

# PROPOSED RESOLUTION

RES. W-4956  
WATER/RSK/BMD/ds4

AGENDA ID #12581  
ITEM #14  
(Rev. 2) 12/17/2013 1:30 P.M.

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-4956  
December 19, 2013

### RESOLUTION

**(RES. W-4956) DEL ORO WATER COMPANY WALNUT RANCH DISTRICT ORDER PRODUCING ADDITIONAL ANNUAL REVENUE OF \$31,599, OR 44.7%, FOR TEST YEAR 2013.**

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### SUMMARY

Del Oro Water Company (Del Oro) filed Advice Letter (AL) 355 on May 15, 2013, seeking to increase its yearly revenues by \$28,539 to cover the cost of future purchased water in its Walnut Ranch District. AL 355 requests a mini general rate increase which addresses only the request to cover costs of purchasing water in the future instead of pumping water. Del Oro currently purchases water from the neighboring City of Colusa.

This resolution grants additional yearly revenues of \$31,599, an increase of 44.7% in gross annual revenue for test year 2013 to reflect costs of purchased water.

### BACKGROUND

Del Oro Water Company (Del Oro) is a multi-district class B water utility providing service to 81 flat rate service connections in its Walnut Ranch District (Walnut Ranch). Walnut Ranch's service territory consists of a subdivision known as Walnut Ranch Unit 1 and vicinity, located approximately one mile south of the City of Colusa (Colusa), in Colusa County.

Del Oro Water Company has been required to purchase water from Colusa since June of 2012, due to unacceptable levels of contaminants in its water supply. This has resulted in increasing, unrecovered costs in rates.

Resolution (Res.) W-4761, approved on May 7, 2009, emphasized concerns about excessively high levels of iron, manganese, and total dissolved solids in the Walnut

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Ranch wells. The resolution provided for a potential plan of action in the event water from another source was required. Del Oro proposed the Industrial Park Intertie Project as a potential solution to the problem, which the Commission approved in Res. W-4761. However, the Industrial Park Intertie Project was not pursued due to a proposal by Colusa to annex Walnut Ranch into its own water district, which the Walnut Ranch customers support.

Res. W-4873, dated March 10, 2011, added Emergency Intertie Costs to Del Oro's rate base to supply water to the district by an intertie with Colusa rather than completing the Industrial Park Intertie Project. Subsequently, the Walnut Ranch pumps became inoperable and contaminant levels became unacceptable as of June 2012, from which time Walnut Ranch has been importing water from Colusa in accordance with its February 3, 2009 agreement.

Res. W-4873 provided Del Oro the opportunity to purchase water on a month-by-month basis at 125% of the rate Colusa charges its own customers for water. Del Oro began purchasing water from Colusa in June 2012 on a measured basis and then providing it to its Walnut Ranch customers at a flat rate. Walnut Ranch customers were subsequently notified by bill insert on August 22, 2012 that the existing water supply had become unusable, and that water was being imported from Colusa.

Colusa approved annexation of Walnut Ranch on May 7, 2013. However the annexation is subject to approval by the Local Agency Formation Commission of Colusa County. Colusa has additionally applied for a grant from the California Department of Public Health (CDPH), which would allow the city to purchase Walnut Ranch and subsequently update the water system. The CDPH has indicated that the grant process may take as long as two years to complete.

The last general rate case (GRC) for Walnut Ranch was approved by Res. W-4681, dated April 10, 2008, which authorized a revenue increase of \$18,698 or 56.9%. Subsequently, Res. W-4873 authorized an increase in revenue for a Ratebase Offset which increased revenues by \$11,064 to \$63,935. The present rates became effective upon approval of a Consumer Price Index adjustment on June 6, 2012, which further increased rates by \$1,148 to \$66,357 per year, the current revenue requirement.

### **DISCUSSION**

The Division of Water and Audits (Division) has determined that a partial or mini General Rate Case is the most expeditious way to establish a sustainable billing structure and avoid the continued monthly surcharge requests that would otherwise be required. This partial General Rate Case considers only those cost factors associated with the change of operations from delivering water pumped from Walnut Ranch wells to

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acquiring the water from Colusa. Therefore, Division did not perform an independent analysis of the entire Del Oro operation.

Appendix A provides Del Oro's and Division's estimated summary of earnings at present and proposed rates for TY 2013. Del Oro is in agreement with Division's recommended revenue requirement shown in Appendix A, and the Division's recommended rates shown in Appendix B. Division recommends that the Commission approve the rate increases and resulting rates included in Appendix B for TY 2013.

Differences between the Division and Del Oro are discussed below.

### REVENUE

Del Oro is requesting \$94,896 in revenues which is an increase in revenues of \$28,539, or 43%, over present revenues in order to recover ongoing purchased water costs. Del Oro used a Rate of Return (ROR) of 10.75% for its calculations. That rate was previously authorized in Del Oro's last rate case by Res.W-4681.

Division used the Yearly Purchased Water to calculate rates. That was the amount paid by Del Oro for the year from July 2012 through June 2013 which is detailed in Appendix A and amounts to \$63,738.

Division recommends a revenue increase of \$31,599, or 44.7%, for a total revenue requirement of \$102,322. The increase will not result in earnings in excess of the utility's previously authorized rate of return.

### OPERATING EXPENSES

Del Oro is requesting total operating expenses of \$75,057.

The proposed operating expenses by Del Oro reflect the removal of the two Walnut Ranch wells and associated pumping equipment from service, which results in the elimination of a portion of the power and other volume related expenses. The change in the water source also contributes to reduced costs for materials, contracts and transportation. Del Oro estimated the yearly Purchased Water costs.

Division itemized the Operating Expenses in Appendix A. They amount to \$6,494 more than Del Oro's calculations. Division's expense estimate is higher because it used the actual Purchased Water costs for the year from July, 2012 to June, 2013 while Del Oro used estimated expenses for the same time period.

### RATE BASE

Del Oro originally requested average plant in service for the 2013 test year of \$172,284. However, this figure did not include the retirements of facilities that are no longer necessary as a result of the utility purchasing water. In response to staff inquiries, Del

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Oro identified that well and pumping costs totaling \$100,010 are appropriate to be removed from plant. The average of those costs is \$50,005. This results in a revised average plant request of \$122,279 from Del Oro.

Division accepts as reasonable Del Oro's revised plant-in-service figure as it includes those portions necessary to distribute water but not those portions no longer used and useful.

The Walnut Ranch current rate structure consists of rate Schedule WR-2R, Residential Flat Rate Service. The rate structure and design adopted in Res. W-4681 remains the same for these rate schedules as the Division finds the current rate structure and design reasonable.

The division recommends that the TY revenue requirement be increased by \$31,599 to \$102,322. The resulting revised flat rate to reflect this change in costs would therefore be \$105.27, or an increase of 44.7% over the current rate of \$72.76.<sup>1</sup>

### **BALANCING ACCOUNT RECOVERY**

Del Oro has established a Full Cost Water Supply Balancing Account to record the costs of purchasing water from Colusa. This account was established by AL 218, which became effective on April 13, 2009. The purpose for the account was expanded in AL 267, which became effective on May 28, 2010, and included recovery of costs for water by way of interconnects to outside agencies.

Since June of 2012, Del Oro has been purchasing water from Colusa. Del Oro has recorded these costs in the Full Cost Water Supply Balancing Account. Starting in December 2012, Del Oro filed three advice letters (AL346, AL346-A, AL347 and AL 352) to recover the balance in this account. Upon advice of the Division, Del Oro withdrew these advice letters and filed the instant advice letter, to adjust rates prospectively to reflect the cost of purchasing water going forward and to terminate the monthly purchased water surcharges.

Del Oro should seek to recover the uncollected balance in its water supply balancing account by Tier 2 advice letter covering the period from June 1, 2012 through the effective date of the rates authorized by this resolution. Del Oro shall provide notice of the proposed recovery of the balancing account to its customers at the time of filing. The Tier 2 advice letter will only become effective upon approval by the Division.

### **NOTICE AND PROTESTS**

Del Oro has not received any customer protests to the notice of proposed rate increase sent for Walnut Ranch with the August 22, 2012 bill. A public participation meeting

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<sup>1</sup> A comparison of customer bills at present and proposed rates is presented in Appendix C.

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notice was also mailed on May 9, 2013 for the meeting held on June 5, 2013 at Egling Middle School in Colusa. Approximately 20 customers attended the meeting, most of whom seemed unconcerned with the current request due to the potential annexation by Colusa. The Division has not received any written protests to the Del Oro request.

### COMPLIANCE

There are no Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the CDPH, the water supplied by Colusa to Walnut Ranch does meet all applicable water quality standards.

### COMMENTS

Public Utilities Code Section 311 (g) (1) generally requires that resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft resolution was mailed to the utility and the meeting attendees and was made available for public comment on November 18, 2013. No comments were received.

### FINDINGS

1. Del Oro Water Company (Del Oro) filed Advice Letter (AL) 355 on May 15, 2013, seeking to increase its yearly revenues by \$28,539 to cover the cost of future purchased water in its Walnut Ranch District.
2. Del Oro is a multi-district class B water utility providing service to 81 flat rate service connections in its Walnut Ranch District.
3. Del Oro has been required to purchase water from the City of Colusa since June of 2012, due to unacceptable levels of contaminants in its water supply.
4. Resolution (Res.) W-4761, approved on May 7, 2009, provided for a potential plan of action in the event water from another source was required.
5. Del Oro proposed the Industrial Park Intertie Project as a potential solution to the problem, which the Commission approved in Res. W-4761.
6. Res. W-4873, dated March 10, 2011, added Emergency Intertie Costs to Del Oro's rate base to supply water to the district by an intertie with Colusa rather than completing the Industrial Park Intertie Project.

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7. Walnut Ranch pumps became inoperable and contaminant levels became unacceptable as of June 2012.
8. Walnut Ranch has been importing water from Colusa in accordance with its February 3, 2009 agreement.
9. Colusa approved annexation of Walnut Ranch on May 7, 2013.
10. Colusa has additionally applied for a grant from the California Department of Public Health (CDPH), which would allow the city to purchase Walnut Ranch and subsequently update the water system.
11. The last general rate case for Walnut Ranch was approved by Res. W 4681, dated April 10, 2008, which authorized a revenue increase of \$18,698 or 56.9%.
12. The present rates became effective upon approval of a Consumer Price Index adjustment on June 6, 2012.
13. Del Oro's Full Cost Water Supply Balancing Account was established by AL 218, which became effective on April 13, 2009.
14. The purpose for the Full Cost Water Supply Balancing Account was expanded by the acceptance of AL 267 on May 28, 2010 which included recovering costs for water by interconnecting to outside agencies.
15. Del Oro should seek to recover the uncollected balance in its water supply balancing account by Tier 2 advice letter covering the period from June 1, 2012 through the effective date of the rates authorized by this resolution.
16. Del Oro should provide notice of the proposed recovery of the balancing account to its customers at the time of filing. The Tier 2 advice letter will only become effective upon approval by the Division.
17. The Division has not received any written protests to the Del Oro requests.
18. There are no Commission orders requiring system improvements.
19. Appendix A provides Del Oro's and Division's estimated summary of earnings at present and proposed rates for TY 2013.
20. Del Oro is in agreement with Division's recommended revenue requirement shown in Appendix A, and the Division's recommended rates shown in Appendix B.

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21. Division recommends that the Commission approve the rate increases and resulting rates included in Appendix B for TY 2013.

### **THEREFORE IT IS ORDERED THAT:**

1. Del Oro Water Company shall file a supplemental advice letter with the revised rate schedule attached to this Resolution as (Appendix B) and concurrently cancel its presently effective rate Schedule Number WR-2R, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Del Oro Water Company shall file a Tier 2 advice letter within 30 days from the effective date of this resolution to request amortization of its Full Cost Balancing Account from June 1, 2012 to the effective date of the new rates established in this Resolution. Del Oro shall provide notice of the proposed recovery to its customers at the time of filing. The Tier 2 advice letter shall become effective upon approval by the Division of Water and Audits.
3. Within one year of the effective date of this resolution, or when annexation by the City of Colusa has been approved by the Local Agency Formation Commission – whichever occurs first, Del Oro Water Company shall file a letter with the Director of the Division of Water and Audits updating the annexation status.
4. Within two years of the effective date of this resolution, if Colusa has not completed annexation of the Walnut Ranch District, Del Oro Water Company shall file a general rate increase request.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 19, 2013; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

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## APPENDIX A Summary of Earnings

	Del Oro Water Co. Walnut Ranch Summary of Earnings				
	Utility Estimated		Division Estimated		
	Present Rates	Requested Amounts	Present Rates	Proposed Rates	Adopted
<b>Operating Revenues</b>					
Unmetered	\$ 66,357	\$94,896	\$ 70,723	\$ 102,322	\$ 102,322
<b>Total Revenue</b>	<b>\$ 66,357</b>	<b>\$ 94,896</b>	<b>\$ 70,723</b>	<b>\$102,322</b>	<b>\$ 102,322</b>
<b>Operating Expenses</b>					
Purchased Power	\$0	\$0	\$0	\$0	\$0
Purchased Water	\$57,244	\$57,244	\$63,738	\$63,738	\$63,738
Other Volume	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$4,009	\$4,009	\$4,009	\$4,009	\$4,009
Materials	\$500	\$500	\$500	\$500	\$500
Contract Work	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Transportation Expenses	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
Office Salaries	\$4,331	\$4,331	\$4,331	\$4,331	\$4,331
Management Salaries	\$1,321	\$1,321	\$1,321	\$1,321	\$1,321
Employee Benefits	\$1,704	\$1,704	\$1,704	\$1,704	\$1,704
Office Services & Rentals	\$307	\$307	\$307	\$307	\$307
Office Supplies	\$687	\$687	\$687	\$687	\$687
Professional Services	\$255	\$255	\$255	\$255	\$255
Insurance	\$1,655	\$1,655	\$1,655	\$1,655	\$1,655
Commission Expense	\$100	\$100	\$100	\$100	\$100
General Expenses	\$144	\$144	\$144	\$144	\$144
<b>Total Operating Expenses</b>	<b>\$75,057</b>	<b>\$75,057</b>	<b>\$81,551</b>	<b>\$81,551</b>	<b>\$81,551</b>
Depreciation	\$3,630	\$3,630	\$3,630	\$3,630	\$3,630
Other Taxes	\$1,063	\$1,063	\$1,063	\$1,063	\$1,063
<b>Other deductions</b>	<b>\$4,693</b>	<b>\$4,693</b>	<b>\$4,693</b>	<b>\$4,693</b>	<b>\$4,693</b>
<b>Net Income Before Taxes</b>	<b>-\$13,393</b>	<b>\$15,146</b>	<b>-\$15,521</b>	<b>\$16,078</b>	<b>\$16,078</b>
State Income Taxes	\$800	\$1,339	\$800	\$1,421	\$1,421
Federal Income Taxes	\$0	\$2,040	\$0	\$2,199	\$2,199
<b>Net Revenue</b>	<b>-\$14,193</b>	<b>\$ 11,767</b>	<b>-\$16,321</b>	<b>\$12,458</b>	<b>\$12,458</b>
<b>Rate Base:</b>					
Average Plant	\$122,279	\$122,279	\$122,279	\$122,279	\$122,279
Acc. Depr. Reserve	\$18,679	\$18,679	\$18,679	\$18,679	\$18,679
<b>Net Plant</b>	<b>\$103,600</b>	<b>\$103,600</b>	<b>\$103,600</b>	<b>\$103,600</b>	<b>\$103,600</b>
Less: Advances	\$0	\$0	\$0	\$0	\$0
Plus: Working Cash	\$5,864	\$5,864	\$5,864	\$5,864	\$5,864
<b>Average Rate Base</b>	<b>\$109,464</b>	<b>\$ 109,464</b>	<b>\$109,464</b>	<b>\$ 109,464</b>	<b>\$ 109,464</b>
<b>Rate of Return</b>	<b>-12.97%</b>	<b>10.75%</b>	<b>-14.91%</b>	<b>10.75%</b>	<b>10.75%</b>

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**APPENDIX B**

Schedule No. WR- 2R  
**RESIDENTIAL FLAT RATE SERVICE  
WALNUT RANCH DISTRICT**

**APPLICABILITY**

Applicable to all flat rate residential water service.

**TERRITORY**

The subdivision known as Walnut Ranch, Unit 1 and vicinity, approximately one mile south of Colusa, Colusa County, California.

**RATES**

**Per Month**

For a single-family residential unit.....\$105.27 (I)

For each additional single-family residential unit on the  
Same premises and served from the same service connection...\$33.82

**SPECIAL CONDITIONS:**

1. The above flat rates apply to a service connection not larger than 1-inch in diameter.
2. The annual service charge (which is 12 times the current monthly rate) applies to (R) service during the 12 month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the resident may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility’s established billing periods.
3. The established billing cycle for water used is monthly.
4. The opening bill for metered service, except upon conversion from flat rate service, shall be established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/ 365) of the number of days remaining in the calendar year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial charges shall be due to the customer.

**(CONT.)**

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## APPENDIX B (CONT.)

Schedule No. WR- 2R  
RESIDENTIAL FLAT RATE SERVICE  
WALNUT RANCH DISTRICT

### (continuation)

5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
6. A late charge will be imposed per Schedule No. LC.
7. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option, be furnished on the account of the landlord or property owner.

1 thru 12 deleted because they have phased out.

**END OF APPENDIX B**

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## APPENDIX C

### COMPARISON OF RATES

A comparison of Del Oro's present rates and the Division's recommended rates is shown below:

#### RESIDENTIAL FLAT RATE SERVICE

Per Service Connection Per Month

	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
For a single family residential unit	\$ 72.76	\$105.27	44.7%

**END OF APPENDIX C**



**Del Oro Water Company  
Walnut Ranch District**

**Vavrinek, Trine, Day & Co.  
Mr. Leonard Danna  
260 Sheridan Avenue, Ste. 440  
Palo Alto, CA 94306  
1-650-462-0400  
[ldanna@vtdcpa.com](mailto:ldanna@vtdcpa.com)**

**City of Colusa, Water & Sewer  
Mr. Frank Garofalo  
P.O. Box 1063  
Colusa, CA 95932  
1-530-458-4941  
No-email**

**California Public Utilities Commission  
Division of Ratepayer Advocates  
[dra\\_water\\_al@cpuc.ca.gov](mailto:dra_water_al@cpuc.ca.gov)**

**Kathleen Moran, Colusa County Clerk  
546 Jay Street  
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1-530-458-0500  
[ccclerk@countyofcolusa.org](mailto:ccclerk@countyofcolusa.org)**

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