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 SIMI VALLEY DISTRICT for

Test Year 2008 and Escalation Years 2009 and 2010
Application 07-01-015
In Consolidated Proceeding A. 07-01-009 et al.

San Francisco, California
May 14, 2007

277483

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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 Company (GSWC), general rate case (GRC) Application (A.) 07-01-015, re the Simi Valley District (District), Region 1.[1] Unless otherwise indicated, this Report pertains only to the District.

GSWC is requesting Commission authorization to increase rates in 2008 for water service in that District by $1,605,100, an increase of 16.96% over present rates; in 2009 by $113,300, an increase of 1.02%; and in 2010 by $222,000, an increase of 1.97%.

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 B of this Report.

EXECUTIVE SUMMARY

A. INTRODUCTION

On January 5, 2007, Golden State Water Company (GSWC) filed general rate case (GRC) application A. 07-01-015, requesting authorization to increase rates in 2008 for water service in the District by $1,605,100, an increase of 16.96% over present rates; in 2009 by $113,300, an increase of 1.02% ; and in 2010 by $222,000, an increase of 1.97%. For Test Years 2008 and 2009, GSWC requests a return on equity of 11.25% with a return on rate base of 9.41%.

[1] The Commission has consolidated A. 07-01-015 with GSWC's other concurrently filed GRC applications for Region 1 in one proceeding, A. 07-01-009 et al.

Concurrently with this Report, DRA is separately serving 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 in this proceeding.

B. SUMMARY OF RECOMMENDATION

DRA submits this Report as its prepared direct testimony in A.07-01-015, as consolidated in A. 07-01-009 et al. For the District, DRA recommends an overall revenue requirement of $9,961,000 in Test Year 2008, which is an overall decrease of 0.23% over present rates for GSWC's ratepayers, as shown in the table below entitled "Summary of Earnings."

Summary of Earnings

Test Year 2008

DRA Present	GSWC Present	DRA Recommended	GSWC's Request
$9,984,000	$9,867,500	$9,961,000	$10,972,700

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

1. Chapter 2- Customer, Consumption and Operating Revenue

DRA agrees with GSWC's customer growth forecast. DRA also agrees with GSWC regarding estimates of consumption for every class of customers, except for the commercial meter class. For the Test Year 2008, the total average number of customers estimated by DRA and GSWC is 13,405 customers. DRA's total water supply estimate for the Test Year 2008 is 4,002,342 Ccf, as compared to GSWC's 3,943,251 Ccf. At the present and GSWC's proposed rates, DRA's calculated operating revenues for the Test Year 2008 are $9,984,000 and $11,103,000, respectively; GSWC's are $9,867,500 and $10,862,800, respectively.

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

DRA recommends $7,935,900 in operating expenses for Test Year 2008. GSWC proposes $8,466,400. DRA's estimate is $530,500 lower than GSWC proposal due to use of different escalation factors, assumptions, and methodologies to forecast these future expense amounts.

3. Chapter 4-Plant in Service

GSWC requests plant additions of $1,137,000 for 2007; $1,605,200 for Test Year 2008; and $1,010,100 for Test Year 2009. However, DRA recommends plant additions of $316,400 in 2007; $411,100 in Test Year 2008; and $360,200 in Test Year 2009. Also, DRA will present recommendations concerning GSWC's partnership with engineering firm CH2M Hill, GSWC's Overhead Rate, and GSWC's planned and unplanned project Contingency adder**.**

4. Chapter 5- Depreciation Expenses and Reserve

Differences in DRA's 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, "Utility Plant Additions." GSWC requests depreciation of $8,993,600 in Test Year 2008 and $9,690,400 in Test Year 2009. DRA recommends $9,105,700 in Test Year 2008 and $9,820,700 in Test Year 2009.

5. Chapter 6-Rate Base

GSWC requests rate base of $10,150,000 for Test Year 2008 and $10,836,900 for Test Year 2009. DRA recommends $8,228,600 for Test Year 2008 and $8,003,700 for Test Year 2009. Differences in rate base are due to differences in plant additions and CWIP.

6. Chapter 7-Taxes

DRA estimates higher income taxes for both State and Federal Income Taxes as shown in Table 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.

7. 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 Simi Valley 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 Simi Valley customers.

8. 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.

9. Chapter 10- Escalation Years

DRA estimates $10,059,000 and $10,045,000 as the revenue requirements for Escalation Years 2009 and 2010, respectively, compare to $11,168,700 and $11,446,200 estimated by GSWC.

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	Policy Issues	Victor Moon
9	Rate Design	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 presents DRA's recommendations in response to GSWC's general rate increase requests for the Simi Valley District in 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	$1,605,100	16.96%
Escalation Year 2009	$113,300	1.02%
Escalation Year 2010	$222,000	1.97%

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 decrease for Test Year 2008 as follows (Escalation Years 2009 and 2010 are covered in Chapter 10):

Test Year	Amount of Increase	Percent
2008	($23,000)	(0.23%)

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 8.74% in 2005 and 2006. In this Report DRA used the most recent rates filed in AL 1226-W 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 the present rate is shown below:

	Rate of Return		
	2008		
	DRA	GSWC	Diff
Present Rates	8.96%	3.38%	5.58%

TABLE 1-1				
GOLDEN STATE WATER COMPANY				
Region I- Simi Valley 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	9,984.0	9,867.5	9,961.0	10,972.7
Total Revenue	9,984.0	9,867.5	9,961.0	10,972.7
Expenses				
Operation & Maintenance	6,347.7	6,337.7	6,347.7	6,339.2
Admininistrative and General	1,587.4	2,127.1	1,587.4	2,127.1
Depreciation & Amortization	672.8	706.8	672.8	706.8
Taxes Other Than Income	253.5	259.9	253.5	273.8
CCFT	69.9	7.1	67.8	103.4
FIT	315.8	85.8	307.8	467.3
Total Expenses	9,247.1	9,524.4	9,237.0	10,017.6
Net Income	736.9	343.1	724.0	955.1
Rate base	8,228.6	10,150.0	8,228.6	10,150.0
Rate of Return	8.96%	3.38%	8.80%	9.41%

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CHAPTER 2 CUSTOMER, CONSUMPTION, OPERATING REVENUE

A. INTRODUCTION

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

B. SUMMARY OF RECOMMENDATIONS

Tables 2-1 through 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 13,405 customers. DRA's total water supply estimated for the Test Year 2008 is 4,002,342 Ccf, as compared to GSWC's 3,943,251 Ccf.

At the present and GSWC's proposed rates, DRA's calculates operating revenues for the Test Year 2008 as $9,984,000 and $11,103,000, respectively; GSWC's calculations are $9,867,500 and $10,862,800, respectively.

DRA's and GSWC's estimates and analyses of their differences are discussed as follows.

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) applications. That Decision directs 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.[2]

Water sales for classes of service other than residential and small commercial (such as irrigation, industrial, reclaimed, public authority, and others) should be forecasted based on total consumption by class using the best available data.[3] 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, based on which the total number of customers was estimated as 13,405 customers by both parties.

2. Average Consumption

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

[2] Decision (D.) 04-06-018, memo, at App. At 6-7.

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

For metered commercial water use, DRA forecasted 249.2 Ccf per customer per year for the Test Year 2008 as opposed to GSWC's 245.1 Ccf. The difference in water use is due to the different methodologies used by both 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 the designated time period for the Test Year.

Upon discovering an abnormally dry year in 2001 for the Simi Valley CSA, DRA eliminated 2001 regression input data for the usage, adjusted temperature, and adjusted rainfall, and replaced it with the 9-year average recorded data from 1996 through 2005 excluding the 2001. The New Committee Method refers back to the Committee Method (Modified Bean Method) for normalizing weather data to forecast future water use. The Committee Method does not determine the effects of weather normalization for an abnormal year such as 2001.

Both DRA's and GSWC's regression analyses showed R^2 value of 84%. DRA's forecasts metered commercial water use more reasonably than GSWC, because DRA incorporates the time variable and replaces the abnormal climatological data in its regression model.

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. For the Test Year 2008, DRA's estimate for the total water supply is 4,002,342 Ccf, as compared to GSWC's 3,943,251 Ccf. The difference in total water supply estimated for the fiscal Test Year 2008 is due to the difference in water uses estimated by DRA and GSWC.

Water loss is the amount of water lost through operations, and unaccounted-for water due to leakage. Water used in operation covers water used in flushing the system whereas unaccounted-for water is determined to be the

difference between the total amounts of water produced and the total amount of potable water recorded for sales.

DRA accepted GSWC's request of 7.14% water loss based on the most recent 5-year recorded average. The trend on the water loss for the last five years has been upward with a range from 4.46% in 2002 to 9.06% in 2006.

4. Operating Revenue

Operating revenue is calculated by multiplying the number of customers by the applicable water use and the current tariff rates for the present revenue; and the proposed rates for the proposed revenue. The difference in operating revenues is due to the difference in water uses used to calculate the respective revenues.

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.

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TABLE 2-1				
GOLDEN STATE WATER COMPANY				
Region I- Simi Valley District				
AVERAGE SERVICES				
2008				
	DRA	Utility	DRA Exceeded GSWC	
Item	Analysis	Estimated	Diff	Percent
	(A)	(B)		
Metered Service:				
Commercial	13,065	13,065	0	0.00%
Industrial	38	38	0	0.00%
Public Authority	115	115	0	0.00%
Irrigation	20	20	0	0.00%
Resale	0	0	0	0.00%
Contract	0	0	0	0.00%
Other	9	9	0	0.00%
Total Metered	13,247	13,247	0	0.00%
Flat Rate				
Commercial	0	0	0	0.00%
Public Authority	0	0	0	0.00%
Private Fire	158	158	0	0.00%
Total Flat Rate	158	158	0	0.00%
Total Average Customers	13,405	13,405	0	0.00%

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TABLE 2-2				
GOLDEN STATE WATER COMPANY				
Region I- Simi Valley District				
Average consumption per customer				
2008				
	DRA	Utility	DRA Exceeded GSWC	
Item	Analysis	Estimated	Diff	Percent
	(A)	(B)		
Metered Service:				
Commercial	249.2	245.1	4.1	1.67%
Industrial	916.2	916.2	0.0	0.00%
Public Authority	2,185.4	2,185.4	0.0	0.00%
Irrigation	1,376.4	1,376.4	0.0	0.00%
Resale	0.0	0.0	0.0	0.00%
Contract	0.0	0.0	0.0	0.00%
Other	263.6	263.6	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	912.6	912.6	0.0	0.00%

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TABLE 2-3				
GOLDEN STATE WATER COMPANY				
Region I- Simi Valley District				
OPERATING REVENUES				
Test Year 2008				
(at Present Rates)				
Item	DRA	GSWC	DRA Exceeded GSWC	
	(A)	(B)	Diff.	%
	(Dollars in Thousands)			
Metered Service:				
Commercial	9,084.4	8,967.9	117	1.30%
Industrial	103.2	103.2	0	0.00%
Public Authority	629.0	629.0	0	0.00%
Irrigation	76.0	76.0	0	0.00%
Resale	0.0	0.0	0	0.00%
Contract	0.0	0.0	0	0.00%
Other	22.9	22.9	0	0.00%
Total Metered	9,915.5	9,799.0	117	1.19%
Flat Rate				
Commercial	0.0	0.0	0	0.00%
Public Authority	0.0	0.0	0	0.00%
Private Fire	64.7	64.7	0	0.00%
Total Flat Rate	64.7	64.7	0	0.00%
Public Fire				
Miscellaneous				
Misc. Service	2.9	2.9	0	0.00%
Rent	0.0	0.0	0	0
Other	0.9	0.9	0	0
Revenue Accrued	0.0	0.0	0	0
Supply Bal. Accts	0.0	0.0	0	0.00%
Total Misc.	3.8	3.8	0	0.00%
Total Operating Revenue	9,984.0	9,867.5	117	1.18%

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 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 recommends $7,935,900 in operating expenses for Test Year 2008. GSWC propose $8,466,400. DRA's estimate is $530,500 lower than GSWC proposal due to use of different escalation factors, assumptions, and methodologies to forecast these future expense amounts.

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

C. DISCUSSION

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

Table 3-1
Region I Simi Valley
Test Year 2008
(Dollars in Thousands)

	DRA	GSWC
Purchased Water	$ 5,434.4	$ 5,340.4
Purchased Power	281.3	277.3
Chemicals	5.7	5.7
Allocated Common Cust Acct-GO	84.4	124.7
Uncollectibles 0.132%	13.1	14.5
Operation Labor	281.8	324.0
Other Operation Expenses	86.5	86.5
Total Operation Expenses	6,187.2	6,173.1
Maintenance Labor	73.5	73.5
Other Maintenance Expenses	87.0	92.7
Total Maintenance Expenses	160.5	166.2
Office Supplies & Expenses	34.1	34.1
Pension and Benefits	1.6	1.6
Business Meals	0.8	0.8
Regulatory Expenses	48.6	83.2
Outside Services	6.7	16.4
Miscellaneous	5.7	5.7
Allocated General Office	945.0	1,385.0
Allocated Region Office	276.4	305.7
Allocated District Office	164.2	167.2
Other Maint. Of Gen. Plt	2.3	11.1
Rent	42.8	42.8
A&G Labor	60.0	73.5
Total A&G Expenses	1,588.2	2,127.1
Total O&M & A&G	$ 7,935.9	$ 8,466.4

1. Escalation Factors

GSWC used the escalation factors established by the DRA Energy Cost of Service Branch memorandum dated 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 Water

DRA recommends $5,434,400 and GSWC requests $5,340,400 for purchased water expenses in Test Year 2008. DRA's estimate is $94,000 higher than GSWC proposal, due to a higher level of water supply and sales numbers provided by DRA's revenue witness. The water supply and sales number are found at Chapter 2 in this report.

DRA and GSWC applied the same rate for purchased water to determine their estimates for purchased water expenses.

b) Purchased Power

DRA recommends $281,300 and GSWC requests $277,300 for purchased power expenses in Test Year 2008. DRA's estimate is $4,000 higher than GSWC proposal, due to a higher level of total production quantity numbers provided by DRA's revenue witness. The production quantity numbers are found at Chapter 2 in this report.

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

c) Chemicals

DRA recommends the same level of expenses of $5,700 requested by GSWC for chemicals in Test Year 2008.

d) Various Allocated Expenses

The following data pertaining to various allocated expenses are discussed in a separate Report and sponsored by the DRA Regional witness:

- The Allocated Common Customer Accounts-General;
- 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 0.132% 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 $281,800 and GSWC requested $324,000 for operation labor expenses in Test Year 2008. DRA's recommendation is $42,200 less than GSWC proposal.

DRA recommends the same level of expenses of $73,500 requested by GSWC for maintenance labor in Test Year 2008.

DRA recommends $60,000 and GSWC requested $73,500 for administrative and general labor expenses in Test Year 2008; DRA's recommendation is $13,500 less than GSWC's proposal.

In projecting labor expense, GSWC started with actual and vacant positions for the Coastal District and Simi Valley 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 used 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 0.82% 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 for 2006, such as temporary vacancies, overtime, and other activities. The Application failed to show the reasonableness and support for the merit increase factor of 1.28% in this general rate cycle, which inflates the recorded labor expenses of 2006.

GSWC requested one (1) Water Supply Operator II position for 2007 and its labor expenses are included in Test Year 2008 in this Application.

DRA recommends denying the request for the position in 2007 and to include the labor expenses of 2007 in Test Year 2008, because this Application's general rate cycle is Test Year 2008 through 2010 and the request for the new position is outside the present general rate cycle.

g) Other Operation Expenses

DRA recommends the same level of expenses of $86,500 requested by GSWC for other operation in Test Year 2008.

Other Operation Expense 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 (1) 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 $15,900 to be added to the five year average of the water treatment-laboratory expenses sub account. DRA recommendation includes the $4,000 conservation expenses and $15,900 water treatment laboratory expense.

3. Maintenance Expenses

a) Maintenance Labor

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

b) Other Maintenance Expenses

DRA recommends $87,000 and GSWC requested $92,700 for other maintenance expenses, which DRA recommendation is $5,700 less than GSWC proposal.

GSWC uses an inflation adjusted five-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2007; and applied the escalation factor to the total expenses of 2007 to develop its estimate of $92,700 for Test Year 2008.

DRA uses an inflation adjusted three-year average to estimate 2006 dollars and applied the escalation factor to the adjusted average number to develop its estimate of $87,000 for Test Year 2008. DRA uses an inflation adjusted three-year average due to the extreme fluctuation in the recorded expenses for the past five

years, such as from a low of $44,800 in 2002 to a high of $120,100 in 2003, and to provide a continuous level of expenses.

4. Administrative and General Expenses

a) Office Supplies and Expenses

DRA recommends the same level of expenses of $34,100 requested by GSWC for office supplies and expenses in Test Year 2008.

b) Pension and Benefits

DRA recommends the same level of expenses of $1,600 requested by GSWC for pension and benefits in Test Year 2008.

c) Business Meals

DRA recommends the same level of expenses of $800 requested by GSWC for business meals in Test Year 2008.

d) Regulatory Commission Expense

DRA recommends $145,800 or a yearly amortized amount of $48,600 for three years in regulatory commission expense. GSWC requests $249,600 or a yearly amortized amount of $83,200 for three years in regulatory commission expense. DRA's recommendation makes a reduction of $103,800 or a yearly amortized amount of $34,600 from GSWC's proposal. Table 3-2 depicts the expense activity for the last general rate case, which DRA uses to forecast Test Year 2008 expenses.

Table 3-2
Region I Simi Valley CSA
Test Year 2008
(Dollars in Thousands)

		2005	2006	2007	DRA	GSWC
D.05-05-025	Adopted	$ 44.4	$ 45.2	$ 45.9		
	Recorded	9.2	26.0	45.9		
	Total Regulatory Expense				145.8	249.6
	Yearly Expense-3 years				$ 48.6	$ 83.2

GSWC uses its last general rate case regulatory expenses for Region II, A.06-02-023, as a proxy to estimate Region I's regulatory commission expense for Test Year 2008. To date, the Commission has not issued a final decision on 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.

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.

e) Outside Services

DRA recommends $6,700 and GSWC requested $16,400 for outside services expenses, which DRA recommendation is $9,700 less than GSWC proposal.

GSWC uses an inflation adjusted five-year average to 2006 dollars; applied the escalation factor to the adjusted average number to develop the expense for 2007; and applied the escalation factor to the total expenses of 2007 to develop its estimate of $16,400 for Test Year 2008.

DRA uses an inflation adjusted three-year average to estimate 2006 dollars and applied the escalation factor to the adjusted average number to develop its estimate of $6,700 for Test Year 2008. DRA uses an inflation adjusted three-year average due to the fluctuation in the recorded expenses for the past five years, such as from a low of negative $88,500 in 2005 to a high of $31,100 in 2002 and to provide a continuous level of expenses.

f) Miscellaneous

DRA recommends the same level of expenses of $5,700 requested by GSWC for miscellaneous in Test Year 2008.

g) Other Maintenance General Plant

DRA recommends $2,300 and GSWC requested $11,100 for other maintenance general plant expenses, which DRA recommendation is $8,800 less than GSWC proposal.

GSWC use 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 the escalation factor to the total expenses of 2007 to develop its estimate of $11,100 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 its estimate of $2,300 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 $1,600 in 2002 to a high of $17,800 in 2005 and to provide a continuous level of expenses.

h) Rent

DRA recommends the same level of expenses of $42,800 requested by GSWC for rent in Test Year 2008.

i) Administrative and General Labor Expense

Refer to Paragraph 2 Operation Expense, (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 Simi Valley 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 $1,13,700 for 2007, $1,605,200 for Test Year 2008 and $1,010,100 for Test Year 2009, whereas DRA recommends plant additions of $316,400 in 2007, $411,100 in Test Year 2008 and $360,200 in Test Year 2009.

Also, DRA will present recommendations concerning GSWC's partnership with engineering firm CH2MHill, GSWC's Overhead Rate, and GSWC's planned and unplanned project Contingency adder**.**

C. DISCUSSION

1. Capital Projects in 2007

For 2007 Company requested an overall amount of $1,113,700 for its capital projects, whereas DRA recommends an amount of $316,400. Following are the details of DRA recommendations and a summary table:

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Rebecca Plant Improvements	186,000	108,000	-78,000	-42%
Improvements to Katherine Site- Demo Building	64,000	0	-64,000	-100%
Misc. Bowl Replacement	27,000	5,000	-22,000	-81%
Securtiy Lighting at all Sites	43,000	36,000	-7,000	-16%
Miscellaneous Street Improvements	11,000	4,000	-7,000	-64%
Runkel Canyon Storage Tank- Capacity Increase	213,000	0	-213,000	-100%
Hydrants	27,000	3,000	-24,000	-89%
Valves	32,000	3,000	-29,000	-91%
Service Line Replacement	133,000	0	-133,000	-100%
SCADA-Implementation Plan	53,000	0	-53,000	-100%
Mater Plan	133,000	0	-133,000	-100%
Contingency	17,000	14,000	-3,000	-18%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	964,000	198,000	-766,000	-79%
Blanket Projects				
Meters	77,300	68,200	-9,100	-12%
Services	19,300	17,100	-2,200	-11%
Minor Main Replacement	9,700	0	-9,700	-100%
Minor Pumping equipment	4,800	4,300	-500	-10%
Minor Purification equipment	4,800	4,300	-500	-10%
Office Furniture	4,800	4,300	-500	-10%
Air Compressor & Jack Hammer	19,300	17,100	-2,200	-11%
Miscellaneous Tools and Equipment	9,700	3,100	-6,600	-68%
Total Blanket Projects	149,700	118,400	-31,300	-21%
Total Capital Budget	**1,113,700**	**316,400**	**-797,300**	**-72%**

2. Rebecca Plant Improvements

GSWC requested an amount of $186,000 in the year 2007 for the purpose of replacing an existing Motor Control Center (MCC) at the Rebecca Plant site to eliminate electrical safety and code violations, and designed and constructed to accommodate future boosters at the Plant. 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 an amount of $108,000.

The Company claimed[4] that the existing electrical safety and code violations were identified in the "Boyle Report "Inspection and Evaluation of Electrical Facilities"

[4] GSWC's workpapers of Simi Valley, Page-58

in the year 1995. Upon DRA's request, the Company provided[5] the related portion of the Boyle Report. The Report revealed that there were only two code violations:

1. Grounding electrode conductor is undersized per NEC; and

2. Mercoid wire using a flexible cord, Mercoid should be fixed wired per NEC.

The Boyle Report also indicated that these above mentioned violations could be fixed at the minimum cost of $600. In addition, the Report also identified certain "Safety" and "Condition/Reliability" issues and suggested that those could also be fixed at the minimum cost of $4,100. The Boyle Report also mentioned that the entire replacement would cost a total cost of $38,000 that will include design and utility service upgrades and fees.

It is not clear that why the Company failed to follow a simple solution recommended by the Boyle Report in 1995. However, the Company stated[6] that it has initiated a General Work Order (GWO) for the project in 2003 (that is eight year after the Boyle Report was issued), and then deferred the project until the System Master Plan was initiated in year 2006. However, the Company did not provide any reason for this delay in implementing the Boyle Report's recommendations.

It is quite possible that the initial GWO had also affected the rates as it was part of CWIP for some part. The Company did not provide the copy of the GWO by claming that the GWO latter become "cancelled estimate"; therefore, it cannot be determined that how much funds were estimated and what prior rates those funds have impacted. However, it is certain that eleven years ago the Company became aware of the problem and was presented a recommendation to replace the existing MCC for an amount of $38,000, and the fact that a GWO was opened and

[5] GSWC's response to DRA's Data Request, AMX-43.

[6] GSWC's response to DRA's Data Request, AMX-43 (Question-3).

some funds (more likely the entire $38,000 plus the GSWC's applicable overheads and contingency) were booked into CWIP that might have already impacted the previous rates in the region (since 2003 the Company had at least one rate case).

On the other hand, the Company did not provide any support for its cost estimations in its application. The entire requested cost of $186,000 was supported by a ¼ page grid as shown below:

Construction Cost	Engineering Costs			Cost Subtotal	GSWC Overhead 20.75%	Cost Subtotal	Project Allowance 10%	Total CIP Cost
	Permitting/ Planning	Design	Construction					
$105,000	$5,000	$20,000	$10,000	$140,000	$29,050	$169,050	$16,905	$185,955

The Company did not provide any support for any of the costs listed above. However, the Company's workpapers indicated that the above cost estimates were prepared on October 10, 2006. On March 12, 2007, DRA requested[7] the Company to provide support for the above listed cost estimates. On April 3, 2007, the Company responded with a cost breakdown that was obviously prepared after the fact as the price quotation from a vender named, Tesco Controls Inc., for the MCC was dated March 30, 2007. In addition, the cost breakdown for the Materials, Labor, and Design lack any support. For example, the Engineering Design and Construction Support costs were estimated for $33,000 without any support of man-hour or the hourly rate information and documentation.

In addition, the cost total was incorrectly depicted a value of $184,000 whereas after the applicable GSWC's overhead and contingency rates, the

[7] DRA's Data Request, AMX-43

corrected cost total would have been $189,674. DRA argues that the Company, in its application, must provide the cost estimates which are based on sound and reliable information. It appears that this is not the case with GSWC. The Company's cost estimates are based on mere conjecture and lack supporting documentation and are prepared after the fact when DRA demanded vouching information.

The project that was estimated for mere $38,000 in year 1995 now stands at the cost of $142,800 (excluding overheads and contingency). DRA notice that the design of the MCC has changed since 1995 and now accommodates for the future boosters; however, the original cost estimations recommended in Boyle Report indicated a cost of $6,000, while the design cost now stand at $22,000. DRA argues that with this increase in the design cost and the appropriate inflation, the cost increase of 276%[8] is unjustifiable.

On the other hand, the need for a change in the design to accommodate the future boosters is also troubling, upon DRA's request, the Company provided[9] the information that the existing boosters were also recommended to be replaced in the Boyle Report in the year 1995, as they were tested and found performing below the recommended efficiency level set by this Commission. For example, Rebecca Pump A (20 hp) was tested in the year 1986 and had an efficiency of 37.3 %, the Rebecca Pump B (40 hp) was test in the year 1992 and had an efficiency of 57.8%, and the Rebecca Pump C (40 hp) was test in the year 1992 and had an efficiency of 47.6%. According to the Commission's guidelines, both Pump A and Pump C were performing at a "LOW" efficiency levels and the Pump B was performing at a "Fair" efficiency level.

[8] $38,000 to $142,800

[9] GSWC's response to DRA's Data Request, AMX-43 (Question-4)

The fact that the Company continued its use of low efficient pumps for more than fifteen years is in itself not only contrary to this Commission's guidelines but reflect the poor management at the Company's part. DRA is surprised that even in this application; the Company has not presented any plans to change these low performing pumps at Rebecca Plant. However, in its workpapers, while performing a cost benefit analysis for the its requested cost of $186,000 for the replacement of MCC, the Company used a cost of $239,000 for the purpose of replacing MCC and booster pumps[10] as "Scenario-1" alternative against "Scenario-2: Do Nothing". And yet the Company chose to request $186,000 for the purpose of replacing only the MCC at the Rebecca Plant. When DRA questioned about the cost of $239,000, the Company responded that the scope of the work for this project is to change out the old electric equipment with a new MCC. The cost of new pumps is not included; Scenario-1 on page 59 was labeled incorrectly.

Given the facts and findings discussed above, DRA believes that the Company should replace both the MCC and the booster pumps at Rebecca Plant for the amount of $108,000. This cost estimation is based on the Company's cost estimations of $38,000 for MCC in the year 2003 that is adjusted for the inflation and with 50% increase in the scope of the work regarding new booster pumps, and adding the booster pumps cost of $53,000[11]. Please notice that this recommendation does not account for the possible rate impact that the inclusion of $38,000 might have had on the rates during or after 2003.

[10] GSWC's workpapers of Simi Valley, Page-59.

[11] $239,000-$186,000 = $53,000.

3. Improvements to Katharine Site- Demolition of Building

GSWC requested an amount of $64,000 in the year 2007 for the purpose of demolition of a garage/warehouse wood-frame building that is allegedly dilapidated, located at Katherine Plant in Simi Valley. The Company stated that the project also includes the design and construction cost of paving and drainage improvements at the plant. 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.

On March 8, 2007, during its field trip of the Company's facilities in the Simi Valley Customer Service Area, DRA observed that the existing building appeared in a reasonable shape, no structural damaged was visible, and the building was serving the purpose of a warehouse. On the side of the building, under an extended roof, a mobile generator unit wad parked. The soil of the plant looked reasonable and had some loose gravel. The site has very minimal vehicular traffic if any. For example, the GSWC's staff[12] stated that the mobile generator unit was seldom used and in fact was used only three times in the last the two years.

Based on DRA's observations of the physical condition of the building in question, the general condition of the soil, and the rarity of the vehicular use at the Katharine Plant, DRA recommends disallowing this project.

4. Miscellaneous Bowl Replacement

GSWC requested amount of $27,000, $28,000, and $35,000 in the years 2007, 2008, and 2009, respectively, for the purpose of emergency replacement of pumps and motors as well as column extensions required due to declining

[12] GSWC's District Engineer, Terry.

pumping levels. The requested amount will also be used to replace pumps and motors operating at below acceptable efficiencies. The Company claimed[13] that the requested amount is based upon trending past expenditures for this type of projects; however the Company failed to provide any supporting information regarding the past expenditures or the trending methodology used. 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 amount of $5,000, in the year 2007, and an amount of $6,000 for the 2008, and 2009 respectively.

Upon DRA's request, the Company provided[14] a 10 year historical data for the Company's expenditures for this project. The data showed that in the past 10 years, the Company only spent an amount of $52,863 in the year 2006. It is obvious that the requested amounts are much higher given the history that year after year, the Company spent no funds on this project. Therefore, DRA recommends amount of $5,000 in the year 2007 and an amount of $6,000 in the years 2008, and 2009 respectively. These estimates are based on the Company's last year expenditure which is spread over the last 10 years with the application of appropriate inflation.

In addition, 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 collectively, DRA's recommended amount will be sufficient given the past history of almost no expenditure for this project in Simi Valley System.

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[13] Ernest Gisler's testimony, Page-106.

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

5. Miscellaneous Street Improvements

GSWC requested amount of $11,000 in the year 2007, and 2008 and an amount of $23,000 in the year 2009 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 $4,000 in the year 2007 and an amount of $5,000 in the years 2008, and 2009 respectively.

The Company did not provide any support for its cost estimations of this project in its application; however, upon DRA's request, GSWC provided[15] the last 10-year historic cost data. The data showed that in the past 10 years, the Company only spent an amount of $34,393 in the year 1999. It is obvious that the requested amounts are much higher given the history that year after year, the Company spent no funds on this project. Therefore, DRA recommends amount of $4,000 in the year 2007 and an amount of $5,000 in the years 2008, and 2009 respectively. These estimates are based on the Company's last year expenditure which is spread over the last 10 years with the application of appropriate inflation.

6. Runkle Canyon Storage Tank- GSWC Funded Capacity Increase

GSWC requested an amount of $213,000 in the year 2007 for the purpose of increasing the storage capacity of a reservoir tank that is going to be built by a developer for a new subdivision in the area. The Company stated that as the proposed reservoir tank will be located on the highest elevation in the Simi Valley; it is an ideal location for additional storage to provide for periods of peak hour,

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

fire emergency demand on lower zones. 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 did not provide any supporting documentation for its various claims such as the shortage of water storage during the peak hours, fire flow and emergency demand deficiencies in the Simi System. In addition, Company stressed that the customers at the highest elevations in the Pineview Booster Zone, in particular, have experienced low water pressure. However, the Company did not provide any customer complaint data either.

Upon DRA's request, the Company provided[16] some records of the customers' complaint regarding the low pressure in the area. A total of fifteen complaint records were provided; ten of these complaint records belonged to a customer, named Terry Talley. DRA contacted Mr. Talley by telephone on April 24, 2007. According to Mr. Talley, his house is located almost at the end of the zone and added that there is only one house that is located on a higher elevation than his house. Mr. Talley also stated that he experienced a low pressure condition in the beginning when he first moved into his present house in the year 1998; since then the low pressure has improved reasonably well. Mr. Talley's customer complaint data also reflect the same fact as the number of complaint calls from him dropped significantly over the years. For example, there were 11 entries in the year 1999 and only one in year 2007. Mr. Talley also mentioned that the Company's staff on several occasion mentioned installing of an emergency generator that would help rectifying the low pressure situation at his residence.

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

DRA believes that the "backup generator" that Mr. Talley mentioned must have to do with Pineview Booster Zone[17]. The Company's records[18] show that the Pineview Zone was created in the year 2000 which had replaced the then existing Appleton Zone. In addition, GSWC's staff informed[19] DRA that the Pineview reservoir (2,000,000 gallons) and the three booster pumps became operational in February 2000 and were result of a local area development whereas the majority of the costs were paid by a developer. DRA argues that when the Company developed its engineering design of the Pineview Pressure Zone, the elevation of the serving area in the Pineview Pressure Zone and the pertinent peak demand calculations must be performed and that based on those designing parameters, the Company has already built a huge reservoir of 2,000,000 gallons with 2000 gpm booster station. Any low pressure condition that may exist in the Pineview Pressure Zone is due to ill-designed Pineview Pressure Zone and therefore, the captive ratepayers should not be made to pay for the company's poor engineering design.

In addition, as the Company's staff stated to its customer, Mr. Talley, the installation of the new backup generator is completed early this year[20] and hopefully it had already helped alleviating the low pressure issues in Pineview Pressure Zone. Furthermore, the Pineview booster will have another booster added to the three existing boosters and it will be paid by the developer of the Runkle Canyon Zone's development. The additional booster will also help to improve the low pressure issues in Pineview Pressure Zone as the booster will pump into the Pineview Pressure Zone[21].

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[17] GSWC's workpapers of Simi Valley, Page-76 and 86.

[18] GSWC's response to DRA's Data Request, AMX-45 (Question-4).

[19] Jenny Darney-Lane by telephone on April 24, 2007.

[20] Jenny Darney-Lane's email dated April 24, 2007.

[21] GSWC's workpapers of Simi Valley, Page-86.

On the other hand, the Simi System had ample storage capacity with a total storage capacity of 8.21million gallon; this will increase by another 1.4 million once the Runkle Canyon Reservoir is constructed. The Company has not shown that the existing 8.21 million gallon storage capacity coupled with its two groundwater wells, and the existing five connections with local water purveyor, Calleguas Municipal Water District, are insufficient to meet its fire flow and emergency demands.

In addition, the Company's cost estimations of $600,000 lack supporting documentation and show discrepancies. For example, the Company included in its workpapers a worksheet[22] which presented its calculation for the cost estimations for the project. The calculations presented on this worksheet indicated that the storage requirement for the Runkle Canyon Reservoir was determined to be 1,422,229 gallons for the total cost of $1,423,000. This equates to a unit cost of $1 per gallon of storage[23].

A separate entry, however, showed that the total storage was increased to 2,000,000 gallons (this is due to the GSWC's request of additional 600,000 gallon of storage) for a total price of $1,450,000. This equates to a unit cost of $0.725 per gallon.

The same worksheet shows that the developer was requested to pay $1,250,000 for his share of storage i.e. 1,422,229 gallons. This equates to a unit cost of $0.878 per gallon; while the Company's share of cost of $200,000 for its 577,771 gallons[24] storage equates to $0.35 per gallon.

When DRA inquired regarding these various costs, the Company responded[25] that the data presented on its workpapers, page-85 was originally

[22] GSWC's workpapers of Simi Valley, Page-85.

[23] $1,432,000 / 1,422,229 = $1.00054/gallon.

[24] 2,000,000 – 1,422,229 = 577,771 gallons.

[25] GSWC's response to DRA's Data Request, AMX-45 (Question-3).

created from another document. The correct cost should have been listed as $0.89; therefore, resulting in a cost of $1,265,748 for the storage supply of 1,422,229 gallon. However, the Company did not provide any supporting documentation that could vouched for its claim that the cost estimates presented on page 85 were in fact incorrect. Thus creating a discrepancy where it seems that the developer is paying $1,423,000 off the total cost of $1,450,000.

Similarly, the Company did not provide any support to justify its own share of the cost in the amount of $213,000. Following are the two DRA's questions from DRA's Data Request AMX-45, and the Company's responses:

*"**QUESTION 2:***
For the project mentioned in Data Request 1 above, GSWC presented at page 85 of its work papers for Simi Valley the storage requirement as 1,422,229 gallons to fulfill the needs of a new real estate developer. However, according to information submitted at page 82 of the same work papers by the GSWC Engineering & Planning Department, GSWC is budgeting for a 1,250,000 gallon tank. Explain these inconsistent statements.

RESPONSE 2:
The information on page 82 was included as general reference for the costs associated with tanks in the range mentioned: 1.2MG to 2.0MG. The 1.2MG figure, and the e-mail document itself, were not specific to the Runkle Canyon tank; they originated in reference to a proposal for upsizing a similar tank in Orcutt. (That tank, also included in this Rate Case, has a developer component of 1.2MG and a GSWC component of 0.3MG, for a total of 1.5MG; the 2.0MG proposal was discarded.)

QUESTION 3:
For the project mentioned in Data Request 1 above, according to page 85 of the work papers for Simi Valley, the cost of the storage tank, $1,450,000, is based on estimates of $1.00 per gallon of storage; however, the storage capacity is shown as 2,000,000 gallons. Please explain these inconsistent statements. Also provide an itemized and detailed cost breakdown for the $1,450,000, such as tank size, tank coatings, tank foundation, site improvements, site piping and electrical, etc.

RESPONSE 3:

On the Preliminary Cost Estimate (PCE) issued on 1/26/06, the developer was asked to fund $1,250,000 toward the cost of the 2MG welded steel reservoir. On that same document, the company contribution was identified as $200,000, for a total cost of $1,450,000.

The spreadsheet referenced on page 85 was originally created from another document. The correct cost should have been listed as $0.89 per gallon for the developer's portion. The additional company contribution, for the cost of increasing the size from 1.4MG to 2.0MG, was based on a prorated estimate from the e-mail document referenced in question 2, above.

Itemized cost breakdown estimate:

$100,000	*Mobilization/Demobilization/Contract Administration*
$200,000	*Civil Site work (finish grading, paving, fence/gates, lighting)*
$100,000	*Site Piping (inlet/outlet piping and appurtenances, drainage piping)*
$100,000	*Electrical Distribution and Controls (MCC, SCADA)*
$950,000	*Storage Tank (foundation prep, ringwall, fabrication, erection, coating)*
$1,450,000"	

It is evident from the Company's response to DRA's question-2 above that the cost information presented on the Company's workpapers, page-82, was not related to the cost of Runkle Canyon Reservoir. However, the Company developed its own share of the reservoir cost i.e. $213,000 based upon the information presented on page-82. How did the Company come up with the prorated estimate of $213,000 is not clear.

On the other hand, DRA argues that the Company should utilize the same cost data to prorate the cost for the Runkle Canyon Reservoir. The information on page-82 reveals that the 2.0MG reservoir will cost $800,000. The information on page-82 also revealed that the cost of tank foundation, concrete ringwall, site improvements, site piping, electrical, and paving is not included in the listed cost

of $800,000. However, the Company's response to the question-3 above indicates that the costs for foundation, ringwall will increase the cost of the 2.0MG to $950,000. Therefore, implying that on a prorated basis the cost of 1.4MG tank with foundation, and ringwall would be $665,000[26]. According to the Company's response to the question-3 above, the additional cost of $500,000 for the site improvements, site piping, electrical, and paving would be needed, thus the total cost for the 1.4MG reservoir will be only $1,165,000[27]. As the developer is already made to pay $1,250,000, the Company's cost share in the amount of $200,000 has to be reduced by the $85,000[28] to the amount of $115,000, thus proving that the Company has exaggerated its share of the cost. It should also be noted that this DRA's analysis accepts the Company's cost estimation for site improvements, site piping, and electrical controls without any substantial support.

Based on the facts and findings discussed above, DRA ascertains that the Company failed to justify the need for the additional storage in Simi System and also failed to present reasonable cost estimates, therefore, DRA recommends disallowing this project.

7. Hydrants

GSWC requested amounts of $27,000, $22,000, and $29,000 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 requested to replace five hydrants in the year 2007, and four in the year 2008 and five in the year 2009; 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

[26] ($950,000 * 1.4) / 2 = $665,000.
[27] $665,000 + $500,000 = $1,165,000.
[28] $1,250,000 - $1,165,000 = $85,000.

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 $3,000 in the year 2007, 2008, and 2009 respectively.

Upon DRA request, the Company provided its last 10 year historical expenditures[29] data regarding this project. The historical data indicate that in the past 10 years, the Company only spent an amount of $22,521 in the year 2001. It is obvious that the requested amounts are much higher given the history that year after year, the Company spent no funds on this project. It also goes on to show that there is no real urgency in replacing these hydrants. Therefore, DRA recommends amount of $3,000 in the year 2007, 2008, and 2009 respectively. These estimates are based on the Company's last year expenditure which is spread over the last 10 years with the application of appropriate inflation.

8. Valve Replacement

GSWC requested $32,000, $22,000 and $35,000 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 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 $3,000 in the year 2007, and 2008, and amount of $4,000 in the year 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 six valves for replacement in year 2007, 2008, and 2009 respectively.

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

Upon DRA's request, GSWC provided[30] a 10-year historical expense data for the same type of projects. The historical data indicate that in the past 10 years, the Company only spent an amount of $21,542 in the year 1999. It is obvious that the requested amounts are much higher given the history that year after year, the Company spent no funds on this project. It also goes on to show that there is no real urgency in replacing these valves.

Therefore, DRA recommends amount of $3,000 in the year 2007, and 2008, and $4,000 in the year 2009 respectively. These estimates are based on the Company's last year expenditure which is spread over the last 10 years with the application of appropriate inflation.

9. Service Line Replacement (2007, 2008, 2009)

GSWC requested amount of $133,000, 101,400, and 117,000 in the year 2007, 2008 and 2009 respectively for the purpose of replacing old plastic service lines in a particular area of the Simi Valley System. The Company claimed that the area has 30-year old plastic service lines and they are found to have exceeded their useful life as the Company repaired at least 30 service line leaks in the area over the last 9 years. 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 observed that the Company requested the project as a stand alone project in the year 2007 and 2009; however, presented basically the same support in its workpapers for the year 2007 and 2009. On the other hand, the Company requested the amount of $101,400 in the year 2008 under its "Blanket" projects with no supporting information in its workpapers at all. Upon DRA's inquiry, the

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

Company' staff[31] informed DRA that the year 2008 is also related to the same area that is pertinent in the case of year 2007 and 2009 projects. Therefore, DRA chooses to discuss all of these three projects collectively.

DRA notices that the Company's Cost Benefit Analysis[32] indicates that when compare a "service replacement" alternative with "service repair" option; the cost of repairing service lines is a less expensive option for the ratepayers. DRA notices that the actual rate impact will be even lower when the more appropriate cost of the repair is used in the Company's Cost Benefit Analysis. The Company used a repair cost of $10,000 per year for the "service repair" alternative. However, the Company did not provide any support for this amount; same is true for the Company's cost estimates of $133,000 for the "service replacement" option. Upon DRA's request, the Company provided[33] a copy of "Bid Tabulation Sheet" regarding a similar project in the year 2006 in Simi Valley Customer Service Area. The "Bid Tabulation Sheet" indicated that a lower bid for replacing a 3/4-inch plastic service line with a copper service line will cost $2,300 per service line.

Therefore, 30 plastic service line leaks over a 9 year period will average a 3.34 leak per year, and the Company's estimate of $10,000 repair cost will result in a $2,941 per service leak repair which is higher than the "replacement cost" estimate of $2,300 per replacement. It is obvious that the Company's Cost Benefit Analysis exaggerated the repair cost and even though with this exaggerated repair cost the repair option is less expensive for ratepayers. DRA believes that the actual repair cost will be even more less-expensive. In addition, under its "Blanket" capital budget, the Company spends regularly on replacing service lines that are

[31] Jenny Darney-Lane over the telephone on April 25, 2007.

[32] GSWC' workpapers of Simi Valley, Pages 87-92 AND 238-243.

[33] GSWC's response to DRA's Data Request, AMX-46.

in-repairable; therefore, the Company should not launch a costly "service replacement" endeavor.

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

GSWC requested amount of $53,000 and $112,000 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 $112,000. 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 these projects.

It should be noted 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 Simi Valley on pages 108-111. However, these excerpts did not recommend the upgraded for Factory Link to WonderWare as the only option.

On page 111 of GSWC's workpapers for Simi Valley 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. As the Vulnerability Assessment Report states in pertinent part:

> Place a firewall between the SCADA computers and 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 voiced 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 burdened with this expensive upgrade on the basis of mere whims and wishes of someone's preferences. 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 Simi Valley Customer Service Area, the installation was just started in year 2001 and was completed in 2006[34]. 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[35] 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[36] details that the estimated 200 man-hours were multiplied by the estimated $50 hourly rate to estimate the cost of

[34] GSWC's workpapers of Simi Valley, Page-19.

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

[36] GSWC's response to DRA's Data Request, AMX-47.

$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 its cost estimations and does not have any reasonable cost database for its 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 similar reasons, and support for these SCADA projects as it has provided for the SCADA projects in the Los Osos Customer Service Area. In responding to DRA's inquiries regarding cost estimations, the Company provided a response that lacked any quantitative support for its cost estimations. For example, the Company stated[37] 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

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

estimations such as copies of old bids, or invoices for the similar projects in the past.

In addition, the most unreasonable cost estimates are the ones presented for the second phase of this project in the year 2008 for the amount of $112,000. On page 213 of its workpapers for Simi Valley Customer Service Area, the Company presented a cost breakdown based upon four SCADA sites each requiring $20,000 worth of upgrades; however, no details are provided on how this value of $20,000 is estimated, nor it is discussed whether these four sites are different in scope of work related to SCADA needs.

The most revealing fact in this regard is presented on page 103 of GSWC's workpapers where the Company described that: "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. However, in responding to DRA's Data request, AMX-57, the Company stated:

> ***Question 2:***
>
> For the project mentioned in Data request 1 above, explain how the cost estimates for Phase II in year 2008 were calculated in the absence of a SCADA Implementation Plan that will not be prepared until 2007.
>
> ***Response 2:***
>
> Roughly fifteen years ago, the water industry was just beginning to implement SCADA to help monitor, document, and control water systems. GSWC began delving into utilizing SCAD in the late 1990's and has gained valuable experience through the development and implementation of the various SCADA systems.

> As with any new technology there is a learning curve and GSWC had a learning curve as well. During this timeframe the industry was still in flux over what the standard hardware and software and communications protocol would be for SCADA. Through this process GSWC gained hands-0n knowledge became experienced in the implementation and incorporation of SCADA. Today we realize the best way to proceed is to invoke the services of an experienced and competent consultant to perform an audit and develop a plan for us to follow that will utilize the hardware and software that can economically and beneficially be incorporated into proving a robust SCADA system. Along the way we have learned that it costs somewhere between $17,000 and $20,000 per site (for a typical well site) to develop the logic, design the Process & Instrumentation Plan, change out hardware, perform programming, and integrate the plant into the SCADA system.
>
> At this time we cannot prepare a detailed list of what components will be required to be changed out at each site nor can we provide details of how many programming hours will be required at each site; however, we are confident of the overall cost per site being approximately $20,000. The reality is some sites may require $15,000 in improvements and others may require $25,000. Overall we believe our budgeted funds will allow us to complete the SCADA improvement.

DRA argues that the above response adds little to the reasonableness of the Company's cost estimation of $112,000. For example, the Company contradicts itself in claiming that it had a learning curve and over the time it has gained experience, while on the other hand, it still needs an outside consultant to help it to develop a plan to utilize the hardware and software for SCADA system. DRA already discussed that at least one of these outside consultants who helped preparing the Vulnerability Assessment Report, suggested that the existing SCADA does not need a full-fledged change out.

In addition, on the one hand the Company stated that it has learned that it will take somewhere $17,000 and $20,000 per site for a typical well site to develop SCADA related elements. While on the other hand the range changes from $15,000 to $25,000 per site. The truth of the matter is that the Company does not have a sound basis for its cost estimation of $112,000 until the "competent outside consultant" performs its audit in the year 2007.

On the other hand, the Company's "dwindling" learning curve is not without its cost to the captive ratepayers. For example, the Company already spent a colossal cost of approximately $5,900,000[38] for the SCADA upgrades since the Company implemented the recommendations of its SCADA evaluation report performed in the year 1995; approximately $2,200,000 were spent in Region-I. As mentioned earlier the last few dollars for the SCADA in Simi Valley were just spent in the year 2006. And now the Company is ready to undo it all and wanted to go on another "Spending Spree" in the name of SCADA Implementation and Improvements.

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.

11. Master Plans

GSWC requested an amount of $133,000 for the purpose of preparing its Master Plan for the Simi Valley System. However, the Master Plan will be prepared by an outside consulting firm, CH2MHILL. DRA performs an independent analysis of the 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.

[38] Jenny Darney-Lane's email dated April 25, 2007.

In its own words[39] 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 projected into the future is utilized. The 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 GSWC 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 its needs, and therefore, should be responsible for failing to deal with the issues of staff shortage and lack of technical expertise.

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39 GSWC's workpapers of Simi Valley, Page 112.

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 should not have 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.

Initially, the Company did not provide any support for its cost estimation of $133,000 in its application. Upon DRA's request, the Company provided[40] some details for these cost estimations that were prepared by CH2MHILL. The 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 Plan was not 10 year as stated[41] 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.

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

[41] GSWC's workpapers of Simi Valley, Page 112

In addition, the Company provided[42] 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 CH2MHILL, GSWC failed to perform such cross reference[43] 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.

12. Services

GSWC requested amount of $19,300, 50,700, and $53,300 in the year 2007, 2008, and 2009 respectively for the purpose of installing services to infill lost that possess a service entitlement and renewal of services found to be leaking. The Company stated that the cost of this project was based on the average expenditures over the last six years (2000-2205). 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 amount of $17,100, $27,100, and $28,400 for the years 2007, 2008 and 2009 respectively.

[42] GSWC's workpapers of Simi Valley, Pages:118-120

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

Upon DRA request, the Company provided[44] a 10-year historical data for the project in the Simi Valley.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
$15,165	$14,911	$6,307	$13,543	$13,110	$10,379	$79,278	$15,975	$12,605	$219,331

The data showed that the Company spent various different amounts of funds on this project over the last 10 years; ranging from the low of $6,307 in the year 1999, and the high of $219,331 in the year 2006. However, the Company also added that the funds spent in year 2006 included an amount of $166,604 that was spent particularly for a "Service Replacement" project. DRA already discussed that the stand-alone, "Service Replacement" projects are not cost effective and should not be pursued; therefore, reasonable cost estimation will be an average based on the latest six years (2001-2006) expenditures. DRA removed the amount of $166,604 from the year 2006 historic expenditures as these funds do not reflect the true nature of the "Blanket" Service project. Using appropriate inflation factors, to the adjusted six year average, DRA recommends amounts of $17,100, $27,100, and $28,400 for the years 2007, 2008 and 2009 respectively.

13. Minor Main Replacement

GSWC requested amount of $9,700, $10,100, and $10,700 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 leaks in the Simi Valley that require replacement of a section of pipe are uncommon but do happen. Occasionally PVC or ACP pipe may break, or split, requiring replacement of a 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

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

reasonableness of the Company's cost estimations; based on this analysis, DRA recommends disallowing this project.

Upon DRA's request, the Company provided its historical cost data[45] for the project. The historic cost data validated the Company's claim that the watermains in the Simi Valley System usually do not require replacement of the section of pipe, as over the last 10 years, the Company only spent an amount of $1,046 in the year 1998. It is obvious that the requested amounts are much higher given the history that year after year, the Company spent no funds on this project. Due to the very low historic expenditure and the Company's own admission about the watermains in the Simi Valley System, DRA recommends disallowing this project.

14. Miscellaneous Tools and Equipment

GSWC requested amount of $9,700, $5,100, and $10,700 in the year 2007, 2008, and 2009 respectively for the purpose of purchasing miscellaneous tools and safety equipment needed for operations and maintenance of the water system on an as needed basis. 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 values of $3,100, $3,600 and $3,700 in year 2007, 2008, and 2009 respectively.

The Company did not provide any information that how these cost estimations were developed in its application. Upon DRA's request, the Company provided[46] a 10-year historical cost data for the project.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
$0	$4,189	$6,059	$2,358	$0	$0	$1,421	$0	$0	$54,395

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

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

The historical data revealed that GSWC did not spend any funds on this project in the years: 1997, 2001, 2002, 2004, and 2005. While it spent varying different amounts for the remaining five years, ranging from the lowest amount of $1,421 in the year 2003, and the highest amount of $54,395 in the year 2006.

DRA believes that due to lack of support for the Company's cost estimates, a four year average based upon funds spent in year 1998, 1999, 2000, and 2003 should provide a reasonable estimate. The funds in the amount of $54,395 that were spent in the year 2006 are clearly out of trend and reflect a non-recurring nature, therefore, they are excluded from the DRA's analysis of determination of a reasonable average. DRA recommends values of $3,100, $3,600 and $3,700 in year 2007, 2008, and 2009 respectively.

E. CAPITAL PROJECTS IN YEAR 2008

For the year 2008 Company requested an overall amount of $1,605,200, for its capital projects whereas DRA recommends an amount of $411,100. Following are the details of DRA recommendations and a summary table:

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Misc. Bowl Replacement	28,000	6,000	-22,000	-79%
Tank Site Security Improvements	100,000	89,000	-11,000	-11%
Crater Tanks- Remove from service	294,000	54,000	-240,000	-82%
Misc. Street Improvements	11,000	5,000	-6,000	-55%
Distribution Improvements per Niles Study	223,000	0	-223,000	-100%
Niles Upgrades per Niles Study	335,000	0	-335,000	-100%
Hydrants	22,000	3,000	-19,000	-86%
Valves	22,000	3,000	-19,000	-86%
SCADA	112,000	0	-112,000	-100%
Contingency	42,000	23,000	-19,000	-45%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	1,214,000	208,000	-1,006,000	-83%
Blanket Projects				
Meters	101,400	94,200	-7,200	-7%
Service Line Replacement (40)	101,400	0		
Services	50,700	27,100	-23,600	-47%
Minor Main Replacement	10,100	0	-10,100	-100%
Minor Pumping equipment	5,100	4,700	-400	-8%
Minor Purification equipment	5,100	4,700	-400	-8%
Office Furniture	5,100	4,700	-400	-8%
Replace Superintendent Vehicle	30,000	28,300	-1,700	-6%
New Service Vehicle (Addition to Staff)	38,600	0	-38,600	-100%
Service Vehicle Replacement (#751)	38,600	35,800	-2,800	-7%
Miscellaneous Tools and Equipment	5,100	3,600	-1,500	-29%
Total Blanket Projects	391,200	203,100	-188,100	-48%
Total Capital Budget	**1,605,200**	**411,100**	**-1,194,100**	**-74%**

1. Miscellaneous Bowl Replacement

GSWC requested an amount of $28,000 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 $6,000 in the year 2008.

2. Crater Tanks- Remove from Service

GSWC requested an amount of $294,000 in year 2008 for the purpose of destroying and removing two steel tanks that have deteriorated beyond their useful life and economical repair. 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 $54,000.

DRA noticed that the Company's outside consultant CH2MHILL prepared the cost estimation of $294,000 for this project. However, the details of these costs are limited to mainly two elements: Man-hours and Hourly-Rates[47]. The cost estimates did not include any supporting information regarding the justification of number of man-hour use or the amount of the hourly-rate.

On the other hand, the cost estimations also included items that are questionable. For example, under "Design Engineering" section, the Company's outside consultant listed the cot of preparing "Drawings" for an estimated cost of $42,184. These activities included "Site Demolition Plan" and "Site Regrading Plan". Upon DRA's request, The Company provided[48] the information regarding these Plans, stating that the Site Demolition Plan will include an overall description of the plant site and demolition requirement, and the Site Regrading Plan will address final site regrading, restoration and drainage. The Company claimed that these "drawings" are necessary to provide to bidders to ensure that each bidder understands the scope of the work, and is bidding on the same project.

DRA argues that the project is simple straight-forward task; therefore, the hiring of CH2MHILL for this project is unnecessary and costly to the captive ratepayers. The CH2MHILL related cost equates to 47%[49] of the total cost of the project. In addition, the "drawings" mentioned above and the related "Plans" are hardly something that the Company's own engineers could not perform whose salaries are paid by the captive ratepayers.

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[47] GSWC's workpapers of Simi Valley, Pages 132-134.

[48] GSWC's response to DRA's Data Request, AMX-49.

[49] ($27,268+$42,184+$69,142) / $293,917 = 0.471.

In addition, cost estimates of $72,113.40 for actual demolition work also lack support for the estimated man-hour and related hourly rates. According to DRA's research[50], the range of the cost for performing such demolition and disposal for this size of tanks is $20,000 to $30,000.

Based on the facts and findings discussed above, DRA believes that the Company should perform this demolition work by utilizing its own engineering staff and hire a local contractor to perform actual demolition and disposal task; therefore, DRA recommends an amount of $54,000. This cost estimate is based upon the average tanks removal and disposal cost of $25,000 and the estimates of the Company's Permitting and Design activities for an amount of $18,571. The Company's Permitting and Design cost is estimated by removing CH2MHILL's applicable markup (12%) and Contingency (10%) costs[51] and then keeping the same ratio to the total cost of the project[52]. The Company's permitting and Design cost is estimated to be 21% of the total cost of the project.

3. Miscellaneous Street Improvements

GSWC requested amount of $11,000 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. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $5,000 in the year 2008.

[50] Telephone inquires with local and national "Tank Demolition" businesses.

[51] ($27,268+$42,184+$69,142) / [(1+ 12%) + (1+10%)] = $62,430.

[52] $62,430 / $293,917 = 0.21.

4. Distribution Improvements per Niles Study and II- Niles Upgrades per Niles Study

GSWC requested two separate projects that are the result of a "Niles Study". The Company requested an amount of $223,000 for the purpose of covering portion of a distribution improvements identified in the Niles Plant evaluation and system optimization study currently being performed by CH2MHILL. The Company added that the funds will be used for the pipeline construction to remove distribution system's "bottlenecks" as identify by the final "Niles Study". In addition the Company also requested an amount of $335,000 for the purpose of covering a portion of the Niles upgrades improvements identified in the Niles Plant evaluation and system optimization study currently being performed by CH2MHILL. The Company added that the funds will be used for making necessary modifications to the existing well pumps, booster pumps, control systems and plant piping at Niles Plant in Simi Valley System per final "Niles Study". 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 these projects.

DRA believes that it is imperative to discuss the background and the nature of the problem and the need that had lead the Company to the "Niles Study" in order to evaluate the Company's request of $558,000 in the year 2008. It should be noted that the requested amount of $558,000 is just a portion of the funds; the total funds for the projects under "Niles Study" will be more than $4,363,000[53] It is important to discuss the nature of the current regulations as they apply to the quality of drinking water in the State of California. The Federal Safe Drinking Water Act of 1974, as amended last in 1996, prescribes a regulatory process for drinking water protection and control. Federal and California regulations provide

[53] GSWC's workpapers of Simi Valley, Page-151.

the standards to be followed by all public water suppliers. The California Department of Health Services (DHS) is responsible for implementing and enforcing Federal and State drinking water regulations in California. DHS has adopted standards and regulations to implement the requirements of the Federal Safe Drinking Water Act. These regulations may be found in Title 22, California Code of Regulations (CCR), Section 64400 et esq. (22 CCR 64400 et esq.). The State regulations generally follow the Federal regulations, but with some differences. The applicable State regulations vary depending on how the water system is classified; there are transient and non-transient systems, and there are community and non-community water systems. Non-community systems are subject to less stringent requirements than community systems.

There are two types of Maximum Contaminant Levels (MCLs)[54]: 1) Primary MCLs, and 2) Secondary MCLs. The Primary MCLs are limits of contaminants in drinking water established under the Safe Drinking Water Act by Environmental Protection Agency (EPA). The Primary MCLs are based on the health effects of the contaminants. On the other hand, the Secondary MCLs are also established by the EPA; however, the Secondary MCLs affect the aesthetic quality of drinking water such as taste, odor, color, and appearance. The Title 22 CCR, Section 64449 relates specifically with the Secondary MCLs and TDS. More specifically the Section 64449 includes a table, Table 64449-B that deals directly with the Secondary MCLs, the following is an excerpt of the Title 22 CCR, Section 64449:

[54] GSWC's response to DRA's Data Request, AMX-50 (Question-4).

Table 64449-B

Secondary Maximum Contaminant Levels- Ranges

Constituent, Units	*Maximum Contaminant Level Ranges*	
	Recommended Short Term	*Upper*
Total Dissolved Solids, mg/L	500	1,000 1,500
or		
Specific Conductance, micromhos	900	1,600 2,200
Chloride, mg/L	250	500 600
Sulfate, mg/L	250	500 600

(f) For the constituents shown on Table 64449-B, no fixed consumer acceptance contaminant level has been established.

(1) Constituent concentrations lower than the recommended contaminant levels are desirable for a higher degree of consumer acceptance.

(2) Constituent concentrations ranging to the Upper contaminant level are acceptable if it is neither reasonable nor feasible to provide more suitable waters.

The above excerpt is clear that for TDS the DHS has not adopted any fixed consumer acceptance contaminant level. Also note that the Upper Level (1,000 mg/L) is acceptable if it is neither reasonable nor feasible to provide more suitable water.

The above mentioned regulatory standards are the parameters within which the Company has to operate. DRA requested the Company to provide the copies of any correspondences that the Company may had with the DHS regarding the issue

of TDS in its Simi Valley System; the Company provided none[55], thus implying that no such regulatory concerns were ever raised by the DHS.

Similarly, the most recent Annual Inspection Report[56] of DHS, dated June 7, 2005 pertaining Simi Valley System did not indicate any reportable problems regarding TDS in the System. The report had the following statement in its "Conclusion And Recommendations" section:

> The California Department of Heath Services, Drinking Water Field Operations Branch funds that the source, works, and operation, as described in this report are capable of producing a safe, wholesome and reliable quality of water supply under normal circumstances and conditions. The quality of the water service and water system facilities and operation adequately meet the CDHS standards for drinking water.

It is clear that firstly, the existing TDS problem does not pose any health related risks as it falls under the Secondary MCLs, and secondly, the Company can operate under less stringent level of 1,000 mg/L. To operate under a "lower" level of 500 mg/L was an internal Company's decision, and the current regulations do not impose such operating restrictions. For example, in responding to one of the DRA's Data Request, AMX-50, question-3, the Company stated the following:

> The initial target TDS level for the Simi Valley System was 1,000 mg/L, the upper limit of the Maximum Contaminant Level (MCL) range. Response to customer complaints regarding water clarity, taste and hardness led to a reduction of the target TDS level to 700 mg/L at the time of the existing Niles Plant construction. Response to continued customer complaints led to a reduction to the present target TDS level of 500 mg/L.

[55] GSWC's response to DRA's Data request, AMX-50 (Question-4).

[56] GSWC's response to Master Data Request: IV.B.1.a.

DRA argues that according to the applicable DHS and EPA regulations mentioned above, the Company should have performed a test for the reasonableness of the cost before deciding to operate on more stringent TDS levels of 700 mg/L and 500 mg/L. DRA believes that the ratepayers must be made aware of the fact that what will be the amount of the rate increase once the Company selected to operate on these more stringent levels.

In an effort to rectify the customers' complaints regarding the aesthetics of the water supply in Simi Valley, the Company already spent $2,068,585[57] in the year 1997/98 on building the existing Niles Plant. Recall that at the time of existing Niles Plant the Company set a target TDS level at 700 mg/L, and after building the existing Niles Plant for $2,068,585, the Company then moved to lower the TDS target further down to 500 mg/L that is now a driving force behind the "Niles Study" and the Niles Study's related "Improvements" and "Upgrades" that have a potential to exceed a total cost of $4,363,000. DRA wonders whether the captive ratepayers are aware of the rate consequences of the proposed remedial action of the Company to deal with only the aesthetics of water which had no adverse health effects.

On the other hand, the expenditure of $2,062,585 in the year 1997/98 also indicates a poor planning on the Company's part as the Company decided to spent these funds on the assumption that lowering of the TDS target to 700 mg/L would satisfy the customers; however, right after realized that the TDS target of 700 mg/L was not enough and now requesting projects that could cost more than $4,363,000 when completed in their entirety.

DRA believes that the Company lacks reasonableness for its quest for a target level of 500 mg/L for TDS in Simi Valley. The Customers complaints had reduced significantly after the installation of existing Niles Plant in 1998. According to the Company's response to one of the DRA's Data request, the

[57] GSWC's response to DRA's Data Request, AMX-50 (Question-2).

Company indicated that customers' complaints regarding TDS related issues are at the decline.[58] For example, in the year 1997 (that is before the existing Niles Plant installation) the Company received 74 such complaints; however, in the year 2006 there were only 15 such complaints. Therefore, implying that the problem of TDS may not be as severe as the Company tends to believe. The potentially high cost, and the DHS guidelines, demand that the Company should perform a test of reasonableness of the cost before it lowers the TDS target level to 500 mg/L; the mere 15 customers' complaints who might not be aware of the rate increase consequences, does not present a test of reasonableness for these potentially expensive projects.

In addition, the existing operational capabilities at the Niles Plant are working fine when it comes to the blending of ground water with the Calleguas' water in order to obtain target TDS level (in 1998, Nile Plant was built under the target level of 700 mg/L; however, the company is able to manipulate to the existing facilities at the Niles Plant for blending to achieve a 500 mg/L). The recent DHS' Annual Inspection Report has indicated that in the year 2005, the target limit of TDS was set by the Company at 500 mg/L and was achieved with the existing facilities. However, the Company's consultant, CH2MHILL has indicated in its Technical Memorandum, dated October, 2006[59], that the Company is currently not making full use of its existing Variable Frequency Drive (CFD) pumps, and the Programmable Logic Control (PLC) unit at the Nile Plant. For example, booster pumps B, E, F all have VFDs but are by passed and the Company is manually controlling its water flow for the blending purpose. The Technical Memorandum also noted the following:

[58] GSWC's response to DRA's Data Request, AMX-50.

[59] GSWC's workpapers of Simi Valley, Pages 141-169.

> The mixing of well water and purchases water is done manually based on the tank level and manually set flow rates. The mixing and balancing can be automated with the flow-based control of Pumps B, E, and F through the VFDs with PLC logic. Currently, the VFDs are kept in bypass mode, thus undermining the functions of the VFD. Production can be controlled by flow rate and blending ratio settings at the PLC to achieve the target final blended TDS concentration.

DRA argues that by making full use of its existing facilities that are already paid by the captive ratepayers, and the setting of the target TDS to a reasonable level the Company will be able to function efficiently with its existing facilities.

On the other hand, the Company is also requesting[60] to be a part of a local "Brineline Study" that is spearheaded by the water purveyor in the region, Calleguas Municipal Water District (CMWD). The Brineline Study relates to CMWD's efforts to bring a brine disposal line into the Simi Valley for the purpose of disposing of brine associated with reducing TDS levels in groundwater. The major part of brine line is already constructed and now had reached to the outskirt of the City of Simi Valley. The Company's request for participation in the Brineline Study is indicative of the fact that the expensive undertaking of upgrades and improvements under Niles Study will soon be discarded after construction as the option of a brine line will become available in near future. Therefore, any expenditure on such upgrades and improvements is premature and will not be a prudent investment.

Based on the facts and findings discussed above, DRA recommends disallowing these projects.

[60] GSWC's request for $117,000 in the year 2009 for it participation in "Brine Line"

5. 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 $3,000 in the year 2008.

6. Valve Replacement

GSWC requested $22,000 in the year 2008 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 $3,000 in the year 2008.

7. SCADA

GSWC requested an amount of $112,000 in the year 2008 for the purpose of installing SCADA facilities in the Simi Valley. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

8. Service Line Replacements (40)

GSWC requested an amount of $101,400 in the year 2008 for the purpose of replacing old plastic service lines in a particular area of the Simi Valley System. The Company claimed that the area in the has 30-year old plastic service lines and they are found to have exceeded their useful life as the Company repaired at least 30 service line leaks in the area over the last 9 years. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

9. Services

GSWC requested an amount of $50,700 in the year 2008 for the purpose of installing services to infill lost that possess a service entitlement and renewal of services found to be leaking. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $27,100 in the year 2008.

10. Minor Main Replacements

GSWC requested an amount of $10,100 in the year 2008 for the purpose of replacing leaking water mains in Simi Valley. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

11. New Service Vehicle

GSWC requested an amount of $38,600 in the year 2008 for the purpose of purchasing a service vehicle for a new employee addition in Simi Valley. As the DRA's expense witness recommends disallowing the addition of new position, DRA also recommends disallowing the purchase of the new vehicle.

12. Miscellaneous Tools and Equipment

GSWC requested an amount of $5,100 in the year 2008 for the purpose of purchasing miscellaneous tools and safety equipment needed for operations and maintenance of the water system on an as needed basis. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $3,600 in the year 2008.

F. CAPITAL PROJECTS IN YEAR 2009

For the year 2009 Company requested an overall amount of $1,010,100 for its capital projects whereas DRA recommends an amount of $360,200. Following are the details of DRA recommendations and a summary table:

DESCIPTION	GSWC	DRA	DIFFERENCE	% DIFFERENCE
Major Projects				
Misc. Bowl Replacement	35,000	6,000	-29,000	-83%
Misc. Street Improvements	23,000	5,000	-18,000	-78%
Pineview, Alamo & Tapo- Tide Flex Valves	176,000	113,000	-63,000	-36%
Hydrants	29,000	3,000	-26,000	-90%
Valves	35,000	3,000	-32,000	-91%
Katherine Avenue Main Extension	234,000	45,000	-189,000	-81%
Service Line Replacements	117,000	0	-117,000	-100%
Brineline Study (participation in regional study	117,000	0	-117,000	-100%
Contingency	22,000	17,000	-5,000	-23%
New Buisness Funded by GSWC	25,000	25,000	0	0%
Total Major Projects	813,000	217,000	-596,000	-73%
Blanket Projects				
Meters	106,500	96,700	-9,800	-9%
Services	53,300	28,400	-24,900	-47%
Minor Main Replacement	10,700	0	-10,700	-100%
Minor Pumping equipment	5,300	4,800	-500	-9%
Minor Purification equipment	5,300	4,800	-500	-9%
Office Furniture	5,300	4,800	-500	-9%
Miscellaneous Tools and Equipment	10,700	3,700	-7,000	-65%
Total Blanket Projects	197,100	143,200	-53,900	-27%
Total Capital Budget	**1,010,100**	**360,200**	**-649,900**	**-64%**

1. Miscellaneous Bowl Replacement

GSWC requested an amount of $35,000 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 $6,000 in the year 2009.

2. Miscellaneous Street Improvements

GSWC requested amount of $23,000 in the year 2009 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. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of 5,000 in the year 2009.

3. Pineview, Alamo & Tapo- Tideflex Valves

GSWC requested an amount of $176,000 in the year 2009 for the purpose of purchasing special type of valves, Tideflex valves for the three largest reservoirs in the Simi Valley System. The Company claimed that the Simi Valley System is supplied by a combination of groundwater well which is chlorinated, and the purchased water from the Calleguas Municipal Water District which is chloroninated. Stagnation in the storage reservoirs can cause loss of residual chlorine or chloramines, resulting in long water age, taste and odors, and potential nitrification. The Company claims that the addition of Tideflex valves to the reservoirs will increase the turnover and mixing of water within each reservoir, reduce water aging concerns, and ultimately enhance the water quality in the system while preventing taste and odor issues and nitrification.

Given the added concerns for TDS situation in the Simi Valley, DRA believes that the need for Tideflex is justifiable; however, the Company's cost estimations are incorrect and the concerns for the future reservoir are also not address by the Company. For example, the price quote[61] for the Tideflex valves indicated that it will cost $29,763 per valve. As the Company is requesting the valves for the three reservoirs the total cost should be $89,289[62] whereas the Company's workpapers[63] showed a cost of $120,000. The Company explained that with the applicable Company's overhead rate and contingency the final cost will be $176,000. It is clear that the Company's mathematics is incorrect. DRA recommends and amount of $113,000 that is based on correct cost of three Tideflex valves i.e., $89,289.

On the other hand, the Company is planning to build a new reservoir at its Runkle Canyon Zone that will be fully funded by a developer; DRA would like to

[61] GSWC's workpapers of Simi Valley, Page-224.

[62] $29,763 * 3 = $89,289.

[63] GSWC's workpapers of Simi Valley, Page-218.

recommend that the Company should include a cost of Tideflex for the Runkle Canyon Reservoir and pass it on to the developer.

4. Hydrants

GSWC requested amounts of $29,000 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 2008. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $3,000 in the year 2009.

5. Valve Replacement

GSWC requested $35,000 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 $3,000 in the year 2009.

6. Katherine Avenue Main Extension

GSWC requested an amount of $234,000 in the year 2009 for the purpose of performing distribution improvements near Katherine Plant and Katherine Calleguas connection site in Simi Valley System. The Company claimed that the existing 6 inch and 8 inch waterlines along the Katherine avenue limit the ability to satisfy Peak Hour and fire flow demands in the Katherine gradient. 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 $45,000.

The Company did not provide any supporting documentation such as customer complaints or local fire agencies' notifications that could vouched for its claims regarding the low pressure during the Peak Hour demand or the insufficient

fire flows. Upon DRA's request, the Company provided[64] the information that its has no such records pertaining this project, thus implying that the customers are satisfied and so are the local fire agencies.

However, the Company stated that an internal hydraulic modeling has validated the fire flow and Peak hour demand inadequacies and included a diagram in its workpapers[65]. DRA notices that the diagram is unexplained and had no explanatory notes whatsoever. In addition, when DRA requested the Company to explain the concept of distribution system "bottlenecks"; the Company responded that the bottlenecks in the systems are restriction in pipe size that create high velocities that in turn creates high head (pressure) loss. Therefore, the Company's hydraulic model identified these bottlenecks to be 6-inch and 8-inch pipe size at the Katherine Avenue area in Simi Valley System.

DRA argues that firstly, the one-page diagram of the Company's hydraulic model lacks explanations, secondly, the Company should also present a "what- if" analysis that could support the cost effectiveness of replacing these 6-ich and 8-inch bottlenecks with 12-inch pipe, and that could also justify the length of such pipe. The Company did not present any such analysis.

During its Field Trip of the Company's facilities in Simi Valley on March 8, 2007, DRA requested the Company's staff to explain the difference in its construction cost for 6-inch pipeline to that of 8-inch and 12-inch pipelines. The Company's staff[66] explained that for the most part the 6-inch and 8- inch pipe require the same size of trench and therefore, the only difference is due to the material cost for the bigger size of the pipe; however, the 12-inch pipe will require a bigger trench size and higher material cost due to its bigger size and trench-size requirements. Therefore, there is a need of a similar hydraulic modeling to see

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

[65] GSWC's workpapers of Simi Valley, Page-236.

[66] District Engineer, MR. Terry.

what size of pipe and length of pipe, will effectively alleviate the low pressure problem.

In addition, the Company's workpapers did not mention that the part of the distribution system in question, involves the portion of 4-inch pipeline. Upon DRA's request, the Company; however, stated that the distribution system in question involves portion of 4-inch pipeline. The Company included a diagram[67] that depicted presence of at least two portions of a 4-inch pipeline within the proposed main extensions. The diagram makes it obvious that any water from the existing Lautenshlager Reservoir will be restricted by the smallest size pipe present in the downstream. Therefore, the replacement of existing portion of the 4-inch pipeline with 8-inch pipeline (the majority of the pipe size in the existing distribution) will create significant increase in the pressure. DRA also notice that the rest of the distribution pipes are also of 6-inch and 8-inch size.

In addition, the costs estimation of $234,000 is inadequately supported. For example, the Company presented cost estimations of Permitting/Planning, and Engineering Design as $5,053[68]. However, no supporting documentation was provided that could vouch for the Company's estimates for the man-hour and hourly rates. Upon DRA's request, GSWC provided[69] copy of a previous General Work Orders: GWO# 16700249; the General Work Order indicated that the Company's in-house cost of Permitting/Planning and Engineering Design for a project of 8-inch pipeline for a 190 linear foot was $4939 whereas the Company is requesting a cost of $5,053 for this project. The Company explained that the higher total for the project takes into account the complexity of the project and the total length of the pipe to be installed, and the traffic conditions of the referenced street. However, the Company did not provide any supporting documentation that

[67] GSWC's response to DRA's Data Request, AMX-53 (Question-2).

[68] GSWC's workpapers of Simi Valley, page 235.

[69] GSWC's response to DRA's Data Request, AMX-53 (Question -5).

could explain the relation of these costs to the complexity of the project, length of the pipe or the traffic conditions.

For example, the Company's requested amount of $5,053 equates to a Permitting/Planning and Engineering Design unit cost of $5.053 per one foot of pipe. While the same cost under the GWO# 16700249 is $26 per one foot of pipe. Therefore, the Permitting/Planning and Engineering Design costs shown on GWO # 16700249 are poor representative of these costs. DRA believes that the Company must provide convincing evidence regarding the relationship between the size and the length of pipe, complexity of the project, and the alleged traffic conditions and the cost of Permitting/Planning and Engineering Design costs.

Similarly, the Company estimated a unit cost of $155 per one linear foot of 12-inch waterline regarding the construction cost; the Company did not provide any support as to how these unit cost estimates for the construction cost are estimated. Upon DRA's request, GSWC provided[70] a copy of its "Pipeline – Basis of Unit Cost Worksheets 20061129 for Simi Valley". There was only one project presented on the sheet for the Simi Valley Customer Service Area for a 190 linear foot (LF) of 8-inch ductile iron pipe (DIP). The Company received four different bids ranging from the lowest of $142 per LF to the highest of $284 per LF. However, the Company noted that the insufficient length bars the Company from accuracy of determining the unit cost; therefore, the Company used average data from other Customer service areas to determine an average unit cost of $146 for the year 2007 and then used 3% annual inflation to determine an average unit cost of $155 for the year 2009.

Please note that the Company refused to use a single project for installation of a 190 LF of 8-inch DIP in determining the average unit cost for the project; however the same single project is used to estimate the Permitting/Planning and Engineering Design cost earlier.

[70] GSWC's response to DRA's Data Request, AMX-53 (Question-5).

On the other hand, it is not clear that what average unit cost data in its other Customer Service Areas, the Company actually used to determine an average cost of $146. For example, the Company provided the copies of the "Basis of Unit Cost Worksheet 20061129" for all of its Customer Service Areas in the Region-I. The various averages for the unit cost on these sheets are as follows:

Arden Cordova	197
Bay Point	179
Clearlake	193
Los Osos	154
Ojai	123
Santa Maria	59
Simi Valley	204
AVERAGE	**158**

It is clear that the average of these average unit costs is not $146 but instead $158. DRA believes that as the Simi Valley is located in the Coastal District, the more appropriate Customer Service Areas are those that are also located in the same district: Los Osos, Santa Maria, and Ojai. An average unit cost based upon the bids in these Customer Service Areas is only $112.

Los Osos	154
Ojai	123
Santa Maria	59
AVERAGE	**112**

Similarly, the Ojai Customer Service Area is geographically the nearest area to that of Simi Valley, and therefore, the unit cost estimates in Ojai should be more appropriate for the similar projects in the Simi Valley. However, the copy of "Basis of Unit Cost Worksheets 20061129" for Ojai indicates the following information:

Description	Job #	Bid Date	Unit Cost ($/LF)				
			Bid 1	Bid 2	Bid 3	Bid 4	Bid 5
256 LF x 8" DIP	15300243	5/20/2005	151	176			
758 LF x 8" DIP	15300277	4/6/2006	78	99	110		
1,318 LF x 12" DIP	15300250	1/4/2005	84	136			

The above Company's historical bid data indicates that the average data used by the Company is highly volatile. The unit cost of $151 and $176 in the year 2005 are both much higher than the unit cost of $78, $99, and $110 in the most recent year i.e. 2006. Therefore, an average value of unit cost of $95.67[71] based upon the year 2006 bids should be more reasonable.

In addition, the Company's historical data[72] indicated that over the last 10 years, the Company did not spent any funds on the similar projects in the Simi Valley, except in the year 2003 for an amount of only $3,064.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
$0	$0	$0	$0	$0	$0	$3,064	$0	$0	$0

It is obvious that the requested amount of $234,000 is poorly justified, the cost estimations have no basis, and the historical expenditures indicate that the Simi Valley System generally had no need for such projects. However, DRA believes that a project based upon replacing existing 4-inch with that of 8-inch pipeline would be beneficial. As the Company did not provide any information regarding the actual length of the existing 4-inch pipeline, DRA assumes that out of 1000 LF of proposed pipes at the Katherine Avenue section, the 4-inch would make up 1/3 of the length; therefore resulting in the installation of 334 LF of 8-

[71] ($78+$99+$110) / 3 = $95.67.

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

imch DIP. DRA then recommends a unit cost of $10.47[73] for Permitting/Planning and Engineering Design cost, and a unit cost of $95.67 for construction. Based upon these unit costs, DRA recommends allowing a total cost of $35,450[74] (with DRA's recommended overhead and contingency rates, the total amount will be $45,000) for the purpose of replacing existing 4-inch pipelines with that of 8-inch pipelines at Katherine Avenue area of the Simi Valley System.

7. Service Line Replacement

GSWC requested an amount of $117,000 in the year 2009 for the purpose of replacing old plastic service lines in a particular area of the Simi Valley System. The Company claimed that the area in the has 30-year old plastic service lines and they are found to have exceeded their useful life as the Company repaired at least 30 service line leaks in the area over the last 9 years. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

8. Brineline Study (Participation in regional study)

GSWC requested an amount of $117,000 in the year 2009 for the purpose of its participation in a regional study to prepare preliminary environmental and engineering studies for the brine line route, which is the first step required in permitting the extension of the brine line further into Simi Valley. 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 that the Company should not "ratebase" these costs and instead expense them, in addition, the Company should also ask the cost recovery through an Advice Letter once such costs are actually incurred.

[73] Based upon analysis of similar cost in Ojai Customer Service Area.

[74] (334 LF) * ($95.67+$10.47) = $35,450.

The Company did not provide any supporting documentation regarding this project other than a three-line description[75] in its application. Upon DRA's request, the Company provided[76] the information that the Calleguas Municipal Water District (CMWD) had taken the initiative under its Salinity Management Project to begin working together with other public agencies and private partiers to plan the development of a large-scale project to mange high salinity water use and disposal. The project is comprised of a pipeline system that would collect, transport and distributes treated wastewater and brine concentrates from groundwater desalting operations to an ocean outfall or downstream beneficial uses. Ultimately, the pipeline will extend from the city of Simi Valley, at the most easterly point, through the cities of Moorpark, Camarillo and unincorporated Ventura County. The westerly endpoint of the pipeline would be located in the city of Oxnard where the pipeline would connect with an existing ocean outfall.

The Company claimed[77] that the initial Environmental Impact Report (EIR) for the Brineline project does not describe the extension of the Brineline to areas near the Company facilities. However, CWMD, the City of Simi Valley/Ventura County Waterworks District No. 8, Ventura County Waterworks District No. 1, and Ventura County Waterworks District No.19 have had preliminary discussion concerning extending the Brineline route further into the Simi Valley. The Company's request for the project is to participate through sharing the cost in conducting the preliminary environmental and engineering studies for the Brineline route into the Simi Valley.

The Company also claimed that the following when responding to the question-1 of the DRA's Data request AMX-54:

[75] Ernest Gisler's testimony, page-122.

[76] GSWC's response to DRA's Data Request, AMX-54.

[77] GSWC's response to DRA's Data Request, AMX-54.

> Documents prepared for us by CH2M Hill estimated that the cost of a Negative Declaration Document costs between $30,000 and $50,000. The CEQA work for extending the Brine Line would likely require a supplemental Environmental Impact Report (EIR), which involves a higher level of effort than a negative declaration and based on this information GSWC estimated that the company would incur $80,000 for its share of the supplemental EIR. Adding overhead and company overhead brings the estimate to $117,000.

DRA notice that the problem with the above response is that the Company did not provide the "Documents" that are prepared by the CH2MHILL for the Company. Nor does the response address the formula on which the "sharing" of the cost will be based on. The Company's cost estimations remained unsupported. Due to the lack of support for its cost, DRA recommends that the Company should request to recover its costs once such costs are incurred in future through an advice letter. In addition, the recovery should not be in the form of a capital investment, but should be an expense recovery.

DRA already discussed that any capital investment outlay to resolve the current aesthetic issues of the Simi Valley groundwater resources should be reasonable; hence any future investment beyond the Brineline Study itself, toward the building of desalination plant or pipelines to connect with the "future" Brineline in Simi Valley area should be reasonably priced and properly communicated to the captive ratepayers of the area and must be presented to this Commission for its authorization. As the current Brineline Study project is only a preliminary cost toward the possibility of a potentially huge water treatment cost in the Simi Valley, which may or may not be reasonable to treat aesthetic aspect of the water quality in the Simi Valley, therefore, the cost of Brineline Study must be expensed.

9. Services

GSWC requested an amount of $53,300 in the year 2009 for the purpose of installing services to infill lost that possess a service entitlement and renewal of services found to be leaking. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $28,400 in the year 2009.

10. Minor Main Replacement

GSWC requested an amount of $10,700 in the year 2009 for the purpose of replacing leaking water mains in Simi Valley. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends disallowing this project.

11. Miscellaneous Tools and Equipment

GSWC requested an amount of $10,700 in the year 2009 for the purpose of purchasing miscellaneous tools and safety equipment needed for operations and maintenance of the water system on an as needed basis. Based upon its analysis and evaluation of GSWC's workpapers as discussed earlier, DRA recommends a value of $3,700 in the year 2009.

G. CONTINGENCY

GSWC requested a contingency rate of 10% of its Capital Budget for both stand-alone capital projects and Blanket Projects. According to GSWC,[78] 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

[78] Ernest Gisler's testimony, page -64.

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:

> 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%.

H. 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:

> **1. 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[79] indicate a year-end balance of negative $4,349,866 in 2004 in its Overhead Pool Account. Simply put, close to four and half 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

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

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 $5,660,902[80] in excess in 2006.

In addition, GSWC work papers[81] 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[82] 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

[80] $5,588,750 + $72,152.

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

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

$4,835,138. Nevertheless, DRA chose to proceed 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.[83]

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 costs can be attributed to Region I and General Office. Upon DRA's request[84], GSWC provided a breakdown of these costs among its operating 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 $97,270[85] as the indirect expenses contributed from General Office to Region-I. This means

[83] $5,660,902 + $4,835,138.

[84] DRA's data Request AMX-03.

[85] $585,258 * 16.62%.

that $427,999[86] 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.

I. CH2M HILL 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.[87]

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

[86] $97,270 + $330,729.

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

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 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[88], 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:

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

> American States Water Company d.b.a. Southern California Water Company[89] 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 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

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

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	21,825.2	21,825.2	22,533.8	23,532.3	23,190.2	25,291.0
Additions:						
Utility Funded	316.4	1,113.7	411.1	1,605.2	360.2	1,010.1
Advances	81.4	81.4	81.4	81.4	81.4	81.4
Contributions	218.6	218.6	218.6	218.6	218.6	218.6
CWIP	151.2	435.6	0.00	0.00	0.00	0.00
Gross Additions	767.6	1,849.3	711.1	1,905.2	660.2	1,310.1
Less:						
Retirements	(59.0)	(142.2)	(54.7)	(146.5)	(50.8)	(100.7)
Transfer & Adjustment						
Plant-in-Service (EOY)	22,533.8	23,532.3	23,190.2	25,291.0	23,799.6	26,500.4
Weighting Factor	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Std. Avg. Plant in Service	22,179.5	22,678.7	22,862.0	24,411.6	23,494.9	25,895.7

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 $8,376,300 in the year 2007, $8,993,500 in Test Year 2008 and $9,690,300 in Test Year 2009. DRA recommends $8,417,880 in the year 2007, $9,105,555 in Test Year 2008 and $9,820,564 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, 2008, and 2009, DRA's recommended weighted average depreciation amounts are little more 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 (A)	Utility (B)	DRA (C)	Utility (D)	DRA (E)	Utility (F)
	EY 2007		TY 2008		TY 2009	
	(Dollars in Thousands)					
Accum. Depreciation (BOY)	8,081.2	8,081.2	8,754.6	8,671.5	9,456.5	9,315.6
Accruals During Year:						
Clearing Account	25.0	25.0	25.0	25.0	25.0	25.0
Contributions	51.3	51.3	58.8	58.8	66.2	66.2
Depreciaton Expense	656.2	656.2	672.8	706.8	687.7	759.1
Total Accruals	732.5	732.5	756.6	790.6	778.9	850.3
Less:						
Net Retirements	(59.0)	(142.2)	(54.7)	(146.5)	(50.8)	(100.7)
Adjustments	0.00	-	0.00	0.00	0.00	0.00
Accum. Depreciation (EOY)	8,754.6	8,671.5	9,456.5	9,315.6	10,184.6	10,065.2
Weighting Factor	50%	50%	50%	50%	50%	50%
Avg. Accumulated Deprec.	8,418.0	8,376.4	9,105.7	8,993.6	9,820.7	9,690.4

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 $9,266,391 in the year 2007, $10,150,008 for Test Year 2008, and $10,836,928 for Test Year 2009. DRA recommends $8,510,485 for the Year 2007, $8,228,532 for Test Year 2008, and $8,003,744 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 $435,573 for 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 $248,724 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 $186,848 in year 2007 for the purpose of completing these projects whereas DRA recommends allowing amounts of $155651, and -$4,452 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 Gas and Electric 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, 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 a year time and would be place in use, hence it is only reasonable to provide earning opportunity to Water utilities for their investment in the projects that are under construction.

For example, in D.03-09-022 the 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.[90]

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

[90] D.94-08-031, 1994 PUC LEXIS 474, at *7 n2.

CWIP account. As the Company only provided 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 thirty capital projects that are currently booked in the CWIP account[91] 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, and this coupled with the lack of support the Company provided for these projects leads to addition of unnecessary and unjustifiable additions into the Company's rate base.

For example, as discussed earlier that the Company started installing SCADA related hardware and software after evaluating its SCADA needs in the year 1995. However, the Company's CWIP schedule shows that the SCADA related work in the amount of $100,000 was initiated in the year 2001under a General Work Order # 17600208. The work remains in the CWIP as incomplete for the next five years and the Company's updates this application indicted that the Company finally completed the project in the year 2006. Since year 2001, the Company had at least two applications: A.00.03.064 (Test years: 2001 and 2002), and A.04-08-042 (Test years: 2005 and 2006); therefore, this incomplete SCADA project had already impacted the previous rates twice during those years as the project remained in CWIP. For example, in the previous application, A.00.03.064, the Company requested an amount of $125,000 in the year 2000, and $100,000 in the year 2001 for the purpose of SCADA and related Telemetry. The related

[91] GSWC's workpapers of Simi Valley, Pages 19 (initial filing).

Commission's decision, D.00-12-063 indicated[92] that both of these amounts were authorized by the Commission and were included into rates.

The Company in its year 2004 GRC Application, A.04-08-042, requested another amount of $100,000 in the year 2005 for the purpose of SCADA pertinent to the Company's connection sites with Calleguas Municipal Water District in Simi Valley. However, the Company's CWIP schedule[93] showed a General Work Order # 16700223 for $100,000 in the year 2002 for the same purpose of installing SCADA related hardware at the Calleguas connection sites in Simi Valley. The company now requested an amount of $99,653[94] in the year 2007 to complete this project.

In February, 2007, the Company submitted its updates for the current application. The amount of $41,330 for the SCADA projects under GWO# 16700208 and the amount of $99,653 under GWO # 16700223 are finally transferred to the "Utility Plant in Service" account. However, by doing so the Company has now increased the beginning year Utility Plant in Service amount and hence, these amounts will impact the rates one more time. It is also not clear how the Company could close to the "Utility Plant in Service" the funds of $99,653 in the year 2006 which it has budgeted to be spent in the year 2007[95] .

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, its capital addition creates an advantage for the Company to earn a rate of return (this is true at least for the time period that lasts until the Company is subject to an earning test), thus creating an inherent tendency for the

[92] The decision only listed those items of plant where the Company and DRA differed; these projects were included in the list, thus implying that they were agreed upon and authorized by the Commission.

[93] GSWC's workpapers of Simi Valley, page-19 (initial filing)

[94] GSWC's workpapers of Simi Valley, Page-19 (initial filing)

[95] GSWC's workpapers of Simi Valley, Page-19 (initial filing)

Company to invest without justification. 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) 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 is now in use should not be reason enough and requires no further justification due to the concerns that the Company's inherent advantage to over-invest in order to earn a rate of return. A good example, is Company's request in year 2005 (A.00.03.057) for an amount of $100,000 for the Variable Frequency Drive (VFD) pumps at Niles Plant. DRA already discussed that after installing these VFDs; the Company had bypassed their use and continued blending water manually at Niles Plant. Therefore, DRA recommends allowing an amount of $151,199[96] 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 $925,400[97]: an amount of $97,200 in the year 2006, and an amount of $828,200 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 $248,724 in year 2006 and an amount of $186,848 in the year 2007, thus proving

[96] $155,651 + (-$4,452) = $151,199.

[97] GSWC's workpapers of Simi Valley, Page 3 (Table 4-M).

that at least an amount of $489,827[98] was already transferred to "Utility Plant in Service" from the request of $925,400 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 "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. In addition, the Commission should investigate the possibility in future for allowing an 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)	Utility TY 2009 (F)
	(Dollars in Thousands)					
Wt. Avg. Plant in Service	22,179.5	22,678.7	22,862.0	24,411.6	23,494.9	25,895.7
Utility Plant Under Constr	77.8	124.4	0.00	0.00	0.00	0.00
Acquisition Adjustment	0.00	0.00	0.00	0.00	0.00	0.00
Total Utility Plant	22,257.3	22,803.1	22,862.0	24,411.6	23,494.9	25,895.7
Depreciation Reserve	(8,417.9)	(8,376.3)	(9,105.6)	(8,993.5)	(9,820.6)	(9,690.3)
Net Utility Plant	13,839.4	14,426.8	13,756.4	15,418.2	13,674.3	16,205.4
Materials and Supplies	41.2	41.2	41.2	41.2	41.2	41.2
Advances	(3,914.1)	(3,914.1)	(3,846.2)	(3,846.2)	(3,780.9)	(3,780.9)
Contributions	(1,352.7)	(1,352.7)	(1,516.2)	(1,516.2)	(1,672.3)	(1,672.3)
ıte Base Before Adjustment	8,613.8	9,201.1	8,435.2	10,096.9	8,262.3	10,793.4
Deferred F.I.T. Items	(1,240.1)	(1,271.4)	(1,279.8)	(1,377.1)	(1,316.9)	(1,467.6)
Deferred Revenues	9.2	9.2	9.2	9.2	9.2	9.2
Invest. In Other Water Co.	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Rate Case Expense	0.00	0.00	0.00	0.00	0.00	0.00
Allowance for Working Cash	146.8	146.8	146.8	146.8	146.8	146.8
Common Utility Allocation	980.8	1,180.7	917.2	1,274.2	902.3	1,355.1
Veighted Average Rate Base	8,510.5	9,266.4	8,228.5	10,150.0	8,003.7	10,836.9

[98] $925,400 - $435,573 = $488,827.

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 $94,600 for ad valorem taxes for Test Year 2008. GSWC requested $98,000 for ad valorem taxes. The amount of $3,400 differs from GSWC's due to DRA's different plant estimates, discussed in Chapter 5 of this report.

2. 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 $33,600 for payroll taxes for Test Year 2008. GSWC requested $37,900 for payroll taxes. The amount of $4,300 differs from GSWC's due to DRA's lower estimate of payroll expenses.

3. Local Taxes

DRA recommends $125,200 for local taxes for Test Year 2008. GSWC request $137,900 for local taxes. The amount of $12,700 differs from GSWC proposal due to different forecast of revenue.

4. Tax Depreciation

DRA calculates 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.

5. 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.

6. 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- Simi Valley District		
TAXES OTHER THAN INCOME (2008)		
	@ Proposed Rates	
	2008	
	DRA	Utility
Item	Analysis	Estimated
	(A)	(B)
Ad Valorem Tax	94.6	98.0
Payroll Taxes	33.6	37.9
Local Franchise Tax	125.2	124.0
Total Taxes other than income	253.4	259.9

TABLE 7-2				
GOLDEN STATE WATER COMPANY				
Region I- Simi Valley District				
Income Tax				
2008				
	ORA	Utility	ORA	Utility
Item	Present Rates		Recommended Rates	
	(A)	(B)	(E)	(F)
	(Dollars in Thousands)			
Operating Revenues:	9,984.0	9,867.5	9,961.0	10,972.7
Expenses:				
Oper. & Maint. & A&G	8,607.9	9,171.6	8,607.9	9,173.1
Taxes Other than Income	253.5	259.9	253.5	273.8
Depreciation & Amortization				
Book Depreciation- District	(672.8)	(706.8)	(672.8)	(706.8)
Book Depreciation- G.O.	(43.5)	(76.9)	(43.5)	(76.9)
Interest	298.7	367.4	298.7	367.4
Expense Before Taxes	8,443.8	9,015.2	8,443.8	9,030.6
CCFT				
Tax Depreciation- State	(818.2)	(859.5)	(818.2)	(859.5)
Other Schedule M Items	68.2	87.5	68.2	87.5
State Taxable Income	790.2	80.2	767.2	1,170.1
CCFT (8.84%)	69.9	7.1	67.8	103.4
FIT				
Excess Tax Depreciation	108.5	108.5	108.5	108.5
Book Depreciation- District	(672.8)	(706.8)	(672.8)	(706.8)
Book Depreciation- G.O.	(43.5)	(76.9)	(43.5)	(76.9)
State Tax	(88.7)	(7.1)	(88.7)	(7.1)
Other Scheduled M Items	55.7	72.5	55.7	72.5
Def. Rev. Amort.- Contrib.	2.9	2.9	2.9	2.9
Federal Taxable Income	162.7	(123.9)	601.2	1,016.8
FIT (35%)	315.8	85.8	307.8	467.3

1
2

CHAPTER 8 - POLICY ISSUES

A. INTRODUCTION

This Chapter provides DRA's comments regarding GSWC's water quality and customer service in the Simi Valley CSA.

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 Simi Valley 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 Simi Valley customers.

C. DISCUSSION

1. 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 Simi Valley service territory. As informed by DHS, the Simi Valley water systems generally were in compliance with the drinking water standards between 2004 and 2006.

2. 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 five 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.

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. SI-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
Region I- Simi Valley District
SUMMARY OF EARNINGS (Escalation Years)

Item	DRA 2009 (A)	@ proposed	DRA 2010 (C)
	(Dollars in Thousands)		
Operating Revenues	10,062.0		10,045.0
Total Revenue	10,062.0		10,045.0
Expenses			
Operation & Maintenance	6,405.7		6,363.6
Admininistrative and General	1,624.0		1,659.2
Depreciation & Amortization	687.7		702.6
Taxes Other Than Income	258.3		261.5
CCFT	67.4		65.6
FIT	315.8		309.4
Total Expenses	9,358.8		9,361.9
Net Income	703.2		683.1
Ratebase	8,003.7		7,778.7
Rate of Return	8.79%		8.78%

APPENDIX A: ESCALATION FACTORS

State of California PublicUtilities 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 8 (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 2002
- 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)