

Docket : A.23-01-001
Exhibit Number : Cal Adv - #
Commissioner : Genevieve Shiroma
Administrative Law Judge : Gerald F. Kelly
Public Advocates Office : Keowen, R.
Witness(es) : _____



PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

**REPORT ON SUBURBAN'S GENERAL
OFFICE EXPENSES EXCLUDING
PAYROLL

(PUBLIC)**

San Francisco, California
August 14, 2023

TABLE OF CONTENTS

Page

1

2

3

4 **MEMORANDUM..... ii**

5 **CHAPTER 1 GENERAL OFFICE EXCLUDING PAYROLL 1-1**

6 I. INTRODUCTION 1-1

7 II. SUMMARY OF RECOMMENDATIONS 1-2

8 III. ANALYSIS..... 1-3

9 A. Suburban’s forecast of SWWC’s healthcare expenses include line-

7 item forecasts for attrition years, in violation of the Class A water

8 Rate Case Plan rules..... 1-3

9 B. The Commission should only allow 96% of Suburban’s GO

10 Expenses forecast..... 1-4

11 C. The Commission should deny any additional SWWC IT rate base

12 until the merger with Corix is complete and IT needs are

13 determined..... 1-9

14 D. SWWC’s Merger with Corix will reduce Suburban’s allocation

15 percentage. 1-11

16 IV. CONCLUSION..... 1-15

16 ATTACHMENT 1 - Excerpts from Suburban’s Responses to Public

17 Advocates Data Requests

18 ATTACHMENT 2 - Statement of Qualifications

19

20

1 **MEMORANDUM**

2 The Public Advocates Office at the California Public Utilities Commission (“Cal
3 Advocates”) examined application material, data request responses, and other
4 information presented by Suburban Water Systems (“Suburban) in Application (“A.”) 23-
5 01-001 to provide the California Public Utilities Commission (“Commission” or
6 “CPUC”) with recommendations in the interests of ratepayers for safe and reliable
7 service at the lowest cost. Roy Keowen prepared this report under the general supervision
8 of Program Manager Richard Rauschmeier, Program & Project Supervisor Hani Moussa,
9 and Project Lead Suliman Ibrahim. Shanna Foley is Cal Advocates legal counsel.

10 Although every effort was made to comprehensively review, analyze, and provide
11 the Commission with recommendations on each ratemaking and policy aspect presented
12 in the Application, the absence from Cal Advocates’ testimony of any particular issue
13 connotes neither agreement nor disagreement of the underlying request, methodology, or
14 policy position related to that issue.

1 **CHAPTER 1 GENERAL OFFICE EXCLUDING PAYROLL**

2 **I. INTRODUCTION**

3 This chapter contains recommendations to the Commission on Suburban’s general
4 office proposals and recommends specific actions for the Commission to take to produce
5 a more reasonable forecast of Suburban’s general office expenditures.

6 On November 9, 2022, Suburban filed A.22-11-010 for SouthWest Water
7 Company (SWWC), Suburban’s parent company, to merge with Corix Infrastructure Inc
8 and to restructure the business in 2023. The merger application states that Suburban’s
9 parent company, SWWC, will merge with and into Corix U.S. and make up 50% of the
10 post-merger business entity. In sum, the proposed merger will merge two pre-existing
11 similarly sized companies into one entity, Corix U.S., that will own Suburban wholly.
12 The applicants in this proceeding plan for the merger to occur prior to Test Year (TY)
2024.

13 On January 3, 2023 Suburban filed A.23-01-001 to increase TY 2024 rates.
14 Suburban proposes to collect \$8,216,803 in parent company expenses from Suburban’s
15 customers in TY 2024.

16 Payroll is a general office expense but is addressed in Cal Advocates Report and
17 Recommendations on Operations and Maintenance Expenses, Administrative and
18 General Expenses, Payroll, and Conservation.

19

1

Table 1-1: Summary of Recommendations

	Suburban	Cal Advocates
Total TY2024 SWWC Expenses	\$20,288,402	\$15,033,823
Allocation Percentage to Suburban	40.5%	20.2%
Total TY2024 SWWC Expenses Allocation to Suburban's Customers	\$8,216,803	\$3,036,832

2

II. SUMMARY OF RECOMMENDATIONS

3

4

5

6

- The Commission should deny Suburban’s proposals for general office expense and allocation for TY 2024. Instead, the Commission should adopt total parent company expenses of \$15,033,823 and a 20.2% allocation factor for a total general office allocation of \$3,036,832.

7

8

9

10

11

- The Class A Water Rate Case Plan (RCP) does not allow Suburban to include line-item forecasts for its health expenses in the attrition year. The Commission should adjust Suburban’s attrition year forecast by escalating its test year amount with appropriate inflation factors as prescribed in the RCP.

12

13

- The Commission should only allow 96% of SWWC’s proposed TY 2024 expenses into rates.

14

15

- The Commission should deny SWWC’s IT projects until the merger with Corix is complete and IT needs are determined.

16

17

- The Commission should impute a 20.2% general office allocation to reflect SWWCs merger with Corix, if approved.

III. ANALYSIS

1 **A. Suburban’s forecast of SWWC’s healthcare expenses**
2 **include line-item forecasts for attrition years, in violation**
3 **of the Class A water Rate Case Plan rules.**

4 The Class-A Water Rate Case Plan establishes that a rate case cycle consists of
5 one test-year and two attrition years for expenses, and that attrition year expenses are
6 established by the escalation of test-year expenses.¹ Suburban’s forecast of SWWC’s
7 healthcare expenses contain line-item forecasts for attrition years, in violation of these
8 rules.² Per the Rate Case Plan, the Commission should only allow escalation in
9 Suburban’s SWWC healthcare expense forecast.

10 The stated purpose of the Rate Case Plan is to help streamline the regulatory
11 process. One of the simplifying assumptions adopted by the Rate Case Plan is the concept
12 of escalation for attrition year expenses. Escalation involves taking the test-year figure
13 and adjusting it for inflation only.³ Suburban’s forecast of SWWC’s healthcare expenses
14 does not follow this procedure and instead relies on estimates produced by its consultant,
15 Mercer. See Table 1-2:

**Table 1-2: Suburban’s projections of healthcare costs in Test Year
2024 and Attrition Year 2025.**

Begin Confidential



16

¹ D.04-06-018 “Interim Order Adopting Rate Case Plan” and D.07-05-062 “Opinion Adopting Revised Rate Case Plan for Class A Water Utilities.”

² A.23-01-001, Workpapers Vol.1 CONFIDENTIAL (final application), Tab “Health Insurance” at Cell G6.

³ The Class A water rate case plan further specifies the inflation factor for insurance is the 12-month spot rate for CPI-U as published in the ECOS Factor memos produced by the Public Advocates Office.

1 [REDACTED]
2 [REDACTED]
3 [REDACTED] ⁴ [***End Confidential***] Suburban’s single item forecast for
4 its healthcare cost in Attrition Year 2025 would defeat the Commission’s goal of
5 streamlining the ratemaking process. Suburban should adhere to the Water Rate Case
6 Plan. The Commission should only allow escalation for attrition-year expenses by
7 escalating the healthcare expenses with the CPI-U escalation factors as provided by the
8 Rate Case Plan.⁵

9 **B. The Commission should only allow 96% of Suburban’s**
10 **GO Expenses forecast.**

11 SWWC’s recorded expenses contain numerous unreasonable expenses. The
12 Commission should reduce Suburban’s forecast of SWWC’s expenses by four percent to
13 ensure only reasonable parent company expenses are passed on to Suburban’s ratepayers
14 in TY 2024.

15 Cal Advocates Data Request JR6-01 asked for the general ledger details for
16 Suburban’s parent company, SWWC.⁶ A review of SWWC’s general ledger revealed
17 many expenses that either: 1) lacked a description entirely; 2) lacked enough detail to
18 justify the expense, or 3) are unreasonable based on Suburban’s description. Based on
19 these criteria, the Commission should find that four percent of SWWCs expenses are
20 unreasonable and adjust rates for TY 2024 accordingly. Below are examples of each type
21 of entry.

22 Many of SWWCs expense entries are missing any kind of description which
23 makes it impossible to determine if the expense was justified or not. For example:

⁴ A.23-01-001, Workpapers Vol.1 CONFIDENTIAL (final application), Tab “Parent Co. (Confidential)” at Cell L390, L554 and L698.

⁵ D.07-05-062, *Opinion Adopting Revised Rate Case Plan for Class A Water Utilities*, Appendix A at p.A-19.

⁶ A.23-01-001, Public Advocates Data Request JR6-01_2 Parent Company Detail Follow-Up.

1

Table 1-3: Examples of SWWC expenses that have no description.

Year /month	G/L Description	CC Name	Text	Posting Date	LC Amount
2020/10	Benefits Expense - Other	SWWC-Executive		10/7/2020	4,113.59
2020/03	Board Meeting Expense	SWWC-Executive		3/30/2020	2,053.16
2020/07	Contributions	SWWC-Executive		7/21/2020	20,000.00
2020/03	Dues & Subscriptions	SWWC-Finance		3/19/2020	37,843.00
2020/02	Employee Cost - Other	SWWC-Executive		2/26/2020	2,068.13
2020/01	Employee Education	SWWC-HR		1/15/2020	50,520.00
2020/03	Meals & Entertainment (50% Deductible)	SWWC-Executive		3/3/2020	7,300.53
2020/02	Professional Dues - Personal	SWWC-Finance		2/25/2020	308.00
2020/11	Settlements, Penalties and Fines	SWWC-Executive		11/30/2020	3,977.29
2020/01	Travel - Other	SWWC-Executive		1/17/2020	280.19
2020/02	Travel - Transportation	SWWC-Executive		2/26/2020	2,573.18

2

3

4

5

6

The table above provides multiple examples of Suburban's general ledger entries that lack a any kind of description. It is unreasonable for ratepayers to pay for unidentified expenses that are not fully justified. These expenses should be disallowed from SWWC's expense forecast.

1 Below are examples of Suburban’s SWWC entries which have a description that
 2 are inadequate to determine if the expense is justified. For example:

Table 1-4: Examples of SWWC expenses that have an inadequate description.

Year/ month	G/L Description	CC Name	Text	Posting Date	LC Amount
2020/11	Benefits Expense - Other	SWWC- Executive	10/31/20	11/5/2020	1,828.67
2020/12	Dues & Subscriptions	SWWC- Finance	50446/3576/ Professional Subscriptions	12/28/2020	499.00
2020/08	Employee Cost - Other	SWWC- HR	08/12/20	8/12/2020	3,000.00
2020/09	Employee Education	SWWC- HR	P-Card Before Cut-Off - HCI	9/30/2020	1,995.00
2020/10	Late Fees	SWWC- Finance	Element Lease 8384418	10/31/2020	117.36
2020/01	Meals - On Premise	SWWC IT	J Lynch ER Accrual- December'19 Accrual	1/31/2020	1,800.00
2020/01	Travel - Other	SWWC- Executive	01/30/20	1/30/2020	25.48

3
 4 The table above shows multiple examples of entries that lack an adequate
 5 description. The description does not give adequate detail on the nature, necessity, or
 6 prudence of the expense. These expenses should be removed from customer rates since
 7 they are not fully justified.

8 SWWC’s ledger contained numerous entries that were unreasonable based on the
 9 description. For example:

10

1 **Table 1-5: Examples of SWWC expenses that are unreasonable based on the**
 2 **description.**

Year/ month	G/L Description	CC Name	Text	Posting Date	LC Amount
2019/09	Board Meeting Expense	SWWC-Executive	P-Card Before Cut-Off - KIAWAH ISLAND GOLF RESORT	9/30/2019	17,323.13
2019/11	Benefits Expense - Other	SWWC-Executive	P-Card Before Cut-Off - TOPGOLF HOUSTON 008-3	11/30/2019	4,284.76
2019/12	Employee Cost - Other	SWWC-Executive	P-Card Before Cut-Off TOPGOLF HOUSTON 008-2	12/31/2019	1,791.71
2019/09	Meals & Entertainment (50% Deductible)	SWWC-Executive	P-Card Before Cut-Off - THE RITZ CARLTON	9/30/2019	4,097.60
2019/10	Dues & Subscriptions	SWWC IT	P-Card Before Cut-Off - ASUG	10/31/2019	1,825.00
2019/03	Employee Cost - Other	SWWC-Executive	P-Card Before Cut-Off - HOUSTON ASTROS TICKETS	3/31/2019	1,188.00
2019/02	Employee Cost - Other	SWWC-Executive	P-Card Before Cut-Off - HOUSTON ASTROS TICKETS	2/28/2019	3,168.00
2019/04	Meals & Entertainment (50% Deductible)	SWWC-Executive	P-Card Before Cut-Off - TST VERITAS STEAK AND SE	4/30/2019	2,118.58

2019/11	Employee Cost - Other	SWWC-Executive	P-Card Before Cut-Off - OTTO S BARBEQUE AND HAMBU	11/30/2019	453.75
2019/02	Employee Cost - Other	SWWC-Executive	P-Card Before Cut-Off - JOYSTIX CLASSIC GAME	2/28/2019	300.00
2019/09	Meals - On Premise	SWWC-Executive	P-Card Before Cut-Off - THE RITZ CARLTON	9/30/2019	56.69
2019/08	Meals - On Premise	SWWC IT	P-Card Before Cut-Off - WAFFLE HOUSE 0204	8/31/2019	19.39

1

2 The table above identifies expenses that appear unreasonable. For example, a \$17k
3 trip to Hawaii for a board meeting should not be paid for by ratepayers when virtual
4 meetings are a viable option. Another example, tickets to the Houston Astros game, are
5 also a perk that is inappropriate to include in customer rates. The Commission should not
6 allow unreasonable company benefits into Suburban's rates.

7 The annual total of all entries that lack an adequate description or appear to be
8 unreasonable is summarized in the table below:

9 **Table 1-6: Annual total of unreasonable expenses.**

Account	2020	2019	2018	2017
Ancillary Benefits Expense	\$29,462	\$31,039	\$ -	\$ -
Benefits Expense – Other	\$27,877	\$97,123	\$94,527	\$21,962
Board Meeting Expense	\$16,315	\$178,630	\$109,363	\$93,119
Contributions	\$40,000	\$15,000	\$ -	\$ -
Dues & Subscriptions	\$103,296	\$30,242	\$44,115	\$20,818
Employee Costs – Other	\$32,529	\$29,872	\$25,881	\$30,636
Employee Education	\$94,821	\$70,045	\$17,925	\$16,885
Fines & Penalties	\$ -	\$232	\$ -	\$ -
Late Fees	\$710	\$ -	\$ -	\$ -

Meals – On Premise	\$4,888	\$20,618	\$15,613	\$14,523
Meals & Entertainment (50% Deductible)	\$14,939	\$37,626	\$30,844	\$23,814
Overtime	\$34,833	\$28,066	\$ -	\$10,652
Professional Dues – Personal	\$2,688	\$4,825	\$16,435	\$11,374
Settlements, Penalties and Fines	\$10,097	\$ -	\$ -	\$ -
Temporary Labor	\$100,449	\$70,818	\$ -	\$26,022
Travel – Other	\$993	\$9,825	\$5,151	\$6,634
Travel – Transportation	\$33,615	\$148,214	\$125,642	\$108,044
Vacation – Buyback	\$39,538	\$25,495	\$ -	\$ -
Summary	\$587,050	\$797,670	\$485,496	\$384,483
SWWC Total Annual Expense	\$18,352,485	\$17,127,883	\$12,861,078	\$13,878,070
Percent of SWWCs Total Annual Expenses	3%	5%	4%	3%
Average Annual Expense Percent 2017 to 2020	4%			

1
2 The table above demonstrates that an average of 4% of Suburban’s recorded
3 parent company expenses are unreasonable. The Commission should make an adjustment
4 to Suburban’s rates going forward to remove 4% of the proposed expenses that are
5 unreasonable. This reduces Suburban’s TY 2024 forecast of SWWCs expenses to \$17.9
6 million in TY 2024.⁷

7 **C. The Commission should deny any additional SWWC IT**
8 **rate base until the merger with Corix is complete and IT**
9 **needs are determined.**

10 The Commission should deny Suburban’s IT proposals as imprudent. Suburban’s
11 application does not account for the impacts of a pending merger with Corix

⁷ Suburban projects SWWC expenses of \$18.6 million in TY2024. 96% of 18.6 million is \$17.9 million.

1 Infrastructure Inc into a single larger company, Corix U.S.⁸ The merger could potentially
2 result in SWWC’s IT being unsuitable for the combined business, making further
3 investment in IT now a waste of ratepayer money.

4 On January 3, 2023, Suburban filed A.23-01-001 to increase general rates in TY
5 2024. Suburban proposes an additional \$9,483,000 for SWWCs IT rate base in TY 2024
6 and TY 2025.⁹ Suburban’s GRC filing, however, does not discuss any part of the merger,
7 even though the merger is supposed to occur in 2023, prior to TY 2024 when new rates
8 will be implemented, and the merger application was filed before the GRC.¹⁰

9 If the merger is approved, it will influence Suburban’s parent company ratebase
10 and expense forecast, in particular depreciation expense from IT investments and
11 increased rate base as a result of new IT capital investments. Suburban’s IT investments
12 are currently held at the parent company level (held by SWWC) and the cost is allocated
13 to Suburban via depreciation expense and investor profit.

14 The merger will combine the computing resources of SWWC and Corix
15 Infrastructure Inc. *****Begin Confidential to Suburban ***** [REDACTED]

16 [REDACTED]
17 [REDACTED] ¹¹ ******* End

18 **Confidential to Suburban ***** Cal Advocates found that SWWC proposes a total of
19 \$13.4 million (\$3,874,000 in 2023, \$4,974,000 in 2024, and \$4,509,000 in 2025).¹² If

⁸ A.22-11-010 Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., Southwest Water Company, and Suburban Water Systems (U339w) for Approval of a Business Combination Transaction.

⁹ A.23-01-001, Workpapers Vol.1 CONFIDENTIAL (final application), Tab “Parent Co. RB”, Cells: L77, M77 and N77 total \$12,948,000. Please note the data in cells M77 and N77 are not recorded or adopted by Commission decision but the forecast Suburban proposed in Suburban’s last GRC (A.20-01-001).

¹⁰ The merger application, A.22-11-010 was filed on November 09, 2022.

¹¹ Suburban’s Response to A.22-11-010 Cal Advocates Data Request KN3-02, Attachment “Confidential Information – Corix Parties Only – Cal Advocate DR #2-2 Response (1)” at pdf p. 15 of 51.

¹² A.23-01-001, Workpapers Vol.1 CONFIDENTIAL (final application), Tab “Parent Co. RB”, Cells: D41, D47 and D53 totals \$13,357,000. In response to Cal Advocates Data Request SN2-002, Suburban

1 SouthWest/Corix unity moves with this IT integration plan, SWWC potentially wastes
2 \$13.4 million of Suburban’s customers’ money. Ratepayers should not pay for upgrades
3 that might not be used or useful.

4 There are also uncertainties in the SWWC and Corix IT planning schedule and
5 documentation. The SouthWest and Corix IT planning are vital steps to determine the
6 needs of IT projects. The IT planning information would typically be found in reports and
7 documentation such as a cost-benefit analysis and IT strategic planning. However, in
8 response to Cal Advocates’ data request, SouthWest only provided a basic roadmap,
9 which states that the SAP system will be adopted, but no other justification why the SAP
10 system is the better choice for ratepayers.¹³ Without better documentation the
11 Commission cannot evaluate the reasonableness of SWWC’s proposed IT projects.

12 The merger may cause SWWC IT resources to become redundant, many of the
13 key details needed to evaluate the reasonableness of Suburban’s IT proposals are not
14 available, and the merger is expected to occur prior to TY 2024. The Commission should
15 find Suburban’s IT proposals imprudent. Further the Commission should not allow
16 ratepayers to fund any additions to SWWC’s IT rate base until the merger is complete
17 and Suburban has a better IT plan to evaluate.

18 **D. SWWC’s Merger with Corix will reduce Suburban’s**
19 **allocation percentage.**

20 SWWC’s plan to merge with Corix will reduce the allocation factor of total
21 general office expense received from Suburban customers in TY 2024.¹⁴

revised the cost estimate to \$4,254,000 in 2023, \$4,139,000 in 2024 and \$4,0034,000 in 2025, totaling \$12,427,000, \$930,000 less than the amount proposed in the application.

¹³ A.22-01-001, Suburban’s Response to Cal Advocates Data Request KN3-01, Q.2 which states that SWWC’s IT integration roadmap is not yet completed and Suburban’s Supplemental Response to Cal Advocates Data Request KN3-04 which provides an IT roadmap.

¹⁴ A.23-01-001, Workpapers Vol.1 CONFIDENTIAL (final application), Tab “Model” at Cell 3559 shows the amount to be allocated to Suburban Customers. Suburban proposes \$8,216,203.

1 General office expenses are general parent company expenses that cannot be
2 charged directly to a specific subsidiary. Examples are executive pay, insurance, rent,
3 utilities, IT resources, etc. Total parent company expenses are allocated to each
4 subsidiary as a general office expense. Suburban proposes \$18,615,476 for SWWC’s
5 expenses (excluding depreciation for IT rate base) in TY 2024.

6 For ratemaking purposes, parent company expenses are allocated using the
7 Commission’s 4-factor methodology or a modified version of it. Suburban’s current
8 parent company, SWWC, allocates expenses using a Commission approved three-factor
9 allocation methodology.¹⁵ Using three-factor allocation, Suburban proposes that 40.5% of
10 parent company expenses be included in TY 2024 rates.

11 The key inputs for calculating general office expenses are the total TY 2024
12 expense and the allocation percentage to be paid for by Suburban’s customers. Under
13 SWWC, Suburban proposes to be responsible for 40.5% of \$18,615,476, which is
14 \$7,539,268 in TY 2024.

15 The proposed merger, if approved, will combine two similarly sized companies,
16 SWWC and Corix Infrastructure Inc., into one business, Corix U.S.¹⁶ The result is that
17 Corix U.S. will be about double the size of SWWC. Doubling the size of Suburban’s
18 parent company means that Suburban will make up a smaller part of the whole company,
19 which in-turn reduces the appropriate general office allocation factor. Suburban’s GRC
20 filing, however, fails to discuss the impacts of the merger, even though the merger
21 application was filed prior to the GRC. For rate making purposes, the Commission should
22 include the impact of the merger and adopt a different allocation factor for setting TY
23 2024 rates.

¹⁵ D.12-04-009 “Decision Adopting the Revenue Requirements for Test Year 2012 and Post-Test Year Rate Adjustments for 2013 and 2014.” at p.11.

¹⁶ A.22-11-010, “Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction.” at p.2.

1 Cal Advocates issued several data requests regarding the merger but was unable to
2 obtain allocation information about the post-merger entity.¹⁷ Suburban states that the
3 information regarding the merger is unknown at this time.¹⁸ Reasonable forecasts should
4 be estimated based on reasonable assumptions and Suburban’s forecast omits key
5 information needed to determine just and reasonable rates in TY 2024. It is therefore
6 reasonable to estimate an allocation factor value and expenses for Corix Infrastructure
7 Inc. instead of relying on Suburban to provide the information.

8 The Commission should impute an estimated value for Corix Infrastructure, Inc.
9 Suburban states that the two merging companies are “similarly sized.¹⁹” Based on
10 Suburban’s statement and the lack of further data availability, using Suburban’s estimates
11 for SWWC as a proxy for Corix is reasonable. The new parent company will be
12 approximately double the size of Suburban’s current parent company structure. This
13 drops Suburban’s allocation factor from 40.5% to 20.2% when combined with other
14 recommendations in this chapter. This also aligns with Suburban’s admission that
15 Suburban’s revenues will make up 19% of post-merger entity revenues.²⁰

16 The same argument for the allocation does not apply to Suburban’s proposed level
17 of SWWC expenses. While it is reasonable to assume half the amount of the allocation
18 factors, the actual expense level will range somewhere between SWWC’s proposed

¹⁷ A.22-11-010, Public Advocates Office Data Request KN3-04 and A.23-01-001, Public Advocates Data Request SN2-001.

¹⁸ Suburban’s Response to Cal Advocates Data Request SN2-001 Q.32a, b and c and also Suburban’s Response to A.22-11-010 Cal Advocates KN3-01, Q.2 which states that SWWC’s IT integration roadmap is not yet completed.

¹⁹ A.22-11-010, “Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction.” at p.2.

²⁰ A.22-11-010, “Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction.” The Rebuttal Testimony of Brian D. Bahr at p.6 which states ““it is limited from the perspective of any single state, such as California, which represents approximately 19 percent of the enterprise-wide revenue. This analysis is based on assumptions and estimates, which obviously may change.”

1 expenses and approximately double that amount for Corix Infrastructure Inc., assuming
2 the companies are “similarly sized.” However, the expense level is not likely to double
3 due to efficiencies expected from economies of scale gained by the merger.²¹ SWWC
4 states that there will be expected efficiencies to be gained from the merger.²² For
5 example, SWWC states the cost of a single management team will be spread across
6 1.3 million customers instead of just 500,000 or via the integration of ERP systems.²³
7 SWWC also states savings are currently speculative and premature for ratesetting
8 purposes.²⁴ However, it would be imprudent for the Commission to wait until the next
9 GRC as Suburban could unfairly benefit from receiving pre-merger rates while enjoying
10 post-merger cost savings with ratepayers supplying shareholders with the difference. For
11 example, if SWWC abandons its IT system in favor of the Corix IT system, Suburban
12 customers will be burdened with paying for investments and expenses that are not used
13 and useful. Attempts to have Suburban provide a cost-savings estimates prior to 2028
14 were unsuccessful.²⁵ Therefore, a reasonable estimate assumes the minimum expense
15 increase, which is equal to SWWC’s expenses.

²¹A google search of the terms “benefits of a merger of equals” returned the following result: “The benefits of a merger of equals include increased market share, reduced competition, the creation of synergies, and expansion into additional markets.” Cited from Investopedia.com:
https://www.investopedia.com/terms/m/merger_of_equals.asp#:~:text=A%20merger%20of%20equals%20is%20the%20process%20of%20two%20similarly,and%20expansion%20into%20additional%20markets.

²² A.22-11-010, Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction, The Rebuttal Testimony of Brian D. Bahr, at pp.3-4.

²³ A.22-11-010, *Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction, The Rebuttal Testimony of Brian D. Bahr*, at p.6.

²⁴ A.22-11-010, Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction, The Rebuttal Testimony of Brian D. Bahr, at p.6.

²⁵ A.22-11-010, Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems

1 A merger typically takes just between four and six months to complete.²⁶ The
2 Commission should set rates based upon the available information. Suburban
3 acknowledges there will be benefits in the form of cost savings to ratepayers so the cost
4 savings should be reflected in rates in the current proceeding.²⁷ If the Commission
5 approves the merger, then it is appropriate for the Commission to also adjust the rates to
6 reflect the new business based on the available information.

IV. CONCLUSION

7 The Commission should deny Suburban’s forecast by adopting the
8 recommendations contained in this chapter, which reduces SWWCs total parent company
9 expense to \$15,033,823 and reduces the allocation to Suburban’s customers to 20.2% for
10 \$3,036,832 to be added to Suburban’s TY 2024 rates.

11

(U339W) for Approval of a Business Combination Transaction, The Rebuttal Testimony of Brian D. Bahr, at p.6.

²⁶ "Merging Faster: A New Structure for Merger of Equals or Other Large Stock-for-Stock Public Mergers" by Paul S. Scrivano, Jane D. Goldstein, Keith F. Higgins, and Sarah H. Young of Ropes & Gray LLP., at p.1.

²⁷ A.22-11-010, Joint Application of Corix Infrastructure Inc., Corix Infrastructure (US) Inc., IIF Subway Investment LP, SW Merger Acquisition Corp., SouthWest Water Company, and Suburban Water Systems (U339W) for Approval of a Business Combination Transaction, The Rebuttal Testimony of Brian D. Bahr, at p.4.

ATTACHMENT 1

Excerpts from Suburban's Responses to Public Advocates Data Requests

Excerpt from Suburban's Response to Public Advocates Data Request SN1-01,
Q.32 a, b and c.

32. Corix Infrastructure (Corix) and SouthWest Water (SWW) will combine in a merger as a water and wastewater utility by the end of 2023.

- a. Explain how SWW's general office's information technology will benefit from this merger. Provide the quantifiable benefits as a result of the merger, including cost-benefit analysis, internal communication and other documents. If no documents are available, provide estimates for when they will be available.

Response:

This is not known yet at this time.

- b. Will Suburban be using Corix Infrastructure's technology moving forward?

Response:

This is not known yet at this time.

- c. Provide Corix-SWW's short term and long-term IT strategic plan documentation.

Response:

This is not known yet at this time.

Excerpt from Suburban’s Response to Public Advocates Data Request KN3-01,
Q.2 in A.22-11-010

A.22-11-010
Response to DR KN3-01
February 9, 2023

2. Brian Bahr’s direct testimony states, “Of course, there will be costs associated with integrating certain functions and activities. Customers will receive the benefits of these efforts, net of integration costs, in future rate proceedings.” (p.17)
- a. Please describe what “certain functions and activities” will have costs associated with them for the purposes of merger application A.22-11-010.
 - b. Please provide the quantifiable costs associated with integrating these certain functions and activities.
 - c. Please provide the quantifiable benefits associated with integrating certain functions and activities that customers will receive in future rate proceedings.
 - d. Please provide supporting evidence for each response in 2a through 2c above. This evidence includes but is not limited to any vendor invoices, bids, proposal, or internal communications or other documents.
 - e. Please describe and provide any cost benefit analysis conducted to determine customer benefits and ratepayer impact in current and future proceeding as a result of “integrating certain functions and activities.”

RESPONSE:

- a. Corix Infrastructure (US) Inc. (“Corix US”) and SouthWest Water Company (“SouthWest”) have begun integration planning and are utilizing PricewaterhouseCoopers Advisory Services LLC (“PwC”) in this process. There is not currently an estimated timeline developed for a completed cost-benefit analysis of integration benefits and costs. The PwC engagement is intended to produce an integration roadmap, which is expected to be complete by the end of the first quarter of 2023. It is anticipated that actual integration implementation will not begin until the Proposed Transaction closes.
- b. Please see response to No. 2a.
- c. Please see response to Nos. 2a and 4.
- d. Not applicable
- e. Please see response to No. 2a.

Brian Bahr	Steve Lubertozi
bbahr@swwc.com	steve.lubertozi@uiwater.com
512-219-2261	847-897-6510

Excerpt Suburban Response to Public Advocates Data Request KN3-04, Q.1 in
A.22-11-010

A.22-11-010
Response to DR KN3-04
April 6, 2023

1. In the response to question 2(a) of data request KN3-01 (Corix and SouthWest Merger Application). SouthWest states, "The PwC engagement is intended to produce an integration road map, which is expected to be complete by the end of the first quarter of 2023." Please provide the integration road map.

RESPONSE: The PwC integration road map has not been completed; the Joint Applicants commit to providing a supplement to this response with the final PwC integration road map within 15 days of its receipt.

Brian Bahr	Steve Lubertozi
bbahr@swwc.com	steve.lubertozi@uiwater.com
512-219-2261	847-897-6510

ATTACHMENT 2
STATEMENT OF QUALIFICATIONS

STATEMENT OF QUALIFICATIONS
FOR ROY KEOWEN

Please state your name, business address, and position with the California Public Utilities Commission (“Commission”).

A1. My name is Roy Keowen and my business address is 320 West 4th Street, Suite 500, Los Angeles, California 90013. I am a Financial Examiner in the Water Branch of the Public Advocates Office.

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Business Administration, Option in Accounting, from California State University, Los Angeles.

I have been employed by the Public Advocates Office – Water Branch since January 2014 and participated in many GRCs. My previous professional experience includes a Tax Auditor position with the California State Board of Equalization and as an Office Manager position at a small non-profit organization.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Cal Advocates Testimony on Suburban’s requests regarding General Office expenses, excluding payroll.

Q4. Does this conclude your prepared direct testimony?

A4. Yes it does.