

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise the General Rate Case Plan for Class A Water Companies.

R.03-09-005

**ERRATA TO THE COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES ON THE DRAFT DECISION AND WATER DIVISION WORKSHOP REPORT**

The Office of Ratepayer Advocates ("ORA") here files this errata to the "Comments of the Office or Ratepayer Advocates on the Draft Decision and Water Division Workshop Report" filed on April 2, 2004.

The following replaces Section II in ORA's initial comments (starting at page 7 and continuing through page 8.) The changes to this section are marked.

**II. ORA RECOMMENDS SOME CHANGES TO THE WORKSHOP REPORT'S PROPOSED CHANGES TO FORECASTING**

ORA supports the workshop proposed changes to the test year and escalation year forecasts as specified on pages 6 and 7 of Appendix A. Many of these changes, if adopted, will result in a streamlining of ORA's workload.

ORA does, however, have several concerns with the proposed changes. ORA notes that because test year expense estimates will serve as the basis for the escalation year forecasts, the test year estimates should be adjusted to remove any highly unusual or significant one time expenses that will not be repeated in the escalation years prior to applying the appropriate inflation factor to obtain the escalation year forecast.

Second, ORA disagrees with including growth in the method for computing operational and maintenance expenses as proposed in Appendix A. The workshop report recommends:

All administrative, operational and maintenance expenses with the exception of off-settable expenses and salaries should be computed by using recorded inflation and growth. An adjusted simple five-year average escalated for test and subsequent years shall be included in the utilities workpapers.

The Draft Decision approach computing these expenses is:

All operational and maintenance expenses with the exception of off-settable expenses and management salaries should be computed by using an inflation adjusted simple five year average escalated for test and subsequent years.

To make the DD consistent with the consensus recommendations on escalating expenses, ORA instead recommends the following:

In addition to any other methodology the utility may wish to use, the utility shall also present an inflation adjusted simple five year average for all administrative, operational and maintenance expenses, with the exception of off-settable expenses and salaries in its workpapers. ~~, should be computed by using an inflation adjusted simple five year average escalated for the test year. The amounts for the subsequent escalation years should be computed by adjusting the test year expenses by the applicable factor or union contract as described in the Expenses section of Appendix A.~~

ORA disagrees with using growth, in addition to recorded inflation, in computing the administrative, operational and maintenance expenses for the escalation years. Using growth in addition to recorded inflation would require an agreed upon number for growth; an estimate which is likely to be controversial. It would be inappropriate to use the growth in customers here, because work requirements and expense do not increase in proportion to customer growth. Other than meter readings, the plant associated with new customers is new and requires little maintenance. Productivity improvements should partially, if not fully, offset increases in workload as well. Factoring in growth in the estimation of escalation year expenses is unnecessary and will only complicate matters.

Finally, ORA makes one clarification to the “Expenses” section of Appendix A of the workshop report as follows:

Non-labor escalation year expenses, excluding water production related expenses, will be estimated by escalating test year non-labor expenses by the most recent composite compensation per hour for contract labor/non-labor inflation factors published by ORA.<sup>4</sup>

ORA notes that the composite factor is a hybrid of the compensation per hour index which is applicable to contracted services and the non-labor factor.

Respectfully submitted,

/s/ MONICA MCCRARY

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<sup>4</sup> ORA publishes “Estimates of Non-labor and Wage Escalation Rates” with inflation factors for in-house labor (wages) and non-labor. ORA also publishes a “Summary of Compensation per Hour” with inflation factors for outside, contract labor. The composite factor is a hybrid of 60% non-labor from the “Estimates of Non-labor and Wage Escalation Rates” and 40% compensation-per-hour from the “Summary of Compensation per Hour” memo.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document  
**“ERRATA TO THE COMMENTS OF THE OFFICE OF RATEPAYER  
ADVOCATES ON THE DRAFT DECISION AND WATER DIVISION  
WORKSHOP REPORT”** in **R.03-09-005**.

A copy was served as follows:

[ **X** ] **BY E-MAIL**: I sent a true copy via e-mail to all known parties of record who have provided e-mail addresses.

[ **X** ] **BY MAIL**: I sent a true copy via first-class mail to all known parties of record.

Executed in San Francisco, California, on the **13<sup>th</sup>** day of **April, 2004**.

/s/ REBECCA ROJO

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Rebecca Rojo