

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

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³³ Response to Data Request JM2-005 Q3