

**DRAFT**

**WATER/RSK/PTL/MML/jlj**

**AGENDA ITEM #9075**

**DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4814  
December 17, 2009**

**R E S O L U T I O N**

**(RES. W-4814), DEL ORO WATER COMPANY, INC. (DOWC), PINE MOUNTAIN DISTRICT. ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC), PRODUCING ADDITIONAL ANNUAL REVENUE OF \$4,878 OR 9.3% FOR TEST YEAR (TY) 2009.**

**SUMMARY**

By Draft Advice Letter, filed on June 9, 2009, DOWC seeks to increase its rates for water service in its Pine Mountain District (Pine Mountain) to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on July 8, 2009.

For Test Year 2009, this resolution grants an increase in gross annual revenues of \$4,878 or 9.3% which is estimated to provide a rate of return of 10.8%.

**BACKGROUND**

DOWC, a multi-district 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 water rates in its Pine Mountain District by \$11,573 or 22.29% 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 request shows 2009 gross revenues of \$51,925 at present rates, increasing to \$63,498 at proposed rates. DOWC is requesting a rate of return of 11.11%.

The present rates were established on June 11, 2009, pursuant to Advice Letter No. 232, which authorized an interim rate increase of \$58 or 0.10%, subject to refund or increase to the rates established in this GRC. The last general rate increase for Pine Mountain was granted on August 25, 2005 pursuant to Res. W-4559 which granted an increase in revenues of \$15,918 or 93.13%.

Pine Mountain serves approximately 94 metered residential customers in Pine Mountain, located approximately one mile east of the unincorporated area known as Pine Flat, Tulare County. DOWC acquired Pine Mountain and the adjacent Pine Flat

District on October 1, 2004. The Pine Mountain system has historically provided some of the water for the adjacent Pine Flat system and this arrangement continues under DOWC's ownership. Because of the intertie and the fact that both systems are now under the same ownership, the California Department of Public Health (DPH) began treating these two districts as one water system on December 31, 2007.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was mailed to each customer on July 22, 2009. The Division did not receive any letters protesting the increase.

An informal public meeting was held on Tuesday, August 25, 2009 at 7:30 PM at the Mountaintop Community Church located in California Hot Springs, CA. Four people attended the meeting. Peter Liu, the Project Manager, opened the meeting and introduced Michael Miller, staff engineer, who explained Commission procedures, as well as the purpose of the meeting. Susan Howard, Director of Community Relations for DOWC, gave a presentation to explain the need for the rate increase with details of how expenses are allocated among districts. DOWC's Senior Vice President, Paul Matulich, and Director of Corporate Accounting Janice Hanna, were also present to help answer questions. The rest of the meeting consisted of comments and questions by the customers.

### **DISCUSSION**

The Division made an independent analysis of DOWC's Pine Mountain operations. Appendix A shows DOWC's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2009. DOWC is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

The Division staff reviewed Pine Mountain's direct operating expenses, operating expenses allocated between Pine Mountain and three other nearby districts, and DOWC's general office allocation. The Division accepted DOWC's allocation methodology for expenses.

The Division's estimate of Pine Mountain's district direct operating expenses, excluding purchased power and the salary of the field technician, is based on data years 2006-2008. Division escalated and averaged using factors from the June 30, 2009 escalation

memo from the Division of Ratepayer Advocates. DOWC is now in agreement with the Division's escalation factors.

For purchased power the Division determined annual usage and applied the Southern California Edison rates that became effective September 30, 2009. For the field

technician the Division compared DOWC's request to current salaries for similar positions in the two counties in which that field technician works and found the request reasonable. Division determined that DOWC's request included costs in the general expense account that had been or are being recovered through balancing account treatment. These costs are not included in Division's estimate.

Division examined DOWC's rate base calculation. No new plant has been included since the rate base offset authorized by Res.W-4638, dated April 12, 2007. Division changed the depreciation expense to 2.5% to conform Standard Practice U-3-SM.

DOWC, a Class B utility, requested a Rate of Return of 11.11%. The Division's Utility Audit, Finance & Compliance Branch (UAFCB) has recommended a rate of 10.8% for DOWC for the 2009 TY. The Commission has found the 10.8% rate reasonable for DOWC in previous TY 2009 rate cases, including the Paradise Pines District GRC by Res. W-4760, dated July 9, 2009.

Pine Mountain's rate structure consists of one schedule: PM-1A, General Metered Service. The current rates are based on recovery of 66% of fixed costs in the service charge. Division has designed its recommended rates for recovery of 50% of fixed costs in the service charge to conform to Commission policy. The rates proposed by the Division are shown in Appendix B. At the recommended rates the increase in revenue will be \$4,878 or 9.3% for test year 2009.

At the Division's recommended rates shown in Appendix B, a 5/8 x 3/4-inch meter residential customer's bill using 8 Ccf (One Ccf is equal to 100 cubic feet) will increase from \$35.77 to \$40.88, a 14.3% increase. 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.

Consolidation of Pine Mountain with the neighboring Pine Flat District for ratemaking purposes has not been proposed before the Commission. DPH now treats them as one system for its purposes. The Commission has granted DOWC certain acquisition incentives for Pine Flat District and not for Pine Mountain, but these are set to expire in September of 2011. Consolidation was raised by the customers at the informal public meeting for the 2005 general rate case and the Pine Mountain customers who spoke opposed the idea on the grounds that they did not want to subsidize repairs to the older

Pine Flat system. However, it is now known that the historic Pine Mountain sources are contaminated and will require a treatment plant. Division believes that DOWC should be ordered to propose consolidation in the next general case involving these districts.

## COMPLIANCE

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

DPH issued Compliance Order No. 03-12-09O-007 on September 16, 2009 to DOWC for the system which includes the Pine Mountain service area. The order sets a timetable to bring the system into compliance with the uranium maximum contaminant level. DPH reports that DOWC is following the timetable.

## COMMENTS

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

## FINDINGS

1. The Division used escalation factors from the June 30, 2009 escalation memo from the Division of Ratepayer Advocates.
2. The Division used the Southern California Edison power rates that became effective September 30, 2009.
3. The Division excluded costs booked to the general expense account.
4. The Division applied a 2.5% depreciation expense rate.
5. Division has designed its recommended rates for recovery of 50% of fixed costs in the service charge.
6. Except as described in the preceding findings, we find the company's estimates to be reasonable.
7. The present rates were established on June 11, 2009, pursuant to Advice Letter No. 232, which authorized an interim rate increase of \$58 or 0.10%, subject to refund or increase to the rates established in this GRC.
8. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
9. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
10. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.

11. DOWC should be ordered to propose consolidation of the Pine Mountain and Pine Flat Districts in the next general rate proceeding involving either or both district(s).
12. This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code §311(g) (2), the otherwise 30-day period for public review and comment is being waived.

**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 rate Schedule PM-1A, General Metered Service, Pine Mountain District. The effective date of the revised schedule shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
3. Del Oro Water Company shall propose consolidation of the Pine Mountain and Pine Flat Districts in the next general rate proceeding involving either or both district(s).
4. Del Oro Water Company is authorized to file an advice letter within 60 days from the effective date of this resolution to collect under-collected revenues over a six month period from the interim rate date to the effective date of the new rates.
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 December 17, 2009; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

**Appendix A**  
**Del Oro Water Company**  
**Pine Mountain District**  
**SUMMARY OF EARNINGS**

Test Year 2009  
Utility Estimated

Item	Present Rates	Requested Rates	Branch Interim Rates	Branch Estimated Requested Rates	Recommended Rates
<b><u>OPERATING REVENUES</u></b>					
Metered Rates	\$39,002	\$50,575	\$39,361	\$50,575	\$44,239
Other Water Revenue (Sales to Pine Flat)	\$12,923	\$12,923	\$12,923	\$12,923	\$12,923
Total Revenue	\$51,925	\$63,498	\$52,284	\$63,498	\$57,162
<b><u>OPERATING EXPENSES</u></b>					
Purchased Power	\$9,871	\$9,871	\$9,925	\$9,925	\$9,925
Other Volume Related Expenses	\$201	\$201	\$201	\$201	\$201
Employee Labor	\$6,787	\$6,787	\$6,787	\$6,787	\$6,787
Materials	\$1,020	\$1,020	\$991	\$991	\$991
Contract Work (Excl Water Testing)	\$806	\$806	\$71	\$71	\$71
Water Testing	\$0	\$0	\$735	\$735	\$735
Transportation	\$4,128	\$4,128	\$3,979	\$3,979	\$3,979
Other Plant Maintenance	\$0	\$0	\$0	\$0	\$0
Office Salaries	\$5,951	\$5,951	\$5,951	\$5,951	\$5,951
Management Salaries	\$1,512	\$1,512	\$1,512	\$1,512	\$1,512
Employee Benefits	\$1,565	\$1,565	\$1,565	\$1,565	\$1,565
Uncollectibles	\$162	\$162	\$162	\$162	\$162
Office Services & Rental	\$1,141	\$1,141	\$1,141	\$1,141	\$1,141
Office Supplies and Exp	\$2,129	\$2,129	\$2,128	\$2,128	\$2,128
Professional Services	\$254	\$254	\$254	\$254	\$254
Insurance	\$905	\$905	\$905	\$905	\$905
Regulatory Comm Exp	\$333	\$333	\$333	\$333	\$333
General Expenses	\$4,289	\$4,289	\$0	\$0	\$0
Subtotal	\$41,054	\$41,054	\$36,640	\$36,640	\$36,640
Depreciation Expense	\$4,149	\$4,149	\$2,756	\$2,756	\$2,756
Taxes other than income	\$1,158	\$1,158	\$1,158	\$1,158	\$1,158
State Income Tax	\$800	\$1,594	\$1,091	\$2,134	\$1,545
Federal Income Tax	\$715	\$2,331	\$1,596	\$3,122	\$2,259
<b><u>Total Deductions</u></b>	\$47,875	\$50,286	\$43,241	\$45,809	\$44,358
<b><u>NET REVENUE</u></b>	\$4,050	\$13,212	\$9,043	\$17,689	\$12,804
<b><u>RATE BASE</u></b>					
Average Plant	\$127,999	\$127,999	\$127,999	\$127,999	\$127,999
Average Depreciation Reserve	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500
<b><u>Net Plant</u></b>	\$115,499	\$115,499	\$115,499	\$115,499	\$115,499
Less Advances	\$0	\$0	\$0	\$0	\$0
Contributions	\$0	\$0	\$0	\$0	\$0
Plus Working Cash	\$3,421	\$3,421	\$3,053	\$3,053	\$3,053
Materials and Supplies	\$0	\$0	\$0	\$0	\$0
<b><u>Rate Base</u></b>	\$118,920	\$118,920	\$118,552	\$118,552	\$118,552
<b><u>RATE OF RETURN</u></b>	3.41%	11.11%	7.63%	14.92%	10.80%

(END OF APPENDIX A)

APPENDIX B

## Del Oro Water Company

Schedule No. PM-1A  
(Sheet 1 of 2)ANNUAL GENERAL METERED SERVICE

## PINE MOUNTAIN DISTRICT

Test Year 2009

APPLICABILITY

Applicable to all metered water service furnished to the Pine Mountain District service area.

TERRITORY

Tract Nos. 416 and 455 in Rainbow Ranch and Tract Nos. 438 and 455, and vicinity, located approximately one mile east of Pine Flat, Tulare County.

RATES

## Quantity Rates:

For all water, per 100 cu. ft.	\$ 3.43 (I)
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## Service Charge:

	Per Meter <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 13.43 (R)
For 3/4-inch meter	\$ 20.15 (R)
For 1-inch meter	\$ 33.59 (R)
For 1-1/2-inch meter	\$ 67.17 (R)
For 2-inch meter	\$ 107.47 (R)
For 3-inch meter	\$ 201.52 (R)
For 4-inch meter	\$ 335.86 (R)
For 6-inch meter	\$ 671.72 (R)

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

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12 month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the resident may elect, at the beginning of the calendar year, to pay prorated

- service charges in advance at intervals of less than one year in accordance with the utilities established billing periods.
2. The established billing cycle for water used is monthly.

## APPENDIX B

Sheet 2 of 2

Del Oro Water Company

Schedule No. PM-1A  
(continued)ANNUAL GENERAL METERED SERVICE

Pine Mountain District

**SPECIAL CONDITIONS (continued)**

3. The opening bill for meter service, except on conversion from flat rate service, shall be established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customers.
4. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
6. A late charge will be imposed per Schedule No. LC.
7. As authorized by the California Public Utilities Commission all bills are subject to a one-time Surcharge of \$23.49 billed at \$2.61 over nine billing cycles. This charge offsets the expenses resulting from the Environmental Protection Agency's adopted National Primary Drinking Water Regulations for water testing for the period January 1, 2008 through December 31, 2008. (D)

**(END OF APPENDIX B)**

**APPENDIX C****DEL ORO WATER COMPANY  
PINE MOUNTAIN DISTRICT****COMPARISON OF RATES**

TEST YEAR 2009

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Interim</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Service Charge:				
5/8 x 3/4 inch meter	\$17.51	\$13.43	-\$4.08	-23.3%
3/4-inch meter	\$26.25	\$20.15	-\$6.10	-23.2%
1-inch meter	\$43.75	\$33.59	-\$10.16	-23.2%
1-1/2 inch meter	\$87.50	\$67.17	-\$20.33	-23.2%
2-inch meter	\$140.00	\$107.47	-\$32.53	-23.2%
3-inch meter	\$262.49	\$201.52	-\$60.97	-23.2%
4-inch meter	\$437.49	\$335.86	-\$101.63	-23.2%
6-inch meter	\$874.97	\$671.72	-\$203.25	-23.2%
Quantity Charge:				
All use per 100 cubic feet	\$2.283	\$3.43	\$1.15	50.3%

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

<u>Usage 100 cu. Ft.</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Interim</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
0	\$17.51	\$13.43	-\$4.08	-23.3%
5	\$28.93	\$30.59	\$1.67	5.8%
8 (Average Usage)	\$35.77	\$40.88	\$5.11	14.3%
10	\$40.34	\$47.75	\$7.41	18.4%
15	\$51.76	\$64.90	\$13.15	25.4%
20	\$63.17	\$82.06	\$18.89	29.9%
30	\$86.00	\$116.37	\$30.37	35.3%

**(END OF APPENDIX C)**

**APPENDIX D**

**DEL ORO WATER COMPANY  
PINE MOUNTAIN DISTRICT  
ADOPTED QUANTITIES  
TEST YEAR 2009**

Expenses:

1. Purchased power (Electric)		
Vendor	Southern California Edison Company	
Schedule	PA-1 Agricultural and Pumping	
Effective Date	September 30, 2009	
URG Generation	74.74%	
DWR Generation	25.26%	
Energy Charge:		
Delivery Rate	\$0.03120	
URG Generation Rate	\$0.11735	
DWR Generation Rate	\$0.06225	
Customer Charge per Meter	\$40.80	
Service Charge per HP	\$1.92	
kWh Used	63,195	
Number of Meters	2	
Total Horsepower Billed	19.0	
Annual Power Cost	\$9,925	
Composite Energy Cost (\$/KWH)	\$0.15705	

2. Water Sales 8,500 ccf

3. DPH Testing Costs \$735

4. Number of Service Connections:

Metered Connections 94

5. Tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$57,162	\$57,162
2.	O & M Expenses	\$36,640	\$36,640
3.	Taxes Other Than Income	\$1,158	\$1,158
4.	Depreciation	\$2,756	\$2,756
5.	Taxable Income for State Tax	\$16,608	
6.	State Tax	\$1,545	
7.	Taxable Income for FIT		\$15,063
8.	Federal Income Tax		\$2,259
9.	Total Income Tax		\$3,804
California Corporate Franchise Rate			9.30%
Federal Income Tax Rate - Only Lowest Tier Applies			15%

**(END OF APPENDIX D)**