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REGULATORY AUDIT OF 2006 AND 2007 GENERAL OFFICE EXPENSE AND TEST YEAR 2009 REVENUE REQUIREMENT OF CALIFORNIA AMERICAN WATER COMPANY

Prepared for the

CALIFORNIA PUBLIC UTILITIES COMMISSION
DIVISION OF RATEPAYER ADVOCATES

by

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Executive Summary

This report contains the findings of a regulatory audit by Overland Consulting (Overland) of California American Water Company's (CalAm's) 2009 forecasted test year General Office (GO) revenue requirement. CalAm is a subsidiary of American Water Works Company (American Water or AW). In addition to the test year revenue requirement, we also reviewed the allocation of common regulated and non-regulated costs from American Water's service companies to CalAm and CalAm's relationships with affiliated companies.

This report contains the following chapters:

1. Summary of CalAm's General Office Rate Filing and 2009 Test Year Revenue Requirement - Summarizes Overland's review of CalAm's GO expenses for 2006 and 2007, CalAm's test year 2009 rate filing and the test year revenue requirement.

2. Adjustments to CalAm's General Office Revenue Requirement - Summarizes Overland's recommended adjustments to CalAm's test year operations & maintenance expense.

3. National Service Company Allocations to CalAm - Summarizes, for each NSC rate filing category except customer service, the basis for CalAm's historical and test year NSC expenses and allocations, Overland's analysis, and Overland's test year recommendations. Recommendations relating to test year expense mirror those discussed in Chapter 2.

4. NSC Customer Service Center - Discusses customer service expense incurred by AW's two national call centers, growth in expenses charged to CalAm, CSC allocations to CalAm and CSC services provided under non-regulated contracts with municipalities. Includes related recommendations for test year expense, mirrored in Chapter 2.

5. Local Service Company and California Corporate Allocations to CalAm - Summarizes, for the LSC and Cal Corp, the basis for CalAm's historical and test year expenses, allocations to CalAm and Overland's analysis of LSC and Cal Corp.

6. RWE Acquisition and Spin-Off of Interest and Analysis of Synergy Savings from Citizens Acquisition - Addresses certain matters associated with Commission-imposed requirements from previous proceedings; namely:
   - Conditions imposed in D.02-12-068, authorizing the transfer of control of American Water to RWE.
   - Conditions imposed in D.07-05-031, authorizing the American Water IPO.
   - Conditions required by D.01-09-057, allowing recovery of an acquisition premium associated with the purchase of Citizens Utilities water assets in California.

   Chapter 6 also addresses ongoing requirements imposed by the Commission associated with: the CalAm acquisition of water assets previously owned by Citizens Utilities; specifically the analysis of synergy benefits imputed due to the operation of these properties by CalAm in relation to the acquisition premium allowed in rates to date.

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Finally, potential implications of the recent sale of the Felton assets on the amount of acquisition premium recoverable from CalAm customers is addressed.

7. Rate Case Expense - Discusses CalAm's requested rate case expense associated with the current GRC cycle. Rate case expense is not part of the GO test year revenue requirement discussed above. DRA, rather than Overland, is making a recommendation concerning rate case expense recovery.

8. District Allocations of the General Office Revenue Requirement - Discusses Overland's recommended customer-based method and CalAm's proposed "four-factor" method for allocating the GO revenue requirement to California districts.

Summary of the General Office Revenue Requirement

The following table compares previously authorized, requested (by CalAm) and recommended (by Overland) test year GO revenue requirements. The components of this table are discussed in Chapter 1. The test year revenue requirement "per CalAm" calculation is based on our analysis of the rate filing. It does not appear, per se, in the rate filing.

Table ES-1
California American Water
Comparison of Previously-Authorized Company-Requested and Overland-Recommended
General Office Test Year Revenue Requirements

Components of CalAm's General Office Revenue Requirement	Last Authorized (2006 Test Year)	Test Year 2009			
		Per CalAm		Per Overland (DRA)	
		Amount	Change from Authorized	Amount	Change from Authorized
O&M Expense Revenue Requirement	11,298,350	16,858,609	5,560,259	13,226,419	1,928,069
Rate Base Rev. Req. (1)	823,405	140,066	(683,339)	140,066	(683,339)
CalAm General Office Revenue Req.	12,121,755	16,998,675	4,876,920	13,366,485	1,244,730
Percentage Increase		-	40.23%	-	10.27%

Sources: CalAm numbers: Rate Filing Exhibit B, Ch. 1, Sec.3, Table 1 ; Overland numbers: Report Table 1-2 (Rate Base); Table 2-1 (Operating Expense).
(1) Last Authorized rate base rev. reqmt. is calculated using data provided by CalAm in Rate Filing Exh.B, Ch.1, Sec.3, Table 1. Overland does not have high confidence in this amount, but it is the only amount available. It does not appear to include either the C tizens acquis tion premium or the RWE merger synergy savings (for which approved amounts are shown in D.06-11-050, Att. 3)

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CalAm's and Overland's 2009 test year GO revenue requirements, as allocated to the district level, are shown below.[1] The components of this table are discussed in Chapter 8.

Table ES-2
California American Water
Test Year 2009 General Office Revenue Requirement Allocation to District Operations
Rate Base and O&M Expense

	Per CalAm		Per Overland		Overland Adjustment to CalAm
CalAm District	4 Factor Pcts	Amount	Customer Pcts	Amount	
Coronado	10.80%	1,835,857	12.22%	1,633,384	(202,472)
Los Angeles	13.54%	2,301,621	16.30%	2,178,737	(122,884)
Village	13.39%	2,276,123	12.35%	1,650,761	(625,362)
Monterey Water	31.81%	5,407,279	23.55%	3,147,807	(2,259,471)
Monterey Wastewater	2.28%	387,570	1.32%	176,438	(211,132)
Felton	1.54%	261,780	0.00%	-	(261,780)
Sacramento	24.75%	4,207,172	32.88%	4,394,900	187,728
Larkfield	1.89%	321,275	1.38%	184,457	(136,817)
Totals	**100.00%**	**16,998,675**	**100.00%**	**13,366,485**	**(3,632,190)**

Sources: Per CalAm: 4 Factor Pcts - CalAm Workpaper GO-100; Cal-Am Total Rev Req Amount - Table ES-1. Per Overland: Customer Allocation Factors - Table 8-1, Total 2008 & 2009 Revenue Requirements - Table ES-1; District-Allocated Amounts (Per CalAm and Per Overland) - Calculated from totals and factors.

<u>Recommended Adjustments to CalAm's General Office Revenue Requirement (Chapter 2)</u>

1. <u>Adjustment to Annualize Labor to Reflect Actual Budget Year Staffing</u> - Overland recommends limiting recovery of test year GO labor expense to compensation for employees on service company payrolls as of May 31, 2008. This reduces test year expense allocated to CalAm by $338,591 in 2008 and $380,171 in test year 2009 (Chapter 2, page 2).

2. <u>Reduce Budgeted Employee Incentive Compensation</u> - Overland recommends that GO incentive compensation be limited to amounts paid for 2007, adjusted for salary inflation, and limited to employees in salary bands for which CalAm provided requested incentive plan documents. This reduces GO expense allocated to CalAm by $589,158 in 2008 and $598,546 in test year 2009 (Chapter 2, page 4).

[1] As far as Overland can determine, CalAm's rate filing supports a 2009 GO revenue requirement calculation of $16,998,675 before district allocation, a Monterey-Toro-Chualar-Ambler Park-Ralph Lane allocated water revenue requirement of $5,407,279 and a Monterey wastewater revenue requirement of $387,570. This is calculated from Proposed Total GO O&M of $16,858,609 and Proposed Rate Base of $1,026,026 as shown in Rate Filing Exh.B, Ch.1, Sec.1,Table 1 (and also Ch.4, Sec.1, Table 1 for the O&M). A complete GO revenue requirement calculation does not appear anywhere in the rate filing. We cannot account for an apparently contradictory 2009 revenue requirement calculation of $15,677,624 on CalAm Workpaper GO-100, or the associated Monterey allocation (including smaller districts noted above) of $4,987,647, because it does not agree with the amount in the rate filing schedules in Exh.B, Chapters 1 and 4, and it is not referenced to anything.

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3. Remove Business Development Expense - Overland recommends no ratepayer funding of expenses allocated from NSC and LSC business development functions. This recommendation reduces GO expense allocated to CalAm by $371,469 in budget year 2008 and $383,185 in test year 2009 (Chapter 2, page 7).

4. Remove NSC Corporate Contributions Expense - Overland recommends removing charitable contribution and related expense allocated to CalAm by the NSC. This recommendation reduces GO expense allocated to CalAm by $20,623 in budget year 2008 and $20,623 in test year 2009 (Chapter 2, page 8).

5. Remove Legislative and Political Influence Expense - We recommend removing expenses incurred to influence legislation from CalAm's test year revenue requirement GO expense. Our recommended adjustment reduces GO expense allocated to CalAm by $211,004 in budget year 2008 and by $218,213 in the 2009 test year. (Chapter 2, page 9)

6. Remove Unsupported "NSC Functions" Expense - Overland recommends removing expenses in the"NSC Functions" rate filing category that do not meet regulatory standards required for ratepayer recovery. This recommendation reduces GO expense allocated to CalAm by $545,959 in budget year 2008 and $82,520 in test year 2009 (Chapter 2, page 10)

7. Correct NSC Income Tax Expense and Interest Income - We recommend adjustments to NSC-allocated income tax and interest income. The adjustments increase CalAm's GO expense by $38,195 in budget year 2008 and $38,195 in the 2009 test year (Chapter 2, page 11).

8. Remove NSC Sales and Marketing Expense - We recommend removing marketing and sales expenses incurred and allocated to CalAm from the NSC. This adjustment reduces CalAm's GO expense by $72,056 in budget year 2008 and in the 2009 test year. (Chapter 2, page 12)

9. Limit Customer Service Center (CSC) Expense to 2003 Expense Plus Inflation - We recommend limiting CalAm's CSC expense to $1,971,507 based on per-customer expense incurred in 2003, adjusted upward by for inflation. This reduces CalAm's GO expense by $831,111 in budget year 2008 and in the 2009 test year (Chapter 2, page 12).

10. Remove Unnecessary Payroll Reserve - Overland recommends an adjustment to remove a CalAm-allocated LSC payroll reserve for "bonus or promotional increase[s]." 2009 LSC expense allocated to CalAm already includes pay and benefit increases ranging from 3 to 5%, as well as incentive compensation. This reduces CalAm's GO expense by $30,050 in budget year 2008 and by $30,801 in the 2009 test year (Chapter 2, page 13).

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11. Correct Omission of Operating Risk Department Salaries - Overland recommends an adjustment to correct this error by adding back the expense. This adjustment increases CalAm's GO expense by $83,036 in test year 2009. The adjustment does not change budget year 2008 expense (Chapter 2, page 13).

12. Reverse Allocation Impact of Re-Branding LSC Employees as California-Only - Overland recommends that 12 of 17 employees reclassified in 2006 and 2007 from the LSC organization to the Cal Corp organization be allocated to the states served by the LSC as they were before they we re-branded as Cal Corp employees. This reduces CalAm's GO expense by $321,011 in budget year 2008 and by $334,197 the 2009 test year (Chapter 2, page 13).

13. Remove Cal Corp Labor Separately Requested in Rate Case Expense - CalAm has requested recovery of more than 100% of the labor costs of four Cal Corp employees in its filing. Overland recommends adjusting labor costs to correct this error. This adjustment reduces GO expense allocated to CalAm by $33,236 in budget year 2008 and $34,664 in the 2009 test year. (Chapter 2, page 14)

14. Correct Allocations to CalAm - Overland recommends adjustments to CalAm's proposed test year NSC and LSC allocation factors to properly reflect an allocation of test year NSC expenses to regulated and non-regulated segments and among the regulated utilities. The adjustments reduce CalAm's allocated GO expense by $765,157 in budget year 2008 and $767,334 in 2009 (Chapter 2, page 15).

Recommended Basis for District-Level GO Revenue Requirement Allocations (Chapter 8)

1. District Allocation - For ratemaking purposes, all national service company expenses and a majority of regional service company expense are allocated to the State of California jurisdictional level based on customers. We recommend the Commission require CalAm to use the same customer-based method for further allocation to the district level (Chapter 8, page 2).

Summary of Other Recommendations

1. Rate Filing and Workpaper Support - In future rate filings Overland recommends that the Commission require CalAm to organize rate filing and workpaper support in a hierarchical fashion, with summarized rate filing information rolling up from more detailed workpaper support, and with all workpapers and rate filing schedules properly numbered and referenced (Chapter 1, page 8).

2. Rate Base and Overall Revenue Requirement Calculations - We recommend for future rate filings that the Commission require CalAm to provide a calculation of its rate base, rate base revenue requirement and overall GO revenue requirement. (Chapter 1, page 9).

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3. Support for Expenses Allocated from the National and Local Service Companies - We recommend for future rate filings that the Commission require CalAm to provide supporting documentation in the filing for expenses allocated from both the National and Local Service Companies. (Chapter 1, page 9).

4. An Affidavit or a Statement in Testimony Confirming That Commission Requirements Have Been Met - To the extent the Commission adopts the recommendations above, we further recommend that the Commission require CalAm to include an affidavit in the rate filing or a statement by the appropriate witness that the specific rate filing support recommendations required by the Commission have been met (Chapter 1, page 9).

5. DRA Access to Non-Regulated and Affiliate Transactions Data - To the extent that it is not clear that DRA already has the right to review the financial and operating data of CalAm's affiliates, we recommend the Commission specifically require CalAm to make such information available in future rate and other proceedings in which affiliate transactions, cost allocations and related possible cross-subsidization are potential subjects or issues (Chapter 1, page 10).

6. Support for Cost Allocations to Non-Regulated Customer Services - With respect to non-regulated services provided by the Customer Service Center, to prevent CalAm from cross-subsidizing CSC services provided to non-regulated municipal customers, Overland recommends that the Commission require CalAm to credit all revenue from non-regulated CSC revenue sources against CSC management fees before the fees are distributed to CalAm (Chapter 4, page 10).

7. Conditions Relating to the Spinoff From RWE - CalAm has represented that its customers will benefit from the spin-off from RWE. However, given the substantial pressure imposed by a capital program that exceeds cash flows available from operations, and the significant goodwill that remains on the company's books, it appears evident that the recent downgradings by S&P and Moody's indicate an erosion in financial position; not an enhancement. Regulated utilities, in the face of such conditions, generally attempt to either raise customer rates, cut costs, or both. Overland assumes that, in imposing conditions reflected in previous decisions, the Commission did so as a basis to: evaluate the delivery of benefits represented by CalAm; and to assess and safeguard against potential harm to ratepayers. As such, the Commission may wish to consider the conditions described in Chapter 6, in the Findings and Conclusions section of the Transfer of Control discussion (Chapter 6, page 10).

8. Gain from the Sale of Felton - With regard to the gain from the sale of the Felton properties, we believe that the facts and circumstances associated with this transaction, in light of the acquisition premium in current CalAm rates that are potentially attributable to these properties, now warrants further Commission scrutiny. We believe that the gain on

these properties may be in the range of $5-6 million.[2] It is clear that the Commission reserves the right of review for the disposition of utility property; particularly in case-specific circumstances where its general policy may not apply. Given our previous discussion on this subject, it may be appropriate to reduce the current acquisition premium by the gain realized in the Felton transaction. However, without more detailed information, we cannot make any final recommendations at this time (Chapter 6, page 20).

[2] The Company has refused to produce specific information that would provide details regarding to actual gain on the Felton transaction. General market indicators support a market-to-book ratio of about 2x. However, actual transaction data may vary materially from this general assumption.

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2. Adjustments to CalAm's General Office Revenue Requirement

This chapter summarizes Overland's adjustments to California American Water Company's (CalAm's) General Office (GO) operating expense revenue requirement. Overland's recommended adjustments affect: 1) GO O&M expense incurred by the service companies; 2) allocations of GO O&M expense to CalAm; and 3) allocations of CalAm's GO O&M to CalAm's districts. Overland is not recommending adjustments to CalAm's proposed test year rate base or rate base revenue requirement. This chapter addresses adjustments at the CalAm level. Allocations of CalAm's revenue requirement to CalAm's California districts is discussed in Chapter 8.

Overland's Recommended Adjustments to Test Year as Filed by CalAm

The table below summarizes CalAm's GO operations and maintenance (O&M) expense, as filed by CalAm for the 2008 and 2009 forecast years. It also shows Overland's recommended O&M adjustments and test year GO O&M as recommended by Overland.

Table 2-1
California American General Office Operating Expense Revenue Requirement
Summary of Adjustments to Test Year - Total California (All Districts)

Adj. No.	Item	2008	2009
	GO Operating Expense, Per CalAm, As Filed	**17,060,572**	**16,858,609**
	Overland Recommended Adjustments:		
1	Annualize Labor Expense Based on May 31, 2008 Actual Staff Levels	(338,591)	(380,171)
2	Reduce Incentive Compensation to 2007 Actual Award Levels	(589,158)	(598,546)
3	Remove Business Development Expense	(371,469)	(383,185)
4	Remove Corporate Contributions	(20,623)	(20,623)
5	Remove Legislative Influence Expense	(211,004)	(218,213)
6	Remove Unsupported "NSC Functions" Expense	(545,959)	(82,520)
7	Correct Non-Deparmental Interest Income and Income Tax	38,195	38,195
8	Remove Sales and Marketing Expense	(72,056)	(72,056)
9	Limit Customer Service Center Expense to 2003 Expense per CalAm Customer (Before National Call Centers) Plus Price Inflation	(831,111)	(831,111)
10	Remove Unnecessary Payroll Reserve	(30,050)	(30,801)
11	Correct Omission of Operating Risk Dept Salaries	-	83,036
12	Reverse Allocation Effect of Re-branding LSC Employees as CalCorp	(321,011)	(334,197)
13	Remove CalCorp Labor Separately Requested as Rate Case Expense	(33,236)	(34,664)
14	Correct Service Company Allocations to CalAm	(765,157)	(767,334)
	Total Adjustments Recommended by Overland	**(4,091,231)**	**(3,632,190)**
	GO Operating Expense, As Recommended by Overland	**12,969,341**	**13,226,419**

Source: Attachment 2-1

Attachment 2-1 provides additional detail for the adjustments listed above. NSC 2009 test year expenses, as calculated by CalAm for the rate filing, are based on the NSC's 2008 budget. The salary component of labor expense, and labor costs tied to salaries (e.g. payroll taxes) are budgeted for 2008 based on 2007 salaries plus across-the-board salary inflation of 4%. Overland did not adjust these basic assumptions made by CalAm about test year NSC expense.

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Chapter 2

1. Adjustment to Annualize Labor to Reflect Actual Budget Year Staffing - Labor expense accounts for more than two-thirds of CalAm's GO revenue requirement request. Overland recommends test year labor expense for General Office employees based on actual employees on the payroll as of May 31, 2008. We believe actual staffing at a point nearly mid-way through the 2008 budget year is a better indicator of the test year labor expense AW is likely to incur than expense based on a budget prepared in the fall of 2007.

Calculating test year labor expense using actual 2008 staffing reduces CalAm's requested test year GO expense, using CalAm-requested allocation factors, by $338,591 in 2008 and by $380,171 in 2009. The individual components of the adjustment are as follows:

- NSC - The adjustment reduces total NSC expense by $1,989,537 and reduces regulated expense allocated to CalAm (using CalAm-requested factors) by $69,934 in 2008 and 2009. These amounts exclude an adjustment to Customer Service Center (CSC) labor expense, which would need to be added if the Commission rejects our recommended adjustment to CSC expense, discussed below.[1]

- LSC and Cal Corp - The adjustment reduces total LSC and Cal Corp expense by $296,949 in 2008 and $340,253 in 2009. It reduces CalAm-allocated expense by $268,657 (2008) and $310,237 (2009). LSC allocations to CalAm include the impact that Overland's calculated labor expense would have on non-labor calculated allocators.

The Basis for Overland's Recommended Labor Expense - Overland conducted an analysis comparing staffing in the budget to actual staffing as of May 31, 2008. The table below summarizes this analysis.

[1] Overstated budget labor expense associated with the Customer Service Center (CSC) is $2,161,256 (total NSC) / $117,140 (CalAm-allocated using CalAm's factor) for both 2008 and 2009. As discussed below, we recommend test year CSC expense be limited to 2003 expense recorded by CalAm (2003 was prior to the implementation of national call centers), adjusted for inflation between 2003 and the test year. If the Commission rejects the recommendation to limit CalAm CSC expense, but accepts our test year labor expense calculation, the NSC component of the test year labor adjustment would need to be revised to $4,150,793 (total NSC) / $208,065 (CalAm-allocated). The revision is necessary to account for the overstated labor expense associated with the CSC in the test year labor expense calculation.

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Chapter 2

Table 2-2 American Water Service Company Budgeted vs. Actual Headcount, May, 2008		
	May 31, '08 Headcount	
Rate Filing Category	Budgeted	Actual
NSC Belleville Lab	36	30
NSC Customer Service	750	697
NSC Finance	59	57
NSC Human Resources	36	30
NSC Info Technology	185	165
"NSC Functions"	51	48
NSC Operations / Netwk	69	67
NSC Shared Services	202	179
NSC Supply Chain	37	38
Total NSC	1,425	1,311
Total LSC	57	54
Total Cal Corp	51	40
Total Service Co. Staff Allocable to CalAm	**1,533**	**1,405**
Source: OC-91 and OC-92		

Service company employee levels have increased steadily in the past few years. For example, the NSC had 1,111 employees at the beginning of 2006.[2] AW's budget predicts a mid-year, 2008 NSC employee level of 1,425, 28% more than at the beginning of 2006, and 9% higher than actual end-of-May, 2008 staff levels. Meanwhile, CalAm's regulated customers, on which allocation of NSC expense to CalAm is based, have increased only 2% over the past five years.[3] The forecasted increase in staffing, without a commensurate increase in customers, shows that CalAm is projecting that GO services provided to California will continue to become *less* efficient in the test year, continuing (and perhaps accelerating) a trend that has been in place for the past several years.

<u>Overland's Calculation of Test Year General Office Labor Expense</u> - Overland's calculation of NSC labor expense is based on the salaries, benefits and payroll taxes for *actual* employees as of May 31, 2008. 2008 budgeted salaries are based on 2007 salary levels plus a 4% across-the-board increase. Overland's recommended labor expense calculation also incorporates AW's budgeted salary increase. AW's NSC labor expense calculation includes an allowance for vacancies. The vacancy allowance is a fraction of the difference between actual and budgeted labor expense as of May 31, 2008. Overland's labor expense adjustment reverses AW's vacancy allowances to avoid double-counting the related expense reduction AW recognized in its 2008 budget.

[2] Analysis of data provided in response to OC-92.

[3] 171,444 (12/31/2007 customers per OC-90) / 167,834 (2003 customers per Rate Filing Exh.B, Ch.9, Sec.1, Tbl. 6) = 1.0215.

Our recommended test year labor expense for the LSC and Cal Corp is also based on the actual employees in each of these organizations as of May 31, 2008. Since the company budgeted labor costs at an employee level, projected positions that were vacant were deducted from CalAm's request - 8 from the LSC and 12 from Cal Corp.[4] Cal Corp had 7 employees in its organization in May 2008 that were not specifically included in its request.[5] For these 7 employees, Overland increased the company's request by using actual 2008 annualized salary and benefits along with jurisdictional and operating expense/capital expenditure allocations. Overland assumed a 4% annual increase in labor expense for 2009 for these additional employees, the middle of the 3% to 5% range budgeted by AW for LSC and Cal Corp employees. Finally, the LSC's projected non-labor allocations are a function of cumulative labor cost allocations. Overland recalculated these non-labor allocations based on the LSC organization as it existed in May 2008.[6]

<u>2. Reduce Budgeted Employee Incentive Compensation</u> - CalAm's requested test year incentive compensation appears to be based on the following assumptions: 1) that all budgeted positions at management levels eligible for incentive compensation will receive it; and 2) that eligible positions will receive 100% of their incentive awards using a budget assumption that 100% of the plan (corporate and regional) income targets are achieved.[7] Overland questions both of these assumptions. Overland recommends that GO incentive compensation be limited to amounts actually paid for 2007, adjusted for salary inflation, and limited to employees in salary bands for which CalAm provided requested incentive plan documents.[8] This amount is significantly lower than CalAm's test year-request incentive compensation, which is based on budgeted GO incentive compensation of $7.2 million for the NSC (2008 and 2009), $0.8 million for the LSC (2008 and 2009) and $0.5 million for Cal Corp (2008 and 2009) (before allocation to CalAm).

Using CalAm's allocation factors, Overland's recommended incentive compensation adjustment reduces CalAm's NSC-allocated expense by $328,033 in 2008 and in 2009. Our recommended

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[4] Two Business Development positions in the LSC that were vacant as of May 2008 were excluded from this adjustment as they were captured in Overland's recommendation to disallow the costs of this entire function.

[5] Cal Corp had one employee in May 2008 that was not included in CalAm's request (see response to OC-166). Because this employee had been captured in the LSC organization for GO rate filing purposes, Overland elected not to remove the costs of this employee from the LSC and to add back the costs to Cal Corp.

[6] Even though the LSC was effectively reduced by 1 net position (8 vacancies LESS 7 new positions), Overland's recalculation of CalAm's allocation resulted in an increase to the company's request. This is due to the nature of the positions adjusted (vacant positions had on average smaller allocations to CalAm than the "new" positions added by Overland) both directly on labor costs and indirectly on non-labor costs.

[7] [redacted]

[8] AW's General Office service company budgets reflect across-the-board 4% salary increases for all employees. Overland accepts this estimate, and it is applicable to both salary and incentive compensation.