

APPENDIX A

**PARTIAL SETTLEMENT BETWEEN SUBURBAN WATER SYSTEMS AND
THE DIVISION OF RATEPAYER ADVOCATES**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Suburban Water Systems
(U339W) for Authority to Increase Rates
Charged for Water Service by \$19,234,576 or
35.85% in 2012, by \$3,032,827 or 4.18% in
2013, and by \$1,973,200 or 2.61% in 2014.

A.11-02-002
(Filed February 1, 2011)

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THE DIVISION OF RATEPAYER ADVOCATES**

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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service by \$19,234,576 or 35.85% in 2012, by \$3,032,827 or 4.18% in 2013, and by \$1,973,200 or 2.61% in 2014.

A.11-02-002
(Filed February 1, 2011)

**PARTIAL SETTLEMENT BETWEEN SUBURBAN WATER SYSTEMS AND
THE DIVISION OF RATEPAYER ADVOCATES**

I. GENERAL PROVISIONS

Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”) and Suburban Water Systems (“Suburban”) (collectively, “the Parties”) have agreed on the terms of this partial settlement agreement (the “Settlement Agreement”) which they now submit, for approval. This Settlement Agreement addresses many of the differences presented by the testimony and exhibits submitted into evidence by Suburban and DRA, respectively.

The Parties, desiring to avoid the expense, inconvenience, and the uncertainty attendant to litigation of matters in dispute between them have agreed on this Settlement Agreement which they now submit for approval.

Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission’s Rules on Practice and Procedure.)

The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission. Furthermore, the Settlement Agreement is being presented as an integrated package such that the Parties are agreeing to the Settlement Agreement as a whole, as opposed to agreeing to specific elements of the Settlement Agreement. If the Commission adopts the Settlement Agreement with modifications, all the Parties must consent to the modifications or the Settlement Agreement is void. As between the Parties, this Settlement may be amended or changed only by a written agreement signed by the Parties.

This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument. By signing below, each signatory for a Party by signing below represents and warrants that he/she is authorized to sign this Settlement Agreement on such Party's behalf and thereby bind such Party to the terms of this Settlement Agreement.

The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

Included in this Settlement are supporting references to the Final Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service ("Application") and Exhibits A-F, the Division of Ratepayer Advocates' Report on the Results of Operations of Suburban Water Systems for Test Year 2012, Escalation Years 2013 and 2014 ("DRA Exh. 1"), and Suburban's direct and rebuttal testimonies.

II. CUSTOMERS, SALES AND REVENUES

A. Use Per Customer

The parties agreed to reduce the estimate for residential customers based on recorded sales data for 2010 and 2011.

Residential

	<u>San Jose Hills</u>		<u>Whittier/La Mirada</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
DRA	216.6	216.6	207.6	207.6
Suburban	216.6	213.7	207.6	206.0
Settlement	213.7	213.7	206.0	206.0

Business

	<u>San Jose Hills</u>		<u>Whittier/La Mirada</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
DRA	1,201.8	1,201.8	1,219.4	1,219.4
Suburban	1,201.8	1,178.0	1,219.4	1,204.9
Settlement	1,201.8	1,201.8	1,219.4	1,219.4

REFERENCES: Suburban Application Exh. A (“Suburban Exh. A”), Ch. 4, Table 4-1; SUB Exh. 3, Direct Testimony of Kiki Carlson, dated February 1, 2011 (“Carlson Direct”), pp. 1-2; DRA Exh. 1, *Report on the Results of Operation of Suburban Water Systems for Test Years 2012, Escalation Years 2013 and 2014*, dated July 11, 2011 (“DRA Exh. 1”), pp. 2-2 – 2-4; SUB Exh. 11, *Rebuttal Testimony of Kiki Carlson*, dated July 1, 2011 (“Carlson Rebuttal”), p. 2.

B. Cooperating Respondents Reimbursement

DRA included the estimated \$98,857 from Cooperating Respondent (“CR”) reimbursement in 2012 revenues, whereas Suburban included CR Reimbursement as a contra expense. As part of the settlement agreement, DRA agreed with Suburban that the CR reimbursements should not be treated as revenues.

REFERENCES: Suburban Exh. A, Ch. 5, Table 5-3; DRA Exh. 1, pp. 10-16 – 10-17; SUB Exh. 14, *Rebuttal Testimony of Robert Kelly*, dated July 1, 2011 (“Kelly Rebuttal”), pp. 28-29.

III. 2012 EXPENSES

A. Suburban Expenses

1. Payroll Expenses

In its Application, Suburban stated it eliminated three positions: (1) Service Area Manager of San Jose Hills, (2) Database Administrator, and (3) Vice President and Chief Administrative Officer. Suburban requested four positions related to the Utility's Group's restructuring: (1) President, (2) Communication Manager, (3) Communication Assistant, and (4) Administrative Assistant. Suburban requested two positions transferred from SouthWest due to a corporate reorganization: (1) Senior Accountant and (2) Director of Risk Audit. Suburban requested recovery in rates for four new positions that it had already filled: (1) Water Production Manager, (2) Engineer Technician Inspection I, (3) Engineer Technician Inspection III, and (4) Mechanical Maintenance Manager. Finally, Suburban requested authorization for seven new positions, which it has not yet filled: (1) Senior Account Clerk-San Jose Hills, (2) Senior Account Clerk-Whittier La Mirada, (3) Equipment Operator, (4) Utility Worker I, (5) Utility Worker II or III, (6) GIS Development Coordinator, and (7) Asset Management Engineer.

DRA accepted the position of President, but expressed concern regarding the restructuring in the Utility Group and at SouthWest that led to certain positions being transferred to Suburban. It also stated that since the Commission, in its last decision, approved 118 positions, there was no need for additional positions at this time. In rebuttal and during settlement discussions, Suburban explained that the Utility Group and SouthWest transfers were justified because these employees were now spending all of their time on Suburban matters. Suburban provided operational and managerial justification for its requested positions. For the purpose of settlement, the Parties agreed to include the following positions:

Communication Manager

Communication Assistant

Water Production Manager

Engineering Technician Inspection I

Engineering Technician Inspection III

Mechanical Maintenance Manager

GIS Development Coordinator

Asset Management Engineer

Based on the inclusion of these positions, the parties agree to \$7,660,677 as the total 2012 subtotal regular payroll before overtime, standby, vacation sold, no meal penalty, incentive compensations, and capitalized payroll.

REFERENCES: Suburban Exh. A, Ch. 5; SUB Exh. 3, Carlson Direct, pp. 1-2; DRA Exh. 1, pp. 3-3 – 3-16; SUB Exh. 11, Carlson Rebuttal, pp. 2-12.

2. Account 732 Maintenance of Pumping Equipment

a. 732-163 Maintenance – Gas Engines

The parties agree to \$45,051 as the 2012 expense for 732-163 Maintenance – Gas Engines. This amount was calculated by escalating Suburban’s annualized recorded 2010 amount as of July 2010. DRA based its original recommendation on a 5-year average escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

DRA	\$29,781
Suburban	\$45,051
Settlement	\$45,051

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-20; SUB Exh. 11, Carlson Rebuttal, pp. 12-13.

3. Account 742 Operation Labor & Expenses

a. 742-171 Laboratory Services

The parties agree to \$126,463 for the 2012 expense Account 742-171. Suburban used a 5-year escalated average. DRA’s recommendation was based on the last recorded expense

adjusted for each year's rate of inflation. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$109,365
Suburban	\$126,463
Settlement	\$126,463

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-17 – 3-18; SUB Exh. 11, Carlson Rebuttal, pp. 13-14.

b. 742-176 Dept. of Health Services Fees

The parties agree to \$73,552 for the 2012 expense Account 742-176. Suburban used a 5-year escalated average. DRA's recommendation was based on the last recorded expense adjusted for each year's rate of inflation. For the purpose of settlement, the parties agreed to use Suburban's estimate.

DRA	\$60,518
Suburban	\$73,552
Settlement	\$73,552

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-17 – 3-18; SUB Exh. 11, Carlson Rebuttal, pp. 13-14.

4. Account 748 Maintenance of Water Treatment Equipment

a. 748-179 Chlorinator Repairs

The parties agree to \$21,202 for 2012 expense for Account 748-179. Suburban's requested amount for 2012 was derived from the escalated annualized recorded 2010 expense as of July, 2010. DRA calculated its original recommendation by bringing forward Suburban's last recorded expense to 2012 dollars and adjusting for each year's rate of inflation. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$ 2,626
Suburban	\$21,202

Settlement \$21,202

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-21; SUB Exh. 11, Carlson Rebuttal, p. 15.

5. Account 761 Maintenance of Transmission & Distribution Mains

Suburban's original expense requests in this area were based on the approval of a proposed leak crew, which DRA opposed. For the purpose of settlement, Suburban agreed to withdraw its request for the leak crew.

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-21; SUB Exh. 11, Carlson Rebuttal, pp. 15-16.

a. 761-121 T/D Line Repair

The parties agree to \$348,845 for 2012 expense for Account 761-121. Originally Suburban credited \$41,408 to that account to reflect the savings that would be achieved by the proposed leak crew and the corresponding reduction in outside contractor expense. DRA proposed disallowing the leak-crew and added back the \$41,408 expense. Since the Parties agreed that the leak crew would not be included in rates, they agreed to DRA's estimate.

DRA	\$348,845
Suburban	\$307,436
Settlement	\$348,845

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-21; SUB Exh. 11, Carlson Rebuttal, p. 16.

b. 761-122 Outside Services

The parties agree to \$55,438 for 2012 expense for Account 761-122. Suburban's request was based on escalating the annualized recorded 2010 amount as of July 2010. DRA calculated its original recommendation by bringing forward Suburban's last recorded expense to 2012 dollars and adjusting for each year's rate of inflation. For the purpose of settlement, the Parties agreed to adopt Suburban's estimate.

DRA	\$21,572
Suburban	\$55,438
Settlement	\$55,438

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-21; SUB Exh. 11, Carlson Rebuttal, p. 16.

c. 761-130 Field Supplies

The parties agree to \$26,437 for 2012 expense for Account 761-130. Suburban's request was based on the five year average escalated and reduced by \$841 as a result of the proposed leak crew. DRA calculated its original recommendation by bringing forward Suburban's last recorded expense to 2012 dollars and adjusting for each year's rate of inflation. For the purpose of settlement, the Parties agreed to use DRA's estimate.

DRA	\$26,437
Suburban	\$28,010
Settlement	\$26,437

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-21; SUB Exh. 11, Carlson Rebuttal, pp. 16-17.

6. Account 763 – Maintenance of Services

a. 763-124 Service Line Repair

The parties agree to \$317,014 for 2012 expense for Account 763. Suburban's original request included a credit of \$9,730 based on expected cost savings from the proposed leak-crew. Since the Parties agreed that the leak crew would not be included in rates, they agreed to DRA's estimate.

DRA	\$317,014
Suburban	\$307,284
Settlement	\$317,014

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-22; SUB Exh. 11, Carlson Rebuttal, p. 17.

7. Account 772 Meter Reading Expenses

a. 772-304 Uniforms & Clothing

The parties agree to \$22,955 for 2012 expense for Account 772-304. DRA brought forward the 2009 expense to 2012 dollars and applied each year's inflation rate. Suburban's original request was the escalated annualized recorded 2010 expense as of July 2010. For the purpose of the settlement, the Parties agree to use DRA's estimate.

DRA	\$22,955
Suburban	\$29,718
Settlement	\$22,955

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-18; SUB Exh. 11, Carlson Rebuttal, p. 17.

8. Account 773 – Customer Records & Collection

a. 773-230 Billstock & Envelopes

The parties agree to \$98,724 for 2012 expense for Account 772-230. DRA's original recommendation was calculated by bringing forward the 2009 expense to 2012 dollars and applied each year's inflation rate. Suburban's requested amount was derived from escalated annualized recorded 2010 expense as of July 2010. For the purpose of settlement, the Parties agreed to a slight reduction to Suburban's original estimate.

DRA	\$93,019
Suburban	\$99,877
Settlement	\$98,724

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-18 – 3-19; SUB Exh. 11, Carlson Rebuttal, p. 18.

9. Account 783 – Advertising Expenses

a. 783-212 Water Conservation

Suburban’s original request included additional amounts for a National Children’s Theatre Program, gardening classes, and water audits for non-residential customers, marketing materials, a contract for the Niagara Direct Ship Program for high-efficiency toilets (“HET”), and conservation kits. DRA’s reduced the HET distribution program and Suburban’s request outreach and education programs, stating that Suburban was able to meet conservation goals on a lower budget. The parties agree to a budget of \$337,500 for water conservation expenses for 2012. The settlement amount reflects a budget for 1500 HETs and a reduction to Suburban’s original request for outreach and education. Suburban agrees that that a one-way balancing account should be established to protect rate payers should Suburban be unable to reach its conservation goal and budget.

DRA	\$225,000
Suburban	\$450,000
Settlement	\$337,500

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Chs. 3, 4, pp. 3-19, 4-1 – 4-17; SUB Exh. 14, Kelly Rebuttal, pp. 3-11.

10. Account 792 – Office Supplies & Other Expenses

a. 792-132 Safety Supplies

The parties agree to \$57,966 for Account 793-132 for 2012. Suburban’s request was calculated by escalating the annualized recorded 2010 amount as of July 2010. DRA’s original recommendation was calculated by escalating the recorded 2009 amount. For the purpose of settlement, the Parties agreed to adopt Suburban’s estimate.

DRA	\$50,676
Suburban	\$57,966
Settlement	\$57,966

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, p. 19.

b. 792-300 Travel/Expense Report

The parties agree to \$110,792 for 2012 expense for account 792-300. Suburban's original request was calculated by escalating the 5-year average and adding expenses of \$77,200 for new positions, which was also included in 2011. DRA's recommendation was based on escalated 2009 recorded amounts and excluded the request for travel expense associated with new positions. For the purpose of settlement, the Parties agreed to remove the travel expense associated with the Communications and Internal Control departments from Suburban's estimate.

DRA	\$40,733
Suburban	\$123,992
Settlement	\$110,792

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, pp. 19-20.

c. 792-301 Meals & Entertainment

The parties agree to \$40,295 for 2012 expense for account 792-301. Suburban's original request was calculated by escalating the 5-year average and adding expenses of \$15,800 for new positions, which was also included in 2011. DRA's recommendation was based on escalated 2009 recorded amounts and excluded the request for meals and entertainment expense associated with new positions. For the purpose of settlement, the Parties agreed to remove the meals and entertainment expenses associated with the Communications and Internal Control departments from Suburban's estimate.

DRA	\$19,902
Suburban	\$42,495
Settlement	\$40,295

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, pp. 19-20.

d. 792-321 Safety Incentives

The parties agree to \$34,640 for 2012 expense for 792-321. Suburban's request was based on 2010 safety incentives of \$33,250. DRA's original recommendation was based on 2009 recorded amounts escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$25,656
Suburban	\$34,640
Settlement	\$34,640

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, pp. 20-21.

e. 792-328 Professional Dues – Personal

The parties agree to \$28,194 for 2012 expense for 792-328. Suburban escalated the annualized recorded 2010 amount as of July 2010. DRA's original recommendation was based on 2009 amounts escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$20,655
Suburban	\$28,194
Settlement	\$28,194

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, p. 21.

f. 792-332 Computer Cost Miscellaneous

The parties agree to \$106,815 for 2012 expense for 792-332. Suburban's request was based on the escalated annualized recorded 2010 expense amount as of July 2010. DRA's original recommendation was based on 2009 amounts escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$ 63,867
Suburban	\$106,815
Settlement	\$106,815

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-22 – 3-23; SUB Exh. 11, Carlson Rebuttal, p. 21.

11. Account 793 Property Insurance

a. Property/Earthquake Insurance

The parties agree to \$201,585 for 2012 expense for account 793. Suburban’s recommendation was based on 2010 insurance premiums escalated to 2012. DRA’s original recommendation was based on 2009 property insurance premiums escalated to 2012. For the purpose of settlement, the Parties agreed to a figure halfway between their two estimates.

DRA	\$195,250
Suburban	\$207,919
Settlement	\$201,585

REFERENCES: Suburban Exh. A, Ch. 5; SUB Exh. 2, *Direct Testimony of Walter J. Bench*, dated February 1, 2011 (“Bench Direct”), p. 15; DRA Exh. 1, Chs. 3, 8, pp. 3-23, 8-14 – 8-17; SUB Exh. 10, *Rebuttal Testimony of Walter J. Bench*, dated July 1, 2011 (“Bench Rebuttal”), pp. 3-4; SUB Exh. 11, Carlson Rebuttal, pp. 21-22.

12. Account 794 Injuries and Damages

a. 794-233 Claims Reserves

The parties agree to \$25,000 for 2012 expense for account 794-233. Suburban proposed \$59,739 which is based on 2009 recorded amount escalated. DRA’s original recommendation was based on bringing forward 5-year historical averages to 2009 dollars and escalating to 2012. For the purpose of settlement, the Parties agreed to \$25,000 which is based on one incident deductible amount per year.

DRA	\$12,102
Suburban	\$59,739
Settlement	\$25,000

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-23 – 3-24; SUB Exh. 11, Carlson Rebuttal, p. 22.

b. 794-424 Workers' Compensation Insurance

The parties agree to \$49,213 for 2012 expense for account 794-424. This amount reflects that Parties agreements regarding requested positions and payroll.

DRA	\$52,607
Suburban	\$52,607
Settlement	\$49,213

REFERENCES: Suburban Exh. A, Ch. 5; SUB Exh. 2, Bench Direct, p. 15; DRA Exh. 1, Ch. 8, pp. 8-14 – 8-17; SUB Exh. 10, Bench Rebuttal, pp. 3-4.

c. 794-4241 Workers' Compensation Claims

The parties agree to \$45,917 for 2012 expense for account 794-4241. DRA's original recommendation was based on 5-year averages brought up to 2009 dollars and escalated to 2012. Suburban's request is based on 2009 recorded amounts escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$ 9,268
Suburban	\$45,917
Settlement	\$45,917

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-23 – 3-24; SUB Exh. 11, Carlson Rebuttal, p. 22.

d. 794-611 Umbrella Insurance

The parties agree to \$91,893 for 2012 expense for account 794-611. DRA's original recommendation was based on 2009 premiums escalated to 2012. Suburban's original

recommendation was based on 2010 premiums escalated to 2012. For the purpose of settlement, the Parties agreed to a figure halfway between their two estimates.

DRA	\$ 79,433
Suburban	\$104,353
Settlement	\$ 91,893

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 8, pp. 8-14 – 8-17; SUB Exh. 10, Bench Rebuttal, pp. 3-4; SUB Exh. 11, Carlson Rebuttal, pp. 22-23.

13. Account 795 Employees' Pension & Benefits

a. 795-319 Safety/Compliance Training

The parties agree to \$27,788 for 2012 expense in account number 795-319.

Suburban's original request was based on the annualized 2010 amount as of July 2010, escalated to 2012. DRA's original recommendation was based on 2009 recorded amounts escalated to 2012. For the purpose of settlement, the Parties agreed to a figure halfway between their two estimates.

DRA	\$19,619
Suburban	\$35,956
Settlement	\$27,788

REFERENCES: Suburban Exh. A, Ch. 5; SUB Exh. 11, Carlson Rebuttal, p. 24.

b. 795-320-Training/Seminars

The parties agree to \$84,834 for 2012 expense for account 795-320. Suburban's original recommendation was based on the five year average escalated plus additional expenses starting in 2011 in the Communications, President, Production, Conservation, Supplier Diversity, and Internal Control Departments. DRA's original recommendation was based on 2009 recorded amount escalated to 2012. For the purpose of settlement, the Parties agreed to remove the expenses associated with the Communications and Internal Control departments.

DRA	\$34,813
Suburban	\$91,834
Settlement	\$84,834

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-25 – 3-26; SUB Exh. 11, Carlson Rebuttal, p. 25.

c. 795-397 401K Employer Contribution

The parties agree to \$269,557 for 2012 expense for account 795-397. Suburban's original request was based on the annualized recorded 2012 amount as of July 2010, escalated to 2012. DRA's original recommendation was based on the 2009 expense, escalated to 2012. For the purpose of settlement, the Parties agreed to a figure halfway between their two estimates.

DRA	\$234,769
Suburban	\$304,346
Settlement	\$269,557

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-24; SUB Exh. 11, Carlson Rebuttal, p. 24.

d. 795-412 Medical and Dental Insurance

The parties agree to a 2012 expense of \$1,106,698 for account 795-412. The difference between Suburban and DRA's original positions was due to a difference in projected employee headcount. For the purpose of settlement, the Parties agreed to use DRA's estimate.

DRA	\$1,106,698
Suburban	\$1,205,071
Settlement	\$1,106,698

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Chs. 3, 8, pp. 3-25, 8-13 – 8-14; SUB Exh. 11, Carlson Rebuttal, p. 23.

e. 795-420-Employee Education

The parties agree to \$35,728 for 2012 expense for account 795-420. DRA's original recommendation was based on 2009 expense brought forward to 2012. Suburban's

request was based on the annualized recorded 2010 expense as of July 2010, escalated to 2012. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$17,382
Suburban	\$35,728
Settlement	\$35,728

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-25 – 3-26; SUB Exh. 11, Carlson Rebuttal, p. 26.

14. Account 797 – Regulatory Commission Expense

a. 2014 General Rate Case

The parties agree to a \$575,605 dollar amount for 2014 General Rate Case expenses. DRA's recommended dollar amount was based on 2011 GRC expenses escalated to 2014. Suburban's original requested dollar amount was based on 2010 and 2011 GRC costs escalated to year 2015. Suburban reduced its original request by \$20,146 by escalating to 2014 instead of 2015. For the purpose of settlement, the Parties agreed to Suburban's revised estimate.

DRA	\$558,885
Suburban	\$595,751
Settlement	\$575,605

b. 2011 General Rate Case

The parties do not agree on whether Suburban's cost of service should include only 2014 General Rate Case expense (DRA position), or a one-time transition cost of service that would include both 2014 and 2011 General Rate Case expenses (Suburban position).

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-27 – 3-28; SUB Exh. 11, Carlson Rebuttal, pp. 26-28.

c. 2012 Cost of Capital Case

The parties agree to \$109,937 in 2012 cost of capital expense, recovered over 3 years. DRA's original recommendation was based on total expenses for 2009 and 2010, escalated to 2012. Suburban also escalated 2009 and 2010 expense to 2012 but employed a slightly different methodology. Suburban disagreed with DRA's methodology insofar as it did not properly escalate the 2009 amounts to 2010. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

DRA	\$106,874
Suburban	\$109,937
Settlement	\$109,937

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-28 – 3-29; SUB Exh. 11, Carlson Rebuttal, pp. 28-30.

15. Account 798 Outside Services Employed

a. 798-310 Legal Fee Ordinary

The parties agree to \$237,782 for 2012 expense for account 798-310. DRA's original recommendation was based on bringing forward 5-year historical expenses to 2009 dollars, escalated to 2012. Suburban's original recommendation was based on escalated annualized expense as of July 2010. For the purpose of settlement, the Parties agreed the Parties agreed to a figure halfway between their two estimates.

DRA	\$139,752
Suburban	\$335,813
Settlement	\$237,782

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-29 – 3-30; SUB Exh. 11, Carlson Rebuttal, pp. 30-31.

b. 798-312 Audit Fees

The parties agree to \$175,000 for 2012 expense for account 798-312. DRA's original recommendation was based on bringing forward 5-year historical expenses to 2009 dollars, escalated to 2012. Suburban's original recommendation was based on escalated annualized expense as of July 2010. For the purpose of settlement, the Parties agreed to a reduction to Suburban's estimate to reflect the actual invoiced amount without escalation.

DRA	\$146,445
Suburban	\$182,316
Settlement	\$175,000

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-29 – 3-30; SUB Exh. 11, Carlson Rebuttal, pp. 30-31.

c. 798-324 Other Professional Services

The parties agree to \$202,190 for account 798-324. DRA's original recommendation was based on bringing forward 5-year historical expenses to 2009 dollars, escalated to 2012. Suburban's original recommendation was based on escalated annualized expense as of July 2010. For the purpose of settlement, the Parties agreed to split the difference between the two estimates and add \$50,000 to cover DRA's requested cost benefit analysis to determine whether the company should sustain its current practice of relying on blending water or construct wellhead treatment systems to address groundwater contamination.

DRA	\$146,653
Suburban	\$157,726
Settlement	\$202,190

REFERENCES: Suburban Exh A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-29 – 3-30; SUB Exh. 11, Carlson Rebuttal, pp. 30-32.

16. Account 805 Maintenance of General Plant

a. 805-188 Radio Equipment

The parties agree to \$4,309 for 2012 expense for account 805-188. Suburban's original request was based on escalated annualized recorded 2010 expense as of July 2010. DRA's recommendation was based on five-year average expense, escalated to 2012. For the purpose of settlement, the Parties agreed to use DRA's estimate.

DRA	\$4,309
Suburban	\$7,158
Settlement	\$4,309

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-30 – 3-32; SUB Exh. 11, Carlson Rebuttal, pp. 32-33.

b. 805-200 Janitorial Services/Supplies

The parties agree to \$70,660 for 2012 expense for account 805-200. Suburban's original request was based on escalated annualized recorded 2010 expense as of July 2010. DRA's recommendation was based on five-year average expense, escalated to 2012. For the purpose of settlement, the Parties agreed to use DRA's estimate.

DRA	\$70,660
Suburban	\$88,277
Settlement	\$70,660

REFERENCES: Suburban Exh A, Ch. 5; DRA Exh. 1, Ch. 3, pp. 3-30 – 3-32; SUB Exh. 11, Carlson Rebuttal, pp. 32-33.

17. Account 906 Tools & Work Equipment - Clearing

a. 906-112 Lease Payment – Heavy Equipment

The parties agree to \$77,868 for expense 2012 for account 906-112. The difference in Suburban's and DRA's original positions reflects the additional heavy equipment

that would be required for the proposed three-person leak crew. Since the Parties agreed not to include the leak crew in this general rate case, the Parties agreed to use DRA's estimate.

DRA	\$ 77,868
Suburban	\$135,576
Settlement	\$ 77,868

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 3, p. 3-33; SUB Exh. 11, Carlson Rebuttal, p. 34.

B. Utility Group Expenses

1. Regular Payroll

The parties agree to \$296,256 for 2012 expense for Utility Group - Regular Payroll expense. The difference between Suburban's request and DRA's recommendation is mainly due to DRA's recommended disallowance of a proposed Manager of Regulatory Affairs position. For the purpose of settlement, the Parties agreed to use Suburban's estimate. The parties also agreed that solely for the period of this general rate case, the position of Manager of Regulatory Affairs would be limited to a 20% allocation to Suburban instead of the requested 50.9% allocation. Parties also agreed that for the foreseeable future, the Utility Group will not hire back their currently transferred employees (The President, Director of Communications, and Communications Assistant).

DRA	\$222,168
Suburban	\$296,256
Settlement	\$296,256

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 8, pp. 8-58 – 8-61; SUB Exh. 11, Carlson Rebuttal, p. 35; SUB Exh. 14, Kelly Rebuttal, pp. 18-19.

2. Payroll Taxes

The parties agree to \$33,511 for Utility Group – Payroll Tax expense for 2012. The difference between Suburban’s request and DRA’s recommendation is mainly due to DRA’s recommended disallowance of a proposed Manager of Regulatory Affairs position. Payroll tax expense is a function of payroll. For the purpose of settlement, the Parties agreed to use Suburban’s estimate. The parties also agreed that solely for the period of this general rate case, the position of Manager of Regulatory Affairs’ payroll taxes would be limited to a 20% allocation to Suburban instead of the requested 50.9% allocation.

DRA	\$25,131
Suburban	\$33,511
Settlement	\$33,511

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 8, pp. 8-58 – 8-61; SUB Exh. 11, Carlson Rebuttal, p. 35.

3. Health Insurance

The parties agree to \$24,591 for Utility Group - Health Insurance expense. The difference between Suburban’s initial request and DRA’s initial recommendation is due to DRA’s recommended disallowance of the proposed Manager of Regulatory Affairs position. Health Insurance expense is a function of payroll. For the purpose of settlement, the Parties agreed to use Suburban’s estimate. The parties also agreed that solely for the period of this general rate case, the position of Manager of Regulatory Affairs’ health insurance would be limited to a 20% allocation to Suburban instead of the requested 50.9% allocation.

DRA	\$12,297
Suburban	\$24,591
Settlement	\$24,591

REFERENCES: Suburban Exh. A, Ch. 5; DRA Exh. 1, Ch. 8, pp. 8-58 – 8-61; SUB Exh. 11, Carlson Rebuttal, p. 35.

4. Incentive Expense

The parties agree to \$18,289 for 2012 expense for Utility Group - Incentive Expense. Suburban based its estimate on a 2010 figure, escalated. DRA's initial recommendation disallowed incentive expense. For the purpose of settlement, the Parties agreed to half of Suburban's request.

DRA	\$0
Suburban	\$36,578
Settlement	\$18,289

REFERENCES: Suburban Exh A, Ch. 5; DRA Exh. 1, Ch. 8, pp. 8-58 – 8-61; SUB Exh. 11, Carlson Rebuttal, p. 35.

C. SouthWest Water Company Expenses

1. Payroll & Benefits

Suburban developed its estimates in this category by escalating base year estimates for 2010 and 2011, as subsequently reduced in Suburban's rebuttal testimony for elimination of the proposed Chief Learning Officer function. DRA proposed significant reductions in Suburban's estimates. For the purpose of settlement, the Parties agreed to figures halfway between the two estimates in Payroll Expense and proportionate in the other categories.

a. Payroll Expense

DRA	\$3,324,255
Suburban	\$5,045,659
Settlement	\$4,184,957

b. Payroll Taxes

DRA	\$265,704
Suburban	\$403,372
Settlement	\$334,564

c.	Health Insurance	
	DRA	\$179,122
	Suburban	\$192,520
	Settlement	\$159,680
d.	Employee Welfare	
	DRA	\$119,571
	Suburban	\$122,912
	Settlement	\$101,945
e.	Workers' Compensation	
	DRA	\$10,165
	Suburban	\$42,904
	Settlement	\$35,585

REFERENCES: Suburban Exh A, Ch. 5; SUB Exh. 9, *Direct Testimony of Raj Morey*, dated February 1, 2011 (“Morey Direct”), pp. 9-10; DRA Exh. 1, Ch. 8, pp. 8-23 – 8-24, 8-34 – 8-43, 8-47 – 8-54; SUB Exh. 15, *Rebuttal Testimony of Raj Morey*, dated July 1, 2011 (“Morey Rebuttal”), pp. 2-3, Attachment 1.

2. Computer & IT Services Fee

Suburban developed its estimate for this category by escalating base-year estimates for 2010 and 2011. DRA proposed a significant reduction based on concerns about the support Suburban provided in its application. For the purpose of settlement, the Parties agreed to adjust the amount in the Computer & IT Services Fee to \$832,504, which is based on an escalation of the 2010 amount approved in the last general rate case.

DRA	\$ 15,519
Suburban	\$1,199,572
Settlement	\$ 832,504

REFERENCES: Suburban Exh. A, Ch. 5; SUB Exh. 9, Morey Direct, p. 6, Attachment 1; DRA Exh. 1, pp. 8-25 – 8-29, 8-31 – 8-34; SUB Exh. 15, Morey Rebuttal, pp. 3-12, Attachment 2.

3. General & Administrative

a. Insurance

Suburban developed its estimate for this category by escalating base-year estimates for 2010 and 2011. DRA developed its estimate based on reductions it had made to computer and IT expenses. In addition, the parties agreed to have an audit performed by the Commission for Suburban's Parent Company 2010 post-restatement insurance costs and its subsequent allocation toward Suburban. For the purpose of settlement, the Parties agreed to use a figure halfway between the two estimates.

DRA	\$3,053
Suburban	\$6,330
Settlement	\$4,691

REFERENCES: Suburban Exh. 1, Ch. 5; SUB Exh. 9, Morey Direct, pp. 12-13.

b. Travel & Entertainment Expense

Suburban developed its estimate for this category by escalating base-year estimates for 2010 and 2011. DRA developed its estimate based on the reductions it had made in computer and IT expenses. For the purpose of settlement, the Parties agreed to use a figure halfway between the two estimates.

DRA	\$317,886
Suburban	\$333,026
Settlement	\$325,456

REFERENCES: Suburban Exh. 1, Ch. 5; SUB Exh. 9, Morey Direct, pp. 12-13.

IV. PLANT IN SERVICE

A. Routine Plant Improvements

1. Account 324 - Pump Replacements Various Locations

This account is for work required to replace failed and failing pumping equipment. DRA developed its estimate using a 5-year historical average. Suburban anticipates higher costs in this category due the increasing need to use energy efficient equipment. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate and then to use DRA’s estimates for 2012 and 2013.

	2011	2012	2013
DRA	\$202,251	\$202,251	\$202,251
Suburban	\$300,000	\$300,000	\$300,000
Settlement	\$300,000	\$202,251	\$202,251

REFERENCES: SUB Exh. 5, *Direct Testimony of Craig D. Gott, P.E.*, dated February 1, 2011 (“Gott Direct”), pp. 28, 86, 123; DRA Exh. 1, Ch. 5, Tables 5-13, 5-14, pp. 5-36 – 5-37; SUB Exh. 12, *Rebuttal Testimony of Craig D. Gott, P.E.*, dated July 1, 2011 (“Gott Rebuttal”), p. 66.

2. Account 332 QA Treatment Improvements

This account represents replacement and planned work for facilities that enable Suburban to meet drinking water quality standards. Suburban’s estimate anticipates increasing costs due to an increased operational demand for online monitoring and regulating chlorine residual and ammonia, and a growing population of treatment assets that require replacement. DRA developed its estimate using a 5-year historical average. During the settlement meeting, Suburban submitted a \$61,038 bid schedule as supporting documentation for the \$50,000 requested budget in 2012 to construct an ammonia injection building. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 to reflect work already

committed to and completed in the amount of Suburban’s 2011 estimate. Based on the bid schedule submitted during the meeting, the Parties agreed to \$75,000 for 2012 to reflect the \$50,000 to construct ammonia injection facilities at Plant 410 required to chloramine the water in order to meet the disinfection byproduct rule. For 2013, the Parties agreed on \$25,000, which includes an increase over the 5-year average to take into account increasingly more challenging water quality requirements.

	2011	2012	2013
DRA	\$21,710	\$21,710	\$21,710
Suburban	\$30,000	\$80,000	\$30,000
Settlement	\$30,000	\$75,000	\$25,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 29, 86, 124; DRA Exh. 1, Ch. 5, Tables 5-13, 5-14, pp. 5-36 – 5-37; SUB Exh. 12, Gott Rebuttal, pp. 66-67.

3. Account 343 Blow Off Replacements, Valve Replacements and Vault Replacements

This account is for replacement work on facilities that are all located in the public right of way. In its estimates, Suburban anticipated significant increases in repair costs due to paving moratoriums set by local agencies (city and county) on the many streets repaved, with funds provided from the federal government funded ARRA stimulus package. DRA developed its estimates using a 5-year historical average with the exception of valve replacements, where accepted Suburban’s estimate for 2011. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 for blow off replacements and vault replacements to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate. For 2012 and 2013, the Parties agreed to amounts that reflect increases over the historical average due to increased re-paving cost that result in higher costs to replace services.

Blow Off Replacements

	2011	2012	2013
DRA	\$26,351	\$26,351	\$26,351
Suburban	\$50,000	\$50,000	\$50,000
Settlement	\$50,000	\$40,000	\$40,000

Account 343 Valve Replacements

	2011	2012	2013
DRA	\$150,000	\$152,106	\$152,106
Suburban	\$150,000	\$155,000	\$215,000
Settlement	\$150,000	\$150,000	\$150,000

Account 343 Vault Replacements

	2011	2012	2013
DRA	\$35,469	\$35,469	\$35,469
Suburban	\$40,000	\$50,000	\$55,000
Settlement	\$40,000	\$40,000	\$40,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 30-31, 88-89, 126-127; DRA Exh. 1, Ch. 5, Tables 5-13, 5-14, pp. 5-36 – 5-37; SUB Exh. 12, Gott Rebuttal, p. 67.

4. Account 371 Plant Improvements

This account represents work on plant site facilities. Suburban based its estimate its experience with increased costs in most recent years due to its strategy to improve the reliability of its plants, and improve the safety of aging assets such as electrical switch and motor control centers. DRA developed its estimate using a 5-year historical average. For the purpose of settlement, the Parties agreed to use Suburban's estimate for 2011 to reflect work already committed to and completed in the amount of Suburban's 2011 estimate. For the purpose of

settlement, the Parties agreed to amounts for 2012 and 2013 that reflect an increase over the 5-year average to take into account the increased cost trend.

	2011	2012	2013
DRA	\$121,681	\$121,681	\$121,681
Suburban	\$200,000	\$200,000	\$200,000
Settlement	\$200,000	\$150,000	\$150,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 35-36, 94, 131-132; DRA Exh. 1, Ch. 5, Tables 5-13, 5-14, pp. 5-36 – 5-37; SUB Exh. 12, Gott Rebuttal, p. 68.

5. Account 345 Services Replacement Programs

Suburban estimated that it would need to replace 300 services per year based on the average number of services replaced in 2009 and 2010. Using Suburban’s 2011 estimate unit cost of \$2,167, and the 260 number of services derived from its 4 year historical average, DRA developed the \$563,420 budget estimates by multiplying the unit cost and service number. However, during settlement, DRA recognized a substantial expenditure increase in 2009 and 2010. Therefore, for the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate. For 2012 and 2013, the Parties agreed to reduction to use DRA’s estimates based on the last 3-year historical expenditure average for services replacement.

	2011	2012	2013
DRA	\$563,420	\$563,420	\$563,420
Suburban	\$650,000	\$800,000	\$815,000
Settlement	\$650,000	\$796,138	\$796,138

REFERENCES: SUB Exh. 5, Gott Direct, pp. 40-41, 99, 136-167; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-39; SUB Exh. 12, Gott Rebuttal, pp. 68-71, Attachment 18.

6. Account 346 Meter Replacements and Account 347 Meter Installations

Suburban developed its estimate by multiplying the number of meters that require replacement, by the meter and installation costs. The quantity of meters to be replaced each year is scheduled on an accepted 12 or 15 year schedule depending on the size of the meter. The schedule is determined from meter installation records. DRA used a 5-year historical average to develop its estimate. During the settlement and in rebuttal, Suburban explained that the quantity of meters to be replaced is determined from their meter installation records. Suburban provided documentation of the 2011, 2012, and 2013 numbers for meter replacement records and the cost estimate for the meter replacements and installations to support their request. Therefore, for the purpose of settlement, the Parties agreed to use Suburban’s estimate, corrected to reflect an error transferring the numbers from the worksheet to the testimony.

	2011	2012	2013
DRA	\$373,337	\$373,337	\$373,337
Suburban	\$580,000	\$580,000	\$585,000
Settlement	\$547,860	\$567,433	\$567,175

REFERENCES: SUB Exh. 5, Gott Direct, pp. 41-42, 100-101, 137-139; DRA Exh. 1, Table 5-13, pp. 5-36 – 5-37, 5-39 – 5-40; SUB Exh. 12, Gott Rebuttal, pp. 71-73, Attachments 18, 19, 20.

7. Account 343 Air Release Valve Replacements

This program involves identifying, inspecting, repairing and replacing existing air release valves through out the system. Suburban based its estimate on its experience with its 2009 pilot program in its La Mirada service area. DRA recommended disallowing the costs in this category based on the lack of historical expenditure for this program. During settlement and in rebuttal, Suburban submitted a work order depicting the actual cost of an air release replacement project. Therefore, for the purpose of settlement, the Parties agreed to use Suburban’s estimates for 2011 to reflect work already committed to and completed and to use a reduced budget amount until spending history can be established.

	2011	2012	2013
DRA	\$0	\$0	\$0
Suburban	\$20,000	\$20,000	\$20,000
Settlement	\$20,000	\$10,000	\$10,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 29-30, 87-88, 125-126; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-37, 5-40 – 5-41; SUB Exh. 12, Gott Rebuttal, pp. 74-75.

8. Account 371 Plant Paving Project

The purpose of this new program is to ensure that the asphalt cement pavement in Suburban’s system maintains its integrity and to extend the lifetime the pavement by applying a seal coat. In order to estimate the project costs Suburban measured the surface area of all of the Plant Facilities and using a vendor’s estimate calculated the cost to slurry seal each individual plant site. DRA recommended disallowing the costs in this category based on the lack of historical expenditure for this new program. During settlement and in rebuttal, Suburban submitted documentation such as quotes and a 5-year slurry seal application schedule for both the San Jose Hills and Whittier La Mirada districts. Therefore for the purpose of settlement, the Parties agreed to the Parties agreed to use Suburban’s estimate for 2011 to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate, and use a reduced budget amount until spending history can be established.

	2011	2012	2013
DRA	\$0	\$0	\$0
Suburban	\$42,000	\$42,000	\$42,000
Settlement	\$42,000	\$21,000	\$21,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 36-37, 94-97, 132-134; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-37, 5-41 – 5-42; SUB Exh. 12, Gott Rebuttal, p. 75, Attachment 21.

9. Account 371 Communication Equipment

This budget item is used to purchase new and replacement components for the System Control and Data Acquisition System (“SCADA”). Suburban based its cost estimates on previous expenditures and an increase in component costs as indicated by its vendors. DRA used a 5-year average to develop its estimate. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate. For 2012 and 2013, the Parties agreed to a figure that reflects the increase in the historical average due to expected higher costs.

	2011	2012	2013
DRA	\$31,384	\$31,384	\$31,384
Suburban	\$40,000	\$40,000	\$40,000
Settlement	\$40,000	\$35,000	\$35,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 44-45, 103-104, 141; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-37, 5-42 –5-43; SUB Exh. 12, Gott Rebuttal, pp. 75-76, Attachment 22.

10. Account 371 Security Upgrades

The Security Upgrade Program has been in place since 2004, and is a response to general security shortcomings identified in the vulnerability report prepared to meet EPA requirements. Suburban based its estimates on the projects identified in the report. DRA used a 5-year average for its estimate. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2011 to reflect work already committed to and completed in the amount of Suburban’s 2011 estimate and then to use DRA’s estimates for 2012 and 2013.

	2011	2012	2013
DRA	\$184,475	\$184,475	\$184,475
Suburban	\$200,000	\$220,000	\$185,000
Settlement	\$200,000	\$184,475	\$184,475

REFERENCES: SUB Exh. 5, Gott Direct, pp. 38-39, 97, 134-135; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-37, 5-43 – 5-44; SUB Exh. 12, Gott Rebuttal, p. 77, Attachment 23.

11. Account 378 Tools, Shop and Garage Equipment

In its Report, DRA accepted Suburban’s estimates for 2011 and 2012.

Suburban’s 2013 estimate reflected the need to replace equipment due to changes in CARB requirements. DRA based its estimate on the possibility of retrofitting the current equipment to meet the emission standard or purchasing a used equipment. During settlement and in rebuttal, Suburban explained that retrofitting or purchasing used equipment was not feasible. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for 2013.

	2011	2012	2013
DRA	\$20,000	\$20,000	\$32,901
Suburban	\$20,000	\$20,000	\$144,000
Settlement	\$20,000	\$20,000	\$144,000

REFERENCES: SUB Exh. 5, Gott Direct, pp. 45, 104, 141-142; DRA Exh. 1, Ch. 5, Table 5-13, pp. 5-36 – 5-37, 5-44 – 5-45; SUB Exh. 12, Gott Rebuttal, pp. 78-79, Attachment 24.

B. Major Plant Improvements – San Jose Hills

1. Construct New Reservoir at Plant 119

Suburban and DRA agree as to the need for this project. The only difference is DRA’s reduction due to the new bid information. In rebuttal and during settlement, Suburban explained that while some initial bids may be lower than estimated, it is equally likely that bids for other projects may be higher than initially estimated. In Settlement, Suburban provided supporting documentation that the updated bid provided to and used by DRA did not include necessary site improvements. For the purpose of settlement and to ensure completion of the project, the Parties agreed to use Suburban’s original estimate.

	2011
DRA	\$1,155,918
Suburban	\$1,448,000
Settlement	\$1,448,000

REFERENCES: SUB Exh. 20, Workpapers - Volume 3 of 4, Final Application, dated February 1, 2011 (“Workpapers Vol. 3), “Plant 119 Reservoir Replacement; CP-9” tab; SUB Exh. 5, Gott Rebuttal, pp. 5-7; DRA Exh. 1, Ch. 5, Tables 5-3 – 5-5, pp. 5-3 – 5-5; SUB Exh. 12, Gott Rebuttal, pp. 2, 6.

2. Re-coat 5MG Reservoir at Plant 129

Suburban and DRA agree as to the need for this project. The only difference is DRA’s reduction due to the new bid information. In rebuttal, Suburban noted that costs would likely be higher than estimated. Suburban explained that while some initial bids may be lower than estimated, it is equally likely that bids for other projects may be higher than initially estimated. During settlement, Suburban provided recent change order documentation showing additional work required to repair the reservoir roof requiring additional funds exceeding DRA’s estimate. Based on the need for budget flexibility and support for an increased budget for this project, DRA agreed to Suburban’s original estimate.

	2011
DRA	\$ 970,534
Suburban	\$1,037,000
Settlement	\$1,037,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ Paint and Recoat Steel Reservoir 2 at Plant 129 - CP 133” tab; SUB Exh. 5, Gott Direct, pp. 8-10; DRA Exh. 1, Ch. 5, Tables 5-3, 5-6, 5-7, pp. 5-6 – 5-7; SUB Exh. 12, Gott Rebuttal, pp. 6-7.

3. Hidden Valley 880 Zone Reliability Project

Suburban and DRA agree as to the need for this project. The only difference is DRA’s reduction due to the new bid information. In rebuttal and during settlement, Suburban explained that while some initial bids may be lower than estimated, it is equally likely that bids for other projects may be higher than initially estimated. Using the estimated figure provides flexibility. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

	2011
DRA	\$622,443
Suburban	\$708,000
Settlement	\$708,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ East 880 Zone System Reliability - Pipeline Replacement: CP-114” tab; SUB Exh. 5, Gott Direct, pp. 11-13; DRA Exh. 1, Ch. 5, Tables 5-3, 5-8, 5-9, pp. 5-3, 5-7 – 5-8; SUB Exh. 12, Gott Rebuttal, p. 7.

4. 690 Zone Reliability Project

In reviewing the reliability of the 690 Zone Suburban determined that there were both a long term and short term reliability improvements required. The three improvement portions submitted as part of the rate case application represent the short term reliability improvements that were identified as being urgent due to the significant potential for adverse service conditions for customers in the 690, 570 and 520 Zones. DRA recommended disallowance of this project on the grounds that a condition assessment has not been performed. Suburban explained that a condition assessment is not necessary for the short term reliability improvements. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

	2011
DRA	\$0
Suburban	\$104,000
Settlement	\$104,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “690 Zone Reliability Improvements; CP-123” tab; SUB Exh. 5, Gott Direct, pp. 16-22; DRA Exh. 1, Ch. 5, Table 5-3, pp. 5-3, 5-8 – 5-9; SUB Exh. 12, Gott Rebuttal, pp. 7-10, Attachments 2, 3.

5. Re-coat 7MG Reservoir at Plant 503

The paint coating system on the existing 7 MG Plant 503 reservoir has exceeded its useful life. Although DRA agrees with Suburban that the reservoir is due to be re-coated, it expresses concern regarding Suburban’s ability to complete the project as planned. Suburban explained that the conditions and events that had led to previous deferrals were unique and have been resolved. Based on Suburban’s assurance that past obstacles to completing the project have been resolved, DRA agrees that the project should be completed and to use Suburban’s estimate.

	2012
DRA	\$0
Suburban	\$1,338,000
Settlement	\$1,338,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Plant 503 - Paint and Recoat Reservoir; CP-6” tab; SUB Exh. 5, Gott Direct, pp. 49-50; DRA Exh. 1, Ch. 5, Table 5-3, pp. 5-3, 5-9 – 5-10; SUB Exh. 19, Gott Rebuttal, pp. 10-12, Attachment 1.

6. Puente Avenue Pipeline - Covina Knolls Zone Improvement

Suburban proposed to replace 1,710 L.F. of pipeline with 12” PVC pipe in Puente Avenue and between Glendora Avenue and Reeder Avenue in order to increase fire flow is to over 1,800 gpm in the east and south ends of the 830 Zone. DRA believes that this project is not necessary under GO 103-A. For the purpose of settlement, the Parties agreed that Suburban would defer its request for this project until 2014, which would put it in the next general rate case.

	2012
DRA	\$0

Suburban	\$368,000
Settlement	\$0

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ Install 12" PVC Pipe in Puente Ave. between Glendora Ave. and Reeder Ave. City of Covina (830 Zone); CP-32” tab; SUB Exh. 5, Gott Direct, pp. 67-68; DRA Exh. 1, Ch. 5, Table 5-3, pp. 5-3, 5-10 – 5-11; SUB Exh. 12, Gott Rebuttal, pp. 13-14.

7. Plant 501 – Rehabilitate MWD Vault and Valves

The existing concrete vault is 40 years old and has numerous design problems that make it difficult to use. In this project, Suburban proposed replacing the vault lid, valves, add electrical systems and improve drainage. Suburban based its estimate on its in-house engineering experience, rather than obtaining an outside estimate. DRA recommended that the project be disallowed for this reason. In rebuttal and in settlement discussions, Suburban explained that it would have been prohibitively expensive to obtain an outside estimate and explained the elements of its own estimate. For the purpose of settlement, the Parties agreed to move out the project one year and to use Suburban’s estimate of costs.

	2012	2013
DRA	\$0	
Suburban	\$366,000	
Settlement	\$0	\$366,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Plant 501 Vault Rehabilitation Project - CP-26” tab; SUB Exh. 5, Gott Direct, pp. 72-75; DRA Exh. 1, Ch. 5, Table 5-3, pp. 5-3, 5-12 – 5-14; SUB Exh. 12, Gott Rebuttal, pp. 14-18, Attachment 4.

8. Replace 12-inch Pipeline and Construct Tie-in with City of Covina (830 Zone Pipeline Replacement)

The purpose of this project is to ensure that customers located in the southern section of the 830 zone have a reliable source of water. The interconnection with the City of Covina will provide a critical second source of supply to this zone in the event that the pipeline is unavailable due to maintenance. DRA did not agree with the need for this project based on the leak history provided. In rebuttal and in settlement, Suburban explained the need for the project was not necessarily the number of leaks, but the risk profile based on in the pipeline’s construction, purpose, and location. For the purpose of settlement, the Parties agreed that only the initial portion of the work would be done in 2013 and the remainder of the project would be done in 2014, moving it to the next general rate case.

	2013
DRA	\$0
Suburban	\$895,000
Settlement	\$50,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ 830 Zone Reliability Project- CP182” tab; SUB Exh. 5, Gott Direct, pp. 115-119; DRA Exh. 1, Ch. 5, Table 5-3, pp. 5-3, 5-14 – 5-15; SUB Exh. 12, Gott Rebuttal, pp. 15-21, Attachment 5.

C. Major Plant Improvements – Whittier/La Mirada

1. La Mirada and Santa Gertrude – Install 500 L.F. of 12” PVC

Suburban and DRA agree that this project is necessary, but disagree on the size of the pipeline. Suburban proposed replacing the 2-inch steel pipe with 12-inch PVC pipe. DRA recommends that Suburban replace the 2-inch pipeline with pipeline of the same size, and reduced the estimate for this project accordingly. In rebuttal and in settlement, Suburban explained that the project was necessary to meet fire flow requirements and that it had already been completed. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

	2011
DRA	\$103,000
Suburban	\$128,000
Settlement	\$128,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “La Mirada & Santa Gertrudes - Pipeline Replacement: CP-122” tab; SUB Exh. 5, Gott Direct, pp. 13-15; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-17; SUB Exh. 12, Gott Rebuttal, pp. 22-25, Attachment 6.

2. Coyote Creek Crossing Artesia

This project involves constructing a second source of supply to be constructed across the Coyote Creek on constructed on Artesia Boulevard, south of an existing channel crossing. DRA disallowed the project based on the belief that it would add redundancy to a system that does not have a supply deficiency. In rebuttal and in settlement, Suburban explained that the proposed pipeline would eliminate the existing un-reliabilities and improve fire flow protection to all customers in the south portion of the zone. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

	2011
DRA	\$0
Suburban	\$285,000
Settlement	\$285,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Coyote Creek Crossing on Artesia Blvd; CP-159” tab; SUB Exh. 5, Gott Direct, pp. 23-26; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-17 – 5-18; SUB Exh. 12, Gott Rebuttal, pp. 25-28.

3. Extend I-5 Freeway Crossing Extensions - Extend 2 Crossings

The I-5 freeway divides the north and south portions of the 285 Zone. The south portion of the 285 Zone receives supply and fire protection from the north through two pipes that

were constructed beneath the freeway. These crossings need to be extended to accommodate the wider freeway. Although DRA and Suburban agree that the project is necessary, they disagree regarding the ratemaking treatment. DRA recommends advice letter treatment, and based its claim that CalTrans indicated a later start date. In rebuttal and in settlement, Suburban noted that it had received a Notice to Owner letter dated February 4, 2011 from Caltrans to Suburban indicating that the project was scheduled to commence in August 2011. For the purpose of settlement, the Parties agreed to use Suburban's estimate.

	2012
DRA	\$0
Suburban	\$352,000
Settlement	\$352,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, "Extend I-5 Freeway Crossing; CP-97" tab; SUB Exh. 5, Gott Direct, pp. 51-53; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-19 – 5-20; SUB Exh. 12, Gott Rebuttal, pp. 30-31, Attachment 8.

4. 620 Pressure Zone Fire Protection – Install Pipeline

This project involves construction of connecting pipeline to improve fire flow capacity. DRA disallowed this project because it did not believe it was necessary. For the purpose of settlement, Suburban agreed to defer this project to a future rate case.

	2012
DRA	\$0
Suburban	\$697,000
Settlement	\$0

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, "620 Pressure Zone Fire Protection; CP-33" tab; SUB Exh. 5, Gott Direct, pp. 54-57; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-20 – 5-21; SUB Exh. 12, Gott Rebuttal, pp. 31-32.

5. Acapulco from Calmada to Greening – Replace Pipeline

This project involves replacing the existing 4-inch cast iron and 8-inch asphalt cement pipelines due to mainline leaks. Suburban and DRA agree about the need to replace the pipeline, but disagree regarding the size of the replacements. For the purpose of settlement, Suburban agreed to use DRA’s estimate.

	2012
DRA	\$910,694
Suburban	\$1,084,000
Settlement	\$910,694

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Calmada Ave., Acapulco Dr. & Maryknoll Ave. Pipelines Replacement; CP-55” tab; SUB Exh. 5, Gott Direct, pp. 57-58; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-21 – 5-22; SUB Exh. 12, Gott Rebuttal, pp. 32-35, Attachment 9.

6. Valley View Grade Separation Pipeline Replacement

The City of Santa Fe Springs and the City of La Mirada are working with the Alameda Corridor Project Authority to construct a grade separation for the railroad crossing at the intersection of Stage Road and Valley View Boulevard. In order to construct the grade separation Suburban’s existing 8-inch pipe that traverses this intersection must be relocated. DRA recommended that this project be given advice letter treatment with a cap of \$335,000 due to alleged uncertainty. In rebuttal and in settlement, Suburban explained that it has been noticed, and received scheduling information from the construction manager indicating that the project will proceed as scheduled. For the purpose of settlement, the Parties agreed to use Suburban’s estimate.

	2012
DRA	\$0
Suburban	\$335,000
Settlement	\$335,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ Construct New 16-inch Pipeline in valley View- Phase 2:CP-4” tab; SUB Exh. 5, Gott Rebuttal, pp. 58-60; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-22 – 5-23; SUB Exh. 12, Gott Rebuttal, pp. 35-36, Attachments 10, 11.

7. Sorensen Pipeline Replacement

Suburban and DRA agree on the need to replace a pipeline, but not the size of the replacement. Suburban and DRA agree about the need to replace the pipeline, but disagree regarding the size of the replacements. For the purpose of settlement, Suburban agreed to use DRA’s estimate.

	2012
DRA	\$36,590
Suburban	\$46,000
Settlement	\$36,590

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ Sorensen Ave. Pipeline- Project Replacement; CP-154” tab; SUB Exh. 5, Gott Direct, pp. 60-62; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-23; SUB Exh. 12, Gott Rebuttal, pp. 36-38.

8. Calmada and Lambert Railroad Cross – Replace 8” Railroad Crossing

DRA and Suburban agreed regarding the need to provide a second source of supply to provide adequate reliability to the customers along Danbrook and Lambert and the tributary cul-de-sacs, provide water quality benefits by looping the long dead on Calmada that currently terminates north of Lambert, and improving fire flow.

Suburban’s two proposed projects are intended to serve more than 100 customers located between Crossing #1 and Crossing #2, which currently are being served by a single pipeline. Pipeline replacement through Crossing #1 will provide redundant supply for the customers and the new pipeline through Crossing #2 will provide improved fire flow. DRA

agrees with Crossing #2 but claims that Crossing #1 is unnecessary. For the purpose of settlement, Suburban agreed to use DRA's estimate.

	2012
DRA	\$70,741
Suburban	\$207,000
Settlement	\$70,741

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, "Calmada Railroad Crossings Replacements: CP-142" tab; SUB Exh. 5, Gott Direct, pp. 64-67; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-24; SUB Exh. 12, Gott Rebuttal, pp. 38-40, Attachments 12, 13.

9. Firebird Pipeline Replacement

DRA and Suburban agree that the project is necessary but disagree as to the size of the replacement pipeline. Suburban requests \$505,000 in 2012 to replace the existing 8-inch asphalt cement pipeline on Firebird Avenue between Greening Avenue and Reis Street and the existing 4-inch and 6-inch asphalt cement pipeline on Reis Street with 8 inch and 12 inch PVC pipes due to main leaks. DRA recommends that the replacements pipes be the same size as the originals. For the purpose of settlement, the Parties agreed to a reduction of Suburban's estimate, but with no reduction in Suburban's proposed scope of the project, including pipe sizing. Suburban will manage any cost overrun in the context of its overall construction program.

	2012
DRA	\$0
Suburban	\$505,000
Settlement	\$470,661

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, " Firebird Ave. & Reis St. Pipelines Replacement: CP-139" tab; SUB Exh. 5, Gott Direct, pp. 70-72; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-25; SUB Exh. 12, Gott Rebuttal, pp. 40-41.

10. Ahman, Rufus and Mystic – Replace Pipeline

Suburban requests \$750,000 in 2012 to replace this existing 4-inch and 8-inch cast iron pipelines with 8-inch and 12-inch PVC pipelines due to main leaks. While DRA does not oppose Suburban’s request to replace the pipelines, it disagrees with its request to upgrade the current pipeline sizes to the sizes being proposed. For the purpose of settlement, Suburban agreed to use DRA’s estimate.

	2012
DRA	\$686,273
Suburban	\$750,000
Settlement	\$686,273

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Ahman, Rufus & Mystic - Pipeline Replacement; CP-121” tab; SUB Exh. 5, Gott Direct, pp. 75-77; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-25 – 5-26; SUB Exh. 12, Gott Rebuttal, p. 41.

11. Milvern, Mollyknoll – Pipeline Replacement

Suburban requests \$575,000 in 2012 to replace an 8-inch asphalt cement distribution main on Milvern Drive in the 400 Zone due to main leaks. In general, DRA agrees with the need for this project, but it disagrees with the installation of 800 feet of 12-inch PVC pipeline on Leffingwell under a rail crossing. For the purpose of settlement, Suburban agreed to use DRA’s estimate.

	2012
DRA	\$339,478
Suburban	\$575,000
Settlement	\$339,478

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Milvern Dr. Pipeline Replacement; CP-161” tab; SUB Exh. 5, Gott Direct, pp. 77-78; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-26; SUB Exh. 12, Gott Rebuttal, pp. 41-43.

12. Drill Well in Central Basin (Drill test, production & equip Central Basin)

DRA agreed that construction of a production well in Central Basin will benefit customers but raised concerns that the plan to construct a production well is premature. In rebuttal and in settlement, Suburban explained that it already had two suitable locations that it owned where it felt confident that testing would identify a location that would yield a production well with acceptable water quality, and that once a location was identified, the decision to drill a new well can be made shortly thereafter. For the purpose of the settlement, the Parties agreed to drill two exploratory wells in 2012, a production well in 2013, and defer equipping the well until the next rate case; the estimate was adjusted accordingly.

	2012	2013
DRA	\$264,000	\$0
Suburban	\$2,168,000	\$1,050,000
Settlement	\$528,000	\$1,355,000

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “ Central Basin Production Capacity; CP-106” tab; SUB Exh. 5, Gott Direct, pp. 79-82; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-18 – 5-19; SUB Exh. 12, Gott Rebuttal, pp. 43-46.

13. Plant 224 Reservoir Replacement Project

The roof and concrete walls and floor of the Plant 216 reservoir have failed significantly reducing the reliability of the primary source of water. The reservoir needs to be demolished and replaced. Suburban has a limited opportunity to trade land with Cal Domestic that will enable the existing Plant 216 facility to remain in service while the new Plant 224 facility is constructed next door. The attached Letter of Intent (Attachment 1) sets forth the terms of the swap. Pursuant to Section 851 of the Public Utilities Code, Suburban will file an advice letter for approval of the swap. As set forth below, the proposed swap meets the criteria

for the Section 851 advice letter process set forth in Resolution ALJ-186 (August 2005) and amended by Resolution ALJ-202 (August 2007). To the extent that the Advice Letter reflects the exact terms and conditions stated in Attachment 1, DRA will not protest the Advice Letter.

1. The proposed swap will not require environmental review by the CPUC as a Lead Agency because it not a project under CEQA because the swap itself will not result in a direct physical change in the environment. For the reservoir project, the City of Los Angeles will conduct the permitting and review..

2. The proposed swap will not have an adverse effect on the public interest or on the ability of the utility to provide safe and reliable service to customers at reasonable rates. In fact, by allowing Suburban to go forward with its reservoir project, the proposed swap will assist the company in providing safe and reliable service to customers.

3. The net financial proceeds from the land swap will be nil to Suburban shareholders and to Suburban customers, after considering 1) the appraised values the of parcels exchanged, 2) a Cal Domestic payment to Suburban at closing to equalize the appraised values of the parcels exchanged, and 3) Suburban payments to Cal Domestic for temporary occupancy of the former Suburban parcel after closing but before actual conveyance to Cal Domestic.

4. The property does not have a fair market value in excess of \$5 million.

5. The proposed swap does not result in a sale of a building or buildings.

6. The proposed swap does not involve the sale of depreciable assets.

7. The value of easements and rights of way included in the proposed swap will be fully reflected in the appraisals of the respective parcels.

8. The proposed swap will not materially impact the ratebase of the utility. The proposed swap will not result in a significant physical or operational change in the facility other than in the normal course of business.

9. The proposed swap does not warrant a more comprehensive review that would be provided through a formal Section 851 application.

The existing pump station at Plant 216 and the pump station and fore bay reservoir at Plant 231 will also have to be relocated to the new property. A new discharge line for the 520 Zone pump station is required because the existing pipeline is located on private property and will be inaccessible from the new property. Two rectangular, above grade concrete reservoirs have been selected to maximize storage on the lot. Two reservoirs are required so there will be operational redundancy if one of the reservoirs needs to be taken offline for maintenance. Suburban included estimates for the costs for 2012 through 2015:

2012	\$6,368,548
2013	\$7,751,880
2014	\$2,020,104
2015	\$6,060,311

DRA disallowed the project because Suburban did not provide a cost-benefit analysis comparing reservoir replacement by constructing Plant 224 with repair of the existing reservoir. In rebuttal and in settlement, Suburban explained that repair simply was not feasible and that the scope is broad and cost high because this project represents solutions to a number of complex problems on a high capacity critical facility. For the purpose of settlement, the Parties agreed to use Suburban’s estimate for the costs in this rate case.

	2012	2013
DRA	\$0	\$0
Suburban	\$6,368,548	\$7,751,880
Settlement	\$6,368,548	\$7,751,880

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Replace Plant 216 & 231 with Planet 224; CP-39” tab; SUB Exh. 5, Gott Direct, pp. 82-85; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-27 – 5-31; SUB Exh. 12, Gott Rebuttal, pp. 46-58, Attachments 14-16.

14. Plant 408 Reservoir Replacement

The steel plates that form the reservoir walls and floor have corroded from the

backside that cannot be protected by cathodic protection, causing metal loss, pinhole and more significant leaks. These leaks significantly reduce the reliability of this critical facility, which promoted Suburban to propose that the reservoir be demolished and replaced. As with Plant 2224, DRA disallowed the project because Suburban did not provide a cost-benefit analysis comparing reservoir replacement by constructing Plant 408 with repair of the existing reservoir. For the purpose of settlement, the Parties agreed to delay this project until the next general rate case.

	2013
DRA	\$0
Suburban	\$4,276,197
Settlement	\$0

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Replace Plant 408 Reservoir #1 - CP-40” tab; SUB Exh. 5, Gott Direct, pp. 112-115; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-32 – 5-34; SUB Exh. 12, Gott Rebuttal, pp. 58-63, Attachment 17.

15. Ruthland, Lanett and Close Pipeline Replacement

The purpose of this project is to replace existing 8-, 6-, and 4-inch cement mains due to leaks. DRA and Suburban agreed on the need for the project but not on the size of the replacement pipes. For the purpose of settlement, the Parties agreed to DRA’s reduction of Suburban’s estimate.

	2013
DRA	\$898,769
Suburban	\$965,000
Settlement	\$898,769

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Ruthland Ave., Close St. & Lanett Ave. Pipelines Replacement: CP-140” tab; SUB Exh. 5, Gott Direct, pp. 119-121; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-34; SUB Exh. 12, Gott Rebuttal, p. 64.

16. Anola, Walhall and Racimo Pipeline Replacement

The purpose of this project is to replace existing 6- and 4-inch cement mains due to leaks. DRA and Suburban agreed on the need for the project but not on the size of the replacement pipes. Suburban recommends replacing the existing mains with 8- and 6-inch pipes, respectively. DRA recommends that the replacement pipe be the same size as the originals. For the purpose of settlement, the Parties agreed to DRA’s reduction of Suburban’s estimate.

	2013
DRA	\$890,570
Suburban	\$944,000
Settlement	\$890,570

REFERENCES: SUB Exh. 20, Workpapers Vol. 3, “Anola, Walthall, Du Page Ave. & Racimo Pipelines Replacement: CP-88” tab; SUB Exh. 5, Gott Rebuttal, pp. 121-123; DRA Exh. 1, Ch. 5, Table 5-11, pp. 5-16, 5-34 – 5-35; SUB Exh. 12, Gott Rebuttal, pp. 64-65.

V. TAXES

A. Ad Valorem Taxes

For 2011 and 2012 the Parties agreed to use Suburban’s estimate. For 2013, the Parties agreed to reduce the estimate due to the reduction in the estimate for capital projects.

	2011	2012	2013
DRA	\$1,087,000	\$1,099,000	\$1,112,900
Suburban	\$1,056,688	\$1,093,341	\$1,135,084
Settlement	\$1,056,688	\$1,093,194	\$1,123,777

REFERENCES: Suburban Exh. A, Ch. 9; DRA Exh. 1, p. 9-1 – 9-4.

B. New Tax Law

Pursuant to Resolution L-411A, ordering paragraph 16, Suburban has addressed the New Tax Law in this 2012 test year general rate case. This was not a disputed issue. Suburban took the New Tax Law into consideration in developing its revenue requirement and in reducing rates from what they would have been otherwise.

REFERENCES: *See* Application, Exhibit A, Table 9-3, Lines 7, 8 and 9, for Estimated Year 2011 and Test Year 2012.

C. Payroll Taxes

The Parties agreed to an adjusted amount for payroll taxes that reflects their agreement on payroll, as well as the agreement to exclude the taxes associated with the following positions (even though the positions themselves will be in payroll): Communication Manager, Communication Assistant, Water Production Manager, Engineering Technician Inspection I, Engineering Technician Inspection III, Mechanical Maintenance Manager, GIS Development Coordinator, and Asset Management Engineer.

DRA	\$531,700
Suburban	\$677,686
Settlement	\$601,523

REFERENCES: Suburban Exh. A, Ch. 9; DRA Exh. 1, pp. 9-1 – 9-4.

D. Bonus Depreciation

The Parties have commensurately reduced bonus depreciation in the Test Year as a result of reduced projected capital spending.

REFERENCES: Suburban Exh. A, Ch. 9; DRA Exh. 1, pp. 9-1 – 9-4.

VI. SPECIAL REQUESTS

A. Service Area Map Update

With its workpapers to the application, Suburban included updated service area maps that show service area additions and deletions that have occurred over the years. The

parties agree that the Suburban's tariff maps should accurately reflect the area it serves.

REFERENCES: SUB Exh. 19, Workpapers - Volume 2 of 4, Final Application, dated February 1, 2011, pp. 344-347; DRA Exh. 1, p. 10-1.

B. Low Income Ratepayer Assistance ("LIRA")

The Commission approved Suburban's LIRA program in D.08-02-036.

Participation has been lower than expected. In its Report, DRA recommended that the 15% participation rate that is currently used to assess the surcharge be adjusted based on the historic average of the last two years, 2009 and 2010 and that Suburban should use 5.15% as the participation rate for this rate case cycle. Suburban agreed to this proposal in its rebuttal testimony. DRA also recommended that within 30 days after the Commission adopts a decision in this GRC, Suburban should file an Advice Letter to refund the existing over-collection balance in the LIRA memo account to the ratepayers in a form of a sur-credit. Suburban disagreed with this recommendation because it differed from the Commission's policy on balancing accounts. For the purpose of settlement, however, Suburban agreed to accept DRA's recommendation.

REFERENCES: Suburban Exh. A, Ch. 12, pp. 12-4 – 12-5; DRA Exh. 1, Ch. 10, pp. 10-1 – 10-2; SUB Exh. 14, Kelly Rebuttal, pp. 23-23.

C. Recycled Water Balancing Account

Suburban requested approval of a balancing account for recycled water that would function as an incremental balancing account similar to the current purchased water balancing account. The recycled water balancing account would track the variances from the adopted price level of recycled water. DRA objected to this request on the grounds that the Commission was addressing similar issues in the current recycled water rulemaking (R.10-11-014). In rebuttal and in settlement Suburban explained that other water utilities have similar balancing accounts, that the rulemaking did not appear to be addressing this issue. For the purpose of settlement, DRA agreed to Suburban's request.

REFERENCES: Suburban Application, pp. 10-11; Suburban Exh. A, p. 4-3; DRA Exh. 1, Ch. 10, pp. 10-2 – 10-4; SUB Exh. 12, Gott Rebuttal, pp. 23-24.

D. Amortization of Cost of Capital Litigation Memorandum Account

Suburban requested recovery of \$62,494 in incremental legal expenses booked to the cost of capital memorandum account. DRA's original recommendation was to disallow Suburban's request for outside legal expense, which were already included in 2009 cost of capital proceeding. As part of settlement, Suburban explained that these costs were truly incremental because the outside legal expense adopted in the prior general rate case did not include the costs for that proceeding. The parties agree to \$62,494 for regulatory expense for the 2009 Cost of Capital Case and that Suburban should be allowed to recover it as requested.

DRA	\$0
Suburban	\$62,494
Settlement	\$62,494

REFERENCES: Suburban Application, pp. 9-10; SUB Exh. 19, Workpapers Vol. 2, pp. 88-133; DRA Exh. 1, Ch. 10, pp. 10-4 – 10-6; SUB Exh. 11, Carlson Rebuttal, pp. 28-26; SUB Exh. 14, Kelly Rebuttal, pp. 25-26.

E. Federal Health and Dental Care Bill Memorandum Account

Suburban requested a memorandum account to track the difference between forecasted medical expenses and actual expenses due to uncertainty related to the March 2010 National Healthcare Bill. DRA objected to this request, stating that it did not meet the Commission's four-pronged test for memorandum accounts. For the purpose of settlement, Suburban agreed to withdraw its request.

REFERENCES: Suburban Application, p. 11; DRA Exh. 1, pp. 10-6 – 10-8; SUB Exh. 14, Kelly Rebuttal, pp. 26-28.

DIVISION OF RATEPAYER ADVOCATES

SUBURBAN WATER SYSTEMS

By: _____
Joseph P. Como
Acting Director

By: _____
Robert Kelly, Vice President –
Regulatory Affairs

Dated: August 31, 2011

Dated: August 31, 2011

Attachment 1

Letter of Intent

(End of Appendix A)