

PROPOSED RESOLUTION

Resolution W-5132
WD

Agenda ID #15505

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water and Sewer Advisory Branch

RESOLUTION W-5132
March 2, 2017

RESOLUTION

**(RES. W-5132) DEL ORO WATER COMPANY, TRAVER DISTRICT.
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$8,849,
OR 5.70%, FOR TEST YEAR 2017, TO BE PAID BY THE
RATEPAYERS.**

SUMMARY

Del Oro Water Company filed Advice Letter 463 on September 12, 2016, requesting authority under Rule 7.6.2 of General Order 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase rates for water service in its Traver District by \$8,849, or 5.70%, over current revenues in Test Year 2017 due to increased expenses and to earn an adequate return on investment. This resolution grants a general rate increase of \$8,849, or 5.70%, using a Rate of Return (ROR) of 10.10% for Test Year 2017.

BACKGROUND

Del Oro Water Company (DOWC) has requested authority under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$8,849, or 5.70% for Test Year (TY) 2017 in its Traver District. The purpose of the rate increase is to provide an adequate rate of return, to adjust its operating expenses, and to comply with Ordering Paragraph 4 of Decision 15-09-015, dated September 17, 2015.¹

¹ Ordering Paragraph 4 of D. 15-09-015 orders that DOWC must file an informal general rate case for the Traver water system within one year of the date of the decision. The informal general rate case must take the form of a Tier 3 AL and be filed with the Commission and served on the Commission's Water Division.

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DOWC's request shows 2016 gross revenues of \$155,308 at present rates and estimates an increase to \$164,157 at proposed rates. DOWC also requests a rate of return of 10.10% for its Traver District.

DOWC's present rates in its Traver District became effective on April 12, 2016, by approval of Advice Letter (AL) 438, which authorized a Consumer Price Index rate increase of 0.7%.

DOWC is a Class B multi-district water utility providing water service to 18 districts throughout California. Its main office is located in Chico, California. DOWC's Traver District serves approximately 188 residential metered and flat rate customers in a small community along Highway 99, approximately 30 miles from Fresno in Tulare County, California.

NOTICE AND PROTESTS

In accordance with GO 96-B, AL 463 was served on September 12, 2016, with service to adjacent utilities and persons on the general service list. A notice regarding the proposed general rate increase was mailed to each customer on October 26, 2016. No protests regarding the proposed rate increase have been received.

DISCUSSION

The Water Division (Division) made an independent analysis of DOWC's Traver District's rate increase request. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, proposed, and recommended rates for TY 2017. Appendix A also shows DOWC's and the Division's estimates for revenues.

The Division reviewed operating revenues and expenses, including employee labor, materials, contract work, water testing, transportation expenses, and other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

OPERATING EXPENSES

DOWC used the following two methods to estimate its operating expenses. The first

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method used for Materials and Contract Work expenses takes the average of the previous three years of recorded expenses and then adds to the average the current CPI inflation factor for 2017. The second method involves using an allocation method² for specific costs that are shared among six districts of DOWC for the Traver district. The allocation method was applied to the estimation of employee labor, employee pension and benefits, transportation expense, office and management salaries, and insurance. The following three expenses: office services and rentals, office supplies and expense, and professional services were estimated differently, by applying a cost allocation factor and adding actual expenses from the Traver District.

Since DOWC serves multiple districts using the same employees, DOWC uses cost allocation factors and applies these to the costs mentioned above.³ DOWC assigns these costs across five designated regions, and the Traver District is part of Region 5 which includes 6 of DOWC's 18 districts (California Pines, Country Estates, Metropolitan, River Island, Traver, and Tulare). The cost allocation factors used for Traver are based only on these six DOWC districts, specific to region 5, which consist of 1,131 total customers.⁴ The Division staff reviewed DOWC's cost allocation method for the costs listed above and verified that DOWC adequately applied the correct allotment to Traver District.

Rate of Return

DOWC requests a 10.10% ROR for its Traver District for TY 2016. The Division's Finance Unit finds it reasonable and recommends that 10.10% be considered in the determination of the ROR for DOWC's outstanding GRCs, which the Division also recommends for DOWC's Traver District.

² DOWC's corporate costs (i.e., office staff) are allocated across all 18 districts; on the other hand, regional costs (i.e., regional field staff, vehicles, vehicle insurance) are allocated across the number of districts in their region. In this case, the regional staff and their vehicles costs are allocated across the 6 districts in region 5 (California Pines, Country Estates, Metropolitan, River Island, Traver, and Tulare).

⁴ The cost allocation factor is derived by taking the number of Traver District's customers or 188 and dividing it by the total number of customers from six districts or 1,131.

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Revenues and Rate Design

As shown in Appendix A, the Summary of Earnings for TY 2017, as a result of application of the recommended rate of return, rate base, and operating expenses, the Division grants DOWC's request and recommends an increase from present rates of \$8,849 or 5.70%.

DOWC's interim rates for its Traver District became effective on September 30, 2016 by approval of AL 466, which authorized an interim rate increase of 0.7%, subject to refund or increase, based on the final rates authorized in this resolution. The rates authorized by this resolution are higher than the interim rates; therefore, DOWC should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.

DOWC's current rate structure in the Traver District consists of two schedules: General Flat Rate Service- Schedule No. TR-2 and General Metered Service- Schedule No. TR-1. The rates proposed by the Division and agreed to by DOWC are shown in Appendix B. At the Division's recommended rates shown in Appendix B, the monthly bill for a residential metered customer using an average of 40 Ccf (One Ccf equals 100 cubic feet) of water with a 3/4- inch meter will increase from \$61.55 to \$83.39, which is \$21.84 or 35.48%. In contrast, the monthly bill for a flat rate single-family residential unit will increase from \$62.66 to \$63.75, which is a \$1.09 or 2%. A comparison of customer bills at present and recommended rates is also shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

In Decision 15-09-015, dated September 17, 2105, Del Oro Water was authorized to purchase Traver Water District. This Decision stated that the Commission had not conducted a full review of rates for several years, so DOWC used the annual usage history of the (6) metered customers in the district and calculated rates based on the number of flat rate and metered customers using the percentage of customer numbers against the revenue required as detailed in its rate design workpapers.

This rate calculation was done because DOWC started a meter installation project in which over 50 meters were installed after purchasing Traver Water System, and DOWC projects to complete this project by the spring to early summer of 2017. Traver customers were informed of this meter project, and due to the location of this system in

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the central valley and the drought issues in the area, the choice was made to install meters in order to conserve water in this critical time of drought.

By the time this GRC will be approved, DOWC believes that there will only be a short period of time that the requested flat rates will be in effect. The requested Readiness-to-Serve charge is less than the current flat rates and the quantity rate encourages customers to use less water. DOWC also states that it calculated the rates for the Traver customers to the best of its ability using the only history it had on the system. With the meter installation project, DOWC will be able to record accurate usage for future rate cases submitted to the Commission. The Commission agrees with DOWC's rate design proposal and recommends approval of the rates shown in Appendix B.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

SAFETY

The resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board, Division of Drinking Water.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. Del Oro Water Company requests authority under Section 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its rates by \$8,849 or 5.70% in Test Year 2017 for its Traver District.

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2. The purpose of the rate increase is to provide an adequate rate of return, adjust its operating expenses, and comply with Ordering Paragraph 4 of Decision 15-09-015.
3. The present rates became effective on September 30, 2016, by approval of Advice Letter 466, which authorized an interim rate increase of 0.7%, subject to increase or decrease.
4. Del Oro Water Company should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.
5. The Division recommends an increase from present rates of \$8,849 or 5.70% based on its review of DOWC's operating expenses and revenues.
6. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
7. The rates recommended by the Water Division (Appendix B) are reasonable and should be adopted.
8. The quantities (Appendix D) used to develop the Water Division's recommendations are reasonable and should be adopted.
9. The water served by Del Oro Water Company, Traver District, meets all applicable primary water quality standards set forth by the State Water Resources Control Board, Division of Drinking Water.

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THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Traver District, to file a supplemental Advice Letter with the revised Rate Schedules attached to this Resolution as Appendix B and to concurrently cancel its presently effective Rate Schedules: Schedule No. TR-1, General Metered Service and Schedule No. TR-2, General Flat Rate Service. The effective date of the revised rate schedule shall be five days after the date of its filing.
2. Del Oro Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from September 30, 2016, the interim rate date, to the effective date of the new rates established in this Resolution. This advice letter shall become effective upon approval by the Water Division.

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 March 2, 2017; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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**APPENDIX A
DEL ORO WATER COMPANY
TRAVER DISTRICT
Summary of Earnings - Test Year 2016**

Item		Utility Estimated		Division Estimated	
		Present Rates	Proposed Rates	Present	Proposed
Operating Revenues					
460	Flat rates	138,189	140,595	\$ 138,189	\$ 140,595
470	Metered rates	17,119	23,562	\$ 17,119	\$ 23,562
462	Private fire protection	0		\$ -	
	TOTAL REVENUE	155,308	164,157	\$ 155,308	\$ 164,157
Operating Expenses					
610	Purchased water	0	0	\$ -	\$ -
615	Purchased power	20,175	20,655	\$ 20,655	\$ 20,655
618	Other volume related	0	0		
630	Employee labor	26,903	29,878	\$ 29,878	\$ 29,878
640	Materials	1,414	1,414	\$ 1,414	\$ 1,414
650	Contract work	1,000	1,000	\$ 1,000	\$ 1,000
660	Transportation expense	7,814	7,814	\$ 7,814	\$ 7,814
664	Other plan maintenance	0	0	\$ -	\$ -
670	Office salaries	16,326	16,326	\$ 16,326	\$ 16,326
671	Management salaries	1,274	4,035	\$ 4,035	\$ 4,035
674	Employee pension & benefits	10,496	10,496	\$ 10,496	\$ 10,496
676	Uncollectible	0	0	\$ -	\$ -
678	Office services & rentals	2,521	2,521	\$ 2,521	\$ 2,521
681	Office supplies & expense	6,957	6,957	\$ 6,957	\$ 6,957
682	Professional services	355	355	\$ 355	\$ 355
684	Insurance	4,298	4,298	\$ 4,298	\$ 4,298
688	Regulatory commission expense	333	333	\$ 333	\$ 333
689	General expenses	3,129	3,129	\$ 3,129	\$ 3,129
	SUBTOTAL	102,995	109,211	\$ 109,211	\$ 109,211
403	Depreciation	11,537	11,537	\$ 11,537	\$ 11,537
408	Taxes other than income	6,725	6,725	\$ 6,725	\$ 6,725
409/10	Income taxes	6,267	8,259	\$ 8,259	\$ 8,259
	Total Deductions	127,524	135,732	\$ 135,732	\$ 135,732
	Net Revenue	27,784	28,425	\$ 19,576	\$ 28,425
	Rate Base	281,422	281,422	\$ 281,422	\$ 281,422
	Rate of Return	9.873%	10.10%	6.96%	10.10%

END OF APPENDIX A

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APPENDIX B

**Schedule No. TR-1
GENERAL METERED SERVICE
Traver District
Test Year 2017**

Applicability

Applicable to all metered rate residential water service.

Territory

The area known as Traver is rural residential in the small community along Highway 99, in Tulare County, approximately 30 miles from Fresno, California.

Rates

Per Meter
Per Month

Quantity Rate:

For all water delivered per 100 cu. ft.	\$ 0.741	(I)
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Service Charge:

For 3/4 inch meter	\$ 53.77	(I)
For 1 inch meter	\$ 89.61	
For 1-1/2 inch meter	\$ 179.22	
For 2 inch meter	\$ 286.75	
For 3 inch meter	\$ 422.54	
For 4 inch meter	\$ 537.65	
For 6 inch meter	\$ 896.09	(I)

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

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**Schedule No. TR-2
GENERAL FLAT RATE SERVICE
Traver District
Test Year 2017**

Applicability

Applicable to all flat rate service furnished on a monthly basis.

Territory

The area known as Traver is rural residential in the small community along Highway 99, in Tulare County, approximately 30 miles from Fresno, California.

Rates

Per Service Connection

Per Month

For each single-family residential unit	\$63.75
For each business unit	\$102.00
For Churches	\$50.99
For School Fire Service	\$100.94

END OF APPENDIX B

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APPENDIX C

DEL ORO WATER COMPANY

Test Year 2017

COMPARISON OF RATES
METERED SERVICE

	Per Service Connection Per Year		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 3/4 - inch meter	\$42.23	\$ 53.77	27.33%
For 1 - inch meter	\$70.48	\$ 89.61	27.14%
For 1-1/2 – inch meter	\$140.80	\$179.22	27.29%

Quantity Charge:

All water, per 100 cu. ft.	\$0.483	\$0.741	53.42%
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Comparison of a monthly typical bill for residential metered customers with a 3/4 – inch meter is shown below at the current rates and recommended rates for Test Year 2017.

Usage	Present Rates	Recommended Rates	\$ Increase	Percent Increase
		100 cu. ft.		
0	\$ 42.23	\$ 53.77	\$ 11.54	27.32%
20	\$ 51.89	\$ 68.58	\$ 16.69	32.16%
30	\$ 56.72	\$ 75.98	\$ 19.26	33.96%
40	\$ 61.55	\$ 83.39	\$ 21.84	35.48%
50	\$ 66.38	\$ 90.80	\$ 24.42	36.78%
60	\$ 70.48	\$ 89.61	\$ 19.13	27.14%

FLAT SERVICE

	Per Service Connection Per Year		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
Single Family Residential Unit	\$ 62.66	\$ 63.75	2.0%
Business Unit	\$100.25	\$102.00	2.0%
Churches	\$ 50.12	\$50.99	2.0%
School Fire Service	\$ 99.21	\$100.94	2.0%

END OF APPENDIX C

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APPENDIX D

**DEL ORO WATER COMPANY
TRAVER DISTRICT
ADOPTED QUANTITIES
TEST YEAR 2017**

1. Purchased Water Cost	\$0
2. Purchased Power Cost	\$20,655
3. Payroll	
Employee Labor	\$29,878
Office Salaries	\$16,326
Management Salaries	\$4,035
	\$6,725
5. Taxes Other Than Income	
6. Service Connections Meter Size	
5/8 x 3/4"	0
3/4"	2
1"	1
1 1/2"	2
3"	1
7. Flat Service Connections	182
Total	188

Adopted Tax Calculation:

1. Operating Revenues	\$164,157
2. Expenses	\$109,211
3. Depreciation	\$11,537
4. Property Taxes	N/A
5. Taxable Income for State Tax	\$36,683
6. State Tax (8.84%)	\$3,243
7. Taxable Income for FIT	\$33,440
8. Federal Tax	\$5,016

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**DEL ORO WATER COMPANY
TRAVER DISTRICT
ADVICE LETTER NO. 463
SERVICE LIST**

California Public Utilities Commission

Division of Ratepayer Advocates

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