

DRAFT

AGENDA ITEM #8469

WATER/RSK/FLC/PTL/OE2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4760
May 7, 2009

R E S O L U T I O N

(RES. W- 4760), DEL ORO WATER COMPANY, PARADISE PINES DISTRICT (DOWCPPD). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUES OF \$341,135 OR 22.8% FOR TEST YEAR 2009.

SUMMARY

By Draft Advice Letter filed on August 4th, 2008, Del Oro Water Company, Inc. (DOWC) seeks to increase its Paradise Pines District rates for water service to recover increased operating expenses and earn an adequate return on its plant investment.

For Test Year 2009, this resolution grants an increase in gross annual revenues of \$341,135 or 22.8% which is estimated to provide a rate of return of 10.80%.

BACKGROUND

Del Oro Water Company, Inc., a Class B water utility, has requested authority under General Order 96-B, Rule 7.6.2, and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its PPD's water rates by 23.79% or \$355,550 for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. DOWC's requests shows 2007 gross revenues of \$1,494,265, increasing to \$1,847,341 at proposed rates. DOWC is requesting a rate of return of 10.80%.

The present rates were established on May 27, 2008, pursuant to Advice Letter No. 181, which authorized a Consumer Price Index increase. The last general rate increase was granted on May 5, 2005, pursuant to Res. W-4533, which authorized a rate increase of \$97,540 or 7.07%, resulting in a rate of return of 8.42%

PPD serves 4,752 residential and commercial customers in the city of Paradise Pines, Butte County. DOWC has other districts: Magalia, Lime Saddle, and Stirling Bluffs in Butte County; Johnson Park and Mt. Lassen in Shasta County; Walnut Ranch and Arbuckle in Colusa County; Strawberry in Tuolumne County; River Island, Pine Flat, and Country Estates in Kern County; and Pine Mountain in Tulare County.

PPD's resident income levels are in the low to middle income range. Although many of PPD's customers are in the work force, some of them are retirees. With 4,752 service connections, PPD is the largest of the fourteen districts owned by DOWC.

PPD obtains its water supply from a series of six wells, all located in its service area. Currently only four wells are operational, while Well No. 1 acts as a standby and Well No. 5 which is a drying well is inactive and has been inactive since the 80's. Water from the wells is pumped and boosted to three steel tanks with a total capacity of 2,900,000 gallons. There is currently a new 1-million gallon capacity storage tank in place to replace Tank No.1, which had a storage capacity of 840,000 gallons. DOWC also purchases water from the Paradise Irrigation District to supplement its own supply.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on October 16, 2008. The Division of Water and Audits (Division) and DOWC received ten letters in opposition to the rate increase.

An informal public meeting was held on Tuesday, November 18, 2008, at the Paradise High School Cafeteria in Paradise, California. The meeting started at 7:07 p.m. with four customers in attendance. The Water and Sewer Advisory Branch representatives, Project Manager, Peter Liu declared the meeting open, while Oge Enyinwa explained Commission procedures, expenses section of the general rate case as well as the purpose of the meeting. Susan Howard, Community Relations Director, who was the representative for the utility, made a presentation to explain the need for the rate increase with Janice Hanna, Director of Corporate Accounting, and Paul Matulich, Vice President, adding a few comments at the end. The rest of the meeting consisted of comments and questions by the customers, which the Division staff and DOWC representatives responded to.

DISCUSSION

The Division made an independent analysis of PPD's operations. Appendix A shows PPD's and the Division's estimated summary of earnings at present, proposed, and

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recommended rates for test year 2009. DOWC is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix B.

The Division staff reviewed operating revenues and expenses including purchased power and water, employee labor, management salaries, employee pension & benefits, materials, contract work, transportation expenses, uncollectibles, office service and rentals, office supplies and expenses, professional services, insurance, regulatory commission expenses, depreciation, and taxes other than income. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The Division's general approach for estimating PPD's operating expenses, excluding purchased power and water, insurance, taxes other than income, uncollectible, and salaries, is based on taking the average of the past three years' (2005 - 2007) recorded expenses and applying the most current monthly escalation factor from the Global Insight U.S Economic Outlook. The monthly escalation factor for labor and non-labor is provided by the Division of Ratepayer Advocates (DRA) from the Global Insight U.S Economic Outlook for 2008 through 2012. Division used the escalation factor published for the month of January, 2009 which was estimated at -0.80% for non-labor expenses and 3.8% for labor expenses.

DOWC utilized a similar approach as Division to estimate their PPD's TY 2009 expenses. DOWC used a three year average plus a 3% inflation rate per year for 2008 and 2009. DOWC serves multiple water districts and therefore costs in several areas are shared among the various districts. These costs include: employee labor and benefits, office and management salaries, and insurance and transportation expenses. DOWC used a cost allocation factor for PPD based on the number of customers in PPD, as a percentage of DOWC's total number of customers in their districts. Depending on the cost category, in some cases, costs are shared among DOWC's twelve districts and in other cases among four districts, the cost allocation percentage therefore varied depending on the cost responsibility among the districts. Division Staff reviewed DOWC's cost allocation methodology for the costs categories listed above and verified that the DOWC adequately allocated the percentage applicable to PPD.

For employee labor, office and management salaries, Division Staff evaluated DOWC's TY 2009 salaries by comparing them against the Association of California Water Agencies' (ACWA) 2008 benefit and salary survey for similar size water companies, job description and in the same area code. Division Staff found PPD's TY 2009 salaries comparable to the salaries for water companies surveyed by ACWA in the same area code.

The Division staff audited actual bills for expenses to make its estimates, and also used different inflation rates than PPD, who used projections across all expenses when

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recorded information did not apply. Based on the DRA's memorandum of January 31, 2009, the Division uses a non-labor inflation rate of -0.8% and a labor inflation rate of 3.8% for the appropriate operating expense.

DOWC is a Class B water utility and the allowed rate of return is 10.80% based on its capital structure. Based on current rates, PPD's annual revenue for TY 2009 is \$1,494,265. At the recommended test year revenue of \$1,835,400, the increase will be \$341,135 or 22.80%.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8-inch metered customer using 15 Ccf would increase from \$32.82 to \$41.35, which is \$8.53, or 26.0% in test year 2009. 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

PPD has no outstanding compliance orders. The utility has been filing annual reports as required. As of March 9, 2009, the California Department of Public Health's findings were that the system has no major deficiencies and considers PPD to be in compliance with all applicable water quality regulations and standards.

The Division recommends that DOWC needs to update the following tariff rule: Rule 5, (Special Information Required on Forms).

COMMENTS

This is an uncontested matter in which the resolution grant 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. The Division's recommended summary of earnings (Appendix A) are 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. DOWC needs to update the following tariff rule: Rule 5, (Special Information Required on Forms).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company 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 Schedule No. PP-1A, General Metered Service. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Del Oro Water Company, Paradise Pines District, is authorized to increase its annual revenues by \$341,135 or 22.8% for test year 2009.
3. Del Oro Water Company, Paradise Pines District, shall update the following tariff rule and form: Rule 5, (Special Information Required on Forms).
4. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
5. 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 May 7, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

Appendix A
Del Oro Water Company (Paradise Pines District)

Summary of Earnings
Test Year 2009

<u>Item</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended Rates</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	
<u>Operating Revenue</u>					
Flat Rates	\$0	\$0	\$0	\$0	\$ -
Metered Rates	\$1,494,265	\$1,847,341	\$1,494,265	\$1,847,341	\$1,835,400
Private Fire	\$0	\$0	\$0	\$0	\$0
Other Water Revenue	\$0	\$0	\$0	\$0	\$0
	\$1,494,265	\$1,847,341	\$1,494,265	\$1,847,341	\$1,835,400
<u>Operating Expenses</u>					
610 Purchased Water	\$70,580	\$70,580	\$70,580	\$70,580	\$70,580
615 Purchased Power	\$288,949	\$288,949	\$288,949	\$288,949	\$288,949
618 Other Volume Related Expenses	\$2,216	\$2,216	\$2,074	\$2,074	\$2,074
630 Employee Labor	\$183,385	\$183,385	\$183,385	\$183,385	\$183,385
640 Materials	\$33,663	\$33,663	\$31,504	\$31,504	\$31,504
650 Contract Work	\$27,398	\$27,398	\$27,398	\$27,398	\$27,398
660 Transportation Expenses	\$37,023	\$37,023	\$30,614	\$30,614	\$30,614
664 Other Plant Maintenance	\$3,581	\$3,581	\$2,074	\$2,074	\$2,074
670 Office Salaries	\$298,884	\$298,884	\$298,884	\$298,884	\$298,884
671 Management Salaries	\$76,510	\$76,510	\$76,510	\$76,510	\$76,510
674 Employee Benefits	\$122,226	\$122,226	\$122,226	\$122,226	\$122,226
676 Uncollectibles Expense	\$5,941	\$5,941	\$4,180	\$4,180	\$4,180
678 Office Services & Rentals	\$58,076	\$58,076	\$58,076	\$58,076	\$58,076
681 Office Supplies & Expenses	\$81,665	\$81,665	\$81,665	\$81,665	\$81,665
682 Professional Services	\$21,178	\$21,178	\$21,178	\$21,178	\$21,178
684 Insurance	\$40,555	\$40,555	\$40,555	\$40,555	\$40,555
688 Regulatory Commission Expense	\$3,960	\$3,960	\$3,960	\$3,960	\$3,960
689 General Expenses	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Subtotal	\$1,360,790	\$1,360,790	\$1,348,812	\$1,348,812	\$1,348,812
Depreciation	\$135,536	\$135,536	\$135,536	\$135,536	\$135,536
Taxes other than Income	\$67,157	\$67,157	\$67,157	\$67,157	\$67,157
Income Taxes	\$800	\$109,256	\$800	\$110,291	\$109,235
Total Deductions	\$1,564,283	\$1,672,739	\$1,552,305	\$1,661,796	\$1,660,741
Net Revenue	-\$70,018	\$174,602	-\$58,040	\$185,545	\$174,659
<u>Rate Base</u>					
Average Plant	\$6,165,663	\$6,165,663	\$6,165,663	\$6,165,663	\$6,165,663
Ave. Accumulated Depreciation	\$4,433,975	\$4,433,975	\$4,433,975	\$4,433,975	\$4,433,975
Net Plant	\$1,731,688	\$1,731,688	\$1,731,688	\$1,731,688	\$1,731,688
<u>Less</u> Advances	\$191,420	\$191,420	\$191,420	\$191,420	\$191,420
Contributions	\$106,204	\$106,204	\$106,204	\$106,204	\$106,204
<u>Plus</u> Working Cash	\$113,602	\$113,602	\$113,602	\$113,602	\$113,602
Materials & Supplies	\$7,157	\$7,157	\$7,157	\$7,157	\$7,157
CWIP	\$61,954	\$61,954	\$61,954	\$61,954	\$61,954
Rate Base:	\$1,616,777	\$1,616,777	\$1,616,777	\$1,616,777	\$1,616,777
Rate of Return	-4.33%	10.80%	-3.59%	11.48%	10.80%

APPENDIX B

Del Oro Water Company
Paradise Pines District

Schedule No. PP-1A

GENERAL METERED SERVICE
Test Year 2009

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District service area.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

Quantity Charge: For all water, per 100 cu. ft. \$ 2.002 (I)

Monthly Service Charge:	Per Meter <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 11.32 (I)
For 3/4-inch meter	\$ 16.97
For 1-inch meter	\$ 28.29
For 1-1/2-inch meter	\$ 56.58
For 2-inch meter	\$ 90.53
For 3-inch meter	\$169.74
For 4-inch meter	\$282.90
For 6-inch meter	\$565.81 (I)

SRF Surcharge:	Per Meter <u>Per Month</u>
For 3/4-inch meter	\$ 3.26(L)
For 1-inch meter	\$ 4.89
For 1-1/2-inch meter	\$ 8.15
For 2-inch meter	\$ 16.30
For 3-inch meter	\$ 26.07
For 4-inch meter	\$ 81.48
For 6-inch meter	\$ 162.96(L)

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

The monthly surcharge is specifically for the repayment of the State Revolving Fund for the regional Intertie Project as authorized by Decision 08-05-032. The monthly Surcharge rates are subject to adjustment.

APPENDIX C
Del Oro Water Company
Paradise Pines District

COMPARISON OF RATES

Test Year 2009

		Per Service Connection Per Month		
		Present	Recommended	Percent
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:				
	For 5/8 x 3/4-inch meters	\$ 10.72	\$ 11.32	5.6%
	For 3/4-inch meters	\$ 16.07	\$ 16.97	5.6%
	For 1-inch meters	\$ 26.79	\$ 28.29	5.6%
	For 1-1/2-inch meters	\$ 53.58	\$ 56.58	5.6%
	For 2-inch meters	\$ 85.73	\$ 90.53	5.6%
	For 3-inch meters	\$ 160.74	\$ 169.74	5.6%
	For 4-inch meters	\$ 267.90	\$ 282.90	5.6%
	For 6-inch meters	\$ 535.80	\$ 565.81	5.6%
Quantity Charge:				
Metered	All use, per 100 cu. ft. . . .	\$ 1.473	\$ 2.002	35.9%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

Usage	Present	Recommended	Amount	Percent
<u>100 cu. ft.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
0	10.72	11.32	0.60	5.6%
5	18.09	21.33	3.24	17.9%
10	25.45	31.34	5.89	23.1%
15 (avg)	32.82	41.35	8.53	26.0%
20	44.60	57.36	12.76	28.6%
30	54.91	71.38	16.47	30.0%
40	69.64	91.40	21.76	31.2%

APPENDIX D
Del Oro Water Company
Paradise Pines District

ADOPTED QUANTITIES

Test Year 2009

1. Purchased Power	
Total Cost	\$ 288,949
2. Water Sales in CCF	577,000
3. Payroll	
Employee Labor	\$ 183,385
Office Salaries	\$ 298,884
Management Salaries	\$ 76,510
4. Payroll Taxes	\$ 44,418
5. Property Taxes	\$ 22,739
Service Connections - Meter Size	
5/8 x 3/4"	4,703
3/4"	0
1"	26
1-1/2"	11
2"	7
3"	2
4"	2
6"	1
Total Metered	4,752

Adopted Tax Calculation Test Year 2009

1. Operating Revenues	\$1,835,400
2. Expenses	\$1,348,812
3. Depreciation	\$ 135,536
4. Payroll Taxes	\$ 44,418
5. Property Taxes	\$ 22,739
6. Taxable Income for State Tax	\$ 283,895
7. State Tax (min 800)	\$ 25,096
8. Taxable Income for FIT	\$ 258,798
9. Federal Tax	\$ 84,139