

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
WATER BRANCH**

**RESOLUTION NO. W-4471
JUNE 9, 2004**

RESOLUTION

**(RES. W-4471), STIRLING BLUFFS CORPORATION (STIRLING).
ORDER AUTHORIZING A GENERAL RATE INCREASE IN RATES
PRODUCING \$1,425 OR 1.3% IN ADDITIONAL ANNUAL REVENUE.**

SUMMARY

By Draft Advice Letter, filed on March 6, 2003, Stirling seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2003, this resolution grants an increase in gross annual revenues of \$1,425 or 1.3%, which is estimated to provide a rate of return on rate base of 8.53%.

BACKGROUND

Del Oro Water Company is a class B water system under Commission jurisdiction. Stirling is a wholly-owned subsidiary of Del Oro Water Company. Stirling requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$6,270 per year or 5.8% in 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return on rate base. Stirling's request shows that its gross annual revenue of \$107,916 at present rates would increase to \$114,186 at proposed rates. Stirling is requesting a return on rate base of 12.52%.

The present rates became effective April 3, 1995, pursuant to Res. W-3912, which authorized a general rate increase of \$1,834 or 3.3% for test year 1994 and an additional rate increase of \$1,535 or 2.7% for 1995 to offset inflation as authorized by Decision (D.) 92-03-093.

Stirling presently serves approximately 152-metered connections in Stirling City and vicinity north of Paradise, Butte County. Stirling's water system is comprised of a water treatment facility and a distribution system. Stirling uses its allocation of surface water from the Hendricks Canal. A large portion of the surface water from the Hendricks Canal is treated in Stirling's treatment plant. The excess water is sold to other districts of Del Oro, namely, Lime Saddle, Magalia, and Paradise Pines. The treatment process uses two-stage pressure filtration. Chlorine is added before filtration. The partially treated water is pumped through pressure filters. The filtered water is then chlorinated again before storage and use.

The Department of Health and Services (DHS) has indicated that the treatment plant should have at a minimum a Treatment Operator Grade 2 and the system should have a Distribution Operator Grade 1. Stirling has two employees who exceed those qualifications. Stirling does not have a local office but Del Oro has a service center in the city of Magalia about two miles from Stirling City to serve Stirling and other Del Oro districts.

DISCUSSION

Stirling is located in the unincorporated community known as Stirling City (North of the Town of Paradise), Del Oro provides water to the city of Ferndale in Humboldt County, the community of Johnson Park in Shasta County, and a portion of the city of Bakersfield in Kern County. Del Oro also operates two water systems (the Paradise Pines District and the Magalia District) in an unincorporated area known as Magalia in Butte County. In addition, Del Oro provides water to the Lime Saddle District located south of the Town of Paradise.

The Water Division (Division) made an independent analysis of Stirling's summary of earnings. Appendix A shows Stirling's and the Division's estimates of the summary of earnings at present, requested, and recommended rates for test year 2003. Appendix A also shows the difference between Stirling's and the Division's estimates of revenue, expenses, and rate base. Some of Stirling's expenses are common expenses that are allocated to all of Del Oro's six districts and Stirling based on a formula adopted in the 1991 general rate case of Del Oro's Paradise Pines District. The formula allocates to Stirling a percentage of the total expenses. The percentage of 2.35% is based on the number of Stirling's connections compared with the total number of connections in the Del Oro system including Stirling.

Stirling's draft advice letter requested a margin of 20% on operating expenses based on the operating ratio method. Although Stirling is a small utility with 152 connections, it is owned and operated by Del Oro Water Company, a Class B utility. Therefore, Stirling is considered a Class B utility and is ineligible for the operating ratio method. Pursuant to the Commission's risk assessment proceeding for small water utilities in D.92-03-093 (also called the Risk OII), only Class C and D water utilities are eligible for the operating ratio method. The Commission's Audit & Enforcement (A&E) Branch has determined that an 8.53% rate of return on rate base for Stirling is reasonable. This recommendation is based on an analysis of the capital structure and embedded cost of debt for Del Oro as well as a determination of a reasonable return on equity for a Class B utility. Stirling was informed of the Division's differing views of revenues, expenses and rate base and it agrees with the Division's findings. However, it has indicated that water sales fluctuate from year to year and Stirling has requested that it be allowed to establish a full costs balancing account for its water sales. Division recommends that Stirling be allowed to establish a balancing account for water sales and be required to establish a balancing account for purchased power as well.

The Department of Health Services (DHS) notified Stirling in August 2003, that the surface water treatment plant is not in conformance with the Surface Water Treatment Rules (SWTR) with respect to removal of giardia cysts. Stirling has submitted an estimate of approximately \$37,000 in system improvements that are necessary in order to bring the filtration plant in

compliance with the SWTR and DHS requirements. The Division recommends that Stirling be authorized to file an advice letter to recover the cost of the improvements to meet filtration rates in compliance with SWTR and DHS requirements dealing with removal of giardia cysts after the improvements have been completed.

Stirling, a district of Del Oro, a Class B water company, is currently recovering approximately 80% of fixed costs in their readiness-to-serve charge. The Commission in its industry wide risk assessment in D.92-03-093 recommended that Class B utilities recover up to 50% of fixed costs in their readiness-to-serve charge. The Division recommends a rate structure that allows recovery of 60% of Stirling's fixed costs in the readiness-to-serve charge. The Division could not further reduce the percentage because the fixed cost percentage could not be reduced to 50% without causing a significant rate shock for the customers using higher quantity of water than 18 Ccf, the average consumption. The Division recommends that the percentage of fixed costs collected in the service charge be reduced to 50% in the utility's next general rate case.

At the Division's recommended rates shown in Appendix B, the monthly bill for an average residential customer using 1,800 cubic feet of water will increase by \$0.26 from \$17.68 to \$17.94 or 1.5%. 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.

NOTICE AND PROTESTS

A notice of the proposed increase in rates initially filed by Stirling was mailed to each customer on May 27, 2003. The Division did not receive any letters protesting the rate increase. The Consumer Affairs Branch has not received any complaints. A public meeting was held on June 17, 2003. Approximately twenty customers attended the meeting. Stirling held an open house at the treatment plant and gave the customers a tour of the treatment facilities prior to the meeting. The customers were surprised to learn that revenues from the sale of water to other Del Oro districts was helping to keep the rates low and were pleased to hear it. Most customers had toured the treatment plant prior to the meeting and were pleased with the plant and the management and had no complaints.

There are no outstanding Commission compliance orders for Stirling. However, Stirling needs to update Tariff Rule 5, Special Information Required on Forms, and Tariff Rule 10, Disputed Bills.

FINDINGS AND CONCLUSIONS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.

3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
1. Stirling should be authorized to file an Advice Letter to recover the cost of improvements to bring the filtration rate in compliance with the SWTR and DHS requirements dealing with removal of giardia cysts after the improvements have been completed.
2. Stirling should be required to update Tariff Rule 5, Special Information Required on Forms, and Tariff Rule 10, Disputed Bills.
3. Stirling should be authorized to establish full cost balancing account for water sales and be required to establish a balancing account for purchased power costs.
4. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Stirling Bluffs Corporation, to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. 1, Metered Service, and Schedule No. 9M, Tank Truck Water Sales. 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. Stirling is authorized to increase its revenues by \$1,425 or 1.3% based on reasonable rates for 2003.
3. Stirling is authorized to file an Advice Letter to recover the cost of improvements to bring the filtration rate in compliance with the SWTR and DHS requirements dealing with removal of giardia cysts after the improvements have been completed.
4. Stirling is ordered to update Tariff Rules, Special Information Required on Forms, and Tariff Rule 10, Disputed Bills.
5. Stirling is authorized to establish a full cost balancing account for water sales.
6. Stirling is authorized to establish a balancing account for increases in purchased power costs beyond the utility's control that are not included in this general rate increase.

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 June 9, 2004; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

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

APPENDIX A
STIRLING BLUFFS CORPORATION
SUMMARY OF EARNINGS

Test Year 2003

	Utility Estimated		Division Estimated		Division Recommended Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues:</u>					
Metered Rate	\$37,316	\$43,586	\$37,316	\$43,570	\$38,741
Water Sales	70,600	70,600	70,600	70,600	70,600
Total Revenues	\$107,916	\$114,186	\$107,916	\$114,170	\$109,341
<u>Operating Expenses:</u>					
Purchased Water	\$ 50,750	\$ 50,750	\$ 50,750	\$ 50,750	\$ 50,750
Power	19,835	19,835	19,835	19,835	19,835
Other Vol. Related Costs	1,460	1,460	1,460	1,460	1,460
Employee Labor	5,168	5,168	5,168	5,168	5,168
Materials	500	500	500	500	500
Laboratory Fees	900	900	0	0	0
Transportation Expenses	1,413	1,413	1,413	1,413	1,413
Office Salaries	4,691	4,691	4,691	4,691	4,691
Management Salaries	2,590	2,590	2,590	2,590	2,590
Employee Pension & Ben.	1,780	1,780	1,780	1,780	1,780
Office Service & Rentals	1,944	1,944	1,824	1,824	1,824
Office Supplies & Exp.	2,736	2,736	2,736	2,736	2,736
Professional Services	150	150	150	150	150
Insurance	4,750	4,750	4,750	4,750	4,750
Regulatory Expense	1,000	1,000	1,000	1,000	1,000
General Expenses	<u>700</u>	<u>700</u>	<u>700</u>	<u>700</u>	<u>700</u>
Subtotal	100,367	100,367	99,347	99,347	99,347
Depreciation	2,646	2,646	2,138	2,138	2,138
Payroll Taxes	1,013	1,013	1,013	1,013	1,013
State Tax	800	1,116	800	1,032	800
Federal Income Tax	0	1,727	693	1,596	906
Total Deductions	<u>104,826</u>	<u>106,869</u>	<u>103,991</u>	<u>105,126</u>	<u>104,204</u>
Net Revenue	3,090	7,317	3,925	9,044	5,136
Rate Base:					
Average Plant	85,535	85,535	85,535	85,535	85,535
Average Accum. Dep.	32,730	32,730	30,369	30,369	30,369
Net Plant	52,805	52,805	55,166	55,166	55,166
Less: Advances					
Contributions					
Plus: Working Cash	4,646	4,646	4,050	4,050	4,050
Supplies	1,000	1,000	1,000	1,000	1,000
Rate Base	58,451	58,451	60,216	60,216	60,216
Rate of Return	5.29%	12.52%	6.52%	15.02%	8.53%

APPENDIX B

Schedule No. 1

METERED SERVICE
Test Year 2003

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stirling City and vicinity, Butte County.

RATES

Quantity Rate:	<u>Per Meter Per Month</u>
For all water delivered, per 100 cu.ft.	\$ 0.43 (I)
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 10.20 (R)
For 3/4-inch meter	15.30
For 1-inch meter	25.50
For 1-1/2-inch meter	51.00
For 2-inch meter	81.60 (R)
For 3-inch meter	153.00 (I)
For 4-inch meter	255.00 (R)

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 Rates.

(continued)

APPENDIX B

Schedule No. 9M

TANK TRUCK WATER SERVICE
Test Year 2003

APPLICABILITY

Applicable to all tank truck water sales furnished for dust control on logging loads.

TERRITORY

Stirling City and vicinity, Butte County.

RATES

* For each water tank truck load with tank capacity not to
exceed 2,500 gallons \$4.70 (I)

SPECIAL CONDITION:

Water is to be delivered at fire hydrants predesignated by the utility.

* For tank trucks exceeding 2,500-gallon capacity, add \$0.92 for each 500 (I)
gallons in excess of 2,500 gallons.

(END OF APPENDIX B)

APPENDIX C

STIRLING BLUFFS CORPORATION

COMPARISON OF RATES

Test Year 2003

METERED SERVICE	Present	Recommended	Percent
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u> <u>(Decrease)</u>
QUANTITY RATE:			
For all water, per 100 cu. ft.	\$ 0.26	\$ 0.43	65.4%
 <u>MONTHLY SERVICE CHARGE:</u>			
For 5/8 X 3/4 inch meter	\$ 13.00	\$ 10.20	(21.5%)
For 3/4 inch meter	19.60	15.30	(21.9%)
For 1 inch meter	32.85	25.50	(22.4%)
For 1 1/2 inch meter	55.45	51.00	(8.0%)
For 2 inch meter	92.40	81.60	(11.7%)
For 3 inch meter	138.65	53.00	14.4%
For 4 inch meter	277.30	255.00	(8.0%)
 TANK TRUCK WATER SERVICE:			
For water tank load not exceeding 2,500 gallons	\$ 4.45	\$ 4.70	5.6%
For tank truck exceeding 2,500 gallons add	0.87	0.92	5.7%

Comparison of a monthly typical bill for residential metered customers with a 5/8x3/4-inch is shown below at current and recommended rates for test year 2003.

Usage	Present	Recommended	Amount	Percent
<u>(000) gals.</u>	<u>Rates</u>	<u>Rates</u>	<u>Increase</u> <u>Decrease</u>	<u>Increase</u> <u>(Decrease)</u>
5	\$14.30	\$12.35	(\$1.71)	(13.6%)
10	15.60	14.50	(1.10)	(7.1%)
18(avg.)	17.68	17.94	0.26	1.5%
25	19.50	20.95	1.45	7.4%
30	20.80	23.10	2.30	11.1%

(END OF APPENDIX C)

APPENDIX D

STIRLING BLUFFS CORPORATION

ADOPTED QUANTITIES

Test Year 2003

Offset Items

1. Purchased Power		
Pacific Gas & Electric Company		
Effective Date March 4, 2002		
Schedule A-10 Medium General Demand-Metered Service		
Rate A-6 General Time of Use Service		
Effective Date March 4, 2002		
Total Energy Cost	\$ 19,835	
Total kWh	112,548	
Average Unit Cost \$/kWh	\$0.176	
2. Purchased Water Costs	\$50,750	
3. Water Sales Ccf	36,882	
4. Payroll		
Employee Labor	\$ 5,168	
Office Salaries	\$ 4,691	
Management Salaries	\$ 2,590	
5. Payroll Taxes	\$ 1,013	
<u>Service Connections</u>		
6. Meter Size		
5/8x3/4"	149	
1"	1	
1 1/2"	1	
3"	<u>1</u>	
Total Metered	152	

ADOPTED INCOME TAX CALCULATIONS

Test Year 2003

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$109,341	\$109,341
2.	Expenses	\$ 99,347	\$ 99,347
3.	Depreciation	\$ 2,138	\$ 2,138
4.	Payroll Taxes	\$ 1,013	\$ 1,013
7.	State Taxable Income	\$ 6,843	\$ 6,843
8.	State Tax	\$ 800	\$ 800
9.	Federal Taxable Income		\$ 6,042
10.	Federal Income Tax (@15%)		\$ 906
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 1,706

(END OF APPENDIX D)