the year 2005, and then spent only $14,279 in the year 2006; once again this spending pattern depicts that there is no real urgency to meet the fire hydrant standard, and therefore, the requested amounts for the project are exaggerated.

Based upon the facts and findings discussed above, DRA believes that an average based on the recent two years i.e. 2004 and 2006 and adjusted for the appropriate inflation should provide a reasonable estimate for the project, thus DRA recommends, amount of $9,000, $10,000, and $11,000 for the year 2007, 2008, and 2009 respectively.

vii. Valve Replacement (3)

GSWC requested $32,000, $22,000 and $59,000 in the year 2007, 2008, and 2009 respectively for the purposes of replacing old inoperative valves within the distribution system. DRA performs an independent analysis of Company's

[30] Jenny Darney-Lane's email dated April 18,2007

[31] GSWC's response to DRA's Data Request, AMX-41

supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends $17,000, $20,000, and $21,000 in the year 2007, 2008, and 2009 respectively.

The Company neither provided any details as to how many such inoperative valves exist in the system, nor provided any cost estimation details regarding the unit cost of these valves. The Company requested six, four, and ten valves for replacement in year 2007, 2008, and 2009 respectively.

Upon DRA's request, GSWC stated[32] that the valves are not currently identified for the replacement and only upon the future "valve operating program" these valves will be identified; therefore, proving that the numbers of the requested valves in each year have no basis. Similarly, when DRA requested that the Company should provide the basis for its cost estimations, the Company chose not to respond to this request[33].

Upon DRA's request, GSWC provided[34] a 10 year historical expense data for the same type of projects. The data showed that over the last 10 years, the Company spent various different amounts on this type of project over the last 10 years in Santa Maria. However, in the most recent years i.e. 2005, and 2006, the Company did not spend any funds. DRA believes that the past trend indicates that the there is no urgency in replacing these valves, and therefore, allows a spread of monies spent in year 2005 over the next three years. Therefore, allowing $17,000 $20,000, and $21,000 in the year 2007, 2008, and 2009 respectively.

viii. Tejas and Mesa Zone Split

GSWC requested an amount of $80,000 for the purpose of creating a separate pressure zone by installing a new Booster Station, Motor Control Center, Check

[32] GSWC's response to DRA's Data Request, AMX-39

[33] GSWC's response to DRA's Data Request, AMX-39 (Question-2)

[34] GSWC's response to DRA's Data Request, AMX-41

Valve, and a Pressure Regulating Valve. The Company claimed that the 40 customers located within the highest elevation of Nipomo System face low pressure during the high (summer) demand. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing the project.

DRA notices that the Company did not provide any support for its cost estimation of $80,000. In addition, the Company provided two different and conflicting reasons for the need of the project. In its workpapers[35], the Company stated that the customers in Tejas/Mesa Zone face low pressure during the periods of high (summer) demand whereas in its response[36] to a DRA's data request, the Company stated the following:

> *"Low pressure occurred when facilities were out of service for repairs or replacements. During these times, we experienced low pressure situations on these two streets."*

It is therefore, clear that the low pressure situation is not present during the summer months but only experienced if there is a service for repairs or replacement of the facilities is taking place. In addition, the schematics of the Nipomo System[37] showed that an emergency connection with Nipomo Community Service District (NCSD) already exists that can be utilized in the case of emergencies. The copy of the

[35] GSWC workpapers of Santa Maria, Page-120

[36] GSWC's response to DRA's Data Request, AMX-28 (Question-1)

[37] GSWC's workpapers of Santa Maria, Page-126

agreement[38] between the Company and the NCSD clearly shows that such a use is possible:

> Example of such emergencies could include loss of water supply due to any number of events, including natural disaster, fire, broken water mains, loss of electric power, or an unforeseen event which would temporarily interrupt the water supply to customers. However, a mere water supply deficiency to satisfy a reasonably foreseeable demand (e.g. an increase in customer demand for water in summer months) shall not, without more, constitute an emergency hereunder.

It is therefore, quite evident that the service for repair and replacement of facilities constitute an emergency situation and therefore, the emergency supply from NCSD should be used during these events. The customer complaints data[39] provided by the Company, upon DRA's request, also supports that the low pressure situation is not persistently experienced by the customers.

Customer Complaints Regarding Low Pressure

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
# of Complaints	8	4	6	4	2	3	2	3	3	1

For example, the customer complaints data listed above depicts that the complaints are declining and if the low pressure is caused by high demands in the summer then these customer complaints must not decline as the customers will face a low pressure situation each summer in every year. Therefore, the customer complaint data also supports the reason that the low pressure are experienced during the service

[38] GSWC's response to DRA's Data Request, AMX-28

repair and facility replacement events in which case, the Company should utilize its emergency connection with NCSD which is also paid by the ratepayers.

On the other hand, schematic of Nipomo System also indicate that an existing well, Osage Well is closely located to the Tejas/Mesas Zone and the Company could feed water directly from this well to the Tejas/Mesa Zone. However, the Company stated[40] that in order to supply water directly to the 40 customers who are located in the Tejas/Mesa Zone, the Osage Well will need a larger motor and upgrade of electric service. However, no such cost comparisons were provided by the Company. The Company's cost benefit analysis[41] was limited to only two options: 1) Create Tejas/Mesa Zone, 2) Do nothing. In fact, this is a "common" theme for most of the Company's cost benefit analyses, thus indicating that the Company has a narrow mind-set, and refuses to think outside the box.

Upon DRA's inquiry, the Company also stated[42] that it is practically not feasible to utilize a well pump to supply a 40 customer hydraulic zone because the well pump would be forced to cycle on and off to achieve pressures and this will damage the pump and the well. DRA finds this argument disingenuous when the Company has installed Variable Frequency Drive (VDF) pumps throughout its operational areas to deal with such fluctuating demands. GSWC did not explain why the VDF will not work in this case.

Similarly, the Company stated that the single pump (Osage Well) is not adequate for supplying a hydraulic zone because it does not provide for a redundant or backup supply of water. Once again, DRA finds that this is not the case at all, the Nipomo System' schematic show very clearly that the Tejas/Mesa zone is currently supplied off the Main Gradient; there are more than two wells besides the Osage Well

(continued from previous page)

[39] GSWC' response to DRA's Data Request, AMX-28 (Question-1)

[40] GSWC's response to DRA's Data Request, AMX-28 (Question-3)

[41] GSWC's workpapers of Santa Maria, Pages:120-124

[42] GSWC's response to DRA's Data Request, AMX-28 (Question-3)

are pumping water directly into the Main Gradient, in addition, the three more wells are pumping into the distribution via the reservoirs with the help of the boosters. The Tejas/Mesa zone is well connected and will have ample redundancy. In addition, there is always a NCSD emergency connection to deal with the emergency situations.

On the other hand, the Company did not provide any information regarding its cost estimations for $80,000. It was not until DRA requested that the Company provided[43] a half-page table showing the estimates of the man-hours and the related hourly rates, and material. No explanation whatsoever accompanied these cost calculations. It appears that GSWC costs are arbitrary and not supported. For example, GWSC does not explain what is the basis of the man-hours estimates? Who and how many of the staff will be involved? It was not explained that what the basis was for hourly rate? It was not explained that what was the basis for various material costs? It seems that the Company seems to believe that the Commission must accept these cost estimations on their face-value. DRA already discussed the Company's poor cost estimations, cost overruns, and inefficient project management issues with most of GSWC's capital projects in this report; this fact coupled with the Company's over-spending habit, requires that the Commission should not accept these cost estimations at their face-value.

Based upon the facts, and findings discussed above, DRA recommends disallowing this project.

ix. SCADA- Implementation Plan (2007) and SCADA- Improvements (2008)

GSWC requested amount of $53,000, and $279,000 in the year 2007, and 2008 for the purpose of performing evaluation and developing an implementation plan to convert the company's existing Supervisory Control and Data Acquisition (SCADA) from existing FactoryLink platform to that of new WonderWare. The final stage of such upgrades will be performed in year 2008 for $279,000. DRA performs an

[43] GSWC's Response to DRA's Data Request, AMX-28 (Question-2)

independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing these projects.

It should be notices that basically the Company reproduced the similar workpapers for these projects in all of its Customers Service Areas (CSAs).The Company argued that Vulnerability Assessment performed in accordance with Homeland Security Act resulted in recommendation to replace or upgrade the SCADA system(s) within the Costal District. GSWC presented excerpts from its Vulnerability Assessment report in its workpapers for Santa Maria on pages 132-135. However, these excerpts did not recommend the upgraded for Factory Link to WonderWare as the only option.

On page 135 of GSWC's workpapers for Santa Maria Customer Service Area, the Vulnerability Assessment excerpt has the following statement:

> Technical Upgrade the SCADA software. Microsoft © Windows NT 4.0 Service Pack 4 is not as secure as later versions of Windows, or more recent service packs (5 or 6). In addition, as mentioned in the business information system section, Windows NT 4.0 is nearing end-of-life status. Since the existing SCADA software will not run effectively on more recent versions of Windows, upgrading the SCADA software should be considered. A preference has been voiced to migrate the system from Factory Link to WonderWare. Since recent versions of WonderWare support more recent versions of Microsoft © Windows, the migration, in concert with a migration to a more recent version of Windows, would fulfill the recommendation. However, if the migration to WonderWare, in concert with the migration to a more recent version of Windows, does not take place it will be necessary to upgrade the Factory Link software, or disconnect the SCADA system from the business information system network.

> Place a firewall between the SCADA computers ands the rest of the network for the Los Osos and Santa Maria systems. Since the SCADA system is connect to business information system network, it is susceptible to security events that take place on the business information system network. Of particular concern are security events that result in a denial of service on the network. Several Internet worms have exhibited the capability to create denial of service conditions on affected networks. Placing firewalls between the SCADA networks and the business information system network will provide some protection against this type of event. It will also make it less likely that a successful attack against the business information systems will propagate to the SCADA systems. If a firewall that has intrusion detection capabilities is selected, it will not only help to secure the SCADA system but can act as an additional early-warning system for the business information system as well.

It is quite clear from the above excerpt of the Vulnerability Assessment report that firstly, the upgrade of existing SCADA FactoryLink platform to that of WonderWare is not recommended by the author of the Vulnerability Assessment report but someone within the Company voice their preference for WonderWare. Secondly, the Vulnerability Assessment Report clearly stated that in case the upgrades are not performed, all what GSWC has to do is to disconnect the SCADA system from the business information system network. The above excerpt also recommended a method that how this disconnection can be easily achieved by installing firewalls.

Ratepayers should not be burden with this expensive upgrade on the basis of mere company preferences which is not supported by the Vulnerability Assessment Report. As a regulated utility, GSWC should exercise due diligence and prudence in adding capital to its rate base. The inherent advantage of doing so is not lost on DRA or the ratepayers, GSWC should share this vision too.

On the other hand, the existing set up for the Company's SCADA with FactoryLink was approved after a Company-wide evaluation in year 1995, and the installation in the Coastal District began in 1999 and in few of the areas such as Simi Valley Customer Service Area, the installation was just completed in late 2001. For the Company to request an upgrade of these recently installed SCADA facilities speaks volumes for the poor corporate planning and management. When DRA requested a copy of the last SCADA evaluation report which resulted in installation of existing SCADA platform of FactoryLink, the Company[44] stated that it has lost the evaluation report, thus making it impossible for DRA to evaluate the future upgrading, add-ons, and replacement options that must have been addressed in the last SCADA evaluation report.

In addition, the cost estimations submitted by the Company are unsupported. For the first phase in the year 2007, GSWC requested an amount of $53,000; of this amount $10,000 are for the Company Labor & Material. Initially no details were included in the Company's workpapers that how this amount is calculated. Upon DRA's inquiry GSWC provided[45] details that the estimated 200 man-hours were multiplied by the estimated $50 hourly rate to estimate the cost of $10,000. However, no documented support was provided for the bases for these estimates for the man-hours or the hourly rates.

DRA believes that the Company has no sound basis for it cost estimations and does not have any reasonable cost database for it various past capital projects. By just stating that the project will involved 200 man-hours and the average hourly rate will be $50 is not a sound basis for any cost estimation. The Company must provide documented support that can vouch for its estimates that they are reasonable.

It should be noted that the Company provide the similar reasons, and support for these SCADA projects as it has provided for the SCADA projects in the Los Osos

[44] GSWC's response to DRA's Data Request , AMX-01

[45] GSWC's response to DRA's Data Request, AMX-30

Customer Service Area. In responding to DRA's inquiries regarding cost estimations, the Company provided a "narrative" response that lacked any quantitative support for its cost estimations. For example, the Company stated[46] that it has decade of experience in performing such type of projects, thus implying that its estimates for man-hour and hourly rates should be accepted on the face-value without any questioning. DRA would like to point out that usually, corporations do not carry an "oral" history of their experience but rather document their experience and "institutionalized" their respective experiences in such a way that when needed they could provide documented support for their claims, such is not the case with GSWC. In addition, the inherent advantage for regulated utilities to invest their capital into the rate base so that they could earn a rate of return on their investment requires that regulatory agencies such as this Commission demand more stringent scrutiny of the capital investment of these regulated utilities.

Similarly, the Company failed to provide any support for the third-party's cost estimations, other than the fact that consultant's will spend 300 hours at the rate of $100 per hour, thus resulting in an amount of $30,000. The Company did not provide any supporting documentation that could vouched for these cost estimations such as copies of old bids, or invoices for the similar projects in the past.

In addition, the most outrageous cost estimates are the ones presented for the second phase of this project in the year 2008 for the amount of $279,000. On page 201of its workpapers for Santa Maria Customer Service Area, the Company presented a cost breakdown based upon ten SCADA sites each requiring $20,000 worth of upgrades; however, no details are provided that how this value of $20,000 is estimated, nor it is discussed whether these ten sites are different in scope of work related to SCADA needs.

The most decisive fact in this regard is presented on page 127 of GSWC's workpapers where the Company described that

[46] GSWC' response to DRA's Data Request, AMX-Follow up (Question-4)

"Implementation of the SCADA upgrades and improvements will begin in 2008 and will follow the implementation plan prepared in 2007"

It is clear that the evaluation for the SCADA System by the independent third-party integrator is first needed for the implementation of the upgrades in the year 2008. Without the findings of such SCADA evaluation and the audit of SCADA facilities these estimates are unsupportable and based upon mere conjecture.

Based upon the above mentioned facts and findings, DRA believes that the Company failed to justify the need and the reasonableness of its cost estimations regarding this project, therefore, DRA recommends disallowing these projects.

x. Master Plans- Orcutt, Nipomo, Lake Marie Systems

GSWC requested an amount of $359,000 for the purpose of preparing its Master Plans for three systems: Orcutt, Nipomo, and Lake Marie in Santa Maria Customer Service Area. However, the Master Plans will be prepared by an outside consulting firm, CH2MHILL. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

In its own words[47] GSWC described that a Master Plan is a document based on a highly detailed analysis of the water system, including water supply reliability, distribution, storage, and water quality as it relates to the existing and anticipated demands within the system. The Master Plan reviews historical characteristics and projects future demands as well as identifies system vulnerabilities in regard to meeting customer need. A ten year range is projected into the future is utilized the

[47] GSWC's workpapers of Santa Maria, Page 136

Master Plan will project out ten years into the future and will identify and prioritize improvements projects to ensure continue water quality and service. The Master Plan will be the Road Map we will use as the basis for future capital budgets and it will be updated periodically to ensure system trends are being addressed.

DRA's objections to the present partnership between the Company and CH2MHILL are already discussed in details. However, due to the strategic nature of the Master Plan and to avoid inherent conflict of interest, it is important that it must be developed in-house. In addition, DRA believes no one is more familiar about the water system than GSWC's own engineering staff. Unlike outside consultant who has to spend a fair amount of time to first study the system, learn the need of the company and analyze the data it collects, GSWC's staff is already intimately familiar with their system through direct knowledge and day-to-day operational experience. Such resources could allow GSWC to deliver a quicker, cheaper and more customized Master Plan.

GSWC explained that the lack of staff and needed expertise are the reasons for the Company to seek outside help. DRA argues that given the strategic nature of the Master Plan the Company should have been proactive in meetings it needs, and therefore, should be responsible for failing to deal with the issues of staff shortage and lack of technical expertise.

DRA notices that in the past, GSWC did prepare the Mater Plans in-house. And the fact that Mater Plans are "living documents" as they require continued updating, it would have not been a major undertaking as the details can be added as the changes become evident and additions to the water systems are made over time.

On the other hand, the Company listed three distinct water systems within the Santa Maria Customer Service Area, namely, Orcutt system, Nipomo System, and Lake Marie System; however, the Company indicted that the Orcutt Systems' Mast Plan will cost $226,000, and the Nipomo System's Master Plan will cost $133,000, thus totaling the requested amount of $359,000; therefore, leaving out the costs for

Lake Marie System's master Plan. In addition, the Company did not provide any details for these cost estimates whatsoever.

Upon DRA's request, the Company provided[48] some details for these cost estimations that were prepared by CH2MHILL. These details indicated that the cost of developing Master Plan for the Lake Marie System were included in the costs for Orcutt System. However, these cost breakdowns showed only two sets of cost elements: hourly rate and expected time-spent data; however, support for the time-spent estimation was not provided. The various activities such as "collect and review supply data", "Develop New Hydraulic Model", "Establishing existing demands and peaking factors", "Distribute demands throughout the model", "Develop future water demand projections", "Evaluate supply adequacy at existing and 2030", "create leak history", "Identify Existing and Future Deficiencies" and "CIP development: 2010 CIP, 2030 CIP" are those that can and had been performed by GSWC in the past. Notice that the scope of the Master Plans was not 10 year as stated[49] by the Company but 20 year into the year 2030.

The man-hour and hourly-rate estimates lack any supporting documentation. Once again the Company seems to believe that the Commission should accept these cost estimations on their face-value. DRA cannot stress more that the inherent advantage to over-spend, poor cost estimations in the past, and cost overruns are valid concerns for the ratepayers, and the Company's poor track record should bar the Commission from accepting these generic, simplified and trivial cost estimations.

In addition, the Company provided[50] a list of "Components of Comprehensive Water Master Plan", when asked to cross reference these components to that of the "Permitting/Planning" activities listed in the cost estimation prepared by

[48] GSWC's response to DRA's Data Request, AMX-29

[49] GSWC's workpapers of Santa Maria, Page 136

[50] GSWC's workpapers of Santa Maria, Pages:142-144

CH2MHILL, GSWC failed to perform such cross reference[51] thus creating an impression that the Mater Plan in its final form may not be a resourceful and well-organized document as apparently the Company is not able to cross reference the two. DRA believes that the Company is in the best position to evaluate and perform "Permitting/Planning" activities for all of the activities listed under the "Components of Comprehensive Water Master"; therefore, a Master Plan that is developed in-house will be more effective and useful, and will also avoid the inherent conflict of interest that is present if it is prepared by CH2MHILL.

Based upon the above mentioned facts and findings, DRA recommends disallowing this project.

xi. Minor Main Replacement

GSWC requested amount of $29,000, $30,400, and $32,000 in the years 2007, 2008, and 2009 respectively for the purpose of replacing section of waterline as a result of failure. The Company claimed that many of the water mains in Santa Maria are old asbestos concrete pipe and plastic. Occasionally, a pipe line may break, requiring replacement of section of pipe, rather than repairing with a clamp. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends amount of $5,800, $8,600, and $6,900 in the year 2007, 2008, and 2008 respectively.

The Company stated[52] that the budgeted amount would provide for six to ten replacements, which is typical for the Santa Maria CSA in a single year. DRA finds out that the Company's historic cost expenditure data does not indicate such level of expenditures. Upon DRA's request, the Company provided its historical data[53] that

[51] GSWC's response to DRA's Data Request, AMX-29

[52] Ernest Gisler's testimony, Page-92

[53] GSWC's response to DRA's Data Request, AMX-42

indicated that over last 10 years, the Company spent a varying amount on its "Major Repair of Mains" and "Minor Main Replacement" projects, ranging from the lowest of $1,862 in the year 1998, and the highest of $11,161 in the year 2005. Therefore, DRA recommends that an average of the expenditures spent in the last five year that is adjusted for the appropriate inflation, should provide a reasonable estimate for the project, thus, DRA recommends amount of $5,800, $8,600, and $6,900 in the year 2007, 2008, and 2009 respectively. It should also be noticed that the funds spent on the Company's "Major Replacement of Mains" projects such as "Dakota Street Main and Evergreen Alley" in year 2008 and "Bradley Road Main replacement" in the year 2009 will also reduce the needs of funds for these "Minor Replacement of Mains" and "Major Repair of Mains" project.

xii. Heavy Duty 1-Ton Vehicle for Towing Backhoe Hauling

GSWC requested an amount of $43,500 in the year 2007 for the purpose of purchasing a Heavy-Duty 1-Ton Vehicle that could trailer the backhoe to work areas. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

The Company did not provide any details for its cost estimations whatsoever. In addition, the Company did not explain the "sudden" need for such a vehicle. For example, what means the Company had been employing so far to trailer its backhoe? Or, why all of the sudden existing heavy duty vehicles cannot be used for this purpose.

On the other hand, the Company stated[54] that it usually hires contractors to do perform work such as service installations; the Company has comparatively high budget for its Meter and Service installation in Santa Maria CSA, indicating heavy

[54] Ernest Gisler's testimony, Page-92

reliance on the outside contractors for such services. For example, the simple 5 year average in the Santa Maria CSA for the Meter repairs and installation is $139,798[55], and for the Service installation it is $205,314 whereas in the Ojai CSA these expenditures are $14,092 and $147,458 respectively. Therefore, DRA believes that the need for the vehicle for the Company staff is unjustified.

Based on facts and findings discussed above, DRA recommends disallowing this project.

II. Capital Projects in year 2008

For the year 2008 Company requested an overall amount of $1,794,000, for its capital projects whereas DRA recommends an amount of $489,400. Following are the details of DRA recommendations and a summary table:

[55] Value base upon the GSWC's historic data per its response to DRA's request , AMX-41

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Orcutt Well (increased Capacity)	279,000	0	-279,000	-100%
Miscellaneous Bowl Replacement	223,000	86,000	-137,000	-61%
Orcutt Hill Reservoir (increased Capacity	335,000	0	-335,000	-100%
Hydrants	22,000	10,000	-12,000	-55%
Valves	22,000	20,000	-2,000	-9%
Dakota Street Main & Evergeeen Alley	223,000	11,000	-212,000	-95%
SCADA- Improvements	279,000	0	-279,000	-100%
Contingency	37,000	33,000	-4,000	-11%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	1,445,000	185,000	-1,260,000	-87%
Blanket Projects				
Meters	81,200	75,400	-5,800	-7%
Services	76,100	70,600	-5,500	-7%
Minor Main Replacement	30,400	8,600	-21,800	-72%
Minor Pumping equipment	30,400	28,300	-2,100	-7%
Minor Purification equipment	10,100	9,400	-700	-7%
Office Furniture	5,100	4,700	-400	-8%
Replace Service Vehicle # 985	38,600	35,800	-2,800	-7%
Replace Service Vehicle # 862	38,600	35,800	-2,800	-7%
Replace Superintendent Vehicle # 1001	28,400	26,400	-2,000	-7%
Miscellaneous Tools and Equipment	10,100	9,400	-700	-7%
Total Blanket Projects	349,000	304,400	-44,600	-13%
Total Capital Budget	**1,794,000**	**489,400**	**-1,304,600**	**-73%**

i. Orcutt Well (GSWC funding to increase capacity from 600 to 1000 gpm)

GSWC requested an amount of $279,000 in the year 2008 for the purpose of sharing the cost for increasing the capacity of a new well by an additional 150 gpm. The Company explained that a new developer within the Orcutt System proposes the construction of 700 + homes. The developer is responsible for funding the construction of a new well with 850 gpm capacity that is capable of meeting the needs of their development. However, the Company claimed that it is experiencing a shortage of water supply for its existing customers therefore, by increasing the diameter of the well, the size of the pump and the capacity of the electric supply will increase the new well's supply from 850 gpm to 1,000 gpm which will help meeting the demand of the Company's existing customers; the costs for these enhancements

are estimated to be $279,000. DRA performed an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

In order to support its request, the Company provided[56] water demand data from its 1996 Orcutt Master Plan to show that in 1996 the "ultimate demand" cannot be met by the existing facilities, and with the loss of few more wells since 1996 the situation is gotten worse.

DRA argues that firstly, the "ultimate demand" need should not be an issue in a Rate Case that has a three year time horizon. The ultimate demand is the water demand that is needed when a regional area reaches its maximum growth capacity, in other words the expansion of new developments and the addition of new customers cease to exist. Secondly, the 1996 Master Plan itself shows that in 1996 the water supply in the Orcutt System was sufficient to serve the needs of the System back then. The 1996 Orcutt Master Plan, on Table-1[57] shows that the available water supply in Orcutt System was 11,425 gpm, and on Table-7[58] indicated that the existing Maximum Day Demand of the Orcutt System was only 7,940 gpm.

DRA finds that any increase in the future demand since 1996 would be mainly due to the expansion of the residential area, and the related developers must have paid for those facilities. The Company's own 1996 Orcutt Master Plan also indicted the same understanding:

> The Company has planned on drilling two more wells with an anticipated supply of 1000 gpm per well. These wells are budgeted for the years 2000, & 2001 respectively. The Company will continue to drill wells, as

[56] GSWC's workpapers of Santa Maria, Page-155

[57] GSWC's workpapers of Santa Maria, Page-169

[58] GSWC's workpapers of Santa Maria, Page-175

viable locations become available. New developments in the Orcutt System should fund the drilling of wells to satisfy the demand they create.

It is evident that there was a surplus of 3,485 gpm[59] of water in 1996 to fulfill the then existing Maximum Day Demand in Orcutt System. Any increase in demand that was not due to the new developers should have been sustained by this surplus. However, the Company apparently is making an argument that it has not only lost this surplus but actually needs more water supplies to meet the demands of its existing customers. DRA finds that Company failed to make its case. For example, the Company claimed that it has lost the following wells in Orcutt System since 1996:

Name of Well	Reason of Loss	Max. Day Supply (gpm)[60]
Evergreen # 1	Nitrates	1,000
Evergreen # 2	Nitrates	525
Sunrise	Nitrates	753
Mira Flores # 3	Old Age	925
Mira Flores # 1	Partial Loss due to Nitrates	366[61]
Total		3,569

The above data shows that the Company has lost only 3,569 gpm, keeping in view that the Company has a surplus of 3,485 gpm; this loss only creates a shortage of 84 gpm. In addition, the Company has built a new well, Maria Flores # 7 in year 2004. The Company requested this new well in its 2002 GRC Application, A.00-03-064, and the Commission authorized the well in its decision, D.00-12-063 (the well cost was stipulated to be $210,000, and in a subsequent settlement in year 2001, the

[59] 11,425 gpm – 7,940 gpm = 3,485 gpm

[60] These values are based on 1996 Orcutt Master Plan

[61] GSWC's response to DRA's Data Request, AMX-31 (Question-5)

cost of $285,000 was added for the pump and other equipment; however, later the Company completed the job for a significant cost of $1,124,300.37 in year 2004, thus indicating a cost overrun trend that must be stopped) This new well has a capacity of 900 gpm and was placed in service in year 2004. Thus it is clear that the Company already recovered its lost capacity and once again had a surplus of 816 gpm in year 2004. It is already discussed that any increase in the demands comes from the new customers and the related developers are responsible for funding the Company's capital projects for that purpose. For example, the excerpt from the 1998 Orcutt System Master Plan reiterates this fact in the following manner:

> It is expected that the system will continue to experience a moderate level of development. Residential and irrigation customers can be expected to be the bulk of the new connections. It is anticipated that the average usage of the new residential customers will be 0.060 acre foot/customer/year.

The Company failed to show that it is not able to meet its current maximum day demand in Orcutt system, nor did it show that its future demand increase will have any other source except the new customers.

In addition, the Company's records show that some of the lost wells are not lost permanently and can be rehabilitated. For example, the Evergreen Well # 1 was re-activated in the year 2003 through a use of portable ion-exchange treatment unit; however, the Company stated[62] that the well is currently not in use. Based upon the fact that the well was re-activated by the use of portable ion-exchange treatment unit in the year 2003, and the Company did not provide any particular reasons why the well is not in use presently (however, Department of Health Services' report[63] indicated that the Company moved the portable ion-exchange treatment unit to

[62] GSWC's response to DRA's Data Request, AMX-31 (Question-3)

[63] Department of Health Services' annual inspection report for Orcutt System, dated November 8, 2004 , provided by GSWC in response to DRA's Master Data Request-IVB.1.b

neighboring Tanglewood System), DRA believes that the at least the Evergreen Well can be put in use in the near future.

Similarly, the Department of Health Services' annual inspection report of the Orcutt System, date November 8, 2004, indicated that the Company was evaluating the feasibility of blending State water with the water from the well to reduce the nitrate to an acceptable level for Sunrise Well # 1.

In addition the 1996 Orcutt System Master Plan has noted the following:

> With the future supply to be received from State Eater and additional wells, no further supply sources will be necessary in the immediate future. SWP water will improve water quality in the system through blending and reduce the decline of pumping levels of the wells throughout the system.
>
> The turnout structure for the SWP is being designed for 3000 acre-foot/year this will allow the Company to supply approx. 1900 gpm from this turnout. This connection will be into Tangelwood Zone. A tie into the Orcutt System from the Tanglewood System is planned; this connection is to be funded by the new development between the two systems.
>
> For the Orcutt System a booster station from the City of Santa Maria interconnection to the Evergreen Zone will allow using State water to supply Evergreen Zone. This booster station will be designed to supply 500 gpm to the Evergreen Zone.

It should be note that the Company since has built a new well, and constructed a booster station at the Sunrise Well to allow the future interconnection between its Tanglewood system and Orcutt system for the future use of State water in both of these systems. Similarly, the booster station that was initially designed for 500 gpm of supply was upgraded to 1,000 gpm[64] to make use of State Water via City of Santa Maria at the Evergreen zone.

[64] GSWC's response to DRA's Data Request, AMX-31, (question-8)

It is evident from above facts and findings that the Company overstates its current water supply needs and it is well-equipped to deal with its future supply needs. Accordingly, DRA recommends the Commission disallowing this project.

ii. Miscellaneous Bowl Replacement

GSWC requested an amount of $223,000 in year 2008 for the purpose of emergency replacement of pumps and motors as well as column extensions required due to declining pumping levels. The requested amount will also be used to replace pumps and motors operating at below acceptable efficiencies. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $86,000 in the year 2008.

iii. Orcutt Hill Reservoir (New)- Capacity Increase

GSWC requested an amount of $335,000 in the year 2008 for the purposes of increasing the capacity of a new welded steel storage tank from 1.2 million gallon (MG) to 1.5 MG. The new storage tank will be installed to meet water supply demands for a new development of more than 700 homes. The developer is responsible for funding the construction funds, however, the Company is planning to increase the size of the storage tank, claiming that the current storage in the Orcutt System does not provide sufficient redundancy in case of an emergency. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

Basically this project is an extension of the previous project in which the Company requested to increase the size of the new well that was funded by the developer for the same development of more than 700 homes. However, in this project the Company's focus is on the newly planed storage tank. Once again, the Company's entire reason for this project hinges on the argument that its current

storage needs are insufficient for its existing customers. DRA finds that the Company failed to support its claim.

For example, in the case of Company's project, "Cuesta-by-the-Sea" in Los Osos Customers Service Area, the Company provided[65] excerpts of American Water Works Association's manual titled "Modeling, Analysis, and Design of Water Distribution Systems". This manual has the following statement regarding the relationship between the reliability and the redundancy within a water system:

> Traditionally, reliability has been provided by the redundancy in the system. Redundancy is provided by, for example, looping, extra pumps, additional reservoirs, and backup sources. Looping refers to providing a second feed to an area so that if one source is out of service, the other will still be available…In addition; looping for fire protection has taken on greater significance.

It is evident that the redundancy in the system can either be provided by an increase in the source capacity (extra pump) or the storage capacity (reservoir). DRA already discussed that the Company currently has a water supply surplus in the Orcutt System while evaluating the Company's request for the project "Orcutt Well (GSWC funding to increase capacity from 600 to 1000 gpm)" above. In addition, DHS' annual report of the Orcutt System[66], dated November 8, 2004, on page 18 shows that based upon 2003 historic data, the Company could serve 1,151 additional customers before additional source of water is needed. The Company's workpapers[67] show that average increase of customers over 2003-2006 time period was only 282; therefore, making it amply clear that the Company already has reasonable reliability and redundancy in the system, and does not need additional storage in Orcutt System to meet its future or current needs.

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[65] GSWC's workpapers of Los Osos, Pages 180-183

[66] GSWC's response to Master Data Request, question IVB1.b

[67] GSWC's workpapers of Santa Maria, Sales Data in Revenue Section

On the other hand, during its field trip of the Company's Santa Maria CSA, DRA noticed that the Company had demolished an old reservoir that existed near the current Mira Flores Well #7 site. The Company response[68] to a DRA's data request included a copy of a General Work Order, GWO # 93-0517 that indicated that the removal of the old reservoir was performed as it was no longer required for operations when Mira Flores Well Nos. 3 & 4 started pumping into the Orcutt Hill Reservoir directly. This old reservoir has a capacity of 800,000 gallons[69], while the Company now is requesting an additional capacity of 300,000 gallons, having destroyed the 800,000 gallons reservoir in the year 1994. This goes on to show that the Company had poorly managed its capital assets and lacked any sense for its potential future needs.

Based on facts and findings discussed above, DRA believes that the Company failed to justify the need for additional storage in Orcutt System, therefore, DRA recommends disallowing this project.

iv. Hydrants

GSWC requested amounts of $22,000 in the year 2008 for the purpose of replacing obsolete fire hydrants located within the older sections of the distribution system with new hydrants. The Company added that occasionally, an inoperable or damaged hydrant cannot be repaired and will be replaced. The Company requested to replace four hydrants in the year 2008. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $10,000 in the year 2008.

v. Dakota Street Main & Evergreen Alley

GSWC requested an amount of $223,000 in the year 2008 for the purpose of installing a water line on Dakota Street is 50 year old, and had 7 leaks in last 5 years.

[68] GSWC's response to DRA's Data Request, AMX-34 (Question-2)

[69] Jenny Darney-Lane's email to DRA on April 20, 2007

DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends an amount of $11,000 in year 2008.

In order to justify the project, the Company presented a cost benefit analysis[70] showing that over the 40 years of time the fixing of 1.4[71] average leaks per year at the cost of $16,000 will cost ratepayers $206,000 whereas the cost of installing the water main now will have a revenue requirement of $286,000 over the 40 years in present value terms. It is quite clear that the by the Company's on account fixing the leaks as they occur is the less expensive option.

In addition, the costs estimation of $223,000 is inadequately supported. For example, the Company's permitting/Planning and Engineering Design cost estimates lack any support for the man-hours and the hourly rates. The Company did not provide any past cost data for such type work in Santa Maria either.

Similarly, the Company estimated a unit cost of $150 per one linear foot of 8-inch waterline regarding the construction cost; the Company did not provide any support that how these unit cost estimates for the construction cost are estimated. However, the information regarding a similar main replacement project, "El Paseo Road, 1000 LF of 8-inch DIP replacement" in year 2007 in the neighboring Ojai Customer Service Area indicated[72] that the a reasonable estimates for the unit cost would be $95.67

In addition, the Company's historical data[73] indicated that over last 10 years, the Company spent a varying amount on these projects ranging from the lowest of $1,733 in the year 2006, and the highest of $68,867 in the year 2004:

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[70] GSWC's workpapers of Santa Maria, Pages 188-193

[71] 7 leaks / 5 year = 1.4 leaks per year

[72] DRA report for Ojai CSA, Chapter 4, Page 36

[73] GSWC's response to DRA's Data Request, AMX-42

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
$0	$0	$0	$14,679	$0	$0	$0	$68,867	$12,907	$1,733

It is obvious that the expenditure of $68,867 in the year 2004 is way out of the trend. DRA argues that therefore, awarding an average based on the funds spent in the last four years will not depict a reasonable estimate due to three problems: 1) the historical data of the four years is too volatile, 2) recommending an amount based on the historical expenditures would assume that the past funds were reasonably spent, while DRA has observed that the Company had severe problems of cost overruns with its capital projects, and the Company rarely sticks with the Commission's authorized amounts and for most part there is no Commission oversight regarding these past plant additions, and 3) the recommendation based on the past data would take into account the inadequate support for its present project that is discussed in preceding pages. Therefore, DRA recommends an amount of $11,000 that is based on the inflation adjusted historical expenditures during the last four years and spread over the entire 10 year period.

vi. SCADA

GSWC requested an amount of $279 in the year 2008 for the purpose of installing SCADA facilities in the Santa Maria. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

vii. Minor Main Replacements

GSWC requested an amount of $30,400 in the year 2008 for the purpose of replacing leaking water mains in Santa Maria. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $8,600 in the year 2008.

III. Capital Projects in year 2009

For the year 2009 Company requested an overall amount of $1,731,600 for its capital projects whereas DRA recommends an amount of $464,000. Following are the details of DRA recommendations and a summary table:

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Woodmere Plant- Backup Power	559,000	0	-559,000	-100%
Miscellaneous Bowl Repalcement	234,000	90,000	-144,000	-62%
Street Improvements	12,000	10,000	-2,000	-17%
Hydrants	23,000	11,000	-12,000	-52%
Valves	59,000	21,000	-38,000	-64%
Bradley Rd. Main Replacement	234,000	12,000	-222,000	-95%
Old Town Orcutt Main Replacement	234,000	0	-234,000	-100%
Contingency	34,000	29,000	-5,000	-15%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	1,414,000	198,000	-1,216,000	-86%
Blanket Projects				
Meters	106,500	96,700	-9,800	-9%
Services	79,900	72,500	-7,400	-9%
Minor Main Replacement	32,000	6,900	-25,100	-78%
Minor Pumping equipment	32,000	29,000	-3,000	-9%
Minor Purification equipment	10,700	9,700	-1,000	-9%
Office Furniture	5,300	4,800	-500	-9%
Replace Service Vehicle	40,500	36,700	-3,800	-9%
Miscellaneous Tools and Equipment	10,700	9,700	-1,000	-9%
Total Blanket Projects	317,600	266,000	-51,600	-16%
Total Capital Budget	**1,731,600**	**464,000**	**-1,267,600**	**-73%**

i. Woodmere Plant-Backup Power

GSWC requested an amount of $559,000 in the year 2009 for the purpose of purchasing and installing a 500kW diesel-powered generator at Woodmere Plant for the two existing wells. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

The Company stated that the 10,000 + customers in Orcutt System are dependent solely on water stored in the existing Orcutt Hill Reservoir and production

from two groundwater wells which are equipped with emergency generators. However, during the high water demand conditions, the systems' water supply would currently be depleted after approximately 3.5 hours without power. In addition, the Company clamed that the system has experienced, on average, two power outages each year.

However, DRA notices that the Company did not provide any supporting documentation which could vouch and justify the Company's claims. For example, the Company did not provide details that how did it calculated a 3.5 hours of depletion time. Upon DRA's request, the Company provided[74] a worksheet showing that the maximum day demand for the Orcutt System was assumed to be 7,279 gpm and the Orcutt Hill reservoir has capacity of 1,500,0000 gallons, therefore, it will take 3.4 hours to deplete that reservoir. However, Company's worksheet also indicated that once the water supply of 1,850 gpm from the Mira Flores Well Nos. 2 & 5 which are equipped with emergency generators, is taken into account the deletion time improves to 5 hours.

In addition, the Company did not provide any support for it claims as to the fact that the Orcutt System experienced, on average two power outages per year; nor did it provide any support regarding the fact that on average how long these power outages last?

However, in responding to a DRA's data request[75] regarding a similar project in the year 2007, "Sisquoc-Foxenwood Site- Well Pump Backup Power" in the same, Santa Maria CSA, the Company provided a historical power outage data which indicted that the historically, duration of such electric outage varied over the range from the shortest for 3 minutes in the year 2004, and the longest for the period of 232 minutes in the year 2006.

[74] GSWC' response to DRA's Data Request, AMX-36 (Question-3)

[75] DRA Data Request, AMX-25 (Question-3)

Sustained Interruptions:

Date & Time	Report Number	Outage Level	Basic Cause	Minutes Out of Service
14-Jan-01 07:22	174	Dist Circuit	Failed Cutout, fused, transformer (obs	107
08-Jun-02 23:12	809	Dist Circuit	Third party	101
02-Nov-03 12:04	529	Dist Circuit	Failed Conductor, Overhead	19
08-Nov-03 15:16	545	Sub - Trans	Failed Regulator LTC, substation	15
08-Feb-04 05:16	185	Dist Circuit	Third party	68
01-Feb-06 17:10	8625	Dist Circuit	Third party	3
26-Apr-06 11:45	26062	Trans line	Failed Connector or splice (OH)	33
31-Aug-06 09:23	56589	Dist Circuit	Failed Conductor, Overhead	232

Therefore, the historical power outage data presented above indicates that the electric outage never lasted for five hours in the last six years. On average the electric outage will last only 1.2 hours, thus proving that the existing storage is sufficient to meet the maximum day demand, all what the Company needs to do is to have a reasonable level of water in the Orcutt Hill Reservoir all the time. Therefore, DRA recommends disallowing this project.

ii. Miscellaneous Bowl Replacement

GSWC requested an amount of $234,000 in year 2009 for the purpose of emergency replacement of pumps and motors as well as column extensions required due to declining pumping levels. The requested amount will also be used to replace pumps and motors operating at below acceptable efficiencies. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $90,000 in the year 2009.

iii. Hydrants

GSWC requested amounts of $23,000 in the year 2009 for the purpose of replacing obsolete fire hydrants located within the older sections of the distribution system with new hydrants. The Company added that occasionally, an inoperable or damaged hydrant cannot be repaired and will be replaced. The Company requested to replace four hydrants in the year 2009. Based upon its analysis and evaluation of

GSWC's workpapers as discussed earlier, DRA recommends a value of $11,000 in the year 2009.

iv. Valve Replacement

GSWC requested $59,000 in the year 2009 for the purposes of replacing told inoperative valves within the distribution system. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $21,000 in the year 2009.

v. Bradley Road Main Replacement and Old Town Orcutt Main Replacement

GSWC requested an amount of $468,000 in the year 2009 for the purpose of replacing 40-50 years old waterlines in Bradley Road, and Old Orcutt area in the Orcutt System of Santa Maria CSA. The Company presented these two projects separately; however, the Company provided almost identical support for the need and cost estimations of these projects, therefore, DRA selects to discuss these projects together. DRA performs an independent analysis of Company's supporting documentation and workpapers in order to evaluate the justifications given for the need of the project and to establish the reasonableness of the Company's cost estimations; based on this analysis, DRA recommends an amount of $12,000.

The Company provided[76] excerpts of its 1999 Orcutt Master Plan which indicated in its Section 8.3[77] that the Orcutt System has an average of 15 leaks per year over the last 4 years. Most of these leaks have occurred on undersized steel mains. Over the last 5 years, leaking mains have been replaced at an average rate of 1,500 feet per year.

While in Section 8.4 of the Master Plan it is stated that the system distribution was improved greatly with the recent improvements done as part of the "Main

[76] GSWC's workpapers of Santa Maria, Pages 219-223 And 230-238

[77] GSWC's workpapers of Santa Maria, Page-223 And Page-234

Replacement Project". It is recommended that the CSA continue to replace mains at the current rate of approx. 1,500 ft per year.

It should also be noted that according to the Company's response [78] to one of the DRA data request, the Company has three distinct types of project that are related to the old, leaking mains:

1- ***<u>Major repair of mains</u>*** *– encompass all costs associated with repairing a main leak or break that requires less than 10-feet of main be replaced to accomplish the repair. This includes installation of repair clamps, full circle repair bands, and replacement of less than 10-feet if water main. This also includes costs associated with restoring the surface and subsurface appurtenances damaged from the leak and/or repair. These costs are booked as a maintenance expense.*

2- ***<u>Minor main replacements</u>*** *– encompass all costs associated with addressing unanticipated water main failures that require more than 10-feet of water main be replaced to address the main failure. Projects of this nature typically involve the replacement of 20-feet (i.e. one stick of pipe) of deteriorated pipeline. These projects include traffic control, trenching excavating, removal and disposal of hazardous material (asbestos-cement pipe), treatment and disposal of dirty water, installation of new piping material, imported trench backfill, roadway paving, private property repair, and the disinfection and flushing of new waterline.*

3- ***<u>Stand alone Main replacement projects</u>*** *– the primary purpose of a "stand-alone" main replacement project is to replace an existing main that is has reached the end of its useful life (i.e.*

[78] GSWC's response to DRA's Data Request, AMX-42

aging/deteriorating, multiple leaks) and/or is hydraulically inefficient for the distribution of water within the system. A main replacement of this type typically connects to the system at the same location(s) as the main it is replacing. These projects include traffic control, trenching excavating, removal and disposal of hazardous material (asbestos-cement pipe), treatment and disposal of dirty water, installation of new piping material, imported trench backfill, roadway paving, private property repair, and the disinfection and flushing of new waterline.

It is clear from the Company's response that these projects belong to the 3rd. category of these mains related projects. Therefore, it is reasonable to allow the Company to spend an average of amounts that is spent on these projects over the last 5 years. However, the Company's historical data indicted that the Company has hardly spent any funds on these types of projects in the preceding years of 1999. The following is a 10 year data for the Company's expenditures on its "Major Replacement Projects" as provided by the Company[79]:

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
$0	$0	$0	$14,679	$0	$0	$0	$68,867	$12,907	$1,733

Therefore, the creditability of the 1999 Orcutt Master Plan becomes questionable; and therefore, the need for the Company's collective request of $468,000 for these two projects is overstated. In addition, the costs estimation of $468,000 is inadequately supported. For example, the Company's permitting/Planning and Engineering Design cost estimates lack any support for the man-hours and the hourly rates. The Company did not provide any past cost data for such type work in Santa Maria either.

[79] GSWC's response to DRA's Data Request AMX-42

Similarly, the Company estimated a unit cost of $155 per linear foot of 8-inch waterline regarding the construction cost; the Company did not provide any support that how these unit cost estimates for the construction cost are estimated. However, the information regarding a similar main replacement project, "El Paseo Road, 1000 LF of 8-inch DIP replacement" in year 2007 in the neighboring Ojai Customer Service Area indicated[80] that the a reasonable estimates for the unit cost would be $95.67

DRA believes that an average based upon the past expenditures should provide a reasonable estimate and the Company should move forward in small steps toward its "Main Replacement Project". However, it is obvious that the expenditure of $68,867 in the year 2004 is way out of the trend. DRA argues that therefore, awarding an average based on the funds spent in the last four years will not depict a reasonable estimate due to three problems: 1) the historical data of the four years is too volatile, 2) the recommending an amount based on the historical expenditures would assume that the past funds were reasonably spent, while DRA has observed that the Company had severe problems of cost overruns with its capital projects, and the Company rarely sticks with the Commission's authorized amounts and for most part there is no Commission oversight regarding these past plant additions, and 3) the recommendation based on the past data would take into account the inadequate support for its present project that is discussed in preceding pages. Therefore, DRA recommends an amount of $12,000 that is based on the inflation adjusted historical expenditure during the last four years that is spread over the entire 10 year period.

vi. Minor Main Replacement

GSWC requested an amount of $32,000in the year 2009 for the purpose of replacing leaking water mains in Santa Maria. Based upon its analysis and evaluation

[80] DRA report for Ojai CSA, Page ____.

of GSWC's workpapers as discussed earlier, DRA recommends a value of $6,900 in the year 2009.

IV. Contingency

GSWC requested a contingency rate of 10% of its Capital Budget for both stand-alone capital projects and Blanket Projects. According to GSWC,[81] the contingency budget is used for unexpected capital expenditures or to fund cost overruns on known projects. These claims do not justify the 10% contingency rate as reasonable and justified. GSWC has failed to show that it considered other available alternatives and found them to be less cost effective or unfeasible. For example, firstly, GSWC has not shown that it has an effective preventive maintenance plan in place. Secondly, it has not demonstrated that the whatever preventive maintenance efforts it has in place are insufficient to the extent that it is cost effective to have a contingency budget to deal with the emergency breakdowns.

Similarly, GSWC has not demonstrated any measures have been used to reduce its cost overruns. These overruns most likely result from inaccurate cost estimations and project management. However, instead of presenting a history of improving its project management and cost estimation procedures and processes, GSWC wants to heap on ratepayers the rate burdens for its inefficiencies or lack of management. Cost overruns directly increase the rate base and the revenue requirement leading to higher rates for water service. In addition, unlike the increase in O&M and A&G expenses, GSWC earns a rate of return on the rate base. Therefore, the Commission should closely scrutinize cost overruns and their justification.

In this case, DRA recommends that the Commission reject GSWC's 10% contingency as unsupported by the record and therefore unreasonable and unjustified. The Commission has found that in a prior GRC, GSWC's contingency request was not supported. In D. 06-01-025, the Commission held:

[81] Ernest Gisler's testimony, page -64

SCWC included a 10% adder in its capital budgets for "contingency." ORA opposed adding this amount because SCWC had not provided ORA with sufficient justification.

In rebuttal, SCWC explained that the contingency budget is used where actual costs exceed budgeted costs for a capital project. On cross-examination, SCWC's witness explained that in addition to cost overruns, the contingency budget is used for unanticipated projects. SCWC also stated that in 2004, actual capital expenditures were $29.1 million, while the budgeted amount was only $20.7 million, including the contingency budget. SCWC pointed out that this line item had been in its capital budgets for at least 20 years.

The record in this proceeding shows that SCWC often overruns its budget for a capital project. As one example, the actual costs for the Calipatria Niland Upgrade project increased by 7% from the time SCWC filed its application to the filing of rebuttal testimony. SCWC also appears to have a practice of hiring vendors on a time and materials basis. Accurate budgeting and cost containment are critical management functions that require additional attention from SCWC management. We are concerned that the contingency budget may play a role in "cushioning" SCWC from the consequences of insufficient attention.

We are also aware that unanticipated capital projects may require immediate attention. The record, however, shows no historical analysis of SCWC's contingency budget expenditures on unanticipated projects. Such an analysis could be readily prepared because the general work order approval forms included in Exhibit 29 disclose when a project is funded by the contingency budget. SCWC did not do such an analysis, even after ORA recommended a disallowance. SCWC has provided us no breakdown between budget overruns and unanticipated projects that have used this fund in the past, so we will simply assume it was divided evenly between the two uses.

We will allow SCWC to include a contingency budget for unanticipated projects in test years 2006 and 2007[footnote omitted]. We will set SCWC's

> contingency budget based on unanticipated projects only, which we will assume to be 5% of the total capital budget. Our objective is to do away with the cushion for poor budgeting. Therefore, we will allow SCWC to include in its 2006 and 2007 capital budgets a contingency adder equal to 5% of the total approved capital budget.

In this proceeding, GSWC continues its practice of failing to justify its contingency rate. The Commission's concerns of GSWC installing a "cushion for poor budgeting" remain valid today as they were at the time of D. 06-01-025. Based upon the fact and findings discussed above, DRA recommends allowing a contingency rate of 5%.

V. Overhead Rate

GSWC requests overhead rates of 21.75%, 26.81% and 33.14% for 2007, 2008, and 2009, respectively for its capital projects in Region I whereas DRA recommends 6.61%, 17.74%, and 20.82% for those same years.

DRA believes that when compared with other Class-A water companies, GSWC's overhead rates are unjustifiably high. For example, California Water Service Company has a constant overhead rate of approximately 8% year after year. GSWC's unreasonable overhead rates evidence duplicative or inefficient indirect/supervisory/support functioning in GSWC daily operations. Moreover, GSWC failed to show the calculation of the proposed overheads are reasonable and justified.

In D.06-01-025, the Commission noted a similar overhead issue

> The record shows that private engineering businesses assess overhead rates of about 15%. In fact, SCWC's own "overhead" rate in 1990 was only 12%, and that included its direct billings, as shown by the contract with the Department of Corrections for facilities to serve the prison discussed in detail below.
>
> The vendor rates differ substantially from SCWC's current rate because they include the vendor company's profit, as well as administration and management. SCWC's overhead rates do not include profit. This

> difference strongly suggests that SCWC's overhead expenses are high, a conclusion also supported by SCWC's 1990 rate, and giving credibility to customers' allegations of corporate "fat".

GSWC's current accounting methodologies used to record and track these indirect costs appear to distort the amount of actual indirect costs in various operating regions of the company.

GSWC's O&M and A&G expenses are capitalized into two categories throughout the operational areas. They are capitalized directly to a specific capital project and become a part of the capital project itself. Or because these expenses are indirect and cannot be assigned to a specific capital project, they are booked into a company wide Overhead Pool Account. The amount of this Account is allocated to all capital projects through the use of Overhead Rate.

Currently, GSWC requests to book related capitalized expenses from various operational areas of its organization, which consists of Regions I, II, III, Bear Valley Electric Division (BVE), and General Office into its company-wide Overhead Pool Account. The Overhead Rate is then determined by dividing indirect cost booked in the Overhead Pool Account by the amount of proposed capital projects.

DRA has found that the capitalized amount in the Overhead Pool Account remains relatively constant over the years. For example, GSWC work papers show that the indirect expenses being booked into company-wide Overhead Pool Account for 2006 were $12,225,525. GSWC forecasts these expenses to be $12,898,918, $13,294,657, and $13,676,962 in 2007, 2008, and 2009 respectively. However, other Class-A water companies are not booking such enormous indirect costs. For example, on average, California Water Service Company, the largest regulated water company in the state, books its indirect costs at about $7,000,000 per year. Such striking difference between the two companies leads DRA to conclude that GSWC is trying to maximize the capitalization of its O&M and A&G costs in order to increase its revenue requirements with an unduly inflated rate base.

In addition, the practice of booking indirect costs into a company-wide Overhead Pool Account distorts amount of actual indirect costs incurred in one operating region of the company and the corresponding capital investment in the same region. This would result in assignment of inaccurate and possibly inflated indirect costs to the Region 1 capital projects that have little if any reasonable relation to level of construction in that Region. .

GSWC's calculation of overhead rates and expenses violated the Commission's Uniform System of Accounts for Water Utilities, which describes the application of Overhead Construction Costs as follows:

> 6. Overhead Construction Costs
>
> A. All overheads construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others that the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amount of such overheads reasonably applicable thereto*, to the end that each job or unit shall bear its equitable proportion of such costs* and that the entire cost of the unit, both direct and overhead, shall be deducted from the utility plant account at the unit of property is retired.
>
> B. The instruction contained herein shall not be interpreted as permitting the addition to utility plant accounts of arbitrary percentages or amounts to cover assumed overhead costs, but as requiring the assignment to particular jobs and accounts of actual and reasonable overheads costs.
>
> C. The records supporting the entries for overheads construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs

By lumping all of its indirect costs into a single company-wide Overhead Pool Account, GSWC removes the possibility of assigning the indirect costs actually incurred in a specific operating region only to those capital projects in that operating region. For example, GSWC includes indirect costs from its Electric Division, BVE into the company-wide Overhead Pool. As a result, regardless of the actual indirect costs booked for BVE, (i) ratepayers in Region I will bear some unspecified portion of BVE's and other Regions' indirect overhead costs; and (ii) the capital projects in Region I will likely be assigned a large part of the indirect costs based upon an arbitrary overhead percentage rate that does not reflect the actual level of capital projects in Region I. .

If the indirect costs from Region-I were accounted for separately, they likely would be lower than that what GSWC proposes. A large capital project in Region I for example, would result in a lower overhead rate. However, by lumping indirect costs from all of the operating regions and BVE in a single company-wide Pool Account, GSWC is generating an Overhead Rate and an allocation of overhead expenses that does not reasonably correspond to the actual and specific indirect costs of Region I. This inflates the overhead rate in Region I, which results in unfair and unjustified rates. .

Another major concern is that GSWC has historically not been able to zero-out its company-wide Overhead Pool Account. DRA believes that this situation has rendered this Overhead Pool Account a "bottom-less" pit where the relationship between indirect costs and capital projects in a particular operating region cease to exist. No matter how large or small an amount of capital project gets in a year, the indirect expenses from the subsequent years will be used to sustain a presubscribed arbitrary overhead rate.

For example, GSWC's work papers[82] indicate a year-end balance of negative $4,349,866 in 2004 in its Overhead Pool Account. Simply put, close to four and half

[82] MS Excel File, Titled: Overhead-R1 V07 02-08-07 Update

million dollars were applied to capital projects in the name of indirect capitalized expenses that were not yet incurred. GSWC's records show that in the following year i.e. 2005, another load of $14,127,089 was being booked into company-wide Overhead Pool Account. The year-end balance for 2005 was a positive $5,588,750. This surplus amount indicates that in 2005, more O&M and A&G expenses were booked into company-wide Overhead Pool Account than the amounts actually applied to capital projects as overhead.

In this application, GSWC's work papers indicate that it is trying to zero out its company-wide Overhead Pool Account at the end of year by charging the excess balance of the account to various capital projects throughout the company. DRA objects to this methodology and believes that the proper method of eliminating the excess amount is to return the capitalized expenses back to O&M and A&G areas where they can be properly expensed rather than being capitalized.

In addition, GSWC books its entire employee related insurances, health benefits, and vacation expenses into its General Office. GSWC then designates 21% of these expenses as capitalized expenses. GSWC also estimates that approximately 64% of these 21% expenses should be booked into the company-wide Overhead Pool Account as an indirect capitalized labor. Once again, the true costs are distorted by this practice.

For employees' pension, GSWC has historically booked the entire 21% of this expense as indirect capitalized expense into the company-wide Overhead Account. Upon DRA's objection in its last rate case proceedings, GSWC now books 64% of this 21% of employees' pension expenses as indirect capitalized labor. However, there is no need to pool employee related costs for insurance, health benefits, pension, and vacation into General Office. These costs should be directly assigned to each employee working in his or her operating region. By booking these costs in the company-wide Overhead Pool Account, the reasonable amount of overhead costs for capital projects in GSWC's specific operating regions is distorted.

In order to end the current abuse of overhead rate, DRA recommends the following steps:

(i) GSWC must separate its specific capitalized costs at each operating region level so that only true and real costs are passed on to the related capital projects in each operating region. GSWC should track the capitalized expense which it books into the Company-wide Overhead Pool Account for each operating region separately. Thus,, there will be no company-wide Overhead Pool Account; instead each operating region will have its own Overhead Pool Account. This will give more control and added transparency to the entire process of measuring overhead rates for specific operating regions.

(ii) GSWC should bring its annual indirect capital expenses in-line with the other Class-A water utilities. In general, a smaller size company should have lower indirect capital expenses compare to a larger size company. This is not the case with GSWC. California Water Service Company with approximately 500,000 customers and serving 28 different districts is booking an amount of indirect capital costs that is half of GSWC's. But by comparison, GSWC serves far fewer customers in fewer districts than California Water Service Co.: GSWC has approximately 275,000 customers in 16 districts. A contributing factor could be GSWC's top-heavy organizational structure and the lack of oversight and accountability. In any case, GSWC has failed to prove the reasonableness and justification for its unreasonably high overhead cost methodology. For example, GSWC has failed to show that it cannot, manage the overhead costs at various operating region levels, and properly and directly track various overhead costs into the specific operating regions.

(iii) GSWC has failed to justify its practice of "zeroing out" the company-wide Overhead Pool Account is reasonable and justified. First, GSWC has not explained the need to have a company-wide Overhead Pool Account which distorts the allocation of indirect costs to Region 1. Second, GSWC has failed to justify eliminating ("zero out") excess year-end balance in overhead accounts by assigning these amounts to capital projects in the subsequent future years. Alternatively, GSWC could transfer the excess balance back to the O&M and A&G expenses where they can be properly expensed. For the subsequent future years, GSWC will then have to estimate the indirect costs in such a manner so that there is no shortage or excess in overhead pools. GSWC has failed to show that any other alternatives were explored and the results thereof, before engaging in the present unreasonable method of eliminating the year-end balances in the overhead accounts.

For this proceeding, DRA recommends using the following methodology to calculate applicable overhead rate for GSWC's capital projects in Region I for 2007, 2008, and 2009:

Since the data regarding company-wide Overhead Pool Account in 2006 is the latest recorded data available, DRA begins its analysis from the beginning of 2006. GSWC records show that there is a positive balance of $5,588,750 in the company-wide Overhead Pool Account at the beginning of 2006, indicating an excess of expenses being drawn out of O&M and A&G for the purpose of capitalization in 2005. Similarly, 2006 year-end balance is a positive $1,019,917. Once again this balance indicates an excess during 2006. However, during the DRA's discovery, GSWC stated that the $1,019,917 was deliberately left in the company-wide Overhead Pool Account for the purpose of recalculation of its overhead rate per Commission's decision: D.06-11-020. DRA agrees that there is a need for such

adjustment; however, DRA disagrees with the amount and recommends $72,152 instead (this is based on DRA's recommendations in the proceedings i.e. D.06-11-020). Therefore, there is a total of $5,660,90283 in excess in 2006.

In addition, GSWC work papers[84] show that for 2006 it allocated an additional $4,835,138 in order to "zero out" the company-wide Overhead Pool in 2006. It should also be noted that in GSWC's work papers[85] the adjustment for the purpose of clearing company-wide Overhead Pool Account is listed as $9,661,219 instead of $4,835,138. Upon DRA's inquiry, GSWC's staff failed to present any plausible reason for this discrepancy and insisted that the adjustment amount for zeroing-out its company-wide Overhead Pool Account was $4,835,138. Nevertheless, DRA chose to proceed with its analysis by accepting the value of $4,835,138.

As discussed earlier, DRA disagrees with the methodology employed by GSWC for the purpose of clearing its company-wide Overhead Pool Account, and instead believes that the excess monies should be transferred back to O&M and A&G expenses. Therefore, the total excess amount in 2006 is then adds up to $10,496,040.86

DRA's objective is to determine a reasonable overhead rate for GSWC's capital projects in Region I. Since the indirect costs from various operating regions are being booked in a company-wide Overhead Pool Account, DRA needs to know that how much of these cost can be attributed to Region I and General Office. Upon DRA's request[87], GSWC provided a breakdown of these costs among its operating

[83] $5,588,750 + $72,152

[84] GSWC response to DRA's Data Request AMX-59, And GSWC's Work papers: MS Excel File, Overhead –R1 V07 02-08-07 Update

[85] GSWC response to DRA's Data Request AMX-59, And GSWC's Work papers: MS Excel File, Overhead –R1 V07 02-08-07 Update

[86] $5,660,902 + $4,835,138

[87] DRA's data Request AMX-03

regions: General Office, Region I, Region II, Region III, and its Bear Valley Electric. GSWC's data shows that in 2006 it booked a total of $12,257,441 indirect costs into the company-wide Overhead Pool Account, of which $4,072,759 and $2,301,517 were contribution from General Office and Region I , respectively. These amounts translate into allocation rates of 33.22% and 18.78% for General Office and Region I, respectively.

Using these rates, DRA then calculates $585,258 and $330,729 as the indirect expenses for General Office and Region I which should be booked into the company-wide Overhead Pool Account to offset a portion of the excess amount of $10,490,040. In addition, using GSWC's historical allocation rate of 16.62% for its General Office Expenses to Region I, DRA calculates $97,27088 as the indirect expenses contributed from General Office to Region-I. This means that $427,99989 of indirect cost should be contributed from Region-I into the company-wide Overhead Pool Account during 2006. By using appropriate escalation factors, DRA then derives $438,699, $449,052, and $459,021, as the indirect costs in Region I respectively for 2007, 2008, and 2009.

The overhead rates were then calculated by dividing above listed respective indirect costs by the recommended budget in a particular year.

In the end, it should also be noted that DRA's recommended overhead rates are defined by the specific capital budget and the specific amount of capitalized expense that are recommended by DRA for each year. Therefore, if the Commission adopts any other amounts these rates will have to be recalculated accordingly. In addition, as discussed earlier, DRA specifically recommends that the amount of capitalized expenses for the purpose of overhead rates should not exceed more than $438,699, $449,052, and $459,021 in the year 2007, 2008, and 2009 respectively, regardless of the amount of capital budget in these years.

[88] $585,258 * 16.62%

[89] $97,270 + $330,729

VI. CH2MHILL PARTNERSHIP

DRA finds problematic GSWC's ongoing partnership with CH2MHill for purposes inter alia of developing Master Plans for all of its Northern and Coastal District CSAs; performing design and design-build tasks for all of the major Water Supply and Distribution projects; and developing project costs for all projects excluding pipeline. According to GSWC's witness, Ernest Gisler, GSWC will likely retain CH2MHill to assist with the implementation of 2008 and 2009 capital projects.90

GSWC has failed to justify this partnership as cost-effective or otherwise reasonably needed. No data shows that this arrangement with CH2MHILL will alleviate the backlog of capital projects company-wide, relieve any engineering workload, or render any cost savings to ratepayers. If accepted by the Commission without the requisite level of proof by GSWC, this CH2MHILL partnership will heap unfair and unreasonable rate burdens on customers in all three of GSWC's Regions.

Following is the list of the problematic issues regarding this partnership:

1- Need for the Partnership with CH2MHILL: In DRA's Data Request, AMX-32, GSWC provided a historical background of forming such partnership with CH2MHill. In doing so, GSWC re-submitted the excerpts of the testimony of David Chang, Engineering and Planning Manager of Region II, in the previous Region II GRC proceedings, A.06-02-023. In that proceeding, Mr. Chang justified the need for such a partnership based on the following reasons:

a. Heavy Workload: In addition to $30 million of capital improvements each year, there have been higher volumes of new business projects (Budget Group 60)...The total number of new business projects applications totaled more than 164 from January 2003 through September 2005. That is an increase of 52% when compared with

[90] Prepared Testimony of Ernest Gisler, A 06-01-009 thru A-06-01-015, pgs 3-5

the total of new business project applications of 108 for 2000 to 2002.

b. Stringent local permit requirement: Many local cities are imposing more stringent conditional use permit requirements on local projects. These requirements have prolonged permitting process, caused delay or stoppage of projects, and caused significant cost increases.

c. Increase in construction costs: Due to the expansion in construction sector in the US and overseas, specifically in China and India, there have been significant increases in construction material and labor costs, because of a global shortage of construction raw materials such as concrete and steel. This increases construction costs and cause project budget overruns and deferral of projects.

d. Staff Shortage: Despite its aggressive recruiting efforts GSWC had difficulty in hiring qualified engineering staff, which has further increased the need to rely on outside engineering resources to complete projects.

DRA disagrees with each of the above stated claims. GSWC's purported heavy workload is attributable mainly to an increase in new business applications. Since new businesses' capitals are generally funded by the contractors or developers in the form of contributions and advances, these funding sources should pay for the hiring of CH2MHILL instead of burdening the existing ratepayers.

GSWC claims that CH2MHILL is needed to meet the increasingly stringent local permitting requirement. DRA finds no quantitative data of such an increase or that GSWC does not currently have the internal administrative and other resources to meet any such purported increase of local requirements. Further, most often these permits are required for new business applications,

which should not placed on the backs of ratepayers when they financially benefit the GSWC shareholders.

GSWC fails to prove that hiring CH2MHill has effectively expedited or likely will facilitate local permitting processes. GSWC only speaks in vague generalities or anecdotally. Further, GSWC does not demonstrate that more readily available and less costly alternatives are ineffective. For example, no data shows GSWC's efforts to institute more efficient time management and planning programs to increase GSWC's abilities to deliver projects in a more cost-effective manner.

As for the significant increases in construction material and construction labor costs, once again GSWC fails to quantify such claims and specifically explain how such purported trends justify the need to hire CH2MHILL. Increases in the price of construction materials and labor costs lift the tide for all boats: GSWC as well as CH2MHILL would have to pay the rise in such prices. GSWC fails to explain how hiring CH2MHILL would reduce costs associated with impacts due to increased international demand for steel and concrete. DRA cannot see any cost benefit,, but rather employing CH2MHILL would exacerbate the expense of construction for GSWC ratepayers.

For example, CH2MHILL adds at least 12% of the total cost of capital projects as its profit and an additional 10% is applied for CH2MHIll's contingencies. GSWC could save on these CH2MHILL profit and contingency charges, if GSWC relied on its employee and administrative resources. The issue is that GSWC has not proved that its internal resources are ineffective or inadequate as to justify hiring CH2MHILL as cost-effective and otherwise reasonable.

GSWC's claim that it has a shortage of qualified employees is also unsupported. For example, in D.06-01-025, the Commission held the following:

> The record shows that private engineering businesses assess overhead rates of about 15%. In fact, SCWC's own "overhead" rate in 1990 was only 12%, and that included its direct billings, as shown by the contract with the Department of Corrections for facilities to serve the prison discussed in detail below.
>
> The vendor rates differ substantially from SCWC's current rate because they include the vendor company's profit, as well as administration and management. SCWC's overhead rates do not include profit. This difference strongly suggests that SCWC's overhead expenses are high, a conclusion also supported by SCWC's 1990 rate, and giving credibility to customers' allegations of corporate "fat."

GSWC's past re-structuring also likely has contributed to the "corporate fat." Prior to 1994, GSWC's water operations were organized into 16 Districts and the Company's General Office housed most of the water quality and engineering staff. In 1994, GSWC consolidated the district operations into three large operating regions: Region I, Region II, and Region III, and decentralized its oversight for engineering and water quality needs and created the current organizational structure consisting of at least four layers: 1) General Office, 2) Regional Headquarters, 3) District Offices, and 4) Local CSAs.

Each layer has its own engineering and water quality staff, thus duplicating such functions throughout GSWC's three Regions. For example, each Regional Headquarter has the position of Engineering and Planning Manager, Water Quality Manager, a couple of Engineers, Senior Civil Engineers, and Engineer CAD Technicians. Similarly, each District Office has its own position of District Engineer, Water Quality Engineer, Engineering Technicians, Electrician, and Water Quality Technician. While each CSA has it own Operations Superintendent, Water Supply Operators, and Water Distribution Operators.

This decentralization in 1994 resulted in a temporary reduction of the number of staff in the Company's General Office. However, DRA finds that

this reduction in the General Office was short-lived. With the exception of a brief reduction for a few years after 1994, the General Office staff has steadily risen. In 1994, there were 128 employees in Company's General Office. After the decentralization, the number was reduced to 87 in 1997. Since then, the number of employees in the General Office had increased to 102 in 2005. In the last General Office proceeding, A.06-02-023, GSWC requested the recovery of its payroll expense for a total of 139 employees. Approximately a 60% increase in General Office staffing since 1997. Thus GSWC currently not only has more employees in its General Office but has an equally elaborate staff in its regional offices since the decentralization. Nevertheless, GSWC continues to request for more positions in each subsequent GRC.

DRA would like to point out that among the newly added positions in its General Office, GSWC has a position of the Senior Vice President-Operations who is in part responsible for the Company's Infrastructure Replacement and Investment needs. GSWC also formed a new department, Operations Department in its General Office and hired a Capital Projects Manager. GSWC justified that the Capital Projects Manager is needed in order to bring organization and cohesiveness to its capital program that currently lacks central oversight.

The above stated facts belie GSWC's claim of staff shortage. Further, GSWC has failed to specifically and quantitatively prove that its present staff resources are unable or inadequate to meet its workloads. Ratepayers are already supporting elaborate teams of centralized General Office and decentralized Regional engineering staffs that in many respects appear duplicative in functionalities. Based on its Region II GRC, the combined salary for the staff from Engineering, Water Quality, and Operation Department performing water distribution and water supply functions of the company, is nearly $ 4 million. Hiring CH2MHILL to plan and construct plant projects unreasonably burdens the ratepayers, if GSWC has not or cannot

justify such added expenses. GSWC failed to show that its present staff resources are inadequate or incapable to carry out its capital projects without CH2MHILL

2- Bidding Process In Hiring CH2MHILL: The selection and hiring of CH2MHILL is improper and unfair to the ratepayers. Based upon the information provided by the company[91], DRA finds that the original Request For Proposals (RFP) was first issued in year 2004, for only a limited and specific purpose as described below:

> American States Water Company d.b.a. Southern California Water Company[92] within California is seeking a relationship with a first-rate engineering firm or firms for the purpose of 1) Performing planning and design, design-build, and construction management of a major portion of our 2005 water distribution projects; and, 2) Performing planning and design, design-build, and construction management of a major portion of our 2005 water supply projects.

The RFP was strictly for the purpose of completing portions of GSWC's 2005 capital projects. However, once hired, CH2MHILL has been retained and continued to perform capital projects beyond 2005 without further competitive bidding. In fact, GSWC's work papers reveal that CH2MHILL will perform capital projects scheduled for as far out as 2009 and there is no reason to believe that it won't go beyond that time.

GSWC appears to have disregarded its own competitive bidding policy for CH2MHILL. DRA finds no new RFPs were issued for the work beyond 2005, and the continued retention of CH2MHILL amounts to a "no-bid" contract. Further, GSWC also appears to have abandoned finding the least costly or the most cost-effective option. In the "Proposal Evaluation" section

[91] GSWC's response to DRA's Data Request AMX-32

[92] Since then Company changed its d.b.a. to Golden State Water Company

of the RFPs, GSWC assigned only a 10% weight for the "Fee Schedule" as a criterion for evaluating a bid, which gives the minimum weight to the overall cost estimate of the project.

3- Conflict Of Interest: CH2MHill plays an integral role in the development and construction of major plant projects CH2MHill also analyzes and prepares the Master Plan which is the roadmap for future construction projects. CH2MHill further designs and obtains permitting for the projects. GSWC has failed to show what cost advantages result from GSWC supplanting its own engineering staff with CH2MHILL, from the planning to construction of capital projects.

For reasons discussed above, DRA finds GSWC's hiring of CH2MHILL improper, unreasonable, and unjustified. DRA recommends that the Commission remove the 12% profit factor along with its 10% contingencies from all projects involving CH2MHill.

PLANT IN SERVICE
Test Year 2008 and Escalation year 2009

Item	DRA EY 2007 (A)	Utility EY 2007 (B)	DRA TY 2008 (C)	Utility TY 2008 (D)	DRA TY 2009 (E)	Utility TY 2009 (F)
	(Dollars in Thousands)					
Plant in Service-BOY	43,278.3	43,887.2	44,253.6	47,123.2	44,986.7	49,067.8
Additions:						
Utility Funded	426.8	2,435.4	489.4	1,794.0	464.0	1,731.6
Advances	208.6	208.6	208.6	208.6	208.6	208.6
Contributions	91.4	91.4	91.4	91.4	91.4	91.4
CWIP	323.5	675.9	0.00	0.00	0.00	0.00
Gross Additions	1,050.3	3,411.3	789.4	2,094.0	764.0	2,031.6
Less:						
Retirements	(74.9)	(175.3)	(56.3)	(149.4)	(54.5)	(145.0)
Transfer & Adjustment						
Plant-in-Service (EOY)	44,253.6	47,123.2	44,986.7	49,067.8	45,696.2	50,954.4
Weighting Factor	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Wtd. Avg. Plant in Service	43,766.0	45,505.2	44,620.2	48,095.5	45,341.4	50,011.1

CHAPTER 5 DEPRECIATION AND AMORTIZATION

A. Introduction

This Chapter presents DRA's analysis and recommendation on depreciation. The following table shows the weighted average accumulated depreciation and amortization for Test Years 2008 and 2009.

B. Summary of Recommendations

Differences in DRA and GSWC's estimates are due to differences in GSWC's requested plant additions and DRA recommended plant additions for the Test Years. These differences are discussed in Chapter 4 on Utility Plant Additions.

GSWC requests weighted average accumulated depreciation of $12,281,192 in the year 2007, $13,636,881 in Test Year 2008 and $15,278,164 in Test Year 2009. DRA recommends $12,331,358 in the year 2007, $13,663,713 in Test Year 2008 and $15,038,400 in Test Year 2009.

C. Discussion

According to GSWC's witness, Jenny Darney-Lane, in this rate case, GSWC has agreed to no longer track the cost of small tools through a clearing account that was then applied as an "overhead" to labor costs. Through a settlement agreement with DRA in A.06-02-023, GSWC agreed with DRA that starting in 2007 the company would begin to expense the cost of small tools. Therefore, GSWC will no longer book the depreciation for small tools to the small tools clearing account and will include the amount as part of the depreciation expense. GSWC has also provided a depreciation study specific to the administrative offices.

DRA has reviewed the company's analysis and accepts GSWC's methodology to arrive at the accumulated depreciation and amortization accrual for Region I. The following table reflects GSWC's estimated Depreciation and DRA's recommendation. Notice that for the years 2007, and 2008, DRA's recommended weighted average depreciation amounts are slightly higher than that of the Company's request. This is due to the fact that DRA's recommended plant additions are

significantly less than that of the Company's request and therefore, resulting in DRA's recommended plant retirements that are lower than that of the Company's, hence creating higher weighted average accumulated depreciation balance for theses years.

ACCUMULATED DEPRECIATION AND EXPENSE
Test Year 2008 and Escalation year 2009

Item	DRA EY 2007 (A)	Utility EY 2007 (B)	DRA TY 2008 (C)	Utility TY 2008 (D)	DRA TY 2009 (E)	Utility TY 2009 (F)
			(Dollars in Thousands)			
Accum. Depreciation (BOY)	11,679.0	11,679.0	12,983.7	12,883.4	14,343.7	14,390.4
Accruals During Year:						
Clearing Account	13.7	13.7	13.7	13.7	13.7	13.7
Contributions	51.2	51.2	54.6	54.6	58.0	58.0
Depreciaton Expense	1,314.8	1,314.8	1,348.0	1,588.1	1,372.1	1,848.8
Total Accruals	1,379.7	1,379.7	1,416.3	1,656.4	1,443.9	1,920.5
Less:						
Net Retirements	(74.9)	(175.3)	(56.3)	(149.4)	(54.5)	(145.0)
Adjustments	0.00	0.00	0.00	0.00	0.00	0.00
Accum. Depreciation (EOY)	12,983.7	12,883.4	14,343.7	14,390.4	15,733.1	16,165.9
Weighting Factor	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Avg. Accumulated Deprec.	12,331.4	12,281.2	13,663.7	13,636.9	15,038.4	15,278.2

CHAPTER 6 RATE BASE

A. Introduction

This Chapter presents DRA's analysis and recommendation on rate base. The following table compares DRA and GSWC's estimates of rate base for Test Years 2008 and 2009.

B. Summary of Recommendations

GSWC requests rate base of $26,568,461 in the year 2007, $27,458,748 for Test Year 2008, and $27,641,565 for Test Year 2009. DRA recommends $24,595,273 for the Year 2007, $23,848,600 for Test Year 2008, and $23,089,533 for Test Year 2009. Differences in rate base are due to differences in plant additions, CWIP, and different Common Utility Allocation from the Company's General Office rate base. The differences in plant additions were previously discussed in Chapter 4.

C. Discussion

1) Construction Work In Progress (CWIP)

GSWC requested an amount of $675,901for the purpose of closing and completing its capital projects that are currently booked in the Company's CWIP account. More specifically, GSWC requested an amount of $442,890 for the projects that are currently booked into the CWIP account and made up the year end balance as of 2006, and requested an additional amount of $233,010 in year 2007 for the purpose of completing these projects whereas DRA recommends allowing amounts of $219,376, and $104,092 in the year 2006, and 2007 respectively.

GSWC's approach to CWIP amount is unreasonable. It is important to notice that the other utilities such as energy utilities are not allowed to earn a rate of return on their CWIP dollars; hence CWIP is not included in ratemaking calculations for the non-water utilities. However, the Commission allows water utilities to earn a rate of return on the CWIP dollars. The rationale for this is that typically water utilities' capital projects are comparatively simple and are therefore expected to be completed in less than a year and would be place in use, hence it is only reasonable to provide an

opportunity for water utilities to earn a return on their investment in the projects that are under construction.

For example, in its decision, D.03-09-022, this Commission denied CWIP treatment for California American Water Company's Coastal Water Project because the project was not of short duration; on the contrary, the project would require a significant period of time for construction, distinguishing it from typical water construction projects. The decision noted:

> As we previously held in D.94-08-031, water utilities:
>
> > "are uniquely able to seek construction work in progress (CWIP) accounting to recover the cost of financing plant under construction but not yet used and useful. Other utilities must rely on the less immediate "allowance for funds used during construction (AFUDC) accounting method, which defers recovery of construction financing costs until after the plant is placed in service. Water utilities are authorized to seek CWIP accounting because of a perception that water utility construction projects are generally shorter than other utility construction projects, and because CWIP accounting may cost ratepayers less than AFUDC accounting." (See D.94-08-031, 19994 PUC LEXIS 474 at *7, note 2.)

However, this is not the case with GSWC; DRA observed that most of the Company's projects are not completed in the one year time period and therefore, remained in CWIP account for more than a year. This practice turns the Company's CWIP account into a "gold mine" where the rates are develop based upon the same projects over and over again.

In its Los Osos Customer Service Area report, DRA has discussed in detail the consequences of the current treatment of various projects in the Company's CWIP account. As the Company only provided a token information in the form of copies of current General Work Orders (as shown in the DRA's Los Osos report, one project

can have more than one General Work Orders) pertaining to the various projects that are currently booked into its CWIP account, DRA could not perform an in-depth analysis of more than seventy capital projects that are currently booked in the CWIP account[93] ranging from the years 2000 to 2006. However, the example of the project discussed in details in the DRA's Los Osos report, shows that the practice of keeping projects over a year in the CWIP account leads to "double counting". In addition, the practice of adding new projects without the Commission's authorization compromises the Commission's oversight, this coupled with the lack of support the Company provided for these projects may leads to the addition of unnecessary and unjustifiable projects into the Company's rate base.

For example, as discussed earlier that how the project "La Serena Plant Improvement" turned into a large mega project of $3,794,741 whereas the Commission had only authorized a mere amount of $181,000 in year 2000-2001. The Company has already closed an amount of $3,701,215 in its "Utility Plant in Service" account, therefore, increasing its rate base without any regulatory oversight. In addition, the Company chose not to disclose any details or justifications for this huge increase in the scope of the project or cost overruns in this application. The Company merely provided copies of few of its General Work Orders barely covering any details as to what really caused the project to turn into a "Mega" project. Upon DRA's data request, the Company provided some more information which revealed that not only the project increased in its scope but also there were huge cost overruns.

It should be noted that each addition of a capital dollar to the rate base not only increases the revenue requirement and hence, increases the water rates for the captive ratepayers. There is also the tendency to gold plate rate base. Therefore, a regulatory oversight is absolutely necessary. However, the Company's current lack of support for the projects that are booked into its CWIP account and the fact that they remained there more than a year and especially beyond a rate case cycle (every three years)

[93] GSWC's workpapers of Santa Maria, Pages 21-22 (initial filing).

eliminates this much needed regulatory oversight. This Commission must verify that the capital investments are reasonable and actually needed. A mere fact that a facility that was built and now is in use should not be a reason enough due to the concerns for the Company's inherent advantage to over-invest in order to earn a rate of return. Therefore, DRA recommends allowing an amount of $323,467[94] for only those projects that were booked into CWIP account in the last year i.e. 2006 with exception of the projects that are "funded by the others".

In addition, it should also be noted that this recommendation does little to assure the reasonableness of the CWIP projects that are already transferred to the "Utility Plant in Service" account in the year 2006. For example, in its initial application the Company requested to transfer to the "Utility Plant in Service" a total amount of $3,092,900[95]: an amount of $584,800 in the year 2006, and an amount of $2,508,100 in the year 2007. However, in its updates, filed in February of 2007, the Company indicated that it was requesting to transfer an amount of $442,890 in year 2006 and an amount of $233,010 in the year 2007, thus proving that at least an amount of $2,417,000[96] was already transferred to "Utility Plant in Service" from the request $3,092,900 as the end of the year 2006.

Based upon the above facts and findings, DRA further recommends that this Commission order a full audit of the Company's CWIP account and current practices of potential "double counting", and addition of capital projects to its rate base without proper Commission's review. DRA also notices that this is the only Class-A water company that also forecasts its CWIP amounts for the closing in the Test Years. Other Class-A water companies usually request the ending balance of their respective CWIP accounts to be included in the rate base or an average recorded balance. In addition, the Commission should investigate the possibility of considering in future rate cases

[94] $327,888 + (-$79,065) = $248,823

[95] GSWC's workpapers of Santa Maria, Page 3 (Table 4-M)

[96] $969,462 - $556,963 = $412,499

the application of AFUDC (Allowance for Funds Used During Construction) interest rate instead of allowing the inclusion of CWIP in the rates as most of this Company's capital projects tend to last more than a year.

WEIGHTED AVERAGE DEPRECIATED RATEBASE

Item	DRA EY 2007 (A)	Utility EY 2007 (B)	DRA TY 2008 (C)	Utility TY 2008 (D)	DRA TY 2009 (E)
	(Dollars in Thousands)				
Wt. Avg. Plant in Service	43,766.0	45,505.2	44,620.2	48,095.5	45,341.4
Utility Plant Under Constructi	109.7	221.4	0.00	0.00	0.00
Acquisition Adjustment	0.00	0.00	0.00	0.00	0.00
Total Utility Plant	43,875.7	45,726.6	44,620.2	48,095.5	45,341.4
Depreciation Reserve	(12,331.4)	(12,281.2)	(13,663.7)	(13,636.9)	(15,038.4)
Net Utility Plant	31,544.3	33,445.4	30,956.5	34,458.6	30,303.0
Materials and Supplies	43.9	43.9	43.9	43.9	43.9
Advances	(4,317.2)	(4,317.2)	(4,343.5)	(4,343.5)	(4,368.8)
Contributions	(1,214.4)	(1,214.4)	(1,252.9)	(1,252.9)	(1,287.9)
Rate Base Before Adjustment	26,056.7	27,957.8	25,404.0	28,906.1	24,690.3
Deferred F.I.T. Items	(2,296.2)	(2,394.1)	(2,336.0)	(2,531.8)	(2,368.9)
Deferred Revenues	(27.7)	(27.7)	(27.7)	(27.7)	(27.7)
Invest. In Other Water Co.	0.00	0.00	0.00	0.00	0.00
Deferred Rate Case Expense	0.00	0.00	0.00	0.00	0.00
Allowance for Working Cash	29.2	29.2	29.2	29.2	29.2
Common Utility Allocation	833.3	1,003.3	779.2	1,083.0	766.7
Weighted Average Rate Base	24,595.3	26,568.5	23,848.6	27,458.8	23,089.5

CHAPTER 7 TAXES

A. Introduction

This Chapter sets forth the analysis and recommendations of DRA regarding taxes other than income and income taxes. Tables 7-1 and 7-2 show DRA's and GSWC's estimates of taxes other than income and income taxes for Test Year 2008.

B. Summary of Recommendation

DRA estimates higher income taxes for both State and Federal Income Taxes as shown in Tables 7-1. The difference between GSWC's and DRA's estimates is due to different estimates in revenue requirement, expenses, rate base and other tax issues.

C. Discussion

1. Ad Valorem Tax (Property Tax)

DRA recommends $150,500 for ad valorem taxes for Test Year 2008. GSWC requested $160,800 for ad valorem taxes. The amount of $10,300 differs from GSWC's due to DRA's different plant estimates, discussed in Chapter 5 of this report.

1. Payroll Taxes

Payroll taxes include Social Security tax, Federal Insurance Contribution Act (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Tax Assessment (FUTA), and State Unemployment Tax Assessment (SUTA).

DRA recommends $57,300 for payroll taxes for Test Year 2008. GSWC requested $57,400 for payroll taxes. The amount of $100 differs from GSWC's due to DRA's lower estimate of payroll expenses.

3. Tax Depreciation

DRA calculated tax depreciation for state and federal income tax purposes by applying the ratio of DRA's estimate of net plant to GSWC's estimate of net plant to GSWC's tax depreciation estimate.

4. Interest Deduction

To calculate the interest deduction, DRA used its recommended rate base, discussed by DRA's plant witness, multiplied by DRA's recommended weighted cost of debt.

5. Income Taxes

The differences in income taxes estimated for Test Year 2008 between DRA and GSWC are due to the differences in revenues, expenses, and rate base.

D. Conclusion

As per discussion above, DRA recommends the Commission to adopt its estimates for Taxes Other Than Income and Income Taxes for Test Year 2008.

Table 7-1
GOLDEN STATE WATER COMPANY
Region I- Santa Maria District
TAXES OTHER THAN INCOME (2008)

	@ Proposed Rates	
	2008	
	DRA	Utility
Item	Analysis	Estimated
	(A)	(B)
Ad Valorem Tax	150.5	160.8
Payroll Taxes	57.3	57.4
Local Franchise Tax	0.0	0.0
Total Taxes other than income	207.8	218.2

TABLE 7-2				
GOLDEN STATE WATER COMPANY				
Region I- Santa Maria District				
Income Tax				
2008				
	ORA	Utility	ORA	Utility
Item	Present Rates		Recommended Rates	
	(A)	(B)	(E)	(F)
	(Dollars in Thousands)			
Operating Revenues:	8,247.6	8,146.7	8,910.0	10,927.0
Expenses:				
Oper. & Maint. & A&G	5,645.4	6,785.1	5,645.4	6,786.8
Taxes Other than Income	207.8	218.3	207.8	218.3
Depreciation & Amortization				
Book Depreciation- District	(1,348.0)	(1,588.1)	(1,348.0)	(1,588.1)
Book Depreciation- G.O.	(37.1)	(65.4)	(37.1)	(65.4)
Interest	865.7	994.0	865.7	994.0
Expense Before Taxes	5,333.8	6,343.9	5,333.8	6,345.6
CCFT				
Tax Depreciation- State	(1,639.3)	(1,931.3)	(1,639.3)	(1,931.3)
Other Schedule M Items	58.2	74.6	58.2	74.6
State Taxable Income	1,332.7	(53.8)	1,995.1	2,724.7
CCFT (8.84%)	117.8	(4.8)	176.4	240.9
FIT				
Excess Tax Depreciation	132.5	132.5	132.5	132.5
Book Depreciation- District	(1,348.0)	(1,588.1)	(1,348.0)	(1,588.1)
Book Depreciation- G.O.	(37.1)	(65.4)	(37.1)	(65.4)
State Tax	(148.3)	4.8	(148.3)	4.8
Other Scheduled M Items	47.6	61.7	47.6	61.7
Def. Rev. Amort.- Contrib.	7.9	7.9	151.4	7.9
Federal Taxable Income	1,568.4	356.3	2,230.8	3,134.8
FIT (35%)	548.9	124.7	780.8	1,097.2

CHAPTER 8 POLICY ISSUES

A. Introduction

This Chapter provides DRA's comments regarding GSWC's water quality and customer service in the Santa Maria CSA. DRA also discusses the impact of the pending Santa Maria Water Rights Litigation settlement on this GRC.

B. Summary of Recommendations

DRA reviewed various water quality documents provided by GSWC and contacted DHS for information relating to the compliance history of the Santa Maria Water System and found that these water systems have been in compliance with the drinking water standards during 2004 to 2006. DRA also learned through the Public Advisor's office that GSWC has generally been providing satisfactorily service to the Santa Maria customers. Additionally, DRA recommends that all litigation costs, except $2.7 million that had been included in prior GRC, be excluded from its rate base and O&M accounts in the current GRC relating to the Santa Maria Water Rights Litigation. This is consistent with the pending settlement reached between DRA, Orcutt Area Advisory Group, and GSWC.

C. DISCUSSION

I) Santa Maria Water Rights Litigation

In A.06-02-026, GSWC has requested that the Commission authorize GSWC to enter into a stipulation that will resolve years of litigation over water rights and water supply management in the Santa Maria Groundwater Basin. In the application, GSWC requested that the Commission authorize GSWC to execute the Stipulation, to capitalize the construction costs of the Nipomo Pipeline, and to recover the O&M costs. In the current application (A.07-01-014), GSWC has included the litigation related costs from the adjudication into utility rate base. It also included some O&M expenses in Test Year 2008 associated with the management of the Twitchell Reservoir and the Nipomo Mesa Management Area. Finally, GSWC has included the

cost of purchasing 250 acre feet of water in the Nipomo Mesa area in Test Year 2009 upon the completion of the Nipomo Mesa Pipeline Project.

On February 16, 2007, DRA, GSWC and Orcutt Area Advisory Group entered into a settlement agreement that resolved certain contested issues in A.06-02-026. Among the resolved issues, the settlement allowed GSWC to rate base $2.7 million of the $5.5 million of previously incurred litigation costs, which have already been included in rate base in prior rate setting proceedings as Construction Work in Progress. Second, the Settlement Agreement provided that GSWC should amortize , with interest, the remaining $2.8 million of litigation costs in rates over a 10 year period. Third, the Settlement Agreement provides that litigation costs that have been incurred, and will continue to be incurred, by GSWC after December 31, 2005 will also be amortized over 10 years in the same manner as for the $2.8 million discussed above, subject to Commission review of its reasonableness. Lastly, the Settlement Agreement provided that a memorandum accounts should be established to implement the amortization and recovery of litigation costs described above.

Consistent with the settlement agreement entered into by the three parties, DRA recommends that all litigation related costs, except the $2.7 million that have been included in rate base in prior GRC, should be excluded from this GRC. These costs will be tracked in a memorandum account in accordance to the terms and conditions of the settlement agreement.

Furthermore, DRA recommends the disallowance of the O&M and supply expenses that GSWC has included in this GRC. DRA believes that since the settlement agreement is still pending before the ALJ and that the Commission has not yet adopted the decision on the final form of this settlement agreement, such forecasted expenses are considered premature at this time. GSWC should make the request again once the Commission issues a decision.

II) Water Quality

DRA performed a review of GSWC's water supply and quality documents. DRA also contacted DHS to obtain the compliance history of GSWC's water systems from 2004 to 2006 in the Santa Maria service territory. As informed by DHS, the Santa Maria water systems generally were in compliance with the drinking water standards between 2004 and 2006.

III) Customer Complaints

DRA, through the Commission Public Advisor's Office, has received no protest to the proposed increase in rates and addressing various related cost issues such as memorandum accounts, service, compensation, water quality, and management of the water system.

The Consumer Affairs Branch has received three informal complaints involving rates, billing, installation, service for the period January 1, 2004 through December 31, 2006. There were no formal complaints filed against GSWC during this period.

On May 9, 2007, The Commission held a Public Participation Meeting at the Santa Maria City Council Chamber. The meeting was well attended and over 80 GSWC ratepayers attended and expressed their comments. The most prominent issue that ratepayers commented on was the size of the rate increase being requested by GSWC. A few ratepayers also expressed their dissatisfaction with the water quality as well as customer service provided by GSWC.

CHAPTER 9 RATE DESIGN

This chapter sets forth the analysis of DRA on the rate design. GSWC currently provides water service to its customers under the following tariffs:

Schedule No. SM-1, GENERAL METERED SERVICE

Schedule No. 4, PRIVATE FIRE SERVICE

Schedule No. UF, SURCHARGE TO FUND PUBLIC UTILITIES COMMISSION REIMBURSEMENT FEE

GSWC's rate design is consistent with the method set forth in D.86-05-064. Approximately 50% of fixed costs are recovered through the service charge, and the remaining costs are recovered through a single block commodity rate.

The Commission has issued Order Instituting Investigation I.07-01-022 regarding conservation rate designs. At this time, the Commission should continue to apply the current rate design methodology until the Commission issues its final decision on the conservation rates for GSWC.

CHAPTER 10 ESCALATION YEARS

Table 10-1 below shows the Summaries of Earnings for Escalation Years 1 and 2. To obtain the increases in these years, D.04-06-018 requires 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 the table are for illustration purposes and the actual increases would be authorized only after approval of the utility's escalation year advice letters for 2009 and 2010.

TABLE 10-1

GOLDEN STATE WATER COMPANY

SUMMARY OF EARNINGS (Escalation Years)

Item	DRA 2009 (A)	@ proposed	DRA 2010 (C)
	(Dollars in Thousands)		
Operating Revenues	8,900.0		8,865.0
Total Revenue	8,900.0		8,865.0
Expenses			
Operation & Maintenance	2,881.0		2,881.9
Admininistrative and General	1,492.0		1,525.4
Depreciation & Amortization	1,372.1		1,396.2
Taxes Other Than Income	211.6		215.2
CCFT	168.7		162.5
FIT	742.9		723.2
Total Expenses	6,868.3		6,904.4
Net Income	2,031.7		1,960.6
Ratebase	23,089.6		22,330.6
Rate of Return	8.79%		8.78%

APPENDIX A: ESCALATION FACTORS

State of California — Public Utilities Commission
San Francisco

M E M O R A N D U M

Date: February 28, 2007

To: D. Sanchez, Program Manager, DRA; K. Coughlan, Director, Water Division

From: Martin G. Lyons, Program Supervisor, DRA Energy Cost of Service Branch

File No. : S-2559

Subject: DRA February 2007 Summary of Compensation per Hour

The following data are provided to Commission water utilities staff to enable them to utilize DRA's composite non-labor escalation methodology. The numbers are to be used in conjunction with the non-labor factors provided in DRA's monthly escalation memorandum to bring historic dollars to base year dollars and to inflate recorded dollars to test year levels. More specifically, the annual change in Compensation per Hour is applicable to contracted services, while the non-labor factor is related to material and supply purchases. In accordance with a 1991 agreement between the CPUC Water Division and the California Water Association (CWA), the monthly non-labor rate is to be weighted by 60 percent and the Compensation per Hour Index weighted 40 percent. If you have any questions regarding the application of these factors, please contact me.

COMPENSATION PER HOUR

Annual Rate of Change
Non-farm Business Sector, Seasonally Adjusted

Year	Annual Change
1997	3.6%
1998	5.3%
1999	4.4%
2000	6.9%
2001	2.7%
2002	2.8%
2003	4.0%
2004	4.5%
2005	4.4%
2006	5.4%
2007	3.7%
2008	3.5%
2009	3.9%
2010	4.1%
2011	4.2%

Source: Global Insight February 2007 U.S. Economic Outlook

State of California — Public Utilities Commission
San Francisco

M E M O R A N D U M

Date : February 28, 2007

To : Division of Ratepayer Advocates and Water Division

From : M. G. Lyons, Program Supervisor
DRA Energy Cost of Service Branch

File No.: S-2559

Subject: Division of Ratepayer Advocates: Estimates of Non-labor And Wage Escalation Rates for 2007 through 2011 from the February 2007 Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 12 years, which include seven historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2007 through 2011. Data for 2006 are provided as benchmarks. The factors for January 2007 are presented for comparison. Near-term lagged CPI is expected to run over 3% due to petroleum price increases and fall to the 2% range by 2008. Non-labor inflation for 2007-11 is effectively checked by continued structural changes in the economy such as globalization and improved operating efficiencies. Global Insight's forecast of rising non-labor rates for 2006 is the result of temporary price increases in petroleum, chemicals/allied products, metals/metal products, and machinery. Labor escalation continues to be constrained by changes in the labor market due to corporate structural change, outsourcing, and high labor productivity.

FORECASTED INFLATION

	Labor		Non-labor	
	01/07	02/07	01/07	02/07
2006	3.4%	3.4%	5.5%	5.5%
2007	3.2%	3.2%	2.1%	1.7%
2008	1.8%	1.5%	1.3%	1.6%
2009	2.1%	2.3%	0.8%	1.1%
2010	1.9%	2.1%	0.5%	0.7%
2011	1.9%	1.9%	0.5%	0.7%
Compounded	15.2%	15.3%	11.1%	11.8%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the Escalation Factors from 2000 through 2011 are provided in the attached appendix.

APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2007 through 2011 are presented in Table A. The values for 2000 through 2006 are provided for comparison.

TABLE A

Year	Non-Labor Inflation Rate*
2000	3.5%
2001	0.0%
2002	0.0%
2003	2.5%
2004	5.8%
2005	5.5%
2006	5.5%
2007	1.7%
2008	1.6%

2009	1.1%
2010	0.7%
2011	0.7%

* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The Escalation Factors are generated from a composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance, rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

The WAGE ESCALATION RATES in Table B are based on recorded utility labor settlements for 2000 through 2006 and Global Insight projections of the U.S. CPI for All Urban Consumers (CPI-U) for 2007 through 2011.

TABLE B

Year	Wage Increases 1/ 2/
2000	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2001	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2002	3.00%/3.50%/3.00%- PG&E/SCE/SoCal
2003	4.00%/3.25%/3.00%- PG&E/SCE/SoCal
2004	4.00%/3.50%/3.50%- PG&E/SCE/SoCal
2005	4.00%/3.50% /3.50%- PG&E/SCE/SoCal
2006	3.75%/3.75%/3.50%- PG&E/SCE/SoCal
2007	3.2% -CPI 3/
2008	1.5% -CPI 3/
2009	2.3% -CPI 3/
2010	2.1% -CPI 3/
2011	1.9% -CPI 3/

1/ Wage increases are not adjusted for changes in hours worked or the number of employees. The labor requirement is a separate issue related to the calculation of total payroll.

2/ If the proposed increase is reasonable, witnesses should use the particular utility's actual settlement on the date it becomes effective. The above recorded wage increases are for benchmark purposes only.

3/ CPI-U lagged one year to be consistent with union contracts.

The generally accepted method in labor contracts is to peg a wage increase to the rate of increase in the CPI-U for the previous year. Consequently, these wage escalation rates are based on the previous year's CPI escalation. If the utility is using an index other than U.S. CPI-U, please contact me for directions. The witnesses should familiarize themselves with the actual wage contracts for 2000 through 2011 to ascertain the correct wage formulas, reasonableness, and the effective date of increase for the particular proceeding. The annualized wage increase should reflect the percentage changes in wages weighted by the number of months individual wage rates were in effect.

Other non-labor and labor indices may be used if a witness has more specific knowledge of any particular account. **Those individuals who plan to use their own inflation factors are expressly requested to contact me for approval and direction**.

These forecasts are updated monthly. Please call me if you have any questions relating to these projections.

cc: M. Pocta D. Sanchez F. Curry
M. Enderby K. Coughlan

APPENDIX B: QUALIFICATIONS OF DRA STAFF MEMBERS

Victor Chan, P.E.

- Senior Utilities Engineer
- Registered Professional Engineer in California
- Employed by the P.U.C. since 1996
- Employed in DRA Water Branch since 2004
- Sponsoring Sections:
    - Chapter 1 (Summary of Earnings)
    - Chapter 9 (Policy Issues)
    - Chapter 10 (Escalation Years)

Eric Matsuoka

- Public Utilities Regulatory Analyst
- Employed by the P.U.C. since 1974
- Employed in DRA Water Branch since 1998
- Sponsoring Sections:
    - Chapter 3 (Expenses, O&M, A&G)
    - Chapter 7 (Taxes)

Mehboob Aslam

- Utilities Engineer
- Employed by the P.U.C. since 2001
- Employed in DRA Water Branch since 2003
- Sponsoring Sections:
    - Chapter 4 (Plant in Service)
    - Chapter 5 (Depreciation and Amortization Expenses)
    - Chapter 6 (Ratebase)

Victor Moon

- Utilities Engineer
- Registered Professional Engineer in California
- Employed by the P.U.C. since 1977
- Employed in DRA/Water Branch since 1984
- Sponsoring Sections:
    - Chapter 2 (Customer, Consumption, Operating Revenue)
    - Chapter 8 (Rate design)