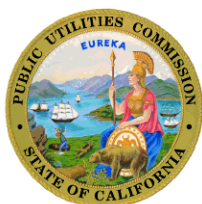


Docket:	:	<u>A.12-01-003</u>
Exhibit Number	:	<u>DRA -001</u>
Commissioner	:	<u>Sandoval</u>
Admin. Law Judge	:	<u>S. Wilson</u>
DRA Project Mgr.	:	<u>Rauschmeier</u>
	:	



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

**Report on the
RESULTS OF OPERATIONS
OF
SAN JOSE WATER COMPANY**

**Test Year 2013 and
Escalation Years 2014 and 2015
Application 12-01-003**

San Francisco, California
April 30, 2012

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MEMORANDUM

1 This report was prepared by the Division of Ratepayer Advocates (“DRA”)
2 of the California Public Utilities Commission (“Commission”) in proceeding
3 A.12-01-003 (“Application”).

4 Richard Rauschmeier served as DRA Project Manager in this proceeding,
5 and is responsible for the overall coordination of preparing this report. The
6 following table lists the DRA witnesses that are sponsoring the testimony
7 contained in this report. Witness qualifications are presented in Appendix A.

Chapter	Description	Witness
-	Executive Summary	Rauschmeier
1	Introduction and Summary of Earnings	Rauschmeier
2	Customers, Consumption and Revenues	Rauschmeier
3	Labor and Payroll	Montero
4	Pension and Benefits	Montero
5	Operating Expenses	Ma
6	Taxes Other than Income	Han
7	Income Taxes	Han
8	Utility Plant in Service	Rasmussen / Gandara
9	Depreciation Expense and Reserve	Rauschmeier
10	Rate Base	Rauschmeier
11	Conservation	Rauschmeier
12	Non-Tariffed Products and Services	Montero
13	Customer Service and Water Quality	Rauschmeier
14	Rate Design	Rauschmeier
15	Other Relief Sought	Rauschmeier
16	Revenue Decoupling	Tully
17	Balancing and Memorandum Account Recovery	Han
18	Escalation and Attrition	Rauschmeier

8 While DRA has made every effort to comprehensively analyze and provide
9 the Commission with recommendations on each ratemaking and policy aspect
10 presented in SJWC’s Application, the absence from DRA’s report of any
11 particular issue does not necessarily constitute DRA’s endorsement or acceptance
12 of the underlying request, methodology, or policy position related to that issue.

EXECUTIVE SUMMARY

1 San Jose Water Company's Application requests increases of \$47,394,000
2 or 21.51 % in 2013, \$12,963,000 or 4.8% in 2014, and \$34,797,000 or 12.59% in
3 2015. As shown in the table below, DRA recommends an increase of no more
4 than 0.05% in 2013, 3.73% in 2014, and 5.65% in 2015.

Year	SJWC Requested Increase	DRA Recommended Maximum Increase
2013	21.51%	0.05%
2014	4.8%	3.73%
2015	12.59%	5.65%

5 DRA's recommended maximum increase of 0.05% in Test Year 2013
6 actually reflects a decrease of approximately \$9 million from SJWC's 2012
7 revenue requirement of \$246 million as authorized in SJWC Advice Letter 434.
8 However, due to a significant decline in customer water consumption, more of
9 SJWC's costs will be spread over a smaller amount of water sales resulting in an
10 slight increase in standard water rates. Accordingly, and as seen in the following
11 list of *Major Recommendations*, DRA recommends that SJWC's requested
12 funding for expansion of conservation programs and authorization of decoupling
13 mechanisms to further reduce water consumption be denied.

14 Furthermore, since customers who have exercised diligence in achieving
15 conservation should not be penalized for the results of those efforts, DRA
16 recommends a residential rate design in the current proceeding that avoids any
17 increase in water rates for those customers with the lowest monthly consumption.

MAJOR RECOMMENDATIONS

1. SJWC's proposed \$297 million construction budget for the period 2012-2014 should be reduced by \$75 million (Chapter Eight).
2. SJWC estimates of total revenues under present rates should be increased by \$29 million to accurately capture authorized tariffs, correct formula errors, and reflect a more moderate approach to conservation spending (Chapter Two).
3. SJWC's requested 2013 Operating Expense Budget of \$125 million should be trimmed by \$10 million to reflect a more reasonable forecast of the expenses actually necessary for SJWC to provide safe and reliable water service to customers (Chapter Five).
4. SJWC's requested 2013 Administrative & General Expense Budget of \$28 million in 2013 should be reduced by \$6 million to prevent unnecessary growth in staff, salaries and benefits (Chapters Three and Four).
5. SJWC's estimate of \$10 million in working capital should be reduced by \$6 million to correct calculation errors and questionable assumptions (Chapter Ten).
6. SJWC's request to fully decouple sales from revenue so that forecasted revenue from water rates is guaranteed regardless of whether the water is actually sold should be denied (Chapter 16).
6. SJWC's requests for the extraordinary protection provided by tracking expenses in three new memorandum accounts for possible retroactive recovery should be denied (Chapter Seventeen).

CHAPTER 1: INTRODUCTION & SUMMARY OF EARNINGS

1 This report sets forth the analysis and recommendations of DRA pertaining
2 to SJWC's general rate case A.12-01-003 for Test Year 2013 and Escalation Years
3 2014 and 2015.

4 SJWC's last general rate increase was authorized by Commission Decision
5 D.09-11-032, which granted an increase of \$18,597,000 or 9.24% in 2010, an
6 increase of \$7,558,000 or 3.43% in 2011, and an increase of \$11,088,000 or 4.87%
7 in 2012.

8 The following Tables 1-1 and 1-2 compare the SJWC and DRA estimates
9 on the results of operations for Test Year 2013 under present and proposed rates.
10 As estimated by DRA, the increase in total revenues from present rates that would
11 be necessary for SJWC to recover forecasted expenses and have the opportunity to
12 earn the required rate of return on investment is 0.05% in the Test Year 2013.¹

13 For the purposes of calculating estimated revenue requirements, DRA has
14 used a rate of return of 8.38%. This rate was established in a settlement
15 agreement between SJWC and DRA in A.11-05-001 *et al* and is pending
16 Commission approval. DRA acknowledges that the rate of return that will be
17 authorized by a Commission decision in A.11-05-001 may be different and should
18 be used when establishing rates in the current proceeding.

¹ [(Total Revenue w/ Proposed Rates)/(Total Revenue w/ Present Rates)-1]

TABLE 1-1

San Jose Water Company A.12-01-003

SUMMARY OF EARNINGS

Test Year 2013

(At Present Rates)

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Analysis	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Oper. Revenues				
Water	237,121	219,995	-17,126	-7%
Misc. Revenues	204	204	0	0%
Deferred Rev.	388	190	-198	-51%
Total Revenues	<u>237,713</u>	<u>220,389</u>	-17,324	-7%
Expenses				
Oper. & Maint.	115,468	125,641	10,173	9%
Admin. & Gen.	22,386	28,801	6,415	29%
Taxes O/T Income	8,382	7,952	-431	-5%
Depreciation / Amortization	33,059	33,566	507	2%
CCFT	3,651	0	-3,651	0%
FIT	12,161	0	-12,161	-100%
Total Expenses	<u>195,106</u>	<u>195,959</u>	853	0%
Income	<u>42,607</u>	<u>24,430</u>	-18,177	-43%
Ratebase	509,422	579,943	70,521	14%
Rate of Return	8.36%	4.21%		

TABLE 1-2

San Jose Water Company A.12-01-003

SUMMARY OF EARNINGS**Test Year 2013****(At Proposed Rates)**

Item	DRA	SJWC	SJWC Exceeds DRA	
	Proposed	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Total Revenues	237,820	267,782	29,962	13%
Expenses				
O&M (plus Uncollectibles)	115,468	125,641	10,173	9%
A&G Expense	22,386	28,801	6,415	29%
Taxes O/T Income	8,383	8,077	(306)	-4%
Dep. and amortization	33,059	33,566	507	2%
CCFT	3,633	4,605	972	27%
FIT	12,202	17,010	4,808	39%
Total Expenses	195,130	217,699	22,568	12%
Net Income	42,690	50,083	7,393	17%
Ratebase	509,422	579,943	70,521	14%
Rate of Return	8.38%	8.64%	0.26%	

CHAPTER 2: CUSTOMERS, CONSUMPTION & REVENUES

1 A. INTRODUCTION

2 This chapter presents DRA's analysis and recommendations on a forecasted
3 number of customers, consumption per customer and operating revenues. DRA
4 reviewed SJWC's Report on Result of Operations, supporting workpapers,
5 responses to data requests, authorized tariffs, and data from previously filed
6 applications to arrive at the recommendations presented in this chapter.

7 B. SUMMARY OF RECOMMENDATIONS

8 As detailed below, DRA recommends (1) using SJWC's estimates of
9 forecasted consumption without additional adjustments for proposed increases in
10 conservation, (2) forecasting future customers in the current proceeding consistent
11 with averaging methodologies utilized in previous SJWC general rate cases, (3)
12 maintaining consistency between DRA's consumption forecast and its
13 recommendations on expansion of recycled water programs; (4) accurately
14 reflecting existing tariffs when forecasting revenues under present rates; and (5)
15 adjusting and correcting calculation errors to increase the availability of surface
16 water supply for ratemaking purposes.

17 C. DISCUSSION

18 A forecast of customers, consumption, and revenues at present rates is
19 important not for determining future revenue requirements – as revenue
20 requirements in DRA's report are based upon the total of estimated expenses and a
21 return on estimated investment – but rather for calculating the percentage increase
22 or decrease in customer rates that is necessary to arrive at estimated revenue
23 requirements.

24 To illustrate, an unchanged or even lower estimated revenue requirement
25 might still result in a requested rate increase if the number of customers or the

1 consumption per customer has decreased relatively more. Under this scenario,
2 since the same amount of cost (i.e. revenue requirement) will need to be recovered
3 from a smaller number of customers or gallons-of-water-sold, an increase in rates
4 would follow. Conversely, if estimates of total revenue fail to include all sources
5 of revenue that will be collected under existing customer tariffs, an unnecessarily
6 high rate increase percentage to meet the estimated revenue requirement will
7 result.

8 Since the forecast of customers, consumption and revenues is also
9 important in determining the tariff rates that result from the final adopted revenue
10 requirement and rate design, DRA recommends the following adjustments to
11 SJWC’s estimates of customers, consumption, and revenues:

12 **1) Estimated Water Consumption**

13 SJWC references the Commission’s requirement “that utilities and DRA
14 forecast water sales using the New Committee Method.”² For both residential and
15 business customer classes, SJWC has added a conservation adjustment to the
16 method’s results to estimate consumption per customer. SJWC carries this
17 conservation adjustment forward into the escalation years to further reduce
18 consumption by 1.5% annually. In recognition of the significant reductions in
19 water consumption achieved by SJWC customers and the fact that such reduced
20 consumption is driving the rate increase requested in this proceeding,³ DRA
21 supports a continuation of SJWC’s current conservation spending rather than
22 SJWC’s request “to further ramp up its conservation programs in this filing.”⁴ To
23 reflect DRA’s recommendations on SJWC’s requested expansion of conservation

² Page 5, Chapter 6, SJWC Exhibit E

³ See DRA Chapter Ten: Conservation

⁴ Page 5, Chapter 6, SJWC Exhibit E

1 spending, DRA has removed the additional conservation adjustment made by
 2 SJWC in test and escalation years. The following table compares SJWC's
 3 estimates of average consumption per customer with and without a conservation
 4 adjustment and DRA's recommendations.

Average Annual Consumption per Customer in CCF (1 CCF=748 gallons)			
	DRA Recommendation	SJWC Model Estimate	SJWC Adjusted Estimate
2013 Residential	174	174	170
2013 Business	829	829	819
2014 Residential	172	172	167
2014 Business	819	819	806
2015 Residential	171	171	165
2015 Business	809	809	794

5 **2) Estimated Number of Customers**

6 To forecast the number of residential, business, and private fire customers
 7 in the current general rate case, SJWC has altered the methodology from what had
 8 been previously used by the company in general rate cases. Rather than
 9 incorporating the five-year average change in the number of recorded customers,
 10 SJWC has used only a three-year average to forecast these customer classes. DRA
 11 recommends using the five-year average to avoid having forecasts overly biased
 12 by the 2008-2009 economic recession.

13 Similarly for the customer class of Other Metered Services, which SJWC
 14 had previously forecast based upon a five-year average of recorded data, in the
 15 current general rate case, SJWC uses the average from only the last two years.
 16 DRA applies the five-year average for consistency and to capture wider
 17 fluctuations in recorded data.

1 For the recycled water customer class, DRA has reduced the number of
2 estimated service connections to be consistent with DRA’s recommendation on the
3 expansion of recycled water programs.⁵

4 Tables 2.1 – 2.8 at the end of this chapter compare SJWC estimates on the
5 number of customers in Test Year 2013 with DRA’s estimates based upon the
6 above recommendations.

7 **3) Consistency with DRA Recycled Water Recommendations**

8 Several additional adjustments to consumption and customer forecasts are
9 necessary to be consistent with DRA’s recommendations on the prudence and
10 reasonableness of SJWC’s request to aggressively expand recycled water
11 programs. These adjustments include (1) removing SJWC’s reduction of 192.8
12 KCCF (144,214,400 gallons) in business class total sales due to expanded
13 recycling programs; (2) Adding back the 53 business customers forecasted to
14 convert to recycled customers in 2013; (3) Increasing the total sales of industrial
15 customers by 48.9 KCCF to reverse SJWC’s estimated recycled water
16 substitutions in 2013.⁶

17 **4) Operating Revenues**

18 To obtain estimates of operating revenues under present rates, DRA used
19 the aforementioned customer and consumption adjustments in conjunction with
20 SJWC’s existing authorized rates. Several adjustments to SJWC forecasts were
21 necessary to accurately estimate test year revenues under present rates.

22 First, a formula error in SJWC Workpaper 7-1E summed only a portion of
23 the deferred revenues associated with Contributions in Aid of Construction. DRA

⁵ See DRA Chapter Seven

⁶ Complete analysis of SJWC’s Recycled Water Program and related requests is found in DRA Chapter Seven: Utility Plant in Service

1 has corrected this error and increased revenues under present rates by \$212,902 in
2 2013.

3 Second, uplift charges of \$0.7632/ccf were not included in quantity
4 revenues for Test Year 2013. DRA multiplied the reported 91,839 ccf served to
5 the Mountain District in 2010⁷ by the authorized uplift charge of \$0.7632 to
6 increase revenues under present rates by \$70,091 in 2013.

7 Third, DRA included the actual upsize meter charges that SJWC had
8 excluded from test year revenue estimates. Based upon the existing tariffs
9 authorized in Schedule 1B, test year revenues under present rates increased by
10 \$83,330 in 2013.

11 Fourth, DRA increased the estimated service charge revenues under present
12 rates for SJWC's Mountain District to be consistent with SJWC's actual billing
13 practices for the Mountain District. SJWC's authorized tariff Schedule 1C
14 indicates that service charges for the Mountain District are based upon the number
15 of ¾" meter customers that are individually served. DRA replaced the two ¾"
16 meter customers that SJWC had estimated for ratemaking purposes with the actual
17 number of four-hundred-and-forty-six ¾" meter customers that are individually
18 served in this district.⁸ This adjustment results in an increase to estimated
19 revenues under present rates of \$99,444.

20 **5) Water Supply Portfolio**

21 SJWC's three primary classifications of water supply are identified as
22 ground water, purchased water, and surface water. SJWC forecasts both
23 purchased water and surface water then calculates the ground water as the

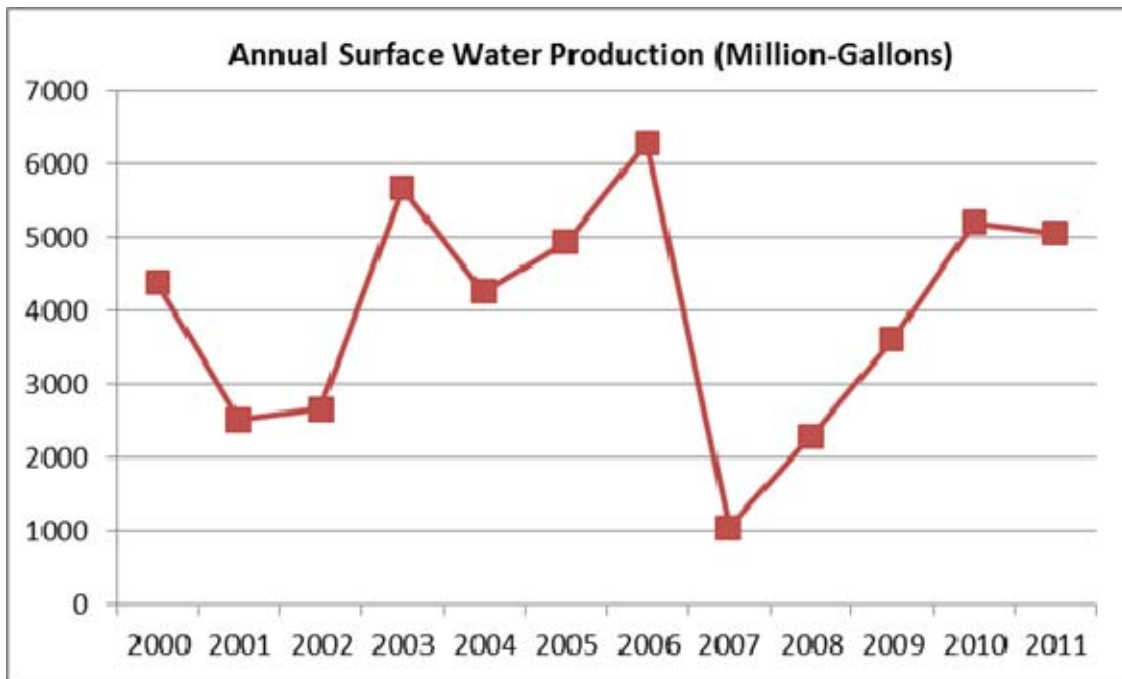
⁷ SJWC Workpaper 8-27

⁸ SJWC Response to RRA-007 Attachment A

1 additional water needed to meet forecasted demand. DRA has increased the
2 forecast of surface water to reflect updated information provided by SJWC in the
3 current proceeding and for consistency with information provided by SJWC in a
4 separate proceeding.

5 Both DRA and SJWC estimate test year surface water production based
6 upon the five-year average of recorded production. DRA increases the 2011
7 production amount, which had been estimated in SJWC's application, to be
8 consistent with the actual recorded production that SJWC provided in its updated
9 workpapers. This adjustment results in a 1% increase in forecasted surface water
10 production.

11 Next, DRA examined the ten most recent years of recorded data on surface
12 water production that SJWC presented in Workpaper 7-4C. After assembling this
13 data in the following graph, DRA investigated what appeared to be an anomalous
14 decline in 2007 production.



1 DRA compared the recorded data on surface water supply that SJWC
 2 submitted in the current proceeding with data SJWC submitted in A.10-09-019 on
 3 the production of surface water at just one of SJWC’s two surface water treatment
 4 plants.⁹ As seen in the highlighted portion of following table, the production
 5 previously reported for just one of SJWC’s two surface water treatment plants, the
 6 Montevina Treatment Plant, exceeded the entire amount of surface water that
 7 SJWC reported for 2007 in the current proceeding.¹⁰

MILLION GALLONS PER YEAR (MG/yr)			
YEAR	Surface Water Production A.12-01-003	Montevina Production A.10-09-019	Montevina Production as % of Total
2010	5203	4718	90.7%
2009	3613	3339	92.4%
2008	2283	2137	93.6%
2007	1051	1742	165%
2006	6285	5769	91.8%
2005	4938	4599	93.1%
2004	4258	3866	90.7%
2003	5670	5196	91.6%
2002	2661	2413	90.7%
2001	2515	2221	88.3%
2000	4381	3903	89.1%
Average Montevina Production as % of Total (excluding 2007)			91%

8 To adjust for this mathematical impossibility, DRA divided the 2007
 9 Montevina production by the ten-year average Montevina production as a
 10 percentage of total surface water production to impute a surface water production

⁹ SJWC has two surface water treatment plants, Montevina and Saratoga.

1 total for 2007.¹¹ DRA replaced the 1,051 MG/yr presented by SJWC for surface
2 water production in 2007 with the calculated amount of 1,909 MG/yr, which
3 results in a 5% increase in forecasted surface water production.

4 The final DRA adjustment to SJWC’s estimate of surface water production
5 is related to the assumption of reduced capacity during construction. According to
6 SJWC, “the production from surface sources has been estimated at a normal or
7 average amount to be derived from these sources adjusted to account for reduced
8 capacity of the Montevina Water Treatment Plant (“WTP”) during upgrades to the
9 facility.”¹² Due to proposed facility upgrades—the subject of pending application
10 A.10-09-019—SJWC estimates in the current proceeding that “the WTP capacity
11 will be reduced by approximately 60%.” In contrast, DRA reduces the capacity of
12 WTP for ratemaking purposes by only 49% which would equate to WTP being
13 used and useful just slightly over a majority of the time (i.e continuing operation at
14 51% of historical production). This DRA adjustment for ratemaking purposes
15 more closely aligns with SJWC’s opening brief in A.10-09-019 where in support
16 of its requested ratemaking treatment SJWC indicated that “the plant will, in fact,
17 be operating throughout that time when water is available for processing through
18 the plant, subject to occasional interruptions due to construction activity.”

19 As previously shown in the above table, production from Montevina WTP
20 has averaged 91% of total surface water production. Therefore, it would be an
21 error to reduce *total* surface water production by the same percentage reduction
22 that is estimated to impact only the Montevina WTP. This is because the
23 remaining average 9% of surface water production would be unaffected by
24 Montevina facility upgrades. Therefore, DRA’s reduction to total surface water

¹⁰ (continued from previous page)

¹⁰ From SJWC WP 7-4C in A.12-01-003 and SJWC Data Response SN-07 in A.10-09-019

¹¹ $(1741.7)/(91.2\%) = 1,909 \text{ MG/yr}$

1 production is estimated as 44.5%.¹³ In aggregate, DRA's corrections and
2 recommended adjustments to SJWC estimates of water supplies results in a
3 decrease of approximately \$1,111,000 in expense due to the increased availability
4 of lower-cost surface water forecasted in test years.

5 **D. CONCLUSION**

6 To obtain a reasonable estimate of any necessary rate change in order to
7 meet an estimated test year revenue requirement, the Commission should adopt
8 DRA's recommendations to: (1) use SJWC's estimates of forecasted consumption
9 without additional adjustments for conservation; (2) forecast future customers
10 consistent with averaging methodologies utilized in previous SJWC general rate
11 cases; (3) maintain consistency between consumption forecasts and DRA's
12 recommendations on recycled water projects; (4) accurately reflect existing tariffs
13 to forecast revenues under present rates; and (5) make appropriate adjustments and
14 corrections to increase the availability of surface water supplies for ratemaking
15 purposes.

¹² (continued from previous page)

¹² Page 3, Chapter 7, SJWC Exhibit E: Report on the Result of Operations

¹³ (49%)*(91%)

TABLE 2-1

San Jose Water Company A.12-01-003
OPERATING REVENUES
Test Year 2013

Item	DRA Analysis	SJWC Request	SJWC Exceeds DRA	
	Present Rates	Present Rates	Amount	%
	(A)	(C)		
	(Dollars in Thousands)			
Metered Service:				
Residential	150,080	142,231	-7,849	-5%
Business	69,407	60,991	-8,416	-12%
Industrial Revenue	960	228	-732	-76%
Public Authorities	10,610	9,677	-933	-9%
Other Utilities	947	780	-167	-18%
Recycled Water	1,775	3,037	1,262	71%
Raw Water	40	38	-2	-5%
Other	566	383	-183	0%
Total Metered Revenue	234,385	217,365	-17,020	-7%
Flat Rate Services:				
Private Fire Protection	2,736	2,630	-106	-4%
Total Water Service Revenue	237,121	219,995	-16,049	-7%
Misc. & Other Revenue:				
Rent	0	0	0	0%
Deferred Revenues on CIAC	388	190	-198	-51%
Other	204	204	0	0%
Total Misc & Other Revenue	592	394	-198	-33%
Grand Total Revenue	237,713	220,389	-17,324	-7%

TABLE 2-2

San Jose Water Company A.12-01-003
WATER CONSUMPTION PER CUSTOMER
 (CCF PER YEAR)
Test Year 2013

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Estimated	Amount	Percent
	(A)	(B)	(C)	(D)
Average Sales per Customer				
Residential	174	170	(4)	-2%
Business	829	819	(10)	-1%
Industrial	4,080	620	(3,460)	-85%
Public Authorities	2,095	2,074	(21)	-1%
Other Utilities	9,060	8,533	(527)	-6%
Other Sales	547	740	193	35%
Raw	4,633	4,633	0	0%
Recycled Water	5,098	5,765	667	13%

Escalation Year 2014

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Estimated	Amount	Percent
	(A)	(B)	(C)	(D)
Average Sales per Customer				
Residential	174	167	(7)	-4%
Business	829	806	(23)	-3%
Industrial	4,096	569	(3,527)	-86%
Public Authorities	2,160	2,134	(26)	-1%
Other Utilities	9,060	8,400	(660)	-7%
Other Sales	592	1,014	422	71%
Raw	4,633	4,633	0	0%
Recycled Water	5,098	4,988	(110)	-2%

TABLE 2-3

San Jose Water Company A.12-01-003
TOTAL CONSUMPTION AND SUPPLY
 (KCCF PER YEAR)
Test Year 2013

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Estimated	Amount	Percent
	(A)	(B)	(C)	(D)
Metered Potable Sales (Kccf):				
Residential	34,318	33,392	(926)	-3%
Business	16,901	16,346	(555)	-3%
Industrial	265	33	(232)	-88%
Public Authorities	2,688	2,688	0	0%
Resale Other Utilities	272	256	(16)	-6%
Other Sales	71	71	0	0%
Total Metered Sales	54,515	52,786	(1,729)	-3%
Unaccounted Water	3,852	3,729	(123)	-3%
Total Supply Delivered	58,367	56,515	(1,852)	-3%

Test Year 2014

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Estimated	Amount	Percent
	(A)	(B)	(C)	(D)
Metered Potable Sales (Kccf):				
Residential	34,416	32,948	(1,468)	-4%
Business	16,959	16,051	(908)	-5%
Industrial	324	30	(294)	-91%
Public Authorities	2,648	2,648	0	0%
Resale Other Utilities	272	252	(20)	-7%
Other Sales	70	70	0	0%
Total Metered Consumption	54,689	51,999	(2,690)	-5%
Unaccounted Water	3,864	3,674	(190)	-5%
Total Supply Delivered	58,553	55,673	(2,880)	-5%

CHAPTER 3: LABOR AND PAYROLL

1 A. INTRODUCTION

2 This chapter presents the DRA's analysis and recommendation on payroll
3 expense. DRA analyzed SJWC's testimony, supporting workpapers, reports,
4 responses to both the Minimum Data Requirements and Supplemental Data
5 Requests, other information provided in meetings and methods of estimating
6 payroll expense.

7 B. SUMMARY OF RECOMMENDATIONS

8 DRA's estimate for total payroll expense is \$32,568,128. SJWC's estimate
9 is \$35,305,800 which exceeds DRA's estimate by \$2,737,672. This
10 recommendation is reflected in the estimates provided in DRA Chapter Five:
11 Operating Expenses.

12 C. DISCUSSION

13 1) Forecasting Methodology

14 a) Payroll Expense for 2012

15 SJWC starts with the 2012 forecasted Payroll expense. SJWC categorizes
16 payroll into two: General Payroll and Admin & Officer Payroll. To the 2012
17 forecasted General Payroll expense, SJWC adds two items: expenses for
18 temporary and part time help (at 2011 recorded amounts) and overtime (three-year
19 average of 2009 to 2011 recorded amounts). No temporary /part time help or
20 overtime is allocated to Admin & Officer Payroll.

21 DRA requested SJWC to reconcile its forecasted 2012 payroll expense
22 starting with 2011 recorded amounts. SJWC's response showed that starting from

1 the 2011 recorded amounts, general payroll was escalated by 2%,¹⁴ administrative
2 payroll by 3.03% and officer compensation by 6.87%.¹⁵ In addition, Officer
3 Compensation is an aggregate of base salary, bonuses and other compensation.¹⁶
4 SJWC provided no justification why administrative and officer payroll should be
5 escalated more than the 2% wage increase received by union workers in deriving
6 the 2012 payroll expense.

7 DRA estimates 2012 payroll expense by starting with the recorded payroll
8 expense for 2011, the last recorded year at the time SJWC filed its general rate
9 case application. DRA requested a breakdown of total 2011 recorded payroll
10 expense into three categories: general payroll, administrative staff payroll and
11 officer compensation.¹⁷ Likewise, DRA requested the breakdown of the 2011
12 Officer Compensation into components, including base salary, bonuses and other
13 compensation.¹⁸ For ratemaking purposes, DRA uses only the recorded 2011 base
14 salary of officers, i.e., bonuses and other compensation have been removed for
15 escalation to the test year.

16 DRA made a number of adjustments to the 2011 recorded total payroll
17 expense. The total of the four adjustments discussed below were prorated among
18 general payroll, administrative payroll and officer payroll.

¹⁴ SJWC has a three-year collective bargaining agreement with the Utility Workers Union of America (“UWUA”) and the International Union of Operating engineers (“OE”) covering January 1, 2011 to December 31, 2013. The agreement provides for a 2%, 2% and 3% wage adjustments for 2011, 2012 and 2013 respectively.

¹⁵ Response to Data Request JM2-005 Q1

¹⁶ Response to Data Request JM2-006 Q1

¹⁷ Response to Data Request JM2-005 Q1

¹⁸ Response to Data Request JM2-006 Q1

1 **(i) DRA excluded the 2011 recorded expenses related to the**
2 **hiring of temporary and part time help.**

3 There was no prior request or Commission authorization for this expense
4 item. However, if SJWC wanted to include these costs in rates, SJWC will have to
5 justify these costs' inclusion. No such justification was provided. The total
6 amount excluded is \$186,371.19

7 **(ii) DRA excluded the expenses related to the four additional**
8 **employees not authorized in the previous GRC**

9 In the last GRC, the Commission authorized the addition of nine positions
10 of SJWC's own choosing. SJWC added four more positions, two of which are
11 still vacant (Permit & Property Specialist and Budget Analyst)²⁰ on top of the nine
12 authorized for which SJWC now requests inclusion in rates. Since there is no
13 Commission authorization for additional expense related to these four positions,
14 DRA excluded the related expenses of these four positions from the 2011 total
15 recorded payroll. The total amount excluded is \$297,143.²¹

16 DRA recommends three new positions during this GRC cycle and DRA's
17 recommendation is discussed further below.

18 **(iii) DRA excluded the labor expense related to Non-Tariffed**
19 **Products and Services ("NTP&S")**

20 In response to data request JM2-004 Q4, SJWC stated that "Note that while
21 labor related to the Cupertino²² is tracked separately, it is not separated from
22 SJWC's forecasted labor expenses included in GRC Exhibit F - General Rate Case
23 Workpapers." Therefore, the labor costs related to NTP&S activities are included

¹⁹ Response to Data Request JM2-005 Q1

²⁰ Response to Data Request JM2-009 Q1

²¹ Response to Data Request JM2-006 Q2

²² This refers to the City of Cupertino Water System Lease, one of SJWC's non-tariffed activities

1 in the forecast used to derive the 2012 and Test Year 2013 payroll expense. SJWC
2 provided the following justification for doing the foregoing: “As provided by
3 Affiliate Transaction Rule X.B.3a) a utility may offer on a non-tariffed basis
4 services that utilize a portion of the excess or unused capacity of a utility or
5 resource.”²³ However, Rule X.D (Cost Allocation) of the same affiliate
6 transaction rule provides that “All costs, direct and indirect, including all taxes,
7 incurred due to NTP&S projects shall not be recovered through tariffed rates.
8 These costs shall be tracked in separate accounts and any costs to be allocated
9 between tariffed utility services and NTP&S shall be documented and justified in
10 each utility’s rate case. More specifically, all incremental investments, costs, and
11 taxes due to non-tariffed utility products and services shall be absorbed by the
12 utility shareholders, i.e., not recovered through tariffed rates.”²⁴ On the basis of
13 Rule X.D, DRA excluded all labor costs related to NTP&S activities that SJWC
14 included in 2011 Total Payroll. The total amount DRA excluded is \$285,967.²⁵

15 **(iv) DRA excluded the expenses related to vacant positions**

16 DRA requested SJWC to provide the recorded amounts included in the
17 2011 Total Payroll corresponding to vacant positions. SJWC provided the amount
18 of \$200,531.²⁶ For ratemaking purposes, DRA excluded this amount from the
19 2011 Total Payroll. DRA’s basis for doing this is D.08-01-043, Order Paragraph
20 No. 5 where the Commission ordered Golden State Water Company “In all future
21 rate cases, we direct Golden State to present its labor expense projections

²³ D.10-10-019 and D.11-10-034

²⁴ Ibid

²⁵ Response to Data Request JM2-002 Q1f Attachment B Cupertino.xls & Attachment D
2011.xls

²⁶ Response to Data Request JM2-009 Q1

1 consistent with our finding in D.05-07-044.²⁷ In that decision, we found that San
2 Gabriel’s proposed estimating method for labor expenses included expenses for
3 vacant positions. We decided there, absent a showing of extraordinary
4 circumstances, that to the extent there were vacancies in the recorded year, we
5 should assume there would also be comparable vacancy savings in the test and
6 escalation years.” SJWC did not provide justification of extraordinary
7 circumstances to add vacant positions in the 2011 recorded Total Payroll expense.

8 To derive the 2012 payroll estimate, the 2011 recorded general,
9 administrative and officer payrolls net of the four adjustments enumerated above
10 were all escalated by 2%.²⁸ DRA added overtime to the 2012 general payroll
11 using the five-year average of 2007 to 2011 recorded overtime expenses. This
12 overtime is equivalent to \$999,766 or 3.31% of total average recorded payroll for
13 2007 to 2011. As noted previously, SJWC uses the three-year average of 2009 to
14 2011 recorded amounts resulting to an overtime estimate of \$1,044,324²⁹ or an
15 increase of more than 4% from DRA’s figure. DRA’s use of the five-year average
16 normalizes the high and low numbers and “smoothes” the variability in overtime
17 expenses for the period 2007 to 2011.

18 By using a uniform 2% wage adjustment, DRA, in effect, is providing
19 revenue recovery for the same wage adjustment in 2012 for all SJWC employees.

20 **b) Payroll Expense for 2013**

21 To derive Test Year 2013 payroll estimate, SJWC escalates the 2012
22 General Payroll by 3%³⁰ and the 2012 Admin & Officer Payroll by 5%, then adds

²⁷ See also D.10-11-035 and D.08-06-022

²⁸ See Footnote 1

²⁹ Response to Data Request JM2-005 Q2

³⁰ See Footnote 1.

1 the salaries of 23 new employees (10 employees to General Payroll and 13
2 employees to Administrative and Officer Payroll).

3 DRA estimates Test Year 2013 payroll expense by escalating DRA’s
4 estimated 2012 general, administrative and officer payroll calculated above by
5 3%.³¹ DRA, in effect, is providing revenue recovery for the same wage adjustment
6 in 2013 for all SJWC employees. DRA then adds three new employees in Test
7 Year 2013. The addition of new employees for 2013 is discussed below.

8 DRA notes that payroll expenses for escalation years 2014 and 2015 will be
9 calculated based on the DRA memo when SJWC files its escalation advice letters.
10 However, for illustration purposes in this rate case, DRA estimates payroll
11 expenses for 2014 and 2015.

12 **c) Payroll Expense for Escalation Year 2014**

13 SJWC estimates 2014 payroll expense by escalating SJWC’s estimated
14 2013 General Payroll by 3% (the Union Contract wage increase) and SJWC’s
15 estimated Administrative and Officer Payroll by 1.8%, the labor index for 2014³².
16 Upon inquiry why 3% was used to derive the 2014 General Payroll, SJWC
17 conceded that “Payroll in 2014 and 2015 should be escalated by the 2014 and
18 2015 payroll factors respectively.”³³

19 DRA estimates the payroll expense for the 2014 escalation year by
20 escalating DRA’s estimated 2013 general, administrative and officer payroll by
21 the labor escalation factor of 1.8%.

³¹ Ibid

³² Estimates of Non-Labor and Wage Escalation Rates for 2011 through 2015 and Compensation per Hour published by DRA Energy Cost of Service (“ECOS”) and Water Branches dated September, 2011 (from IHS Global Insight).

³³ Response to Data Request JM2-005 Q3

1 **d) Payroll Expense for Escalation Year 2015**

2 SJWC estimates 2015 payroll expense by escalating SJWC’s estimated
3 2014 General Payroll by 3% (the Union Contract wage increase) and SJWC’s
4 estimated Administrative and Officer Payroll by 2.0%, the labor index for 2015.³⁴
5 Upon inquiry why 3% was used to derive the 2014 and 2015 General Payroll,
6 SJWC conceded that “Payroll in 2014 and 2015 should be escalated by the 2014
7 and 2015 payroll factors respectively.”³⁵

8 DRA estimates the payroll expense for the 2015 escalation year by
9 escalating DRA’s estimated 2014 general, administrative and officer payroll by
10 the labor escalation factor of 2%.

11 **2) New Positions**

12 SJWC requests the addition of 23 new positions in 2013. SJWC likewise
13 requests that the four positions added on top of the nine authorized in the last GRC
14 be included in rates. SJWC, therefore, requests the addition of a total of 27
15 positions.

16 DRA evaluated this request and recommends that SJWC be allowed three
17 new positions through 2015. The three positions were derived by applying
18 SJWC’s customer growth rate of 0.3%³⁶ annually to the existing authorized
19 position of 351 employees as of 2011.³⁷ In the last GRC (A.09-01-009), DRA

³⁴ See Footnote 17.

³⁵ Response to Data Request JM2-005 Q3

³⁶ SJWC workpapers from the 45-day update: CH-08.xls

³⁷ In the last GRC, DRA computed its recommended additional nine employees by applying SJWC’s long term customer growth rate of 0.5% annually to the number of employees that SJWC showed as having been employed from 2006 to 2008 (see DRA Report on the Results of Operations, page 4-4). In D.09-11-032; Appendix B (Settlement Agreement between DRA and SJWC, page 3 to 4), no issue was raised regarding DRA’s methodology of arriving at number of additional personnel using customer growth factor.

1 computed its recommended additional nine employees by applying SJWC’s long
2 term customer growth rate of 0.5% annually to the number of employees that
3 SJWC showed as having been employed from 2006 to 2008 (see DRA Report on
4 the Results of Operations dated May 2009, page 4-4). In D.09-11-032; Appendix
5 B (Settlement Agreement between DRA and SJWC, page 3 to 4), DRA and SJWC
6 settled on the payroll number. Also given that DRA recommends annual capital
7 budget amounts that are comparable to that of recent years, SJWC does not need
8 additional personnel beyond the three recommended here.

9 DRA computed the average salaries of the 23 employees proposed by
10 SJWC in 2013 and multiplied the result with three to derive the estimate of payroll
11 expense related to new positions for Test Year 2013. DRA proposed that the three
12 additional employees all be hired in 2013 as opposed to the 23 proposed by SJWC.

13 Although DRA makes no recommendation on the particular positions
14 which SJWC might use to fill the three employee additions that DRA has included
15 in revenue requirements, based upon SJWC’s assertions of “excess capacity” to
16 justify non-tariffed products and services³⁸, the hiring of any of the following
17 positions would further bring into question claims of “excess capacity” in future
18 general rate cases:

19 **a. Two Distribution Systems Workers.**

20 In response to Data Request JM2-006 Q7, SJWC provided the names,
21 position titles and departments of personnel who in 2011 provided labor for
22 SJWC’s non-tariffed activities, particularly pursuant to SJWC’s contracts with the
23 City of San Jose and the City of Cupertino. At least three of these personnel were

³⁸ See DRA Chapter Twelve: Non-Tariffed Products & Services

1 Distribution Systems Workers.³⁹ With self-reported excess capacity in regards to
2 Distribution Systems Workers, SJWC’s request for additional Distribution System
3 Workers to be included in general tariffed rates is highly suspect.

4 **b. Two Cross Connection Inspectors**

5 Cross Connection Inspectors were utilized in 2011 related to SJWC’s non-
6 tariffed businesses.⁴⁰ With self-reported excess capacity in regards to Cross
7 Connection Inspectors, SJWC’s request for additional Cross Connection
8 Inspectors to be included in general tariffed rates is highly suspect.

9 **c. One Cross Connection Supervisor**

10 SJWC was able to devote at least six of its Cross Connection Inspectors for
11 its non-tariffed business in 2011⁴¹. Rather than requesting the addition of one
12 more Cross Connection Supervisor position, SJWC can just convert some of its
13 excess capacity Cross Connection Inspector positions to one Cross Connection
14 Supervisor position.

15 **D. CONCLUSION**

16 DRA recommends that the Commission adopt DRA’s payroll expense
17 estimate for SJWC.

³⁹ Response to Data Request JM2-006 Q7 Attachment A

⁴⁰ Response to Data Request JM2-006 Q7

⁴¹ Response to Data Request JM2-006 Q7 Attachment A

CHAPTER 4: PENSION AND BENEFITS

1 **A. INTRODUCTION**

2 This chapter presents DRA’s analysis and recommendation on Pensions
3 and Benefits (“P&B”) for the San Jose Water Company (“SJWC”).

4 DRA analyzed SJWC’s testimony, supporting workpapers, reports,
5 responses to both the Minimum Data Requirements and Supplemental Data
6 Requests, other information provided in meetings and methods of estimating P&B
7 expenses.

8 **B. SUMMARY OF RECOMMENDATIONS**

9 DRA’s estimate for total P&B expenses is \$15,149,600. SJWC’s estimate
10 is \$18,970,000 which exceeds DRA’s estimate by \$3,820,400. This
11 recommendation is reflected in the estimates provided in DRA Chapter Five:
12 Operating Expenses.

13 **C. DISCUSSION**

14 **1) Forecasting Methodology**

15 SJWC generally used the annualized expenses for the last recorded year of
16 2011 as the starting point to estimate Test Year 2013 forecasts and noted any
17 deviations from this method. Specifically, for Retirement Plans, SJWC uses
18 \$8,000,000, the amount forecasted for Retirement Plans in 2012 to estimate the
19 Test Year 2013 expense.⁴² SJWC then adjusted its projections for inflation and
20 customer growth. However, for 2012 and 2013 P&B forecasts, except Post-
21 retirement Benefits Other than Pensions (“PBOP”), SJWC applied the 2014
22 escalation factors. SJWC conceded that the “2012 and 2013 escalation factors

⁴² Response to Data Request JM2-004 Q8. The \$8,000,000 is not based on any Actuarial Report, as SJWC acknowledged there was a mistake in Footnote (1) of Workpaper 9-7 which stated that the Retirement Plan for 2012 was estimated by Actuarial Report according to FAS 87.

1 should be used for 2012 and 2013 forecasts respectively.”⁴³ For PBOP estimates,
2 SJWC applied the 2015 escalation factor for all years from 2012 to 2015.

3 DRA generally uses the actual recorded data from the 45-day update for
4 2011 as the basis to estimate P&B expenses for Test Year 2013 and notes any
5 deviations from this method. DRA applied inflation factors only to 2011 recorded
6 data to derive Test Year 2013 P&B accounts because this cost category is not
7 driven by customer growth and included both inflation factor and customer growth
8 to arrive at the escalation years 2014 and 2015 P&B estimates. DRA’s P&B
9 estimates for Retirement Savings Plan and Other Employee Benefits are tied to
10 Payroll estimates and would thus move in direct proportion to the Payroll
11 amounts. DRA’s P&B estimates for Retirement Plans and Post-retirement
12 Benefits Other than Pensions (“PBOP”) are based on the five-year average of 2008
13 to 2011 recorded data and actuarial estimates for 2012.

14 Both SJWC and DRA use the Estimates of Non-Labor and Wage
15 Escalation Rates for 2011 through 2015 and Compensation per Hour published by
16 DRA Energy Cost of Service (“ECOS”) and Water Branches dated September,
17 2011 (from IHS Global Insight). However, for the Comparison Exhibits, the latest
18 available estimates of Non- Labor and Wage Escalation Rates and Compensation
19 per Hour shall be used.

20 **2) Retirement Plans**

21 Retirement Plan expense refers to expense for the qualified plan that covers
22 all employees.⁴⁴ It consists of a Defined Benefit Pension Plan (“DBPP”) and a
23 Supplemental Executive Retirement Plan (“SERP”).⁴⁵ DRA estimates Test Year

⁴³ Response to Data Requests JM2-003 Q2

⁴⁴ Response to Data Request JM2-003 Q1

⁴⁵ Response to Data Request JM2-008 Q2

1 2013 Retirement Plan expense of \$7,384,000. SJWC's estimate is \$8,862,000
2 which exceeds DRA's estimate by \$1,478,000.

3 SJWC based its Test Year 2013 estimate on preliminary actuarial estimates
4 based upon conversations with its actuary, consideration of historical Pension Plan
5 expenses, and the downward trending of the discount rate, as well as review of the
6 asset portfolio market performance.⁴⁶ SJWC's starting estimate for 2012 was
7 \$8,000,000, which was in nominal 2011 dollars escalated to 2012.⁴⁷ SJWC then
8 incorrectly applied the 2014 inflation factor and 2012 customer growth to bring
9 the 2011 expense level to 2012. SJWC then incorrectly applied the 2014 inflation
10 factor and 2013 customer growth to bring the 2012 expense level to the estimated
11 Test Year 2013 expense forecast. For the escalation years 2014 and 2015, SJWC
12 applied customer growth and the appropriate inflation factors to arrive at the
13 escalation years' estimates of expenses for Retirement Plan.

14 When asked to show derivation of the \$8,000,000 starting amount, SJWC
15 provided the most recent actuarial report which showed a combined amount for
16 DBPP and SERP of \$9,466,297,⁴⁸ an increase of 18% from the original basis of
17 \$8,000,000. SJWC did not explain the basis of the \$8,000,000.⁴⁹

18 DRA uses the five-year average of 2008 to 2011 recorded data and actuarial
19 estimates for 2012.⁵⁰ DRA applied the 2013 inflation factor to the five-year
20 average to derive the Test Year 2013 expense forecast. For the escalation years
21 2014 and 2015, DRA uses both inflation factors and customer growth to arrive at

⁴⁶ Response to Data Request JM2-008 Q2

⁴⁷ Response to Data Request JM2-004 Q8

⁴⁸ Response to Data Request JM2-008 Q2: \$8,080,647 for DBPP and \$1,385,650 for SERP

⁴⁹ Response to Data Request JM2-008 Q2

⁵⁰ D.09-11-032; Appendix B (Settlement Agreement between DRA and SJWC), page 4 and DRA Report on the Results of Operations, page 4-7

1 the escalation years' estimates of expenses for Retirement Plans. The five-year
2 average used by DRA normalizes the high and low amounts for pension expense,
3 and smoothes out the fluctuations for this expense item.

4 DRA's basis for using the five-year average is as follows:

5 (1) SJWC's 2011 10-K acknowledges that forecasts of pension
6 expense beyond 2012 (and therefore TY 2013) cannot be
7 actuarially determined. More specifically: "San Jose Water
8 Company sponsors a noncontributory defined benefit pension
9 plan and provides health care and life insurance benefits for
10 retired employees. In 2011, San Jose Water Company
11 contributed \$7,469 and \$567 to the pension plan and other post
12 retirement benefit plan, respectively. In 2012, San Jose Water
13 expects to make required and discretionary cash contributions of
14 up to \$10,300 to the pension plan and other post retirement
15 benefit plan. **The amount of required contributions for years**
16 **thereafter is not actuarially determinable**" (emphasis
17 added).⁵¹

18 (2) Closure of the defined benefits program to new employees helps
19 mitigate the growth of future obligations.

20 (3) The past three years of unusually high pension expenses are the
21 temporary result of the 2008 financial downturn, part of normal
22 business risk, and unlikely to continue as seen in the rebound of
23 financial markets to pre-2008 levels.

⁵¹ SJW Corp Form 10-K, page 31, 2nd to the last paragraph

1 (4) Variations in the past five years of recorded pension expense
2 signal that an averaging of expense for the current GRC would be
3 the most appropriate method to protect both utility and
4 ratepayers.

5 **3) Retirement Savings Plan**

6 Retirement Savings Plan is the employer matching contributions to the
7 401K plan.⁵² DRA estimates a Test Year 2013 Retirement Savings Plan expense
8 of \$1,030,300. SJWC's estimate of \$1,231,900 exceeds DRA's estimate by
9 \$201,600.

10 SJWC bases its estimate on an annualized forecast of the 2011 expense
11 level. SJWC incorrectly applied the 2014 inflation factor and 2012 customer
12 growth to bring the 2011 expense level to 2012. SJWC then incorrectly applied the
13 2014 inflation factor and 2013 customer growth to bring the 2012 expense level to
14 the estimated Test Year 2013 expense forecast. For the escalation years 2014 and
15 2015, SJWC applied customer growth and the appropriate inflation factors to
16 arrive at the escalation years' estimates of expenses for Retirement Savings Plan.

17 Since the Retirement Savings Plan expense is impacted by payroll expense,
18 DRA computed the average ratio of recorded Retirement Saving Plan expense to
19 recorded Total Payroll expense for the five-year period 2007 to 2011. DRA then
20 applied the computed average of 3.1636% to its estimate of Total Payroll to derive
21 its estimate of \$1,030,300 for Retirement Savings Plan expense for Test Year
22 2013. The same 3.1636% was applied to projected payroll expenses for escalation
23 years 2014 and 2015 to arrive at the Retirement Savings Plan expenses for these
24 years.

⁵² Response to Data Requests JM2-003 Q1

1 **4) Employee Stock Purchase Plan**

2 Employee Stock Purchase Plan is the expense for the employee stock
3 purchase program.⁵³ DRA estimates Test Year 2013 Employee Stock Purchase
4 Plan expense of \$122,800. SJWC's estimate is \$125,800 which exceeds DRA's
5 estimate by \$3,000. The difference is due to DRA's use of SJWC's updated
6 recorded data for 2011 and DRA's use of the correct inflation factors.

7 **5) Unfunded Pensions Expense**

8 Unfunded Pensions expense is based on the net-present-value ("NPV")
9 calculation of 2004 directors' pension liability and projected pension payments to
10 other ex-employees.⁵⁴ In response to Data Request JM2-007 Q4, SJWC
11 expounded on Pensions, Unfunded as "the expense associated with SJWC
12 Director's Non-Qualified Pension Plan. The plan provides for up to ten years from
13 the date of separation or until death, whichever comes first. The payment is based
14 on years of service. The pension is paid monthly (1/12 of retainer). Interest rate
15 assumption is same as for regular pension plan and the maximum pension years
16 can be earned is 10 years."

17 DRA estimates Test Year 2013 Pensions, Unfunded of \$56,000. SJWC's
18 estimate is \$66,800 which exceeds DRA's estimate by \$10,800. The difference is
19 due to DRA's use of SJWC's updated recorded data for 2011 and DRA's use of
20 the correct inflation factors.

⁵³ Response to Data Requests JM2-003 Q1

⁵⁴ See note 4 of WP 9-7.

1 **6) Post-retirement Benefits Other than Pensions (“PBOP”)**

2 PBOP represents expenses for monthly medical subsidy and life insurance
3 for retirees.⁵⁵ PBOP are the same for all employees, that is all employees who
4 retire at termination are entitled to a flat \$5,000 life insurance policy and monthly
5 medical subsidy of: a) Age 55 – Retiree \$150; Spouse \$100; b) Age 60 – Retiree
6 \$200; Spouse \$200; c) Age 65 – Retiree \$250; Spouse \$250.⁵⁶ DRA estimates
7 Test Year 2013 PBOP of \$886,900. SJWC’s estimate is \$1,016,600 which
8 exceeds DRA’s estimate by \$129,700.

9 SJWC did not base its PBOP Test Year 2013 estimate on any actuarial
10 report because the report was not prepared until January, 2012.⁵⁷ SJWC bases its
11 estimate on an annualized forecast of the 2011 expense level. SJWC then
12 incorrectly applied the 2015 inflation factor and 2012 customer growth to bring
13 the 2011 expense level to 2012. SJWC then incorrectly applied the 2015 inflation
14 factor and 2013 customer growth to bring the 2012 expense level to the estimated
15 Test Year 2013 expense forecast. For the escalation years 2014 and 2015, SJWC
16 applied the 2015 inflation factors and 2015 customer growth to both years to
17 arrive at the escalation years’ estimates of expenses for PBOP.

18 SJWC provided the 2012 actuarial report which showed PBOP at
19 \$1,032,854 for 2012, a 7% increase from the 2011 actuarial report of \$961,223.⁵⁸

20 For reasons similar to DRA’s calculation of forecasted retirement plan
21 expense, DRA uses the five-year average of 2008 to 2011 recorded data and
22 actuarial estimates for 2012. DRA applied the 2013 inflation factor to the five-

⁵⁵ Response to Data Requests JM2-003 Q1

⁵⁶ Response to Data Requests JM2-003 Q5

⁵⁷ Response to Data Requests JM2-003 Q5b

⁵⁸ Response to Data Requests JM2-007 Q3

1 year average to derive the Test Year 2013 expense forecast. For the escalation
2 years 2014 and 2015, DRA uses both inflation factors and customer growth to
3 arrive at the escalation years' estimates of expenses for PBOP.

4 **7) Life Insurance**

5 DRA estimates Test Year 2013 Life Insurance of \$178,000. SJWC's
6 estimate is \$231,600 which exceeds DRA's estimate by \$53,600. The difference
7 is due to DRA's use of more updated data for 2011 and DRA's use of the correct
8 inflation factors.

9 **8) Medical Insurance, Kaiser**

10 DRA estimates Test Year 2013 Medical Insurance, Kaiser of \$4,429,900.
11 SJWC's estimate is \$6,127,300 which exceeds DRA's estimate by \$1,697,400.

12 SJWC bases its estimate on an annualized forecast of the 2011 expense
13 level. SJWC then incorrectly applied the 2014 inflation factor and an additional
14 factor of 9% to bring the 2011 expense level to 2012. There is, however, some
15 inconsistency since in SJWC's Application on page 10 of Chapter 5, Exhibit E,
16 SJWC stated that the 9% was applied starting 2013, not 2012. SJWC then
17 incorrectly applied the 2014 inflation factor and the same additional 9% factor to
18 bring the 2012 expense level to the estimated Test Year 2013 expense forecast.
19 For the escalation years 2014 and 2015, SJWC applied the appropriate inflation
20 factors and the additional factor of 9% each year to arrive at the escalation years'
21 estimates of expenses for Medical Insurance, Kaiser. The 9% represents the
22 average percentage premium increase for the five-year period 2007 to 2011.

23 DRA uses the most updated data for 2011. DRA applied the 2012 inflation
24 factor⁵⁹ to bring the 2011 expense level to 2012. DRA then applied the factor of

⁵⁹ Estimates of Non-Labor and Wage Escalation Rates for 2011 through 2015 and Compensation
(continued on next page)

1 4.29% to the 2012 expense level to derive the Test Year 2013 expense forecast.
2 For the escalation years 2014 and 2015, DRA uses the 4.29% factor for both
3 escalation years to arrive at the escalation years' estimates of expenses for Medical
4 Insurance, Kaiser.

5 The 4.29% used by DRA for years 2013 to 2015 represents the most recent
6 premium increase for the period 2011/2012. For this period, Kaiser alone is the
7 sole healthcare provider for SJWC (see Chapter 5-Attachment 4). The 4.29%
8 represents projected premium rate increases for Kaiser only. It would, therefore,
9 be more representative of the trend for Kaiser than the five-year average of 9%
10 used by SJWC which is a composite of the premium rate increases for various past
11 SJWC health care providers which includes, in addition to Kaiser, Pacific Care
12 and United HealthCare. As further justification for the 4.29% projected premium
13 rate increase, the IHS Global Insight for March, 2012, projected an increase in
14 health insurance of 4.4% from 2012 to 2013. The IHS Global Insight is the source
15 of information for Estimates of Non-Labor and Wage Escalation Rates and
16 Compensation per Hour published by DRA's ECOS and Water Branches.

17 **9) Health Savings Account ("HSA") Medical & Group Opt**

18 SJWC makes an annual contribution to the participant's HSA account as
19 follows: \$450 single, \$500 two-party, and \$550 family. Participants also make
20 contributions towards the HSA account through payroll deductions. The
21 maximum (employee and employer combined) contribution to the account in 2009
22 is \$3,000 for single, or \$5,950 for family coverage. Participants age 55 and over

(continued from previous page)
per Hour published by DRA Energy Cost of Service ("ECOS") and Water Branches dated
September, 2011 (from IHS Global Insight).

1 may also elect to make maximum catch-up contributions of \$1,000 per individual.
2 The HSA account was terminated on 1/31/10.⁶⁰

3 Employees, who have dual medical coverage, may elect to opt-out of the
4 Company's group plans and receive a monthly compensation of \$200.
5 Employees, who have dual dental coverage, may elect to opt-out of the company's
6 group plan and receive a monthly compensation of \$25. The number of
7 employees in the Group Opt Out varies from month to month. Opt-out did not
8 begin until April, 2008.⁶¹

9 DRA estimates Test Year 2013 HSA Medical & Group Opt Out expense of
10 \$64,700. SJWC's estimate is \$75,100 which exceeds DRA's estimate by \$10,400.
11 The difference is due to DRA's use of more updated data for 2011 and DRA's use
12 of the correct inflation factors.

13 **10) Dental Insurance, Delta Dental**

14 DRA estimates Test Year 2013 Dental Insurance, Delta Dental of
15 \$593,400. SJWC's estimate is \$729,800 which exceeds DRA's estimate by
16 \$136,400.

17 SJWC bases its estimate on an annualized forecast of the 2011 expense
18 level. SJWC then incorrectly applied the 2014 inflation factor and 2012 customer
19 growth to bring the 2011 expense level to 2012. SJWC then incorrectly applied
20 the 2014 inflation factor and an additional factor of 4% to bring the 2012 expense
21 level to the estimated Test Year 2013 expense forecast. For the escalation years
22 2014 and 2015, SJWC applied inflation factors and the additional factor of 4%
23 each year to arrive at the escalation years' estimates of expenses for Dental

⁶⁰ Response to Data Request JM2-003 Q7a

⁶¹ Response to Data Request JM2-003 Q7d

1 Insurance, Delta Dental. The 4% represents the difference between the one-year
2 (rate guarantee at a 3.3% increase) and the two-year (rate guarantee at a 7.3% rate
3 increase) rate renewal options SJWC got from Delta Dental.⁶²

4 DRA uses the updated recorded data for 2011 provided by SJWC. DRA
5 applied the correct 2012 inflation factor to bring the 2011 expense level to 2012.
6 DRA then applied the factor of 2.71% to the 2012 expense level to derive the Test
7 Year 2013 expense forecast. The 2.71% used by DRA for years 2013 to 2015
8 represents the average percentage of premium increases for the five-year period
9 2007 to 2011. The five-year average is more representative of the trend for
10 expenses for Dental Insurance, Delta Dental since it normalizes the high and low
11 amounts for this expense item. DRA included in the Test Year 2013 estimate the
12 additional dental insurance relating to DRA's recommended addition of three new
13 employees in 2013. For the escalation years 2014 and 2015, DRA uses the 2.71%
14 factor for both escalation years to arrive at the escalation years' estimates of
15 expenses for Dental Insurance, Delta Dental.

16

17 **11) Other Employee Benefits**

18 Other Employee Benefits represents payments for tuition reimbursement
19 programs, commuter assistance reimbursements, service awards.⁶³ DRA estimates
20 Test Year 2013 Other employee Benefits of \$234,500. SJWC's estimate is
21 \$299,800 which exceeds DRA's estimate by \$65,300.

22 SJWC bases its estimate on an annualized forecast of the 2011 expense
23 level. SJWC then incorrectly applied the 2014 inflation factor and 2012 customer

⁶² SJWC Application, Exhibit E, Chapter 5, Section C (Employee Benefits), page 5-10

⁶³ Response to Data Requests JM2-003 Q1

1 growth to bring the 2011 expense level to 2012. SJWC then incorrectly applied the
2 2014 inflation factor and 2013 customer growth to bring the 2012 expense level to
3 the estimated Test Year 2013 expense forecast. For the escalation years 2014 and
4 2015, SJWC applied customer growth and the appropriate inflation factors to
5 arrive at the escalation years' estimates of expenses for Other Employee Benefits.

6 DRA maintains that Other Employee Benefits is proportional to the payroll
7 expense. DRA computed the average percentage of recorded Other Employee
8 Benefits to recorded Total Payroll expense for the five-year period 2007 to 2011.
9 DRA then applied the computed average of 0.7199% to its estimate of Total
10 Payroll to derive its estimate of \$234,500 for Other Employee Benefits expense
11 for Test Year 2013. The same 0.7199% was applied to projected payroll expenses
12 for escalation years 2014 and 2015 to arrive at the Other Employee Benefits
13 expenses for these years.

14 **12) Long Term Disability Insurance**

15 DRA estimates Test Year 2013 Long Term Disability Insurance of
16 \$169,000. SJWC's estimate is \$203,400 which exceeds DRA's estimate by
17 \$34,400. The difference is due to DRA's use of updated recorded data for 2011
18 and DRA's use of the correct inflation factors.

19 **D. CONCLUSION**

20 DRA recommends that the Commission adopt DRA's P&B expense
21 estimates for SJWC.

CHAPTER 5: OPERATING EXPENSES

1 A. INTRODUCTION

2 This chapter discusses the Operation and Maintenance (“O&M”) and
3 Administrative and General (“A&G”) expenses for SJWC’s Test Year 2013
4 General Rate Case (“GRC”).

5 B. SUMMARY OF RECOMMENDATIONS

6 In its GRC Application (“Application”), SJWC requested a total of
7 \$125,641,000 for O&M expenses and \$28,801,000 for A&G expenses for the Test
8 Year 2013. On February 24, 2012, SJWC filed its 45-day update (“Update”) to
9 include full-year 2011 recorded data and to correct various calculation errors in its
10 workpapers (Excel spreadsheets). SJWC’s GRC requests, updated/corrected
11 estimates, and DRA’s recommendations for total O&M and A&G expenses are as
12 shown in Table 5-A below.

**Table 5-A Comparison of SJWC’s and DRA’s Estimates for
O&M and A&G Expenses for Test Year 2013**

EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
O&M	\$115,469,000	\$125,641,000	\$125,604,000	\$10,172,000	8.8%
A&G	\$22,385,000	\$28,801,000	\$27,893,800	\$6,416,000	28.7%
TOTAL (rounded):	\$137,854,000	\$154,442,000	\$153,498,000	\$16,588,000	12.0%

13 The main drivers in the difference between SJWC’s and DRA’s O&M and
14 A&G expense forecasts are:

- 15 ○ DRA’s lower expense estimates for Labor and Payroll (DRA Chapter
16 Three), Pension and Benefits (DRA Chapter Four) and adjustments to
17 Non-Tariffed Products and Services (DRA Chapter Twelve).
- 18 ○ DRA’s lower estimates for Conservation expenses, as presented in
19 Chapter Eleven of this report.

- 1 ○ Adjustments to expense forecasts in the following areas: Transportation
- 2 Fuel and Depreciation; Purchased Materials & Supplies (“M&S”);
- 3 Water Quality; Chemical; Property Insurance; Workers’ Compensation
- 4 Insurance; Public Liability Insurance; Regulatory Commission; A&G
- 5 Outside Services; Dues & Membership; Rents; and A&G Transferred
- 6 Expenses.

7 **C. DISCUSSION**

8 **1) 2011 Recorded Data for Forecasting Purposes**

9 SJWC prepared its Application’s estimates using recorded *annualized* 2011

10 totals, calculated using January to August 2011 data. In its Update, SJWC

11 provided recorded *full-year* 2011 data for O&M and A&G. DRA’s O&M and

12 A&G expense forecasts as presented in this chapter are based on the Update’s

13 2011 recorded numbers.

14 **2) Escalation Factors**

15 SJWC uses the factors taken from DRA’s September 30, 2011 memos on

16 escalation rates.⁶⁴ DRA uses the escalation factors from the same memos to make

17 it simpler to evaluate substantive differences in SJWC’s and DRA’s estimates.

18 DRA recommends that the Test Year’s and Escalation Years’ estimates be updated

19 with the latest escalation factors when the comparative exhibit for the final

20 decision is prepared.

21 **3) Estimating Methodologies**

22 SJWC presents its estimated O&M and A&G expenses in Table 8-B,

23 Operating and Maintenance Expenses and Table 9-B, Administrative and General

⁶⁴ SJWC’s factors are presented in its Exhibit F – GRC Workpapers, WP 8-3; the footnote in WP 8-3 incorrectly describes the factors as from “*DRI/McGraw-Hill July 2011 as provided by the CPUC.*” The factors published in DRA’s memos are in fact based on September 2011 IHS
(continued on next page)

1 Expenses and Miscellaneous Expenses, respectively, in its Exhibit E – Report on
2 the Results of Operations (“Exhibit E”). The calculations for those estimates are
3 contained in Chapter 8 and Chapter 9 of SJWC’s Exhibit F – GRC Workpapers
4 (“Exhibit F”), which was updated on February 24, 2012.

5 To estimate its O&M and A&G expenses for the forecast years 2012
6 through 2015, SJWC applied a variety of estimating approaches including, but not
7 limited to, five-year average or recorded 2011 amount plus the appropriate
8 escalation factor. For some expense accounts, SJWC further adjusted those
9 baseline estimates with additional costs to reflect its expected or requested
10 changes in expenses.

11 SJWC also applied a customer growth factor⁶⁵ to many estimates for
12 Transition Year 2012, Test Year 2013 and Escalation Years 2014 and 2015. DRA
13 generally accepts SJWC’s application of customer growth factors to expense
14 estimates for the Escalation Years; that practice is in accordance with the Rate
15 Case Plan D.07-05-062. However, DRA removes all customer growth factors in
16 2012 and 2013 estimates because D.07-05-062 does not specifically allow for such
17 application, contrary to SJWC’s assertion.⁶⁶

18 DRA reviewed SJWC’s recorded data, estimating methodologies and
19 requests for additional expense dollars. Where appropriate, DRA changed the
20 estimating methodology to reflect recorded trends and/or expected operating
21 needs, adjusted for identified errors and for forecasting purposes removed
22 expenses that do not appear to be normal and recurring.

(continued from previous page)
Global Insight U.S. Economic Outlook.

⁶⁵ SJWC’s estimated annual customer growth factor from the Update is 1.003, a five-year average of recorded customer growth rates.

⁶⁶ SJWC’s response to DRA’s Data Request PPM-001.

1 The following Sections D through F present DRA’s O&M and A&G
 2 expense forecasts that are either company-wide and subject to allocation to various
 3 PUC expense accounts, or require extensive discussion due to their nature or
 4 magnitude. Sections G and H present cost estimates and allocations by PUC
 5 expense accounts. The totals for these accounts are presented in Table 5-1 (O&M)
 6 and Table 5-2 (A&G) at the end of this chapter.

7 **D. TRANSPORTATION EXPENSE**

8 SJWC’s Transportation expense forecast consists of six different
 9 components: Labor, Payroll Taxes, Insurance, Fuel, Depreciation and Other.
 10 SJWC provides its Transportation expense calculations in its Exhibit F, WP 8-20
 11 and WP 8-21. DRA makes adjustments to all components making up SJWC’s
 12 Transportation expense total. Below is a comparison of DRA’s and SJWC’s
 13 Transportation expense estimates for the Test Year 2013.

TRANSPORTATION EXPENSE	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Labor	\$352,000	\$400,500	\$392,200	\$48,500	13.8%
Payroll Taxes	\$197,000	\$210,000	\$219,500	\$13,000	6.6%
Insurance	\$102,000	\$103,500	\$108,400	\$1,500	1.5%
Fuel	\$563,000	\$878,100	\$847,600	\$315,100	56.0%
Depreciation	\$701,000	\$1,289,900	\$1,289,900	\$588,900	84.0%
Other	\$737,000	\$790,300	\$805,200	\$53,300	7.2%
TOTAL (rounded):	\$2,652,000	\$3,672,000	\$3,663,000	\$1,020,000	38.5%

14 **1) Transportation - Labor**

15 SJWC’s estimates for Transportation-Labor expense are based on the
 16 recorded 2011 amount increased by the same percentage increase estimated for
 17 total Labor expense (from 2011 to the forecast year). DRA applies the same
 18 methodology but its estimate differs from SJWC’s request due to DRA’s lower
 19 total Labor expense estimates and a correction of an error in SJWC’s spreadsheet
 20 formula. SJWC’s Application uses an incorrect gross-up ratio for the Test Year

1 and Escalation Years. DRA's correction of this error accounts for \$13,000 of
2 DRA's total adjustment to SJWC's Test Year 2013 Transportation-Labor estimate.

3 **2) Transportation - Payroll Taxes**

4 SJWC's estimated Transportation-Payroll Taxes is based on recorded 2011
5 amount increased by the same percentage increase estimated for the
6 Transportation - Labor expense. DRA's estimate for this component differs from
7 SJWC's request due to DRA's lower Transportation - Labor expense estimates.

8 Additionally, DRA's estimates reflect the correction of two errors in
9 SJWC's calculations. The first error was in the calculation of the percentage
10 increase in Labor expense to be applied to previous year's Payroll Taxes expense;
11 SJWC's Update corrected this error at DRA's request.⁶⁷ The second error was in
12 the incorrect use (incorrect cell reference in the formula) of Total Expense Payroll
13 in WP 10-7 of SJWC's Exhibit F – Workpapers. That incorrect reference results
14 in an improper allocation and double recovery of the Transportation - Payroll
15 Taxes (a reduction of approximately \$200,000 per year in Total Payroll Taxes).
16 At DRA's request, SJWC's Update corrected this error in its Payroll Tax
17 calculations.⁶⁸

18 **3) Transportation - Insurance**

19 SJWC's estimate for the Transportation - Insurance expense component is
20 based on recorded 2011 amount plus escalation. Because the recorded costs in this

⁶⁷ SJWC's response to DRA's Data Request PPM-003.2.a.

⁶⁸ SJWC's response to DRA's Data Request PPM-003.2.b.

1 Transportation - Insurance expense account fluctuated in recent years,⁶⁹ a one-
2 year data point does not provide a reasonable base for forecasting. Therefore,
3 DRA’s estimate is based on a two-year average plus escalation.

4 **4) Transportation - Fuel**

5 SJWC’s estimate for the Transportation - Fuel expense component is based
6 on recorded 2011 expense plus a 15% annual increase. This approach results in a
7 43% fuel cost increase from 2011 (\$640,900 recorded) to 2015 (\$918,400).
8 SJWC explained that the 15% annual increase is due price volatility⁷⁰ and applied
9 a “15% escalation factor for fuel expenses based on historical increases from
10 2006 to 2011 in fuel expenses.”⁷¹

11 In response to DRA’s inquiry, SJWC expanded its justification to include
12 “increased fuel usage.”⁷² The increased fuel usage, SJWC explained, is due to the
13 company “self-performing more heavy equipment work,” increase in number of
14 vehicles due to increases in staff, and new emergency generators.⁷³ This is a
15 general claim of need without any kind of data or details that DRA can review and
16 confirm. According to DRA’s plant analysts, there is no information in SJWC’s
17 GRC requests that supports SJWC’s assertion that it is or will be “self-performing
18 more heavy equipment work.” Regarding new vehicles, DRA notes that SJWC is
19 equipping its fleet with more fuel efficient vehicles such as the Toyota Prius. For

⁶⁹ Recorded Transportation-Insurance expense, in thousands of dollars:

2007	2008	2009	2010	2011
\$113.8	\$108.0	\$103.9	\$92.8	\$104.5

⁷⁰ SJWC’s Exhibit F, WP 8-21, Footnote 3.

⁷¹ SJWC’s Exhibit E, Chapter 8, page 3.

⁷² SJWC’s response to DRA’s Data Request PPM-001.10.

⁷³ Ibid.

1 example, according to DRA’s plant witness, four out of five the Prius vehicles
2 planned for purchase by SJWC in 2012 will replace non-hybrid vehicles, thus
3 contributing to fuel cost savings/containment. Furthermore, DRA is
4 recommending disallowance of all new vehicle purchases in connection with new
5 employee positions (see Chapter 7). With respect to the new emergency
6 generators, SJWC has not provided any data quantifying the expected fuel usage
7 needs in order for DRA to evaluate and estimate its impact on SJWC’s overall fuel
8 usage.

9 DRA’s forecast relies on available data which is the recorded annual fuel
10 costs. DRA notes that there exist significant fluctuations in annual fuel cost from
11 year to year, from -30% to +42%.⁷⁴ The recorded cost fluctuations support the
12 use of an average, and not SJWC’s approach, for forecasting purposes. Therefore,
13 DRA develops its fuel expense estimate by using a recorded five-year average plus
14 escalation.

15 **5) Transportation - Depreciation**

16 SJWC’s forecasted Transportation - Depreciation expense is derived from
17 forecasted Transportation plant investment (vehicles, etc). DRA verified that this
18 amount is not also included in the Depreciation expense total in Table 14-B of
19 SJWC’s Results of Operations (i.e., not double counted). SJWC’s estimates for
20 Transportation - Depreciation expense are dollar estimates taken directly from its
21 Depreciation Study completed in September 2011 (“Depreciation Study”).⁷⁵
22 Those estimates are in turn based on SJWC’s 2012-2015 Transportation plant
23 investment requested in SJWC’s Application.

⁷⁴ Ibid.

⁷⁵ SJWC’s response to DRA’s Data Request PPM-001.9.

1 DRA makes two separate adjustments to SJWC's Transportation -
 2 Depreciation expense estimates. The following table shows a comparison of
 3 DRA's and SJWC's estimates for Transportation - Depreciation expenses.

Transportation- Depreciation Expenses	DRA	SJWC	SJWC > DRA	
Test Year 2013	\$701,300	\$1,289,900	\$588,700	83.9%

5 **(a) Adjustment to Correct Errors in SJWC's Depreciation Study**

6 DRA discovered errors in SJWC's Depreciation Study. Specifically, the
 7 net salvage percentage used was 0.20% for 2012-2014 where it should be in the
 8 19%-20% range for this plant sub-accounts. In response to DRA's inquiry, SJWC
 9 confirmed that the net salvage percentage should be 19.20%, and not 0.20%.⁷⁶
 10 With this correction, SJWC's 2012 Transportation - Depreciation expense
 11 corresponding to SJWC's requested Transportation plant investment should be
 12 reduced to \$853,700⁷⁷ from \$1,325,709, a reduction of \$472,009. Because SJWC
 13 did not provide the corrected amounts for its 2013-2015 Transportation -
 14 Depreciation expense estimates, DRA reduces SJWC's estimates by the same ratio
 15 (\$853,700/\$1,325,709). The resulting revised estimates, to reflect the corrected
 16 net salvage percentage correction, are as follows:

Transportation- Depreciation Expenses	SJWC - Corrected	SJWC - Application	Adjustment Due to Correction Only
Test Year 2013	\$830,671	\$1,289,947	-\$459,276
Escalation Year 2014	\$873,975	\$1,357,194	-\$483,219
Escalation Year 2015	\$917,279	\$1,424,441	-\$507,162

17 The discovery of this error raises serious questions on the validity of the
 18 Depreciation Study as a whole. However, more troubling is the presentation of the
 19 data in the Depreciation Study which considerably limits the ability of DRA to

⁷⁶ SJWC's response to DRA's Data Request PPM-011.7.

⁷⁷ SJWC's response to DRA's Data Request PPM-011.6.

1 conduct a comprehensive analysis. All depreciation expense estimates are
2 hardcoded in SJWC's workpapers without links to the underlying assets for which
3 depreciation expense is calculated. Although SJWC's Application workpapers
4 indicated that the Depreciation Study was included as WP 12-7, DRA was first
5 provided with a (hard) copy of the Depreciation Study on February 29, 2012
6 during its tour of SJWC's facilities; this late submittal further hampered DRA's
7 ability to review and validate the study's results. DRA ultimately requested a
8 copy of the Depreciation Study in Excel format to better evaluate the inputs,
9 calculations and results and was informed by SJWC that the study is not available
10 in Excel format.⁷⁸ Without the ability for DRA to test and evaluate the model
11 assumptions and inputs in Excel, DRA could not fully assess the validity and
12 reasonableness of SJWC's study.

13 Given these concerns, DRA recommends that the Commission order SJWC
14 in its next GRC to submit input, calculations and results of its Depreciation Study
15 in an Excel spreadsheet format with linkages between depreciating assets and the
16 depreciation expense estimates, as well as the formulas behind all calculations.
17 Furthermore, such study (specifically the version of the study to be used in the
18 Application) needs to be completed and submitted as part of the Proposed
19 Application so that it can undergo the deficiency review process.

20 **(b) Adjustment to Reflect DRA's Plant Recommendations**

21 DRA further adjusted the corrected Transportation-Depreciation expense
22 amounts to reflect DRA's recommended adjustments to SJWC's requested
23 Transportation plant additions (see Chapter 8 of this report).⁷⁹

⁷⁸ SJWC's response to DRA's Data Request PPM-011.

⁷⁹ Because SJWC did not provide depreciation expense calculations such that depreciation expense is automatically calculated to correspond to plant adjustments, DRA makes the adjustment to Transportation-Depreciation expense amount by a ratio of DRA-adjusted

(continued on next page)

1 **6) Transportation - Other**

2 SJWC’s estimates for the Transportation - Other expense are based on
3 recorded 2011 amounts plus escalation. Costs booked in this account include
4 transportation costs related to Conventions, Meals & Entertainment, Travel,
5 Telephone, Contracted Work, Materials & Supplies, Tools, Licenses and Permits,
6 Office Supplies & Expenses, Outside Printing & Design, Maintenance
7 Agreements, Repairs & Maintenance and Rent.⁸⁰ DRA notes that the annual
8 totals for this expense fluctuate from year to year, which supports the use of an
9 averaging of recorded expenses for forecasting purposes. Therefore, DRA’s
10 Transportation - Other expense estimates are based on a recorded five-year
11 average plus escalation.

12 **E. PURCHASED M&S - O&M (excluding Water Treatment**
13 **and Water Quality)**

14 For Purchased M&S – O&M expenses (excluding Water Treatment &
15 Water Quality), SJWC uses a recorded five-year average plus escalation as
16 baseline estimates for 2012-2015. In its workpapers, SJWC increases the baseline
17 forecasts by \$363,300 in 2012, \$602,400 in 2013, \$602,400 in 2014 and \$602,400
18 in 2015.⁸¹

19 The annual, incremental (increase from previous year’s estimate) expenses
20 for the various requests are listed in Table 5-B below.⁸²

(continued from previous page)

Transportation Depreciable Plant to SJWC’s requested Transportation Depreciable Plant.

⁸⁰ SJWC’s response to DRA’s Data Request PPM-001.12.

⁸¹ The amounts in WP 8-18(a) are incremental changes to previous year’s estimates. The total increase to the baseline forecast, derived from the five-year average, for a given year are the cumulative sum of all incremental adjustments up to that year.

⁸² SJWC’s Exhibit F, WP 8-18(a).

Table 5-B
 SJWC’s Request for Additional Purchased M&S Expenses
 (in thousands)

<u>Expense Description</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Arc Flash Assessment & Hazard Awareness Training	\$240	0.0	0.0	0.0
Additional IT Education and Training	62.8	49.6	0.0	0.0
Additional IT-related contracted work (SCADA,billing CIS,AIS &GIS)	52.9	60.9	0.0	0.0
Additional IT-maintenance agreements (SCADA,billing, CIS, AIS & GIS)	7.6	128.6	0.0	0.0
Total Additional Costs per year	\$363.3	\$239.1	\$0.0	\$0.0
* Additional expenses included in 2012, 2013 and 2014 discussed in Exhibit E, Chapter 8				
Arc Flash project cost is reoccurring 2012-2014 and therefore has not been subtracted out in 2013 and 2014				
IT related expenses are considered reoccurring and are therefore not subtracted out in later years.				

1 Based on a review of the recorded totals in the most recent five years, DRA
 2 accepts the use of the five-year escalated average to forecast baseline expenses in
 3 this account.

4 DRA requested additional information on the projects that produce the
 5 incremental adjustments (increases) to the baseline forecasts.⁸³ First, in response
 6 to DRA’s inquiry, SJWC indicates that due to another available alternative⁸⁴ the
 7 company no longer needs the requested additional \$240,000 per year for 2012
 8 through 2014 associated with the Arc Flash Assessment project.

9 Next, DRA notes that the recorded amounts in this account fluctuate
 10 significantly which indicates changing operations needs and costs (i.e., old needs
 11 going away and new needs developing). While SJWC provided information to
 12 support the estimated incremental costs over 2010 level for these specific items,
 13 the company did not demonstrate, as requested in DRA’s Data Request PPM-004,
 14 that the costs of these items cannot be reasonably funded in the forecasted budgets
 15 which reflect fluctuations in annual expenses. Additionally, the “additional”
 16 amounts are actually SJWC’s estimated incremental costs over the 2010 base year;

⁸³ SJWC’s response to DRA’s Data Request PPM-004.

⁸⁴ Work can be done in-house by newly hired electrical engineer, according SJWC’s response to DRA’s Data Request PPM-004.

1 it is therefore problematic to apply these estimated increments over a specific year
 2 (2010) to an annual total that is based on five-year average. Therefore, DRA
 3 recommends no further adjustments to the baseline forecasts. The following table
 4 provides a comparison of DRA’s and SJWC’s Purchased Services – O&M
 5 excluding Water Treatment and Water Quality expense estimates for the Test Year
 6 2013.

PURCH. SERVICES O&M – excl. Water Treatment & Water Qual.	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Purchased Services, Operations	\$3,503,000	\$3,909,000	\$3,797,000	\$406,000	11.6%
Purchased Services, Maintenance	\$3,785,000	\$4,178,000	\$4,102,000	\$393,000	10.4%
TOTAL (rounded):	\$7,288,000	\$8,087,000	\$7,899,000	\$799,000	11.0%

7 **F. WATER QUALITY**

8 SJWC’s expense request for Water Quality (excluding Labor and
 9 Transportation) includes three components: (1) Purchased Services, Operations;
 10 (2) Purchased Services, Maintenance; and (3) Regulatory Fees. These estimates
 11 are presented in SJWC’s Exhibit F, WP 8-26 and WP 8-26(a). DRA makes
 12 several adjustments and corrections to SJWC’s requested amounts for the
 13 Purchased Services, Operations, and Regulatory Fees components. Below is a
 14 comparison of DRA’s and SJWC’s Water Quality expense estimates for the Test
 15 Year 2013.

WATER QUALITY EXPENSE	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Purchased Services, Operations	\$442,704	\$645,298	\$658,509	\$202,594	45.8%
Purchased Services, Maintenance	\$76,702	\$79,623	\$76,924	\$2,921	3.8%
WQ Regulatory Fees	\$150,179	\$373,262	\$373,324	\$223,083	148.5%
TOTAL (rounded):	\$670,000	\$1,098,000	\$1,109,000	\$429,000	64.0%

1 **1) Purchased Services – Operations (Water Quality)**

2 For this component, SJWC's estimates are based on a recorded five-year
3 average plus escalation plus specific increases for "additional" water quality
4 activities. For 2012, SJWC increases the baseline estimate by \$200,000 to fund
5 two separate activities: a one-time (one-year) \$100,000 cost related to the
6 Unregulated Contaminants Monitoring Rule 3 ("UCMR3"), and an annual (on-
7 going) \$100,000 cost associated with the revised National Pollutant Discharge
8 Elimination System ("NDPES") compliance for permit standards. For 2013,
9 SJWC increases the 2012 estimate by the escalation and customer growth
10 factors.⁸⁵ For 2014, SJWC increases the 2013 estimate by the escalation and
11 customer growth factors plus an annual (on-going) \$16,730 cost associated with
12 Synthetic Organic Contaminants ("SOC") monitoring.

13 DRA makes several adjustments to SJWC's Water Quality expense
14 requests: (a) DRA removes the customer growth escalation factor in the estimate
15 for 2013; (b) DRA corrects several errors in SJWC's recorded data; and (c) DRA

⁸⁵ For 2013, SJWC's estimate removes from the escalated base the \$100,000 associated with the one-time cost for UCMR3 monitoring. The \$100,000 associated with the NPDES permit remains in the estimate.

1 adjusts all estimates associated with the requested “additional” water quality
2 activities.

3 **(a) Application of Customer Growth Factor in Test Year**
4 **estimates**

5 SJWC did not explain why it is necessary to apply the customer growth
6 factor on top of its estimate for the test year. Contrary to SJWC’s claim, such
7 adjustment is not specifically allowed in the Commission’s Rate Case Plan D.07-
8 05-062.⁸⁶

9 **(b) Corrections of Recorded Expense Data**

10 In the process of verifying SJWC’s recorded expense data for this account,
11 DRA discovered several errors and inconsistencies. Based on information and
12 confirmation provided by SJWC, DRA corrected the recorded amounts for 2007
13 and 2008.⁸⁷ Because the estimates for this account are based on five-year average
14 of recorded expenses, the corrections reduce the estimates for 2012-2015.

15 **(c) Adjustments of “Additional” Water Quality Expenses in**
16 **Forecast Years**

17 SJWC requests an “additional” one-time cost of \$100,000 in 2012 related to
18 the Unregulated Contaminants Monitoring Rule 3 (“UCMR3”).⁸⁸ DRA agrees
19 with this request and also updates the request from \$100,000 to \$113,430 to reflect
20 SJWC’s latest estimate for this 2012 monitoring activity; this amount is
21 correspondingly adjusted out of the 2013 escalated estimate, consistent with

⁸⁶ In its response to DRA’s Data Request PPM-001, SJWC claims that D.07-05-062 allows for the inclusion of customer growth factor in the expense escalation calculations for the test year. It does not. That allowance specifically applies to escalation year filings.

⁸⁷ March 1, 2012, 3:53pm E-mail from SJWC’s Ann Lindahl to DRA’s Pat Ma. The corrected recorded amounts are \$362,043 (from \$373,975) for 2007 and \$516,676 (from \$541,817) for 2008 for Water Quality – Purchased Services, Operations.

⁸⁸ SJWC’s Exhibit E, Chapter 8, page 4.

1 SJWC’s approach.⁸⁹ DRA also makes related adjustments to SJWC’s 2008 and
2 2009 recorded expenses for forecasting purposes. DRA learned that SJWC has
3 incurred one-time monitoring expenses related the Unregulated Contaminants
4 Monitoring Rule 2 (“UCMR2”) requirements about four years ago. The
5 associated one-time expense of \$158,400 is therefore embedded in SJWC’s
6 recorded costs and should be removed when calculating the five-year average for
7 forecasting purposes.^{90 91} SJWC should identify recorded one-time expenses such
8 as the ones associated with UCMR2 and UCMR3 monitoring activities and
9 remove them for forecasting purposes in the next GRC.

10 SJWC requests an “additional” \$100,000/year cost associated with the
11 revised NDPEs compliance for permit standards. SJWC estimates that it would
12 incur an additional cost of \$100,000/year for “[o]n-going compliance with revised
13 NPDES permit standards... beginning in 2012.”⁹² Per DRA’s discussion with
14 SJWC and SJWC’s written data response,⁹³ DRA learned that this amount is the
15 estimated discharge fees associated with the discharge of Saratoga Water
16 Treatment Plant’s settling pond effluent (backwash) to the sewer system, and that
17 SJWC already has been incurring these “additional” fees in recent years. In fact,
18 SJWC’s estimated “additional” discharge fee amounts for 2012 through 2015 are
19 calculated by multiplying the 2011 discharge fee rate of \$2.09 by an average of
20 discharge volumes from 2009 and 2011.⁹⁴ If SJWC wishes to tack on the

⁸⁹ SJWC’s response to DRA’s Data Request PPM-009.1 provides the updated cost estimate based on prices by Alpha Analytical.

⁹⁰ SJWC’s response to DRA’s Data Request PPM-009.1.

⁹¹ Because SJWC only provided the total and not provide the exact year(s) when it incurred the UCMR2 costs, DRA removed half of \$158,400 from 2008 and half from 2009 (corrected) recorded amounts.

⁹² SJWC’s Exhibit E, Chapter 8, page 4.

⁹³ SJWC’s response to DRA’s Data Request PPM-009.2.

⁹⁴ Ibid.

1 estimated total discharge fees to its 2012-2015 baseline estimates, it must
2 correspondingly remove the discharge fees embedded in the five-year average.
3 DRA's estimates include that adjustment to the recorded data.⁹⁵ Moreover, DRA
4 estimates the additional fee for years 2012-2015 to be only \$48,846, and not
5 \$100,000. DRA arrives at this lower estimate by multiplying the 2011 discharge
6 fee rate by the Saratoga Treatment Plant's 2007-2011 average discharge volume,⁹⁶
7 instead of the 2009-2011 average used by SJWC. An average over a longer period
8 (five versus three years) is better at capturing the fluctuations in the plant's
9 operations (i.e., discharge quantities) due to surface water availability during each
10 year.

11 SJWC's requests an "additional" on-going \$16,730/year cost associated
12 with Synthetic Organic Contaminants ("SOC") monitoring starting in 2014.⁹⁷ .
13 DRA notes that SJWC's revised its \$16,730 estimate to \$15,790 upon DRA's
14 inquiry.⁹⁸ For the purposes of forecasting Test Year 2013 expenses, DRA learned
15 that SJWC has incurred \$97,750 in one-time monitoring expenses related the SOC
16 monitoring in 2008;⁹⁹ that amount is therefore embedded in SJWC's recorded
17 five-year average.¹⁰⁰ To be consistent, DRA removes the \$97,750 one-time SOC
18 monitoring cost from its calculation of recorded five-year average for forecasting
19 purposes.¹⁰¹

⁹⁵ Using recorded data from the "Back up WP 8 26.xls" file provided via E-mail by SJWC's Ann Lindahl to DRA's Pat Ma on March 1, 2012, 3:04pm.

⁹⁶ SJWC's response to DRA's Data Request PPM-009.2.

⁹⁷ SJWC's Exhibit E, Chapter 8, page 4.

⁹⁸ SJWC's response to DRA's Data Request PPM-009.3 provides the updated cost estimate based on prices by Alpha Analytical.

⁹⁹ SJWC's response to DRA's Data Request PPM-009.3.

¹⁰⁰ SJWC's response to DRA's Data Request PPM-009.1.

¹⁰¹ Because SJWC only provided the total and not provide the exact year(s) when it incurred the
(continued on next page)

1 **2) Purchased Services – Maintenance (Water Quality)**

2 Based on its review of recorded annual totals, DRA accepts SJWC’s
3 estimating methodology of using a recorded five-year average for this expense
4 account, except for the application of the customer growth factor in 2012 and 2013
5 for the same reason discussed earlier. DRA’s estimates are based on SJWC’s
6 2011 recorded data from the Update plus escalation.

7 **3) Regulatory Fees (Water Quality)**

8 In its estimates for this account, SJWC proposes to increase the escalated
9 five-year average by three “additional” expense items: (a) Water System Fee
10 increase; (b) shared cost to obtain a NPDES permit for potable water discharge;
11 and (c) cost to obtain a Watershed Maintenance Regional General Permit.

12 **(a) Water System Fee increase**

13 SJWC’s requests an additional \$32,000 per year for “[o]n-going increased
14 California Department of Public Health Water System Fees... beginning in
15 2012.”¹⁰² DRA requested and reviewed SJWC’s recorded Water System Fees
16 costs for the past five years. The data showed that the recorded costs fluctuated
17 from year to year, ranging from \$26,888 in 2007 to \$53,051 in 2008.¹⁰³ SJWC’s
18 five-year average estimate already reflects about \$40,750 for Water System fees.
19 Therefore, DRA zeros out the requested \$32,000 per year increase from the 2012-
20 2015 Water Quality-Regulatory Fee expense estimates.

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UCMR2 costs, DRA approximated the timing and removed half of \$158,400 from 2008 and half from 2009 (corrected) recorded amounts.

¹⁰² SJWC’s Exhibit E, Chapter 8, page 4.

¹⁰³ Based on recorded cost data provided in SJWC’s response to DRA’s Data Request PPM-009.4.

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(b) NPDES permit for potable water discharge

SJWC requests to increase its baseline estimate by an additional \$50,000 in 2012 and 2013 to fund its share of an estimated \$250,000 in “[o]ne-time cost for filing and obtaining a Watershed Maintenance Regional General Permit.”¹⁰⁴ In response to DRA’s inquiry, SJWC provided a draft agreement with updated cost sharing information and revised the estimate to \$27,995.¹⁰⁵ DRA accepts this lower estimate and increases the baseline five-year escalated average by \$27,995 per year for 2012 and 2013. The recorded costs of this one-time expense should be removed for forecasting purposes in the next GRC.

(c) Watershed Maintenance Regional General Permit

SJWC requests to increase its baseline estimate by an additional \$250,000 in 2013 to obtain the Watershed Maintenance Regional General Permit. In response to DRA’s inquiry, SJWC provided additional information on the cost estimates as well as its anticipated schedule. DRA does not oppose this request. However, because SJWC indicates that the contracted project is expected to take two years,¹⁰⁶ DRA recommends amortizing this \$250,000 one-time expense over the 2013-2015 period. Therefore, DRA adjusts SJWC’s estimate to include an increase of \$83,333 per year to the 2012, 2013 and 2014 baseline estimates. The recorded costs of this one-time expense should be removed for forecasting purposes in the next GRC.

¹⁰⁴ SJWC’s Exhibit E, Chapter 8, page 4.
¹⁰⁵ SJWC’s response to DRA’s Data Request PPM-009.5.
¹⁰⁶ SJWC’s response to DRA’s Data Request PPM-009.6.

1 **G. EXPENSE ESTIMATES BY PUC ACCOUNTS - O&M**

2 This section discusses specific estimates for the PUC accounts listed in
3 Table 5-1 for O&M expenses at the end of this chapter.

4 **1) Operating Expense – Purchased Water**

5 SJWC purchases its treated water supply from Santa Clara Valley Water
6 District (“SCVWD”). Purchased Water makes up over 50% of SJWC’s water
7 supply, with the rest of the supply coming from SJWC’s own groundwater and
8 treated surface water production. The currently effective rate for Purchased Water
9 is \$669 per acre-foot for “Contract Water” and \$569 per acre-foot for “Non-
10 Contract Water.”¹⁰⁷

11 SJWC estimates its annual Purchased Water expense by multiplying the
12 Contract Water rate of \$669 per acre-foot, or an equivalent \$2,053.16 per million
13 gallons, by its estimated annual Purchased Water quantities. DRA accepts the use
14 of the currently effective rate and applies it to DRA’s Purchased Water estimates
15 presented in Chapter 2 of this report. The following table provides a comparison
16 of DRA’s and SJWC’s Purchased Water expense estimates for the Test Year 2013.

OPERATING EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Purchased Water	\$45,137,000	\$45,137,000	\$45,137,000	\$0	0.0%

17 **2) Operating Expense – Other Source of Supply**

18 The Other Source of Supply expense total is made up of four cost
19 components: (a) Labor, (b) Transportation, (c) Purchased Services – M&S, and (d)

¹⁰⁷ SCVWD’s June 24, 2011 letter to SJWC re. Treated Water Charges, provided by the company in response to DRA’s Data Request PPM-001.8, states that “[n]on-contract water will be offered to all treated water contractors to the extent that it is available at the non-contract water charges.” The quoted rates are effective through June 30, 2012.

1 Other. Below is a comparison of DRA’s and SJWC’s Operating – Other Source of
 2 Supply expense estimates for the Test Year 2013.

OTHER SOURCE OF SUPPLY	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Labor	\$658,000	\$666,000	\$723,000	\$8,000	1.2%
Transportation	\$16,000	\$25,000	\$22,000	\$9,000	56.3%
Purch. Serv. – M&S	\$245,000	\$269,000	\$265,000	\$24,000	9.8%
Other	\$67,000	\$57,000	\$93,000	(\$10,000)	-14.9%
TOTAL (rounded):	\$986,000	\$1,017,000	\$1,103,000	\$31,000	3.1%

3 **(a) Labor**

4 SJWC estimates its total Labor (or Payroll) expenses on a company-wide
 5 basis. SJWC then allocates the total Labor cost to PUC expense accounts, such as
 6 “Other Source of Supply” or “Other Pumping,” based on recorded ratios.¹⁰⁸ DRA
 7 uses the same allocation methodology but corrects several errors in SJWC’s
 8 calculation of the “5-Year Avg. % of Payroll”¹⁰⁹ (in WP 8-12 of SJWC’s Exhibit
 9 F). This adjustment results in varying differences between SJWC’s and DRA’s
 10 labor estimates in all expense accounts.”

¹⁰⁸ Based on 2011 Labor costs recorded by PUC expense accounts.

1 Although DRA’s total Labor expense estimate is lower than SJWC’s
 2 request, that adjustment is partially offset by the higher percentage allocation to
 3 this account (from 3.31% to 3.59%) due to the above correction.

4 **(b) Transportation**

5 SJWC also estimates its Transportation expenses on a company-wide basis
 6 and then allocates the total to various accounts, such as “Other Source of Supply”
 7 or “Other Pumping,” based on recorded ratios. DRA accepts the allocation
 8 methodology. Because DRA’s total Transportation expense estimate is lower than
 9 SJWC’s request, as presented in Section D, the Transportation expense amount
 10 allocated to this account is also lower.

11 **(c) Purchased M&S - Operating**

12 SJWC also estimates its Purchased M&S expenses on a company-wide
 13 basis and then allocates the total to various accounts, such as “Other Source of
 14 Supply” or “Other Pumping,” based on recorded ratios. DRA accepts the
 15 allocation methodology. Because DRA’s total Purchased M&S expense estimate
 16 is lower than SJWC’s request, as explained in Section E in this chapter, the
 17 Purchased M&S expense amount allocated to this account is also lower.

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109 Comparison of payroll allocation percentages, calculated in WP 8-12 of Exhibit F - GRC Workpapers.

ALLOCATION OF TOTAL PAYROLL	SJWC’s UPDATE	DRA
Expensed-O&M	57.00%	56.27%
Expensed-A&G	20.00%	21.51%
Less A&G Payroll Transfer to Construction OH	-1.00%	-1.59%
Expensed Through Service Depts.	2.00%	2.10%
TOTAL PAYROLL EXPENSED	78.00%	78.29%
Cost Orders	0.10%	0.08%
Charged to Associated Co.	0.24%	0.24%
Capitalized- Transfer from A&G	1.49%	1.59%
Capitalized-Direct to CWIP	19.84%	19.60%
Capitalized-Service Depts.	0.20%	0.19%
TOTAL PAYROLL CAPITALIZED	21.53%	21.38%
TOTAL PAYROLL	99.87%	100.0%

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(d) Other

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For the Other component, SJWC estimates are based on recorded 2011 amount plus escalation and customer growth factors. DRA notes that annual recorded costs for this expense category fluctuate significantly from year to year, by as much as +/-100%. Therefore, DRA’s estimate is based on an escalated five-year average to better reflect the actual cost pattern. DRA also removes the customer growth factor in the 2012 and 2013 estimates.

8

3) Operating Expense – Purchased Power

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SJWC’s Purchased Power expense request is equal to estimated unit power cost, based on recorded data, times estimated annual energy consumption. SJWC divided 2010 total recorded PG&E power expenses by 2010 total annual energy consumption to arrive at its estimated unit power cost of \$0.14744/KWH. To estimate annual energy consumption, SJWC multiplies its forecast year’s estimated annual water supply requirement (in KCCF) by a ratio of recorded 2010 energy consumption to recorded 2010 water supply (0.6894 KWH/KCCF).¹¹⁰ DRA accepts this methodology generally, but applies it to DRA’s estimated annual water supply requirement presented in Chapter 2. Below is a comparison of DRA’s and SJWC’s Purchased Power expense estimates for the Test Year 2013.

19

OPERATING EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Purchased Power	\$5,865,000	\$5,745,000	\$5,754,000	(\$120,000)	-2.0%

¹¹⁰ Per SJWC’s response to DRA’s Data Request PPM-001.5, its Energy Cost Report for 2011 will not be available until late March or early April.

1 **4) Operating Expense – Pump Tax**

2 SJWC pays a Pump Tax or Groundwater Charge to SCVWD for its
3 groundwater production. The currently effective rate is \$569 per acre-foot.¹¹¹

4 SJWC estimates its annual Pump Tax expense by multiplying the
5 Groundwater Charge rate of \$569 per acre-foot, or an equivalent \$1,746.26 per
6 million gallons, by its estimated annual groundwater production quantity. DRA
7 accepts the use of the currently effective rate but applies it to DRA’s estimates for
8 annual groundwater production presented in Chapter 2 of this report. Below is a
9 comparison of DRA’s and SJWC’s Pump Tax expense estimates for the Test Year
10 2013.

OPERATING EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Pump Tax	\$34,358,000	\$33,050,000	\$33,174,000	(\$1,308,000)	-3.8%

11 It should be noted that there is pending litigation filed by Great Oaks Water
12 Company that may result in a pump tax refund from SCVWD to Great Oaks Water
13 Company.¹¹² SJWC informed DRA that SJWC is monitoring the Great Oaks
14 case, but is not currently pursuing similar litigation against SCVWD.¹¹³
15 According to SJWC, it has a tolling agreement with SCVWD such that the
16 company does not waive its rights to pursue refunds no matter how long the Great

¹¹¹ SCVWD’s June 24, 2011 letter to Owners or Operators of Groundwater-Producing Facilities in Groundwater Charge Zone W-2 (North Santa Clara County), provided by SJWC in response to DRA’s Data Request PPM-001.8, shows the groundwater charge rate of \$569 per acre-feet, effective through June 30, 2012.

¹¹² *Great Oaks Water Co. v. Santa Clara Valley Water District, Case No. 1-05-CV053142 (Amended)*. See also D.10-11-034, Great Oaks Water Company’s Test Year 2010 General Rate Case.

¹¹³ Per e-mail communications from Wes Owens of SJWC to Pat Ma of DRA on April 20, 2012, 3:25PM.

1 Oaks lawsuit goes on, and any potential refund received related to this issue would
 2 be booked to SJWC’s balancing account for pump tax.¹¹⁴

3 **5) Operating Expenses – Other Pumping**

4 The Other Pumping expense total is made up of four components:
 5 (a) Labor, (b) Transportation, (c) Purchased Services – M&S, and (d) Other.
 6 Below is a comparison of DRA’s and SJWC’s Operating – Other Pumping
 7 expense estimates for the Test Year 2013.

OTHER PUMPING EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Labor	\$1,605,000	\$1,642,000	\$1,765,000	\$37,000	2.3%
Transportation	\$589,000	\$816,000	\$808,000	\$227,000	38.5%
Purch. Serv. – M&S	\$563,000	\$606,000	\$611,000	\$43,000	7.6%
Other	\$0	\$24,000	\$0	\$24,000	N/A
TOTAL (rounded):	\$2,757,000	\$3,088,000	\$3,184,000	\$331,000	12.0%

8 The first three components are allocated portions of the total estimates for
 9 cost categories as discussed earlier in this chapter. For the Other expense
 10 category, SJWC’s forecasts are based on recorded 2011 amount plus escalation
 11 and customer growth factors. SJWC’s Update changes the 2011 total from
 12 \$24,000 to \$0. The impact of this change is carried forward to all forecast years
 13 and results in \$0 estimates for all years. DRA accepts the Update’s recorded
 14 amount for 2011 and the resulting forecasted amounts for 2012-2015.

15 **6) Chemical Expense**

16 SJWC estimates the 2012 Chemical expenses by increasing its recorded
 17 2011 expense by 20%.¹¹⁵ For 2013-2015, SJWC also applies a 20% annual

¹¹⁴ Ibid.

¹¹⁵ SJWC’s Exhibit E, Chapter 8, page 4 and Chapter 16, pages 7-8.

1 increase to the previous year’s estimate. This results in an equivalent 78%
2 increase in Chemical expense from 2011 to 2015.¹¹⁶ SJWC states that the 20%
3 annual increase projection is due to fluctuations in chemical prices and that the
4 “*price of chemical can fluctuate significantly based on several factors*”
5 including:¹¹⁷

- 6 ○ “*Price increases associated with fluctuations in fuel.*”
- 7 ○ “*Price increases due to the additional compliance taxes*
8 *and mill fees that the chemical producer must pay and*
9 *then passes on to the customer in the form of additional*
10 *line item charges on each invoice for chemical*
11 *delivery.*”

12 SJWC supports the 20% annual increase factor by presenting “*a table of*
13 *annual chemical costs for groundwater treatment (NaOCl and CO2) and total*
14 *ground water production for each year.*”¹¹⁸ (See following below; NaOCl:
15 sodium hypochlorite; CO2: carbon dioxide.) SJWC’s proposed 20% annual
16 increase in total Chemical expense appears to be based on its calculated five-year
17 (19.6%) and three-year (22.2%) average increases in unit chemical cost for
18 groundwater.

¹¹⁶ Calculated using 2011 and 2015 amounts in SJWC’s application, which are \$400,403 and \$711,693, respectively.

¹¹⁷ SJWC’s Exhibit E, Chapter 16, page 7.

¹¹⁸ SJWC’s Exhibit E, Chapter 16, page 8.

	<i>Chemical Costs</i>	<i>GW Production</i>	<i>\$/MG</i>	<i>Annual % Increase</i>
2006	\$102,063	14,233 MG	\$7.17 /MG	n/a
2007	\$156,495	21,428 MG	\$7.30 /MG	1.8%
2008	\$212,236	22,412 MG	\$9.47 /MG	29.7%
2009	\$188,270	19,716 MG	\$9.55 /MG	0.8%
2010	\$238,526	16,653 MG	\$14.32 /MG	50.0%
2011 (thru Aug)	\$154,167	9,288 MG	\$16.60 /MG	15.9%
5-yr average increase				19.6%
3-yr average increase				22.2%

1 DRA reviewed the submitted information and requested additional
 2 information to confirm SJWC’s claims. DRA finds several deficiencies and
 3 inconsistencies in SJWC’s assumptions and claims.

4 First, DRA notes that SJWC’s analysis examines only a portion of SJWC’s
 5 Chemical expenses. For example, in 2010, SJWC’s Chemical expense total is
 6 \$450,752; the above analysis covers only 61% of SJWC’s that total. Therefore, it
 7 is overreaching for SJWC to apply its calculated 20% increase to its total
 8 Chemical expense.

9 Second, DRA requested sample invoices for chemical purchases from
 10 2009-2011 to confirm SJWC’s claim of increases due to fuel cost, compliance
 11 taxes and mill fees increases. However, the invoices that were provided do not
 12 show an increasing trend of these cost elements as claimed by SJWC. Using an
 13 escalated, recorded average for this expense category would adequately capture
 14 the observed fluctuations in Chemical expenses.

15 Lastly, DRA notes that contrary to SJWC’s underlying assumption in
 16 forecasting chemical expense, a percentage change in unit price (\$/MG) does not
 17 necessarily equate to an equal percentage change in total costs. Lower demand
 18 and therefore less water to treat or different treatment requirements are two
 19 examples of how these percentages might reasonably differ. Two actual examples
 20 from SJWC’s own analysis of chemical examples clearly illustrate this point.

1 One, SJWC’s presented data (table above) shows an increase of 50% in unit price
 2 from 2009 to 2010, yet SJWC’s total Chemical expense only increased by 24%
 3 (from \$314,012 to \$390,427) from 2009 to 2010. Two, SJWC-calculated unit
 4 price increased by 0.8% from 2008 to 2009, yet its total Chemical expense
 5 actually decreased by 4.4%. DRA contends that a better method of capturing
 6 fluctuating costs is averaging the recorded total costs. Averaging the total
 7 Chemical costs will capture not only fluctuation in chemical prices but also in
 8 production and treatment requirements, which affect chemical purchase
 9 requirement.

10 For the above reasons, DRA estimates SJWC’s Chemical expense by using
 11 a recorded 2009-2011 average plus escalation. The three-year, instead of five-
 12 year, average addresses SJWC’s concerns regarding increasing costs in recent
 13 periods and captures more recent production and treatment requirements. Below
 14 is a comparison of DRA’s and SJWC’s estimates for Chemical expenses.

OPERATING EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Chemical Expenses	\$383,000	\$577,000	\$519,000	\$194,000	50.7%

15 **7) Operating Expense – Other Water Treatment**

16 The Other Water Treatment expense total is made up of five cost
 17 components: (a) Labor, (b) Transportation, (c) Purchased Services – M&S, (d)
 18 Water Quality Regulatory Fee expenses and (e) Other. Below is a comparison of
 19 DRA’s and SJWC’s Operating – Other Water Treatment expense estimates for the
 20 Test Year 2013.

OTHER WATER TREATMENT	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$1,932,000	\$2,037,000	\$2,124,000	\$105,000	5.4%
Transportation	\$13,000	\$18,000	\$17,000	\$5,000	38.5%
Purch. Serv. – M&S	\$443,000	\$645,000	\$659,000	\$202,000	45.6%
WQ Regulatory	\$150,000	\$373,000	\$373,000	\$223,000	148.7%
Other	\$37,000	\$55,000	\$55,000	\$18,000	48.6%
TOTAL (rounded):	\$2,575,000	\$3,128,000	\$3,228,000	\$553,000	21.5%

1 The first three components are allocated portions of the total estimates for
2 cost categories as discussed earlier in this chapter. Estimates for Water Quality
3 Regulatory Fee expenses are presented earlier, in Section F, Water Quality. For
4 the Other expense category, SJWC estimates are based on recorded 2011 plus
5 escalation. DRA notes that annual recorded costs for this expense category
6 fluctuate significantly from year to year, by as much as +/-300%. Therefore,
7 DRA's estimates are based on an escalated five-year average to better reflect that
8 cost pattern.

9 **8) Operating Expense – Transmission and Distribution**

10 The Transmission and Distribution expense total is made up of four
11 components: (a) Labor, (b) Transportation, (c) Purchased Services – M&S, and (d)
12 Other. The first three cost components are allocated portions of the total estimates
13 for cost categories as discussed earlier in this chapter. The following table
14 compares DRA's and SJWC's Operating – Transmission and Distribution expense
15 estimates for the Test Year 2013.

TRANSMISSION & DISTRIBUTION	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$3,083,000	\$3,270,000	\$3,389,000	\$187,000	6.1%
Transportation	\$671,000	\$921,000	\$921,000	\$250,000	37.3%
Purch. Serv. – M&S	\$214,000	\$249,000	\$232,000	\$35,000	16.4%
Other	\$100,000	\$101,000	\$101,000	\$1,000	1.0%
TOTAL (rounded):	\$4,068,000	\$4,541,000	\$4,643,000	\$473,000	11.6%

1 For the Other expense category, SJWC estimates are escalated five-year
2 average. DRA agrees that the five-year average captures the actual cost pattern.
3 The difference in DRA's and SJWC's test year estimates is due to the removal of
4 the customer growth factor.

5 **9) Operating Expense – Customer Accounts (including Uncollectibles)**

6 The Operating – Customer Accounts expense total is made up of six
7 components: (a) Uncollectibles, (b) Labor, (c) Transportation, (d) Purchased
8 Services – M&S, (e) Conservation, (f) Other, and (g) Billing Postage. Below is a
9 comparison of DRA's and SJWC's Operating – Customer Accounts expense
10 estimates for the Test Year 2013.

CUSTOMER ACCTS. EXPENSES	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Uncollectibles	\$438,000	\$417,000	\$406,000	(\$21,000)	-4.8%
Labor	\$4,250,000	\$4,759,000	\$4,673,000	\$509,000	12.0%
Transportation	\$103,000	\$204,000	\$141,000	\$101,000	98.1%
Purch. Serv. – M&S	\$2,481,000	\$2,786,000	\$2,689,000	\$305,000	12.3%
Conservation	\$78,000	\$7,575,000	\$7,576,000	\$7,497,000	9611.5%
Other	\$53,000	\$87,000	\$83,000	\$34,000	64.2%
Billing Postage	\$462,000	\$459,000	\$485,000	(\$3,000)	-0.6%
TOTAL (rounded):	\$7,865,000	\$16,287,000	\$16,053,000	\$8,422,000	107.1%

1 DRA accepts SJWC's estimated Uncollectible Factor of 0.1843% which is
2 based on a five-year recorded average; therefore, any difference in Uncollectible
3 expense is due to the difference in estimated total revenues. The estimates for
4 Labor, Transportation, and Purchased Services – M&S expenses are allocated
5 portions of the total estimates for cost categories as discussed earlier in this
6 chapter. Conservation expense estimates are presented in Chapter 11 of this
7 report.

8 For the Other expense category, SJWC estimates are based on recorded
9 2011 amounts plus escalation and customer growth factors. DRA notes that
10 annual recorded costs for this expense category fluctuate significantly from year to
11 year, by as much as +/-800%. Therefore, DRA's estimate is based on an escalated
12 five-year average to better reflect the actual cost pattern; DRA also removes the
13 customer growth factor.

14 For Billing Postage expenses, SJWC's updated estimate of \$485,000 for
15 2013 is based on recorded 2011 amount plus two years of customer growth factor.
16 DRA bases its estimates on a detailed analysis of recorded number of paper bills
17 and e-bills, their respective unit costs, and expected postage cost increases.

1 SJWC’s estimates do not take into account the fact that since its introduction of e-
 2 bills, SJWC’s annual number of paper bills has steadily decreased, averaging -
 3 3.1% over the past five years.¹¹⁹ DRA calculates the estimated number of paper
 4 bills for the forecast year by applying this average change to the previous year’s
 5 number of paper bills (e.g., for 2012, DRA uses recorded 2011 recorded; for 2013,
 6 DRA uses 2012 projected). To account for expected increase in postage rate in
 7 2012, DRA applies a 2% increase to \$0.4021, which is the recorded average
 8 postage cost per bill from 2011.¹²⁰ The resulting Billing Postage estimate is for
 9 2012 is \$477,000 for 2012 and \$462,000 for Test Year 2013.

10 **10) Operating Expense – Non-Tariffed Services Adjustment**

11 The estimates for this PUC account are presented in Chapter 12 of this
 12 report. This account serves as a credit and reduces total O&M expenses.

13 **11) Maintenance Expense – Source of Supply Plant**

14 The Maintenance – Source of Supply expense total is made up of two cost
 15 components: (a) Labor, and (b) Purchased Services – M&S. Estimates for these
 16 components are allocated portions of the total estimates for Labor and Purchased
 17 Services – M&S, Maintenance presented in Chapter 3 and Section E of this
 18 chapter, respectively. The following table compares DRA’s and SJWC’s
 19 Maintenance – Pumping Plant expense estimates for the Test Year 2013.

¹¹⁹ Based on data from SJWC’s response to DRA’s Data Request PPM-001.14:

	2007	2008	2009	2010	2011
Change from previous year’s number of paper bills	-2.5%	-3.1%	-2.4%	-3.8%	-3.4%

¹²⁰ \$482,149/1,199,159 paper bills; data from SJWC’s response to DRA’s Data Request PPM-001.14

MAINTENANCE-SOURCE OF SUPPLY	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$48,000	\$58,000	\$52,000	\$10,000	20.8%
Purch. Serv. – M&S	\$72,000	\$70,000	\$79,000	(\$2,000)	-2.8%
TOTAL (rounded):	\$120,000	\$128,000	\$131,000	\$8,000	6.7%

1 **12) Maintenance Expense – Pumping Plant**

2 The Maintenance – Source of Supply expense total is made up of two
3 components: (a) Labor, and (b) Purchased Services – M&S. Estimates for these
4 components are allocated portions of the total estimates for Labor and Purchased
5 Services – M&S, Maintenance as discussed earlier in this chapter. Below is a
6 comparison of DRA's and SJWC's Maintenance – Pumping Plant expense
7 estimates for the Test Year 2013.

MAINTENANCE - PUMPING	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$619,000	\$708,000	\$681,000	\$89,000	14.4%
Purch. Serv. – M&S	\$442,000	\$697,000	\$479,000	\$255,000	57.7%
TOTAL (rounded):	\$1,069,000	\$1,405,000	\$1,160,000	\$344,000	32.2%

8 **13) Maintenance Expense – Water Treatment Plant**

9 The Maintenance – Water Treatment Plant expense total is made up of two
10 cost components: (a) Labor, and (b) Purchased Services – M&S. Estimates for
11 these components are allocated portions of the total estimates for Labor and
12 Purchased Services – M&S, Maintenance as discussed earlier in this chapter.
13 Below is a comparison of DRA's and SJWC's Maintenance – Water Treatment
14 Plant expense estimates for the Test Year 2013.

MAINTENANCE- WATER TREATMT. PLANT	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$92,000	\$101,000	\$101,000	\$9,000	9.8%
Purch. Serv. – M&S	\$77,000	\$80,000	\$77,000	\$3,000	3.9%
TOTAL (rounded):	\$170,000	\$181,000	\$178,000	\$11,000	6.5%

1 **14) Maintenance Expense – Transmission & Distribution Plant**

2 The Maintenance – Transmission & Distribution Plant expense total is
3 made up of four cost components: (a) Labor, (b) Purchased Services – M&S, (c)
4 Transportation, and (d) Other. Below is a comparison of DRA's and SJWC's
5 Maintenance – Transmission and Distribution Plant expense estimates for the Test
6 Year 2013.

MAINTENANCE- T&D PLANT	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Labor	\$6,042,000	\$6,882,000	\$6,643,000	\$840,000	13.9%
Purch. Serv. – M&S	\$3,415,000	\$3,561,000	\$3,701,000	\$146,000	4.3%
Transportation	\$955,000	\$1,262,000	\$1,263,000	\$307,000	32.1%
Other	\$295,000	\$202,000	\$297,000	(\$93,000)	-31.5%
TOTAL (rounded):	\$10,707,000	\$11,907,000	\$11,904,000	\$1,200,000	11.2%

7 Estimates for the first two cost components are allocated portions of the
8 total estimates for these cost categories as discussed earlier in Sub-Section G.2.a
9 (Labor) and Section E (Purchased Services).

10 Estimates for the Transportation component should also be equal to the
11 Transportation portion allocated to Maintenance. However, SJWC's workpapers
12 contains an error in its formula for this item. The formula calculates a recorded
13 five-year average, instead of referencing the allocated amount in its workpapers

1 WP 8-21, Transportation Expense. DRA corrects this error. The difference in
 2 DRA's and SJWC's estimates is due to this error correction and DRA's lower
 3 estimates for total Transportation expense as discussed earlier in this chapter.

4 For the Other expense component, DRA accepts SJWC's use of recorded
 5 2011 amounts plus escalation, but does not apply the customer growth factor for
 6 the reason stated earlier. DRA's estimate is higher than SJWC's Application
 7 amount because DRA uses the Update's recorded 2011 total which is higher than
 8 the annualized 2011 total.

9 **15) Maintenance Expense – Adjustments**

10 For Maintenance Expense – Adjustments, DRA accepts SJWC's use of
 11 recorded five-year average as the basis for its estimates for this account. This
 12 account reduces SJWC's maintenance expense by the amount attributable to
 13 maintenance of non-utility properties.

MAINTENANCE	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Adjustments	(\$6,000)	(\$6,000)	(\$6,000)	\$0	0.0%

14 **H. EXPENSE ESTIMATES BY PUC ACCOUNTS - A&G**

15 The following sub-sections present the A&G estimates shown in Table 5-2
 16 at the end of this chapter.

17 **1) A&G – Salaries**

18 As mentioned earlier, SJWC estimates its total Labor (or Payroll) expenses
 19 on a company-wide basis. SJWC then allocates the total Labor cost to various
 20 expense accounts based on recorded ratios. Although DRA's total Labor expense
 21 estimate is lower than SJWC's, the impact to the portion allocated to account is
 22 minimal due to the correction of the allocation factor for this account, as discussed

1 earlier in Sub-Section G.2.a. Below is a comparison of DRA’s and SJWC’s A&G
 2 – Salaries estimates for the Test Year 2013.

A&G EXPENSE	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Salaries	\$6,960,000	\$7,008,000	\$7,025,000	\$48,000	0.7%

3 **2) A&G – Office Supplies**

4 The A&G – Office Supplies expense total is made up of two cost
 5 components: (a) Transportation, and (b) M&S. Below is a comparison of DRA’s
 6 and SJWC’s A&G – Office Supplies estimates for the Test Year 2013.

A&G – OFFICE SUPPLIES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Transportation	\$199,000	\$130,000	\$275,000	(\$69,000)	-34.7%
M&S	\$1,448,000	\$1,488,000	\$1,507,000	\$40,000	2.8%
TOTAL (rounded):	\$1,647,000	\$1,618,000	\$1,782,000	(\$29,000)	-1.8%

7 Estimates for the Transportation component are the allocated portion of the
 8 total Transportation expense estimates as discussed earlier in this chapter. The
 9 M&S expense consists of several components. Below is a summary of the cost
 10 estimates making up the A&G – Office Supplies, M&S total estimate for Test
 11 Year 2013.

A&G – OFFICE SUPPLIES, M&S	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
A&G Postage	\$18,800	\$26,000	\$18,900	\$7,200	38.3%
Telephone & Internet Access	\$218,800	\$214,600	\$220,100	(\$4,200)	-1.9%
Stationary & Printing	\$22,100	\$26,200	\$22,300	\$4,100	18.6%
Landscaping & Janitorial Services	\$74,100	\$96,800	\$79,700	\$22,700	30.6%
Miscellaneous General Expenses	\$15,200	\$25,000	\$15,200	\$9,800	64.5%
Utility Supplier Diversity Program	\$91,000	\$91,000	\$91,000	\$0	0.0%
Travel & Incidental	\$386,800	\$378,600	\$389,500	(\$8,200)	-2.1%
Bank Services Charges	\$302,400	\$295,300	\$323,300	(\$7,100)	-2.3%
Other Office Supplies & Exp.	\$318,600	\$334,600	\$346,700	\$16,000	5.0%
TOTAL (rounded):	\$1,448,000	\$1,488,000	\$1,507,000	\$40,000	2.8%

1 **(a) Postage**

2 SJWC's estimates for A&G Postage are based on recorded 2011 amount
3 plus escalation and customer growth factors. DRA learned that SJWC instituted a
4 cost saving measure in 2010 that reduced this expense by more than 50%,¹²¹ so
5 using the 2011 recorded amount is a reasonable basis for estimating this account's

¹²¹ Per phone conversation with Ann Lindahl of SJWC on January 25, 2012.

1 expense. DRA accepts SJWC’s forecasts from the Update but removes the
2 customer growth factor for 2012 and 2013.

3 **(b) Telephone & Internet Access; Stationary & Printing; and**
4 **Miscellaneous General Expenses**

5 For these three cost components, SJWC’s estimates are based on 2011
6 recorded amounts plus escalation and customer growth factors. Based on its
7 review of recorded data, DRA accepts the use of 2011 data for forecasting but
8 removes the customer growth factor for 2012 and 2013.

9 **(c) Landscaping; Travel and Incidental; Bank Service Charges;**
10 **and Other Office Supplies Expenses**

11 For these four cost components, SJWC’s estimates are based on 2011
12 recorded amounts plus escalation and customer growth factors. DRA notes that
13 annual costs for all four categories fluctuate from year to year. Using a one-year
14 data point does not adequately capture that cost pattern. DRA’s estimates are
15 therefore based on an escalated 2009-2011 average to better reflect that pattern
16 and recent needs and costs. DRA does not apply the customer growth factor for
17 2012 and 2013 for the reason stated earlier.

18 **(d) Utility Supplier Diversity Program (“USD”)**

19 SJWC proposes to expand its USD efforts including “*additional outreach,*
20 *technology and professional services to increase internal and external*
21 *participation.*”¹²² DRA does not oppose the amounts included in SJWC’s
22 Exhibit F, WP 9-4.

¹²² SJWC’s Exhibit E, Chapter 9, page 3.

1 **3) A&G – Property Insurance**

2 SJWC estimates its Property Insurance expense at \$180,000¹²³ for 2012,
 3 and then escalates that estimate by 8% for 2013, to \$194,000; the company states
 4 that the estimates are based on information provided by its insurance broker.¹²⁴

5 DRA notes that the \$180,000 estimate is an increase of 36% over the
 6 recorded 2011 amount. SJWC’s claim of increasing costs in this category is not
 7 supported by recorded data or documentation. First, its annual Property Insurance
 8 costs fluctuated from \$133,700 in 2009 down to \$123,300 in 2010 and back up to
 9 \$131,900. Second, in 2011, SJWC itself projected a Property Insurance expense
 10 of \$163,000 (per Application’s workpapers) but ended up spending only \$131,900
 11 (per Update’s workpapers), or 24% less than projected. Third, DRA requested and
 12 did not receive documentation for the \$180,000 estimate purportedly provided by
 13 SJWC’s insurance broker. For all these reasons, SJWC’s Property Insurance
 14 expense estimates and claims of increasing costs should be disregarded.

15 Because the recorded annual amounts for this expense fluctuate from year
 16 to year, DRA bases its 2012 and Test Year 2013 estimates on a recorded 2011
 17 amount plus a five-year average percentage increase of 2%. Below is a
 18 comparison of DRA’s and SJWC’s A&G – Property Insurance estimates for the
 19 Test Year 2013.

A&G EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Property Insurance	\$137,000	\$194,000	\$194,000	\$57,000	41.6%

¹²³ All expense amounts discussed in this sub-section refer to the total Property Insurance expense. For ratemaking purposes, 1.1% is removed to account for the portion attributable to non-utility property.

¹²⁴ SJWC’s Exhibit E, Chapter 9, page 3.

1 **4) A&G Expense – Injuries and Damages Insurance**

2 SJWC’s estimates of Injuries and Damages Insurance expenses include two
3 components: (a) Workers’ Compensation Insurance, and (b) Public Liability
4 Insurance. Below is a comparison of DRA’s and SJWC’s A&G – Injuries and
5 Damages Insurance estimates for the Test Year 2013.

A&G – INJURIES & DAMAGES INSURANCE	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Workers’ Comp.	\$512,000	\$710,600	\$711,900	\$198,600	38.8%
Public Liability	\$973,000	\$1,298,100	\$1,298,100	\$325,100	33.4%
TOTAL (rounded):	\$1,485,000	\$2,009,000	\$2,010,000	\$524,000	35.3%

6 **(a) Workers’ Compensation Insurance (“WCI”)**

7 SJWC estimates its baseline WCI expense by multiplying its estimated
8 Labor expense by the ratio of 2010 recorded Workers’ Compensation Insurance
9 expense to 2010 recorded Labor expense (“WCI:Labor”) (as DRA describes
10 below, SJWC incorrectly calculated this ratio). The company then increases the
11 baseline estimate by 25% per year.¹²⁵ SJWC states that it “*is requesting an*
12 *increase of 25% for 2013, 2014, and 2015, based on the three year average (2009-*
13 *2011).*”¹²⁶ SJWC’s Application shows a Test Year 2013 estimate of \$710,600 or
14 an estimated increase of 38% from its 2011 recorded expense of \$514,800.

15 DRA makes two adjustments to SJWC’s estimates. First, SJWC used an
16 incorrectly calculated WCI:Labor expense ratio. Although SJWC states that it
17 uses 2010 WCI as a percent of Labor expense,¹²⁷ its formula uses WCI expense

¹²⁵ SJWC’s Exhibit E, Chapter 5, page 11.

¹²⁶ Ibid.

¹²⁷ SJWC’s Exhibit F, WP 9-6, Footnote 1.

1 from 2010 but the Labor expense from 2008. Because 2010 Labor expense is 12%
2 higher than 2008 Labor expense, SJWC’s calculated ratio of 1.61%¹²⁸ is
3 overstated by approximately the same amount. DRA corrects the error in the
4 formula so that both the numerator and denominator come from 2010 data; the
5 corrected ratio is 1.44%

6 Second, because recorded WCI expense shows an increasing trend, DRA
7 agrees that an adjustment to reflect that trend is reasonable. However, instead of
8 SJWC’s requested 25% increase for every forecast year, DRA uses an annual
9 factor of 9%. DRA’s estimate of 9% is a 2012-2015 average annual increase in
10 WCI rates provided by SJWC’s insurance broker.¹²⁹ In summary, for 2012-2014,
11 DRA’s WCI estimate is calculated by applying the corrected 2010 WCI:Labor
12 ratio to DRA’s Labor estimate for the year, and then increasing that baseline
13 amount by 9%.

14 **(b) Public Liability Insurance (“PLI”)**

15 SJWC’s PLI expense includes three components: Public Liability
16 Insurance, Directors and Officers’ Liability, and Provisions for Injuries and
17 Damages. DRA accepts SJWC’s estimates for the latter two components, but
18 makes adjustments to SJWC’s PLI expense forecasts.

19 SJWC estimates its PLI expense by starting with a (hardcoded) \$850,300
20 estimate for Test Year 2013 and increasing it by 6% in 2014 and 5% in 2015,
21 based on estimates purportedly provided by its insurance broker.¹³⁰

22 Similar to its Property Insurance estimates, SJWC’s claim of drastically
23 increasing PLI expenses is not supported by recorded data or documentation.

¹²⁸ Ibid.

¹²⁹ SJWC’s response to DRA’s Data Response PPM-006.12 (Attachment G).

¹³⁰ SJWC’s Exhibit E, Chapter 9, page 3.

1 First, its recorded annual Property Insurance costs are much lower than the
2 \$850,000 estimated for 2013 and fluctuate from \$639,900 in 2009 down to
3 \$512,500 in 2010, and then to \$505,900 for 2011. Second, in 2011, SJWC itself
4 projected a PLI expense of \$577,000 (per Application’s workpapers) but ended up
5 spending only \$505,900 (per Update’s workpapers), or 12% less than projected.
6 Third, DRA requested¹³¹ and did not receive documentation for the \$850,000
7 estimate purportedly provided by SJWC’s insurance broker. For all these reasons,
8 SJWC’s PLI expense estimates and claims of increasing costs should be
9 discounted.

10 DRA notes that recorded annual amounts for this expense have been
11 decreasing steadily since 2009. Because SJWC states that in “*2010 its broker*
12 *negotiated a reduced premium rate for its general liability coverage and the*
13 *company restructured its excess liability policies resulting in lower premium costs*
14 *in 2010,”*¹³² DRA expects the lowered cost to continue as evidenced by further
15 reduction in recorded 2011 costs. For these reasons, DRA bases its PLI expense
16 estimates on 2011 recorded cost plus escalation.

17 **5) A&G Expense – Pensions, Benefits & PBOP**

18 DRA’s and SJWC’s estimates for this account are presented in Chapter 4 of
19 this report.

20 **6) A&G Expense – Regulatory Commission**

21 SJWC estimates that it will need a total of \$1,000,000 in 2012 dollars for
22 Regulatory Commission expenses (not including in-house labor and labor-related
23 costs) for the next three-year forecast period, 2012-2014. SJWC amortizes and
24 escalates the \$1,000,000; the resulting estimates for Regulatory Commission

¹³¹ DRA’s Data Request PPM6.8.d and e.

¹³² SJWC’s response to DRA’s Data Request PPM-006.8.c.

1 expense are: \$333,000 for 2012, \$341,000 for 2013, and \$358,000 for 2014
2 (SJWC also includes an estimated \$368,000 for 2015.)

3 Based on DRA’s inquiry, DRA learned that SJWC did not develop detailed,
4 quantitative expense analysis to arrive at the three-year estimate total of
5 \$1,000,000. That (hard-coded) total is based on SJWC’s “*assumption of a fully-*
6 *litigated General Rate Case, one Cost of Capital proceeding, at least one formal*
7 *Application coming out of the GRC, and miscellaneous legal and consultant work*
8 *not related to a formal proceeding.*”¹³³ When requested to provide the
9 Regulatory Commission estimates by cost category, SJWC provided the following
10 breakdown; however, forecasted costs by category are essentially the \$1,000,000
11 estimate distributed by 2009-2011 recorded percentages. Below is a table
12 provided by SJWC in response to DRA’s request.¹³⁴

Regulatory Commission Expense	2006-2008 Cumulative Expense	2009-2011 Cumulative Expense	2012-2014 Forecast (nominal \$)
Legal Fees	\$48,500	\$426,900	\$650,000
Consulting Fees	\$22,500	\$119,210	\$180,000
Printing	\$23,280	\$47,660	\$75,000
Noticing	\$20,120	\$48,930	\$75,000
Misc.	\$210	\$12,800	\$20,000
TOTAL:	\$114,610	\$655,500	\$1,000,000

13 SJWC has not provided adequate information to justify the reasonableness
14 of its \$1,000,000 estimate. There is no supporting evidence that its Regulatory
15 Commission costs for the next three-year period will be any higher than the last

¹³³ SJWC’s response to DRA’s Data Request PPM-002.11.a.

¹³⁴ SJWC’s response to DRA’s Data Request PPM-002.11.a (Table 6).

1 three-year period. DRA cannot accept a forecasted 53% increase in Regulatory
2 Commission expense simply based on general claims of increasing complexity of
3 the regulatory landscape and increases in printing and customer notification.
4 SJWC provides no analysis of its expenses to show where or why certain
5 categories of cost are expected to increase which might allow DRA to identify
6 areas where cost containment is possible.

7 Furthermore, DRA is unclear what SJWC considers a “fully litigated”
8 GRC, when SJWC actually had a “fully litigated” GRC, and how much costs
9 would increase over a non-“fully litigated” GRC. On a related point, DRA notes
10 that SJWC has increased its regulatory staff by one position in 2010, an increase
11 authorized in the last GRC. It is reasonable to assume that the added personnel
12 should help SJWC reduce or at least contain, not increase, the costs in the
13 Regulatory Commission Expense (which does not include payroll and payroll-
14 related costs).

15 For all the above stated reasons, the total recorded cost of \$689,000 from
16 the last three-year period provides a reasonable estimate of SJWC’s 2012-2014
17 Regulatory Commission expense. DRA uses the same amortization and escalation
18 approach as SJWC, and spreads the estimated total over 2012, 2013 and 2014.
19 Below is a comparison of DRA’s and SJWC’s A&G – Regulatory Commission
20 estimates for the Test Year 2013.

A&G EXPENSES	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Regulatory Commission Exp.	\$235,000	\$341,000	\$341,000	\$106,000	45.1%

1 **7) A&G Expense – Outside Services**

2 SJWC's estimates of A&G – Outside Services expense include two
3 components: (a) Legal, and (b) Other. Below is a comparison of DRA's and
4 SJWC's A&G – Outside Services estimates for the Test Year 2013.

A&G – OUTSIDE SERVICES	DRA's Estimate	SJWC's Application	SJWC's Update	SJWC's Application > DRA	
Legal	\$467,000	\$895,000	\$635,000	\$428,000	91.6%
Other	\$1,967,000	\$1,982,000	\$1,989,000	\$15,000	0.8%
TOTAL (rounded):	\$2,434,000	\$2,877,000	\$2,624,000	\$443,000	18.2%

5 **(a) A&G – Outside Services, Legal**

6 For this account, SJWC uses the recorded 2011 amount plus escalation and
7 customer growth factors to develop a baseline amount. The company then
8 increases the baseline amount by specific “additional” expenses related to the
9 Records and Information Management Initiative (“RIM”).¹³⁵

10 Other than the customer growth factor which is unsupported, DRA accepts
11 SJWC's general approach in developing the baseline amounts for forecasted years
12 and use the same recorded 2011 amount for its calculations. DRA's baseline
13 estimate reflects the recorded 2011 amount from the Update, which at \$450,000 is
14 \$250,000 less than the annualized 2011 amount of \$700,000 in the Application.
15 The impact of this updated, lower amount is carried through to all forecast years.

¹³⁵ See SJWC's Exhibit F, WP 9-8(a).

1 The expense related to the RIM project is tied to SJWC’s request in its
2 Capital Budget, “*provided in Exhibit G: Capital Budget Project Justifications –*
3 *Index #3885 (2013 & 2014) Records and Information Initiative – GRC Narrative*
4 *on pages 39-43.*”¹³⁶ The estimates are: \$25,000 in 2012, \$165,000 in 2013,
5 \$146,000 in 2014 and \$156,000 in 2015.

6 DRA’s expense estimates exclude all additional RIM project expenses
7 because the baseline estimates as calculated provide for a budget that can absorb
8 cost fluctuations due to projects ending and starting over time and do not need to
9 be increased for this particular project. Secondly, DRA in Chapter 8 of this
10 report recommends disallowing SJWC’s capital investment request for RIM, and
11 therefore all RIM expenses should be removed accordingly.

12 In the event that the Commission allows SJWC to tack on “additional” RIM
13 expenses to its A&G-Outside Services account’s baseline total, two adjustments to
14 the estimates are necessary. First, the account’s recorded amounts used to
15 establish baseline estimates should exclude all recorded expenses related to RIM.
16 In response to DRA’s inquiry, SJWC states that \$51,000 recorded in 2011 is
17 attributable to the RIM project.¹³⁷ SJWC also states that the “additional” amount
18 for 2015 should be revised from \$156,000 to \$92,000.¹³⁸

19 **(b) A&G – Outside Services, Other**

20 For this account, SJWC uses a recorded five-year average, plus escalation
21 and customer growth factors to develop a baseline amount. The company then
22 increases the baseline amount by specific expense estimates for: (i) additional IT
23 Maintenance Agreements; (ii) additional GIS software licenses; and (iii) additional

¹³⁶ SJWC’s response to DRA’s Data Request PPM-002.4

¹³⁷ SJWC’s response to DRA’s Data Request PPM-002.4.

¹³⁸ Ibid.

1 network computing/online agreements.¹³⁹ DRA requested and reviewed
 2 additional information provided by SJWC. Based on its review, DRA does not
 3 object to adding these costs to the five-year average estimate. DRA however
 4 removes the customer growth factor for 2012 and 2013 for the reason discussed
 5 earlier.

6 **8) A&G Expense – General Corporate**

7 SJWC’s baseline estimates of A&G – General Corporate are based on 2011
 8 recorded plus escalation and customer growth factors. SJWC increases its
 9 baseline estimate to include additional network computing supplies for 2012
 10 (\$16,600) and 2013 (\$17,400). Based on its review of recorded costs, which
 11 exhibit an increasing trend, DRA does not object to the use of 2011 recorded data,
 12 but again removes the customer growth factor for 2012 and 2013. DRA also
 13 requested and reviewed SJWC’s explanation for the additional costs and do not
 14 object to adding these costs to the baseline estimates. Below is a comparison of
 15 DRA’s and SJWC’s A&G – Outside Services estimates for the Test Year 2013.
 16 DRA’s estimate is higher than SJWC’s request in the Application because DRA
 17 uses the Update’s recorded 2011 amount.

A&G EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
General Corporate	\$830,000	\$800,000	\$835,000	(\$30,000)	-3.6%

18 **9) A&G Expense – Dues & Membership**

19 SJWC’s estimates of A&G – Dues & Membership consist of two
 20 categories: (a) Company Dues, and (b) Employee Dues. The estimates, based on
 21 the sum of all dues from each category, are based on 2011 recorded data plus
 22 escalation. For this account, DRA generally does not object to the use of 2011

¹³⁹ SJWC’s Exhibit F, WP 9-8(a) and Exhibit E, Chapter 9, page 3.

1 recorded data, but removes the escalation factor in the 2012 and 2013 estimates.
 2 This is because there are no observable, consistent increases in recorded dues; a
 3 vast majority of dues expense dollars do not change annually, or they fluctuate and
 4 do not exhibit a steadily increasing trend. DRA also makes several adjustments to
 5 specific membership dues and uses recorded 2011 dues amounts from the Update.
 6 Below is a comparison of DRA’s and SJWC’s A&G – Dues and Membership
 7 estimates for the Test Year 2013; the sub-sections that follow present DRA’s
 8 adjustments to specific dues.

A&G – DUES & MEMBERSHIP	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA	
Company Dues	\$354,000	\$400,000	\$433,000	\$46,000	13.0%
Employee Dues	\$21,000	\$27,000	\$28,000	\$6,000	28.6%
TOTAL (rounded):	\$375,000	\$427,000	\$461,000	\$52,000	13.9%

9 **(a) Company Dues**

10 **(i) California Water Association (“CWA”) and National**
 11 **Association of Water Companies (“NAWC”);**
 12 **WaterReuse Association**

13 For ratemaking purposes, SJWC in its Application deducts a percentage of
 14 the company dues for CWA and NAWC because a portion of the dues are used for
 15 lobbying activities (and consequently not tax-deductible). DRA concurs with the
 16 deductions and applies the latest available non-deductible percentages in its
 17 estimates for California Water Association (30%), and for National Association of
 18 Water Companies (11%). In response to DRA’s inquiry, SJWC indicates
 19 WaterReuse Association’s membership dues should also be subject to similar
 20 adjustment and the non-deductible portion should be 20%.¹⁴⁰ DRA’s estimates
 21 reflect that additional deduction.

¹⁴⁰ SJWC’s response to DRA’s Data Request PPM-011.2.

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(ii) Chamber of Commerce Dues

The Commission in D.04-07-022 confirmed its long-standing policy to disallow dues to chambers of commerce and service clubs. Therefore, DRA removes all Chamber of Commerce dues from its Company Dues estimates. This adjustment reduces SJWC’s Company Dues request by \$48,051¹⁴¹ for the Test Year 2013.

(b) Employee Dues

DRA removes SJWC employees’ membership dues for the Quota Club, the Rotary Club, and the San Jose Lions Club. It is unclear what ratepayer benefits would result from individual employees’ memberships to these social or service organizations. As stated earlier, it is the Commission’s policy to disallow dues to service clubs.

DRA also opposes the inclusion of the San Jose Athletic Club’s dues of approximately \$5,000 per year. SJWC states that this is a necessary compensation to its Chief Executive Office, Senior Vice President – Operations, Chief Financial Office, Executive Vice President – Finance and Vice President – Information Systems.¹⁴² SJWC claims this form of executive compensation is necessary to attract “*high-quality management, leading to better overall utility operations which is beneficial to ratepayers.*”¹⁴³ This is a general claim of need that is unsupported by any compensation data. Ratepayers should not bear the costs of the health club fees for these five executive positions. It is important to note that,

¹⁴¹ \$1,300 for the California Chamber of Commerce; \$519 for the Cupertino Chamber of Commerce; \$1,536 for the Hispanic Chamber of Commerce; \$43,100 for the San Jose Chamber of Commerce; and \$1,536 for the Silicon Valley Black Chamber of Commerce. It should be noted that the \$43,100 for San Jose Chamber of Commerce is based on an incorrect, overstated recorded amount for 2011, according to SJWC’s response to DRA’s Data Request PPM-012.3. Correcting this amount would reduce SJWC’s own test year estimate by about 50%.

¹⁴² SJWC’s March 28, 2911 email in response to DRA’s follow-up of SJWC’s response to DRA’s Data Request PPM-11.3.

¹⁴³ Ibid.

1 according SJWC’s General Order 77-M filing,¹⁴⁴ the 2009 annual salaries for
 2 these positions ranged from approximately \$300,000 to \$1,200,000.

3 **10) A&G Expense – Rents**

4 SJWC’s estimates of A&G – Rents are based on an escalated five-year
 5 average. Based on information received on the existing rental agreements and
 6 expected rental needs,¹⁴⁵ DRA believes the forecasts should be based on the rental
 7 expense from the recorded year 2011 to reflect more recent rental needs and costs,
 8 and adjusted to reflect current rent amount for 2110 South Bascom Avenue
 9 facility. Below is a comparison of DRA’s and SJWC’s A&G – Rents estimates
 10 for the Test Year 2013.

A&G EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA estimate	
Rents	\$311,000	\$482,000	\$482,000	\$171,000	55.0%

11 **11) A&G - Transferred Expenses**

12 SJWC’s estimates of A&G – Transferred Expenses are based on a recorded
 13 five-year average plus escalation.¹⁴⁶ Below is a comparison of DRA’s and
 14 SJWC’s A&G – Transferred Expense estimates for the Test Year 2013.

A&G EXPENSES	DRA’s Estimate	SJWC’s Application	SJWC’s Update	SJWC’s Application > DRA Estimate	
Transferred Expenses (rounded)	-\$7,617,000	-\$6,397,000	-\$6,393,000	\$1,220,000	-16.0%

¹⁴⁴ March 26, 2010 letter from Wendy Walker of SJWC to Sean Wilson of the CPUC.

¹⁴⁵ SJWC’s response to DRA’s Data Request PPM-010.

¹⁴⁶ For Labor and Labor burden components, SJWC applies labor escalation factors; for the All Other component, SJWC applies the weighted escalation factors.

1 The estimate in this account serves as a credit (hence shown as negative in
 2 above table) that reduces the amount of A&G expenses to be included in SJWC’s
 3 revenue requirement. Based on SJWC’s Exhibit F, WP 9-9, Administrative
 4 Transferred Expenses, the account categories to which the A&G expenses are
 5 transferred (e.g. allocated) include Construction Overhead; “Corporation” or
 6 SJWC’s parent company, Canyon Lake Water Service Company, a SJWC’s
 7 affiliate, and “Other.”¹⁴⁷

8 The estimating methodology for each category is the same and is based on
 9 recorded five-year average plus escalation. Therefore, the following general
 10 discussion regarding estimating methodology applies to all categories.

11 Based on its review of recorded data, DRA finds SJWC’s estimating
 12 method inconsistent with its forecasting approaches for other GRC estimates.
 13 SJWC chooses to use a five-year average approach when the recorded data clearly
 14 show an increasing trend, as shown below.

A&G – Expenses Transferred	Recorded (Update)	SJWC-estimated (Update)
2007	\$4,530,500	
2008	\$4,531,400	
2009	\$6,045,400	
2010	\$7,279,500	
2011	\$7,368,600	
5-yr average	\$6,128,800	
2012		\$6,288,300
2013		\$6,392,800
2014		\$6,524,000
2015		\$6,657,700

15 SJWC’s motivation to underestimate this account is clear – the lower the
 16 estimated credit, the more A&G expenses SJWC can recover from SJWC
 17 ratepayers. However, it is unreasonable to expect that the time and resources

¹⁴⁷ Allocation to City of San Jose ceases in 2012 due the discontinuation of the billing contract.

1 attributable to these various accounts and entities suddenly decrease by
2 approximately 16% from the 2010-2011 recorded period to the 2012-2013 forecast
3 period.¹⁴⁸ Furthermore, it is simply illogical to expect SJWC’s charges to
4 construction overhead for example to decrease over this time frame given the level
5 of construction expenditures requested in this case.

6 DRA asked SJWC to explain why SJWC’s chose to use the five-year
7 average approach for when recorded A&G –Transferred Expenses clearly indicate
8 an increasing trend, SJWC can only offer the following explanation:¹⁴⁹

9 *“SJWC has consistently been authorized to use recorded data*
10 *to forecast future expense transfers in past rate cases. SJWC*
11 *did not see the need to change from a methodology that has*
12 *been consistently approved through the years.”*

13 It should be pointed out that in this GRC SJWC uses recorded 2011 costs
14 instead of the five-year average as the basis to project numerous expense accounts
15 showing similar increasing cost trends.¹⁵⁰ SJWC cannot have it both ways. The
16 forecasting methodology must consider the changes and trends observed in the
17 recorded expenses (allocated, credited or otherwise) as well as factors that have
18 direct or indirect impacts on the costs. Projecting a Test Year 2013 A&G
19 Transferred Expenses (credit) amount that is about equal to the 2009 level is
20 inconsistent with the fact that SJWC-projected total 2013 A&G expenses is 18.3%
21 higher than its recorded 2009 level.¹⁵¹

22 In summary, SJWC’s proposed five-year averaging method is not supported
23 by the trends observed in recorded A&G Transferred Expense data or total

¹⁴⁸ From 2010-2011 annual average of \$7.3M to 2012-2013 annual average of \$6.3M.

¹⁴⁹ SJWC’s response to DRA’s Data Request PPM-007.

¹⁵⁰ For example: General Corporate and Employee Benefits expenses.

¹⁵¹ Based on total A&G Expenses amounts from WP 9-1 of Exhibit F (Application):
\$29,637,000 recorded 2009 to \$35,198,000 requested for Test Year 2013.

1 projected A&G costs, and therefore must be rejected. The recorded A&G
2 Transferred Expense data indicates an increasing trend, consistent with increasing
3 A&G expenses over the same time period. Therefore, DRA's estimates are based
4 on recorded 2011 amounts, plus escalation. DRA's estimates also reflect its
5 estimated total A&G expenses, which are lower than requested by SJWC.

6 **I. CONCLUSION**

7 DRA recommends that the Commission adopt DRA's adjustments and
8 estimates for O&M and A&G as presented above.

9 In addition, DRA recommends that the Commission order SJWC to
10 improve its GRC's supporting workpapers to increase transparency, accuracy and
11 ease of understanding. DRA found SJWC's O&M and A&G workpapers and
12 spreadsheets cumbersome and beset with input and calculation errors. DRA
13 recommends that the Commission order SJWC to meet with DRA at least six
14 months prior to its next GRC's Proposed Application filing to discuss how the
15 company can improve the design and organization of its workpapers and
16 spreadsheets to minimize errors and to maximize transparency and ease of review
17 by Commission staff. Some possible improvements include: separating and
18 organizing workpaper tables using worksheet's tabs; identifying one-time
19 expenses in recorded costs; streamlining the compilation process of recorded
20 expense data from SJWC's accounting system for use in the results of operations
21 worksheets; and electronically linking depreciation calculations with capital
22 investment budgets.

TABLE 5-1

San Jose Water Company A.12-01-003
OPERATION AND MAINTENANCE EXPENSES*
Text Year 2013

Item	DRA Analysis (A)	SJWC Request (B)	SJWC Exceeds DRA Amount (C)	Percent (D)
(Dollars in Thousands)				
AT PRESENT RATES:				
Operating Expense:				
Purchased Water	45,137	45,137	0	0%
Other Source of Supply	986	1,017	31	3%
Purchased Power	5,865	5,745	-120	-2%
Pump Taxes	34,358	33,050	-1,308	-4%
Other Pumping Expenses	2,757	3,088	331	12%
Chemical & Filtering Materials	383	577	194	51%
Other Water Treatment	2,575	3,128	553	21%
Transmission & Distribution	4,068	4,540	472	12%
Customer Accounts (incl. Uncollectibles)	7,865	16,286	8,421	107%
Non-tariffed Services Adjustment	(577)	(543)	34	-6%
Total Operating Expense	103,417	112,026	8,609	8%
Maintenance Expense:				
Source of Supply Plant	120	128	8	6%
Pumping Plant	1,061	1,405	344	32%
Water Treatment Plant	169	181	12	7%
Transmission & Distribution Plant	10,707	11,908	1,201	11%
Adjustments	(6)	(6)	0	0%
Total Maintenance Expense	12,051	13,615	1,564	13%
Total O&M Expense	115,468	125,641	10,173	9%
AT PROPOSED RATES				
Uncollectible Percentage				
Total O&M Expense	115,468	125,728	10,260	9%
* Does not include A&G Expenses, See Table 5-2				

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TABLE 5-2				
San Jose Water Company A.12-01-003				
ADMINISTRATIVE AND GENERAL EXPENSES				
Test Year 2013				
Item	DRA Analysis	SJWC Request	SJWC Exceeds DRA	
	(A)	(B)	Amount	Percent
		(Dollars in Thousands)		
Salaries	6,960	7,008	48	1%
Office Supplies	1,647	1,618	-29	-2%
Property Insurance	137	194	57	42%
Injuries and Damages	1,484	2,009	525	35%
Pensions,Benefits & PBOP	15,150	18,970	3,820	25%
Regulatory Commission	235	341	106	45%
Outside Services	2,434	2,877	443	18%
General Corporate	830	800	-30	-4%
Dues & Membership	375	427	52	14%
Rents	311	482	171	55%
Maintenance Expense	440	471	31	7%
A & G Expenses Transferred	(7,617)	(6,397)	1,220	-16%
Total A&G Expenses	22,386	28,801	6,415	29%

CHAPTER 6: TAXES OTHER THAN INCOME

1 **A. INTRODUCTION**

2 This chapter sets forth DRA’s analysis and recommendations of Taxes
3 Other Than Income for SJWC for Test Year 2013. Taxes Other Than Income
4 consist of Ad Valorem Tax (property tax), Payroll Taxes, Business License Fees,
5 and Local Franchise Fees. DRA and SJWC estimates of Taxes Other Than
6 Income are shown in Table 6-1.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 The differences between DRA and SJWC estimates are due primarily to the
9 differences in estimated payroll and ratebase, which are presented separately in
10 DRA Chapters Three and Ten, respectively.

11 **C. DISCUSSION**

12 **1) Ad Valorem Taxes**

13 SJWC’s Ad Valorem Taxes were estimated based on the estimated assessed
14 value placed on SJWC’s Utility Plant in Service (“UPIS”) for Test Year 2013 and
15 2014 multiplied by the three year (2009 – 2011) average of actual Ad Valorem tax
16 rates, 1.01%. The estimates of the assessed value of UPIS are calculated based on
17 the ratio of the beginning of the year balance between UPIS and reserve for
18 depreciation multiplied by the ratio of UPIS to cash value of property tax for 2010.
19 The differences in the estimated Ad Valorem taxes between DRA and SJWC are
20 attributable to the differences in the estimates for UPIS.

21 **2) Payroll Taxes**

22 Payroll taxes consist of Federal Insurance Contribution Act (“FICA”),
23 Federal Unemployment Insurance (“FUI”), and State Unemployment Insurance
24 (“SUI”).

1

2 Both SJWC and DRA estimate payroll taxes based on the projected payroll
3 expenses and the currently available information from Federal and State payroll
4 tax publications. Payroll taxes consist of Federal Insurance Contributions Act,
5 Federal Unemployment Tax Act, and State Unemployment Insurance. There are
6 two components of Federal Insurance Contributions Act taxes—Social Security and
7 Medicare. The following are the latest tax rates and wage limits authorized by
8 Federal and State law:

- 9 (a) Social Security – 6.20% for the first \$110,100 of total
10 wages for 2012
- 11 (b) Medicare – 1.45% of total wages for 2011
- 12 (c) Federal Unemployment Tax Act – 0.8% for the first
13 \$7,000 of total wages for 2011
- 14 (d) State Unemployment Insurance – 0.80% for the first
15 \$7,000 of total wages for 2011

16 Differences between DRA’s and SJWC’s estimates for the Test Year 2013
17 are attributable to the differences in payroll estimates.

18 **3) Business License Fees**

19 SJWC’s business license fee for the City of San Jose and Town of Los
20 Gatos are determined by local ordinances. Currently the business license for the
21 City of San Jose is a fixed amount of \$21,444 per year and the business license for
22 the Town of Los Gatos is determined by the number of installed hydrants (\$12 per
23 hydrant) which totals \$31,800 for the test year. DRA concurs with San Jose’s
24 estimates.

1 **4) Local Franchise Fees**

2 SJWC pays a percentage of its gross revenues as local franchise taxes to the
3 County of Santa Clara, City of Cupertino, Saratoga, Monte Sereno, and Campbell
4 as franchise requirement. SJWC uses the recorded local franchise taxes for 2011
5 divided by Total Revenues to estimate the local franchise taxes in this General
6 Rate Case. DRA accepts SJWC's method and uses the same local franchise tax
7 rate of 0.2354% provided in SJWC's updated workpapers.

8 The differences between DRA's and SJWC's estimates for local franchise
9 taxes are due to the differences in DRA's and SJWC's estimated Total Revenues
10 excluding deferred revenues in the respective years.

11 **D. CONCLUSION**

12 DRA recommends the Commission adopt DRA's estimates for Taxes Other
13 Than Income as shown in Table 6-1.

TABLE 6-1

San Jose Water Company A.12-01-003
TAXES OTHER THAN INCOME
 Test Year 2013

Item	DRA Analysis (A)	SJWC Estimated (B)	SJWC Exceeds DRA Amount (C)	SJWC Exceeds DRA Percent (D)
AT PRESENT RATES:				
City and County				
Ad Valorem Tax:	6,021	5,398	-623	-10%
Business Licenses	32	34	2	6%
Payroll taxes	1,771	1,939	169	10%
Local Franchise at Present	559	581	22	4%
Total Taxes at Present	8,382	7,952	-431	-5%
AT PROPOSED RATES:				
Franchise Tax Percentage	0.2354%	0.2637%		
Local Franchise at Proposed	559	706	147	26%
Total Taxes at Proposed	8,383	8,077	-306	-4%

CHAPTER 7: INCOME TAXES

1 A. INTRODUCTION

2 This chapter presents DRA's analysis of Federal Income Tax ("FIT") and
3 California State Corporate Franchise Tax ("CCFT") for SJWC. Table 7-1
4 compares DRA's and SJWC's tax deductions and tax estimates for Test Year 2013
5 under present rates. Table 7-2 compares DRA's and SJWC's tax deductions and
6 tax estimates for Test Year 2013 under the proposed rates.

7 B. SUMMARY OF RECOMMENDATIONS

8 The differences between DRA and SJWC's estimates are due primarily to
9 the Domestic Production Activities Deduction ("DPAD") and the net operating
10 loss ("NOL") carry-forward resulting from the Tax Relief, Unemployment
11 Insurance Reauthorization, and Job Creation Act of 2010 ("Tax Relief Act"). The
12 remaining differences are due to the differences in revenues, expenses and rate
13 base estimates between DRA and SJWC.

14 SJWC claims that it cannot utilize DPAD and claims that zero DPAD
15 should be used for ratemaking FIT because the Tax Relief Act creates an NOL
16 carried over to 2013 and 2014. SJWC also claims that the NOL from 2011 and
17 2012 should be applied to reduce the Accumulated Deferred FIT.

18 Applying a prior year's NOL to Test Year tax calculations and deferred
19 taxes is not appropriate because it would be retroactive ratemaking that is contrary
20 to the long standing Commission ratemaking practice. Rates are set prospectively
21 and taxes for regulated operations are determined on stand-alone basis and
22 applying prior year losses carried over to reduce DPAD or the Accumulated
23 Deferred FIT for Test Years 2013 and 2014 would be retroactive ratemaking.

1 **C. DISCUSSION**

2 The tax deductions and credits in this proceeding were calculated in
3 accordance with the normalization requirements of the Economic Recovery Act of
4 1981 (“ERTA”). Further, the provisions of the Tax Equity and Fiscal
5 Responsibility Act of 1982 (“TEFRA”) have been incorporated in the tax
6 deduction estimates. In addition, the provisions of the Tax Reform Act of 1986
7 (“TRA 86”) have been estimated and included into this General Rate Case in
8 accordance with the requirements of D.87-09-026 dated September 10, 1987,
9 D.87-12-028 dated December 9, 1987 and D.88-01-061 dated January 28, 1988.
10 DRA also included the impacts of the American Jobs Creation Act, commonly
11 known as the Domestic Production Activities Deduction. Finally, DRA
12 incorporated the effect of the Tax Relief Act that provides for 100% bonus
13 depreciation on certain business property put into service after September 8, 2010
14 and before January 1, 2012. It also provides for 50% bonus depreciation for
15 property placed into service thereafter and before January 1, 2013, and for
16 property placed into service in 2013 where construction begins prior to January 1,
17 2013.

18 Some of the provisions of TRA 86 have been incorporated into CCFT law
19 in the California Bank and Corporation Tax Fairness, Simplification and
20 Conformity Act of 1987 (State Tax Act of 1987). The provisions have been
21 estimated and integrated into the CCFT calculations for this General Rate Case.

22 CCFT and FIT are calculated using estimated present and proposed
23 revenues, tax-deductible expenses, interest, and tax depreciation.

24 **1) Ratemaking Interest Deduction**

25 To calculate the ratemaking interest deduction, SJWC used its Weighted
26 Average Rate Base multiplied by the Authorized Weighted Cost of Debt. DRA

1 used the same method using the Weighted Cost of Debt from the pending
2 settlement in SJWC’s cost of capital A.11-05-001 *et al.*¹⁵²

3 All other differences between DRA’s and SJWC’s estimates of the interest
4 deduction are attributable to the differences in Weighted Average Rate Base
5 estimates.

6 **2) CCFT**

7 State Tax Depreciation is calculated using flow-through depreciation.
8 Taxes are based upon actual tax depreciation used in calculating the CCFT.
9 Adjustments have been made to recognize the difference between SJWC’s
10 requested plant additions and DRA’s recommended plant additions.

11 **3) FIT**

12 Federal Tax Depreciation is calculated on a Normalized basis. The
13 California Public Utilities Commission calculates FIT using book depreciation and
14 calculated deferred taxes based upon the tax difference between book and tax
15 depreciation. Adjustments have been made to the book depreciation, recognized
16 for ratemaking purposes, in the calculation of SJWC’s recommended Federal
17 Income Tax to reflect adjustments made by DRA to SJWC’s requested plant
18 additions. The impact of SJWC’s Tax Depreciation (during the bonus
19 depreciation period) has been considered in calculating SJWC’s deferred tax
20 deduction from recommended rate base.

21 Domestic Production Activities Deduction and Net Operating Loss

22 Section 199 of the Internal Revenue Code (the “Code”) was added by
23 Section 102 of the American Jobs Creation Act of 2004, and amended by Section

¹⁵² See DRA Chapter One: Introduction & Summary of Earnings

1 403(a) of the Gulf Opportunity Zone Act of 2005 and Section 514 of the Tax
2 Increase Prevention and Reconciliation Act of 2005. On June 1, 2006, the Internal
3 Revenue Service published the final regulations under Section 199, which
4 specifies the details of the Domestic Production Activities Deduction (“DPAD”).

5 Beginning with taxable year 2010, Section 199 of the Code allows a
6 deduction equal to 9% of the lesser of (a) the Qualified Production Activities
7 Income of the taxpayer for the taxable year, or (b) taxable income (determined
8 without regard to Section 199) for the taxable year.

9 The Tax Relief Act provides for 100% bonus depreciation on certain
10 business property put into service after September 8, 2010 and before January 1,
11 2012. It also provides for 50% bonus depreciation for property placed into service
12 thereafter and before January 1, 2013, and for property placed into service in 2013
13 where construction begins prior to January 1, 2013. SJWC included the bonus tax
14 depreciation in calculating its deferred taxes.

15 Because of increase in the deferred taxes due to the bonus deductions
16 available from Tax Relief Act, The Commission issued Resolution No. L-411 and
17 L-411A ordering Utilities including SJWC to keep a one way balancing
18 memorandum account to keep track of the additional earnings and to refund the
19 extra earnings attributable to Tax Relief Act in the next GRC. DRA’s
20 recommendations on the amortization of the memorandum account for the Tax
21 Relief Act is discussed in Chapter 17 of this report. The income tax differences
22 are discussed below.

23 Despite offering no testimony on the issue, SJWC’s workpapers reveal that
24 it believes a NOL reported for tax purposes can be carried forward to reduce
25 deferred taxes (and therefore ratebase) for ratemaking purposes. SJWC also
26 believes that there would not be any taxable income after the utilization of NOL in

1 the years 2013 and 2014; therefore, SJWC claims that it cannot utilize DPAD and
2 claims that zero DPAD should be used for ratemaking FIT.

3 DRA asserts that applying prior years NOL to test year tax calculations and
4 deferred taxes is not appropriate because it would be retroactive ratemaking that is
5 contrary to the long standing Commission ratemaking practice. Rates are set
6 prospectively and applying prior year losses carried over to reduce DPAD for Test
7 Years 2013 and 2014 would be retroactive ratemaking. Furthermore, SJWC is not
8 advocating that the NOL be used to reduce its income taxes in the Test Years 2013
9 and 2014. Therefore, DRA calculated the DPAD by taking 9% of SJWC's
10 Qualified Production Activities Income and reflecting this deduction in tax
11 calculations for Test Years 2013 and 2014. Similarly, DRA removed the 2011
12 NOL carried forward into the test year for calculating the accumulated deferred
13 taxes for ratemaking purposes.

14 Both DRA and SJWC used a composite tax rate of 35% to calculate the
15 FIT. Other differences in estimates for FIT between DRA and SJWC are due to
16 differences in estimates for revenues, expenses, and rate base.

17 **D. CONCLUSION**

18 DRA recommends that the Commission adopt its estimates for Income
19 Taxes as shown in Tables 7-1 and 7-2.

TABLE 7-1

San Jose Water Company A.12-01-003
INCOME TAXES
 Test Year 2013

Item	DRA Analysis Present Rates	SJWC 2010 Present Rates	SJWC Exceeds DRA	
			Amount	%
(Dollars in Thousands)				
Operating Revenues	237,713.0	220,389.0	-17,324.0	-7%
Expenses				
O&M, A&G, Taxes other than Income	146,236	142,956	(3,280)	-2%
Transportation Depreciation	(701)	(929)	(228)	32%
Interest expense 3.37%	17,168	21,244	4,076	24%
Less 50% Meals disallowed	89	89	-	0%
Expenses Subtotal	<u>162,791.9</u>	<u>163,360.4</u>	568	0%
CCFT				
Tax Depreciation	(33,932)	(35,157)	(1,226)	4%
Taxable Income Including Deferred Revenue	41,297	4,709.3	(36,588)	-89%
CCFT 8.84%	3,651	416.3	(3,234)	-89%
FIT				
Tax Depreciation	(32,947)	(33,745)	(798)	2%
CCFT Deduction	(3,651)	(416)	3,234	-89%
DPAD	(3,207)	-	3,207	-100%
Taxable Income Excluding Deferred Revenue	<u>34,728</u>	<u>5,391</u>	(29,337)	-84%
Tax Expense 35.00%	12,155	1,887	(10,268)	-84%
Amortization of Unrecov. Prepaid				
Tax on CIAC & Advances	6	6	-	0%
FIT total	12,161	0	(12,161)	-100%
Total Income Tax	15,811	416	(15,395)	-97%

TABLE 7-2

San Jose Water Company A.12-01-003				
INCOME TAXES				
Test Year 2013				
Item	DRA	SJWC	SJWC Exceeds DRA	
	at 2013 Proposed Rates	at 2013 Proposed Rates	Amount	%
(Dollars in Thousands)				
Total Revenues	237,820	267,782	29,962	13%
Expenses				
O&M, A&G, Taxes other than Income	146,237	143,156	(3,081)	-2%
Transportation Depreciation	(701)	(929)	-228	32%
Interest expense	17,168	21,244	4,076	24%
Less 50% Meals disallowed	89	89	0	0%
Expenses Subtotal	162,792.4	163,560.0	768	0%
CCFT				
Tax Depreciation	(33,932)	(35,157)	-1,226	4%
Taxable Income Incl. Def. Rev.	41,096	52,091	10,994	27%
CCFT (at 8.84%)	3,633	4,605	972	27%
FIT				
Tax Depreciation	(32,947)	(33,745)	(798)	2%
CCFT	(3,633)	(4,605)	(972)	27%
DPAD	(3,213)	-	3,213	-100%
Taxable Inc. excl. Def. Rev.	34,847	48,584	13,737	39%
Tax @ 35.00%	12,196	17,004	4,808	39%
Amortization of Unrecov. Prepaid				
Tax on CIAC & Advances	6	6	0	0%
FIT total	12,202	17,010	4,808	39%
Total Income Tax	15,835	21,615	5,780	37%

CHAPTER 8: UTILITY PLANT IN SERVICE

1 A. INTRODUCTION

2 San Jose Water Company is projecting increases in several capital
3 construction budget areas including new mains for recycled water service, main
4 replacements, reservoir and tank improvements, IT equipment, and pump station
5 improvements. This chapter presents DRA's recommendations regarding the
6 reasonableness of these planned construction projects. The sub-sections of the
7 Discussion section follow the construction budget categories shown in SJWC's
8 Table 11-B, WP 11-2, and the category codes used in WP-8.

9 Tables 8-1 and 8-2 at the end of this Chapter show DRA's and SJWC's
10 estimates for plant-in-service for the Test Year 2013 and the Escalation Year
11 2014.

12 B. SUMMARY OF RECOMMENDATIONS

13 DRA supports many of the proposed construction projects presented in
14 SJWC general rate case application including many of the main replacement
15 projects, nearly all of the reservoir and tank projects, and many pump station
16 improvements. DRA recommends the Commission give greater weight to these
17 capital investments related to water supply and reliability and recognize the over
18 aggressive proposals for further investment by SJWC in the areas of recycled
19 water infrastructure, solar panel installation, and hydro-turbine generation
20 projects.

21 While Recycled Water is an important and new area for water utilities in
22 California, and is currently being discussed in the Commission's OIR R.10-11-
23 014, SJWC is proposing to build infrastructure for recycled water that is 20 years
24 too early, based on the projected demand for recycled water for the same time
25 period. Regarding solar panel installation, SJWC has not complied with the

1 decision from the last general rate case regarding conducting a least-cost energy
2 efficiency study, nor has it confirmed benefits to ratepayers from its existing solar
3 panel installation. Finally, hydro-turbine generators are much more beneficial
4 when installed near equipment that can use the electricity produced, (such as at
5 SJWC’s existing system at Cox Station.) Installations such as the one currently
6 proposed by SJWC are not as desirable and require a power purchase agreement
7 with PG&E.

8 A central area of concern for DRA in this general rate case application is
9 the large amount of proposed recycled water pipelines and the associated number
10 of proposed customer retrofits. In addition to the capital costs of the recycled
11 water pipelines presented in the Utility Plant portion of its application as “new
12 mains,” SJWC is also proposing to pay, as an operating expense, the full costs
13 associated with the 240 customer retrofits required to allow these selected
14 customers to use both potable and recycled water. This would essentially be a
15 subsidy flowing from all SJWC ratepayers to 240 customers who are primarily
16 commercial. The proposed capital costs of over \$31.5 Million from 2012 through
17 2014 and the associated operating expenses of \$15.3 Million is a concern to DRA
18 for several reasons particularly because the expected recycled water usage from
19 these proposed projects is far outside the recycled water goals presented in
20 SJWC’s 2010 Urban Water Management Plan.

21 Other areas of concern include the aggressive main replacement program
22 and select reservoir, tank, and pump station improvements. DRA conducted an
23 analysis similar to a “nessie curve” analysis of the main replacements and
24 concluded that a less aggressive, more targeted, main replacement program could
25 still replace enough mains to ensure reliability. DRA also identified various
26 projects that appear to be only required if production were to rise back to the peak
27 amount in 2007. With production down 15% from 2007 DRA recommends
28 delaying these select reservoir, tank, and pump station improvements.

1 The total construction budget for the test year and two escalation years in
 2 this general rate case are summarized in Table 8-A.

**TABLE 8-A COMPARISON OF TOTAL CONSTRUCTION
 BUDGET 2012 - 2014**

	DRA	SJWC	Difference	% Difference
2012	\$75,217,813	\$84,699,400	(\$9,481,587)	-11.2%
2013	\$72,804,271	\$93,883,500	(\$21,079,229)	-22.5%
2014	\$73,641,410	\$118,621,200	(\$44,979,790)	-37.9%
TOTAL	\$221,663,494	\$297,204,100	(\$75,540,606)	-25.4%

3 Table 8-B is a comparison of the three-year total (2012 – 2014) for each
 4 construction category included in SJWC’s construction budget, and the outline of
 5 this chapter.

**TABLE 8-B COMPARISON OF THREE YEAR TOTAL BY
 CONSTRUCTION CATEGORY**

		2012 – 2014 TOTAL			
	Construction Item	DRA	SJWC	Difference	% Difference
1	Land	\$0	\$31,800	(\$31,800)	-100.00%
2	Source of Supply	\$15,351,100	\$15,351,100	\$0	0.00%
3	Water Treatment	\$860,800	\$860,800	\$0	0.00%
4	Reservoirs & Tanks	\$43,536,800	\$46,829,200	(\$3,292,400)	-7.03%
5	Pump Stations & Equipment	\$21,141,000	\$30,967,200	(\$9,826,200)	-31.73%
	Distribution System:				
6	New Mains	\$5,717,000	\$31,554,400	(\$25,837,400)	-81.88%
7	Service Transfers	\$258,700	\$258,700	\$0	0.00%
8	City, County & State	\$1,273,500	\$1,273,500	\$0	0.00%

9	Replacement Mains	\$81,951,800	\$103,668,900	(\$21,717,100)	-20.95%
10	Main Extensions	\$6,921,200	\$6,921,200	\$0	0.00%
11	Services	\$16,747,117	\$20,087,000	(\$3,339,883)	-16.63%
12	Meters	\$11,849,562	\$12,411,200	(\$561,638)	-4.53%
13	Hydrants	\$1,222,900	\$1,222,900	\$0	0.00%
14	Equipment	\$8,845,900	\$12,112,500	(\$3,266,600)	-26.97%
15	Structures & Non-Specifics	\$5,986,115	\$9,764,500	(\$3,778,385)	-38.70%
16	Green & Alternative Energy	\$0	\$3,889,200	(\$3,889,200)	-100.00%
	Total Construction Budget	\$221,663,494	\$297,204,100	(\$75,540,606)	-25.42%

1 DRA supports many of the proposed construction projects, including
2 significant increases in Reservoir and Tank projects, Pump Station projects, and
3 Equipment.

4 **C. BACKGROUND**

5 For this analysis, DRA reviewed Chapters 11 and 20 related to Utility Plant
6 and Recycled Water of SJWC's Exhibit E – Report on the Results of Operations,
7 SJWC's Exhibit G – Capital Budget Project Justification, past Commission
8 decisions regarding the last general rate case (D.09-11-032), and SJWC's
9 responses to DRA data requests AR4-001 through AR4-007. DRA also conducted
10 a field investigation of SJWC's water system on February 29 and March 1, 2012.
11 The Montevina Filter Plant Upgrade is a major capital improvement project
12 proposed by SJWC that is currently being considered in a separate proceeding
13 (A.10-09-019). At the time of this report there has not been a proposed decision
14 presented to the Commission in that proceeding. The projected costs for the
15 Montevina project, estimated at \$73.7 Million,¹⁵³ is therefore not included in this

¹⁵³ Scoping Memo and Ruling of the Assigned Commissioner, March 8, 2011, p. 2 (A.10-09-019)

1 report however the Commission should consider these costs along with the
2 requests made in this general rate case application in terms of the total impact on
3 SJWC's rates.

4 **D. DISCUSSION**

5 This discussion section's layout will follow the construction budget
6 categories used by SJWC in its Table 11-B and WP 11-2 and this chapter's Table
7 8-B, shown above.

8 **1) Land**

9 SJWC is requesting to increase its budget for Land acquisitions that are
10 entirely for miscellaneous rights-of-way, as needed, from the \$5,500 budgeted in
11 2011 to \$10,300 in 2012, and increased by 3% through 2014. The reason provided
12 for this increase is that "over the course of time the funding requested is not
13 sufficient to cover the necessary work required to perform easement and property
14 research"¹⁵⁴ and that "[b]ased on recent experience SJWC recognizes that the
15 effort and time to perform this function has increased."¹⁵⁵

16 Although the budget for this category is generally even each year, the
17 recorded spending is very sporadic with over \$2 Million spent in both 2006 and
18 2008 and then \$0 in 2009 through 2011. These recorded values are not consistent
19 with the budgeted amounts, neither in this GRC or the last, which range from
20 \$5,000 in 2008 increasing steadily to \$10,900 in 2014. DRA has not included any
21 amount for Land in its recommended construction budget, which is consistent with
22 the recorded amounts in this category over the last three years. DRA recommends
23 that requests for this category be made in line with the way spending occurs in
24 order to allow for proper review and assessment of appropriateness.

¹⁵⁴ SJWC's response to DRA data request AR4-005, Question 2.

¹⁵⁵ SJWC's response to DRA data request AR4-005, Question 2.

Land	DRA	SJWC
2012	\$0	\$10,300
2013	\$0	\$10,600
2014	\$0	\$10,900

1 **2) Source of Supply**

2 SJWC is requesting to continue to install two (2) wells each year as
3 replacements for wells that have deteriorated as identified in its 2011 Wells
4 Study.¹⁵⁶ (\$2.8M in 2012, \$2.9M in 2013, \$3.0M in 2014) Then, in order to
5 continue its program of replacing two wells per year in 2015 and beyond, SJWC is
6 requesting to purchase property in 2013 and 2014 because, “beginning in 2015,
7 there will no longer be any acceptable existing sites owned by SJWC to install
8 new wells per the 2011 updated SJWC Groundwater and Well Infrastructure
9 Study.”¹⁵⁷ (\$2.7M in 2013, 2.8M in 2014) In 2012 SJWC plans to prepare a
10 comprehensive water supply study for its service area.¹⁵⁸ (\$0.45M in 2012)

11 DRA finds these amounts to be reasonable and has included the full amount
12 for Source of Supply in its recommended construction budget.

Source of Supply	DRA	SJWC
2012	\$3,112,600	\$3,562,600
2013	\$5,968,600	\$5,968,600
2014	\$5,819,900	\$5,819,900

¹⁵⁶ “Job Description” column for Seventeenth St, Three Mile & Buena Vista, and Gish & Williams well replacements in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Each with Index No. 2917)

¹⁵⁷ “Reason” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4357)

¹⁵⁸ “Job Description” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4437)

1 **3) Water Treatment**

2 SJWC is requesting various repair and maintenance projects at the Ostwald
3 Intake, Saratoga Filter Plant, Howell Treatment Plant, Montevina Station & Filter
4 Plant, and an annual budget to replace ten (10) distribution system water quality
5 sampling stations each year. (\$0.86M total in 2012 - 2014) SJWC does not make
6 any requests in its GRC application associated with its Montevina Filter Plant
7 Upgrade, which is being considered separately in A.10-09-019. The total project
8 costs for the Upgrade is estimated to be \$73.7 Million with an associated 14.4
9 Million increase in revenue requirement.¹⁵⁹ The Montevina project alone, if
10 approved, would increase rates by approximately 7 percent.

11 DRA recommends the Commission approve the proposed GRC projects for
12 the Water Treatment category while being mindful of the proposed construction
13 budget for the Montevina Filter Plant Upgrade, in the same category, currently
14 being considered in A.10-09-019.

Water Treatment	DRA	SJWC
2012	\$502,400	\$502,400
2013	\$338,300	\$338,300
2014	\$20,100	\$20,100

15 **4) Reservoirs & Tanks**

16 SJWC is requesting several reservoir and tank repairs, replacements, and
17 roof improvements throughout 2012, 2013, and 2014 that total \$46.8 Million. This
18 three-year total is more than seven times what was spent in 2009-2011. The
19 current application includes a 4-year project to replace the 7.7 million gallon
20 Vickery Ave Station reservoir that alone will cost a total of \$22.6 Million, of

¹⁵⁹ Scoping Memo and Ruling of the Assigned Commissioner, March 8, 2011, p. 2 (A.10-09-019)

1 which \$17.7 Million is requested in this general rate case.¹⁶⁰ Even setting the
2 Vickery Ave Station project aside, the remaining projects still total more than four
3 times what was spent in 2009-2011. SJWC is also requesting \$0.45M in 2013 for a
4 consultant study to analyze twelve reservoirs including a geotechnical assessment
5 of the embankments and linings and a structural study of all reservoir columns,
6 roofs, support structures and inlet/outlet pipes.¹⁶¹

7 DRA takes issue with two projects, both of which are proposed for 2014,
8 first a Redwood tank replacement at Koch Lane Station and second a reservoir
9 roof structure replacement and membrane roofing system installation over the
10 existing metal roof at Almaden Valley Station.

11 The Koch Lane Station consists of two (2) wells, one (1) redwood tank, and
12 one (1) booster pump and is a production facility for the Dow Zone within
13 SJWC's service area.¹⁶² SJWC is proposing to replace the redwood tank.
14 (\$0.825M in 2014) However, this production facility has not been in operation
15 since 2007.¹⁶³ The primary source of water supply to the Dow zone is Santa Clara
16 Valley Water District's Santa Teresa Treatment Plant. SJWC decided to restore
17 the Koch Lane Station to service as a groundwater production facility due to
18 "frequent maintenance outages" at the Santa Teresa Treatment Plant.¹⁶⁴ SJWC
19 does explain that it is able to meet consumer demand during these outages by

¹⁶⁰ "Budget Amount" column in "SJWC 2012-14 CIP" tab of CH-11 UTILITY PLANT.xls (Index No. 3958) and Alternate 1A – 4 MG (2 ea.) Steel Tank Summary – 4 Year Cost Estimate in Exhibit G – Attachment 5 Vickery Reservoir Replacement Basis of Design Report

¹⁶¹ "Job Description" column in "SJWC 2012-14 CIP" tab of CH-11 UTILITY PLANT.xls (Index No. 4300)

¹⁶² Exhibit G – Capital Budget Justifications, p. 165

¹⁶³ SJWC's response to DRA data request AR4-007

¹⁶⁴ SJWC's response to DRA data request AR4-007

1 using its interzone booster pumps.¹⁶⁵ DRA recommends the tank replacement at
2 Koch Station not be pursued in 2014 as proposed by SJWC because it is not
3 required to meet current production amounts.

4 The Almaden Valley Station is an earthen reservoir storage and distribution
5 facility with a capacity of 8.9 million gallons. SJWC is proposing to replace the
6 timber roof support columns, support structures, metal roof sheeting, and install a
7 membrane liner.¹⁶⁶ (\$2.467M in 2014) DRA anticipates that this earthen reservoir
8 will be included in the 2013 consultant study which will include a structural study
9 of this and other reservoir columns, roofs, and support structures. DRA
10 recommends this capital project be postponed until the future recommendations
11 from the 2013 consultant study are incorporated.

12 DRA has included the full amount for Reservoirs & Tanks in its
13 recommended construction budget less \$0.825 Million and \$2.467 Million in 2014
14 for Koch Lane Station and Almaden Valley Station respectively. The remaining
15 budget is still a significant increase from the authorized 2011 budget of \$2.56
16 million in this category.

Reservoirs & Tanks	DRA	SJWC
2012	\$13,302,600	\$13,302,600
2013	\$14,280,800	\$14,280,800
2014	\$15,953,400	\$19,245,800

17 **5) Pump Stations & Equipment**

18 SJWC is requesting an annual replacement of line shaft booster and well
19 pumps, as well as submersible pump motors and parts for replacement upon

¹⁶⁵ SJWC's response to DRA data request AR4-007

¹⁶⁶ Exhibit G – Capital Budget Project Justifications, p. 141

1 failure that is in line with prior annual replacement spending amounts. In addition
2 to this annual replacement program SJWC proposes multiple projects that involve
3 booster pump replacements in order to increase available capacity. Finally, this
4 category also includes several Motor Control Center (“MCC”) replacement
5 projects and new standby power generators, particularly in 2014.

6 Projects Proposed to Increase Pump Station Capacity

7 In general, with water sales and therefore production requirements down
8 15% since its peak in 2007,¹⁶⁷ DRA does not support capital projects that are
9 proposed in order to increase booster pump or storage capacity at SJWC’s various
10 Pump Stations. DRA has found a handful of such projects that SJWC appears to
11 have proposed based on the peak demand production requirements seen around
12 2007 but not observed in the most recent years. These six projects briefly
13 described here are not included in DRA’s recommended budget for 2012 through
14 2014.

15 **Overlook Road Station**

16 The Overlook Station is a storage and inter-zone pumping facility with two
17 (2) tanks and two (2) booster pumps that transfer water to the Beckwith Zone with
18 51 service connections.¹⁶⁸ Due to site limitations and contours of the parcel, the
19 base of Tank #2 is 15 feet below that of Tank #1. SJWC argues that the current
20 location of the booster pumps, near the base of Tank #1, do not allow for full
21 utilization of the average storage capacity of Tank #2.¹⁶⁹ DRA agrees with
22 SJWC’s desire of having full utilization of its Tank #2 however the booster pumps
23 at Overlook Station have been in this same location for decades, and at this time

¹⁶⁷ Observations from data within WP 7-1B (Total Supply)

¹⁶⁸ Exhibit G – Capital Budget Project Justifications, p. 119.

¹⁶⁹ Exhibit G – Capital Budget Project Justifications, p. 119.

1 with declining sales it does not appear to be urgently necessary to increase storage
2 capacity.

3 **Mireval Station**

4 The Mireval Station consists of a single booster pump, Mireval Booster #1.
5 This pump delivers water to the Cypress Zone with 34 service connections and to
6 the Aztec Zone with 28 services. SJWC argues that a second booster is needed at
7 this station because “in recent years there have been at least 16 days where the
8 system demand exceeded 70% of the total available production capacity of
9 Mireval Booster #1.”¹⁷⁰ However, DRA notes that the “recent years” described by
10 SJWC are 2004 through 2008.¹⁷¹ With overall demand down 15% since 2007
11 DRA does not agree to the need for a second booster pump at the Mireval Station
12 at this time.

13 **Franciscan Station**

14 The Franciscan Station is a relay facility that pumps water from the
15 Belgatos Zone to the Montego Zone. The station consists of two boosters and an
16 earthen reservoir that is no longer in use.¹⁷² SJWC argues that, “[w]ith the earthen
17 reservoir no longer operational, the two boosters are provided with suction head
18 from the distribution system itself and experience low suction head conditions
19 during summer demand periods.”¹⁷³ SJWC suggests upgrading and relocating
20 both booster pumps to a lower elevation in order to increase capacity and
21 eliminate the low suction head conditions that prevent efficient pumping during

¹⁷⁰ Exhibit G – Capital Budget Project Justifications, p. 105.

¹⁷¹ See tables presented in Exhibit G – Capital Budget Project Justifications p. 107.

¹⁷² Exhibit G – Capital Budget Project Justifications, p. 168.

¹⁷³ Exhibit G – Capital Budget Project Justifications, p. 168.

1 summer demands.¹⁷⁴DRA notes that the earthen reservoir was retired in 1985 and
2 this operating scenario is not a new one.¹⁷⁵ Although SJWC argues that “the
3 number of customers in the Montego Zone has doubled in the past ten years”¹⁷⁶
4 overall consumption has gone down lessening the possibility of low suction head
5 conditions at Franciscan Station.

6 **Buena Vista Station**

7 SJWC’s Buena Vista Station currently has 8 wells with a production
8 capacity of 22.8 million gallons per day (“MGD”) and 4 booster pumps with a
9 pumping capacity of 13.7 MGD.¹⁷⁷ SJWC proposes installing a new “Booster #5”
10 with a pumping capacity of 4 MGD in order to reduce the current well production
11 to booster deficit from 9 MGD to 5 MGD.¹⁷⁸ This is in line with SJWC’s
12 assessment that “it is desirable to maintain a minimum of 3 to a maximum of 6
13 MGD in excess well capacity.”¹⁷⁹

14 DRA reviewed the daily combined production from Buena Vista Station
15 from 2007 through 2011, graphed below in Figure 8-A, and found a declining
16 trend.¹⁸⁰

¹⁷⁴ Exhibit G – Capital Budget Project Justifications, p. 168.

¹⁷⁵ SJWC’s response to DRA data request AR4-007.

¹⁷⁶ SJWC’s response to DRA data request AR4-007.

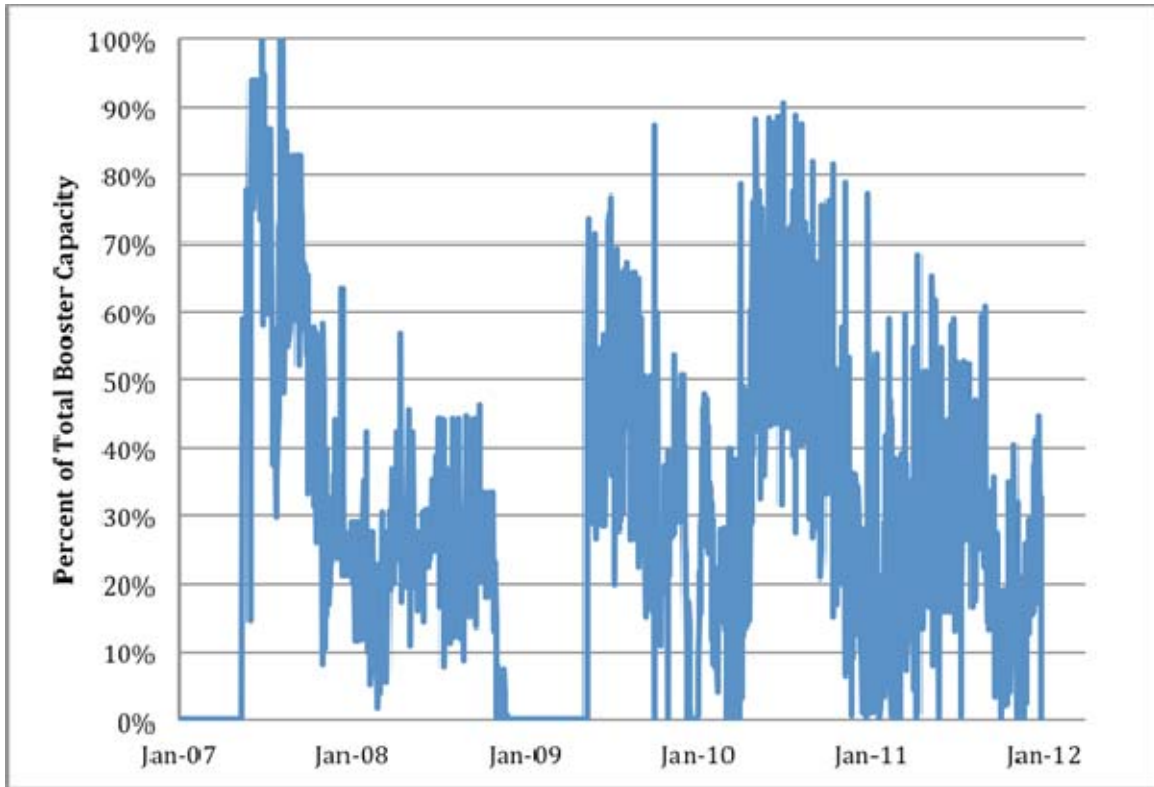
¹⁷⁷ Exhibit G – Capital Budget Project Justifications, p. 171.

¹⁷⁸ Exhibit G – Capital Budget Project Justifications, p. 173.

¹⁷⁹ Exhibit G – Capital Budget Project Justifications, p. 172.

¹⁸⁰ Data provided in SJWC’s response to DRA data request AR4-007. (Attachments E and F)

FIGURE 8-A – Buena Vista Station Daily Combined Production



1 From this data it does not appear that a fifth booster pump is needed at the
2 Buena Vista Station.

3 Miguelito Road Station

4 Miguelito Road Station is an inter-zone pumping facility with four (4)
5 booster pumps. SJWC proposes to install a fifth booster pump to “provide the
6 additional water pumping capacity to meet maximum days demands in the area
7 served”¹⁸¹ and replace the station’s MCC. DRA recommends deferring this
8 project because the maximum day demand, last seen in 2007, is not projected to
9 occur again in the near future with declining demand.

¹⁸¹ Exhibit G – Capital Project Budget Justifications, p. 180.

1 **Koch Lane Station**

2 The Koch Lane Station consists of two (2) wells, one (1) redwood tank, and
3 one (1) booster pump.¹⁸² For the Pump Station & Equipment category, SJWC is
4 proposing to replace the MCC at Koch Lane Station. As further discussed in the
5 Reservoir and Tanks section of this report, this production facility has not been in
6 operation since 2007.¹⁸³ DRA recommends that Koch Lane Station not be restored
7 in 2014 because it is not required to meet current production amounts.

8 **Standby Generators**

9 SJWC proposes the purchase and installation of 4 large stationary
10 generators at specific stations and 8 small stationary generators at specific pressure
11 systems to power well and booster pumps after a natural disaster when normal
12 electric power cannot be provided. The total proposed cost of the standby
13 generators is \$5,324,000 from 2012-2014¹⁸⁴. The necessity for these generators is
14 based on California Department of Public Health regulation Title 22, Chapter 16,
15 Article 8, Paragraph 64602.a which states that a minimum operating pressure of
16 20-psig must be maintained at all service connections. In its *Emergency Power*
17 *Program for Disaster Recovery* study, SJWC determined that average winter day
18 demand was the necessary amount of water needed to preserve health and safety
19 of water consumers in the event of a natural disaster. Using these criteria, SJWC
20 determined which of its stations and pressure systems required stationary standby
21 generators. Careful review of the study leads DRA to include the full amount for
22 standby power generators in its recommendation with the exception of the
23 following six projects at Chablis, Columbine, Fleming, Varner Ct., Tully Rd., and
24 Williams Rd. Station.

¹⁸² Exhibit G – Capital Project Budget Justifications, p. 165

¹⁸³ SJWC’s response to DRA data request AR4-007

¹⁸⁴ Exhibit G, Attachment 4, *Emergency Power Program for Disaster Recovery*

1 DRA recommends making adjustments to the cost of the standby generators
2 at Chablis, Columbine, Fleming, and Varner Ct. Stations. Review of vendor quotes
3 and SJWC’s emergency power study show costs of these projects were
4 overestimated. Additionally, DRA recommends disallowing the entire cost of
5 standby generators at Tully Rd. and Williams Rd. stations. DRA finds it is more
6 economically feasible to install generators in zones surrounding the Columbine
7 and Cox zones¹⁸⁵, create surplus water in the surrounding zones, and allocate the
8 surplus water to Columbine and Cox zones than installing generators at Tully Rd.
9 and Williams Rd. Stations.

10 **10 kW Generator Chablis Station**

11 In the Emergency Power Study SJWC recommended a 15 kW generator for
12 Chablis Station at a cost of \$119,500 in 2012. In its application SJWC requested
13 the purchase of a 10 kW generator for the same price.¹⁸⁶ It is unreasonable for a 10
14 kW generator to cost the same as a 15 kW generator that will be installed at the
15 same site. DRA recommends allowing the purchase of a 10 kW generator for
16 Chablis Station at a cost of \$79,700.¹⁸⁷

17 **100 kW Generator Columbine Station**

18 In the Emergency Power Study SJWC recommended a 100 kW generator
19 for Columbine Station at a cost of \$466,600 in 2012. DRA reviewed a quote
20 provided to SJWC by Energy Systems Inc. (“ESI”) which lists budgetary pricing
21 for the Columbine Station generator. The actual cost of the generator with all

¹⁸⁵ Columbine and Cox zones are served by Tully Rd Station and Williams Rd. Station, respectively.

¹⁸⁶ “Budget Amount” column in “SJWC 2012-2014 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4320)

¹⁸⁷ Using “Budget Amount” column in “SJWC 2012-2014 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4320) an average \$/kW was calculated for this site. This number was used to determine the cost of installing a 10kW generator.

1 accessories is \$201,000.¹⁸⁸ DRA recommends allowing the purchase of a 100 kW
2 generator at a cost of \$282,600. This includes material, company labor,
3 contingencies, and overhead costs.

4 **125 kW Generator Fleming Station**

5 In the Emergency Power Study SJWC recommended a 100 kW generator
6 for Fleming Station at a cost of \$424,400 in 2012. DRA reviewed a quote provided
7 to SJWC by ESI which lists budgetary pricing for the Fleming Station generator.
8 The actual cost of the generator with all accessories is \$198,000.¹⁸⁹ DRA
9 recommends allowing the purchase of a 100 kW generator at a cost of \$279,200.
10 This includes material, company labor, contingencies, and overhead costs.

11 **10 kW Generator Varner Ct. Station**

12 In the Emergency Power Study SJWC recommended a 30 kW generator for
13 Varner Ct. Station at a cost of \$202,700 in 2014. In its application SJWC
14 requested the purchase of a 10 kW generator for the same price.¹⁹⁰ It is
15 unreasonable for a 10 kW generator to cost the same as a 30 kW generator that
16 will be installed at the same site. DRA recommends allowing the purchase of a 10
17 kW generator for Varner Ct. Station at a price of \$69,300.¹⁹¹

18 **1200 kW Generator Tully Rd. Station**

19 In the Emergency Power Study SJWC recommended a 1200 kW generator
20 for Tully Rd. Station at a cost of \$1,404,200 in 2014. After careful review of

¹⁸⁸ SJWC response to DRA data request AR4-006 q.8

¹⁸⁹ SJWC response to DRA data request AR4-006 q.8

¹⁹⁰ “Budget Amount” column in “SJWC 2012-2014 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4323)

¹⁹¹ Using “Budget Amount” column in “SJWC 2012-2014 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4323) an average \$/kW was calculated for this site. This number was used to determine the cost of installing a 10kW generator.

1 SJWC’s Capital Budget Project Justification and Emergency Power Program for
2 Disaster Recovery, DRA recommends disallowing the purchase and installation of
3 a permanent 1200 kW standby power generator for Tully Road Station #1 in its
4 entirety for two main reasons: SJWC’s cost estimate far exceeds budgetary pricing
5 provided by ESI¹⁹² and deficiency in winter day water demand in Columbine zone
6 can be supplemented by other zones.¹⁹³ Surplus water can be allocated from zones
7 surrounding the Columbine zone. This will ensure SJWC customers receive safe,
8 reliable drinking water in the event of a natural disaster.

9 **1600 kW Generator Williams Rd. Station**

10 In the Emergency Power Study SJWC recommended a 1600 kW generator
11 for Williams Rd. Station at a cost of \$1,704,700 in 2014. After careful review of
12 SJWC’s Capital Budget Project Justification and Emergency Power Program for
13 Disaster Recovery, DRA recommends disallowing the installation of a permanent
14 1600 kW standby power generator for Williams Road Station #1 in its entirety for
15 several reasons: SJWC’s cost estimate far exceeds budgetary pricing provided by
16 ESI,¹⁹⁴ a 650 kW generator is already installed at Williams Road station,¹⁹⁵
17 deficiency in winter day water demand in Cox zone can be supplemented by other
18 zones.¹⁹⁶ Surplus water can be allocated from zones surrounding the Cox zone.
19 This will ensure SJWC customers receive safe, reliable drinking water in the event
20 of a natural disaster.

21 The following table provides a summary of DRA’s recommendation for
22 SJWC’s Emergency Power Program:

¹⁹² SJWC response to DRA data request AR4-006 q.8

¹⁹³ Exhibit G, Attachment 4, *Emergency Power Program for Disaster Recovery*

¹⁹⁴ SJWC response to DRA data request AR4-006 q.8

¹⁹⁵ Exhibit G, Index #4333 p.190

¹⁹⁶ Exhibit G, Attachment 4, *Emergency Power Program for Disaster Recovery*

Year	CIP	Description	DRA
2012	4319	Generator Receptacle Lumber St. Station	\$64,900
2012	4320	10 kW Generator Chablis Station	\$79,700
2012	4334	100 kW Generator Columbine Station	\$282,600
2012	4335	125 kW Generator Fleming Station	\$279,200
2013	4325	75kW Generator Bear Creek Pressure System	\$232,300
2014	4323	10 kW Generator Varner Ct. Station	\$69,300
2014	4324	10 kW Generator San Ramon Dr. Station	\$146,400
2014	4326	10 kW Generator Montgomery Highlands Res.	\$131,100
2014	4327	10 kW Generator Perie Ln. Res.	\$131,100
2014	4328	10 kW Generator Tybalt Dr.	\$147,500
2014	4329	10 kW Generator Kyburz	\$148,600
Total =			\$1,712,700

2 DRA has included the full amount for Pump Stations & Equipment in its
3 recommended construction budget with several adjustments made to the standby
4 generator program and removal of six projects as discussed above that are not
5 needed at this time with recent declines in production demand.

Pump Stations & Equipment	DRA	SJWC
2012	\$7,108,800	\$7,477,800
2013	\$5,977,100	\$7,996,000
2014	\$8,055,100	\$15,493,400

1 **6) Distribution System – New Mains (Recycled Water)**

2 SJWC has hired HydroScience Engineers, Inc. (“HSe”) to develop its
3 recycled water program, which has included completion of its 2009 Recycled
4 Water Master Plan. In this Master Plan HSe identified 18 alignments of recycled
5 water pipe networks that could extend from the exiting trunk pipeline of the
6 recycled water system. In the current general rate case, SJWC is requesting
7 authorization to install 7 of these 18 recycled water alignments. Two alignments
8 (G and H) and the majority of a third (C) have been completed as part of the last
9 general rate case.

10 DRA recommends only 4 of these Alignments (C, S, M, and N) be
11 authorized in this general rate case in order to allow SJWC to meet its recycled
12 water usage goals for 2015 as shown in SJWC’s 2010 Urban Water Management
13 Plan. All other identified recycled water alignments should continue to be assessed
14 as more uses for recycled water are in place, more customer buy-in is established,
15 and the existing alignments are filled in. The total recycled water supply capacity
16 envisioned by SJWC’s 7 proposed recycled water projects in 2012 -2014 are not
17 reasonable for the recycled water demand that is expected in the near future.

18 **SBWR Recycled Water Program**

19 SJWC is an active participant and retailer for the South Bay Water
20 Recycling (“SBWR”) Program. The SBWR Program was implemented by the City
21 of San Jose to protect the salt marsh habitat by reducing effluent flows from the
22 San Jose/Santa Clara Water Pollution Control Plant into the wetland of the South
23 Bay.¹⁹⁷ SBWR is operated by the cities of San Jose, Santa Clara, and
24 Milpitas.¹⁹⁸ “An order by the Regional Water Quality Control Board (“RWQCB”)

¹⁹⁷ 2005 Urban Water Management Plan for City of San Jose Municipal Water System. Chapter 6 – Recycled Water. Introduction.

¹⁹⁸ SJWC 2005 Urban Water Management Plan, p. 15

1 limited treated wastewater discharge to the San Francisco Bay to 120 MGD during
2 summer months. As a result, the San Jose City Council authorized the construction
3 of recycled water facilities in 1993 in order to distribute the excess treated
4 water.”¹⁹⁹ This wastewater discharge capacity limitation is being met with the
5 existing SBWR distribution system and existing customer usage.²⁰⁰

6 **Recycled Water usage goals in SJWC’s Urban Water**
7 **Management Plan**

8 The 2009 SJWC Recycled Water Master Plan developed by HSe for SJWC
9 describes the Plan’s purpose as meeting the 2005 UWMP demand that is
10 “projected to increase from 1,101 acre-feet per year (“AFY”) in 2000 to 3,038
11 AFY in 2030.”²⁰¹ SJWC says this Master Plan “identifies the strategy needed to
12 achieve the recycled water goals as identified in the 2010 UWMP.”²⁰² It is
13 concerning then that the 2005 UWMP projected demand, which was used by HSe
14 to develop SJWC’s 2009 Recycled Water Master Plan, is consistently less than the
15 projected demand presented in the 2010 UWMP, and neither are high enough to
16 support the projected sales of recycled water presented in this general rate case
17 application. Table 8-C shows SJWC’s projected recycled water sales from 2012
18 through 2015 with the AFY in 2015 equal to SJWC’s 2010 UWMP’s projected
19 demand for 2035. This means the construction budget for recycled water new
20 mains presented in the current application comes 20 years too early based on the
21 projections for available customers to make use of those proposed new mains.

¹⁹⁹ SJWC Exhibit E, Chapter 20, p. 5.

²⁰⁰ SJWC Exhibit E, Chapter 20, p. 6.

²⁰¹ San Jose Water Company Recycled Water Master Plan, March 2009

²⁰² SJWC Exhibit E, Chapter 20. p.8.

**Table 8-C – Comparison of SJWC’s GRC Sales Forecast
and 2010 UWMP Potential Future Use**

Current General Rate Case Application	2012	2013	2014	2015
Recycled Water Sales Forecast (AFY) ^{<u>203</u>}	1,545	2,142	2,849	3,595

2010 UWMP	2010	2015	2020	2025	2030	2035
Recycled Water Potential Future Use (AFY) ^{<u>204</u>}	1,210	1,882	3,094	3,252	3,418	3,592

1 **Recycled water customer retrofits**

2 In addition to the \$31.6 Million requested between 2012 and 2014 for
3 capital investment in recycled water pipelines, SJWC is also proposing to spend
4 \$15.9 Million as an O&M expense in 2012-2015 for customer retrofits.
5 Retrofitting existing customers’ onsite facilities is “necessary in order to expand
6 the use of recycled water.”²⁰⁵ SJWC is proposing to cover these customer retrofit
7 costs, which average between \$40,000 and \$60,000 per retrofit.

8 SBWR had historically paid for retrofits for existing customers however
9 with the Regional Water Quality Control Board’s wastewater discharge
10 requirements being met, funding is no longer available.²⁰⁶

²⁰³ SJWC Update Table 7-D. The values presented here have been converted from Kccf to AFY. The original Kccf values in the Updated Table 7-D are 673, 933, 1241, and 1566 respectively.

²⁰⁴ SJWC’s 2010 Urban Water Management Plan, p. 26 (Table 23)

²⁰⁵ SJWC Exhibit E, Chapter 20, p. 11.

²⁰⁶ SJWC Exhibit E, Chapter 20, p. 11.

1 SBWR previously had a direct need to increase the amount of recycled
2 usage in the region and in turn decrease the amount of effluent leaving the
3 wastewater treatment plant and entering the San Francisco Bay in order to meet
4 the requirements of the Regional Water Quality Control Board. SJWC presently
5 has no such direct need and therefore does not have any reason to cover the costs
6 for customer retrofits.

7 SJWC and HSe argue that “[a]lthough recycled water rates provide an
8 incentive for the customer to use recycled water, HSe’s experience with other
9 recycled water retailers has indicated that the lower rates for recycled water alone
10 do not provide enough incentive for customers to incur the initial upfront cost to
11 convert their onsite facility to receive recycled water.”²⁰⁷

12 SJWC’s ratepayers may accept subsidizing free retrofits for certain
13 customers such as schools, churches, ball fields, etc. but such subsidies are not
14 acceptable in other instances for commercial building medians, small commercial
15 users, and an eBay campus soccer field. Alignments G and H, which were the two
16 Alignments completed in 2009 – 2011, included many schools and a community
17 ball field while most of the 71 identified retrofits along Alignment A for example,
18 proposed for 2013, include “commercial office buildings with external landscape
19 irrigation, some decorative fountains, and one soccer field on the eBay
20 campus.”²⁰⁸

21 These retrofitted customers, as the primary beneficiary, would be benefited
22 twice at the expense of ratepayers – first with a free retrofit, and second with lower
23 rates for recycled water – all without any costs or buy-in requirements. A third
24 benefit could later materialize as the retrofitted customers may not be subject to

²⁰⁷ SJWC Exhibit E, Chapter 20, p. 11.

²⁰⁸ SJWC Exhibit E, Chapter 20, p. 20.

1 mandatory restrictions or pressure to reduce their irrigation. There is a clear need
2 for more fairness in growing the recycled water usage which should include buy-in
3 and cost-sharing from recycled water customers.

4 In the previous GRC Decision the Commission encouraged SJWC to
5 continue its recycled water program, but was strongly urged to find more ways to
6 share the high costs. The Decision specifically stated, “SJWC is on notice that as
7 part of its next GRC application it should substantiate the process and results of
8 the process it undertook to obtain partners to share in the costs and to obtain and
9 receive public grant and tax exempt funding for its reclaimed water projects. We
10 expect SJWC to make all efforts big and small to mitigate the costs.”²⁰⁹ One
11 possible option for cost sharing not pursued by SJWC is to partially subsidize the
12 retrofit costs up to the point where the remainder, paid by the benefiting customer,
13 has a reasonable payback period expected based on typical usage and the current
14 price differential.²¹⁰ SJWC did not even calculate the payback period for any of
15 the proposed recycled water retrofits presented in this application.²¹¹ Once again,
16 in this GRC application SJWC is proposing its recycled water program with
17 limited cost sharing with other entities including the primary beneficiaries, the
18 retrofitted customers.

19 **How other Recycled Water Programs pay for Customer**
20 **Retrofits**

21 In describing its experience with recycled water programs, HSe states that
22 “the lower rates for recycled water alone do not provide enough incentive” for
23 customers to pay for their own site retrofits.²¹² In a data request, HSe referred to

²⁰⁹ D.09-11-032, p. 24

²¹⁰ See discussion below of the recycled water program in the City of San Diego.

²¹¹ SJWC’s response to DRA data request AR4-004

²¹² SJWC Exhibit E, Chapter 20, p. 11.

1 five other recycled water retailers who reportedly pay for customer retrofits.²¹³
2 Upon further investigation it is clear that the reasons for these other recycled water
3 retailers to cover customer retrofits do not exist for SJWC. Below are short
4 descriptions of the differences between SJWC and other recycled water retailers
5 who have paid for customer retrofits.

6 **South Bay Water Recycling (San Jose, SJWC, Milpitas, Santa Clara)**

7 SBWR no longer pays for Customer Retrofits now that the Regional Water
8 Quality Control Board's wastewater discharge requirements being met by existing
9 recycled water customers. In the 1990's SBWR had a direct need to increase the
10 amount of recycled usage in the region in order to decrease the amount of effluent
11 leaving the wastewater treatment plant and entering the San Francisco Bay in
12 order to meet the requirements of the Regional Water Quality Control Board.
13 SJWC currently has no such requirements and therefore does not have any need to
14 provide further incentives by covering the costs for customer retrofits.

15 **East Bay Municipal Utility District ("EBMUD")**

16 EBMUD pays 100% of the cost for a customer to retrofit its facility, only if
17 the customer has been offered an opportunity to retrofit. A customer will be given
18 the opportunity if the facility is in close proximity to a recycled water pipeline. In
19 an effort to promote the use of recycled water and conserve potable water,
20 EBMUD penalizes a customer for not accepting recycled water by charging a 20%
21 surcharge for potable water until recycled water is accepted.²¹⁴ This surcharge is
22 enough of an incentive for the customer to retrofit its facility. EBMUD is able to
23 cover the costs of a customer's retrofit because of the way its rates are designed

²¹³ SJWC's response to DRA data request AR4-004, Question 1.f.

²¹⁴ Phone Conversation with Lori Steere, EBMUD recycled water program representative

1 and is active and aggressive in finding outside funding for its recycled water
2 program, which is not the case at SJWC.

3 **Dublin San Ramon Services District**

4 Contrary to the findings of HSe, DSRSD does not cover any cost for a
5 customer to retrofit its facility to accept recycled water. DRA spoke with a
6 representative of DSRSD’s recycled water program and discovered that DSRSD
7 covers the cost of a retrofit only if it is part of an ongoing project.²¹⁵ In all other
8 cases if a customer wishes to accept recycled water, it must pay 100% of the cost
9 to retrofit. Water conservation is an important goal for DSRSD but funding is
10 limited for its recycled water program and covering the cost to retrofit a
11 customer’s site not a funding priority for DSRSD.²¹⁶ It is unclear whether SJWC
12 will retrofit a customer’s facility as part of large recycled water projects or on an
13 individual basis. Therefore, it is unreasonable for SJWC to provide additional
14 incentives to customers to retrofit their facilities.

15 **City of Santa Rosa**

16 City of Santa Rosa pays for 100% of the retrofitting cost for customers
17 who wish to connect to recycled water lines. However, if that customer’s facility
18 requires a particularly challenging retrofit design, the customer will be asked to
19 share some of the cost with the city. City of Santa Rosa also has regulations
20 requiring new developments to accept recycled water for the use of irrigation in
21 order to promote the use of recycled water and to conserve its limited supply of
22 potable water; existing customers can elect to use recycled water voluntarily.

²¹⁵ Phone conversation with Rhodora Biagtan, DSRSD recycled water program engineer

²¹⁶ Phone conversation with Rhodora Biagtan, DSRSD recycled water program engineer

1 There is also a regulation in place requiring the use of recycled water for irrigation
2 where available.

3 **City of Roseville**

4 The recycled water program at the City of Roseville is very similar to that
5 at DSRSD. City of Roseville will only cover the cost of a retrofit if the customer's
6 facility is part of a major city plan. However, the customer does not have to pay a
7 connection fee. DRA spoke with a City of Roseville recycled water program
8 representative and he stated the party that pays for the retrofit can always be
9 negotiated, but the cost is typically covered by the customer.²¹⁷ Additionally, the
10 representative stated the lower rates associated with recycled water are enough of
11 an incentive to retrofit, especially for customers with larger facilities, such as a
12 golf course. Again, it is unclear if SJWC will cover the cost to retrofit for all
13 customers or only those whose facility is part of a major recycled water project.

14 **North Marin Water District**

15 NMWD is another water retailer that pays 100% of the cost of a retrofit if a
16 customer elects to accept recycled water. Similar to the City of Santa Rosa, if a
17 customer's facility is difficult to retrofit, the customer may be asked to share some
18 of the cost. NMWD also has regulations requiring the use of recycled water on
19 properties where it is made available.

20 **City of San Diego**

21 In addition to the recycled water retailers listed by HSe, the City of San
22 Diego also at times has covered part of its customers retrofit costs, but again their
23 circumstances are vastly different from those of SJWC. The City of San Diego has

²¹⁷ Phone conversation with Charles Aycock, City of Roseville recycled water program representative

1 created a mandatory reuse ordinance in order to increase the use of recycled water
2 and reduce the demand of its limited amount of potable water sources. The
3 mandatory use of recycled water is only applicable to customers that are in close
4 proximity to a recycled water pipeline and that use more than 20 AFY. It is only
5 for these customers that the City of San Diego contributes to part of the costs for
6 retrofitting. If the City of San Diego pays, it only contributes enough to create a
7 payback period of 4-5 years for the customer. So, based on the price differential in
8 San Diego, which is much greater than the one in San Jose, and under the
9 mandatory reuse ordinance, and a minimum 20 AFY usage, the payback period is
10 4-5 years.²¹⁸

11 For SJWC, there are only 17 retrofit customers with projected usage over
12 20 AFY out of the 240 proposed for 2012 through 2014.²¹⁹ However, because the
13 price differential is greater in San Diego than for SJWC, DRA has determined that
14 only customers with projected usage over 58 AFY could achieve a payback period
15 of 5 years. Only 4 of the 240 proposed retrofit customers have a projected usage
16 over 58 AFY.

17 As this discussion shows, other water retailers in California at times do
18 cover the costs of their customer's retrofit for recycled water use. However, the
19 circumstances in these areas differ widely from that of SJWC. With no potable
20 water supply shortages that would support the need to aggressively pursue
21 recycled water projects, DRA supports following the current UWMP timeline
22 goals for recycled water infrastructure.

²¹⁸ City of San Diego Recycled Water Master Plan Update 2005. September 2005. Pg. 3-10

²¹⁹ The total number of retrofit customers is presented in Exhibit E, Chapter 20, p. 16 (Table 4). The 50 largest of these customers were provided in SJWC's response to DRA data request AR4-004 (Attachment A).

1 **Recycled Water Usage as Conservation of Potable Water**

2 Recycled water is considered one-for-one as a reduction in potable water
3 use, which can then be counted towards the 20x2020 Statewide goals in SB7x7.
4 With the apparent success of SJWC’s conservation program, there is little needed
5 support from the recycled water program to achieve the goals associated with
6 20x2020. With high capital and retrofit costs associated with recycled water,
7 conservation is still the best first option for reducing potable water use. However,
8 with little growth expected in SJWC’s service territory and reduced customer
9 consumption the primary driver of SJWC’s requested rate increase, the prudence
10 of further reducing potable water use by any means is highly questionable.²²⁰

11 **Advanced Water Treatment and Groundwater recharge**
12 **opportunities**

13 The Santa Clara Valley Water District “is currently in the construction
14 phase for an 8 MGD advanced water treatment (“AWT”) facility located adjacent
15 to the Plant to reduce the total dissolved solids (“TDS”) of the recycled water to
16 below 500 mg/L. This demineralization creates opportunities for a large array of
17 industrial customers to use recycled water for a variety of purposes that were not
18 previously considered.”²²¹ Because of this HSe recommends that in order “[t]o
19 maximize this potential, SJWC must be involved since the majority of infill and
20 alignments are within SJWC’s service area.”²²² Completion of the Advanced
21 Water Treatment system may open more opportunities for industrial users in order
22 to fill in the existing recycled water alignments. These industrial users are also
23 more likely to be able to contribute to their own retrofit costs. This and future

²²⁰ See DRA Chapter Ten: Conservation

²²¹ SJWC Exhibit E, Chapter 20, p. 6.

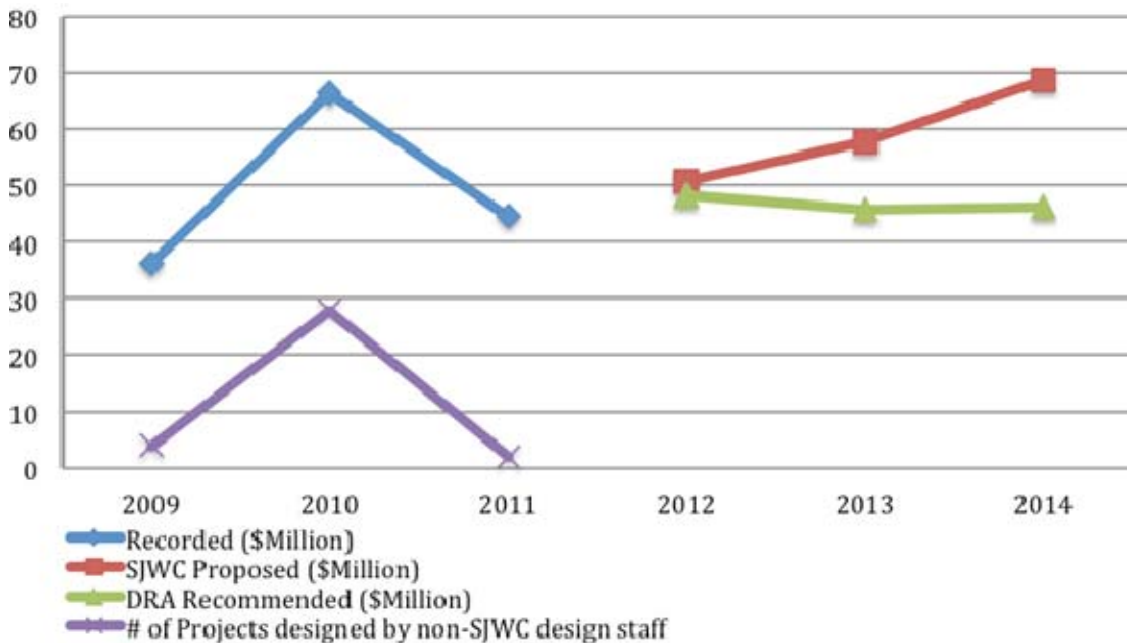
²²² SJWC Exhibit E, Chapter 20, p. 6.

1 groundwater recharge opportunities may shift the priority of the proposed recycled
2 water Alignments.

3 Available design staff resources at SJWC

4 SJWC has had to hire contract engineers to keep up with the amount of
5 work for the recycled water projects.²²³ Figure 8-B shows that SJWC exceeded its
6 available design resources in 2010 when its spending on “Other Transmission &
7 Distribution Plant” reached \$66.5 Million. DRA’s recommended budget for 2012
8 through 2014 is in line with the available resources for pipeline design at SJWC.

Figure 8-B – Comparison of SJWC’s recorded Transmission & Distribution Plant spending, number of projects requiring outside pipeline design staff, and SJWC’s proposed budgets for 2012 - 2014



9 By adopting DRA’s recommended budget for Transmission and
10 Distribution Plant, which includes both recycled water, main replacements, and
11 several other categories, SJWC will more likely work within its pipeline design

²²³ SJWC’s response to DRA data request AR4-005, Question 5.

1 staff resources and only require a handful of projects to be performed by non-
2 SJWC design staff rather than the 28 projects that were required in 2010.

3 DRA has included the full amount for New Mains in its recommended
4 construction budget for 2012 in order for SJWC to meet the 2010 Urban Water
5 Management Plan projected recycled water demand for 2015. DRA has then
6 included zero dollars for New Mains (Recycled Water) in its recommended
7 construction budget for 2013 and 2014.

New Mains (Recycled Water)	DRA	SJWC
2012	\$5,717,000	\$5,717,000
2013	\$0	\$7,828,700
2014	\$0	\$18,008,700

8 **7) Distribution System – Service Transfers**

9 SJWC is requesting \$0.25 Million to retire and transfer service of four (4)
10 pipelines throughout 2012-2014.

11 DRA has found these estimates to be reasonable and has included the full
12 amount for Service Transfers in its recommended construction budget.

Service Transfers	DRA	SJWC
2012	\$67,000	\$67,000
2013	\$167,100	\$167,100
2014	\$24,600	\$24,600

1 **8) Distribution System – City, County & State**

2 SJWC is requesting approximately \$0.4 Million annually from 2012
3 through 2014 to provide funding for facility relocations or improvements in
4 conjunction with public works projects undertaken by the City, County, and State
5 per franchise agreements.²²⁴

6 DRA has found these estimates to be reasonable and has included the full
7 amount for City, County & State in its recommended construction budget.

City, County & State	DRA	SJWC
2012	\$412,000	\$412,000
2013	\$424,400	\$424,400
2014	\$437,100	\$437,100

8 **9) Distribution System – Replacement Mains**

9 SJWC is requesting to continue the aggressive annual rate of main
10 replacements it began in the last general rate case when it increased the percent of
11 annual replacements from 0.5% to 1% of the total installed length of mains. SJWC
12 has incorporated both the software program (KANEW) and a genetic algorithm
13 program to determine a priority list of pipeline segments. SJWC used the priority
14 list of segments to develop the main replacement projects that are included in a
15 proposed budget of \$103.7 Million during 2012 through 2014.

16 DRA recommends a slightly less aggressive annual rate of main
17 replacements of 0.83% of the installed length of mains. DRA also recommends a
18 continuation of the requirement for SJWC to justify this increased rate of

²²⁴“Job Description” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 8)

1 replacement by 1) continue improvement of the KANEW model and genetic
2 algorithm program by allowing the existing pipelines to remain in use through its
3 useful life, 2) determine and include a reliability standard for the main
4 replacement program, 3) develop cost comparisons in order to implement
5 rehabilitation options over replacement when cost effective, and 4) ensure all
6 efforts with leak detection and pressure management programs are exhausted to
7 extend the life of existing mains.

8 **SJWC’s Main Replacement Program**

9 “SJWC used the American Water Works Association Research
10 Foundation’s study titled “Quantifying Future Rehabilitation and Replacement
11 Needs of Water Mains” and the associated KANEW software to develop pipe
12 specific survivor curves. The survivor curves are based on applying the survival
13 function to a year-by-year inventory of each category of SJWC’s pipes.”²²⁵ As
14 described by an industry leader, “[i]t predicts the quantities of categories of pipe to
15 be rehabilitated or replaced on an annual basis.”²²⁶ “The KANEW model was
16 designed to provide a method and software for a “predictive distribution system
17 condition assessment model.” However, the model is for a system, not individual
18 pipes, so it can be used to quantify costs but not to prioritize repair, rehabilitation,
19 and replacement programs.”²²⁷

20 “Limitations of the KANEW are that it is very general, not community-
21 specific, and is based on limited variables.... Furthermore, the KANEW analysis

²²⁵ SJWC Exhibit E, Chapter 11, Attachment 1, p. 4

²²⁶ Assessment and Renewal of Water Distribution Systems. Neil S. Grigg. p. 67

²²⁷ Assessment and Renewal of Water Distribution Systems. Neil S. Grigg. p. 67

1 does not take historical data into account but develops rates based only on
2 estimated averages.”²²⁸

3 With the annualized quantities of categories of pipe to be rehabilitated or
4 replaced as an output of the KANEW model, SJWC then uses the GIS map of its
5 distribution system and determines segments of pipe in each category. SJWC uses
6 these pipe segments and applies a genetic algorithm to determine a rank for each
7 pipe segment. The pipe segments ranked 1 to 1000 were provided in SJWC’s 2011
8 Pipeline Infrastructure Study.

9 From these ranked pipe segments, which are typically only a few hundred
10 feet long, SJWC engineers determine main replacement projects that incorporate
11 some of the ranked pipe segments into appropriately sized projects that are then
12 thousands of feet long and more appropriate as a replacement project. It is
13 reasonable to replace a longer length of continuous main instead of small
14 individual segments of main, but this means the main replacement projects
15 presented now only include a fraction of the ranked pipe segments, and at least
16 half of the pipe segments that will be replaced are not included within the top 1000
17 pipe segments. While this is a necessary downfall of any main replacement
18 program to have non priority pipe segments replaced along with top priority
19 segments, it becomes concerning, in cases such as at SJWC, when even the pipe
20 segments that are listed as a top priority have never had a leak or break, are mostly
21 30 years under the average life expectancy for SJWC’s mains, and appear to be
22 providing reliable service and water quality. If the pipe segments that are listed as
23 a top priority may be called for replacement before their time, DRA has concern
24 about the early replacement of the pipeline segments not even listed as a top
25 priority.

²²⁸ Assessment and Renewal of Water Distribution Systems. Neil S. Grigg. p. 68

1 SJWC determined that the weighted average life expectancy of all pipes in
2 SJWC's system is 91.5 years.²²⁹ In its justification for a replacement rate of 1%,
3 with 2400 miles of pipeline in its distribution system, SJWC states that, "[i]n order
4 to normalize the long term replacement rate for the linear infrastructure and
5 maintain a good working pipeline network with minimal disruptions from leaks,
6 SJWC needs to maintain the current annual replacement rate of approximately 25
7 miles of pipe."²³⁰ This is a pivotal part of SJWC's justification for a 1% pipeline
8 replacement rate with the simple logic that with 1% replaced each year, in 100
9 years 100% will have been replaced. As SJWC describes, this in effect
10 "normalizes" the replacement rate to be in line with the weighted average life
11 expectancy. However in reality, this should only apply to the rare water company
12 that has a history with a steady rate of new pipe installations. SJWC, with the vast
13 majority of its pipes installed in the 1950's and 1960's, is far from this idealistic
14 case. The problem with SJWC's plan to escalate its main replacements now ahead
15 of this spike in need for replacement of pipes laid in the 1950's and 1960's is that
16 it often replaces pipes long before they reach their useful life. DRA has
17 determined that the average age of the pipelines proposed for replacement in this
18 GRC is 60 years. That means that many of these pipes have over 30 years of
19 useful life remaining.

20 By just slightly reducing the amount of main replacement per year SJWC
21 would save millions of dollars in plant improvements and be better assured the
22 value of its previous investments in pipelines are fully realized.

²²⁹ Exhibit E, Chapter 11, Attachment 1, p. 2

²³⁰ Exhibit G – Capital Budget Project Justification, p. 14.

1 **SJWC’s Recent Increase in Main Replacements from 12 miles**
2 **per year to 24 miles per year**

3 There is no question that it is SJWC’s duty to provide safe and reliable
4 service to its customers. However it is impossible to reduce the risk of failure of its
5 entire distribution system to zero. Just as important as it is to ensure SJWC’s
6 pipelines do not deteriorate and fail beyond control, it is also important to ensure
7 the money spent on infrastructure is done in a purposeful way where the benefits
8 of doing so are clear and understood. Consideration should also be given to having
9 stable service rates by deferring replacement or prolonging the life of water mains.

10 In the last general rate case SJWC doubled its main replacement program
11 from 12 miles a year to 24 miles, and even with clear direction from the
12 Commission to show the benefits from this substantial increase,²³¹ SJWC has not
13 been able to justify continuing this rate of replacement in 2012 through 2014.

14 It is not necessarily expected that a doubling of annual main replacement
15 spending would cut by half the number of leaks per year. There are many reasons
16 why there is not a direct correlation between main replacements and leaks, but as
17 SJWC points out, “[a] quick measure of the success of [a] pipeline replacement
18 program is to look at the number of leaks per year.” SJWC presents the average
19 number of leaks from 1999 through 2008 (when the annual main replacement
20 program was 12 miles) of 260 leaks per year, and compares that to the average
21 number of leaks from 2009 through 2011 (when the annual main replacement
22 program was 24 miles) of 221 leaks per year. SJWC argues that this drop in leaks
23 demonstrates the success of the newly implemented 24-mile per year program.
24 Unfortunately, this may not be a sign of success, but rather it is a sign of over
25 spending and building up excessive rate base. The average cost of repair per leak

²³¹ D.09-11-032, p. 31.

1 to SJWC since 2006 has been approximately \$8,000 per leak.²³² It could be
2 argued that SJWC then saved \$8,000 per leak, per year in the years 2009 through
3 2011. So, to do the math, with an average decrease of 39 leaks per year, over three
4 years, and \$8,000 per leak there was a savings of \$936,000 in maintenance costs.
5 While it is promising that the number of leaks went down, the leak savings of
6 \$936,000 over three years in no way compares to the increased spending on main
7 replacement by \$41.9 Million with a revenue requirement impact of approximately
8 \$8 Million in the same time period, nor should it sway the Commission to
9 continue this level of main replacements in 2012 through 2014.

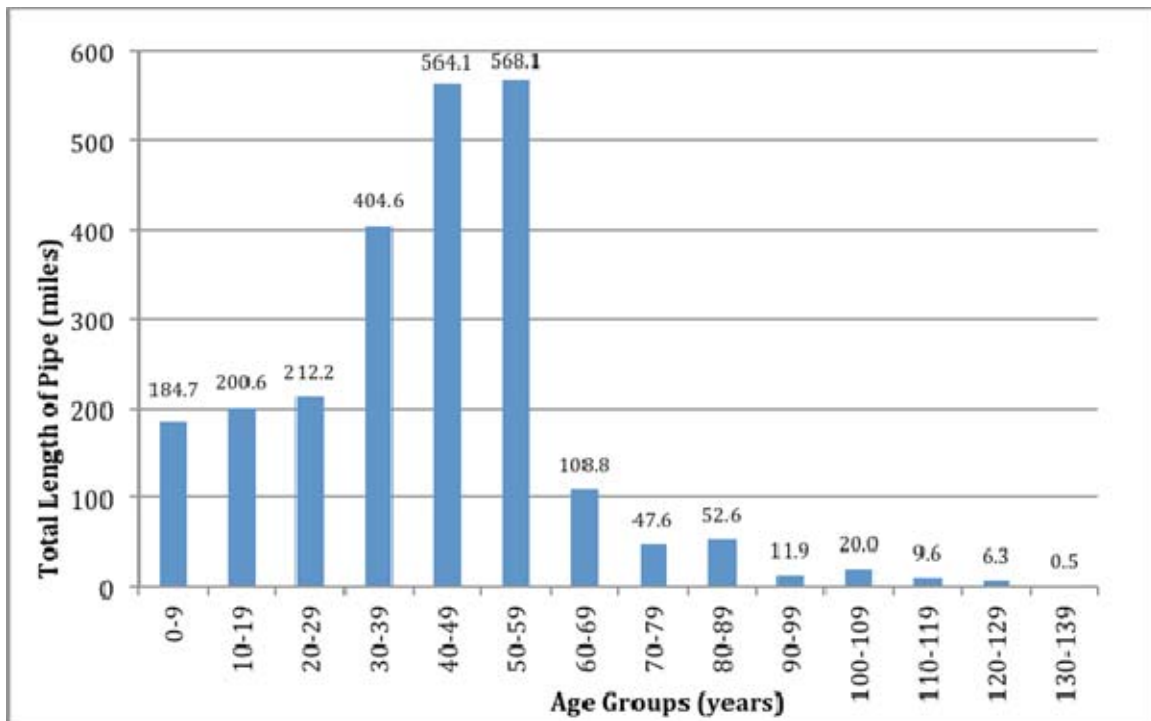
10 With this seemingly minor improvement in leaks from doubling the amount
11 of main replacements, SJWC may be approaching the limit of its achievable
12 distribution system performance, and may have even reached a point well past
13 being cost-effective. When compared to other water utilities, SJWC has one of the
14 lowest number of leaks per mile in the nation. Some level of imperfection must
15 exist to ensure rates that customers pay are reasonable and SJWC's main
16 replacement program should be a last resort in the maintenance of its distribution
17 system because of the extremely high costs and other available alternatives such as
18 rehabilitation.

19 **SJWC's early replacement of pipes that are 40 to 60 years old**

20 There was a dramatic spike in new pipelines installed in SJWC's
21 distribution system following World War II, as is common for many other water
22 utilities across the country. Because of this almost half of the pipelines currently in
23 SJWC's distribution system are between 40 and 60 years old, as can be seen in
24 Figure 8-C.

²³² SJWC's response to DRA data request AR4-002 (annual leak repair costs) and SJWC's Exhibit E, Chapter 11 – Attachment 1, p. 3.

FIGURE 8-C – SJWC’s existing pipelines by age



1 Part of SJWC’s proposal to have an aggressive main replacement program
2 is that it will allow for the early replacement of these 40 – 60 year old pipelines.
3 SJWC states that it is thinking far ahead in an attempt to minimize the rise in
4 failure and later needs for replacement, however by doing this SJWC is removing
5 pipelines that have not had any leaks or breaks, are still reliable and well within its
6 average useful life. Even the AWWA, in its 2001 report that calls for reinvestment
7 in drinking water infrastructure as we enter the “dawn of the replacement era,”
8 warns, “[a]s pipe assets age, they tend to break more frequently. But it is not cost-
9 effective to replace most pipes before, or even after the first break. Like the old
10 family car, it is cost-efficient for utilities to endure some number of breaks before
11 funding complete replacement of their pipes.”²³³

²³³ AWWA, Dawn of the Replacement Era – Reinvesting in Drinking Water Infrastructure. 2001, page 13

1 In addition, by replacing pipelines well before they reach the end of their
2 useful life SJWC is compromising the ability for it to fully develop its genetic
3 algorithm software that relies in part on leaks to evolve into a useful tool for a
4 main replacement program. “Ironically, each pipe failure can be useful in
5 developing better predictive models.”²³⁴

6 With a majority of SJWC’s pipelines liable to fail in the coming decades,
7 now is the best time to develop a robust rehabilitation and replacement program
8 that will maximize the useful life of existing mains, and not one that relies on the
9 early replacement of reliable pipelines yet to leak.

10 **Reliability**

11 A main replacement program should be an optimization process “that
12 attempts to meet the competing objectives of cost minimization and reliability
13 maximization.”²³⁵ Whether it is the number of leaks or the number of customer
14 interruptions per year SJWC should have a handle of the amount of imperfection it
15 is willing to sustain in order to cost effectively manage its distribution system.
16 “Water utilities should have reliability goals, and those goals should be the end
17 point of utilities’ asset management plans.”²³⁶

18 An example presented in a 2006 study where customer interruptions were
19 incorporated in the main replacement analysis found that by changing the
20 reliability target for a water system by less than 12% (from 1,700 customer
21 interruptions per year to 1,900 interruptions per year) could defer a multimillion-
22 dollar construction program by as much as 10 years.²³⁷ DRA is concerned that

²³⁴ Assessment and Renewal of Water Distribution Systems. Neil S. Grigg, 2005. p. 70.

²³⁵ Journal AWWA, Perspectives. A Call for Reliability Standards. Scott Rubin. January 2011.

²³⁶ Journal AWWA, Perspectives. A Call for Reliability Standards, Scott Rubin. January 2011.

²³⁷ Journal of Water Resources Planning & Management. Dandy, G.C. & Englehardt, M.O.,
(continued on next page)

1 SJWC’s distribution system, with less than 10 leaks per 100 miles of mains –
2 impressive at only half the national average amount – is spending too much money
3 on main replacements without a correlating improvement to reliability and
4 customer service.

5 A reliability standard, along leaks per 100 mile of main and other
6 distribution statistics, may provide a basis and set of targets for what an expectable
7 amount of failure is most appropriate for SJWC’s distribution system. This
8 information would improve SJWC’s main replacement and rehabilitation
9 programs by providing the means to determine the necessary balance of cost
10 minimization and reliability maximization.

11 **Cost of a leak**

12 SJWC argues, that “[b]y identifying and replacing critical mains most in
13 need of replacement, SJWC is attempting to reduce the likelihood of catastrophic
14 transmission main failures. These pipe bursting events may generate expensive
15 direct and societal costs to the community.”²³⁸ SJWC cites to an AWWARF
16 study that found that “the average direct and societal cost of transmission main
17 failures was \$500,000.”²³⁹ What SJWC doesn’t explain is that the AWWARF
18 study was only for large transmission mains (20 to 92-inches). DRA found that
19 only 1-mile of the pipeline in SJWC’s top 1000 main replacement segments are
20 over 20 inches, with the largest being only 24 inches. The same AWWARF study
21 stated that the overall average cost, including both direct and societal costs, was

(continued from previous page)
2006. Multi-Objective Trade-Offs Between Cost and Reliability in the Replacement of Water
Mains. 132:2:79.

²³⁸ Exhibit G – Attachment 2 – 2011 Pipeline Infrastructure Study, pp. 21-22

²³⁹ Exhibit G – Attachment 2 – 2011 Pipeline Infrastructure Study, pp. 21-22

1 only \$10,000.²⁴⁰ In line with this figure, SJWC’s reported leak repair costs, for all
2 pipe sizes, average \$8,000 per leak.²⁴¹

3 Further, the focus of this AWWARF study was to describe the importance
4 to use leak repair cost information in determining the cost effectiveness of main
5 replacements. SJWC must include leak repair costs in its analysis for main
6 replacements to ensure cost effective distribution system management.

7 Lack of consideration for replacement rates between 12 and 24 miles per year

8 SJWC has presented the projected failure rates for two scenarios – one of
9 12 miles of main replacements per year over the next 100 years and the other of 24
10 miles of main replacements per year over the next 100 years. Not only does this
11 not consider any values in between 12 and 24 miles it also does not consider any
12 options with increasing and decreasing rates of main replacements to match the
13 rates of the systems pipe installation history. What is at issue in this general rate
14 case is what amount of main replacements is necessary in 2012 through 2014.
15 Although it is possible that several mains reach their useful life at the same time,
16 more work should be done to determine the rehabilitation options and reliability
17 standards in order to maximize the use of these still valuable assets and to spend
18 funds in a more directed way. This is a much more prudent approach than simply
19 replacing several miles of main that are well below the average life expectancy,
20 and have yet to leak or break.

²⁴⁰ 2007 AWWARF Analysis of Total Cost of Large Diameter Pipe Failures. (Peter E. Gaewski, P.E., and Frank J. Blaha, P.E.) page 13

²⁴¹ Calculation based on SJWC’s responses to AR4-001 and Exhibit E, Chapter 11, Attachment 1, page 3

1 **Expand Programs for Leak Detection and Pressure**
2 **Management**

3 As SJWC has explained, “[h]igher pressure places more stress on pipe
4 joints and corroded areas of piping than normal, and will typically lead to more
5 leaks.”²⁴² Additionally at SJWC, “droughts result in less water from local surface
6 water bodies and from imported water, causing a greater reliance of using pumped
7 groundwater. This causes a different pressure profile in some parts of the system,
8 which also may contribute to more leaks.”²⁴³ Leak detection and pressure
9 management are integral components to a cost effective asset management
10 program and efforts in these areas should be exhausted before considering pipe
11 replacement.

12 The Commission has shown support of leak detection and pressure
13 management programs in the past and with promising results from its embedded
14 energy in water pilot programs. It is also anticipated that these programs will be
15 included in future energy efficiency joint venture projects between both electric
16 and water utilities.²⁴⁴

17 **DRA’s recommended approach to main replacements is prudent and**
18 **supported by prevailing academic thought**

19 As stated by an industry leader and academic,

20 “Capital planning decision processes and models are
21 not intended to replace or eliminate the traditional role of
22 politics. Rather, these models can complement the political
23 process; they provide a starting point for negotiations and
24 greater insight into the potential trade-offs between

²⁴² Exhibit G – Attachment 2 – 2011 Pipeline Infrastructure Study, p. 10

²⁴³ Exhibit E – Chapter 11, Attachment 1, p. 3

²⁴⁴ March 20, 2012 Proposed Decision of ALJ Farrar, Decision Providing Guidance on 2013-2014 Energy Efficiency Portfolios and 2012 Marketing, Education, and Outreach, p. 278

1 alternatives. ... Once a renewal plan is decided on, continual
2 evaluation and review is necessary. Ongoing evaluation is
3 required to ensure that best practices are being carried out.”
4 245

5 By encouraging rehabilitation of mains before replacement, the Commission will
6 ensure safe and reliable service at reasonable rates.

7 **DRA’s Recommended Replacement Rate**

8 Instead of the general 1%, normalized guideline SJWC has used in its
9 assessment, DRA conducted an analysis similar to the “nessie curves” highlighted
10 in AWWA’s report on the Dawn of the Replacement Era. Nessie curves project
11 future investment needs for pipe replacement based on age of the pipes and how
12 long they are expected to last.²⁴⁶ Instead of calculating the future investment
13 needs, as in AWWA’s report, DRA simply determined the future length of main
14 replacements by decade.

15 With an average life of approximately 90 years, the spike of pipe
16 installations in the 1950’s and 1960’s reappears as an echo for replacement, if
17 replaced at exactly the average age of 90, in the decades 2040 and 2050. For the
18 years 2012 through 2014, DRA recommends a replacement rate that is supported
19 by an echo of replacement averaging 90 years, but distributed from 60 to 120
20 years. This in effect is a normalization of the replacement needs, but less extreme
21 than that recommended by SJWC with a flat 1% replacement rate. According to
22 DRA’s approach, for the current decade of 2010 to 2020, the replacement rate
23 should average 22.5 miles per year. Therefore, for the years 2012 through 2014
24 DRA recommends a replacement rate of 20 miles per year.

²⁴⁵ Assessment and Renewal of Water Distribution Systems. Neil S. Grigg. p. 70

²⁴⁶ AWWA, Dawn of Replacement Era – Reinvesting in Drinking Water Infrastructure, 2011, page 9

1 In following its recommendation for replacement of 20 miles per year,
 2 DRA has deferred 4.5 miles of main replacement projects from 2012 to 2013,
 3 deferred then 9.4 miles of main replacement projects from 2013 to 2014, and
 4 removed a total of 14.4 miles of main replacement project from the 2014 to
 5 determine its recommended construction budget.²⁴⁷

Replacement Mains	DRA	SJWC
2012	\$29,142,500	\$31,604,200
2013	\$28,581,600	\$35,759,300
2014	\$27,722,100	\$36,305,400

6 **10) Distribution System – Main Extensions**

7 SJWC is requesting approximately \$0.25 Million from 2012 through 2014
 8 for various sub-division main extensions and over-sizing. Also included in the
 9 Main Extensions category are various facility retirements totaling \$6.6 Million.

10 DRA has found these estimates to be reasonable and has included the full
 11 amount for Main Extensions in its recommended construction budget.

Main Extensions	DRA	SJWC
2012	\$2,207,500	\$2,207,500
2013	\$2,419,000	\$2,419,000
2014	\$2,294,700	\$2,294,700

12 **11) Distribution System – Services**

13 SJWC is requesting approximately \$6.6 Million from 2012 through 2014
 14 for its service line replacement program. This is an over 60% increase in funding
 15 of an annual program that was included in the last general rate case. SJWC claims,
 16 “in the recent past this budget item has not been fully funded by the approved

²⁴⁷ Although SJWC generally discusses a replacement rate of 24 miles per year, DRA determined that the main replacements included in SJWC’s capital budget actually totaled 24.6 miles in 2012, 25.1 miles in 2013, and 25.2 miles in 2014.

1 budget.”²⁴⁸ SJWC’s goal is “to have an amount approved which will most
2 accurately reflect the true costs of services.”²⁴⁹ SJWC also explains that, “[t]he
3 need for service line replacement and repairs is dependent on the pipe replacement
4 rate and the number of service leaks and problems that occur during the year.”²⁵⁰

5 To better ensure this program is fully funded, and in line with its
6 recommendation for main replacements, DRA has included the full amount for
7 Services adjusted similarly to the adjustment made to main replacements in its
8 recommended construction budget.

Services	DRA	SJWC
2012	\$5,527,733	\$6,630,200
2013	\$5,515,067	\$6,614,900
2014	\$5,704,317	\$6,841,900

9 **12) Distribution System – Meters**

10 SJWC is requesting funding for four separate annual meter programs from
11 2012 through 2014.

- 12 • Approximately \$2.5 Million annually to “purchase meters to
13 accommodate the modest growth of the system” and an “annual
14 replacement program for ¾-inch and 1-inch meters to maintain
15 compliance with General Order 103A”
- 16 • Approximately \$0.02 Million annually for recycled water meters
- 17 • Approximately \$0.25 Million annually for meters greater than 1”

²⁴⁸ Exhibit G – Capital Budget Project Justifications, p. 28.

²⁴⁹ Exhibit G – Capital Budget Project Justifications, p. 28.

²⁵⁰ Exhibit G – Capital Budget Project Justifications, p. 29.

- Approximately \$1.2 Million annually for a meter change out program for obsolete Sensus meters related to recently lowered allowances for lead parts used in drinking water meters.

Meter Change Out Program of Obsolete Sensus Meters

In accordance with regulation AB 1953 that took effect January 1, 2010 and Chapter 853 of the Health and Safety Code relating to plumbing, SJWC proposes replacing 2,044 Sensus meters with new meters that meet the new regulation. AB1953 states that any component that comes into contact with wetted surface of pipe, pipe fittings, and plumbing fittings and fixtures must have less than 0.25% (15ppb) lead content. The meter manufacturer Sensus announced in January 2011 that it would discontinue the manufacture of 2”-8” Compound and 1 ½”-6” W Series Turbine meters as well as parts and non-warranty repairs because these meters do not comply with the new regulation.²⁵¹ SJWC plans to replace 684 meters in 2012 at a cost of \$1,214,800, to replace 680 meters in 2013 at a cost of \$1,243,400, and to replace 678 meters in 2014 at a cost of \$1,273,600. The projected costs for this meter change program include materials, Automatic Meter Reading (“AMR”) antennae, taxes, company/contract labor, labor burden, contingency, and engineering/overhead.

Typically, SJWC uses a Time/Consumption Based Meter Change Program to determine which meters are eligible for replacement based on age/usage criteria. Table 8-D summarizes SJWC’s normal Time/Consumption Based Meter Change Program.

²⁵¹ SJWC Exhibit G, Attachment 1 p. 4

Table 8-D – Time and Consumption Based Large Meter Change Program

Meter Size [in]	Meter Type	Consumption Base [ccf]	Consumption Base [gal]	Time Base [yr]
3	CP	7,500	5,610,000	2
4	CP	7,500	5,610,000	2
6	CP	7,500	5,610,000	2
1 1/2	T	15,000	11,220,000	3
2	T	15,000	11,220,000	3
3	T	25,000	18,700,000	4
4	T	25,000	18,700,000	4
6	T	100,000	74,800,000	5

1 SJWC provided data including type, date of last repair or installation, and
 2 consumption base for all Sensus meters in question.²⁵² Initial analysis of this data
 3 showed a total of 1,813 obsolete meters are in SJWC’s system, not 2,044. DRA
 4 also determined that 1,675 of the obsolete Sensus meters would be eligible for
 5 replacement if SJWC applied its Time/Consumption base criteria. However, to be
 6 in compliance with AB 1953, DRA recommends that all 1,813 obsolete meters be
 7 replaced over the course of 2012-14.

8 Using SJWC’s projected costs associated with replacing the meters, it was
 9 determined 607 meters are eligible for replacement in 2012 at a cost of
 10 \$1,076,170, 604 meters are eligible in 2013 at a cost of \$1,071,674, and 602
 11 meters are eligible in 2014 at a cost of \$1,065,218.²⁵³ Table 8-E summarizes
 12 DRA’s recommendation and the costs associated with replacing these meters.

²⁵² SJWC response to DRA data request AR4-006, q.7

²⁵³ These numbers were obtained using SJWC’s response to DRA data request AR4-006, q.7 and Exhibit G, Attachment 1

Table 8-E – DRA recommendation for Meter Replacement Costs per Year

	2012	2013	2014
Turbo	\$325,044	\$322,358	\$322,358
Compound	\$341,624	\$341,624	\$337,154
AMR ERT Antennae	\$25,800	\$25,725	\$25,575
Sub Total	\$692,468	\$689,707	\$685,087
Tax (9.75 %)	\$67,516	\$67,246	\$66,796
Company/Contract Labor (\$200/meter)	\$121,400	\$120,800	\$120,400
Labor Burden/Cont M/U (55.7%)	\$67,620	\$67,286	\$67,063
Contingency (5%)	\$47,450	\$47,252	\$46,967
ENG/Const Overhead (8%)	\$79,716	\$79,383	\$78,905
Total	\$1,076,170	\$1,071,674	\$1,065,218

1 DRA did not apply an inflation factor to these total costs, which are based
2 on SJWC’s 2011 budgetary projections, because SJWC did not justify applying its
3 3% inflation factor to these recently projected costs.²⁵⁴ Additionally, DRA does
4 not agree with the need for an inflation factor because the majority of the costs are
5 for parts, contingency, and overhead.

6 DRA has included the full amount for Meters in its recommended
7 construction budget with adjustments made to the estimates for the meter change
8 out program for obsolete Sensus meters the amount included for recycled water
9 meters in 2013 and 2014. This is in line with DRA’s recommendation for no new
10 recycled water mains in 2013 and 2014.

²⁵⁴ SJWC’s response to DRA data request AR4-006 q.6. SJWC adjusted the budgetary projections presented in the 2012 Obsolete Sensus Meter Replacement document (SJWC’s
(continued on next page)

Meters	DRA	SJWC
2012	\$3,665,570	\$3,804,200
2013	\$3,993,474	\$4,186,300
2014	\$4,190,518	\$4,420,700

1 **13) Distribution System – Hydrants**

2 SJWC is requesting funding for four separate annual hydrant programs
3 from 2012 through 2014.

- 4 • Approximately \$0.06 Million annually for hydrants to be installed
5 on existing mains as requested by fire departments

- 6 • Approximately \$0.10 Million annually to replace hydrants within the
7 service area in the City of Saratoga, Monte Sereno, Campbell,
8 Cupertino, Town of Los Gatos, and the unincorporated areas of
9 Santa Clara County

- 10 • Approximately \$0.20 Million annually to replace hydrants within the
11 service area in the City of San Jose

- 12 • Approximately \$0.05 Million annually to install five fire hydrants at
13 various locations

14 DRA has found these estimates to be reasonable and has included the full
15 amount for Hydrants in its recommended construction budget.

(continued from previous page)
Exhibit G, Attachment 1) by applying a 3% inflation rate.

Hydrants	DRA	SJWC
2012	\$395,600	\$395,600
2013	\$407,500	\$407,500
2014	\$419,800	\$419,800

1 **14) Equipment**

2 SJWC is requesting funding in 2012 through 2014 for various equipment in
3 several departments, however, as shown in the following list, the largest request is
4 in the IT department.

- 5 • Commercial and Field Service Department (\$0.04 M)
- 6 • Engineering Department (\$0.15 M)
- 7 • Information Technology (\$10.6 M)
- 8 • Operations and Maintenance (\$0.98 M)
- 9 • Purchasing Department (\$0.18 M)
- 10 • Water Quality and Environmental Compliance Office (\$0.08 M)

11 DRA takes issue with four specific projects; a total station survey
12 instrument and appurtenances in the Commercial and Field Service Department
13 and in the IT Department, a viability study for automated metering infrastructure
14 (“AMI”), a “workforce management system” for the customer service department
15 call center, and a multi-million dollar, two year project for a Records and
16 Information Management (“RIM”) program. The first three projects total \$3.86M
17 in 2012 while the RIM program would cost \$1.42M in 2013 and \$1.46 in 2014,
18 plus the associated \$200,000 per year in expenses.

1 **Total Station, AMI study, and Workforce Management System**

2 SJWC requests to purchase a new total station survey instrument “to
3 increase the delivery rate of field survey data to meet design workload.”²⁵⁵
4 Therefore DRA makes this adjustment to be consistent with its recommendation
5 for fewer recycled mains and potable main replacements than that proposed by
6 SJWC.

7 SJWC has included in its budget the costs to investigate, determine, and
8 document the “business cases for economic and consumption conditions viability
9 for automated metering infrastructure, including conservation and customer
10 awareness and education.”²⁵⁶ With this viability study, SJWC anticipates to
11 “conclude on the conditions that would create benefits for customers and related
12 costs of adopting an automated metering infrastructure.”²⁵⁷ With AMI technology
13 still at its infancy, and with very limited implementation for water utilities, DRA
14 does not see value in a viability study for AMI technology at this time.

15 SJWC proposes to implement a workforce management system for its
16 Customer Service call center in order “to increase service level forecasts and
17 statistics and track quality of service and agent productivity against forecasts.”²⁵⁸
18 With customer satisfaction generally high in SJWC’s service area, DRA does not
19 see a value in this equipment at this time.

²⁵⁵ “Reason” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 3886)

²⁵⁶ “Job Description” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4291)

²⁵⁷ “Reason” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4291)

²⁵⁸ “Reason” column in “SJWC 2012-14 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4292)

1 **Records/Document Management**

2 SJWC’s RIM initiative is a “comprehensive, multi-phased, multi-year
3 project that is intended to increase access to company records and information,
4 reduce paper records, and ensure continued compliance and accuracy.”²⁵⁹ This
5 initiative is estimated to cost \$1.41 Million in 2013 and \$1.46 Million in 2014.
6 With this initiative in place, SJWC explains, “many company resources and
7 employee hours will be required including a full-time Records Management
8 Administrator to implement the Initiative’s elements.”²⁶⁰ SJWC adds that, “RIM
9 consulting service will also be required.”²⁶¹

10 In addition to the capital investment required, SJWC has also requested
11 \$200,000 per year in expenses. According to SJWC these expenses projected from
12 2013 through 2015 will cover consulting services, labor, and other costs related to
13 employee training, policy and procedure updates and implementation, technology
14 administration, software maintenance fees, and the ongoing management of the
15 new RIM structure.”²⁶² SJWC also explains that after 2015 there will be
16 “indefinite costs” for the upkeep of the RIM program.

17 SJWC is a particularly high tech water company, which is not surprising
18 given its location in the heart of Silicon Valley. During its site visit, DRA
19 witnessed the advanced technology implemented using GIS and other programs
20 that allow for very interactive and information packed experiences when
21 interacting with the distribution system from the office or even remotely from a
22 utility truck. DRA also saw a demonstration of the new customer service interface

²⁵⁹ Exhibit G – Capital Budget Project Justification, p. 39.

²⁶⁰ Exhibit G – Capital Budget Project Justification, p. 41.

²⁶¹ Exhibit G – Capital Budget Project Justification, p. 41.

²⁶² Exhibit G – Capital Budget Project Justification, p. 41.

1 for those employees in the call center. With an initiative as broad reaching as this
 2 proposed, DRA agrees it will likely require many employee hours. DRA is
 3 concerned by this large of a project on the heels of multiple other high tech
 4 initiatives. DRA is also concerned with the high capital and expense costs that will
 5 continue indefinitely once this initiative is implemented, and the lack of
 6 comparisons to other options available to improve SJWC’s records and
 7 information management. Finally, DRA does not see this initiative as a high
 8 priority, particularly with the high demand of infrastructure improvements in main
 9 replacements and reservoirs and tanks.

10 DRA has included the full amount for Equipment in its recommended
 11 construction budget less the dollars requested for a total station survey instrument,
 12 viability study for automated metering infrastructure, and workforce management
 13 system for the Customer Service Department Call Center in 2012 and the \$1.41
 14 Million requested in 2013 and \$1.46 Million in 2014 for records/document
 15 management software, hardware, consulting services, and installation services.

Equipment	DRA	SJWC
2012	\$4,183,700	\$4,569,700
2013	\$2,536,100	\$3,952,300
2014	\$2,126,100	\$3,590,500

16 **15) Structures & Non-Specifics**

17 SJWC is requesting funding for new and replacement vehicles, standby
 18 generators, and various equipment at its office buildings.

19 **Mobile Standby Generator Trailers**

20 SJWC proposes the purchase and deployment of twelve (12) 100 kW
 21 mobile generators used to “energize various SJWC booster pumps, after an

1 earthquake, wildfire, severe winter storm, or other natural disaster, when normal
2 PG&E electric power is lost for an extended period.”²⁶³ The total projected cost of
3 the mobile generators is \$1,936,400 in 2012. The necessity of the mobile
4 generators is established by California Department of Public Health (“CDPH”)
5 regulation Title 22, Chapter 16, Article 8, Paragraph 64602.a, which states that a
6 minimum operating pressure of 20-psig must be maintained at all service
7 connections. In its *Emergency Power Program for Disaster Recovery* study,
8 SJWC determined that average winter day demand was the necessary amount of
9 water needed to preserve health and safety of water consumers in the event of a
10 natural disaster. Using these criteria, SJWC determined twelve (12) 100 kW
11 mobile generators were needed to provide service in the event of a natural disaster.
12 SJWC explored other alternatives to mobile standby generators including do
13 nothing, installation of a permanent generator at each pump station, and increase
14 storage capacity of zone reservoirs. SJWC concluded that deployment of mobile
15 generators was the most cost effective alternative.

16 The cost Energy Systems Inc. proposed to SJWC for all twelve mobile
17 generators and accessories is \$723,000.²⁶⁴ Pricing does not include hauling,
18 rigging, electrical cabling, structural, mechanical works, consumables for testing
19 or HAZMAT. DRA believes \$1,936,400 is an overestimated cost and recommends
20 allowing the purchase of twelve mobile generators at a cost of \$816,300.²⁶⁵ This
21 price includes company labor, overhead, and contingency costs.

²⁶³ Exhibit G, Index #4341 p.91

²⁶⁴ SJWC response to DRA data request AR4-007 q. 1

²⁶⁵ This number was obtained using SJWC’s response to DRA data request AR4-007 and Exhibit G, Index #4331 p.93. DRA does not agree with permit or contracting costs; these are not included in the total cost.

1 **Standby Power Generator at SJWC’s office building**

2 SJWC proposes the purchase and installation of a 300 kW standby power
3 generator at its 110 Taylor Ave office building at a cost of \$491,200 in 2013.²⁶⁶
4 This generator will provide power to the office so business can continue in the
5 event of loss of PG&E power. DRA reviewed budgetary pricing provided by
6 Energy Systems Inc. and discovered a 400 kW generator with all accessories was
7 quoted at a cost of \$239,000.²⁶⁷ DRA recommends allowing the purchase and
8 installation of the generator at a cost of \$325,300, which includes material,
9 company labor, contingencies, and overhead costs.

10 **High Mileage Vehicle Replacement**

11 As part of its annual replacement of high mileage vehicles, SJWC proposes
12 to purchase nineteen (19) new vehicles in 2012 at a cost of \$705,500, twenty-six
13 (26) new vehicles in 2013 at a cost of \$1,063,800, and thirteen (13) new vehicles
14 in 2014 at a cost of \$1,403,800, for a total cost of \$3,173,100. In 2012, the vehicle
15 purchases include five administrative Toyota Prius’, four Toyota dual cab trucks,
16 one Lexus LS 460, six Toyota extra cab trucks, and three Ford F-150 trucks. In
17 2013, the vehicle purchases include three administrative Toyota dual cab trucks,
18 nine Toyota Prius’, eight Toyota extra cab trucks, two Ford F-250 trucks, one Ford
19 F-350 truck, and three Sprinter Vans. In 2014, the vehicle purchases include one
20 Toyota Prius, six Toyota regular cab trucks, four Ford F-150 trucks, one Ford F-
21 550 truck, and one Freightliner M2-112. A summary of the dollar amount and
22 vehicles purchased can be seen below in Table 8-F.

²⁶⁶ “SJWC 2012-2014 CIP” tab of CH-11 UTILITY PLANT.xls (Index No. 4337)

²⁶⁷ SJWC response to DRA data request AR4-006 q.8

TABLE 8-F – Summary of Proposed Vehicle Purchases

Year	Qty	Proposed Vehicles	\$\$ Amount
2012	19	(5) Toyota Prius (4) Toyota Dual Cab Trucks (1) Lexus LS 460 (6) Toyota Extra Cab Trucks (3) Ford F-150 Trucks	\$705,500
2013	26	(3) Toyota Dual Cab Trucks (9) Toyota Prius (8) Toyota Extra Cab Trucks (2) Ford F-250 Trucks (1) Ford F-350 Truck (3) Sprinter Vans	\$1,063,800
2014	13	(1) Toyota Prius (6) Toyota Regular Cab Trucks (4) F-150 Trucks (1) Ford F-550 Truck (1) Freightliner M2-112	\$1,403,800

1 DRA is using the vehicle replacement policy of the Commission which
2 states that a vehicle is eligible for replacement when either the vehicle is 8 years
3 old or the mileage reaches 120,000 miles. This is a Department of General
4 Services policy that applies to state owned fleet vehicles.²⁶⁸ In its response to
5 DRA’s data request AR4-006, SJWC provided the make, model, age, and mileage
6 of each existing vehicle. DRA used this information to apply the vehicle
7 replacement policy of the Commission and determined that in 2012 twelve (12)
8 vehicles were eligible for retirement due to age or mileage, with a combined
9 replacement cost of \$306,510.

10 The total replacement cost was determined using Manufacturer’s
11 Suggested Retail Price (“MSRP”) of the replacement vehicles. Using the data
12 provided by SJWC an average mile per year was calculated for each eligible

²⁶⁸ In Decision 07-12-055, the Commission determined that these criteria should be consistently used for all water utilities.

1 car.²⁶⁹ This data was used to estimate mileage a vehicle would have in 2013 and
 2 2014, and in turn used to determine which vehicles were eligible for replacement
 3 in 2013 and 2014. Another factor taken into consideration was age of the vehicle
 4 in the following replacement year. DRA determined that in 2013 thirteen (13)
 5 vehicles were eligible for retirement due to age or mileage, with a combined
 6 replacement cost of \$311,930. Review of 2014 resulted in sixteen (16) vehicles
 7 eligible for retirement due to age or mileage, with a combined replacement cost of
 8 \$478,975. Please note that DRA used escalation rates found in SJWC Ch.8-3
 9 workpapers to determine the cost of vehicles in 2013 and 2014.

10 The table below shows DRA’s recommendation for high mileage vehicle
 11 replacement.

Vehicles	DRA	SJWC
2012	\$306,510	\$705,500
2013	\$311,930	\$1,063,800
2014	\$478,975	\$1,403,800

12 **Vehicles for New Staff Positions**

13 In addition to its request for vehicle replacements, SJWC proposes to
 14 purchase six (6) new vehicles in 2013 for new staff positions at a cost of \$416,700.
 15 The proposed vehicles are four (4) Toyota regular cab trucks and two (2) Toyota
 16 dual cab trucks. The specific new staff positions used to justify the new vehicle
 17 purchases include Construction Aid, Cross Connection Inspector (2 positions),
 18 Water Quality Inspector, Cross Connection Supervisor, and Water Treatment
 19 Supervisor.²⁷⁰ DRA’s analysis of SJWC’s new staff forecasts, presented in the

²⁶⁹ SJWC’s response to DRA data request AR4-006, q.1

²⁷⁰ SJWC’s response to DRA data request AR4-006, q.2

1 Administrative and General Expenses Chapter, results in a recommendation of a
 2 maximum of three employees. Additionally from that analysis, DRA has
 3 specifically questioned the reasonableness of funding an additional Construction
 4 Aid, Cross Connection Inspector (2 positions), Water Quality Inspector, and Cross
 5 Connection Supervisor given SJWC's use of the existing employees in these
 6 positions to perform non-tariffed services under claims of excess capacity. These
 7 facts coupled with existence of a current SJWC pool vehicle fleet challenge the
 8 reasonableness of purchasing the requested new vehicles. Replaced vehicles in
 9 SJWC's vehicle fleet remain in the pool two years before they are sold.²⁷¹
 10 Consistent with DRA's recommendation on new staff positions, the existing pool
 11 vehicles should be adequate to accommodate any vehicle needs. DRA
 12 recommends the Commission disallow SJWC's proposal for CIP #182 at a cost of
 13 \$416,700 for 2013 in its entirety as DRA's recommendation on staffing and the
 14 availability of vehicles in the pool fleet are more than sufficient for SJWC's
 15 operational needs. DRA has included the full amount for Structures & Non-
 16 Specifics in its recommended construction budget with adjustments to the
 17 estimated costs for the mobile standby generator program and the standby
 18 generator at SJWC Taylor office, additional adjustments to the high mileage
 19 vehicle replacement program, and less the dollars requested for vehicles for new
 20 staff.

Structures & Non-Specifics	DRA	SJWC
2012	\$2,917,210	\$4,436,300
2013	\$2,195,230	\$3,529,700
2014	\$873,675	\$1,798,500

²⁷¹ Exhibit G, Index # 182 p.33. SJWC's vehicle replacement policy recommends vehicles be replaced after 5 years and rotated into the vehicle pool for 2 years before being sold at 7 years.

1 **16) Green & Alternative Energy**

2 SJWC is requesting funding for two (2) projects in 2014 within its green
3 and alternative energy category. One project is for a photovoltaic energy
4 production system (solar panels) at the Williams Road Station and the other is for
5 a micro-hydro-turbine generator energy recovery system at the Alum Rock
6 Turnout. Similar projects, at the same locations, that were requested in the last
7 general rate case were denied in D.09-11-032.

8 As described in its response to the rate case plan minimum data
9 requirements, “SJWC has already reduced its delivery factor, from 1,540
10 kWh/MG in 2007 to 1,113 kWh/MG in 2010. This 28% improvement in delivery
11 factor was achieved through (1) pump and motor modernization, (2) an above
12 average supply of local surface water, (3) better control of pumps with a new
13 SCADA algorithm and (4) self-generation.”²⁷² Further, SJWC explains that, “[a]s
14 a result of SJWC’s past success, it will be difficult to achieve further energy
15 reduction.”²⁷³ In its attempt to justify its solar panel and hydro-electric-generation
16 projects, SJWC is trying to use the Water Action Plan energy reduction goals as a
17 way to show a need for energy generation by stating, “in order to meet the
18 Commission’s goal of a 10% energy reduction, SJWC proposes to generate
19 electricity with solar and hydropower as a means of drawing less power from
20 PG&E’s grid.”²⁷⁴ Energy *reduction* goals should not be construed to imply any
21 such goals for water utilities related to energy *generation*.

22 The 2005 Water Action Plan, which articulated the Commission’s goal of a
23 10% reduction in energy consumption and is referenced by SJWC, urges support

²⁷² SJWC’s response to MDR II.E.7

²⁷³ SJWC’s response to MDR II.E.7

²⁷⁴ SJWC’s response to MDR II.E.7

1 for energy efficiency of water and wastewater facilities. The 2005 Water Action
2 Plan states, “The CPUC will identify and assess options for energy efficiency
3 strategies for water utilities to reduce energy use associated with water pumping,
4 purification systems, and other water processes such as desalinization. Additional
5 policies which can contribute to increased energy efficiency include addressing
6 sources of energy waste, such as system leaks, poorly maintained equipment,
7 defective meters, unused machines left idling, and improperly operated
8 systems.”²⁷⁵

9 As stated in its response to MDR II.E.7, SJWC has already made
10 significant strides in energy efficiency. This is a significant accomplishment but in
11 no way should this mean energy production projects should now be pursued at all
12 cost. There is no mention in the CPUC’s 2005 Water Action Plan of
13 encouragement for solar panel or hydro turbine installations – it only references
14 improving the energy efficiency of existing operations.

15 In the 2010 Water Action Plan reference to a 10% reduction in energy
16 consumption was removed and a discussion of a Water/Energy Nexus program
17 was added. As part of the discussion in the 2010 Water Action Plan of the
18 Water/Energy Nexus program there is mention of support of water utilities to
19 reduce power costs by self-generation of energy using renewable energy
20 sources.²⁷⁶ Further Commission guidance has not been established on this aspect
21 of the water/energy nexus and this broad mention of support should not be
22 construed to imply support of every green/alternative energy project proposed.
23 Important considerations in evaluating whether SJWC should pursue such projects
24 include the presence of local equipment that can use the energy generated and cost

²⁷⁵ 2005 Water Action Plan. Includes a reference to the Alliance to Save Energy,
<http://www.watergy.org/supplyside/practices/practices.html>

²⁷⁶ 2010 Water Action Plan, p. 19

1 effectiveness. There is no such local equipment located the Alum Rock Turnout
2 which means SJWC must develop a power purchase agreement with PG&E in
3 order to gain from the proposed energy generation system.

4 As the Commission concluded in the previous general rate case Decision,
5 with this same project being considered, “SJWC is in the business of providing
6 quality and reliable water service to its ratepayers and not in the business
7 producing and marketing power.”²⁷⁷

8 **Solar Panels at Williams Road Station**

9 SJWC is proposing \$3.4 Million to be spent on solar panel installations at
10 Williams Road Station in 2014.

11 In the previous general rate case, the Commission discussed in the Decision
12 that, “[a]lthough SJWC compared types of solar projects such as roof mounted
13 solar projects, it did not undertake a least-cost energy efficiency comparison.”²⁷⁸
14 Before the Commission endorses such a large capital investment in solar projects,
15 this and other analysis ought to take place.”²⁷⁹ Again, SJWC has not developed a
16 least-cost energy efficiency comparison for the Williams Road Station solar panel
17 projects.

18 The Commission also determined in the last general rate case that “SJWC
19 has yet to substantiate that the Columbine pilot project can meet or exceed its
20 designed performance.”²⁸⁰ It was found in that decision that “[a]lthough the
21 Columbine solar project was designed to produce 112,791 kWh of power, the

²⁷⁷ D.09-11-032, p.19

²⁷⁸ A. 09-01-009, Reporter’s Transcript Vol. 2, p. 158.

²⁷⁹ D.09-11-032, p. 16

²⁸⁰ D.09-11-032, p. 16

1 actual 2008 performance was 10% below designed production.”²⁸¹ This has not
2 improved in the years since. Over the past four years the PV system has had a
3 similar performance with an average of 106,000-kWh per year, still close to 10%
4 below designed production.²⁸² Again, as concluded in the last general rate case
5 decision, “[f]or such a large investment and because solar development is still in
6 the nascent stage for our regulated water companies, we need more time with the
7 pilot project currently in operation and more time than is allowed in this
8 proceeding to vet the pros and cons of these proposals.”²⁸³ The Commission also
9 suggested SJWC submit a joint application with PG&E as a joint venture, however
10 SJWC has chosen not to do so.

11 A conclusion of law from SJWC’s last general rate case decision stated,
12 “[t]he Columbine solar project should continue as a pilot solar project in rate base
13 so that SJWC can gather operational performance data to determine whether the
14 pilot project matches expectations and benefits ratepayers.”²⁸⁴ When asked to
15 substantiate if the Columbine Drive Station solar panel pilot project has or has not
16 met its designed performance, SJWC responded by sending a letter from its
17 vendor, dated July 28, 2008, which was a letter also put in the record during the
18 last general rate case.²⁸⁵

19 SJWC did also provide several key lessons learned from the Columbine
20 solar project that promise to improve SJWC’s installation of any future solar panel
21 system, however the benefits to ratepayers are still unclear. DRA performed a
22 similar analysis of the one provided by SJWC to determine the payback period for

²⁸¹ D.09-11-032, Finding of Fact 12.

²⁸² SJWC’s response to DRA data request AR4-006.

²⁸³ D.09-11-032, p. 16

²⁸⁴ D.09-11-032, Conclusion of Law #9.

²⁸⁵ SJWC’s response to DRA data request AR4-006.

1 this investment; however DRA conducted the analysis for the perspective of the
2 ratepayers. This simply involved a determination of when the savings in electricity
3 expenses are anticipated to outweigh the annual revenue requirement needed to
4 support this project. From this analysis DRA determined a payback period of 24
5 years.²⁸⁶ With an expected lifetime of 25 to 40 years, this is not an attractive
6 investment from the prospective of ratepayers. While technical knowledge is
7 steadily improving for solar power, the last decision is still correct when it comes
8 to the aspects of cost-effectiveness in that “there is still much to learn from pilots
9 before we approve such large capital projects with yet to-be-proven benefits.”²⁸⁷
10 More specifically, “there is insufficient reliable data available to assess benefits
11 that would flow to SJWC’s ratepayers during this current economic environment
12 or whether the projects would improve SJWC’s ability to provide quality and
13 reliable water service.”²⁸⁸

14 Finally, DRA recommends the Commission maintain its previous findings
15 and once again “give greater weight to capital investments in water supply and
16 reliability for this GRC cycle.”²⁸⁹

17 **Hydro-turbine at Alum Rock Turnout**

18 SJWC is proposing to spend \$0.46 Million to generate electricity at the
19 Alum Rock Turnout site, which does not have any pump, wells, or other
20 equipment requiring electricity. Therefore there is not a direct way for SJWC to

²⁸⁶ DRA’s analysis assumptions: 1) no ARRA Section 1603 Grant funding is available, as this opportunity has expired, resulting in a higher capital cost estimate of \$4,892,260. 2) an avoided cost of \$0.17735/kWh equal to PG&E’s current estimate of the average total rate per kWh for the commercial A6 Tariff. 3) based on the 4 year average performance of the Columbine solar installation of 106,000 kWh-yr with a 76.5 kW unit, a similar performance is assumed for the Williams street installation of 847,620 kWh-yr with a 612 kW unit.

²⁸⁷ D.09-11-032, p. 16

²⁸⁸ D.09-11-032, p. 16

²⁸⁹ D.09-11-032, p. 16

1 use the energy generated, as is the case at its hydro-turbine facility at Cox Avenue
2 Station.

3 Three Hydro-turbine projects were proposed in the last general rate case; at
4 (1) Cox Avenue Station, (2) Alum Rock Turnout #1, and (3) Hostetter Turnout
5 #2.²⁹⁰ In that Decision, the Cox Avenue Station project was supported by DRA,
6 and approved by the Commission, and later through Resolution W-4854 a Pressure
7 Reducing Valve Modernization Project, including installation of a micro-hydro-
8 turbine-generator was authorized for the Hostetter Turnout site. In the current
9 application, SJWC once again requests authorization for the Alum Rock Turnout
10 #1 hydro-turbine project.

11 The last general rate case Decision for SJWC found that:

12 “Unlike the Cox project, the Alum Rock and Hostetter
13 projects would not provide a direct benefit to SJWC
14 and its ratepayers. Neither Alum Rock nor Hostetter
15 has wells or pumps at their locations. Therefore, any
16 power generated at these locations must be sold back
17 to PG&E under a power purchase agreement.”²⁹¹

18 This then prompted the following conclusion of law in the same decision:

19 “Hydro-turbine projects that directly benefit SJWC
20 and its ratepayers in providing quality and reliable
21 water service while reducing its purchased power
22 consumption should be given priority over hydro-
23 turbine projects that do not.”²⁹²

²⁹⁰ D.09-11-032, p.17

²⁹¹ D.09-11-032, p.19

²⁹² D.09-11-032, Conclusion of Law #12

1 With no equipment located at SJWC’s Alum Rock Turnout, this project is
2 certainly not one that can reduce purchased power consumption and should not be
3 given any priority.

4 The Commission did acknowledge some potential positives from this
5 project by saying, “[i]ndirect benefits would result because these projects would
6 improve PG&E’s energy reliability during peak demand times, reduce SJWC’s
7 carbon footprint, and reduce SJWC’s operating expenses with any revenues
8 received from selling power generated from these projects.”²⁹³ However the
9 Commission still denies support for SJWC to pursue these projects and instead
10 suggests that, “[t]hese kinds of projects ought to be considered in a joint
11 application with PG&E or another joint venture partner or partners.”²⁹⁴

12 DRA has not included any amount for Green & Alternative Energy in its
13 recommended construction budget.

Green & Alternative Energy	DRA	SJWC
2012	\$0	\$0
2013	\$0	\$0
2014	\$0	\$3,889,200

14 **E. CONCLUSION**

15 DRA recommends the Commission again give greater weight to capital
16 investments in water supply and reliability for this GRC cycle. This can be
17 accomplished by adopting DRA’s proposed budget for 2012 – 2014, which

²⁹³ D.09-11-032, p.19

²⁹⁴ D.09-11-032, p.19

- 1 includes a nearly 7-fold increase in spending on Reservoir and Tank repairs and
- 2 improvements, an aggressive but prudent main replacement program, and several
- 3 reasonable pump station improvements.

TABLE 8-1

San Jose Water Company A.12-01-003
 UTILITY PLANT
 Test Year 2013

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Total Utility Plant				
Beginning of Year Balance	1,085,359	1,101,083	15,724	1%
Gross Additions	78,148	98,834	20,686	26%
Retirements and Adjustments	2,100	2,100	0	0%
Net Additions	76,048	96,734	20,686	27%
End of Year Balance	1,161,407	1,197,817	36,410	3%
Weighted Average Additions	39,372	49,818		
Weighted Average Plant	1,124,730	1,150,901	26,170	2%

TABLE 8-2

San Jose Water Company A.12-01-003
 UTILITY PLANT
 Test Year 2014

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Total Utility Plant				
Beinning of the Year Balance	1,161,407	1,193,534	32,127	3%
Gross Additions	78,992	123,676	44,685	57%
Retirements and Adjustments	<u>2,100</u>	<u>2,100</u>	0	0%
Net Additions	76,892	121,576	44,685	58%
End of Year Balance	<u>1,238,299</u>	<u>1,315,110</u>	76,811	6%
Weighted Average Additions	39,809	62,612		
Weighted Average Plant	<u>1,201,216</u>	<u>1,256,145</u>	54,930	5%

CHAPTER 9: DEPRECIATION EXPENSE & RESERVE

1 A. INTRODUCTION

2 For ratemaking purposes, depreciation expense is included in the
3 calculation of SJWC's test year revenue requirement to allow for the recovery of
4 funds provided by investors for the construction or acquisition of tangible assets.

5 The total of all depreciation expense that has accumulated over time is
6 calculated in the depreciation reserve. The depreciation reserve is deducted from
7 rate base to avoid earning an additional return on funds that have been previously
8 recovered through the depreciation expense.

9 B. SUMMARY OF RECOMMENDATIONS

10 DRA recommends a depreciation expense rate of 3.46% based upon SJWC
11 workpapers and corrected errors in SJWC's depreciation study. Additionally,
12 DRA recommends an adjustment to retirements that are included in the
13 depreciation reserve to accord with the historical relationship of plant retirements.
14 DRA's recommended depreciation rate of 3.46% results in a reduction of
15 approximately \$500,000 in net depreciation expense. The DRA adjustment to
16 retirements results in an increase of approximately \$5,000,000 to estimated
17 depreciation reserves. All other differences between DRA and SJWC estimates
18 of depreciation expense and depreciation reserve are the result of the differences in
19 requested and recommended plant that are presented in Chapter Eight of this
20 report.

21 C. DISCUSSION

22 In its application, SJWC presented a depreciation study which calculated a
23 composite depreciation rate of 3.51%. Based upon errors identified and corrected
24 in SJWC's response to Data Request PPM-011, DRA calculated a revised

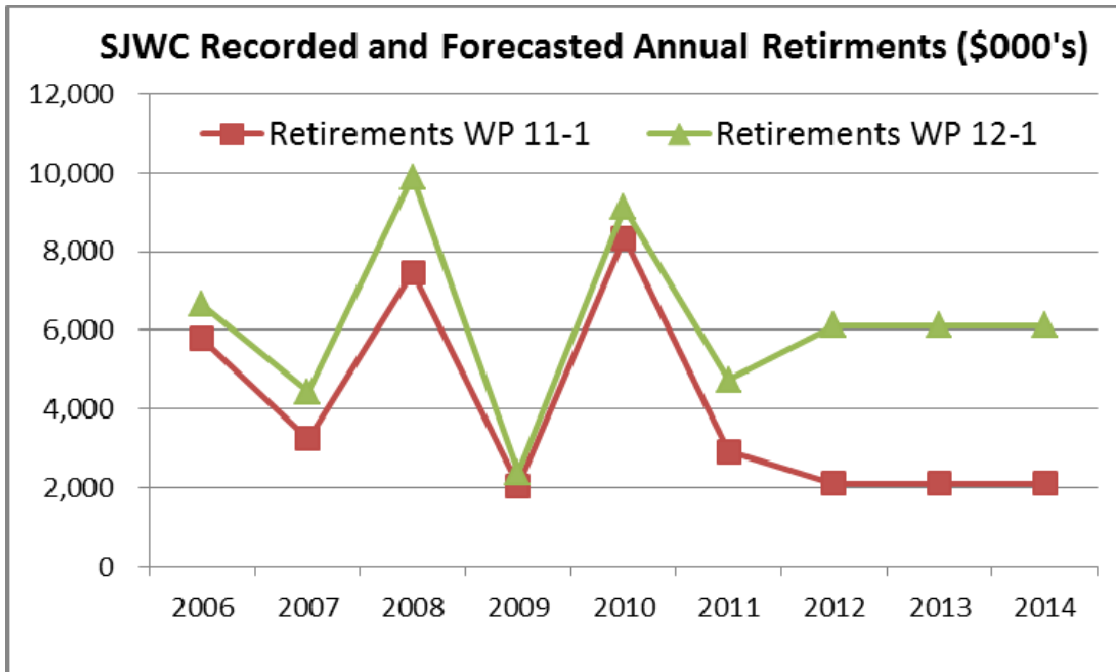
1 composite rate of 3.46% using SJWC depreciation workpapers. However, as
2 discussed elsewhere in this report,²⁹⁵ DRA had considerable difficulty performing
3 a comprehensive review of depreciation data because of the format in which data
4 was received. For SJWC’s next general rate case, the Commission should require
5 SJWC to include depreciation studies in a digital spreadsheet version for DRA to
6 more easily validate calculations and perform additional analysis of inputs and
7 assumptions.

8 DRA has adjusted SJWC’s estimate of plant retirements that are used to
9 calculate the depreciation reserve in SJWC Workpaper (“WP”) 12-1. SJWC also
10 provides plant retirement estimates for the calculation of Utility Plant in Service in
11 WP 11-1. In its response to DRA Data Request RRA-002, SJWC correctly
12 explained the difference in the two categories of plant retirements as “values in
13 WP 12-1 include cost of removal while those in WP 11-1 include only service
14 value.” Another difference between the plant retirement estimates in WP-11 and
15 WP 12-1 which directly impacts customer rates is that *decreases* to retirements in
16 WP 11-1 will increase ratebase, whereas *increases* to retirements in WP 12-1 will
17 increase ratebase.

18 As seen in the following graph, the historical relationship between retired
19 plant including cost of removal (WP 12-1) and retired plant’s service value (WP
20 11-1) noticeably diverges in SJWC’s projections for the years 2012 through 2014.
21 Divergence from the historical relationship of the two retirement accounts in the
22 forecasted years can be explained by the different forecasting methodologies that
23 SJWC has elected to use. SJWC Workpaper 11-1 indicates retirements have been
24 forecast based upon the results of the depreciation study while SJWC Workpaper

²⁹⁵ See Discussion on Transportation Depreciation in DRA Chapter Eight

1 12-1 indicates retirements have been forecast based upon the average of the past
2 five years of recorded data.



3 DRA adjusts the forecast of the retirement account depreciation reserve
4 (WP 12-1) to be consistent with the historical relationship observed between the
5 years 2006-2011. Over this period of recorded data, retirements in the
6 depreciation reserve (green line) averaged 129% of the retirements recorded in the
7 plant account (red line). DRA applies the average percentage of 129% from
8 recorded data to estimate retirements in WP-12 of \$2,700,000 resulting in an
9 increase of approximately \$5,000,000 to estimated depreciation reserves.

10 **D. CONCLUSION**

11 The majority of the difference between DRA and SJWC estimates of
12 depreciation expense and depreciation reserve is due to differences in estimates of
13 depreciable plant as discussed in Chapter Eight. To estimate the net depreciation
14 expense, DRA used a rate of 3.46% based upon SJWC workpapers and corrected
15 errors in SJWC's depreciation study. DRA decreased the retirement component of

1 the depreciation reserve's forecast to align with the historical relationship between
2 retired plant removed from ratebase and retired plant added to the depreciation
3 reserve.

4 To facilitate the review of depreciation data in future general rate cases,
5 DRA recommends that SJWC submit future depreciation studies in a digital
6 spreadsheet format and that links between utility plant and depreciation
7 workpapers replace the use of hardcoded entries wherever possible.

TABLE 9-1

San Jose Water Company A.12-01-003
ACCUMULATED DEPRECIATION AND EXPENSE
 Test Year 2013

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Accum. Depreciation (BOY)	362,366	356,623	(5,743)	-2%
Accruals During Year:				
Transportation Equipment	701	1,290	589	84%
Contributed Plant	3,810	3,810	0	0%
Other Plant in Service	33,042	33,549	507	2%
Total Accruals	<u>37,553</u>	<u>38,649</u>	1,096	3%
Add: Salvage	0	0	0	0%
less: Retirements	6,115	7,360	1,245	20%
Adjustments	0	0	0	0%
End-of-Year Balance	<u>393,805</u>	<u>387,912</u>	(5,893)	-1%
5-Year Average Weighting	0.51			
Aver. Accumulated Deprec.	<u>378,302</u>	<u>372,549</u>	(5,753)	-2%

TABLE 9-2

San Jose Water Company A.12-01-003
ACCUMULATED DEPRECIATION AND EXPENSE
 Test Year 2014

Item	DRA Analysis (A)	SJWC Proposed (B)	SJWC Exceeds DRA Amount (C)	Percent (D)
		(Dollars in Thousands)		
Accum. Depreciation (BOY)	393,805	387,912	(5,893)	-1%
Accruals During Year:				
Transportation Equipment	684	1,357	673	98%
Contributed Plant	4,001	4,001	0	0%
Other Plant in Service	35,500	36,509	1,009	3%
Total Accruals	40,184.7	41,867	1,682	4%
Add: Salvage	0	0	0	0%
less: Retirements	6,115	7,360	1,245	20%
Adjustments	0	0	0	0%
End-of-Year Balance	427,875	422,419	(5,456)	-1%
5-Year Average Weighting	0.51			
Aver. Accumulated Deprec.	411,146.4	405,475.9	(5,670)	-1%

CHAPTER 10: RATEBASE

1 A. INTRODUCTION

2 Ratebase is the estimate of the value of property upon which SJWC is
3 permitted to earn its authorized rate of return. Ratebase generally represents the
4 value of property used by SJWC in providing water service and includes the value
5 of prudent investment, cash working capital, materials and supplies, with
6 deductions for accumulated depreciation reserves, contributions in aid of
7 construction, customer advances for construction, and accumulated deferred
8 income taxes.

9 B. SUMMARY OF RECOMMENDATIONS

10 Differences between DRA and SJWC estimates of ratebase are largely the
11 result of differences in estimates of Utility Plant in Service, Depreciation, and
12 Taxes, which are each discussed elsewhere in this report. Based upon DRA's
13 analysis of SJWC's ratebase calculations, several adjustments have been made to
14 the area of cash working capital. The calculation of cash working capital is an
15 iterative calculation that will change depending upon estimated revenue
16 requirements, which in turn will be influenced by cash working capital needs. The
17 DRA adjustments to the cash working capital calculations, as detailed below,
18 result in an approximately 60% of the total \$10,500,000 that SJWC requested for
19 cash working capital being removed.

20 C. DISCUSSION

21 Cash working capital is the additional amount of capital that is required to
22 permanently fund ongoing operations and bridge the gap between the time
23 expenditures are made and the time collections are received. Cash working capital
24 can be positive or negative and consists of several different components. The
25 operational cash component is "made up of working funds in the form of cash,

1 special deposits and other current assets which the investor is required to supply to
2 the utility in order for it to perform its day-to-day operational requirements
3 efficiently and economically.”²⁹⁶ The operational cash component should also
4 include deductions for sources of funds available to the utility that have not been
5 supplied by investors, like customer deposits, which represent interest-free sources
6 of capital. SJWC’s estimate of its operational cash component for Test Year 2013
7 consists of \$624,000 in Materials and Supplies, \$200,000 in Minimum Bank Cash
8 Deposits, \$3,000 in Special Deposits & Working Funds with reductions of
9 \$1,089,000 for Customer Deposits and \$111,300 in Amounts Withheld from
10 Employees for a total cash component of negative \$373,000.²⁹⁷

11 Based upon SJWC’s response to data requests, DRA’s calculation of the
12 operational cash component of cash working capital removes the \$200,000 in
13 Minimum Bank Cash Deposits and increases the estimate of Customer Deposits to
14 \$1,135,679 to arrive at a net total of negative \$619,979 for the operational cash
15 component of cash working capital.²⁹⁸ SJWC had indicated that “the assumption
16 of \$200,000 for operational working capital was pulled forward from past rate
17 cases” and that the company “does not incur fees for not maintaining a set
18 minimum bank account balance.”²⁹⁹ In the same response, SJWC provided five-
19 years of recorded Customer Deposit balances. To capture historical fluctuations in
20 this account, DRA uses the five-year average of these balances rather than
21 SJWC’s use of single year’s balance to estimate future Customer Deposits.

22 The second component of cash working capital is the working capital
23 estimate of investor funds that might be required to cover any timing differences

²⁹⁶ Page 1-2, Standard Practice U-16W

²⁹⁷ SJWC Workpaper 13-G

²⁹⁸ $\$624,000 + \$3,000 - \$1,135,679 - \$111,300 = (\$619,979)$

²⁹⁹ DRA Data Request RRA-001

1 between cash expenditures and revenue collections. Unlike the cash component
2 of cash working capital, this amount is usually calculated through the use of a
3 lead-lag study. DRA has reviewed the lead-lag study submitted by SJWC and has
4 made several adjustments. First, the average revenue lag days estimated by SJWC
5 assumes that all customers are billed bi-monthly. DRA confirmed through
6 discovery that a percentage of SJWC's customer classes are actually billed
7 monthly.³⁰⁰ Proportionally adjusting the revenue collection period based upon
8 the data SJWC provided results in a decrease of the average revenue lag days from
9 SJWC's original calculation of 56 days to a corrected 51 days for a decrease of
10 approximately \$2,000,000 in working capital.

11 Next, DRA includes within its calculation of lag days the actual cash
12 payment of debt interest expense that SJWC excluded from the lead-lag study.
13 Based upon its response to the aforementioned data request, SJWC appears to
14 have the common misunderstanding that Standard Practice U-16W requires
15 interest payment expense to be excluded from the entire cash working capital. A
16 careful reading of the Standard Practice reveals that debt interest expense cannot
17 be included in the operational cash component of cash working capital, but most
18 certainly should be included amongst the other cash expenses when performing
19 the lead-lag study. Elaborating upon what can and cannot be included in the
20 operational cash component, Standard Practice U-16 reads:

21 "In determining the cash requirement, the only amounts
22 which should be considered are the required minimum
23 bank deposits that must be maintained and reasonable
24 amounts of working funds. The determination of the
25 amount of money required to pay expenses in advance
26 of receipt of revenues is made by the lag study. If funds
27 were to be allowed in the cash requirement, over and
28 above the minimum bank deposits for payment of

³⁰⁰ *ibid*

1 certain operating expenses, it would have the effect of
2 providing for payments of the same cost twice, once as
3 determined in the lag study and once again in
4 determining the operational requirement. It must be
5 remembered that the cash requirement is not a measure
6 of funds that the utility maintains for all purposes, such
7 as for construction or for payment of dividends and
8 interest. It is the amount that must be maintained for
9 day-to-day operations. When the ratepayer pays his bill,
10 he has compensated the investor for the interest on
11 construction funds and a return on the investor's capital;
12 **therefore construction cash, interest and dividends**
13 **are not included in the cash requirement.**”

14 As previously stated, SJWC’s lead-lag study and cash working capital
15 calculations did not include a lag for the payment of interest expense. The costs to
16 pay the interest expense on long term debt are collected from the SJWC’s
17 customers through rates. The interest expense on long term debt is paid on a semi-
18 annual basis. Between the time the SJWC receives revenues from its customers
19 and the time it is required to make a disbursement of funds to pay the interest on
20 the long term debt, the funds are available for use by SJWC.

21 Although interest expense should not be included in the operational cash
22 component, the lag days related to interest expense must be considered in a lead-
23 lag study, like any other cash expense, to arrive at an appropriate estimate of total
24 working capital. DRA includes expense lag days of 91.3 (average service period
25 for semi-annual payments = $365/4$) and the total annual interest expense of
26 \$16,474,000 provided by SJWC. This adjustment results in a reduction to ratebase
27 of approximately \$1,700,000.

28 Next, DRA removes the category of depreciation expense from the lead-lag
29 study. Cash working capital is to meet the actual needs of SJWC’s ongoing
30 operations. Non-cash items should not be included in either the operational cash
31 component or the lead-lag working capital component of cash working capital. As

1 a non-cash expense for which no timing difference exists, depreciation expense
2 must be excluded from cash working capital since to do otherwise would allow for
3 a return to be calculated twice on investments that have only been made once.

4 The remaining DRA adjustments to SJWC's lead-lag study correct
5 miscellaneous calculations related to the number of lag days for various expenses.
6 These include an increase to the expense payment lag for Purchased Water and
7 Pump Tax. Originally calculated at 4.6 and 11 days, respectively, DRA adjusted
8 the expense lag on these accounts to 40.3 and 46.8 days based upon service
9 periods, invoice amounts and payment dates that SJWC provided in response to
10 RRA-001 for the year 2010. The expense payment lead for the category of Rents
11 was reduced from a lead of 76.1 days to 15 days to coincide with contract
12 requirements. The expense lag associated with the general category of Other
13 O&M was increased by DRA from 9.8 days to 45 days to capture a standard
14 vendor payment term of 30 days from invoicing.

15 **D. CONCLUSION**

16 The differences between SJWC and DRA estimates of ratebase are
17 primarily due to differences in Utility Plant in Service, Depreciation, and Taxes.
18 However, for the cash working capital component of ratebase, DRA made
19 numerous adjustments reflecting its best judgment and standard ratemaking
20 methodology to arrive at an appropriate amount of working capital necessary for
21 SJWC to efficiently and effectively maintain ongoing operations.

TABLE 10-1

San Jose Water Company A.12-01-003				
RATEBASE				
Test Year 2013				
Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
(Dollars in Thousands)				
Weighted Average Utility Plant	1,124,730	1,150,901	26,170	2%
Adjustment to plant	(167,640)	(170,763)	(3,123)	2%
Working capital	3,617	10,515	6,899	191%
Tax Deferrals	(79,872)	(45,117)	34,754	-44%
Ratebase on Taxed Contrib & Adv	6,889	6,956	67	1%
Undepreciated rate base	<u>887,724.7</u>	<u>952,492</u>	64,768	7%
Depreciation Reserve	378,302.4	372,549	(5,753)	-2%
Weighted Avg Rate Base	<u>509,422.3</u>	<u>579,943</u>	70,521	14%

TABLE 10-2

San Jose Water Company A.12-01-003
 RATEBASE
 2nd Test Year 2014

Item	DRA	SJWC	SJWC Exceeds DRA	
	Analysis	Proposed	Amount	Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Weighted Average Utility Plant	1,201,216	1,256,145	54,930	5%
Adjustment to plant	(166,206)	(171,094)	-4,887	3%
Working capital	4,095	10,589	6,494	159%
Tax Deferrals	(73,930)	(45,395)	28,535	-39%
Taxed contributions	6,668	6,731.5	64	1%
Undepreciated rate base	<u>971,842</u>	<u>1,056,977</u>	85,135	9%
Depreciation Reserve	411,146	405,476	-5,670	-1%
Weighted Avg Rate Base	<u>560,695</u>	<u>651,501</u>	90,806	16%

CHAPTER 11: CONSERVATION

1 A. INTRODUCTION

2 In the current general rate case cycle, SJWC anticipates that “conservation
3 expenses will increase significantly as a result of the proposed increase in
4 conservation efforts related to the WRAM/MCBA implementation and
5 continuation of the recycled water retrofit program.”³⁰¹ In fact, SJWC requests
6 an additional \$1,290,000 per year in new conservation programs, representing
7 more than a ten-fold increase over the last recorded year of baseline conservation
8 expenses.³⁰² This requested ten-fold increase in conservation spending does not
9 include the additional expenses associated with increased staff for the conservation
10 department or increased numbers of recycled water retrofits which DRA analyzes
11 separately in Chapters Three and Eight, respectively, of this report.

12 B. SUMMARY OF RECOMMENDATIONS

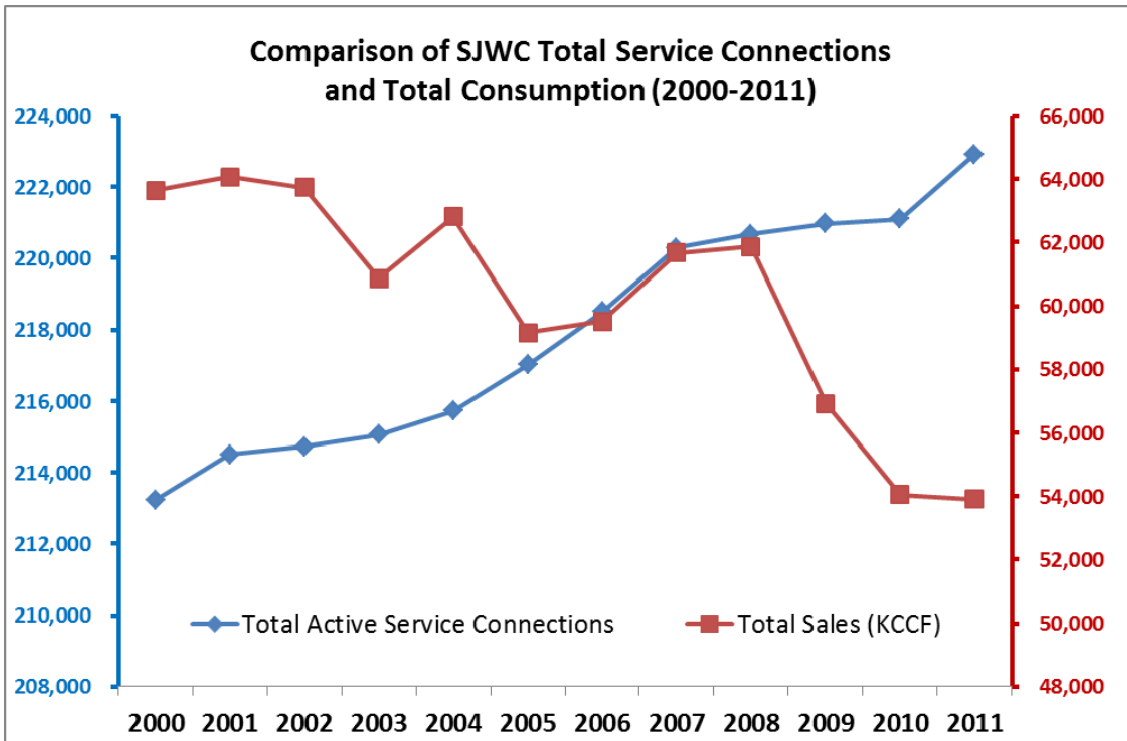
13 With customers already having significantly reduced per capita water
14 consumption and having identified this reduced consumption as the primary driver
15 of its request to increase rates in the current proceeding, SJWC should not be
16 authorized the substantial increases in conservation spending that have been
17 requested to pursue new and expanded conservation programs. Extending
18 SJWC’s historical trend of conservation spending, properly adjusted for inflation,
19 to arrive at test year forecasts will provide adequate funding for all necessary and
20 cost-effective conservation activities.

³⁰¹ Page 4, Chapter 8, SJWC Exhibit E

³⁰² In updated workpapers, SJWC increased this test-year expense to \$1,325,000 or \$4,151,000 for the general rate case cycle (2013-2015); estimate does not include increases due to water recycling programs, see DRA Chapter Seven for analysis on proposed recycled water programs.

1 **C. DISCUSSION**

2 As can be seen from the following graph which compares ten years of
3 recorded customer consumption data with the total number of customers over the
4 same period, significant reductions in both per capita water consumption, as well
5 as, total water consumption have been achieved since 2000.



Source: SJWC Workpapers 7-1A & 7-1B in A.12-01-003, A.09-01-009 and A.06-02-014

6 To provide the Commission with a recommendation on a prudent level of
7 conservation funding in the current general rate case cycle, DRA reviewed both
8 SJWC’s existing conservation programs and proposed new conservation spending.

9 **1) New Conservation Programs and Spending**

10 The largest new expense in SJWC’s proposed conservation budget is the
11 *High Efficiency Toilet Direct Install Toilet Program*, estimated at \$400,000 per
12 year. Not to be confused with the existing Santa Clara Valley Water District’s
13 (“SCVWD”) program, which provides SJWC residential customers with rebates
14 on high-efficiency toilets, the newly proposed program for 2013 would cover all

1 the costs of acquiring and installing high efficiency toilets for residential
2 customers with “older style high volume toilets (greater than 1.6 gallons per
3 flush).”³⁰³ Although SJWC’s description of this proposed program indicates that
4 toilets that use greater than 1.6 gallons per flush would be eligible for free
5 replacement, the cost benefit analysis that has been performed for the program is
6 based upon replacing toilets that use 3.5 gallons or more per flush.
7 Notwithstanding this analytical anomaly which could result in overturning the
8 cost-benefit ratio with per-acre-foot costs of the program exceeding that of
9 SJWC’s most expensive source of supply, other conservation alternatives that
10 more fully inform customers on the beneficial economics of similar and existing
11 programs should be thoroughly exploited prior to embarking upon new yet similar
12 program.

13 For example, SJWC’s response to RRA-006 confirms that residential
14 customers have yet to be presented with the positive cost-benefit data on making
15 their own investment in high-efficiency toilets as part of SCVWD’s existing toilet
16 rebate programs. Prior to requiring all SJWC customers to fund a new
17 conservation program that will primarily benefit only a select group, detailed cost-
18 benefit information should be first provided to residential customers so that they
19 have the opportunity to make decisions that are in their own best economic
20 interest.

21 The second largest of the proposed increases in conservation spending,
22 representing an annual expense of \$340,000 in Test Year 2013 is SJWC’s proposal
23 to add an additional \$0.75 per square foot to the customer rebate for turf removal.
24 In addition to doubling the current rebate per square foot, this proposal would
25 increase the maximum total rebate to \$3,000 per residential customer and \$30,000
26 per commercial customer. In testimony, SJWC estimates a total of 54.23 acre-feet

³⁰³ SJW Exhibit E: Chapter 18, Page 12

1 of decreased usage resulting from the expanded program.³⁰⁴ Doubling the rebate
2 would result in a total rebate cost of \$680,000 or \$12,539 per acre-foot, not
3 including administrative program costs.³⁰⁵ Using a 10% discount which assumes
4 that any water savings would continue for at least ten years (the National
5 Association of Realtors calculates the average length of home ownership between
6 six and seven years), a conservatively low cost of \$1,253 per acre-foot is still
7 nearly twice as expensive as SJWC most expensive source of water supply—
8 purchased water.³⁰⁶ DRA has removed the estimated costs of expanding this
9 program from test and escalation year revenue requirements.

10 The third largest new conservation budget item, representing an increase of
11 more than \$300,000 per year in spending, is a new landscape survey program that
12 SJWC would contract through the company *Waterfluence*. Similar to the existing
13 landscape survey program offered by the SCVWD whose program has received
14 funding from SJWC since 1994, the newly proposed landscape survey program
15 would differ, according to SJWC, by being ongoing and able to target potential
16 participants as opposed to waiting for volunteers to participate. Since nothing
17 prevents SJWC from targeting and directing potential participants into the existing
18 program and providing ongoing customer following-up, DRA has removed the
19 estimated costs associated with this new yet largely duplicative program.

20 The next new conservation program for which SJWC requests funding is
21 the *Commercial, Institutional, and Industrial (CII) Survey Program*. With an
22 additional \$150,000 per year in requested expense, SJWC would oversee a

³⁰⁴ SJW Exhibit E: Chapter 18, page 17.

³⁰⁵ One-half of the rebate cost is funded indirectly by SJWC customers through SCVWD.

³⁰⁶ \$669 per acre-foot, SJWC Workpaper 8-7

1 program with contracted experts who provided onsite audits of CII customer water
2 usage. The proposed CII water survey program would resurrect the SCVWD CII
3 water survey program that was discontinued in 2012. When resurrecting a
4 discontinued program, understanding the reasons why a program was discontinued
5 can prove useful to improving the likelihood of future success. DRA Data
6 Request PPM-008 requested SJWC’s understanding of the current status of the
7 SCVWD program and any information on reasons why the program was
8 discontinued. Without receiving any indication that SJWC had evaluated the
9 performance of the discontinued program or explored reasons why it was
10 discontinued, DRA has removed the requested funding for this program’s
11 expenses from proposed revenue requirements.

12 The least expensive of SJWC’s proposed new conservation programs is a
13 “turn-key set of classroom activities and hands-on home projects for young
14 students in order to increase their water conservation awareness.”³⁰⁷ Under this
15 \$100,000 per year program, SJWC would contract with the firm *Resource Action*
16 *Programs* to implement “classroom style curriculum based programs offered for
17 water conservation education.” In addition to helping students “reshape family
18 resource usage habits and attitudes,” the program would provide students with kits
19 containing home efficiency devices. Although SJWC does not elaborate upon
20 what devices are included in the kits that students will receive, a quick check of
21 the *Resource Action*’s web site³⁰⁸ reveals that kits would include all of the devices
22 that SJWC customers already obtain free-of-charge through existing conservation
23 programs, including a high-efficiency showerhead, kitchen & bathroom aerators,
24 and toilet leak detection tablets. In just the most recent four years, SJWC
25 distributed 20,757 of these devices to customers through existing conservation

³⁰⁷ SJWC Exhibit E: Chapter 18, page 17

³⁰⁸ <http://resourceaction.com/programs/k-12-programs/waterwise/>

1 programs; more than double the 8,500 kits that are estimated under this \$300,000
2 program.³⁰⁹

3 SJWC differentiates *Resource Action's* school program from the existing
4 school education program offered by SCVWD by noting that “currently there are
5 only auditorium style school presentations being offered by SCVWD.” Although
6 the program cost at \$100,000 per year for three years is the least of all SJWC’s
7 proposed new conservation projects, the overlap with existing school conservation
8 programs and the questionable cost-benefit assumption that none of the devices to
9 be distributed are duplicative of the 20,757 devices distributed in the past four
10 years lead DRA to recommend that requested program funding be removed from
11 revenue requirements.

12 **2) Existing (Baseline) Conservation Programs**

13 The ongoing conservation programs currently offered by SJWC “consist of
14 the residential and commercial water audit program, distribution of complimentary
15 low-flow showerheads and faucet aerators, public information and education, and
16 participation in various programs offered by SCVWD.”³¹⁰ The conservation
17 programs offered by SCVWD are indirectly funded by existing SJWC customers
18 through the wholesale water rates SJWC pays to SCVWD.³¹¹ SJWC requests to
19 continue its baseline conservation program and estimates its direct expenses at
20 \$117,000 for the Test Year 2013.³¹²

21 To maintain an adequate conservation presence and provide customers with
22 any necessary “refresher” messages, DRA does not oppose funding ongoing or

³⁰⁹ DRA Data Request PPM-008-Q7

³¹⁰ SJWC’s Exhibit E, Chapter 18, page 2.

³¹¹ Ibid.

³¹² SJWC’s Exhibit E, Chapter 18, page 9.

1 baseline conservation programs. However, DRA makes several adjustments to
2 SJWC's estimated conservation budget of \$117,000 for Test Year 2013 to arrive at
3 DRA's recommended funding level of \$77,800.

4 In response to DRA Data Request PPM-008, SJWC indicated that its
5 requested \$117,000 conservation budget for 2013 included the following items:

Description	Estimate
1. Public Education & Outreach	\$80,000
2. Water Awareness Night	\$15,000
3. Company Dues	\$16,000
4. Miscellaneous Expenses	\$4,000
5. Travel	\$2,000
TOTAL:	\$117,000

6 In analyzing SJWC's requested baseline conservation budget, DRA
7 observed that SJWC set its 2013 budget estimate equal to its 2010 authorized
8 expense, which does not accurately reflect the actual cost pattern of recorded
9 expenses. For example, SJWC's recorded expenses in this category were only
10 \$80,000 in 2011, \$99,000 in 2010, and \$77,000 in 2009.³¹³ To reflect the actual
11 pattern of recorded expenses and capture historic cost fluctuation, DRA bases its
12 estimates on a recorded three-year (2009-2011) average plus escalation. Next,
13 DRA removes the \$13,000 of double-counted expense that occurs by SJWC
14 including membership dues for the California Urban Water Conservation Council

³¹³ SJWC's response to DRA's Data Request PPM-008, Question 4

1 in both conservation budgets and Administrative and General Expense
2 estimates.³¹⁴

3 **D. CONCLUSION**

4 More than nine years ahead of schedule, SJWC has already met the gallons-
5 per-capita-per-day requirements of California Senate Bill SBX7-7.³¹⁵ SJWC has
6 also indicated that “the most important driver of the need for increased rates is the
7 decreased sales of water by the company.”³¹⁶ Taken together, these two facts cast
8 considerable doubt upon the prudence of aggressively expanding conservation
9 spending in this general rate case. In recognition of the conservation
10 achievements of SJWC’s customers and in an attempt to terminate the vicious
11 cycle where lower demand drives higher rates and higher rates drives lower
12 demand, DRA recommends that SJWC’s request to increase conservation
13 spending by more than 1000% should be at a minimum postponed.

14 Additionally, funding for ongoing and baseline conservation programs
15 should be reduced from \$117,000 to \$77,800 per year to coincide with SJWC’s
16 historical pattern of recorded conservation spending.

³¹⁴ SJWC’s response to DRA’s Data Request PPM-008, Question 1

³¹⁵ Also known as 20x2020, the enacted legislation establishes guidelines for water utilities to reduce usage 20% by the year 2020, *see* DRA Chapter Fifteen: Revenue Decoupling

³¹⁶ Page 5, Lines 13-16, Transcript of Prehearing Conference in Application 12-01-003

CHAPTER 12: NON-TARIFFED PRODUCTS & SERVICES

1 A. INTRODUCTION

2 This Chapter presents DRA’s analysis and recommendation on the non-
3 tariffed products and services activities of SJWC.

4 DRA analyzed SJWC’s testimony, supporting workpapers, reports,
5 responses to both the Minimum Data Requirements and Supplemental Data
6 Requests, other information provided in meetings and methods of estimating the
7 amounts for non-tariffed products and services.

8 B. SUMMARY OF RECOMMENDATIONS

9 DRA’s estimate of gross revenue derived from non-tariffed products and
10 services activities that are to be allocated to ratepayers is \$576,943 for the Test
11 Year 2013. SJWC’s original estimate is \$542,726 which is less than DRA’s
12 estimate by \$34,217. However, the ratepayers should get an additional \$100,000
13 per provisions of Rules X.C.5 and X.C.6 of D.10-10-019, “For those utilities with
14 annual Other Operating Revenue (OOR) of \$100,000 or more, revenue sharing
15 shall occur only for revenues in excess of that amount. All NTP&S revenue below
16 that level shall accrue to the benefit of ratepayers.” and “For those utilities with
17 annual OOR below \$100,000, there shall be no sharing threshold, and ratepayers
18 shall accrue all benefits for non-tariffed products and services.”

19 DRA recommends that the amount of \$285,967³¹⁷ be deducted, for
20 ratemaking purposes, from the 2011 Total Payroll Expense. This amount
21 represents 2011 labor expense pertaining to SJWC’s Non-Tariffed Products and
22 Services (“NTP&S”) activities that should be borne by shareholders not

³¹⁷ Response to Data Request JM2-002 Q1f Attachment B Cupertino.xls & Attachment D
2011.xls

1 ratepayers. Per Rule X.D (Cost Allocation) of D.10-10-019, “All costs, direct and
2 indirect, including all taxes, incurred due to NTP&S projects shall not be
3 recovered through tariffed rates. These costs shall be tracked in separate accounts
4 and any cost to be allocated between tariffed utility services and NTP&S shall be
5 documented and justified in each utility’s rate case. More specifically, all
6 incremental investments, costs, and taxes due to non-tariffed utility products and
7 services shall be absorbed by the utility shareholders, i.e., not recovered through
8 tariffed rates.” The adjusted 2011 Total Payroll Expense should then be used as
9 the starting basis to forecast Test Year 2013 Total Payroll Expense.

10 **C. DISCUSSION**

11 The Commission has recently adopted revised rules that govern the water
12 utilities’ ability to provide non-tariffed products and services through the use of
13 regulated assets and personnel (formerly called excess capacity). Non-tariffed
14 products and services activities are governed by Rule X of D.10-10-019 (Decision
15 Adopting Standard Rules and Procedures for Class A and B Water and Sewer
16 Utilities Governing Affiliate Transactions and the Use of Regulated Assets for
17 Non-Tariffed Utility Services) and D.11-10-034 (Modified Decision Regarding
18 Petition for Modification of Decision 10-10-019).

19 SJWC derives revenue from the use of regulated assets and personnel for
20 non-tariffed activities. Currently, as stated in the GRC Application,³¹⁸ SJWC has
21 the following non-tariffed business activities:

22 **1. Antenna Leases**

23 SJWC is leasing antenna space to telecommunication companies
24 on various water tanks. Although the number of contracts varies,
25 currently the company has 31 of these contracts. The contracts

³¹⁸ SJWC Application, Exhibit E, Chapter 8, Non-Tariffed Activities, pages 8-6 to 8-7

1 are usually for a period of five years, and may or may not be
2 renewed as telecommunication technology continues to evolve.
3 All risks related to this contract are borne by shareholders of the
4 Company. In accordance with D.00-07-018 these contracts are
5 classified as “Passive,” resulting in an allocation of 30% to the
6 ratepayers.

7 **2. Backflow Testing Service for the South Bay Water Recycling**
8 **Program**

9 In order to prevent the contamination of the potable water system
10 the State of California requires, pursuant to Title 22 of the
11 California Code of Regulations, that any location receiving both
12 potable water and recycled water be subject to a comprehensive
13 inspection by an AWWA certified Cross Connection Specialist.
14 This service, and a shutdown test (per UPC Appendix J), must be
15 performed before recycled water can be permitted on site, and
16 every four years after that. The Company’s AWWA certified
17 Cross Connection Specialist provides this service to the South
18 Bay Water Recycling Program (“SBWRP”). In accordance with
19 D.00-07-018 these contracts are classified as “Active,” resulting
20 in an allocation of 10% to the ratepayers.

21 **3. City of Cupertino Water System Lease**

22 In October 1997 SJWC was awarded a 25-year lease to operate
23 and maintain the City of Cupertino water system located adjacent
24 (contiguous) to the Company’s regulated service area. The City
25 of Cupertino system, which is operationally interconnected to the
26 SJWC system, provides potable water service to approximately
27 4,100 customers. Pursuant to the lease agreement the company
28 will receive all the water rate revenue generated within the City
29 of Cupertino system. In return the company is responsible for all
30 system upgrades to be completed during the 25-year lease period.
31 Pursuant to the lease agreement SJWC’s rates were phased-in
32 over a three year period ending in 2000. However, the rates in
33 the City of Cupertino are ultimately subject to approval of the
34 City Council. In accordance with D.00-07-018 this contract is
35 classified as “Active,” resulting in an allocation of 10% to the
36 ratepayers.

37

1 **4. Maintenance and Miscellaneous Services for the City of San Jose**
2 **Municipal Water System**

3 In March 2003 the San Jose City Council authorized the City of
4 San Jose to enter into a 10-year agreement with SJWC for repair
5 and maintenance services, valve exercising services and some
6 miscellaneous services. In accordance with D.00-07-018 the
7 maintenance and valve exercising services contract is classified
8 as “Active,” resulting in an allocation of 10% to the ratepayers
9 from the contract. In accordance with D.00-07-018 the
10 miscellaneous services contract is classified as “Passive,”
11 resulting in an allocation of 30% to the ratepayers from the
12 contract.

13 **5. Meter Testing**

14 SJWC uses its Meter Shop to render meter testing services to
15 outside “customers which includes cities, public agencies, private
16 entities, water companies, mutual water companies, water
17 authorities, and water districts. None of the customers that
18 generated the revenue are affiliated with SJWC.”³¹⁹

19 In D.10-10-019, revenue from Meter Testing is classified as “Active”
20 resulting in allocation of 10% to ratepayers.

21 Rule X.C (Revenues) of D.10-10-019 provides that “Gross revenue from
22 NTP&S projects shall be shared between the utility’s shareholders and its
23 ratepayers as follows: Active NTP&S projects: 90% shareholder and 10%
24 ratepayer; Passive NTP&S projects: 70% shareholder and 30% ratepayer. The
25 share of ratepayers in gross revenues takes the form of a direct reduction of
26 operating expenses. DRA checked SJWC’s explanations reproduced above
27 regarding revenue sharing under D.00-07-018 against the new Rule X in D.10-10-
28 019. DRA verified that the categorization of active vs. passive remained the same
29 for each NTP&S activity.

³¹⁹ Response to Data Request JM2-006 Q8b

1 **1) Forecasting Methodology**

2 **a) Gross Revenue**

3 For Test Year 2013, SJWC calculates the gross revenue using the five-year
4 average of 2007 to 2011 recorded gross revenues for each of its non-tariffed
5 businesses. SJWC's original forecast of gross revenue is \$542,726 based on
6 estimates of 2011 amounts. SJWC revised its estimate to \$555,866 using more
7 recent information on 2011 recorded amounts provided in the 45 day update. The
8 difference of the estimates is an increase in gross revenue that is to be allocated to
9 ratepayers generated from NTP&S activities by \$13,140.

10 DRA reviewed the contracts for each of SJWC's existing non-tariffed
11 activities that were provided in MDR Attachment II I.02. The contracts for
12 Antenna Leases have different provisions for escalation built into them. The City
13 of San Jose Maintenance contract provides for escalation using CPI for the urban
14 San Francisco Bay area. For the City of Cupertino Water System Lease, SJWC is
15 to propose rates which the City Council has to approve. The rest of the non-
16 tariffed contracts have no escalation provisions. DRA also corrected the ratepayer
17 allocation assigned to the City of San Jose Miscellaneous contract in WP 8-19. It
18 was classified as "Active" in WP 8-19, therefore shareholders receive a 10%
19 allocation. However, in the San Jose GRC Application (Exhibit E, Chapter 8,
20 Non-Tariffed Activities, page 7) and in Rule X of D.10-10-019, the designation
21 was "Passive." DRA changed the percentage allocation from 10% to 30%.

22 Since there are different escalation provisions built into the different non-
23 tariffed contracts, DRA used the composite inflation factors published by DRA's
24 Energy Cost of Service ("ECOS") and Water Branches for September, 2011 to
25 escalate the adjusted five-year average of 2007 to 2011 recorded data. DRA's
26 computed gross revenue from non-tariffed activities is \$576,943, an increase of

1 \$34,217 from SJWC’s original estimate of \$542,726 (see discussion below on
2 “Gross Revenue”).

3 The ratepayers should get an additional \$100,000 per provisions of Rules
4 X.C.5 and X.C.6 which state:

5 “For those utilities with annual Other Operating
6 Revenue (OOR) of \$100,000 or more, revenue sharing
7 shall occur only for revenues in excess of that amount.
8 All NTP&S revenue below that level shall accrue to
9 the benefit of ratepayers.” and “For those utilities with
10 annual OOR below \$100,000, there shall be no sharing
11 threshold, and ratepayers shall accrue all benefits for
12 non-tariffed products and services.”

13 **b) Labor Expense**

14 SJWC uses utility personnel for NTP&S projects. The Commission voiced
15 its concern regarding the use of utility personnel for NTP&S activities: “Allowing
16 more efficient use of resources under a reasonable set of rules will not prevent us
17 from scrutinizing utility operations in general rate cases to ferret out attempts to
18 pad payrolls to allow provision of NTP&S.”³²⁰ Upon inquiry, SJWC disclosed
19 that labor (in this instance, labor for the Cupertino O&M), though tracked
20 separately, “is not separated from SJWC’s forecasted labor expenses included in
21 GRC Exhibit F – General Rate Case Workpapers.”³²¹ Thus, the labor costs
22 related to NTP&S activities are included in the forecast used to derive the Test
23 Year 2013 labor expense.

24 SJWC estimates labor expense for Test Year 2013 by starting from 2012
25 estimates of labor expense and inflating the estimates using 3% for union
26 employees and 5% for non-union employees. SJWC was asked to reconcile the

³²⁰ D.10-10-019 , page 82 to 83

³²¹ Response to Data Request JM2-004 Q4

1 2012 labor forecast to the starting 2011 recorded amounts.³²² As noted in DRA's
2 payroll testimony, the 2011 recorded amounts contained labor costs pertaining to
3 NTP&S activities.

4 DRA estimates labor expense for Test Year 2013 by starting from 2011
5 recorded labor expense per department. Since the 2011 recorded amounts
6 contained labor costs pertaining to NTP&S activities, DRA excluded these labor
7 costs from the 2011 Total Payroll expense. The total amount excluded is
8 \$285,967; see further explanation in section 2.b. regarding DRA's expense audit.

9 Moreover, as shown in sample SJWC invoices to the other parties with
10 which it engages in non-tariffed activities, e.g., City of San Jose, SJWC is already
11 being reimbursed for these labor expenses.³²³ Including these labor expenses in
12 the 2011 total payroll and using the total payroll to derive the 2013 Test Year
13 estimate would be double recovery of the same labor expense item, first through
14 NTP&S invoices and second, from ratepayers.

15 To derive 2012 labor expense, DRA inflated the 2011 Total Payroll
16 Expense, net of 2011 labor expense pertaining to NTP&S activities by 2%,³²⁴ thus
17 effectively providing for the same wage adjustment for both union and non-union
18 employees. To derive 2013 labor expense, DRA inflated 2012 forecasted amounts
19 by 3%,³²⁵ again providing for the same wage adjustment for both union and non-
20 union employees.

³²² Response to Data Request JM2-005 Q1

³²³ Response to Data Request JM2-009 Q8

³²⁴ SJWC has a three-year collective bargaining agreement with the Utility Workers Union of America (UWUA) and the International Union of Operating engineers (OE) covering January 1, 2011 to December 31, 2013. The agreement provides for a 2%, 2% and 3% wage adjustments for 2011, 2012 and 2013 respectively.

³²⁵ Ibid

1 **c) Expenses, Other than Labor**

2 SJWC provided documents to show that expenses other than labor spent for
3 the associated NTP&S activities are tracked and booked “below the line” and that
4 these expenses are not included in any of the recorded data presented in the GRC
5 workpapers.³²⁶ Please see discussion below on “Expenses.”

6 **2) Audit of Non-Tariffed Products and Services**

7 **a) Gross Revenue**

8 Much information regarding SJWC’s gross revenues and related costs
9 pertaining to the provision of non-tariffed products and services was obtained
10 from the response to the Minimum Data Requirements (“MDR”) particularly
11 Attachment II I.02 on Unregulated Activity Accounting. Supplemental data were
12 obtained from responses to numerous Data Requests.

13 In MDR Attachment II I.02, SJWC listed all the transactions making up all
14 the revenues and associated expenses for each of SJWC’s non-tariffed activities
15 for 2006 to 2010. In subsequent data request,³²⁷ SJWC provided the revenues and
16 expenses for 2011 as well as details of all revenues and expenses for the Cupertino
17 O&M for 2007 to 2011 which were missing from MDR Attachment II I.02. To
18 verify gross revenue, DRA requested sample billings to the City of San Jose
19 pursuant to SJWC’s O&M contract with the City as well as billings for antenna
20 leases.

21 SJWC undertakes various activities for the City of San Jose such as potable
22 water system repair, municipal water valve rehabilitation, emergency main repair.
23 As far as revenues from Antenna Leases are concerned, there seems to be

³²⁶ Response to Data Request JM2-002 Q1c

³²⁷ Response to Data Request JM2-002 Q1e and Q1f

1 currently about 31 antenna lease agreements in place.³²⁸ The revenue derived
2 from contracts for NTP&S activities, other than antenna leases would be hard to
3 forecast given the varying nature of the works undertaken by SJWC pursuant to
4 these contracts. Thus DRA agrees to the use of the five-year average of recorded
5 data escalated by the composite inflation factor.

6 **b) Expenses**

7 MDR Attachment II I.02 of the Minimum Data Requirements also
8 contained a listing of expenses for 2006 to 2010 related to the provision of non-
9 tariffed activities. Expenses for 2011 and for the City of Cupertino water system
10 lease contract were subsequently provided in responses to later data requests.
11 SJWC explained that the “expenses shown in Attachment II. I.02 are the recorded
12 incremental expenses for the associated NTP&S while the labor costs are related
13 to SJWC employees’ performance of duties related to NTP&S. The incremental
14 expenses are tracked and booked “below the line” and are not included in any of
15 the recorded data presented.”³²⁹ However, as noted in response to Data Request
16 JM2-004 Q4, the labor expenses are included in the forecasted labor expenses
17 included in the GRC.³³⁰ For the purpose of using 2011 as the basis for forecasting
18 2013 Test Year expenses, DRA excluded \$285,967³³¹ from the recorded amounts
19 for the 2011 Total Payroll Expense. DRA’s basis for excluding this amount is
20 Rule X.D (Cost Allocation) of D.10-10-019 which states:

21 All costs, direct and indirect, including all taxes,
22 incurred due to NTP&S projects shall not be recovered

³²⁸ Attachment II I.02 of Exhibit J - Minimum Data Requirements of SJWC Application

³²⁹ Response to Data Request JM2-002 Q1a, Q1b and Q1c

³³⁰ Responses to Data Requests JM2-002 Q1 and JM2-004 Q4.

³³¹ Response to Data Request JM2-002 Q1f Attachment B Cupertino.xls & Attachment D 2011.xls

1 through tariffed rates. These costs shall be tracked in
2 separate accounts and any cost to be allocated between
3 tariffed utility services and NTP&S shall be
4 documented and justified in each utility's rate case.
5 More specifically, all incremental investments, costs,
6 and taxes due to non-tariffed utility products and
7 services shall be absorbed by the utility shareholders,
8 i.e., not recovered through tariffed rates.

9 In subsequent responses to data requests, SJWC provided the positions and
10 departments of SJWC personnel utilized for the City of San Jose O&M and the
11 City of Cupertino water system lease for 2011. ³³² This information allowed DRA
12 to match the requested additional personnel in the current GRC to the positions
13 and functions of employees currently rendering services for NTP&S activities.
14 DRA does not find any reasonable justification for increasing the number of new
15 personnel in departments where existing personnel in these same departments have
16 been providing labor for NTP&S activities under SJWC claims of excess capacity.

17 **D. CONCLUSION**

18 DRA recommends that the Commission adopt DRA's estimates on NTP&S
19 activities for SJWC.

³³² Response to Data Request JM2-006 Q7

CHAPTER 13: CUSTOMER SERVICE & WATER QUALITY

1 **A. INTRODUCTION**

2 In its application, SJWC affirms a commitment “to a high level of customer
3 service” and requests that the Commission make a finding that its “water quality
4 meets all applicable state and federal drinking water standards.”³³³

5 The Commission’s Revised Rate Case Plan directs “the assigned
6 Commissioner or the assigned ALJ to any Class A water utility GRC proceeding
7 to appoint a water quality expert to provide evidence to assist [the Commission] in
8 making specific findings and recommendations concerning a utility’s water quality
9 compliance unless good cause exists to forego the appointment of a water quality
10 expert.”

11 **B. SUMMARY OF RECOMMENDATIONS**

12 Although not functioning in the role of the Commission’s “assigned water
13 quality expert,” DRA reviewed the water quality data submitted by SJWC and has
14 found no evidence that SJWC water quality is out of compliance with federal or
15 state water quality requirements. DRA confirmed this finding by contacting the
16 California Department of Public Health, which is the primacy agency responsible
17 for the administration and enforcement of the federal Safe Drinking Water Act in
18 California.

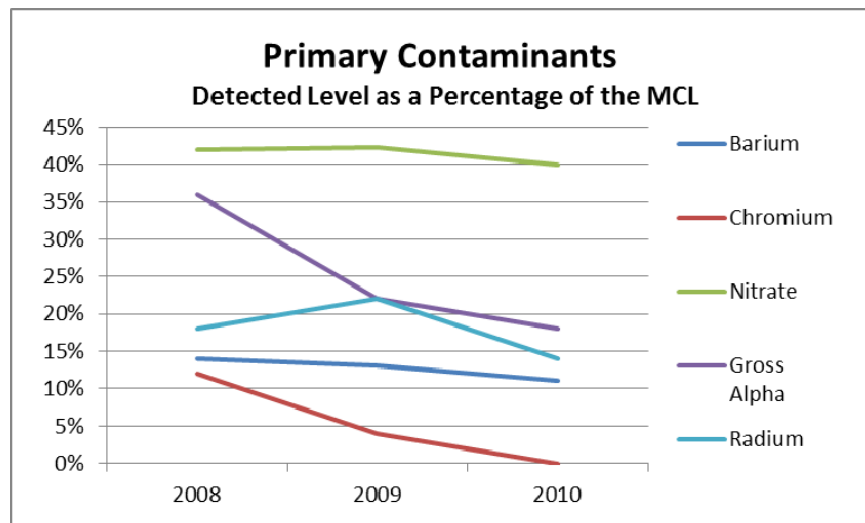
19 In regards to SJWC’s overall customer service and as supported by the
20 recent decline in informal complaints to the Commission’s Consumer Affairs
21 Branch, DRA finds SJWC to have an adequate customer service program that
22 effectively responds to customer inquiries.

³³³ SJWC Exhibit E: Report on the Result of Operations

1 **C. DISCUSSION**

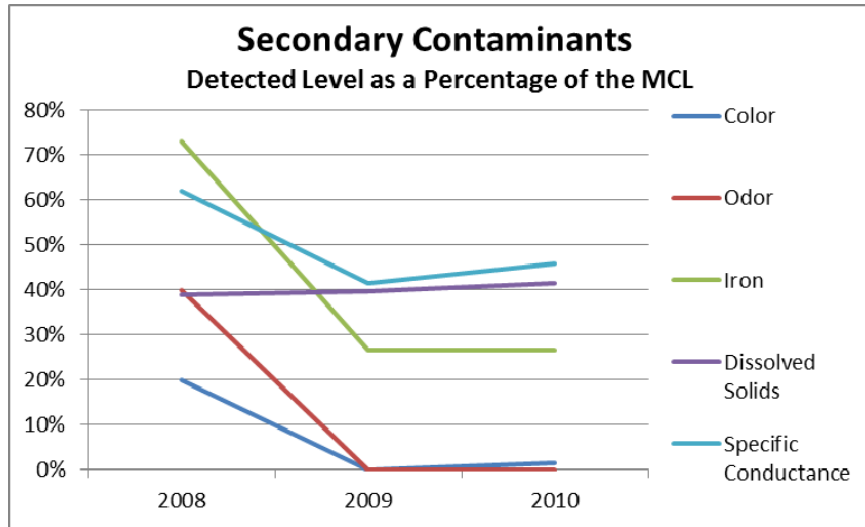
2 Water Quality Reports summarizing water quality testing conducted
3 throughout the year are prepared and mailed annually to all SJWC customers and
4 to the California Department of Public Health. The three most recent reports,
5 covering the years 2008-2010, were submitted by SJWC in its application. Based
6 upon a review of the information contained in these reports, DRA concurs that
7 SJWC continues to meet or exceed all federal and state water quality standards.

8 As part of its review of data contained in the submitted water quality
9 reports, DRA trended the results of SJWC’s groundwater tests for primary and
10 secondary contaminants³³⁴ that had detectable levels in 2008 nearest to the
11 established maximum contaminant level (“MCL”). As can be seen in the
12 following two graphs, the data from these reports suggest either improvement or
13 stability in SJWC’s water quality for those primary and secondary contaminants
14 which had the highest detectable levels as a percentage of the MCL in 2008.³³⁵

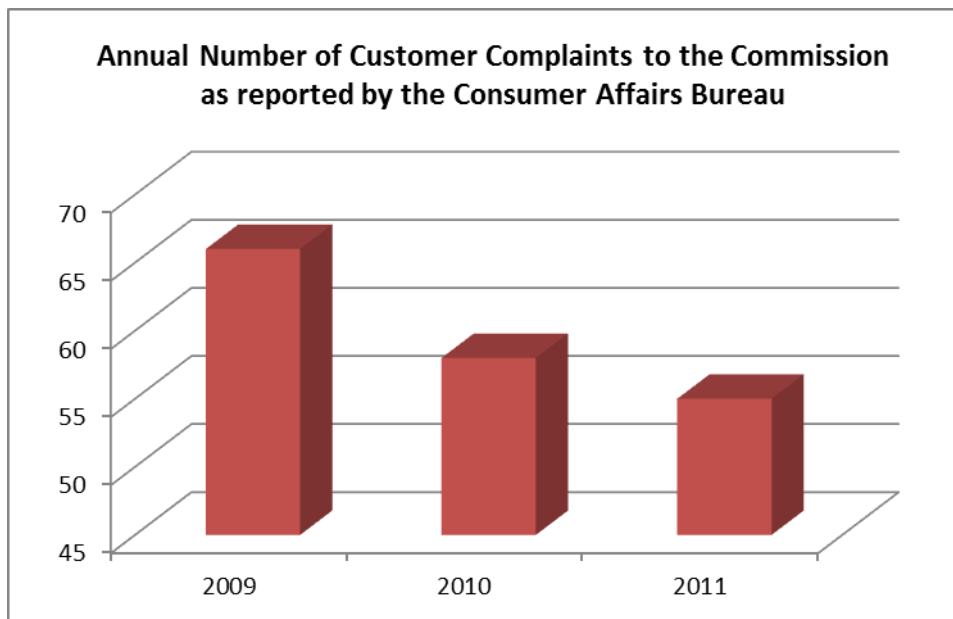


³³⁴ Primary contaminants relate to public health, while secondary contaminants relate to aesthetic qualities such as taste, odor and color.

³³⁵ Data in graphs from 2008, 2009, 2010 SJWC Water Quality Reports for Maximum Contaminant Levels and average detection levels in groundwater samples.



1 Similarly positive trends can be found in the Commission Consumer
 2 Affairs Branch's data of informal customer complaints. DRA requested and
 3 obtained from the Consumer Affairs Branch all recent data on customer
 4 complaints to the Commission. For the last three full years in which data are
 5 available, 2009-2011, an average of 59.6 customer complaints per year were
 6 reported to the Commission (approximately 0.02% of SJWC's total customers).
 7 Over this same period, the data also reveal a declining trend in customer
 8 complaints reported to the Commission.



1 Since the previous general rate case, SJWC completed full implementation
2 of Oracle’s Customer Care and Billing system. SJWC reports that this system
3 “handles virtually every aspect of customer information – service connection,
4 meter reading, rates, and billing while also handling associated functions like
5 payment processing, collections, field service, and meter management.”³³⁶

6 Since full implementation of SJWC’s customer care and billing system was
7 achieved only on May 31, 2011, DRA looks forward to future SJWC general rate
8 case applications showing continued progress in the provision of exemplary
9 customer service.

10 The Commission’s General Order 103-A states a general expectation that
11 customers “should receive service that is consistently adequate, reliable, and in
12 compliance with applicable water quality standards.” DRA inquired in data
13 request RRA-012 about the means by which SJWC monitors and reports upon
14 customer satisfaction. In its response, SJWC provided three years of quarterly
15 survey data and explained:

16 “SJWC selects customers at random to participate in
17 our ongoing survey program. The goal is to send out
18 75 surveys per week, 300 per month, 900 per quarter.
19 Each customer has had recent contact with SJWC
20 (with and without field visits). Once surveys are
21 returned, the Customer Service Supervisor notes each
22 account, reviews for complaints and contacts
23 customers as needed. The data is entered on a matrix,
24 with the results compiled quarterly. Our intent is to
25 determine both customer satisfaction and to identify
26 ways in which our customers’ experience might be
27 improved in the future.”

³³⁶ Page 2, Chapter 3, SJWC Exhibit 3

1 From the quarterly data of compiled customer surveys, DRA calculated an
2 impressive average score of 90% on the satisfaction and performance metrics that
3 SJWC monitors, which include customer rankings of SJWC employees' speed of
4 response, problem-solving skills, and helpfulness.

5 **D. CONCLUSION**

6 DRA understand that the Commission's Division of Water and Audits
7 ("DWA") has completed its analysis of SJWC's water quality compliance and that
8 a memorandum was issued on February 2, 2012 to the assigned Administrative
9 Law Judge in the current proceeding.

10 As of April 30th 2012, DRA has not seen the content of DWA's
11 memorandum, however, based upon the review of water quality and customer
12 service that DRA performed for this chapter, DRA finds no reason to deny
13 SJWC's request that "the Commission make a finding that SJWC's water quality
14 meets all applicable state and federal drinking water standards and the
15 requirements of General Order 103-A."

CHAPTER 14: RATE DESIGN

1 A. INTRODUCTION

2 Rate Design is the process of setting prices for utility service at levels that
3 permit a utility to collect its total authorized revenue requirement. After
4 calculation of SJWC's revenue requirement, a rate design that incorporates
5 estimates of the number of customers and their future consumption level is used to
6 determine the actual rates that SJWC customers will be charged for utility service.

7 B. SUMMARY OF RECOMMENDATIONS

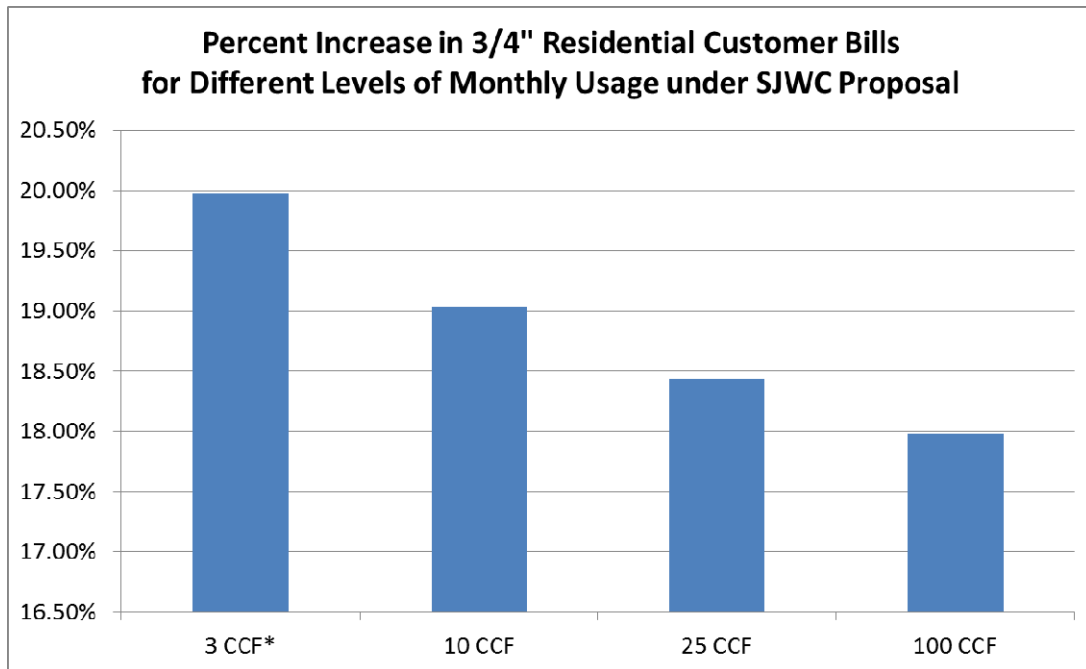
8 DRA recommends a rate design which avoids any increase in rates for
9 those SJWC customers with the lowest monthly consumption. In addition to
10 sending a positive message to those customers who have achieved and maintain
11 conservation-oriented usage patterns, DRA's recommended rate design
12 demonstrates the Commission's commitment to affordability of utility service to
13 meet basic human needs. Finally, DRA recommends a rate design that avoids
14 regressive increase schedules where the highest-consumption residential users
15 incur the smallest percentage increase.

16 C. DISCUSSION

17 In Chapter 21 of its Report on the Result of Operations, SJWC proposes a
18 new three-tier rate structure to replace the current two-tier structure that has been
19 in place for residential users since the last general rate case. SJWC also proposes
20 maintaining the single-tier structure that is currently in place for non-residential
21 users. The workpapers supporting SJWC's proposal utilize recorded consumption
22 data from 2010 to estimate the consumption anticipated to occur at each tier.

23 As can be seen in SJWC workpaper WP 15-3A, the residential rate design
24 proposed by SJWC results in a regressive rate increase whereby residential users
25 with the lowest monthly consumption will experience the largest percentage

1 increase in bills while residential users with the highest monthly consumption
2 incur the lowest percentage increase. The following graph illustrates the data
3 contained in WP 15-3A for residential users with 3/4" metered service, which
4 accounts for 86% of all residential customers.



* 1 CCF = 748 gallons

5 Residential customers who have curtailed consumption and will share with
6 all other customers the increase in rates that results, *ceteris paribus*, from lower
7 overall consumption should not be further penalized by a regressive rate structure.
8 In fact, those customers who consume at the lowest levels should be rewarded
9 with a rate structure that recognizes their extraordinary conservation efforts. For
10 this reason, a rate structure which can result in a first-tier commodity rate that
11 offsets any increase that might follow adoption of an authorized revenue
12 requirement and simultaneously provide a quantity of water for basic human needs
13 at a discounted rate could meet the dual objectives of equity and affordability.

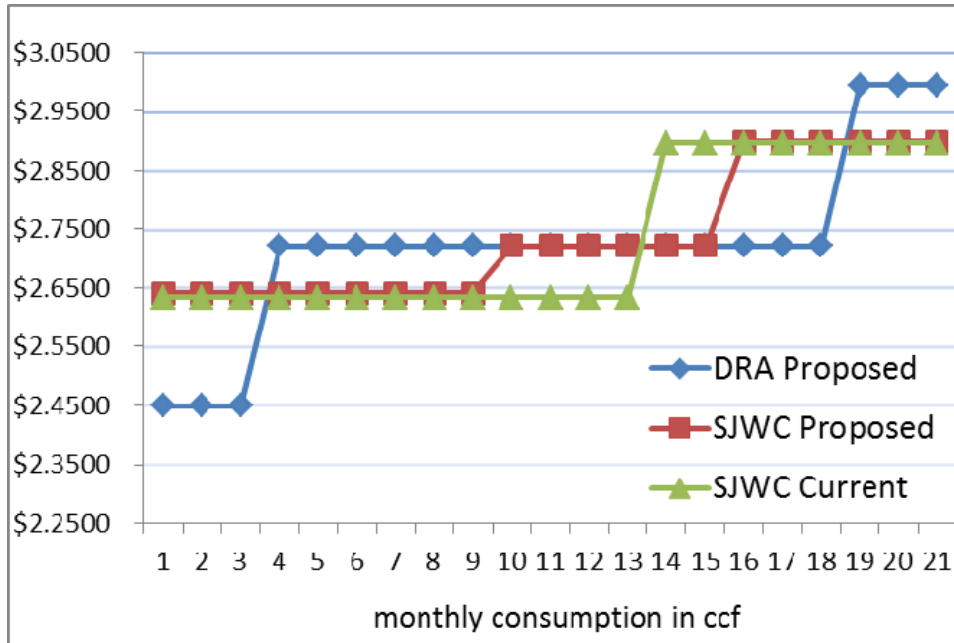
1 SJWC’s proposed first-tier breakpoint is based upon an “indoor usage
2 proxy” of 9 ccf per month which combined with SJWC’s assumption of 3.2 people
3 per household equates to consumption of approximately 70 gallons per person per
4 day.³³⁷ Residences consuming more than 9 ccf per month but less than 16 ccf per
5 month would incur commodity rates at the higher second-tier price. Residential
6 customers consuming more than 16 ccf per month would incur commodity rates at
7 the highest third-tier price.

8 By contrast, DRA’s recommendation for a first-tier breakpoint of 3 ccf per
9 month is based upon both a 100 liter-per-day standard³³⁸ and a quintile ranking
10 which would have approximately 20% of SJWC’s total residential consumption
11 occurring within the first tier. Similarly, a third-tier beginning at 19 ccf would
12 capture the top 20% of consumption resulting in the majority of consumption
13 (approximately 60%) occurring within the second tier at standard quantity rates.

14 To isolate and illustrate only the relative difference between rate designs,
15 DRA graphed its proposed rate structure against SJWC’s proposed and current
16 rate structures using the data contained in SJWC’s Chapter 21 workpapers. It is
17 important to note that the following graph compares only the relative differences
18 between existing and proposed rate structures under present rates and does not
19 reflect the proposed rates of either SJWC or DRA in this proceeding.

³³⁷ Page 4, Chapter 21, SJWC Exhibit E: Report on the Result of Operations

³³⁸ *Basic Water Requirements for Human Activities: Meeting Basic Needs*, International Water Resources Association, Gleick, 1996

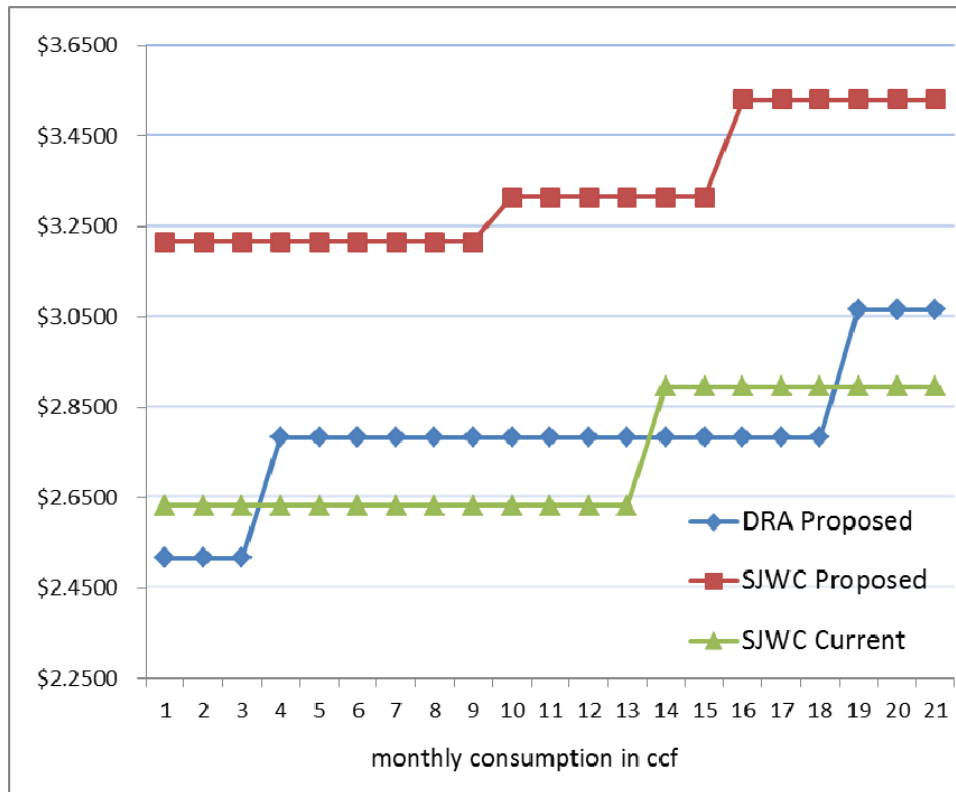


1 As can be seen from the preceding graph, DRA’s recommended second tier
 2 (middle blue line) captures more consumption at the upper and lower bounds of
 3 the tier. Compared to SJWC’s proposed rate structure (red line), DRA’s wider
 4 second tier allows for greater flexibility to reward the lowest-consumption
 5 customers with a lower first-tier rate without imposing an excessive increase on
 6 the users in the third tier. While both SJWC’s and DRA’s proposed rate structures
 7 maintain revenue neutrality,³³⁹ DRA’s recommended structure also avoids
 8 instituting a regressive design that has the lowest-consumption customer incurring
 9 the largest percentage increase.

10 The following graph compares SJWC's current rate design at SJWC’s
 11 currently authorized revenue requirement, SJWC’s proposed rate design at
 12 SJWC’s proposed revenue requirement, and DRA's recommended rate design at
 13 DRA’s proposed revenue requirement estimates to show the actual residential

³³⁹ The total revenue estimated to be collected under the rate structure should be the same as that estimated to be collected using a single quantity rate with the same level of consumption.

1 rates recommended by DRA and SJWC. As can be seen from the following graph,
 2 DRA's estimated revenue requirement and rate design results in each tier being
 3 less than that proposed by SJWC. Furthermore, while DRA's recommended third
 4 tier and a portion of its second tier are slightly higher than SJWC's current rates,
 5 this design allows for a narrower first tier that provides 2,244 gallons of monthly
 6 usage (3 ccf) per residential customer at a rate less than SJWC's current first tier
 7 rate. The corresponding overall rate reduction for approximately 4-5% of SJWC
 8 customers provides rate recognition of these customers' conservation
 9 achievements.



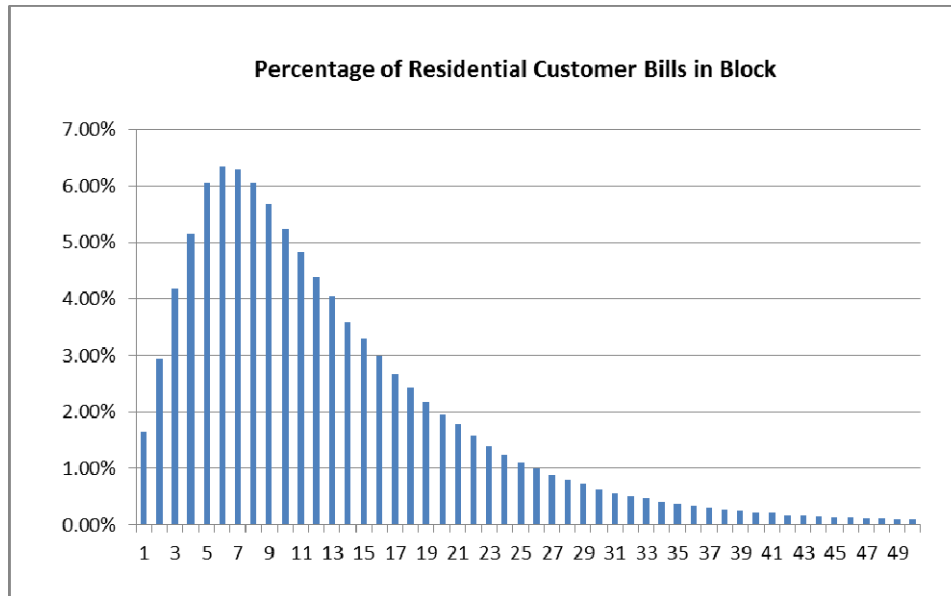
10 The following table provides a customer bill analysis which compares the
 11 increase (or decrease) in a customer's bill, including the service charge and
 12 quantity charge from current SJWC rates using DRA's recommended rates at
 13 DRA's proposed rate design and revenue requirement and SJWC's proposed rates
 14 at SJWC's proposed rate design and revenue requirement for residential users with
 15 varying levels of monthly consumption in Test Year 2013.

	DRA Proposed	% Increase from Current	SJWC Proposed	% Increase from Current
Low Consumption 3 CCF/month	\$25.42	- 1.3%	\$31.47	22.2%
Average Consumption 15 CCF/month	\$58.83	1.6%	\$67.35	16.3%
Above Summer Average 50 CCF/month	\$174.49	9.6%	\$190.94	19.9%
Super High Consumption 500 CCF/month	\$1,554.06	6.3%	\$1780.04	21.7%

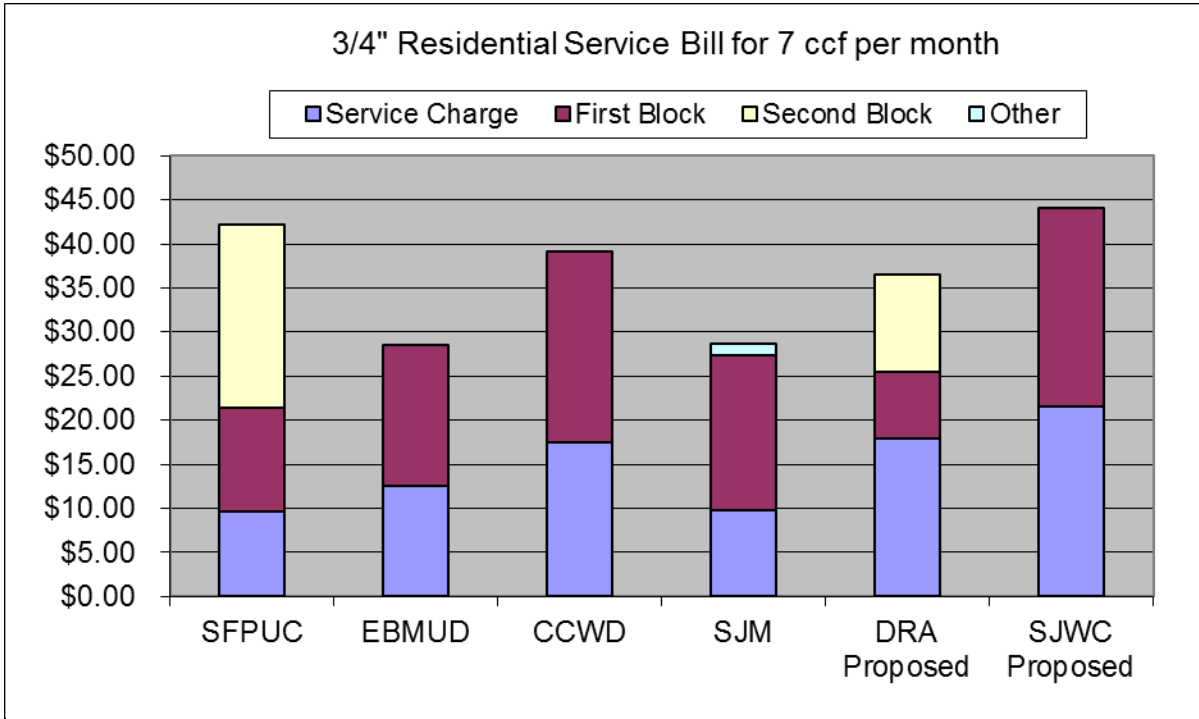
1 In the preceding table, DRA has used the classifications and usage levels
2 established by SJWC in the customer bill analysis of SJWC’s Chapter 21
3 workpapers. While the “average” customer usage forecast by both SJWC and
4 DRA in Test Year 2013 is between 14 and 15 ccf per month,³⁴⁰ the median usage
5 based upon consumption patterns in 2010 is approximately 10 ccf per month.³⁴¹
6 Additionally, as can be seen in the following graph of the percentage of customer
7 bills occurring within any given block, the highest percentage of customer bills
8 (slightly over 6%) occurs at the block of 7 ccf per month.

³⁴⁰ (174 ccf per year)/12 months; see DRA Chapter Two: Customers, Consumption & Revenues

³⁴¹ SJWC Chapter 21 workpapers show 49.65% of customer bills at or below 10 ccf per month.



1 For benchmarking residential water rates with other local water utilities,
 2 DRA uses the residential consumption level of 7 ccf per month which corresponds
 3 to the block possessing the highest percentage of customer bills. Although many
 4 unique factors within the operation of a water utility will ultimately determine the
 5 rates charged to customers, DRA provides the following graph for general context
 6 on the residential water rates recommended by DRA and those proposed by SJWC
 7 for residential customers with ¾” service consuming 7 ccf per month. Data for
 8 San Francisco Public Utilities Commission (“SFPUC”), East Bay Municipal
 9 Utilities District (“EBMUD”), Contra Costa Water District (“CCWD”), and San
 10 Jose Municipal Water (“SJM”) were obtained from published rate schedules of
 11 current rates or rates approved for January 1, 2013.



1 **D. CONCLUSION**

2 In recognition of SJWC customers' achievements in conservation and the
 3 general rate increases that SJWC requests and attributes to reduced consumption,
 4 DRA recommends the Commission adopt a rate design in the current proceeding
 5 which avoids any increase in rates for those SJWC customers with the lowest
 6 monthly consumption. Additionally, DRA recommends the Commission adopt a
 7 rate design that demonstrates a commitment to affordability of utility water service
 8 to meet basic human needs. Finally, DRA recommends a rate design that avoids
 9 regressive increase schedules where the lowest-consumption residential users
 10 incur the highest percentage increase.

CHAPTER 15: OTHER RELIEF SOUGHT

1 A. INTRODUCTION

2 This chapter presents DRA's recommendations on SJWC's requests for
3 other relief found in Chapters 17 and 19 of SJWC's Application Exhibit E.
4 SJWC's requests include: (1) authorization to create a health care memorandum
5 account, (2) authorization to create an international financial reporting standards
6 memorandum account, (3) authorization to create a chromium VI memorandum
7 account, (4) inclusion of the purchase cost of 1265 Bascom Avenue facilities in
8 ratebase, (5) updating of tariff Schedule No. 1B – General Metered Service with
9 Automatic Fire Sprinkler System, (6) recovery of current balance in balancing
10 accounts, (7) disbursement of current balances in existing memorandum accounts,
11 and (8) authorization to implement a revenue-decoupling mechanism.

12 B. SUMMARY OF RECOMMENDATIONS

13 Based upon existing forecasting methodologies which capture cyclical cost
14 fluctuations and a desire to keep in place an incentive to control costs, DRA
15 recommends that requests for three new memorandum accounts be rejected. DRA
16 accepts the inclusion of the Bascom facilities in ratebase, the updating of tariff
17 Schedule No. 1B to add a category for larger services, and the recovery of
18 \$2,598,918 recorded in SJWC's pension balancing account. DRA also
19 recommends an increase of \$450,000 to SJWC's calculated total of \$650,456 in
20 overcollections to be returned via customer credits. And, finally, DRA
21 recommends that SJWC maintain its current price-adjustment mechanism rather
22 than converting to the requested full revenue-sales-decoupling mechanism.

1 **C. DISCUSSION**

2 **1) Health Care Memorandum Account**

3 SJWC is requesting the Commission “authorize a Health Care Cost
4 Memorandum account effective January 1st, 2013 to allow for the recovery of the
5 unpredictability of premium increases, for both medical and dental, and the
6 account uncertainty of the impacts of the ACA.” Before discussing the particular
7 merit of this request, a general discussion on the authorization and use of new
8 memorandum and balancing accounts is appropriate.

9 In general, the Commission may only set or change rates to cover
10 prospective conditions. The exception is when a balancing or memorandum
11 account has been authorized for recorded costs. The Commission’s prevailing
12 practice of setting rates based on a prospective or future test year contrasts with
13 other jurisdictions where utility rates are periodically adjusted based upon
14 recorded or historical costs. The prospective basis of ratemaking in California has
15 long served both utility and ratepayer by reducing regulatory lag, fostering in-
16 depth evidentiary analyses, and avoiding the mindless pass-through of expenses
17 that is often associated with cost-plus rate making. Establishing prospective
18 budgets for utility funding provides an important incentive and instills a much
19 needed discipline for utilities to operate efficiently. Of course this process can
20 also result in actual revenues and expenses being more or less than what was
21 originally forecasted, but this is a risk for which all of California’s regulated
22 utilities are allowed a reasonable rate of return on investment. Balancing and
23 memorandum account treatment (or hindsight ratemaking) is the antithesis of
24 prospective test year ratemaking.

25 Given the protection provided by balancing and memorandum accounts, the
26 steady increase in utility requests for these mechanisms since the 1970s should
27 come as no surprise. However, the proliferation of these mechanisms to cover

1 more and more cost items beyond the truly exceptional and extraordinary (like the
2 1970s oil price shocks that started the growth in requests for these mechanisms)
3 results in a disservice to the promotion of efficiently operated utilities. Safe in the
4 knowledge that all associated costs can be tracked in a memorandum account for a
5 later request for recovery, a more relaxed approach controlling costs is inevitable.
6 This is not a disparagement of utility management. This is human nature and one
7 of the reasons why the Commission must at times serve as the proxy for
8 competition amongst private utilities with monopoly franchises.

9 Turning to the particular request of SJWC, the proposed memorandum
10 account would track any cost increases in health and dental premiums that might
11 arise due to any reason. SJWC supports this request by pointing to “dramatic
12 year-to-year fluctuations in medical and dental premiums” which “will likely be
13 amplified by the recent passing of the Patient Protection and Affordable Care Act
14 (“ACA”). Fluctuations in costs can be effectively addressed by an averaging of
15 past recorded costs with escalation provided for inflation. However, in forecasting
16 health care costs into the test year, SJWC does not average recorded costs, which
17 would address any unit cost fluctuations, but rather uses the last (and highest)
18 recorded cost as a starting point for escalation. While in the current proceeding
19 DRA does not oppose the basic methodology SJWC uses in forecasting health and
20 dental costs (see Chapter 3 – Labor and Payroll), there is a noticeable disconnect
21 in the SJWC methodology to forecast health care costs and the justification SJWC
22 provides for requesting a health care memorandum account to track cost
23 fluctuations.

24 # Furthermore, DRA confirmed through discovery that SJWC requires no
25 employee contribution for more than 97% of the employees covered by the

1 company's health care plans.³⁴² Contrasted with the 18% and 28% average
2 premium worker contribution for single and family coverage, respectively,
3 estimated for all nonfederal private and public employers with three or more
4 workers,³⁴³ the current SJWC health care costs appear to have considerable room
5 for alignment with national averages prior to receiving the extraordinary
6 protection afforded by a Commission authorized memorandum account.

7 **2) International Financial Accounting Standards (“IFRS”)**
8 **Memorandum Account**

9 In Exhibit E of its application, SJWC points to the uncertainty related to
10 adoption of IFRS and the magnitude of potential costs as support for its request to
11 establish a memorandum account to prospectively record possible IFRS
12 compliance costs. Although the actual timing and the precise costs of moving to
13 IFRS indeed remain uncertain as evidenced by the Securities and Exchange
14 Commission's repeated delays in making a decision if and when to adopt the
15 standards, the protection provided by authorizing a new memorandum account to
16 record any potential compliance costs is not necessary given the continual process
17 by which utilities must comply with new and regularly updated accounting
18 standards.

19 In July 2002, the United States enacted into law the *Public Company*
20 *Accounting Reform and Investor Protection Act and Corporate and Auditing*
21 *Accountability and Responsibility Acts* (more commonly called Sarbanes–Oxley or
22 SOX). For the better part of the last decade, SJWC and all other publicly traded
23 companies have been required to comply with what the law's enactors proudly
24 called “the most far-reaching reforms of American business practices since the

³⁴² SJWC Data Response RRA-009

³⁴³ *Employer Health Benefits 2011 Annual Survey*, The Kaiser Family Foundation

1 time of Franklin D. Roosevelt.”³⁴⁴ Initial SOX compliance costs which on
2 average doubled a company’s audit fees³⁴⁵ have generally decreased following
3 SEC reforms introduced in 2007 and are “expected to decrease further.”³⁴⁶ For
4 SJWC, the standard methodology of averaging past expenses to estimate future
5 expenses captures this continual cycle of cost increases to comply with new
6 standards, followed by cost decreases through efficiency gains.

7 This cycle is seen in the 2009 codification of accounting standards by the
8 Financial Accounting Standards Board and the repeated introduction of new or
9 revised standards. Although not changing existing accounting principles, the
10 codification documents resulted in numerous legacy standards being combined
11 within different topic areas and superseded all previous accounting standard
12 documents. Since the founding of the Financial Accounting Standards Board
13 (“FASB”) in 1973, an annual average of four new or revised accounting standards
14 per year have been promulgated. In just the two most recent years, FASB
15 announced a total of 28 updates to accounting standards. Complying with new
16 accounting standards is not extraordinary. Accounting professionals are required
17 to obtain a certain amount of continuing education each year exactly for this
18 purpose. When or to what extent the SEC ever requires IFRS compliance
19 amongst U.S. firms is uncertain. However, the frequent and repeated introduction
20 and revision of accounting standards with which companies must comply is all but
21 guaranteed. Since this continuing process of compliance is not new and
22 fluctuations in compliance costs are captured in existing forecasting
23 methodologies, DRA recommends that the authority for SJWC to establish a new

³⁴⁴ *Corporate Conduct*, The New York Times, July 31, 2002.#

³⁴⁵ U.S. Government Accountability Office (GAO-06-361, 2006).

³⁴⁶ Office of the Chief Accountant of the U.S. Securities and Exchange Commission, April 2011

1 memorandum account to track any costs for compliance with new accounting
2 standards be withheld.

3 **3) Chromium VI Memorandum Account**

4 For reasons similar to DRA’s opposition to creating an IFRS memorandum
5 account, DRA recommends that creation of a new memorandum account to track
6 operating expenses and capital expenditures related to meeting a new chromium
7 standard not be authorized. Although SJWC indicates that “the trigger event for
8 establishing this memorandum account will be the establishment of a MCL by the
9 state and/or federal regulatory agencies,” the ability to track expenses and capital
10 expenditures in a new memorandum account should not be arbitrarily set to
11 commence upon the adoption of any new MCL without consideration of SJWC’s
12 actual ability to meet the standard once established. Such authorization would
13 only pave the way to unfettered accumulation of expenses and capital returns.

14 Since the 1996 amendment of the Safe Drinking Water Act by the EPA, on
15 average, a new drinking water regulation has been introduced every year,
16 including the Filter Backwash Recycle Rule, Arsenic Rule, the Radionuclides Rule
17 and MCL, Unregulated Contaminant Monitoring Rule, the Public Notification
18 Rule, Lead and Copper Revisions, Interim Enhanced Surface Water Treatment
19 Rule, the Stage 1 Disinfectants and Disinfectants By-Products Rule, Consumer
20 Confidence Rule, Variance and Exemptions Rule, Long Term 1 Enhanced Surface
21 Water Treatment Rule, Long Term 2 Enhanced Surface Water Treatment Rule,
22 and the Groundwater Rule.

23 The costs of complying with each of the aforementioned regulations will be
24 reflected in the recorded expenses of SJWC. And the averaging of recorded
25 expenses with appropriate escalation to arrive at test year forecasts will capture the
26 continuing cycle of cost increases to meet new requirements and cost decreases
27 from efficiency gains. More importantly, and diametrically different from the

1 operation of memorandum accounts, this averaging and escalating methodology
2 fosters discipline and efficiency as a utility strives to control costs so as to not
3 exceed the amounts that have been established in rates.

4 Attachment 2 to Chapter 16 of SJWC Application Exhibit E attempts to
5 estimate the operating and capital cost impact of different chromium standards for
6 SJWC under certain assumptions. With the highest cost figures in SJWC's
7 analysis more than doubling its current ratebase of \$476 million, the impacts that
8 SJWC presents would certainly meet the "exceptional" and "substantial" criteria
9 for evaluating new memorandum account requests.³⁴⁷ However, a closer
10 inspection of the assumptions used in calculating these impacts reinforces DRA's
11 conclusion that a realistic level of costs, if any, could fall within the normal cycle
12 of cost increases and decreases that is already addressed by averaging and
13 escalating SJWC's recorded expenses.

14 Among the assumptions that SJWC makes in estimating the various
15 impacts of a Chromium VI standard set between 1 part-per-billion and 10 parts-
16 per-billion is that the single highest level of Chromium VI detected at any SJWC
17 sampling station would represent the average concentration over time for that
18 sampling station. Additionally, SJWC applied the results of sampling 11 of its
19 groundwater stations to estimate the occurrence of Chromium VI at all of its 17
20 groundwater stations. Finally, SJWC assumed that each of its groundwater
21 stations would be producing water at the highest single detected concentration of
22 Chromium VI at that station's historical daily maximum production of water.

³⁴⁷ In D.02-08-054 the Commission stated that memorandum accounts may be appropriate when the following four criteria are met (1) The expense is caused by an event of an exceptional nature that is not under the utility's control, (2) The expense cannot have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case, (3) The expense is of a substantial nature in the amount of money involved; and (4) The ratepayers will benefit by the memorandum account treatment.

1 In summary, using SJWC’s recorded expenses with appropriate escalation
2 and adjustment to forecast future expenses captures the continual cost fluctuation
3 of complying with water quality regulations. Furthermore, since this process
4 provides an incentive for efficient utility management which is largely absent
5 when recording expenses and capital costs in memorandum accounts, DRA
6 recommends that the Commission not approve this request.

7 **4) Request to Include Bascom Facility in Ratebase**

8 SJWC has updated the economic analysis comparing the net present value
9 of including the Bascom facility in ratebase versus the cost of imputing a lease
10 expense for ratemaking purposes, which was required in D.09-11-032. At DRA’s
11 request, SJWC further updated its analysis to apply the net-to-gross multiplier
12 specified in D.09-11-032 and the rate of return achieved in settlement of A.11-05-
13 001 that is currently awaiting Commission approval.

14 Based upon the updated analysis and the response from SJWC indicating
15 “the cost of including the building in ratebase is more cost-effective than including
16 a lease expense over the life of the building,”³⁴⁸ DRA accepts the request of
17 SJWC to align the ratemaking with the actual ownership conditions of the Bascom
18 facility and include its depreciated value in ratebase. As shown in the updated
19 economic analysis provided by SJWC, over the 30-year life of the building the
20 present value cost of including the depreciating asset balance in ratebase would be
21 approximately \$700,000 less than including an escalating lease expense in rates
22 over the same period. Both SJWC and DRA have included the \$3,889,600
23 depreciated value of the facility (as of 2013) in test year ratebase and discontinued
24 imputing \$329,000 in ratemaking lease expense.

³⁴⁸ DRA Data Request PPM-010

1 **5) Request to Update Tariff Schedule No. 1B**

2 Currently, the largest meter tariff contained in SJWC Tariff Schedule No.
3 1B is for 2-inch meters and the largest upsize charge is for a 1-inch meter.³⁴⁹
4 SJWC requests to expand the tariff to include a new tariff for 1½ -inch meter
5 upsize charges and 3-inch meters since SJWC has received a request for such
6 service larger services.

7 DRA does not oppose these requests but would like to see SJWC provide
8 data in the next GRC on the number of customers in each meter service class and
9 the revenues collected under this tariff. This information was not included in
10 SJWC workpapers and caused SJWC’s forecasted revenue to be understated, thus
11 contributing to a larger than necessary proposed rate increase. Because of SJWC’s
12 special request to update this tariff, DRA discovered this unaccounted revenue,
13 requested the number of customers incurring upsize charges under this tariff, and
14 forecasted a reasonable amount of associated revenue to be included in forecasted
15 sales. Additional details on this topic are found in DRA Chapter Two: Customers,
16 Consumption and Revenues.

17 **6) Recovery of Current Balance in Balancing Accounts**

18 DRA recommends a twelve-month surcharge of \$0.0492 per Ccf to recover
19 the \$2,598,912 that SJWC has recorded in its balancing accounts. See DRA
20 Chapter Seventeen for complete analysis and discussion.

21 **7) Disbursement of Balance in Memorandum Accounts**

22 DRA recommends increasing SJWC’s surcredit of \$0.2498 to \$0.4216 per
23 connection per month for twelve months to refund to customers the amounts

³⁴⁹ Residential customers who require a larger meter because of flow requirements for fire sprinklers are billed a meter service charge for the appropriate meter size for normal water use and an upsize charge determined between the actual meter size required for fire flow requirements and the appropriate meter size to meet normal water usage.

1 recorded in various memorandum accounts. See DRA Chapter Seventeen for
2 complete analysis and discussion.

3 **8) Authorization to Implement a Revenue-Decoupling Mechanism**

4 DRA recommends that SJWC not be authorized a full revenue-decoupling
5 mechanism. See DRA Chapter Sixteen for complete analysis and discussion.

6 **D. CONCLUSIONS**

7 For the reasons stated above, DRA recommends that the Commission:

- 8 • Deny SJWC requests for three new memorandum accounts
- 9 • Allow the Bascom Facility in Ratebase
- 10 • Allow updating of Schedule No. 1B and require SJWC to provide
11 data on this related tariff in its next general rate case
- 12 • Allow recovery of \$2,598,918 in SJWC pension balancing account
- 13 • Increase the net amount to refunded from memorandum accounts by
14 \$450,000
- 15 • Deny the request for a full revenue-decoupling mechanism.

16

CHAPTER 16: REVENUE DECOUPLING

1 A. INTRODUCTION

2 In Application 12-01-003 (A.12-01-003) San Jose Water Company requests
3 that the Commission authorize it to establish a full-decoupling Water Revenue
4 Adjustment Mechanism (“WRAM”) and a Modified Cost Balancing Account
5 (“MCBA”). In addition SJWC has also linked the request for WRAM/MCBA to
6 two other requests. Those requests are to modify tiered rates and expand the
7 current conservation program.³⁵⁰

8 DRA will not be considering the requests quid pro quo and this testimony
9 will be limited to the request for WRAM/MCBA. The request for tiered rates will
10 be addressed in Rate Design by DRA witness Richard Rauschmeier. Mr.
11 Rauschmeier will also be the DRA witness for the expanded water conservation
12 program that includes Amanda Rasmussen as DRA witness for the Aquacue Pilot
13 Program.³⁵¹

14 B. SUMMARY OF RECOMMENDATIONS

15 DRA recommends that SJWC continue with the current Monterey-style
16 Revenue Adjustment Mechanism (“M-WRAM”) along with its current
17 Incremental Cost Balancing Account (“ICBA”) and not adopt a full revenue
18 decoupling WRAM and MCBA.

³⁵⁰ A.12-01-003, Exhibit E Results of Operation Report, Chapter 19, page 3 and 8.

³⁵¹ A.12-01-003, Exhibit E Results of Operation Report, Chapter 18, page 21. The Aquacue Pilot Program provides ongoing real time water use monitoring and leak detection.

1 **C. BACKGROUND**

2 In SJWC’s last General Rate Case (“GRC”) the Commission adopted an M-
3 WRAM for SJWC. This mechanism was authorized under D.08-08-030. The
4 following pertains to the WRAM/MCBA sections of that decision:

5 **3.3.2. Pricing Adjustment Mechanism**

6 *San Jose and DRA propose a pricing adjustment mechanism*
7 *similar to the Monterey-style WRAM. The pricing adjustment*
8 *mechanism will track the difference between revenue San*
9 *Jose receives for actual metered sales through the tiered*
10 *volumetric rate and the revenue San Jose would have*
11 *received through the uniform, single quantity rates if they had*
12 *been in effect. San Jose will provide an annual report*
13 *showing the revenue over- or under-collection for the prior*
14 *calendar year. If the over- or under-collection exceeds 2% of*
15 *San Jose's adopted revenue requirement for the present year*
16 *for amounts recovered through the quantity rates of*
17 *residential customers, San Jose will file an advice letter*
18 *within 30 days that amortizes the balance in the account. If*
19 *the cumulative 2% threshold is not met, the balance in the*
20 *account will be amortized in the next GRC.*

21 *The settling parties agree this mechanism complements San*
22 *Jose's limited water supply and adequately ensures the*
23 *recovery of sufficient revenue. CFC opposes adoption of the*
24 *pricing adjustment mechanism because the rates are not true*
25 *conservation rates. The proposed pricing mechanism ensures*
26 *that San Jose's revenues do not decline as the result of*
27 *adopting conservation rates. Although we find the pricing*
28 *adjustment mechanism reasonable, we will not adopt it until*
29 *the settling parties further clarify the conservation rate*
30 *design.*³⁵²

31 **3.3.4. Adoption of Conservation Rate Design and Pricing**
32 **Adjustment Mechanism Settlement Agreement**

³⁵² D.08-08-030, pages 22-23.

1 *We have reviewed the conservation rate design and pricing*
2 *adjustment settlement and CFC's objections to the specific*
3 *rate design and pricing adjustment mechanism. We find San*
4 *Jose's trial conservation rate design will advance our*
5 *conservation objectives; it incorporates increasing block*
6 *rates for residential customers and nonresidential customers'*
7 *rates, although unchanged, exceed CUWCC's requirements.*
8 *We will review this rate design to determine whether it meets*
9 *targeted reductions in consumption. If it does not meet these*
10 *goals or is unlikely to meet future goals, San Jose will*
11 *propose rate designs that will accomplish these goals.* ³⁵³

12 The following was the outcome of the Findings of Fact and the Conclusions
13 of Law in D.08-08-030:

14 **Findings of Fact**

15 *10. San Jose's proposed conservation rate design is consistent*
16 *with the take-or-pay provisions in San Jose's contract with*
17 *the Santa Clara Valley Water District. (SCVWD). San Jose*
18 *must pay for at least 90% of the water scheduled over the*
19 *three-year period of the contract under the take-or-pay*
20 *provision and must contract for a minimum of 95% of the*
21 *highest amount of water contracted for in any one year of*
22 *those three years.*

23 *11. San Jose's nonresidential rate design will not change. The*
24 *existing nonresidential rate design recovers approximately*
25 *80.93% of nonresidential revenues through volumetric rates.*

26 *12. San Jose's proposed pricing adjustment mechanism tracks*
27 *the difference between revenue San Jose receives for actual*
28 *meter sales and the revenue San Jose would have received*
29 *through the uniform, single quantity rates if they had been in*
30 *effect. If the over- or under-collection exceeds 2% of San*
31 *Jose's adopted revenue requirement for the present year for*
32 *amounts recovered through the quantity rates of residential*
33 *customers, San Jose will file an advice letter to amortize the*
34 *balance in the account.*

³⁵³ D.08-08-030, page 24.

1 **Conclusions of Law**

2 2. ...*The San Jose pricing adjustment mechanism meets San*
3 *Jose's unique circumstances.*³⁵⁴

4 Currently, SJWC uses an M-WRAM price adjustment mechanism. M-
5 WRAM tracks the difference between quantity revenues that would have been
6 collected under a uniform rate design and quantity revenues actually collected
7 under the increasing block rate design, making sure the utility or ratepayer neither
8 profits nor loses with a tiered rate design. The M-WRAM does not compensate
9 the utility for lost sales but rather recalculates what revenues would have been
10 under a uniform rate design given the same level of sales and either refunds or
11 collects the difference to or from customers.

12 In addition to the M-WRAM, SJWC also employs an ICBA. The ICBA
13 allows SJWC to collect the amount equal to the authorized price multiplied by the
14 authorized quantity of pump tax, purchased power and purchased water.
15 However, if actual price increases or decreases, the ICBA tracks the amount equal
16 to the difference between the actual price and the authorized price multiplied by
17 the authorized quantity of water sold at that price difference. In this way, the
18 account tracks the average incremental costs of water. The ICBA does not,
19 though, track changes in costs resulting from change in demand. Additionally,
20 these balancing accounts accrue interest at the monthly 90-day non-financial
21 commercial paper rate as published by the Federal Reserve Board. The ICBA
22 amortization is performed in accordance with CPUC Standard Practice U-27-W
23 section D.³⁵⁵

³⁵⁴ D.08-08-030, Conclusions of Law 2, page 41.

³⁵⁵ SJWC's response to DRA's Data Request DT1-001.

1 SJWC was also authorized to deploy a Mandatory Conservation Revenue
2 Adjustment Memorandum Account (“MCRAMA”) when mandatory conservation
3 was in effect from SJWC’s wholesaler, SCVWD. The purpose of the MCRAMA
4 (also known as a Drought Memorandum Account) is to track extraordinary
5 expenses and revenue shortfalls associated with SJWC's conservation measures
6 implemented as a result of a SCVWD water shortage alert. During periods of
7 mandatory conservation, the MCRAMA essentially authorized SJWC similar
8 recovery the utility would have achieved if the Commission had authorized a full
9 decoupling WRAM/MCBA rate-making mechanism minus an adjustment
10 equivalent to a reduction in the adopted Return on Equity of 20 basis points. The
11 MCRAMA was activated by advice letter and was only in effect when SCVWD
12 established mandatory conservation. ³⁵⁶ This authorization was in addition to
13 SJWC’s M-WRAM that was also in effect.

14 In this GRC, SJWC has requested the pilot programs WRAM and MCBA
15 balancing account mechanisms. Together, WRAM and MCBA balancing accounts
16 decouple sales from revenues by ensuring the utility will recover its adopted fixed
17 costs collected through the quantity rates and its actual variable costs. The WRAM
18 corrects for the difference between adopted and actual quantity charge revenues
19 while the MCBA corrects for the difference between adopted and actual variable
20 costs. ³⁵⁷

21 This GRC review of pricing adjustment mechanisms will examine SJWC’s
22 current M-WRAM and determine if consumption reduction targets were met and

³⁵⁶ SJWC Tariff Sheet No. 1444-W, date filed September 13, 2010, effective August 20, 2010, Advice No. 419-B

³⁵⁷ Lisa M. Bilir, Senior Policy Analyst, Division of Ratepayer Advocates, NASUCA 2010 Mid-Year Meeting report on *California Water Revenue Decoupling Pilot Programs*, page 9.

1 review the possible impacts of the WRAM/MCBA pilot programs should they be
2 authorized.

3 **D. DISCUSSION**

4 SJWC does not need a WRAM/MCBA to achieve conservation goals.
5 SJWC witness David Morse stated in his testimony, “The decoupling mechanism
6 will promote the development and implementation of more aggressive water
7 conservation programs.” ³⁵⁸ DRA points out, though, that SJWC is currently
8 meeting or exceeding the State of California’s policy goals under the M-WRAM
9 and ICBA.

10 SJWC’s conservation efforts are guided by the following policies,
11 regulations or guidelines:

12 **The Commission’s Water Action Plan (“WAP”)**

13 In 2005, the Commission adopted its first Water Action Plan. It laid out six
14 objectives.

- 15 1. Maintain Highest Standards of Water Quality
- 16 2. Strengthen Water Conservation Programs to a Level
17 Comparable to those of Energy Utilities
- 18 3. Promote Water Infrastructure Investment
- 19 4. Assist Low Income Ratepayers
- 20 5. Streamline CPUC Regulatory Decision-making
- 21 6. Set Rates that Balance Investment, Conservation,
22 and Affordability

³⁵⁸ A.12-01-003, Exhibit E Results of Operation Report, Chapter 19, page 2.

1 Of these six objectives, the following, with the corresponding actions, specifically
2 pertains to WRAM:

3 ***Strengthen Water Conservation Programs to a Level***
4 ***Comparable to those of Energy Utilities***

5 *Because water utilities recover their costs through sales,*
6 *there is a disincentive associated with demand side*
7 *management: a successful campaign to reduce water use*
8 *leads to less revenue and less profit. The Commission will*
9 *consider de-coupling water utility sales from earnings in*
10 *order to eliminate current disincentives associated with*
11 *conservation.*³⁵⁹

12 In determining the appropriate pricing adjustment mechanism for SJWC, it
13 was determined in D.08-08-030, which adopted the November 14, 2007
14 Settlement Agreement, that the Monterey-style WRAM meets SJWC's unique
15 circumstances.

16 *The Parties agree that this pricing adjustment mechanism is a*
17 *proper regulatory response to San Jose's water supply*
18 *situation and will foster the gradual transition proposed by*
19 *the Parties to a more aggressive increasing quantity rate*
20 *design. Because San Jose has a water supply that is*
21 *constrained by its reliance on SCVWD for almost half of its*
22 *water, the disincentives to water conservation that water*
23 *utilities are reputed to have absent a conventional WRAM do*
24 *not apply. The proposed pricing adjustment mechanism will*
25 *ensure that the interests of customers continue to be served by*
26 *retaining existing incentives for efficient operation because*
27 *revenue will be trued-up to exactly the same level that would*
28 *have been generated by uniform rates. Under current*
29 *conditions, the Parties agree that the pricing mechanism*
30 *described herein adequately ensures the recovery of sufficient*
31 *revenue.*³⁶⁰

³⁵⁹ Water Action Plan 2005, page 4.

³⁶⁰ D.08-08-030, Settlement agreement dated November 14, 2007, page 13

1 While settlements, including the section quoted above, cannot be used as
2 precedent, DRA is unaware SJWC’s water supply situation has changed since the
3 implementation of the M-WRAM. SJWC is under a take-or-pay contract with
4 SCVWD until 2051³⁶¹ and the forecast for purchased water remains at 50% of the
5 water supply mix.³⁶²

6 **The Water Conservation Act of 2009 (SBX 7-7)**

7 The Commission established a tentative conservation goal of a 1-2% annual
8 reduction in consumption in D.08-02-036. Subsequently, the Governor signed into
9 law SBX 7-7, a statewide mandate that requires a 20% reduction in urban water
10 consumption by 2020. To ensure the adopted conservation goal is met, D. 11-05-
11 004 ordered that:

12 *1. The conservation goal of a 1-2% annual reduction in consumption*
13 *per service connection and customer class in one hundred cubic feet,*
14 *through price and non-price programs for each general rate case*
15 *cycle following the adoption of a conservation rate design, is*
16 *adopted for Class A water utilities. Apple Valley Ranchos Water*
17 *Company, California-American Water Company, California Water*
18 *Service Company, Golden State Water Company, Great Oaks Water*
19 *Company, Park Water Company, San Gabriel Valley Water*
20 *Company, San Jose Water Company, Suburban Water Systems, and*
21 *Valencia Water Company shall use 2003-2007 as a baseline to*
22 *determine compliance with the 1-2% annual reduction or, in the*
23 *alternative, shall use a 10-year baseline using the Department of*
24 *Water Resource's methodology if a) that baseline only uses calendar*
25 *years prior to the implementation of their conservation rate designs*
26 *and includes 2003-2007; or b) the utility attaches supporting*
27 *workpapers to justify use of the Department of Water Resource's*
28 *methodology.*³⁶³

³⁶¹ D.08-08-030, Settlement agreement dated November 14, 2007, page 11 – 12.

³⁶² A.12-01-003, Results of Operations, Chapter 7, Table 7-D

³⁶³ D.11-05-004, Order section.

http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/135142.htm

1 SJWC has reported in their 2010 Urban Water Management Plan
2 (“UWMP”) that their baseline rate is 144 gpcd.³⁶⁴ Factoring in a 20% reduction to
3 meet the SBX 7-7 goals for 2020, SJWC’s target will be 115 gpcd. Currently,
4 SJWC has already exceeded their 20/20 goals. As reported by SJWC (see
5 Attachment A), 2011 final calculations show that they are at 114.06 gpcd.³⁶⁵

6 DRA agrees that cost-effective conservation is important in the effort to
7 maintain a sustainable supply of water in the long run. In doing so, though, SBX
8 7-7 set a manageable rate of conservation at 20% by 2020, and established
9 incremental progress towards that goal by setting a 10 percent reduction milestone
10 on or before December 31, 2015.³⁶⁶ Water service is a necessity for ratepayers
11 and a principle to remember is that “conservation is desirable in order to maintain
12 an affordable bill.”³⁶⁷ SJWC has already exceeded their 20/20 goals nine years
13 ahead of schedule and the focus should be to maintain current conservation
14 objectives while rewarding ratepayers with affordable water, not charging
15 customers more in order to drive consumption even lower. With SJWC already
16 requesting a 21.51% increase in TY2013 revenue requirements and increases of
17 4.87% and 12.59% for escalation years 2014 and 2015³⁶⁸, keeping water
18 affordable for all may become more difficult if WRAM is approved and the
19 pattern of undercollections continue with ratepayers paying surcharges to make up
20 for revenue shortfalls resulting from reduced consumption due to customer
21 conservation efforts and other factors.

³⁶⁴ SJWC 2010 UWMP, page 14.

³⁶⁵ SJWC’s response to DRA’s Data Request PPM-008, question 12, page 12-14.

³⁶⁶ Water Code Section 10608.16 (b).

³⁶⁷ California Public Utilities Code, Section 739 (d) (2).

³⁶⁸ A.12-01-003, Exhibit D, Public Notice, Page 1

1 **California Urban Water Conservation Council**

2 The California Urban Water Conservation Council (“CUWCC”) is a
3 nonprofit membership organization whose mission is to increase efficient water
4 use statewide through partnerships among urban water agencies, public interest
5 organizations, and private entities. “The Council's goal is to integrate urban water
6 conservation Best Management Practices (BMPs) into the planning and
7 management of California's water resources.”³⁶⁹ In 1991, the CUWCC adopted a
8 Memorandum of Understanding (“MOU”) between Member water utilities who
9 pledged to develop and implement a comprehensive set of BMPs.

10 In the Water Conservation section, chapter 19 of SJWC’s Report on Results
11 of Operations, the achievements of SJWC water conservations efforts towards
12 CUWCC BMP were noted.

13 *SJWC became a signatory to the California Urban Water*
14 *Conservation Council’s (CUWCC) Memorandum of*
15 *Understanding (MOU) for conservation Best Management*
16 *Practices (BMPs) in March 2006 and has been an active*
17 *member in the council since that time. SJWC’s conservation*
18 *program is closely linked to the Council’s BMPs.*³⁷⁰

19 In addition to the above, SJWC provided a table of compliance³⁷¹ which
20 can be found in Attachment B of this chapter. Both the statement above and the
21 table show that, under current operations, SJWC is already meeting or exceeding
22 the goals of the CUWCC BMP.

23 **WRAM/MCBA Mechanism Experiencing Problems**

³⁶⁹ See CUWCC website, <http://www.cuwcc.org/about/default.aspx>.

³⁷⁰ A.12-01-003, Exhibit E Results of Operation Report, Chapter 18, page 1.

³⁷¹ A.12-01-003, Exhibit E Results of Operation Report, Chapter 18, page 2.

1 DRA strongly rejects the notion that authorization should be given for a
2 pilot program based on the fact that there are other Class A Utilities that are using
3 it. These pilot programs were adopted in mid-2008 and are still relatively new.
4 Although some utilities have reported a decline in consumption, problems with the
5 pilot programs are just starting to surface and have not been resolved.

6 In A.10-09-017 filed by Apple Valley Ranchos Water Company, California
7 Water Service Company, Golden State Water Company and Park Water Company,
8 requests to change the WRAM/MCBA amortization period are being addressed. In
9 D. 12-04-048 resolving that Application, the Commission found that the
10 “mechanisms are not working as intended, for reasons that are not clear³⁷²” and
11 ordered:

12 *We require a more vigorous review of the WRAM/MCBA*
13 *mechanisms and options to the mechanisms, as well as sales*
14 *forecasting, be conducted each applicant’s pending or next*
15 *GRC proceeding.*³⁷³

16 Further, there have been an increasing number of ratepayers speaking up
17 against WRAM/MCBA. At recent public hearings for Golden State Water
18 Company’s GRC A.11-07-017 ratepayers and elected officials went on record
19 expressing their concerns with WRAM/MCBA at various public participation
20 hearings (“PPH”s). The customers’ general perception is that they are being
21 penalized for conserving water while guaranteeing the profit for investor owned
22 utilities (“IOU”s). The following are examples of statements made clearly
23 showing incorrect pricing signals:

24 *David Shawver (Mayor Pro Tem) – “And now they're making*
25 *a very little amount of money, which we're making up for*
26 *them by paying the WRAM costs I would respectfully ask the*

³⁷² D.12-04-048, page 3.

³⁷³ D.12-04-048, page 42.

1 *Commission to look at those costs to try to make that*
2 *adjustment. I don't think any adjustment has been made*
3 *because of the amount of water that is not being actually*
4 *distributed. It's not being transported, and it's not being*
5 *purchased by Golden State. And that being the case, why*
6 *should we continue to pay WRAM costs to make up the*
7 *losses?''³⁷⁴*

8 *Mr Shawyer also added, "If we conserve water like we are*
9 *asked to do by the Golden State Water Company and the State*
10 *of California, we pay more because they have convinced the*
11 *California Public Utilities Commission to charge a percent of*
12 *our bill to pay for their water loss and the profits that were*
13 *projected by their company under the WRAM, Water Revenue*
14 *Adjustment Mechanism. I'm not saying that anyone is at*
15 *fault, but it's the system that needs to be readdressed and to*
16 *check and look over very carefully. ''³⁷⁵*

17 *Steve Sarkis – "And I'm recommending that the PUC*
18 *eliminate the WRAM charge and this shortfall surcharge,*
19 *both of them are a joke because --especially the WRAM*
20 *charge where it allows you to get charged more for using less*
21 *water. ''³⁷⁶*

22 *Sal Sapien (Elected to the Stanton Water District in 1982 and*
23 *Stanton City Council in 1984) – "Now, the one thing that*
24 *make us really angry is the fact that we have to pay for not*
25 *using water. I think it's absolutely outrageous that I have pay*
26 *\$150 more because I don't use enough water. ''³⁷⁷*

³⁷⁴ Public Hearing for A.11-07-017, the Application of Golden State Water Company for an order authorizing it to increase rates for water service in the years 2013, 2014, and 2015, Page 1037

³⁷⁵ Public Hearing for A.11-07-017, the Application of Golden State Water Company for an order authorizing it to increase rates for water service in the years 2013, 2014, and 2015, page 1122.

³⁷⁶ Public Hearing for A.11-07-017, the Application of Golden State Water Company for an order authorizing it to increase rates for water service in the years 2013, 2014, and 2015, page 1088.

³⁷⁷ Public Hearing for A.11-07-017, the Application of Golden State Water Company for an order authorizing it to increase rates for water service in the years 2013, 2014, and 2015.

1 Because the WRAM/MCBA pilot program has yet to prove it is a practical
2 and sustainable means of promoting conservation, DRA strongly urges that all
3 issues be resolved before additional utilities are allowed to adopt it. Some of the
4 issues that should be resolved first include:

5 **(1) Cause of the Large Undercollections still under investigation**

6 D.12-04-048 found that, “*After the WRAM/MCBA mechanisms were first*
7 *adopted in 2008, there have primarily been undercollections, and these*
8 *undercollections are often quite substantial.*”³⁷⁸ As a result, the Commission
9 ordered that:

10 *4. We require a more vigorous review of the WRAM/MCBA*
11 *mechanisms and options to the mechanisms, as well as sales*
12 *forecasting, be conducted each applicant’s pending or next*
13 *GRC proceeding. In each upcoming GRC proceeding,*
14 *applicants shall provide testimony that at a minimum*
15 *addresses the following options:*

16 *- Option 1: Should the Commission adopt a Monterey-style*
17 *WRAM rather than the existing full WRAM? The Monterey-*
18 *style WRAM is not a revenue decoupling mechanism as such,*
19 *it is rather a revenue adjustment mechanism that allows the*
20 *utility to true-up the revenue it actually recovers under its*
21 *conservation rate design with the revenue it would have*
22 *collected if it had an equivalent uniform rate design at actual*
23 *sales levels.*

24 *- Option 2: Should the Commission adopt a mechanism that*
25 *bands the level of recovery, or refund, of account balances*
26 *based on the relative size of the account balance. For*
27 *example, an annual WRAM/MCBA under-collection/over-*
28 *collection less than 5% of the last authorized revenue*
29 *requirement would be amortized to provide 100%*
30 *recovery/refund, balances between 5-10% would be*
31 *amortized to provide only 90% recovery/refund, and balances*

³⁷⁸ D.12-04-048, page 3.

1 *over 10% would be amortized to provide only 80%*
2 *recovery/refund.*

3 - *Option 3: Should the Commission place WRAM/MCBA*
4 *surcharges only on higher tiered volumes of usage, thereby*
5 *benefiting customers who have usage only in Tier 1 or have*
6 *reduced their usage in the higher tier levels?*

7 - *Option 4: Should the Commission eliminate the WRAM*
8 *mechanism?*

9 - *Option 5: Should the Commission move all customer classes*
10 *to increasing block rate design and extend the WRAM/MCBA*
11 *mechanisms to these classes?*

12 *For current GRC proceedings for Golden State and Park, the*
13 *assigned Administrative Law Judges to those proceedings*
14 *may chose to not require supplemental testimony on these*
15 *options but rather conduct a different WRAM/MCBA*
16 *mechanism review.*³⁷⁹

17 SJWC also noted similar concerns with the impacts of forecasting in A.12-
18 01-003. In David Morse’s testimony, he warns of the inaccuracy of forecasting
19 and states in his testimony:

20 *“If SJWC’s proposal to institute a WRAM/MCBA is*
21 *approved, and if the future sales forecasts are as inaccurate*
22 *as they were in 2009 and 2010 then SJWC will likely*
23 *accumulate account balances on the same order as that*
24 *experienced by the Joint Utilities.”*³⁸⁰

25 **(2) WRAM/MCBA is too broad**

26 WRAM/MCBA is currently not set up to distinguish differences for loss in
27 revenue that may be attributed to reasons other than conservation such as weather,
28 economy, foreclosures, bill adjustments, etc. The WRAM/MCBA was never

³⁷⁹ D.12-04-048, Ordering Paragraph 4, page 42.

³⁸⁰ A.12-01-003, chapter 19 of the Results of Operation, page 15.

1 intended to be a broad revenue guarantee for utilities to cushion themselves from
2 the effects of a severe economic downturn and it is questionable that IOUs be
3 given this level of protection from business risk. Under the M-WRAM, SJWC is
4 protected against changes in revenues resulting from moving to a tiered system. At
5 the same time, the ICBA protects utilities from changes in costs of purchased
6 power, purchased water and pump tax and encourages them to run their operations
7 more efficiently.

8 **(3) Lack of Symmetry**

9 A goal of SJWC is to “Ensure the financial impacts of conservation
10 programs and rates are evenly and fairly allocated between SJWC and its
11 customers.”³⁸¹ Currently, though, the lack of symmetry is what is fundamentally
12 wrong with WRAM/MCBA. Data reported in D.12-04-048 shows that for the
13 original applicant utilities in A.10-09-017, 36 of the 37 districts (or 97%) recorded
14 undercollections. The highest undercollection for 2010 was 27.40% of the last
15 authorized revenue requirement while all but 5 districts recorded undercollections
16 greater than 5%.³⁸² Those undercollections are then recovered through surcharges
17 back to the ratepayer. For the complete report on undercollections, see Attachment
18 C.

19 **(4) WRAM/MCBA net undercollections result in misleading**
20 **pricing signals**

21 When utilities add surcharges to the bills of ratepayers for undercollections,
22 ratepayers perceive that they are being charged more for using less water. As

³⁸¹ A.12-01-003, chapter 19 of the Results of Operation, page 8.

³⁸² D.12-04-048, Appendix D, DRA Table Showing Applicants’ Districts in Order of Greatest 2010 Undercollections (as a Percentage of Last Authorized Revenue Requirement).

1 shown above in the public participation hearings, this has angered ratepayers and
2 clearly sends the wrong pricing signals.

3 **E. CONCLUSION**

4 The WRAMs and MCBA were adopted as part of pilot programs to
5 promote water conservation. They are intended to ensure that the applicants and
6 their customers are proportionally affected when conservation rates are
7 implemented, so that neither party suffers or benefits from the implementation.³⁸³
8 Although the WRAM/MCBA has contributed to a reduction in customer water
9 usage, it has also contributed to high undercollections, and increased surcharges to
10 ratepayers. Rate design, the economy and other factors may also contribute to
11 undercollections, but DRA recommends that the Order from D.12-04-048 be
12 carried out and a thorough investigation of WRAM/MCBA be conducted prior to
13 granting SJWC's request for a full revenue decoupling WRAM/MCBA in order to
14 prevent SJWC customers from being impacted by WRAM/MCBA unresolved
15 issues.

16 At this juncture, the M-WRAM and ICBA should be more than sufficient
17 with existing conservation programs focused on the minimum necessary to keep
18 consumption within a reasonable range for mandated goals. Under the M-WRAM
19 and ICBA, SJWC has a natural incentive to conserve. They have exceeded their
20 conservation goals while at the same time enjoying increased revenues (see
21 Attachment D). SJWC has been successful in meeting its SBX 7-7 conservation
22 goal nine years prior to the mandate. At the same time, SJWC's customers are not
23 suffering the negative impacts that have been associated with WRAM/MCBA.
24 Additionally, if drought declarations reoccur, SJWC has been successful at gaining
25 Commission authorization to implement mechanisms (Mandatory Conservation
26 Memorandum Account, Mandatory Conservation Revenue Adjustment

³⁸³ D.12-04-048, page 2.

1 Memorandum Account) to protect from losses due to mandatory conservation.

2 Therefore, DRA recommends that SJWC not switch to a full revenue
3 decoupling WRAM/MCBA and continue with the current M-WRAM/ICBA
4 mechanisms.

ATTACHMENT A
to Chapter 16

SJWC Response to DRA Data Request PPM-008

March 6, 2012

Q.12 This question refers to information presented in SJWC's Exhibit J – Minimum Data Requirement Response, Attachment 10 (Response to MDR ILF.04). The attachment includes a 'CUWCC BMP RETAIL COVERAGE REPORT 2009-2010.' For purposes of this data request, DRA will refer to it as the 2010 BMP Report.

- a. When will the 2011 BMP Report be issued? Please provide a copy of the report when available.**
- b. Based on DRA's understanding from the discussion in our February 27, 2012 meeting, SJWC's baseline GCPD is 144, and its 2020 GCPD targets are 124 based on regional goal and 115 based on a 20% reduction from baseline goal. SJWC also stated that its 2011 GCPD is at 115 GCPD. Please confirm and provide additional information or clarification as needed.**
- c. Please provide calculations and assumptions to support SJWC's 115 GCPD for 2011. Also explain whether and how recycled water quantities are or are not accounted for in the GCPD calculations for SJWC.**
- d. Please provide SJWC's best GCPD estimates for 2012 and 2013 assuming no change to its current conservation program and efforts. Please provide supporting calculations and assumptions.**

R.12

- a. The 2011 BMP report will be submitted along with the 2012 BMP report. The CUWCC requires BMP reporting in two-year cycles. The 2011/2012 reporting will occur after the calendar year 2012 is completed and all of the 2012 program data is compiled and available. Signatory agencies typically begin filing their reports with the CUWCC in the first few months of the new year following the 2nd program year. Thus, in this case, the reporting will be done in early 2013.
- b. This information is provided in detail on Pages 13-16 of the SJWC 2010 Urban Water Management Plan (UWMP). The Department of Water Resources (DWR) allows an agency to meet the SBX7-7 requirements using one of four technical methodologies. See more info here:
http://www.water.ca.gov/urbanwatermanagement/docs/UWMP_Guidebook.pdf.
The four methodologies are:
 - Method 1: 80% of Base Daily per Capita Water Use
 - Method 2: Performance Standards
 - Method 3: 95% of Regional Target
 - Method 4: Water Savings

The base daily per capita water use for SJWC, using the baseline period of 1995-2004, is 144 gallons per capita per day (gpcd). The projected 2020 daily per capita water use is 111 gpcd.

In the UWMP, SJWC responded that it could meet the 2020 target using either Method 1 or Method 3. Both methods were presented. Using Method 3, the San Francisco Bay Region target was selected. This regional target is 124 gpcd. Thus SJWC would meet the goal of 95% of the regional target because our projected 2020 per capita use of 111 gpcd is less than 95% of the regional target 124 gpcd. Method 1 requires that the 2020 daily per capita use be 80% of the base daily per capita use. 80% of 144 gpcd equals 115 gpcd; therefore the projected 2020 goal of 111 gpcd meets the requirement.

The actual 2011 per capita water use has been calculated to be 114 gpcd. This was calculated using the actual gross water production for 2011, less unaccounted-for-water, divided by the estimated 2011 population. The number for gross water production is for potable water. Any recycled water use would decrease the value of the potable water total. Thus recycled water is already embedded in the calculation.

- c. Below is the 2011 gpcd calculation. The question concerning recycled water is answered above in 12 b.

2011 Gross Water Use (Million Gallons)	2011 Population (estimated)
43,241	960,732
Less 7.5% unaccounted for water	
39,998	

Gross water use divided by
365 days then divided by
population, then times
1million to convert to
gallons

114.06

The population number in the table is an extrapolation from the population projections show in the UWMP. In the UWMP, population is shown on Page 5 for 2005-2035 in five year increments. The 2011 number was estimated by extrapolating between the 2010 and 2015 values.

- d. We cannot give good estimates of GPCD for 2012 and 2013 as we don't know what the overall usage will be in those years. However, some projections have been made in the Urban Water Management Plan for the year 2015. See below.

Our interim urban water use target is the water use goal SJWC is to achieve and report in the 2015 UWMP. It is calculated as the average of SJWC's base daily per capita use (144 gpcd) and SJWC's urban water use target (124 gpcd). SJWC's interim urban water use target for 2015 is 134 gpcd.

Using projections of water demand and population, we can estimate the gpcd in 2015. SJWC's projected 2015 metered usage (from Table 5a in the UWMP) is 43,095 million gallons (MG) and projected 2015 service area population (From Table 2a) is 1,017,684. Thus SJWC's projected daily 2015 per capita water use is 116 gpcd

END OF RESPONSE

ATTACHMENT B
to Chapter 16

CUWCC BMP Organization and Names (Based on CUWCC 2009 MOU)				SJWC in compliance? (i.e. program is ongoing)	Done by SJWC or via SCWWD?
Type	Category	BMP	BMP name		
F	Operations Practices	1.1.1	Conservation Coordinator	YES	SJWC
		1.1.2	Water Waste Prevention	YES	SJWC
		1.1.3	Wholesale Agency Assistance Programs	YES	SCWWD
		1.2	Water Loss Control	YES	SJWC
		1.3	Metering w/ Commodity Rates for All New Connections & Retrofit of Existing Connections	YES	SJWC
		1.4	Retail Conservation Pricing	YES	SJWC
	Education Programs	2.1	Public Information Programs	YES	SJWC and SCWWD
		2.2	School Education Programs	YES	SJWC and SCWWD
P	Residential	3.1	Residential assistance program	YES	SJWC
		3.2	Landscape water survey	YES	SJWC
		3.3	High-Efficiency Clothes Washing Machine Financial Incentive Programs	YES	SCWWD
		3.4	WaterSense Specification (WSS) toilets	YES	SCWWD
	CII	4	CII	YES	SJWC AND SCWWD
	Landscape	5	Landscape	YES	SJWC and SCWWD

ATTACHMENT C
to Chapter 16

1 **Table 1 – Applicants’ districts in order of greatest 2010 percent undercollection**
 2

Applicant and District Name	2010 % Undercollection ^a	Approx. Number of Customers ^b	Surcharge (\$ per ccf (Tier 1 only, if applicable)) ^c
Cal-Am Monterey (w Ambler Park)	27.40%	38,573	not provided
Cal-Water Redwood Valley – Unified	**RSF** 27.31%	463	1.4206
Golden State Region I - Bay Point	26.49%	4,767	0.702
Cal-Water Kern River Valley	**RSF** 26.38%	1,012	0.9936
Cal-Water Redwood Valley – Lucerne	**RSF** 22.24%	1,246	0.727
Cal-Am Larkfield	19.85%	2,354	0.3808
Cal-Am LA Duarte	17.68%	7,324	not provided
Golden State Region I - Los Osos	17.17%	3,265	0.339
Cal-Water Dixon	16.02%	2,902	0.7841
Cal-Am LA San Marino	15.13%	13,903	not provided
Golden State Region I - Ojai	11.50%	2,880	0.192
Cal-Water Salinas	11.33%	23,828	0.1264
Golden State Region I - Santa Maria	11.21%	13,355	0.088
Golden State Region I - Simi Valley	10.76%	13,139	0.126
Cal-Water Oroville	10.00%	3,346	0.1189
Cal-Water Antelope Valley	**RSF** 9.65%	617	0.1607
Golden State Region I - Arden Cordova	9.27%	15,986	0.141
Apple Valley Ranchos	8.72%	19,658	0.143
Golden State Region III	8.61%	98,776	0.183
Cal-Am Coronaño	8.38%	18,332	0.1366
Cal-Water Hermosa Redondo	7.87%	26,364	0.1639
Cal-Water Redwood Valley - Coast Springs	**RSF** 7.81%	249	1.2389
Cal-Water Westlake	7.51%	6,924	0.1377
Park Water Company	7.38%	27,380	0.172
Cal-Water Bear Gulch	6.83%	18,510	0.1553
Cal-Water Palos Verdes	6.28%	23,985	0.1145
Cal-Water Stockton	6.21%	42,205	0.0731
Cal-Water Selma	6.10%	3,549	0.0614
Cal-Water Bayshore	5.68%	52,077	0.1201
Cal-Water Chico-Ham City	5.60%	19,738	0.0556
Cal-Am LA Baldwin Hills	5.37%	6,195	not provided
Cal-Water Marysville	5.04%	1,765	0.1923
Cal-Water Dominguez	4.61%	32,860	0.1249
Cal-Am Village	2.77%	21,542	0.0917
Golden State Region II	2.68%	99,615	0.138
Cal-Water Visalia	2.25%	32,518	0.0352
Cal-Water Bakersfield	-4.46%	37,741	(0.1020)

3 a – Bold values indicate being greater than 15%
 4 b – Italicized values indicate being less than 10,000 customers
 5 c – as presented in Appendix A of the scoping memo

ATTACHMENT D
to Chapter 16



110 W. Taylor Street
San Jose, CA 95110-2131

SUBSIDIARIES
San Jose Water Company
SJW Land Company
SJWIX, Inc.
Texas Water Alliance Limited

NEWS RELEASE

Wire Release - Major Market Circuit National
For Release at 4:00 P.M. (Pacific Time)

For Releases: February 21, 2012 Contact: Suzv Papazian Phone: (408) 279-7961
San Jose, California Corporate Secretary/Attorney Page 1 of 4

SJW CORP. ANNOUNCES 2011 ANNUAL AND FOURTH QUARTER FINANCIAL RESULTS

SAN JOSE, CA, February 21, 2012 – SJW Corp. (NYSE: SJW) today reported operating revenue for the year ended December 31, 2011 of \$238.9 million versus \$215.6 million for the year ended December 31, 2010, an increase of \$23.3 million. The increase in revenue was primarily attributable to cumulative rate increases of \$12.4 million, the recovery of a Mandatory Conservation Revenue Adjustment Memorandum account (“MCRAM”) that was authorized by the California Public Utilities Commission in December 2011 of \$5.7 million, higher customer usage of \$3.4 million, \$706,000 in new customers, and \$1.1 million in higher revenue from real estate operations.

Water production costs for the year ended December 31, 2011 were \$92.1 million versus \$87.3 million in 2010, an increase of \$4.8 million. The increase in water production costs is primarily attributable to \$3.7 million in higher per unit costs for purchased water and groundwater extraction charges, \$743,000 higher customer water usage and \$265,000 increase in costs due to a decrease in the use of available surface water supply.

Operating expenses, excluding water production costs, for the year ended December 31, 2011 were \$92.5 million versus \$90.3 million for 2010, an increase of \$2.2 million. This increase was primarily attributable to \$2.9 million higher depreciation and amortization, \$1.0 million in maintenance expenses, \$1.0 million in taxes other than income tax and \$952,000 in administrative and general expenses. In 2010, \$3.6 million in impairment loss on a real estate investment was recognized. No impairment loss was recognized in 2011.

Other (expense) income increased due to interest expense on new senior note borrowings. In addition, the Company sold 907,392 shares of California Water Service Group stock and recorded a gain of \$19.0 million in 2010. No similar sale occurred in 2011. Income taxes for the year ended December 31, 2011 were \$14.6 million versus \$16.7 million for 2010, a decrease of \$2.1 million due to lower pre-tax income.

Net income was \$20.9 million for the year ended December 31, 2011, compared to \$24.4 million for the year ended December 31, 2010. Diluted earnings per common share for the year ended December 31, 2011 were \$1.11, compared to \$1.30 per share in 2010. For the year ended December 31, 2011, recognition of the MCRAM contributed \$0.18 to diluted earnings per share. For the year ended December 31, 2010, the sale of California Water Service Group stock contributed \$0.60 to diluted earnings per share, offset by the impairment loss of \$0.11 per diluted share.

Fourth Quarter Financial Results

Operating revenue for the fourth quarter ended December 31, 2011 was \$62.3 million versus \$50.7 million for the same period in 2010, an increase of \$11.6 million. The increase was attributable to \$5.7 million due to the recognition of the MCRAM, cumulative rate increases of \$3.5 million, higher customer usage of \$2.1 million, \$162,000 in new customers and \$138,000 in higher revenue from real estate operations.

Water production costs for the fourth quarter of 2011 were \$22.3 million versus \$20.9 million for the same period in 2010, an increase of \$1.4 million. The increase in water production costs is primarily attributable to \$1.3 million in higher per unit costs for purchased water and groundwater extraction charges, \$251,000 higher customer water usage, partially offset by \$168,000 decrease in costs due to an increase in the use of available surface water supply.

Operating expenses, excluding water production costs, for the fourth quarter of 2011 were \$23.4 million versus \$26.4 million for the same period in 2010, a decrease of \$3.0 million. This was attributable to decreases of \$3.6 million in impairment loss on a real estate investment and \$363,000 in administrative and general expenses, partially offset by increases of \$736,000 in depreciation and amortization, \$226,000 in taxes other than income tax expense and \$124,000 in maintenance expenses.

Other (expense) income increased due to interest expense on new senior note borrowings. In addition, the Company sold 684,280 shares of California Water Service Group stock and recorded a gain of \$14.5 million in 2010. No similar sale occurred in 2011. Income taxes for the fourth quarter of 2011 were \$5.0 million versus \$5.6 million for 2010, a decrease of \$0.6 million due to lower pre-tax income.

Net income was \$6.6 million for the fourth quarter ended December 31, 2011, compared to \$8.1 million for the same period in 2010. Diluted earnings per common share were \$0.35 for the quarter ended December 31, 2011, compared to \$0.43 per share for the same period in 2010. In the fourth quarter of 2011, the recognition of the MCRAM contributed \$0.18 to diluted earnings per share. In the fourth quarter of 2010, the sale of California Water Service Group stock contributed \$0.46 to diluted earnings per share, offset by the impairment loss of \$0.11 per diluted share.

SJW Corp. is a publicly traded holding company headquartered in San Jose, California. SJW Corp. is the parent company of San Jose Water Company, SJWTX, Inc., Texas Water Alliance Limited, and SJW Land Company. Together, San Jose Water Company and SJWTX, Inc. provide regulated and nonregulated water service to more than one million people in San Jose, California and nearby communities and in Canyon Lake, Texas and nearby communities. SJW Land Company owns and operates commercial real estate investments.

This press release may contain certain forward-looking statements including but not limited to statements relating to SJW Corp.'s plans, strategies, objectives, expectations and intentions, which are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of SJW Corp. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The results for a quarter are not indicative of results for a full year due to seasonality and other factors. Certain factors that may cause actual results, performance or achievements to materially differ are described in SJW Corp.'s most recent reports on Form 10-K, Form 10-Q and Form 8-K filed with the Securities and Exchange Commission. SJW Corp. undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

SJW Corp.
Condensed Consolidated Statements of Income and Comprehensive Income (Loss)
(Unaudited)
(in thousands, except per share data)

	THREE MONTHS ENDED DECEMBER 31		TWELVE MONTHS ENDED DECEMBER 31	
	2011	2010	2011	2010
OPERATING REVENUE	\$ 62,338	50,752	238,955	215,638
OPERATING EXPENSE:				
Production Costs:				
Purchased water	15,038	9,829	54,317	43,557
Power	1,028	1,579	5,394	6,429
Groundwater extraction charge	3,365	6,645	20,997	26,614
Other production costs	2,903	2,870	11,345	10,702
Total production costs	<u>22,334</u>	<u>20,923</u>	<u>92,053</u>	<u>87,302</u>
Administrative and general	9,960	10,323	39,136	38,184
Maintenance	3,406	3,282	13,261	12,242
Taxes other than income	2,314	2,088	8,921	7,907
Depreciation and amortization	7,804	7,068	31,193	28,331
Impairment on real estate investment	-	3,597	-	3,597
Total operating expense	<u>45,818</u>	<u>47,281</u>	<u>184,564</u>	<u>177,563</u>
OPERATING INCOME	16,520	3,471	54,391	38,075
Gain on sale of California Water Service stock	-	14,500	-	18,966
Interest on long-term debt and other	<u>(4,962)</u>	<u>(4,229)</u>	<u>(18,947)</u>	<u>(15,895)</u>
Income before income taxes	\$ 11,558	13,742	35,444	41,146
Provision for income taxes	<u>4,956</u>	<u>5,624</u>	<u>14,566</u>	<u>16,740</u>
NET INCOME	<u>\$ 6,602</u>	<u>8,118</u>	<u>20,878</u>	<u>24,406</u>
Other comprehensive income (loss), net	<u>125</u>	<u>(8,220)</u>	<u>(85)</u>	<u>(10,828)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 6,727</u>	<u>(102)</u>	<u>20,793</u>	<u>13,578</u>
Earnings per share				
-Basic	\$ 0.36	0.45	1.12	1.32
-Diluted	\$ 0.35	0.43	1.11	1.30
Dividend per share	\$ 0.17	0.17	0.69	0.68
Weighted average shares outstanding				
-Basic	18,592	18,541	18,582	18,531
-Diluted	18,813	18,755	18,794	18,742

SJW Corp.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands)

	December 31 2011	December 31 2010
ASSETS		
UTILITY PLANT:		
Land	\$ 8,852	8,579
Depreciable plant and equipment	1,070,016	1,004,689
Construction in progress	18,527	10,103
Intangible assets	14,732	13,538
Total utility plant	1,112,127	1,036,909
Less accumulated depreciation and amortization	355,914	322,102
Net utility plant	756,213	714,807
Real estate investment	89,099	88,943
Less accumulated depreciation and amortization	10,557	8,854
Net real estate investment	78,542	80,089
CURRENT ASSETS:		
Cash and equivalents	26,734	1,730
Accounts receivable and accrued unbilled utility revenue	33,853	33,835
Prepaid expenses and other	8,328	2,462
Total current assets	68,915	38,027
OTHER ASSETS:		
Investment in California Water Service Group	7,032	7,177
Debt issuance costs, net of accumulated amortization	4,865	4,308
Regulatory assets, net	119,248	87,721
Other	3,995	3,233
	135,140	102,439
	<u>\$1,038,810</u>	<u>935,362</u>
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock	\$ 9,684	9,662
Additional paid-in capital	24,552	23,443
Retained earnings	227,494	219,568
Accumulated other comprehensive income	2,274	2,359
Total shareholders' equity	264,004	255,032
Long-term debt, less current portion	343,848	295,704
Total capitalization	607,852	550,736
CURRENT LIABILITIES:		
Line of credit	-	4,000
Current portion of long-term debt	838	1,133
Accrued groundwater extraction charge, purchased water and purchased power	6,212	4,854
Accounts payable	7,417	5,487
Accrued interest	5,376	5,244
Other current liabilities	8,445	8,437
Total current liabilities	28,288	29,155
DEFERRED INCOME TAXES AND CREDITS	135,036	107,961
ADVANCES FOR CONSTRUCTION AND CONTRIBUTIONS IN AID OF CONSTRUCTION	190,668	190,155
POSTRETIREMENT BENEFIT PLANS	68,855	50,213
OTHER NONCURRENT LIABILITIES	8,111	7,142
	<u>\$1,038,810</u>	<u>935,362</u>

**CHAPTER 17: BALANCING AND MEMORANDUM
ACCOUNT RECOVERY**

1 **A. INTRODUCTION**

2 SJWC requests the following other relief pertaining to balancing and
3 memorandum accounts:

- 4 1. Disbursement of current balance in the balancing account
- 5 2. Recovery of current balances in memorandum accounts

6 **B. SUMMARY OF RECOMMENDATIONS**

7 DRA reviewed and recommends the Commission authorize:

- 8 (1) A twelve-month surcharge of \$0.0492 per Ccf to recover \$2,598,912 for
9 an undercollection in Purchase Power, Purchased Water, Pump Tax,
10 State Revolving Fund Loans and Pension Balancing Account as
11 requested by SJWC.
- 12 (2) An increase in SJWC's request for a surcredit of \$0.2498 per service
13 connection per month for twelve month to refund \$653,402 for the costs
14 booked in the various memorandum accounts. DRA recommends that
15 the refund amount should be increased by \$452,200 to a total of
16 \$1,102,656 to reflect the one way memorandum account ordered by the
17 Commission's Resolution L-411 and L-411A to pass the extra earnings
18 attributable to the Tax Relief Act of 2010 to the ratepayers. This would
19 increase the refund surcredit to \$0.4216 per service connection per
20 month. All the memorandum accounts would expire at the end of 2012
21 and they should be closed after the recovery or the refund of the
22 balances unless they are specifically reauthorized in this proceeding.
23 SJWC should file advice letters to recover or to refund all the

1 memorandum account balances at the end of 2012 when the final
2 balances are known.

3 **C. DISCUSSION**

4 **1) Amortization of Balancing Account**

5 SJWC is currently authorized a balancing account for the incremental
6 increase in purchased power, water, and pump tax, State Revolving Fund Loans
7 and Pension. DRA reviewed Water Supply from January 1, 2008 through
8 September 30, 2011 and agrees with SJWC's showing of an undercollection of
9 \$2,589,912. Excess funding of SJWC's pension over the amount included in the
10 last GRC (D.09-11-032) was allowed to be included in balancing account to match
11 the pension expense with the actual cash funding. Out of the total balance of \$2,
12 598,912, excess pension funding accounts for \$2,142,749. The balancing account
13 treatment of this excess funding of pension expenses would expire at the end of
14 2012, and the balancing account for pension expenses should be closed upon the
15 recovery of the balance.

16 DRA reviewed various supporting workpapers provided by SJWC and
17 found them to be reasonable. DRA recommends the Commission authorize a
18 surcharge to recover the reviewed balance of \$2,589,912 to ratepayers for twelve
19 month when the new rates become effective in this proceeding.

20 **2) Recovery of Current Balances in Memorandum Accounts**

21 SJWC requests a refund of a total over-collection balance of \$650,456 as of
22 September 30, 2011 accrued in various memorandum accounts. SJWC is
23 proposing to refund the balance via a 12-month surcredit of \$0.2498 per service
24 connection per month, to commence concurrently with the new rates effective as a
25 result of this General Rate Case. DRA recommends that the refund amount should
26 be increased by \$452,200 to a total of \$1,102,656 to reflect the one way
27 memorandum account ordered by the Commission's Resolution L-411 and L-

1 411A to pass the extra earnings attributable to the Tax Relief Act of 2010 to the
2 ratepayers. This would increase the refund surcredit to \$0.4219 per service
3 connection per month. The memorandum/balancing accounts that are addressed in
4 the calculation of the net surcredit include:

- 5 1) Water Revenue Adjustment Mechanism (WRAM) Balancing
6 Account previously authorized by the Commission in D.08-08-
7 0030. This Account has an undercollection of \$365,398.
- 8 2) Cost of Capital Memorandum Account previously authorized by
9 the Commission in D.09-12-019. This account has an over-
10 collection of \$852,307.
- 11 3) Operational Energy Efficiency Program Memorandum Account
12 previously authorized by the Commission through Advice Letter
13 412. This account has an under-collection of \$57,383.
- 14 4) Conservation OII Legal and Regulatory Expense Memorandum
15 Account previously authorized by the Commission in D.08-02-
16 036 and D.10-04-001. This account has an under-collection of
17 \$50,307.
- 18 5) Mandatory Conservation Memorandum Account previously
19 authorized by the Commission through Advice Letter 407-D. The
20 account has an under-collection of \$11,111.
- 21 6) Water Quality Memorandum Account previously authorized by
22 the Commission in D.06-11-015 and continued in D.09-11-032.
23 The account has an over-collection of \$9,623.
- 24 7) Purchase of Taylor Property Memorandum Account previously
25 authorized by the Commission in D.08-10-018, Ordering
26 Paragraph 5. The account has an undercollection of \$747,003.
- 27 8) Intervener Compensation Memorandum Account to track
28 payment of intervener compensation to The Utility Reform
29 Network as authorized in D.09-05-014. The account has an under-
30 collection of \$60,676.
- 31 9) Mandatory Conservation Revenue Adjustment Memorandum
32 Account (MCRAM II) previously authorized by the Commission
33 through AL 419-B. The account has an over-collection of
34 \$1,080,403.

1 10) The Tax Relief, Unemployment Insurance Reauthorization, and
2 Job Creation Act of 2010 (“Tax Relief Act”) provides for 100%
3 bonus depreciation on certain business property put into service
4 after September 8, 2010 and before January 1, 2012. It also
5 provides for 50% bonus depreciation for property placed into
6 service thereafter and before January 1, 2013, and for property
7 placed into service in 2013 where construction begins prior to
8 January 1, 2013. While SJWC’s tax depreciation is normalized,
9 the difference between tax and book depreciation federal income
10 taxes is capitalized as a deferred tax deduction from rate base.
11 SJWC included the bonus tax depreciation in calculating its
12 deferred taxes. Because of increase in the deferred taxes due to
13 the bonus deductions available from Tax Relief Act, The
14 Commission issued Resolution No. L-411 and L-411A ordering
15 Utilities including SJWC to keep a one way balancing
16 memorandum account to keep track of the additional earnings and
17 to refund the extra earnings attributable to Tax Relief Act in the
18 next GRC. The accumulated excess earnings at the end of 2011
19 is \$452,200. This amount should be amortized together with
20 other memo accounts discussed in this chapter. The additional
21 accumulated balance of this memorandum account for 21012
22 would not be known until SJWC files its final Federal Income tax
23 for 2012 in the Spring of 2013. DRA recommend that the excess
24 earnings balance at the end of 2012 should be refunded through an
25 advice letter when the final amount for 2012 is known.

26 **D. CONCLUSION**

27 DRA recommends the Commission authorize (1) a surcharge of \$0.0492
28 per Ccf for twelve month to amortize the amount of \$2,598,912 for
29 undercollection in balancing account; (2) a surcredit of \$0.4216 per service for
30 twelve-month to refund the total memorandum account balance of \$1,102,656 that
31 includes the memorandum account balance for Tax Relief Act of 2010.

CHAPTER 18: ESCALATION AND ATTRITION

1 Consistent with Revised Rate Case Plan's procedures for Escalation and
2 Attrition Advice Letters, SJWC should be permitted to file Advice Letters
3 requesting escalation and attrition year increases. For illustration purposes, the
4 Executive Summary of this report uses the same inflation factors used by SJWC in
5 calculating escalation year increases with the necessary adjustments for DRA's
6 recommendations for Utility Plant in Service.

7 The most recent memorandum entitled, "Estimates of Non-labor and Wage
8 Escalation Rates" as described in D.04-06-018, shall be used for Escalation Years
9 1 and 2 rate increase requests and shall be sought by Tier 1 advice letter no later
10 than 45 days prior to first day of the escalation year. The advice letter filing shall
11 include all calculations and documentation necessary to support the requested rate
12 change. The requested rate increase shall be subject to the pro forma earnings test,
13 as specified in D.04-06-018. Revenue requirement amounts otherwise subject to
14 rate recovery, e.g., through balancing or memorandum accounts, shall not be
15 subject to escalation.

16 All rate base items, including capital additions and depreciation, shall not
17 be escalated but rather shall be subject to two test years and an attrition year,
18 consistent with D.04-06-018. If the Escalation Year and Attrition Year advice
19 letters are in compliance with this decision, GO 96-B, and other requirements, the
20 advice letter shall be effective on the first day of the escalation or attrition year,
21 consistent with the procedures set forth in GO 96-B.

22 SJWC should utilize the following method for preparing escalation year
23 requests:

- 24 1. Estimate escalation year labor expenses by the most
25 recent labor inflation factors as published by the DRA.

26

- 1 2. Estimate non-labor escalation year expenses, excluding
2 water production related expenses, by the most recent
3 composite non-labor 60%/compensation per hour 40%
4 inflation factors published by DRA.
- 5
- 6 3. Estimate escalation year water production related
7 expenses based on escalation year sales.
- 8
- 9 4. Adjust for all non-recurring and significant expense
10 items prior to escalation. A significant expense is equal
11 to or greater than 1% of test year gross revenues.
- 12
- 13 5. Expense items subject to recovery via offset accounts,
14 e.g., balancing and memorandum accounts, shall not be
15 escalated.
- 16
- 17 6. Estimate escalation year expenses not specifically
18 addressed in DRA's published inflation factors, (such as
19 insurance) based on CPI-U for most recently available
20 12 months, as provided in D.04-06-018.
- 21
- 22 7. Escalation year expenses may also be increased by the
23 most recent five-year average customer growth or other
24 growth adopted by the Commission.
- 25
- 26 8. For the first escalation year, estimate customers by
27 adding the five-year average change in customers by
28 customer class or other growth adopted by the
29 Commission to the test year customers. For the second
30 escalation year, estimate customers by adding the five-
31 year average change in customers by customer class or

1 other growth adopted by the Commission to the first
2 escalation year customers.

3

4 9. Estimate sales for the escalation years for the
5 residential, multifamily, and business classes by
6 multiplying the number of customers for each
7 escalation year by the test year sales per customer. Use
8 the test year sales for all other customer classes for both
9 escalation years.

10

11 10. Forecast sales revenues for the escalation years based
12 on each year's forecast of sales and customers. Other
13 revenues will be estimated using a five-year average of
14 recorded other revenue.

APPENDIX A:

**DRA WITNESS DIRECT TESTIMONY
AND QUALIFICATIONS**

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
JULIAN GANDARA**

Q.1 Please state your name and business address

A.1 My name is Julian Gandara. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in the Division of Rate Payer Advocates (DRA) as a Utilities Engineer.

Q.3 Briefly describe your pertinent educational background.

A.3 I graduated from the University of California at Riverside with a Bachelor of Science Degree in Mechanical Engineering.

Q.4 Briefly describe your professional experience.

A.4 I was a test engineer for Corona Clipper. I determined failure modes of different materials on tools and made recommendations on improving the strength of the tools. I included in my recommendation statistical and cost analysis as well as design changes.

A.4 I contributed testimony to Chapter 8 on Utility Plant in Service including recommendations on standby emergency power generators, obsolete meter replacement, and vehicles for SJWC's pool vehicle fleet.

Q.5 Does that conclude your testimony?

A.5 Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
SUNG B. HAN**

- Q. 1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).
- A. 1 My name is Sung B. Han and my business address is 505 Van Ness Avenue, San Francisco, CA. I am Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates (DRA).
- Q.2 Please summarize your educational background.
- A.2 I received a Bachelor of Science degree in Mechanical Engineering from San Francisco State University in 1970 and a Masters of Science degree in Mechanical Engineering from University of California, Berkeley in 1972. I have taken various courses in financial accounting, regulatory economics, and depreciation from various institutions. I am also a licensed Professional Mechanical Engineer in the State of California.
- Q.3 Please summarize your business experience.
- A.3 After graduation from Berkeley, I joined the Commission. I worked on various formal proceedings before this Commission, including various types of rate proceedings, valuation studies and other investigations initiated by the Commission. I have analyzed and testified on various aspects of utility operations including plant, depreciation, operations and maintenance expenses, administrative and general expenses, revenues, rate design, and conservation. I have also worked as Project Manager for various energy and water rate proceedings.
- Q.4 What is your responsibility in this proceeding?
- A.4 I am responsible for Chapter 6 Taxes Other Than Income, Chapter 7 Income Taxes, and Chapter 17 Balancing and Memorandum Account Recovery of DRA's Report on the Results of Operations of San Jose Water Company.
- Q.5 Does this conclude your prepared direct testimony?
- A.5 Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAT MA**

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

A1. My name is Pat Ma and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Industrial and Systems Engineering with a concentration in Management from San Jose State University in 1986. I received my Professional Engineer License in Industrial Engineering in the State of California in 1989 and a Grade 2 Water Distribution Operator Certification in 2010.

I joined the Division of Ratepayer Advocates’ Water Branch as a Utilities Engineer in December 2008. My previous professional position was as a Senior Utilities Engineer also at the Commission, where I worked from 1986 to 1999 in transportation, telecommunications, energy, and water areas. I also worked briefly for the U.S. EPA, Region 9 in 1989 as an Environmental Engineer.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 5 – Operating Expenses of this report.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOSEFINA MONTERO**

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

A1. My name is Josefina Montero and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the Polytechnic University of the Philippines with a degree in Accounting.

Q3. Briefly describe your professional experience.

A3. I have held a variety of positions in the Fiscal Office of the California Superior Court, County of San Mateo. In 2006, I transferred to the Commission's Fiscal Office. Early in 2009, I transferred to the Water Branch of the Division of Ratepayer Advocates where one of my first assignments was to conduct an audit of the Water Revenue Adjustment Mechanism (WRAM) account of the California-American Water Company (Cal Am). In mid-2009, I did a similar audit of the WRAM and Modified Cost Balancing Account (MCBA) accounts of the California Water Service Company (CWS). I participated in the proceedings for CWS' 2009 General Rate Case application as an expert witness for certain A&G expense items for 6 CWS districts and for certain O&M expense items for CWS' General Office. I also participated in the proceedings for Alco's 2010 General Case application as witness for the audit of the historical plant in service account. As an expert witness in California American Water's (Cal Am) Statewide General Rate Case (GRC), I wrote testimony regarding several balancing and memorandum accounts which I previously reviewed and audited. I was a DRA expert witness in an industry-wide proceeding on water revenue decoupling (Application 10-09-017) where I conducted policy analysis of the alternatives available to address the substantial under-collections in the Monterey District. I was responsible for certain A&G expense items for GSWC Region I CSAs; specifically, Office Supplies and Expense, Business Meals, Outside Services, Miscellaneous, Other Maintenance - General Plant and Rent. I was also responsible for the RO Tables for GSWC Region I CSAs.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for Payroll, Pensions and Benefits and Non-Tariffed Products and Services (Chapters Three and Four).

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
MANDY M. RASMUSSEN

Q.1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Mandy M. Rasmussen and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from Colorado State University with a Bachelor of Science Degree in Environmental Engineering.

Q3. Briefly describe your professional experience.

A3. I have sponsored testimony for a water treatment plant upgrade reasonableness review, main replacements, and a hydro-turbine generation system in the San Gabriel Valley Water Company Fontana Division general rate case (A.11-07-005), water consumption and operating revenues, rate design, and main replacements for the Apple Valley Ranchos Water Company general rate case (A.11-01-01), and sponsored testimony, acted as DRA project manager, and testified during evidentiary hearings in the multi-company proceeding regarding the amortization of WRAM/MCBA related balancing accounts (A.10-09-017). Previous to my work with DRA, I was an engineering consultant and worked with municipalities and private companies on 1) water and wastewater treatment process design, construction, operation and maintenance 2) distribution and collection system infrastructure design, and 3) customer growth projections and utility planning. I joined the Commission in January 2011.

Q4. What is your responsibility in this proceeding?

A4. As an expert witness for DRA in A.12-01-003, I am responsible for all sections of Chapter 8 – Utility Plant-in-Service except for those related to standby emergency power generators, obsolete meter replacement, and vehicles for SJWC’s pool vehicle fleet.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
RICHARD LAWRENCE RAUSCHMEIER**

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

A1. My name is Richard Lawrence Rauschmeier and my business address is 505 Van Ness Avenue, San Francisco, California. I am an Auditor in the Water Branch of the Division of Ratepayer Advocates.

Q1. Please summarize your educational background.

A1. I graduated from The Johns Hopkins University with a Bachelor's degree in Environmental Earth Science and concentrations in chemistry and water treatment. In 2000, I earned a Masters of Science in Management from Purdue University.

Q3. Please summarize your business experience.

For more than 10 years, I have worked as both an employee and independent consultant for numerous corporations, associations, and non-profit organizations in the development of efficient and effective business policies and practices. In December of 2008, I joined the California Public Utilities Commission, where I currently hold the position of Financial Examiner.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for the overall coordination of DRA's report and directly responsible for the content of Executive Summary and Chapters 1, 2, 3, 9, 10, 11, 13, 14, 15 and 18.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does

**QUALIFICATIONS AND PREPARED TESTIMONY
OF
DEAN TULLY**

Q.1 Please state your name and business address.

A.1 My name is Dean Tully. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Division of Ratepayer Advocates (DRA) as a Public Utilities Regulatory Analyst IV.

Q.3 Briefly describe your pertinent educational background.

A.3 I graduated from the University of Phoenix with a Bachelor of Science degree in Management.

Q.4 Briefly describe your professional experience.

A.4 Prior to joining the CPUC, I was employed by a semiconductor company for eight years and served as a Process Engineer, Purchasing Manager and Director of Operations and Sales. I also was employed by the California Energy Commission for five years where I served as a contract manager and supervisor for the Public Interest Energy Research program on research, development and demonstration projects. Currently I am employed at the CPUC in the DRA Water Branch and serve as project lead on Rate Consolidation OIR 11-11-008 as well as the revenue decoupling portion of SJWC's general rate case Application 12-01-003.

Q.5 Does that conclude your testimony?

A.5 Yes, at this time.