

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

AGENDA ID #13333 (Rev. 3)
ITEM #17

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5003
October 16, 2014

RESOLUTION

(RES. W-5003) DEL ORO WATER COMPANY LIME SADDLE DISTRICT. ORDER AUTHORIZING AN INTERIM GENERAL RATE REDUCTION SUBJECT TO INCREASE OR DECREASE IN ANNUAL REVENUE OF \$66,597, OR 15.96%, FOR TEST YEAR 2014.

SUMMARY

Del Oro Water Company filed Advice Letter 381 on May 1, 2014, requesting authority under Section VI of General Order 96-B and Section 454 of the Public Utilities Code to decrease rates for water service in its Lime Saddle District by \$44,755, or 11.26%, from current revenues in Test Year 2014 due to decreased expenses and an adequate return on investment.

This resolution grants an interim general rate decrease of \$66,597, or 15.96%, using a rate of return of 10.10% for Test Year 2014.

This resolution also addresses issues of concern to the Division of Water and Audits with respect to Del Oro Water Company's affiliate transactions. As discussed in Resolution W-4954 for Del Oro Water Company's California Pines District, Del Oro Water Company was directed to file an application for review of its general office, affiliate transactions and non-tariffed goods and services. Del Oro Water Company filed Application 13-12-002 on December 2, 2013. Consistent with Resolution W-4954, the rates adopted in this resolution are interim rates, subject to increase or decrease, based on the findings of that application.

BACKGROUND

Del Oro Water Company (DOWC) filed its last general rate case (GRC) for its Lime Saddle District (Lime Saddle) through Advice Letter (AL) 310. By Resolution (Res.) W-4895, dated January 12, 2012, we granted DOWC a general rate increase of \$40,544, or 13.67%, and a rate of return (ROR) of 10.80% for Test Year (TY) 2011. The present rates became effective on

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

January 15, 2013, by approval of AL 345-B, which authorized a Safe Drinking Water State Revolving Fund Surcharge refund.

DOWC is a Class B multi-district water utility providing water service to 17 districts throughout California. Its main office is located in Chico, California. Lime Saddle is located south of the Town of Paradise and north of Highway 70, Butte County and provides service to 387 metered rate customers.

Lime Saddle pumps water from the Lake Oroville to its treatment plant, located in the southern end of Lime Saddle. Once the water is treated it is pumped to a storage tank which has a storage capacity of approximately 1.5 million gallons.

NOTICE AND PROTESTS

Notice of the public meeting and proposed rate decrease was mailed to DOWC's Lime Saddle's customers on May 28, 2014. The Division of Water and Audits (Division), in cooperation with DOWC, conducted a public meeting on June 26, 2014 at 6:30 PM at Casa de Paradiso Restaurant located at 5667 Clark Road, Paradise, California, three customers were in attendance. The Division and DOWC received no responses or protests regarding the proposed rate decrease.

DISCUSSION

In reviewing DOWC's rate decrease request, the Division made an independent analysis of DOWC's Lime Saddle operations. Appendix A of this resolution shows DOWC's and the Division's estimated summary of earnings at present, proposed and recommended rates for TY 2014.

DOWC was informed of the Division's differing views of revenues and expenses and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B. The Division recommends that the Commission approve the rate decrease and resulting rates shown in Appendix B.

Revenues

The difference between Lime Saddle's present revenues of \$397,537 and Division's present revenues of \$417,467 is due to DOWC's use of estimated revenues while Division used actual revenues recorded in year 2013.

Expenses

The Division reviewed Lime Saddle's estimated 2014 operating expenses, including purchased power, employee labor, materials, plant maintenance, office salaries, office

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable for ratemaking purposes.

The Division's estimate of Lime Saddle's operating expenses for TY 2014 is based on the Division's analysis of the district's operations and expense data from the years 2011 through 2013, except for expenses relating to purchased power, employee labor, employee pensions and benefits, office and management salaries, transportation expenses, office services and rentals, office supplies and expenses, professional services, and insurance. For estimating purchased power costs, DOWC used 2013 annual usage and applied the power rates that became effective March 1, 2014. The Division concurs.

For employee labor, employee pension and benefits, office and management salaries, Division compared DOWC's estimates by evaluating the salaries of comparable positions, with a similar level of work experience, responsibilities and qualifications in Butte County and found them to be reasonable. For estimating transportation expenses, office services and rentals, office supplies and expenses, professional services, and insurance, DOWC allocated the cost based on the percentage of customers in each district relative to the total number of customers in all of the following four districts including Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs, as the expenses are shared by the four districts. Division concurs with DOWC.

For estimating all other expense categories, DOWC used the same method that Division used which is based on recorded three year average, 2011 through 2013. As a result, there are no differences between DOWC's and Division's estimates.

Allocation of Corporate Expenses

DOWC proportionally allocates the following expenses for its corporate operations among its 17 districts, based on the percentage of customers in each district relative to the total number of customers in all of its districts:

- Management, superintendent, and office salaries and benefits;
- Office rental and supplies;
- Professional services; and
- Property insurance.

DOWC has approximately 8,228 total customers in its 17 districts, and 387, or 4.71%, of these customers are in Lime Saddle. Based on this percentage, DOWC allocates 4.71% of its shared expenses to Lime Saddle. The Division finds the cost allocation proposed by DOWC for Lime Saddle reasonable for ratemaking purposes.

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

Affiliate Transactions

Res. W-4954, which provided a rate increase for DOWC's California Pines District (California Pines), discussed DOWC's non-compliance with the affiliate transaction requirements adopted in Decision (D.) 10-10-019. DOWC operates under a parent company structure. Utility Management Services (UMS) is DOWC's parent company. The Safor Corporation (Safor) is a "C" Corporation incorporated in 1957 and a real estate holdings company. DOWC leases and shares office space in a building owned by Safor. UMS, as of 2014, employs two full time office personnel; Safor and UMS utilize DOWC personnel and assets to fulfill management, office, accounting and financial duties.

In its GRC request for California Pines, DOWC did not include an apportionment for the salaries of office staff that provided services to DOWC affiliates, nor had they filed the required affiliate transaction report by the March 31, 2012 deadline. DOWC subsequently provided an apportionment for resources shared with their affiliates, and filed their affiliate transaction report on April 2, 2013. The report states that 2.88% of management employee time is spent on affiliate related work. The Division utilizes this apportionment for office staff provided by DOWC to make its salary estimates for TY 2014.

As discussed in Res. W-4954, we directed DOWC to file an application for review of its general office, affiliate transactions and non-tariffed goods and services within 60 days of the effective date of Res. W-4954. DOWC filed this application (A.13-12-002) on December 2, 2013. Furthermore, the Division directed that the rates in any future GRC, including this GRC for Lime Saddle, will be considered "interim rates" and subject to refund based on the findings of the application. Accordingly, the rates authorized in this resolution are considered interim rates, subject to increase or decrease, based on the findings of the application addressing affiliated interests.

Taxes Other Than Income

The difference between DOWC's estimate of \$12,728 and Division's estimate of \$12,536 for taxes other than income is due to certain DOWC arithmetic errors. Division recommends \$12,536 for taxes other than income.

Rate Base

DOWC proposed \$39,763 for treatment plant fencing, a booster system, four services, and a gate valve in TY 2014. Division conducted a field investigation on June 26, 2014 and confirmed that these plant additions have been completed and they are used and useful. Based on Division's review of the project expenditures, Division finds DOWC's \$39,763 expenditure for the plant additions prudent for inclusion into Lime Saddle's rate base. Therefore, there are no differences between DOWC's and Division's estimates in depreciation and rate base.

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

Rate of Return

DOWC has requested a 10.80% ROR for Lime Saddle for TY 2014. The Division's March 21, 2014 Memorandum entitled "Rates of Return and Rates of Margin for Class C and Class D Water Utilities" provides guidance for determining an appropriate ROR for utilities by providing a range of ROR's centered on the average rate allowed by the Commission. The Memorandum recommends an average ROR of 10.1% for Class B utilities, which the Division also recommends.

Revenues and Rate Design

As shown in Appendix A, the Summary of Earnings for TY 2014, as a result of application of the recommended rate of return, rate base and operating expenses, Division recommends a reduction from present rates of \$66,597, rather than DOWC's recommended reduction of \$44,755.

DOWC is a class B utility. The Division proposed rate design would collect 50% of fixed costs through the service charge. The rates proposed by the Division are shown in Appendix B.

Lime Saddle's current rate structure consists of one schedule: No. LS-1A, Annual General Metered Service. At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer using an average 19,000 gallons of water per month with a 5/8 x 3/4-inch meter will decrease from \$83.59 to \$72.20, which is \$11.39 or 13.63%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

DOWC has no outstanding compliance orders and the utility has been filing annual reports as required. DOWC has submitted an Affiliate Transaction Report for 2013 as required by D. 10-10-019.

A review of the 2013 California Department of Public Health's (CDPH) Consumer Confidence Report for Lime Saddle shows that its water meets the required quality standards set by the CDPH, and that there are no testing issues with Lime Saddle.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day public review and comment period.

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits is reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Division of Water and Audits are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division of Water and Audits are reasonable and should be adopted.
4. The water rate decrease authorized herein is justified and the resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code Section 311(g)(3).

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company; Lime Saddle District, to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective rate Schedule No. LS-1A, Annual General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Rates authorized in this resolution shall be interim rates subject to the findings of the application ordered in Resolution W-4954 and subject to increase or decrease.

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 October 16, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

APPENDIX A

DEL ORO WATER COMPANY LIME SADDLE DISTRICT Summary of Earnings - Test Year 2014

	UTILITY		DIVISION		
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Recommended Rates
Operating Revenues					
Metered Water Revenue	\$397,537	\$352,782	\$417,467	\$350,870	\$350,870
Total Revenue	397,537	352,782	417,467	350,870	350,870
Operating Expenses					
Purchased Water	46,131	46,131	46,131	46,131	46,131
Purchased Power	110,965	110,965	110,965	110,965	110,965
Other Volume Related	5,833	5,833	5,833	5,833	5,833
Employee Labor	19,720	19,720	19,720	19,720	19,720
Materials	4,174	4,174	4,174	4,174	4,174
Contract Work	5,863	5,863	5,863	5,863	5,863
Transportation Expenses	4,739	4,739	4,739	4,739	4,739
Other Plant Maintenance	0	0	0	0	0
Office Salaries	32,140	32,140	32,140	32,140	32,140
Management Salaries	8,227	8,227	8,227	8,227	8,227
Employee Pensions and Benefits	13,144	13,144	13,144	13,144	13,144
Uncollectibles	131	131	131	131	131
Office Services and Rentals	5,731	5,731	5,731	5,731	5,731
Office Supplies and Expenses	16,354	16,354	16,354	16,354	16,354
Professional Services	7,664	7,664	7,664	7,664	7,664
Insurance	4,197	4,197	4,197	4,197	4,197
Regulatory Commission Expense	200	200	200	200	200
General Expense	3,990	3,990	3,990	3,990	3,990
Subtotal	289,202	289,202	289,202	289,202	289,202
Depreciation	24,554	24,554	24,554	24,554	24,554
Taxes Other Than Income	12,728	12,728	12,536	12,536	12,536
State Income Taxes	6,298	2,326	8,060	2,173	2,173
Federal Income Taxes	690	3,597	16,506	3,361	3,361
Total Deductions	332,408	332,408	350,858	331,826	331,826
Net Revenue	64,064	20,374	66,609	19,044	19,044
Rate Base					
Average Plant	1,506,230	1,506,230	1,506,230	1,506,230	1,506,230
Average Accum Dep.	841,972	841,972	841,972	841,972	841,972
Net Plant Plus	664,258	664,258	664,258	664,258	664,258
Working Cash	24,100	24,100	24,100	24,100	24,100
Mat. & Supplies Less	1,000	1,000	1,000	1,000	1,000
Advances	16,909	16,909	16,909	16,909	16,909
Contributions	344,662	344,662	344,662	344,662	344,662
Acquisition Adjustment	139,141	139,141	139,141	139,141	139,141
Total Rate Base	188,646	188,646	188,646	188,646	188,646
Rate of Return	33.96%	10.80%	35.31%	10.10%	10.10%

(END OF APPENDIX A)

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

APPENDIX B

**DEL ORO WATER COMPANY
LIME SADDLE DISTRICT
Schedule No. LS-1A
ANNUAL GENERAL METERED SERVICE
Test Year 2014**

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Lime Saddle District.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Lime Saddle Community Services District, Located south of the Town of Paradise and north of Highway 70, Butte County.

RATES

Quantity Charge:
For all water, per 1,000 gallons. \$ 3.10 (R)
(D)

Service Charge:	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 13.30	(R)
For 3/4-inch meter	\$ 19.95	
For 1-inch meter	\$ 33.25	
For 1-1/2-inch meter	\$ 66.50	
For 2-inch meter	\$ 106.40	
For 3-inch meter	\$ 199.50	
For 4-inch meter	\$ 332.50	
For 6-inch meter	\$ 665.00	(R)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added to the charge for water used computed at the Quantity Rate.

(END OF APPENDIX B)

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

APPENDIX C DEL ORO WATER COMPANY LIME SADDLE DISTRICT COMPARISON OF RATES TEST YEAR 2014

Per Meter, Per Month

	Present Rates	Recommended Rates	Amount of Decrease	Percent Decrease
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 14.24	\$ 13.30	\$ 0.94	6.61%
For 3/4-inch meter	\$ 21.35	\$ 19.95	\$ 1.40	6.56%
For 1-inch meter	\$ 35.59	\$ 33.25	\$ 2.34	6.58%
For 1 1/2-inch meter	\$ 71.18	\$ 66.50	\$ 4.68	6.58%
For 2-inch meter	\$113.89	\$106.40	\$ 7.49	6.58%
For 4-inch meter	\$213.54	\$199.50	\$14.04	6.58%
For 6-inch meter	\$355.91	\$332.50	\$23.41	6.58%
For 8-inch meter	\$711.82	\$665.00	\$46.82	6.58%
Quantity Rate:				
All water per 1,000 gallons	\$3.65	\$3.10	\$0.54	12.65%
A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:				
Usage (1,000 gallons)				
0	\$ 14.24	\$ 13.30	\$ 0.94	6.61%
19 (Avg.)	\$ 83.59	\$ 72.20	\$11.39	13.63%
40	\$160.24	\$137.70	\$22.94	14.32%

(END OF APPENDIX C)

PROPOSED RESOLUTION

Resolution W-5003
DWA/RSK/BMD/PTL/ds4

October 16, 2014 (Rev. 3)

APPENDIX D DEL ORO WATER COMPANY LIME SADDLE DISTRICT ADOPTED QUANTITIES TEST YEAR 2014

1. Purchased Water Cost	\$46,131
2. Purchased Power Cost	\$110,965
3. Water Sales in 1,000 gallons	83,800
4. Payroll	
Employee Labor	\$19,720
Office Salaries	\$32,140
Management Salaries	\$8,227
5. Property Taxes	\$12,536
6. Service Connections Meter Size	
5/8 x 3/4"	327
3/4"	12
1"	39
1-1/2"	1
2"	6
4"	1
6"	1
Total Metered	387

Adopted Tax Calculation:

1. Operating Revenues	\$350,870
2. Expenses	\$289,202
3. Depreciation	\$24,554
4. Property Taxes	\$12,536
5. Taxable Income for State Tax	\$24,578
6. State Tax (8.84%)	\$2,173
7. Taxable Income for FIT	\$22,405
8. Federal Tax	\$3,361

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5003 on all parties in these filings or their attorneys as shown on the attached lists.

Dated September 29, 2014, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**DEL ORO WATER COMPANY
LIME SADDLE DISTRICT**

**ADVICE LETTER NO. 381
SERVICE LIST**

California Public Utilities Commission
Division of Ratepayer Advocates
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