



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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Application of Watertek, Inc., a California corporation (U420W) for Authority to Sell and Del Oro Water Co., Inc. (U61W) for Authority to Buy the Watertek, Inc. Water Utilities (Grand View Gardens and East Plano) in Tulare County and (Metropolitan) in Fresno County.

A.10-10-016

(Filed October 20, 2010)

**RESPONSE TO INQUIRES OF ASSIGNED ADMINISTRATIVE LAW JUDGE
RULING OF DECEMBER 14, 2010**

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DATE: December 23, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Watertek, Inc., a California corporation (U420W) for Authority to Sell and Del Oro Water Co., Inc. (U61W) for Authority to Buy the Watertek, Inc. Water Utilities (Grand View Gardens and East Plano) in Tulare County and (Metropolitan) in Fresno County.

A.10-10-016
(Filed October 20, 2010)

**RESPONSE TO INQUIRES OF ASSIGNED ADMINISTRATIVE LAW JUDGE RULING
OF DECEMBER 14, 2010**

Del Oro Water Co., Inc. files this response on behalf of Del Oro Water Co., Inc and Watertek, Inc. to Inquiries of Assigned Administrative Law Judge in Attachment A.

- 1) Provide brief individual regulatory histories of Grand View Gardens, East Plano, Metropolitan, and Watertek, Inc.

In the Decision 04-01-006, dated January 14, 2004, the application of Watertek, Inc. to sell and convey the ownership of Grand View Gardens, East Plano, and Metropolitan water systems to Douglas F. Elliott and Catherine J. Elliott was granted. Prior to this Decision, these water systems were owned and operated by Raymond L. Smith and Ester F. Smith.

In this application, Watertek, Inc. proposed selling its three Commission-regulated water companies to Douglas F. Elliott and Catherine J. Elliott (Catherine now deceased).

Douglas F. Elliott and Catherine J. Elliott on January 14, 2004 were granted a Certificate of Public Convenience and Necessity to acquire ownership of and assume water utility service to the customers of Grand View Gardens, East Plano, and Metropolitan water systems doing business as Watertek.

It should be noted that when Application 10-10-016 was submitted, applicant Watertek, Inc., a California Corporation was misstated. In Decision 04-01-006, dated January 14, 2004, ownership was transferred to Douglas F. Elliott & Catherine J. Elliott. The Elliotts only assumed the name Watertek not the corporation.

The corrected applicant for Application 10-10-016 should be corrected to Douglas F. Elliott (wife deceased), sole owner doing business as Watertek.

2) Provide Reference to resolutions that address the most recent General Rate Cases of Grand View Gardens, East Plano, and Metropolitan.

I. Grandview Gardens District (Watertek)

The last general rate case for Grandview Gardens was granted on October 2, 2002 per Resolution Number W-4355, which authorized an increase of \$31,230 or 128.1% for test year 2002. Prior to this rate case, Grandview Gardens requested authority and was granted on November 19, 2001 under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$19,082 or 71.17%.

II. East Plano District (Watertek)

In the Decision 02-02-034, dated February 26, 2002, East Plano Water Company was transferred to Watertek, Inc., owned by Raymond Smith and Ester Smith. Before the transfer East Plano Water Company was not regulated by the Public Utility Commission. Within 180 days after the acquisition and transfer, it was ordered that Watertek, Inc. file an informal general rate case for its East Plano service territory. However, an informal general rate case was not filed by Watertek, Inc. and the then existing rates were continued to be used for the service area as used by East Plano Water Company.

On January 16, 2003, Watertek, Inc. filed Advice Letter No.1, tariff sheets with Schedule No. 1 – EP Residential Flat Rate Service. They became effective January 24, 2003, with Resolution No. W-4355. When Watertek, Inc. was transferred to Douglas F. Elliott and Catherine J. Elliott, these tariff sheets were not refilled in their names.

III. Metropolitan District (Watertek)

The last general rate case for Metropolitan was granted on August 24, 2006 per Resolution Number W-4613, which authorized an increase of \$7,970 or 103% for test year 2006. Watertek, Inc. was authorized a Consumer Price Index (CPI) increase of \$273.09 or 3.4% effective January 3, 2002. Prior to this rate case, the last general rate case was granted on April 10, 1991 per Resolution Number W-3555.

The rates recommended in Resolution Number W-4613 are still currently in effect.

- 3) Have the applicants received authority from the California Department of Public Health for sale of Grand View Gardens, East Plano, and Metropolitan?

Grand View Gardens and East Plano, under the jurisdiction of the California Department of Public Health (CDPH), have not received CDPH concurrence. TMF's for both are completed and will be submitted approximately January 7, 2011.

- 4) Have the applicants received authority from the governing county health departments for sale of Grand View Gardens, East Plano, and Metropolitan?

Metropolitan, under the jurisdiction and authority of the County of Fresno Health Department (CFHD), has filed the TMF. Following receipt of the change of ownership of the water system, with subsequent approval of the Public Utilities Commission, CFHD will review the permit application for approval.

- 5) Does Watertek, Inc. own any other regulated utilities besides the ones addressed in the current application?

Douglas F. Elliott doing business as Watertek only own the utilities addressed in the current application.

- 6) Provide discussion of whether applicants believe the California Environmental Quality Act (CEQA) is applicable to this sale and transfer.

The applicants do not believe the California Environmental Quality Act (CEQA) is applicable to this sale and transfer. The applicants retained Inland EcoSystems, Inc. to review the requirements and its opinion is that CEQA it is not applicable as these transfers may be considered categorical exempt on the basis that there is no substantial evidence that the projects will have a significant effect on the environment. The opinion of Inland EcoSystems, Inc. is included in the attachments.

Respectfully Submitted,

JANICE HANNA
Director Corporate Accounting

By: _____/s/_____

JANICE HANNA

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Dated: December 23, 2010

ATTACHMENT

Decision 04-01-006 January 8, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Watertek, Inc., a California Corporation, as the sole Owner of Grand View Gardens, East Plano, and Metropolitan Water Systems, and Douglas F. Elliott and Catherine J. Elliott, husband and wife, for the following orders:

1. Authorizing Watertek, Inc., to sell and transfer to Douglas F. Elliott and Catherine J. Elliott, ownership of certain assets of Grand View Gardens, East Plano and Metropolitan water systems; and
2. Authorizing Watertek, Inc. to withdraw from providing water utility service to the Grand View Gardens, East Plano, and Metropolitan water utility customers; and
3. Granting Douglas F. Elliott and Catherine J. Elliott, a certificate of public convenience and necessity; and
4. Authorizing Douglas F. Elliott and Catherine J. Elliott, to engage in and carry on the water utility service to the Grand View Gardens, East Plano, and Metropolitan water system customers.

Application 03-05-034
(Filed May 22, 2003)

OPINION GRANTING APPLICATION

OPINION GRANTING APPLICATION

1. Summary

Watertek, Inc., a family water service company, seeks Commission authorization to sell and transfer ownership of three small water systems, two of them near Porterville and one near Fresno. The prospective purchasers are experienced water system operators who have been operating the three water systems on a contract basis since April 2003. The Commission's Water Division has investigated the proposed transfer and recommends approval. The application is granted.

2. Background

Watertek has been owned and operated since 1986 by Raymond L. Smith and Esther F. Smith. Watertek provides water and sewer service to six Commission-regulated entities and contracts for services to one additional water and sewer company. Watertek's principal place of business is in Salinas, Monterey County. In this application, Watertek proposes selling its three Commission-regulated water companies to Douglas and Catherine Elliott of Porterville, Tulare County.

The Grand View Gardens water system serves an area near Porterville and has approximately 100 flat-rate customers. The system consists of two wells, a 3,000-gallon steel pressure/storage tank and distribution mains. The water mains are primarily four-inch standard screw and plastic pipes that are between 25 and 40 years old. The East Plano water system is also in the Porterville area, and it serves 13 customers. The system is comprised of one well, one pump, a 1,000-gallon steel pressure/storage tank, mains and related parcels of land and easements. The Metropolitan water system serves 29 customers in an area west of Fresno, Fresno County. The system consists of one well, a steel

pressure/storage tank and distribution mains. The Water Division reports that all three water systems are in compliance with county testing requirements.

In Resolution No. W-4355, dated October 24, 2002, the Grand View Gardens system was granted a general rate increase for test year 2002. This resolution ordered Watertek to update and consolidate its tariff book to include only its water systems (Grand View Gardens, East Plano, and Metropolitan), to file individual annual reports for the water systems, and to "cease adding additional systems until its other districts have been evaluated for rate increases." In addition, the resolution states:

"Watertek has continued to expand its operations to include several new systems since 1996. Mr. Smith is responsible for seven systems in various areas of California, which could possibly place existing customers in danger due to Mr. Smith's inability to operate that many systems efficiently."

In this application, Raymond Smith states that he desires to sell the systems because of his age and the difficulty of serving systems that are some distance from his principal place of business. He states that the approval of the application will ensure an orderly transfer and will permit higher service quality for the customers of the water systems.

Douglas and Catherine Elliott operate a family water service company that installs pumps and provides maintenance and repair services to water systems. Douglas Elliott has provided contracted water equipment installation and maintenance and repair services to Grand View Gardens and East Plano water systems for 14 and 22 years, respectively. He holds a Grade 1 water treatment facility operator's license, as well as a Grade 1 distribution system operator's license. He also holds a C-10 general contractor's license.

The Elliotts assumed all operating responsibilities for the three water systems in April 2003 and continue operating the water systems today—including bill collection, water testing, and pump maintenance. The Elliotts' place of business in Porterville is less than 10 minutes away from the Grand View Gardens and East Plano water systems, and 45 minutes away from the Metropolitan water system.

3. Sales Agreement

The sales agreement calls for a purchase price of \$50,000, payable to Watertek in 180 equal payments of \$421.08, which includes both principal and interest of 6% on the unpaid balance. To evaluate whether the Elliotts will be able to handle this long-term obligation, the Water Division examined available records of the water systems, including recent balance sheets, income statements, the sales agreement and existing debt. The Water Division concluded that the Elliotts can assume this debt without incurring financial difficulty and without raising the rates of water system customers beyond what the rates ordinarily would be.

In accordance with Decision (D.) 99-10-064, Appendix D, the application forecasts the results of operation for the three water systems for the first and fifth years following acquisition. The Water Division examined these estimates, along with supporting documentation provided by the applicants.

To determine whether the buyers can service the debt load, staff employed a simplified cash flow model that excludes depreciation and other non-cash items from the income statement to determine annual net income. Traditional cash flow analysis requires analyzing changes in balance sheet accounts during the accounting period. Because staff did not have complete records for the period in question for the three water systems, it relied on the simplified cash

flow model. The Water Division concludes that its model is accurate for determining the buyers' ability to service debt and make needed capital improvements.

For 2003, the application projects a net loss of \$3,183 after loan payments, rising to a net income of \$2,828 by 2007. The Water Division evaluated the methodology and assumptions used in these projections and concluded that (1) depreciation expense was included in the net income calculation and should not have been included as a cash expense, and (2) calculation of future expenses and revenues is reasonable. Deleting the depreciation charge, the Water Division calculates a net loss of \$2,373 in 2003, increasing to a net income of \$3,634 in 2007.

For calculating cash flow, the applicants do not include any expenses for any capital outlays. That said, the applicants do include generous allowances in their results of operations forecasts for contract and professional services. Also, upon acquisition, warehouse expenses should decrease, since supplies will no longer be stored in Salinas. In examining the Elliotts' financial statements, the Water Division believes that the Elliotts will be able to make anticipated and unanticipated capital repairs and keep the water systems in good working order. The Water Division notes that the Commission in D.92-03-093 authorized Class C & D water utilities to establish a memorandum account for unanticipated repair items and recover the expenses through a surcharge mechanism. The Water Division recommends that the Elliotts establish such accounts for each of their water systems.

In summary, although there is a projected net loss for 2003, the Water Division asserts that expenses for the three water systems will actually be lower than forecast, thus resulting in positive net income.

4. Ratepayer Indifference

The Commission requires a test of ratepayer indifference when evaluating the sale of a public utility. Under this test, the sale of a public utility should not have any net consequences that cause the ratepayer to prefer the seller to the buyer. For example, the ratepayer should not be subject to increased rates or reduced service as the result of a change of ownership. In more recent years, the Commission has further required the buyer to demonstrate that acquisition of the public utility yields a tangible benefit to the ratepayers.

Using the ratepayer indifference test to assess the sale of the three water systems by Watertek to the Elliotts, the Water Division evaluated several key metrics including (1) the impact of purchase price on ratebase, (2) future water rates, (3) service quality, and (4) continuity of service.

The proposed purchase price of \$50,000 was arrived at by adding together the fixed assets of each water system and subtracting accumulated depreciation. Watertek provided detailed asset records for each water system. The Water Division reviewed Watertek's calculations and confirmed them with Commission adopted resolutions and annual reports filed with the Commission.

Water System	Grand View Gardens	East Plano	Metropolitan	Total
Plant in Service	\$46,862	\$2,290	\$4,249	\$53,401
Accumulated Depreciation	\$ 2,610	\$ 32	\$ 427	\$ 3,069
Net Plant	\$44,252	\$2,258	\$3,822	\$50,332

Pub. Util. Code § 2720 requires the Commission to use the fair market standard in establishing the rate base for an acquired water system. Section 2720 states:

“(a) The commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.

“(1) For purposes of this section, ‘public water system’ shall have the same meaning as set forth in Section 116275 of the Health and Safety Code.

“(2) For purposes of this section, ‘fair market value’ shall have the same meaning as set forth in Section 1263.320 of the Code of Civil Procedure.

“(b) If the fair market value exceeds reproduction cost, as determined in accordance with Section 820 of the Evidence Code, the commission may include the difference in the rate base for ratesetting purposes if it finds that the additional amounts are fair and reasonable. In determining whether the additional amounts are fair and reasonable the commission shall consider whether the acquisition of the public water system will improve water system reliability, whether the ability of the water system to comply with health and safety regulations is improved, whether the water corporation by acquiring the public water system can achieve efficiencies and economies of scale that would not otherwise be available, and whether the effect on existing customers of the water corporation and the acquired public water system is fair and reasonable.

“(c) The provisions of subdivisions (a) and (b) shall also be applicable to the acquisition of a sewer system by any sewer system corporation or water corporation.

“(d) Consistent with the provisions of this section, the commission shall retain all powers and responsibilities granted pursuant to Sections 851 and 852.”

The Water Division states that the purchase price of \$50,000 meets the fair market standard because it represents the depreciated assets of the three water systems.

5. Water Rates

Based on the 2007 pro forma financial statements provided in the application, water rates are expected to increase between now and the year 2007 as follows:

Water System	Average Monthly Rate – 2003 (Current tariff)	Estimated Average Monthly Rate - 2007	Percent Increase
Grand View Gardens	\$46.82	\$53.72	15%
East Plano	\$42.41	\$50.99	20%
Metropolitan	\$23.78	\$51.95	118%

The ratepayer indifference test requires that projected rates be no more than if the water systems remained under the same ownership. In evaluating the estimated rates, the Water Division states that the applicants have correctly estimated projected water rates for all three water systems.

Grand View Gardens was granted a general rate increase in October 2002 by Commission Resolution No. W-4355. This resolution granted a 128% increase in revenue. The increase brought Grand View Gardens rates up to date to reflect the true cost of operating the water system. Increasing the current tariff rates by the annual CPI index raise (assumed to be 2.5%), water rates in 2007 will be \$51.70, close to the applicants' estimate. This same rationale applies to the East Plano water system.

For the Metropolitan water system, the Water Division checked the annual reports filed with the Commission going back three years. In 2000, Metropolitan recorded a net income of \$3,096. Metropolitan recorded a net loss \$5,488 in 2001 and a net loss of \$4,562 in 2002. In its review of Metropolitan's Income Statement, staff found that Metropolitan's recorded expenses and revenues were reasonable, but it also concluded that the recorded expenses are likely under-reported. Because of this, the Water Division believes that Metropolitan's rates will have to increase to meet current obligations under the current ownership and the proposed rates are in line with that increase.

Staff further notes that any future rate increases are subject to review by the Commission. The water systems will be able to charge just and reasonable rates that have been approved by the Commission. Therefore, the Water Division states that it is comfortable that the water systems' customers will not be subject to unjust water rates.

6. Service Quality

The buyers have been operating the three water systems since April 2003. Because the Elliotts' business office is near the water systems, customers have routinely been dropping off their monthly bills to the Elliotts in person and reporting any water service quality issues. Catherine Elliott is at the office during normal business hours five days a week.

Watertek's principal business office is located three hours away in Salinas. Raymond Smith operates four other water/wastewater systems and was ordered by Resolution No. W-4355 not to add any additional water systems. The resolution expressed concerns that Smith, as a sole operator, may not be able to efficiently operate such a large number of systems.

There are no complaints on file with the Commission since the water systems were placed under the operation of the Elliotts. Based on our staff's investigation, we believe that it is clearly advantageous to the customers of Grand View Gardens, East Plano, and Metropolitan water systems to have the transfer go into effect. The Elliotts are experienced water utility operators, are intimately familiar with the Grand View Gardens and East Plano water systems, and are community based.

7. Service Continuity

Raymond Smith is 67 years old and wishes to leave the water utility business. Douglas Elliott is an experienced water utility plant operator with a long history with Grand View Gardens and East Plano that even pre-dates Smith's involvement with these water systems. The Elliotts desire to own these water systems. Both are relatively young and live in the community.

Watertek's sales agreement with the Elliotts ensures an orderly water system ownership transition and offers continued water service by a responsible and experienced new owner. This in turn reduces the chance that these water systems will be abandoned and turned over to their respective county health departments.

8. Water Quality

For Grand View Gardens, staff spoke to Pamela Moore of the Tulare County Environmental Health Department and she informed them that the water system is up to date on their testing requirements and that there are no outstanding compliance orders. Dan Gera, also of the same department, covers the East Plano system and he informed staff that East Plano is in compliance with all testing requirements and that there are no outstanding compliance orders. Robert Peterson covers the Metropolitan water system and he is with Fresno

County. Staff was unable to reach Peterson, but given the discussions with Moore and Gera, staff is reasonably confident that Metropolitan is in compliance with water testing requirements.

9. Public Notification

By letter dated April 1, 2003, Smith notified customers that he had entered into a sales agreement with the Elliotts and that they had taken over day-to-day operation of the water systems. The letter told the customers that the Elliotts would be billing them and it gave the Elliotts' contact information. It also listed the Water Division's address and telephone number.

10. Conclusion

Both parties desire the transfer of the Grand View Gardens, East Plano, and Metropolitan water systems from Watertek, Inc. to Douglas and Catherine Elliott. Raymond Smith wants to exit the water utility business because of his age and the distance of the water systems from his principal place of business. Douglas Elliott is an experienced water system operator with a long history with the Grand View Gardens and East Plano water systems and he, along with his wife, want to purchase these water systems. The Water Division recommends that the application be approved. We find that approval of the application is in the public interest in that (1) the transfer does not entail rate increases, (2) service continuity is essentially preserved, and (3) service quality will be the same or better.

11. Uncontested Matter

In Resolution ALJ 176-3114 dated June 5, 2003, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings were not necessary. Based on the record, we conclude

that a public hearing is not necessary, nor is it necessary to alter the preliminary determinations in Resolution ALJ 176-3114.

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

12. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Glen Walker is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Watertek seeks authority to transfer ownership of three small Commission-regulated water systems, Grand View Gardens, East Plano and Metropolitan, which collectively serve about 150 customers.

2. The prospective new owners, Douglas and Catherine Elliott, are experienced water system operators, and they have operated the three Watertek systems under contract since April 2003.

3. Ratepayers will benefit from the transfer because the prospective new owners are experienced in operating the three systems and are located closer to the water systems than is the current owner.

4. The Commission's Water Division has determined that the purchase price of the three systems, \$50,000, is the fair market value, as required by Pub. Util. Code § 2720.

Conclusions of Law

1. Transfer of ownership of the three water systems at issue meets the test of ratepayer indifference, in that customers will be unaffected or better off in terms of service, water quality, future water rates and continuity of service.

2. The transfer of ownership will provide tangible benefits to ratepayers both in the quality and cost of water service.

3. Pursuant to California Health and Safety Code § 116525, a change in ownership of a public water system shall, and a change in regulatory jurisdiction may, require application for a new operating permit from the California Department of Health Services.

4. This is an uncontested matter in which the decision grants the relief requested.

O R D E R

IT IS ORDERED that:

1. The application of Watertek, Inc. to sell and convey the Grand View Gardens, East Plano and Metropolitan water systems to Douglas F. Elliott and Catherine J. Elliott is granted.

2. Douglas F. Elliott and Catherine J. Elliott are granted a Certificate of Public Convenience and Necessity to acquire ownership of and assume water utility service to the customers of Grand View Gardens, East Plano and Metropolitan water systems.

3. Applicants within 10 days of the transfer of ownership shall notify the Director of the Water Division in writing that the transfer has taken place, attaching copies of the transfer document.

4. Upon consummation of the transfer of ownership, Watertek, Inc. shall be relieved of public utility responsibility for the operation of Grand View Gardens, East Plano and Metropolitan water systems.

5. Douglas F. Elliott and Catherine J. Elliott are directed to comply with Section 116525(a) of the Health and Safety Code, which states: "No person shall

operate a public water system unless he or she first submits an application to the department and receives a permit as provided in this chapter. A change in

ownership of a public water system shall require the submission of a new application.”

6. Application 03-05-034 is closed.

This order is effective today.

Dated January 8, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I reserve the right to file a concurrence.

/s/ SUSAN P. KENNEDY
Commissioner

I reserve the right to file a concurrence.

/s/ LORETTA M. LYNCH
Commissioner

I will file a concurrence.

/s/ CARL W. WOOD
Commissioner

WATER/SNR/TAC/LTR:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION W-4355
October 24, 2002**

R E S O L U T I O N

**(RES. W-4355), WATERTEK, INC., GRANDVIEW GARDENS
DISTRICT (GV). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE
OF \$31,230 OR 128.1% IN 2002.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$31,230 or 128.1% for Test Year 2002. This increase will provide a 20% margin over expenses in the test year.

BACKGROUND

GV requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$19,082 or 71.17% in 2001. GV's request shows 2002 gross revenue of \$26,813 at present rates increasing to \$46,629 at proposed rates to yield a 20% rate of margin.

GV currently serves 99 flat-rate water customers located immediately north of Porterville in Tulare County. The current rates were established on November 19, 2001, pursuant to Resolution W-4297, which authorized an interim rate increase.

Prior to Watertek's purchase, GV was a CPUC-regulated water utility known as Grand View Gardens Water Company, Inc. (Grand View). Grand View was owned and operated by Ms. Theta McComb and was incorporated under California law in 1987. Prior to the acquisition by Watertek, Grand View was considered a Class D water utility. Ownership of GV was transferred to Watertek by Decision (D.) 01-08-004 (effective 08/02/01), which established the

rate base of \$1.00, which was the purchase price. While ownership of Grand View by Watertek was approved by the CPUC in August 2001, Mr. Smith had been operating the system pursuant to a June 2000 agreement with Ms. McComb.

DISCUSSION

Watertek was founded in 1969 and is currently classified as a sewer utility regulated by the CPUC. Watertek has been owned and operated since 1986 (authorized by Decision 86-12-051) by Raymond L. Smith (CEO) and Esther F. Smith (CFO). Watertek's principal place of business is in Salinas, Monterey County. Mr. Smith is a State certified Grade III Wastewater Operator, Grade II Water Operator, Grade II Distribution Operator, and a general contractor.

Watertek provides water and sewer services to six CPUC-regulated entities (districts) and contracts for services to one additional water and sewer entity. The six CPUC-regulated districts are: East Plano (Porterville area water system), Grandview Gardens (Porterville area water system), Indian Springs (Salinas area sewer system), Metropolitan (Fresno area water system), Oak Hills (Salinas area sewer system), and Spreckles (Salinas area sewer system). The non-regulated sewer entity is San Lucas (Salinas area water and sewer system).

The six CPUC-regulated entities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). This allows the customers of each company to pay a smaller percentage of some of the expenses than had each one of the companies been separate. Shared expenses are allocated to each district based upon the number of customers. This resolution deals specifically with GV's rate increase request. Indian Springs' and Oak Hills' requests are dealt with in separate resolution.

On June 27, 2001 Watertek, Inc. (Watertek) filed a general rate increase request for its GV District. The staff (Staff) of the Water Branch (Branch) reviewed and accepted the filing in late July. The Branch made an independent analysis of GV's summary of earnings and issued its report on August 5, 2002. Appendix A shows GV's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between GV's and the Branch's estimates in operating revenues, expenses and rate base.

The GV filing erroneously estimated many of the expense categories, basing expenses on actual year 2000 instead of the more current 2001 expenses. This

resulted in many of the differences between GV's and Branch's estimates. For example, GV based its power cost estimate for 2002 on its year 2000 power expense. Staff based its estimate on actual energy usage for a 12-month period (2001 calendar year) and Southern California Edison Company's (SCE's) current tariff surcharges.

The other large differences are in labor, materials, contract work, transportation, other plant maintenance, office services and rentals and general expenses. Staff studied Watertek's operation to determine reasonable and necessary amounts of employee labor, office salaries and management salaries in order to efficiently and safely run the company. Staff reduced the amount of transportation expense because of reduced travel need due to the hiring of a plant operator in the Porterville/Fresno Area. Staff also found that Watertek does not maintain a vehicle log that clearly identifies charges relating to each of its districts.

While GV has had expenses classified as "general expenses" in the past, GV has not requested recovery of general expenses in the rate case. Staff has included the warehouse rent which the company included in Office Services and Rentals as well as the yearly Tulare County Environmental Health Department (EHD) regulatory fees. GV has historically incorrectly charged the regulatory fees to Account #408, Taxes Other Than Income Taxes. Staff has redirected these fees to this account.

GV was informed of the Branch's differing views of revenues, expenses and rate base and it agrees with the Branch's findings.

The filing also included an additional request for recovery in the amount of \$2,296. Recovery was requested in the form of a one-time surcharge of \$23.19 per customer. This recovery was for personal funds provided by Mr. Smith to GV for expenses incurred. GV did not have CPUC authority for such a loan and therefore this surcharge should be denied.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to return on rate base method for Class C and Class D utilities. Thus, two methods are available to Staff to utilize in the ratemaking process: Return on Rate Base (not investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio

method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance and depreciation expenses.

Comparison of the revenue requirement indicates that the operating ratio method produces a higher revenue requirement than the return on rate base method. In keeping with policy, Staff recommends the operating ratio method for determining the revenue requirement.

GV did not estimate average plant-in-service because it chose to determine revenue requirement based on the operating ratio method to yield a 20% margin over expenses. However, the depreciable plant-in-service account for GV, as of December 31, 2001, was \$27,226. This figure includes the allocation of the vehicle and well drilling/repairs, up to that date. The utility indicates that \$26,052.64 was spent from January 2002 through April 2002 for well drilling and associated repairs. Staff has been supplied with invoices supporting these expenses.

It is Commission policy not to allow plant additions until the plant item is being used and is useful to the utility. Staff notes that \$26,052.64 has been added to plant and is currently used and useful, while the future repairs are not yet used and useful. Staff's estimate for average plant-in-service is \$40,250 for Test Year 2002.

There are no outstanding Commission orders requiring system improvements. However, Staff notes that Watertek has failed to comply with Ordering Paragraph No. 1d and 1e of D.01-08-004 which states:

- d. Within 10 days after the acquisition, Watertek, shall file an advice letter in the form prescribed by General Order 96 canceling the tariffs of Grand View Gardens and making only such revisions to the tariffs as are necessary to reflect the transfer of control to Watertek. Concurrently with this advice letter filing, Watertek shall provide a separate compliance letter to the Commission's Water

Division which gives notice of the date on which the acquisition and transfer were effective and attaches true copies of the sale and transfer documents.

- e. Within 90 days after acquisition and transfer, Watertek shall file in proper form an annual report on the operations of Grand View Gardens from the first day of the year through the effective date of the acquisition and transfer of the water system.

With the exception of the GV's annual report, as referenced above, Watertek has regularly been filing the required annual reports. However, Staff notes that annual reports for Watertek's individual districts are not being filed with complete information. Information on several schedules is missing, with the reader being referred to Watertek's consolidated annual report. This has posed a significant problem for Staff in determining plant-in-service and accumulated depreciation reserve for ratemaking purposes. Staff notes that Watertek should file complete annual reports for each district if each district is to be treated as a separate entity for ratemaking purposes.

Staff has reviewed Watertek's tariff sheets and has determined that the entire tariff book needs to be corrected to reflect Watertek's ownership of the GV district (the original Grand View Water Company's tariff book is still being utilized). In addition, Watertek's entire tariff book needs to be corrected to reflect all governing rules, forms, and schedules. Staff notes that Watertek should have separate tariff books for its water and sewer systems. Included in the water systems tariff book should be East Plano, Grandview Garden, and Metropolitan; included in the sewer tariff book should be Indian Springs, Oak Hills, and Spreckles.

Staff has also reviewed copies of GV's bills and has determined that they do not conform with the format requirements of Tariff Section B of Rule No. 5. In addition, the bills do not separately identify the monthly service charge and the PUC reimbursement fee.

GV's current rate structure consists of two schedules: Schedule No. 1, General Metered Service, and Schedule No. 2R, Residential Flat Rate Service. There are currently no customers being served under Schedule No. 1.

Schedule No. 2R consists of a two-block rate structure: (1) a rate for customers whose premises do not exceed 10,000 square feet (sq. ft.) in area and (2) an additional rate charge for each 100 sq. ft. in excess of the 10,000 sq. ft. All customers would pay the first rate structure and any customers whose premises exceed the 10,000 sq. ft. limit would pay the additional rate charge. With this rate structure, the GV district has 90 different rates that it bills its 99 customers. GV has requested that the two-block rate structure be revised to a single-block structure. Staff can see no reason to maintain the current two-block rate structure and will therefore agree with GV's request for a single-block rate structure.

Schedule No. 2R rates were designed by simply dividing the 2002 Test Year revenue by the number of customers. Schedule No. 1 rates were designed by increasing each component by the overall percentage increase. The new rate schedules can be found in Appendix B. Bill comparisons can be found in Appendix C.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer would increase from \$20.53 to \$46.82 per month. 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.

Watertek has continued to expand its operations to include several new systems since 1996. Mr. Smith is responsible for seven systems in various areas of California, which could possibly place existing customers in danger due to Mr. Smith's inability to operate that many systems efficiently. Staff recommends that the Commission instruct Mr. Smith that no additional systems can be added until all districts have been evaluated.

NOTICE AND PUBLIC MEETING

Customer notices of the proposed rate increase were mailed to each customer on August 16 and October 5, 2001. One protest was received by the Staff, which indicated objection to the proposed rate increase and quality of water. From February 4, 2001 to February 4, 2002, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding GV.

On February 6, 2002, Staff held an informal public meeting near GV's service area with two customers attending. Mr. Mohsen Kazemzadeh, Senior Utilities Engineer, explained the Commission rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

FINDINGS

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
5. GV did not have Commission authority for a personal loan made by Mr. Ray Smith.
6. Watertek does not maintain a vehicle log that clearly identifies charges for all utility-related transportation expenses for each of its districts.
7. Watertek is not in compliance with Ordering Paragraph No. 1d and 1e of D.01-08-004.
8. Watertek does not file complete annual reports for each of its districts that would permit district-specific accounts to be easily identified.
9. Watertek's tariff book is not up-to-date and is incomplete.
10. Watertek's bills are not in compliance with Rule No. 5.
11. Watertek continues to expand its operations to include several new systems since 1996. Commission should instruct Mr. Smith that no additional systems can be added until all districts have been evaluated.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public utilities Code Section 454 to WATERTEK, INC., GRANDVIEW GARDENS DISTRICT, to file an advice letter

incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service, and Schedule No. 2R, Residential Flat-Rate Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.

2. Watertek should be ordered to maintain a detailed transportation log that will clearly identify utility-related expenses for each of its districts.
3. Watertek should be ordered to file complete annual reports for each of its districts.
4. Watertek should be ordered to update its tariff book and file two separate books: one for the water systems and one for the sewer systems. The water systems tariff book should include the East Plano, Grandview Garden, and Metropolitan districts. The sewer tariff book should include Indian Springs, Oak Hills, and Spreckles districts.
5. Watertek should be ordered to bring all bills into compliance with Rule No. 5.
6. Watertek should be ordered to cease adding additional systems until its other districts have been evaluated for rate increases.
7. 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 24, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

Appendix A
Watertek, Inc. – Grandview Gardens District
SOE - Test Year 2002

Description	GV Present Rates	GV Requested Rates	Branch Present Rates	Branch Requested Rates	Branch Recommended Rates
OPERATING REVENUES					
Flat Rate Water Revenues	26,813	46,629	24,390	45,890	55,620
TOTAL REVENUES					
OPERATING EXPENSES					
Purchased Power	1,754	1,754	5,050	5,050	5,050
Other Volume Related Exp.	1,543	1,543	1,460	1,460	1,460
Employee Labor	3,935	3,935	10,700	10,700	10,700
Materials	760	760	590	590	590
Contract Work – General Exp.	757	757	1,200	1,200	1,200
Contract Work – Water Testing	3,527	3,527	2,785	2,785	2,785
Transportation Expenses	2,177	2,177	960	960	960
Other Plant Maintenance Exp.	5,964	5,964	4,040	4,040	4,040
Office Salaries	4,272	4,272	3,605	3,605	3,605
Management Salaries	2,186	2,186	1,350	1,350	1,350
Employee Pensions and Benefits	328	328	575	575	575
Uncollectible Accounts Exp.	0	0	0	0	0
Office Services and Rentals	2,828	2,828	1,430	1,430	1,430
Office Supplies and Expenses	1,464	1,464	2,025	2,025	2,025
Professional Services	725	725	105	105	105
Insurance	1,263	1,263	1,910	1,910	1,910
Regulatory Commission Exp.	338	338	335	335	335
General Expenses	0	0	2,390	2,390	2,390
SUBTOTAL	33,822	33,822	40,510	40,510	40,510
Depreciation Expense	654	654	1,210	1,210	1,210
Taxes Other Than Income Taxes	2,134	2,134	3,130	3,130	3,130
Income Taxes	800	3,028	800	800	2,425
TOTAL DEDUCTIONS	37,410	39,638	46,650	46,650	47,275
NET REVENUE	<10,597>	6,992	<21,260>	240	8,345
RATE BASE					
Average Plant			40,250	40,250	40,250
Avg. Accumulated Depreciation.			1,010	1,010	1,010
NET PLANT			39,240	39,240	39,240
Working Cash.			0	0	0
Materials and Supplies			0	0	0
RATE BASE			39,240	39,240	39,240
MARGIN RATE		20%			20%

(END OF APPENDIX A)

**Appendix B
(Page 1 of 2)
Watertek, Inc. – Grandview Gardens District**

**Schedule No. 1
GENERAL METERED SERVICE**

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Tract No. 313 and vicinity, located one-half miles northwest of Porterville, Tulare County.

RATES

Quantity Rates:	<u>Per Month</u>	
All water, per 100 cu. ft.	\$ 0.68	(I)
Service Charge:		
For 5/8 x 3/4-inch meters	\$ 65.27	(I)
For 3/4-inch meters	\$ 97.90	
For 1-inch meters	\$163.16	
For 1-1/2-inch meters	\$326.28	
For 2-inch meters	\$522.05	(I)

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

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. 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 to the account of the landlord or property owner.

**Appendix B
(Page 2 of 2)
Watertek Inc. – Grandview Gardens District**

**Schedule No. 2R
RESIDENTIAL FLAT RATE SERVICE**

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area known as Tract No. 313 and vicinity, located one-half miles northwest of Porterville, Tulare County.

RATES

	Per Service Connection <u>Per Month</u>	
For all customers	\$ 46.82	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by above classification will be furnished only on a meter basis.
3. The monthly flat rate charge is due in advance, in accordance with the utility's established billing periods.
4. All rates are subject to the reimbursement fee set forth in Schedule No. UF.
5. A late charge will be imposed per Schedule No. LC.
6. 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 to the account of the landlord or property owner.

(END OF APPENDIX B)

Appendix C
Watertek Inc. – Grandview Gardens District
Comparison of Rates - Test Year 2002

	Per Service Connection Per Month		
	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
For single family residential unit	\$ 20.53	\$ 46.82	128.1%

(END OF APPENDIX C)

Appendix D
(Page 1 of 2)
Watertek Inc. – Grandview Gardens District
Recommended Quantities - Test Year 2002

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income
2. State Tax Rate: 8.84%
3. Service Connections:
99 flat rate
0 metered
4. Property Taxes: \$1,260
1.0% tax rate
5. Payroll Taxes: \$1,870
6. Contract Work - Water Testing: \$2,785
7. Purchased Power

Southern California Edison, Schedule No. PA-1
Power-Agricultural and Pumping Connected Load Basis
Effective September 20, 2001

Energy Charge:
kWh used: 36,480
\$/kWh: \$0.12247
Customer Charge:
\$/mo.: \$17.65
Service Charge:
\$/pump/mo.: \$2.05

**Appendix D
(Page 2 of 2)
Watertek Inc. – Grandview Gardens District
Recommended Quantities - Test Year 2002
(Continued)**

8. Adopted Tax Calculations

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$ 55,620	\$ 55,620
2.	Expenses	\$ 40,510	\$ 40,510
3.	Taxes Other Than Income Taxes	\$ 3,130	\$ 3,130
4.	Depreciation	\$ 1,210	\$ 1,210
5.	State Taxable Income	\$ 10,770	
6.	State Income Tax (@8.84% or \$800 minimum)	\$ 952	
7.	Federal Taxable Income		\$ 9,818
8.	Federal Income Tax (@15%)		\$ 1,473
9.	TOTAL INCOME TAX	\$ 2,425	

(END OF APPENDIX D)

Decision 02-02-034 February 21, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of The Alley Family Trust, as sole owner of East Plano Water Company, to sell, and Watertek, Inc., a California corporation, for the following orders:

- (1) Authorizing the Alley Family Trust to sell and transfer to Watertek, Inc., ownership of certain assets of East Plano Water Company,
- (2) Authorizing East Plano Water Company to withdraw from the water utility business; and,
- (3) Authorizing Watertek, Inc., to engage in and carry on the water utility service to the customers of East Plano Water Company.

Application 01-11-019
(Filed November 14, 2001)

**OPINION GRANTING REQUEST TO
TRANSFER ASSETS AND CONTROL**

1. Summary

The Alley Family Trust (Alley), as owner of East Plano Water Company (East Plano), and Watertek, Inc. (Watertek), jointly seek authority pursuant to Pub. Util. Code §§ 851 - 854 to transfer assets and control of East Plano from Alley to Watertek, Inc. The application is unopposed, and the authority is granted.

2. Background

Alley is the sole owner and operator of East Plano, which to date has not been regulated by this Commission. East Plano serves 13 customers located on Paul and Worth Streets in Porterville, Tulare County. The water system is

comprised of one well, one pump, mains, related appurtenances and parcels of land and easements. The former trustee of Alley, William Paul Alley, operated and maintained the water system for essentially the entire 40-year existence of the system. He recently died. The current trustee, James F. Alley, seeks to transfer the assets of the water company and withdraw from the water business. East Plano has 13 connections with the following rates:

Tariff	Monthly Flat Fee	Number of Customers
Single family residence with notification duty	\$35.00	1
Single family residence	\$43.00	8
Duplex residence	\$69.00	2
Triplex residence	\$99.00	1
Fourplex residence	\$120.00	1
TOTAL CUSTOMERS		13
GROSS MONTHLY REVENUE		\$736.00

Watertek is a Class C public utility corporation regulated by this Commission. Watertek owns three wastewater systems that provide sewer service to approximately 2,800 people, six commercial entities, and four industrial accounts in Monterey County. It also owns the Grand View Gardens water system located about six and one half miles from East Plano, as well as many other small water and wastewater systems. In Decision (D.) 86-12-051, the Commission approved the acquisition of all the stock of Watertek by Raymond L. Smith. Smith is a state certified Grade III wastewater and Grade II water operator, as well as a Grade II Water Distribution Operator and general contractor. According to Watertek's 2000 report to the Commission, Watertek

has \$888,304 worth of water plant in service, and \$320,051 in water and sewer operating revenue. Watertek is currently operating the East Plano water system for Alley. Watertek has the engineering and administrative staff necessary to operate and maintain the East Plano water system. After the transaction is completed, the East Plano customers will be served by Watertek, which does not anticipate any change in tariff rates other than to reflect inflation.¹

3. Description of the Proposed Transfer of Control

Alley and Watertek state that, pursuant to the terms of the sale agreement, Alley will transfer ownership of certain assets of East Plano, including water production and distribution facilities and other assets developed and owned by East Plano, to Watertek for \$2,216.65. Upon Commission approval of this transaction, East Plano will become a Class D water utility regulated by the Commission. As part of the Commission approval of this application, Alley seeks authority to withdraw from the water utility business and be relieved of further regulation by this Commission.

4. Discussion

Pub. Util. Code § 854 requires Commission authorization before a company may “merge, acquire, or control...any public utility organized and doing business in this state....” The purpose of this and related sections is to enable the Commission, before any transfer of public utility authority is consummated, to review the situation and to take such action, as a condition of

¹ Decision 92-03-093, March 31, 1992, Ordering Paragraph 1, allowed Class C and D water utilities to file annually to increase rates by the previous year’s final Consumer Price Index for All Urban Consumers. This increase requires an earnings test.

the transfer, as the public interest may require. (San Jose Water Co. (1916) 10 CRC 56.)

The proposed transfer of assets and control, the parties believe, will provide mutual benefits and will also provide continued high quality service to East Plano's customers. Watertek has a great deal of experience with owning and operating small water systems. The Commission recently considered Watertek's qualifications in operating small water systems, and concluded that Watertek had the qualifications and experience necessary to competently manage a small system, as well as a "good track record" with such systems and a "demonstrated commitment to improve the system." (Grand View Gardens Water Company, D.01-08-004.)

The transfer will also bring the East Plano system under regulation by this Commission. This system appears to have been operated as a public utility, subject to this Commission's jurisdiction pursuant to Pub. Util. Code § 2701. We are familiar with the organizational and administrative challenges presented by small water systems, see, e.g., Application of Tito Balling, Inc., D.00-07-014 and we believe that the customers of East Plano will benefit from this transfer of ownership to a Commission-regulated business entity. We remind Watertek, that we expect complete and timely compliance with all applicable law and regulations.

With regard to Watertek's rates for its East Plano customers, we draw Watertek's attention to Decision 99-10-064, which requires that there be "a Commission decision or resolution authorizing rates (as a) prerequisite to the implementation of rates for an acquired utility," (Ordering Paragraph 2). We will approve East Plano's existing rates as interim rates, but will require

Watertek to file an informal general rate case within six months after the effective date of this decision to determine reasonable rates for these customers.

Under the California Environmental Quality Act (CEQA) and Rule 17.1 of the Commission's Rules of Practice and Procedure (Rules), we must consider the environmental consequences of projects that are subject to our discretionary approval. (Public Resources Code § 21080.) Based upon the record, this transfer of control will have no significant effect on the environment because Watertek will continue to operate the East Plano systems as it is now and tariffs will be unchanged by this transaction. Any subsequent tariff change will require Commission approval. Consequently, the Commission need not perform further environmental review. (See CEQA Guideline 1506(b)(3).)

Pursuant to the provisions of California Health and Safety Code (CH&S) § 116525(a), any person or entity operating a public water system must have a permit to operate that system from the Department of Health Services. A change in ownership of a public health system requires the prospective new owner to apply to and satisfy the Department's requirement that the new owner "possesses adequate financial, managerial, and technical capability to assure the delivery of pure, wholesome, and potable drinking water" (CH&S Code § 116540). Accordingly, apart from authorization from the Commission for Watertek's acquisition of East Plano, Watertek also must apply to the Department of Health Services for reissuance of the existing permit of East Plano.

Notice of this application appeared in the Commission's Daily Calendar on November 20, 2001. No protests were received.

The Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. Based on the record, we conclude that a public hearing is not necessary, nor is it necessary to

alter the preliminary determinations. As no hearing is required, and pursuant to Rule 6.6 of our Rules of Practice and Procedure, Article 2.5 of the Rules ceases to apply to this proceeding.

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

Findings of Fact

1. Notice of this application appeared in the Commission's Daily Calendar on November 20, 2001.
2. The application is unopposed.
3. No hearing is necessary.
4. Watertek is experienced and has a good track record in owning and operating small water systems.
5. Watertek will continue to operate the system as it is now, and tariffs will be unchanged by this decision.

Conclusions of Law

1. To the extent the application seeks authorization for a transfer of assets and change of control pursuant to Pub. Util. Code §§ 851-854, the application should be approved.
2. The Commission need not perform additional environmental review because this transfer of assets and control will have no significant effect on the environment.
3. Pursuant to California Health and Safety Code Section 116525, a change in ownership of a public water system requires application for a new operating permit from the California Department of Health Services.

4. Watertek's rates for its East Plano customers should be approved on an interim basis, and Watertek should be required to file an informal general rate case no later than after the effective date of the transfer.

5. Article 2.5 of the Rules ceases to apply to this proceeding.

6. This order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. The application of The Alley Family Trust (Alley), as the sole owner of East Plano Water Company (East Plano), and Watertek, Inc. (Watertek), for authority to transfer assets and control of East Plano from Alley to Watertek pursuant to Pub. Util. Code §§ 851-854 is approved.

2. As conditions of this grant of authority, Watertek shall assume Alley's public utility obligations, including the permit requirements of the California Department of Health Services.

3. Upon completing this transaction, Alley may withdraw from the water utility business, and will be relieved of further regulation by this Commission with regard to the East Plano System.

4. Before the acquisition is complete, Alley shall deliver to Watertek, and Watertek shall thereafter keep, all records of construction and operation of the East Plano water system.

5. Within 90 days after the acquisition and transfer, Watertek shall file in proper form and annual report of the operations of East Plano from the first day of the year through the effective date of the acquisition and transfer of the water system.

6. Within 30 days after the acquisition and transfer, Watertek shall file tariff sheets adopting the existing rates for service in this service territory.

7. Within 180 days after the acquisition and transfer, effective date of this decision, Watertek shall file an informal general rate case for its East Plano service territory.

8. Applicants shall notify the Director of the Commission's Water Division in writing of the transfer of authority, as authorized herein, within 30 days of the date of the transfer. A true copy of the instruments of transfer shall be attached to the notification.

9. Watertek shall make all books and records of the sales transaction available for review and inspection upon Commission staff request.

10. The authority granted herein shall expire if not exercised within one year of the date of this order.

11. Application 01-11-019 is closed.

This order is effective today.

Dated February 21, 2002, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

WATER/SNR/PTL/LEP: jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4613

August 24, 2006

R E S O L U T I O N

(RES. W-4613), WATERTEK, INC., METROPOLITAN DISTRICT (WATERTEK). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$7,970 OR 103% IN TEST YEAR 2006.

SUMMARY

By Draft Advice Letter, filed on March 20, 2006, Watertek's Metropolitan District seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on May 15, 2006.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$7,970 or 103% which is estimated to provide a return of margin of 25%.

BACKGROUND

Watertek's Metropolitan District, a Class D water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$10,008 or 137% for test year 2006. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Metropolitan's request shows 2006 gross revenues of \$7,323 at present rates increasing to \$17,356 at proposed rates. Metropolitan is requesting a return-on-rate base of 15.4%.

The last general rate case for Metropolitan was granted on April 10, 1991 per Res. No. W-3555, which authorized an increase of \$4,432 or 123.1% for test year 1991 with a zero rate of return on rate base for test year 1991. Watertek was authorized a Consumer Price Index (CPI) increase of \$273.09 or 3.4% effective January 3, 2002.

Ownership of Watertek was transferred to Douglas F. Elliott and Catherine J. Elliott, (husband and wife) of Porterville, Tulare County per Decision (D.) 04-01-006. Watertek has three districts: Grand View Gardens District serves an area near Porterville and has approximately 100 flat-rate customers. The East Plano District is also in the Porterville

area and serves 13 customers. The Metropolitan District serves 29 customers and is located approximately two miles west of Fresno, California, in Fresno County. The Metropolitan system consist of one well, a steel pressure/storage tank, and distributions mains.

Watertek's owners, Douglas and Catherine Elliott, are also the only employees. Douglas is the manager and operator of the three systems. He holds a Grade I water treatment facility operator's license as well as a Grade I distribution system operator's license. Catherine is the office manager whose duties include, but not limited to, meter reading, processing, and mailing bills, bookkeeping, preparing annual reports and taking water samples to the laboratory for testing. The Elliotts charged 13% of their salaries to the Metropolitan District. The number of customers is not expected to increase.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to the customers on May 20, 2006. The Division did not receive any letters protesting the increase.

DISCUSSION

The Division made an independent analysis of Metropolitan's operations. Appendix A shows Metropolitan's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Metropolitan is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses, including purchased power, employee labor, materials, water testing, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The major differences in Metropolitan's rate base were in average plant, accumulated and rate base. The Division used the rate base adopted in D.04-01-006. The Division also included in its estimate \$6,200 for a replacement pump.

Metropolitan has requested a rate of return of 15.4%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524

(March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's return is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 25% for Class D water utilities. A comparison of the two methods indicates that the rate of margin method produces a higher return; therefore, the Division recommends the rate of margin method.

Metropolitan's rate structure consists of two schedules: 1-MP, General Metered Service; and 2-MP, Residential Flat Rate Service. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$7,970 or 103% for test year 2006.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8x3/4-inch metered residential customer using the system average of 1,600 cu. ft. would increase from \$22.04 to \$44.86 or 103.5%. 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

Metropolitan has no outstanding compliance orders. The utility has been filing annual reports as required. However, Metropolitan needs to update the following: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.

COMMENTS

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

FINDINGS

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.

2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. Watertek should be authorized to update the following rules: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Watertek Inc. Metropolitan District, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1-MP, General Metered Service, and 2-MP, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Watertek, Inc., Metropolitan District is authorized to increase its annual revenues by \$7,970 or 103% for test year 2006.
3. Watertek, Inc., Metropolitan District shall update the following rules in its tariff book: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.
4. 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 August 24, 2006; the following Commissioners voting favorably thereon:

/s/ STEVE LARSON

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY

President

GEOFFREY F. BROWN

DIAN M. GRUENEICH

Resolution W-4613
WATERTEK/DRAFT AL/SNR/PTL/LEP/jlj

August 24, 2006

JOHN A. BOHN
RACHELLE B. CHONG
Commissioners

APPENDIX A
WATERTEK, INC. - METROPOLITAN DISTRICT
SUMMARY OF EARNINGS
 Test Year 2006

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Unmetered Revenue	\$2,315	\$5,487	\$2,283	\$5,388	\$4,570
Metered revenue	5,008	11,869	5,487	13,007	11,170
Total revenue	7,323	17,356	7,770	18,394	15,740
<u>Operating Expenses:</u>					
Purchased power	1,941	1,941	1,941	1,941	1,941
Contract work	600	600	600	600	600
Water testing	600	600	600	600	600
Transportation expenses	528	528	528	528	528
Other plant maintenance	950	950	950	950	950
Office salaries	2,184	2,184	2,184	2,184	2,184
Management	1,950	1,950	1,950	1,950	1,950
Office services & rentals	624	624	624	624	624
Office supplies & expenses	507	507	507	507	507
Professional services	634	634	634	634	634
Insurance	218	218	218	218	218
General expenses	19	19	19	19	19
Total operating expenses	10,755	10,755	10,755	10,755	10,755
Depreciation expense	500	500	367	367	367
Taxes Other than Income	979	979	778	778	778
State taxes	800	800	800	800	800
Federal income taxes	-	648	-	854	456
Total deductions	13,034	13,682	12,701	13,555	13,156
Net Revenue	(5,711)	3,673	(4,931)	4,840	2,584
<u>Rate Base</u>					
Average Plant	25,323	25,323	6,313	6,313	6,313
Aver. Acc. Dep.	1,500	1,500	1,036	1,036	1,036
Net Plant	23,823	23,823	5,278	5,278	5,278
Plus: Working Cash	-	-	-	-	-
Materials & supplies	-	-	-	-	-
Less: Contributions	-	-	-	-	-
Rate Base	23,823	23,823	5,278	5,278	5,278
Rate of Return	(23.97%)	15.4%	(93.4%)	91.7%	48.96%
Rate of Margin					25%

(END OF APPENDIX A)

APPENDIX B
Page 1
Watertek Inc.
Metropolitan District

Schedule No. 1-MP

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Skaal Knoll Homesites, located approximately two miles west of Fresno, Fresno County, and west half of lot 53 of West Fresno Tract.

RATES

Quantity Rates:

All usage, per 100 cu.ft.....\$ 1.77 (I)

Service Charge:

For	5/8 x 3/4-inch meter.....	\$	16.54	(I)
For	3/4-inch meter	\$	24.80	
For	1-inch meter.....	\$	41.35	
For	1-1/2-meter.....	\$	82.70	
For	2-inch meter	\$	132.32	(I)

This Service Charge is a readiness-to-serve charge, which is applied to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

APPENDIX B
Page 2
Watertek, Inc.
Metropolitan District

Schedule No. 2-MP

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Skaal Knoll Homesites, located approximately two miles west of Fresno, Fresno County, and west half of Lot 53 of West Fresno Tract.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residential unit including premises	\$ 47.60	(I)
For each additional single family residential unit on the same premises and served from the same service connection	\$ 31.00	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at the option of the utility in which event service thereafter will furnished under Schedule No. 1, General Metered Service.
4. All rates are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
Watertek, Inc.
Metropolitan District
Schedule No. 1-MP
Metered Service
Test Year 2006

COMPARISON OF RATES:

METERED SERVICE

	Present Rates	Per Meter Proposed Rates	Percent Increase
For 5/8 x 3/4-inch meter	\$ 7.96	\$ 16.54	108%
For 3/4-inch meter	11.89	24.80	109%
For 1-inch	19.90	41.35	108%
For 1 1/2-inch meter	39.81	82.70	108%
For 2-inch meter	63.59	132.32	108%

Quantity Rate:

All water, per 100 cu.ft.	\$0.88	\$1.77	101%
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Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4 inch is shown below at current rates and recommended rates for test year 2006.

Usage	Present	Recommended	Increase	Percent
0	\$ 7.96	\$ 16.54	\$ 8.58	108%
5	12.36	25.39	13.03	105%
10	16.76	34.24	17.48	104%
16 Avg.	22.04	44.86	22.82	104%
20	25.56	51.94	26.38	103%

(END OF APPENDIX C)

APPENDIX D
Watertek, Inc.
Metropolitan District
'Adopted Quantities
Test Year 2006

Purchased Power	\$ 1,941
kWh	10,626
Property Tax	220
Management Salary	1,950

	Service Connections
Metered Rates	
5/8 x 3/4	21
Flat Rates	<u>8</u>
Total	29

INCOME TAX CALCULATIONS
Test Year 2006

Operating Revenues	15,740
Operating Expenses	10,755
Depreciation	367
Taxes Other Than Income	778
Income Before Taxes	3,840
State Tax	800
Federal Tax	456
Net Income	2,584

(END OF APPENDIX D)

Resolution W-4613
WATERTEK/DRAFT AL/SNR/PTL/LEP/jlj

August 24, 2006



INLAND ECOSYSTEMS, Inc.
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April 20, 2010

Mr. Robert S. Fortino
Chief Executive Officer
Del Oro Water Company
426 Broadway, Suite 301
Chico, CA

Subject: Justification for a Notice of Exemption Pursuant to the California Environmental Quality Act for the Del Oro Water Company - Water Transfer Projects

Dear Mr. Fortino:

I have reviewed Resolution ALJ-244, Section 13 Environmental Information as it pertains to the Del Oro Water Company (Del Oro) - Water Transfer Projects located in Porterville and Fresno. The projects entail the transfer of water service from three (3) independent companies which serve approximately 143 customers.

Resolution ALJ-244, Section 13 requires that California Environmental Quality Act (CEQA) requirements be satisfied in one of several different ways including preparation of Environmental Impact Reports, Negative Declarations, and Exemptions.

Resolution ALJ-244 Section 13 (1)(b) *"requires that if the project has not been found to be exempt from CEQA by another government agency then the applicant shall state the specific CEQA exemption or exemptions that the applicant claims apply to the project, including citations to the applicable State CEQA Guideline(s) and/or statutes, and an explanation of why the applicant believes that each exemption applies. The applicant shall confirm that no exceptions to the claimed CEQA exemption(s) apply."*

My findings are as follows.

1.0 REGULATORY FRAMEWORK

Compliance with CEQA is binding on all state and local agencies in California. One of the basic purposes of CEQA is to inform governmental decision makers and the public about the potential significant effects, if any, of proposed "Projects". A "Project" means the whole of an action, which has a potential for resulting in either a direct or indirect physical change in the environment.

Depending upon the characteristics of a “Project” and its potential for significant environmental effects, CEQA review may pursue one of three basic directions:

- (1) an exemption (statutory or categorical);
- (2) a negative declaration (including a mitigated negative declaration); or
- (3) an environmental impact report (EIR).

CEQA exempts a number of specific types of projects from its provisions. The Secretary of the Resources Agency which oversees CEQA has identified 32 classes of projects which do not have a significant effect on the environment, and they are normally exempt from CEQA. A significant impact means a substantial, or potentially substantial, adverse change in any of the physical conditions within the area affected by the project, including land, air, water, minerals, flora, fauna, ambient noise, and objects of historic or aesthetic significance.

CEQA recognizes that in determining how a project should be approved, a public agency has an obligation to balance a variety of public objectives, including economic, environmental, and social factors. CEQA’s goal is providing a decent home and satisfying living environment for every Californian.

2.0 CEQA EXEMPTION – SECTION 15301. “EXISTING FACILITIES”

The CEQA exemption applicable to the Del Oro Water Company - Water Transfer Projects is the operation of “*Existing Facilities*” (*CEQA Guidelines Section 15301*). This exemption includes the operation, repair, maintenance, or minor alteration of existing public or private structures, and facilities, involving negligible or no expansion of use beyond that existing at the time of the lead agency’s determination. As required in Resolution ALJ-244 Section 13(b), Del Oro confirms that no exceptions to the claimed CEQA exemption apply.

3.0 CONCLUSION

There is substantial evidence under CEQA that the Del Oro–Water Transfer Projects may be considered for a categorical exemption on the basis that there is no substantial evidence that the Projects will have a significant effect on the environment and supported by the following facts:

- (1) The Projects do not have the potential to substantially degrade the quality of the environment; substantially reduce the habitat of a fish or wildlife species; cause a fish or wildlife population to drop below self-sustaining levels; threaten to eliminate a plant or animal community; substantially reduce the number or restrict the range of an endangered, rare or threatened species; or eliminate important examples of the major periods of California history or prehistory.
- (2) The Projects do not have the potential to achieve short-term environmental goals to the disadvantage of long-term environmental goals.
- (3) The Projects do not have possible environmental effects that are individually limited but cumulatively considerable. “Cumulatively considerable” means that the incremental effects of an

individual project are significant when viewed in connection with the effects of past projects, the effects of other current projects, and the effects of probable future projects.

(4) The environmental effects of the Projects will not cause substantial adverse effects on human beings, either directly or indirectly.

I trust the above CEQA finding and my professional opinion that an exemption is a defensible determination for state agencies reviewing the projects to make meets with your satisfaction. Please do not hesitate to call should you require any additional information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Glenn S. Merron".

Glenn S. Merron, Ph.D.

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City of Chico and County of Butte; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Del Oro Water Co., Inc., Drawer 5172, Chico, California, 95927.

On the 23rd day of December, 2010 I served a true copy of:

**RESPONSE TO INQUIRES OF ASSIGNED ADMINISTRATIVE LAW JUDGE
RULING OF DECEMBER 14, 2010**

[xx] By Electronic Mail – serving the enclosed via email transmission to each of the parties listed on the official service lists for **Application No. 10-10-016**. with an e-mail address.

I, certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on December 23, 2010, at Chico, California.

/s/

JANICE HANNA

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