

DRAFT

AGENDA ITEM #8326

WATER/RSK/FLC/PTL/MCV/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4746  
March 12, 2009

R E S O L U T I O N

(RES. W-4746), DEL ORO WATER COMPANY, LIME SADDLE DISTRICT (DOWC LSD). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$33,293, OR 10.86%, IN 2009.

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SUMMARY

Del Oro Water Company (DOWC), a Class B water utility, has requested a general rate increase for its Lime Saddle District (LSD) for test year 2009. This resolution authorizes an increase of \$33,293 or 10.86%, relative to revenues at present rates, for a 10.80% return on rate base for test year 2009.

BACKGROUND

DOWC 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 LSD's water rates by \$41,496 or 13.52% for test year 2009 for a 13.02% return on rate base. This amount is higher than DOWC's rate increase request in their advice letter filing because DOWC's request inadvertently included \$20,256 in revenues for purchase water surcharge and DOWC also did not use the most current rates for their present rate revenue calculation. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return on plant investment. This resolution authorizes an increase in revenues of \$33,293 or 10.86% for a 10.80% return on rate base, the allowed return for DOWC.

DOWC LSD's last general rate increase became effective on October 25, 2001, pursuant to Res. W-4302, which authorized an increase of \$25,387 or 12.28%, and a rate of return of 9.97%. DOWC LSD's present rates became effective on May 27, 2008, pursuant to Advice Letter 182, which authorized a 4.1% increase to keep pace with the Consumer Price Index.

DOWC serves approximately 358 residential metered customers in Lime Saddle, a community located south of the Town of Paradise and north of Highway 70 in Butte County. DOWC LSD's water distribution system is currently divided between the lower west and northern areas of LSD. DOWC serves approximately 60 service connections in the lower west area of LSD known as Mount Oak Subdivision. Water from the Lake Oroville intake is pumped approximately  $\frac{3}{4}$  of a mile to DOWC's treatment plant, located in the southern end of Lime Saddle. Once the water is treated it is pumped to DOWC's storage tank which has a storage capacity of approximately 1.5 million gallons. The northern part of LSD is served from water taken from the country club and Conway wells, and purchased water from Stirling Bluffs District which is currently wheeled by Paradise Irrigation District (PID.)

Separate from this General Rate Case (GRC), DOWC is participating in a Regional Intertie Project (RIP) to modify the existing Lake Orville intake to increase its overall water production capability. The RIP also includes modifying DOWC LSD's existing water treatment plant in the southern end of Lime Saddle to increase the treatment capacity from 370 to 600 gallons per minute. In addition, DOWC plans to install 16-inch pipeline along 2.5 miles of the Pentz Road to connect the southern and northern portions of LSD's water distribution system. The RIP will provide DOWC the capability to convey water to a new storage tank and booster station located in upper Lime Saddle. These water system improvements will also enable DOWC to supply the northern portion of LSD with water from Lake Oroville and free up the water currently wheeled from Stirling Bluffs District by PID. DOWC plans to use the wheeled water to supply Magalia and Paradise Pines Districts.

### **NOTICE, PROTESTS, AND PUBLIC MEETING**

A notice of the proposed rate increase was mailed to each customer on October 22, 2008. The Division staff and DOWC representatives held a public participation meeting on November 9, 2008 in Paradise, California. There were approximately 14 customers in attendance at the meeting. Division staff explained to the participants the Commission's rate-setting process, while DOWC's representatives made a presentation explaining: 1) the reasons for the rate increase, 2) DOWC's operating expenses, and 3) proposed rate structure and increase. The remainder of the meeting consisted of comments and questions by the customers. The Division received two letters in opposition to the proposed increase in water rates.

## DISCUSSION

Division staff performed an independent analysis of DOWC LSD's summary of earnings. Appendix A shows DOWC LSD's and the Division staff's estimates of the Summary of Earnings for test year 2009. The rate increase requested in this general rate case was driven primarily by increased operating expenses and a higher authorized rate of return on rate base over present rates. DOWC is in agreement with the summary of earnings and the Division's recommended rates in Appendices A and B.

The Division's general approach for estimating DOWC LSD's operating expenses, excluding purchased power, insurance, taxes other than income, uncollectibles, and salaries, is based on taking the average of 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 from the Global Insight U.S Economic Outlook for 2008 through 2012. Division used the escalation factor published for the month of December 2008 which was estimated at -0.70% for non-labor expenses.

DOWC utilized a similar approach as Division to estimate their LSD'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 LSD based on the number of customers in LSD, 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 LSD.

The main differences between Division staff's and DOWC's expense estimates are due to the use of a different escalation factor. However, in the area of professional services Division staff subtracted \$7,658 associated with PID condemnation costs because DOWC has received Commission approval to collect these costs via a separate surcharge. For office supplies and expenses, staff used a 2-year average instead of a 3-year average, excluding 2005 because the amount for this year was significantly lower. Division staff believes that 2-year average is more indicative of DOWC LSD's current office supplies and expenses.

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 DOWC LSD's TY 2009 salaries comparable to the salaries for water companies surveyed by ACWA in the same area code.

#### Rate Base and Rate of Return on Rate Base

Division staff computed DOWC LSD's rate base using 2007 recorded utility plant, depreciation and amortization reserved information from DOWC's annual report. Division staff's calculation matches DOWC LSD's rate base calculation as shown in Appendix A.

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, DOWC LSD's annual revenue for TY 2009 is \$306,597. At the recommended test year revenue of \$339,890, the increase will be \$33,293 or 10.86%.

#### Rate Design

DOWC LSD currently has one rate schedule, Schedule No. LS-1A, Annual General Metered Service. The current rate structure consists of a single annual service charge for all meter sizes. In this GRC, DOWC proposes to move from a single to a multiple rate service charge by meter size for its LSD. Division Staff reviewed DOWC LSD's proposed rate design and determined it to be compliance with the cost allocation set forth in the Commission's Decision 86-06-064 which allows Class B water utilities to collect up to 50% of fixed costs in the service charge portion of their rates. Fixed costs include all operating expenses not related to the production of water. Division Staff also determine that DOWC properly applied the meter rate ratios established by the Commission. Division Staff therefore recommends adopting DOWC's proposed rate structure for its LSD. The recommended rates are contained in Attachment B.

#### COMPLIANCE

DOWC is currently providing water service to its SLD customers according to the standards of General Order 103. DOWC has been filing annual reports for its LSD with the Division. There have been no customer complaints against DOWC for at least the past three years and there are no outstanding Commission orders requiring system improvements.

**COMMENTS**

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

**FINDINGS**

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 adopted.
3. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. The amount of increase authorized herein is justified and the resulting rates are just and reasonable.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code, Section 454, for Del Oro Water Company Lime Saddle District to file an advice letter to incorporate the Summary of Earnings (Appendix A) and the revised rate schedules (Appendix B).
2. Del Oro Water Company is authorized to increase annual revenues for its Lime Saddle District by \$33,293 or 10.86%, for a rate of return of 10.80% on rate base for test year 2009. This results in test year 2009 revenue of \$339,890.
3. The quantities (Appendix D) used to develop the Division's recommendations are adopted.

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 March 12, 2009; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

<b>Appendix A</b>					
<b>Del Oro Water Company-- Lime Saddle District</b>					
<b>SUMMARY OF EARNINGS</b>					
<b>Test Year 2009</b>					
	<b>Utility Estimated</b>		<b>Branch Estimated</b>		<b>Recommended</b>
	<b>Present</b>	<b>Requested</b>	<b>Present</b>	<b>Requested</b>	
	<b>Rates</b>	<b>Rates</b>	<b>Rates</b>	<b>Rates</b>	<b>Rates (ROR)</b>
<b>Operating Revenue</b>					
General Metered Sales	\$ 190,744	\$ 348,062	\$ 306,597	\$ 348,062	\$ 339,890
Purchase Water Surcharge	\$ 20,256				
Flat Rate	\$ 107,399				
	\$ 318,399	\$ 348,062	\$ 306,597	\$ 348,062	\$ 339,890
<b>Operating Expenses</b>					
610 Purchased Water	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000
615 Purchased Power	\$ 29,544	\$ 29,544	\$ 29,544	\$ 29,544	\$ 29,544
618 Other Volume Related Expenses	\$ 2,499	\$ 2,499	\$ 2,499	\$ 2,499	\$ 2,499
630 Employee Labor	\$ 19,720	\$ 19,720	\$ 19,720	\$ 19,720	\$ 19,720
640 Materials	\$ 1,362	\$ 1,362	\$ 1,276	\$ 1,276	\$ 1,276
650 Contract Work	\$ 1,182	\$ 1,182	\$ 1,107	\$ 1,107	\$ 1,107
Water Testing	\$ -	\$ -	\$ -	\$ -	\$ -
660 Transportation Expenses	\$ 4,413	\$ 4,413	\$ 4,413	\$ 4,413	\$ 3,321
664 Other Plant Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
670 Office Salaries	\$ 32,140	\$ 32,140	\$ 32,140	\$ 32,140	\$ 32,140
671 Management Salaries	\$ 8,227	\$ 8,227	\$ 8,227	\$ 8,227	\$ 8,227
674 Employee Benefits	\$ 13,144	\$ 13,144	\$ 13,144	\$ 13,144	\$ 13,144
676 Uncollectibles Expense	\$ 466	\$ 466	\$ 466	\$ 466	\$ 466
678 Office Services & Rentals	\$ 4,426	\$ 4,426	\$ 4,426	\$ 4,426	\$ 4,426
681 Office Supplies & Expenses	\$ 9,651	\$ 9,651	\$ 8,686	\$ 8,686	\$ 8,686
682 Professional Services	\$ 10,041	\$ 10,041	\$ 2,277	\$ 2,277	\$ 2,277
684 Insurance	\$ 4,361	\$ 4,361	\$ 4,361	\$ 4,361	\$ 4,361
688 Regulatory Commission Expense	\$ 1,450	\$ 1,450	\$ 1,450	\$ 1,450	\$ 1,450
689 General Expenses	\$ 5,292	\$ 5,292	\$ 4,957	\$ 4,957	\$ 4,957
<b>Subtotal</b>	<b>\$ 277,918</b>	<b>\$ 277,918</b>	<b>\$ 268,693</b>	<b>\$ 268,693</b>	<b>\$ 267,601</b>
Depreciation	\$ 24,921	\$ 24,921	\$ 24,921	\$ 24,921	\$ 24,921
Taxes other than Income	\$ 12,589	\$ 12,589	\$ 12,728	\$ 12,728	\$ 12,728
Income Taxes	\$ 1,490	\$ 7,798	\$ 7,508	\$ 9,354	\$ 7,799
<b>Total Deductions</b>	<b>\$ 316,918</b>	<b>\$ 323,226</b>	<b>\$ 313,850</b>	<b>\$ 315,696</b>	<b>\$ 313,049</b>
<b>Net Revenue</b>	<b>\$ 1,481</b>	<b>\$ 24,836</b>	<b>\$ (7,253)</b>	<b>\$ 32,366</b>	<b>\$ 26,841</b>
<b>Rate Base</b>					
Average Plant	\$ 1,466,039	\$ 1,466,039	\$ 1,466,039	\$ 1,466,039	\$ 1,466,039
Avg. Accumulated Depreciation	\$ 681,068	\$ 681,068	\$ 681,068	\$ 681,068	\$ 681,068
<b>Net Plant</b>	<b>\$ 784,971</b>	<b>\$ 784,971</b>	<b>\$ 784,971</b>	<b>\$ 784,971</b>	<b>\$ 784,971</b>
Less Advances	\$ 18,540	\$ 18,540	\$ 18,540	\$ 18,540	\$ 18,540
Avg. Contributions In Aid of Construction	\$ 417,199	\$ 417,199	\$ 417,199	\$ 417,199	\$ 417,199
Acquisition Adjustment	\$ 175,285	\$ 175,285	\$ 175,285	\$ 175,285	\$ 175,285
Plus Working Cash	\$ 22,992	\$ 22,992	\$ 22,992	\$ 22,992	\$ 22,992
Materials & Supplies	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Construction Work in Progress	\$ 50,641	\$ 50,641	\$ 50,641	\$ 50,641	\$ 50,641
<b>Rate Base:</b>	<b>\$ 248,580</b>	<b>\$ 248,580</b>	<b>\$ 248,580</b>	<b>\$ 248,580</b>	<b>\$ 248,580</b>
<b>Rate of Return</b>	0.60%	9.99%	-2.92%	13.02%	10.80%

APPENDIX B

Sheet 1

Del Oro Water Company  
Lime Saddle District

Schedule No. LS-1A

GENERAL METERED SERVICE

Test Year 2009

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Lime Saddle District Service Area

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Lime Saddle Community Services District, located south of the Town of Paradise and north of Highway 70, Butte County.

RATES

Quantity Rates:

All water, per 1,000 gallons	\$ 3.08	(I)
<sup>2</sup> Purchased Water Surcharge, per 1,000 gallons	0.349	

<sup>1</sup>Annual Service Charge:

	Per Year	Per Meter (C)
For 5/8 x 3/4-inch meter	\$ 159.99	(R)
For 3/4-inch meter	\$ 239.99	(I)
For 1-inch meter	\$ 399.98	(I)
For 1-1/2-inch meter	\$ 799.95	(I)
For 2-inch meter	\$ 1,279.92	(I)
For 3-inch meter	\$ 2,399.75	(I)
For 4-inch meter	\$ 3,999.75	(I)
For 6-inch meter	\$ 7,999.50	(I)

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

2. Purchased Water Surcharge should be collected over a twenty-four (24)-month period of time effective with the approval of Advice Letter No. 204-A.

**APPENDIX C  
Del Oro Water Company  
Lime Saddle District**

**COMPARISON OF RATES**

**Test Year 2009**

**Annual Service Charge:**

For 5/8 x 3/4-inch meters	\$	219.65	\$	159.99	-27.2%
For 3/4-inch meters	\$	219.65	\$	239.99	9.3%
For 1-inch meters	\$	219.65	\$	399.98	82.1%
For 1-1/2-inch meters	\$	219.65	\$	799.95	264.2%
For 2-inch meters	\$	219.65	\$	1,279.92	482.7%
For 3-inch meters	\$	219.65	\$	2,399.85	992.6%
For 4-inch meters	\$	219.65	\$	3,999.75	1721.0%
For 6-inch meters	\$	219.65	\$	7,999.500	3541.9%

**Quantity Charge:**

Metered All use, per 1000 gallons	\$	2.353	\$	3.08	30.9%
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**Annual bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:**

<u>Usage</u> <u>1,000 gallons</u>	<u>Present</u> <u>Rates</u>	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
5	231.42	175.39	-56.03	-24.2%
10	243.18	190.79	-52.39	-21.5%
15	254.95	206.19	-48.76	-19.1%
20 (avg)	266.71	221.59	-45.12	-16.9%
30	290.24	252.39	-37.85	-13.0%
40	313.77	283.19	-30.58	-9.7%

**Appendix D  
Del Oro Water Company  
Lime Saddle District**

**Adopted Quantities**

Test Year 2009

1. Purchased Power	
Total Cost	\$ 29,544
2. Water Sales in (000 gals)	84,400
3. Payroll (ask Peter)	
Employee Labor	\$ 19,720
Office Salaries	\$ 32,140
Management Salaries	\$ 8,227
4. Payroll Taxes	\$ 4,916
5. Property Taxes	\$ 7,812
Service Connections - Meter Size	
5/8 x 3/4"	326
3/4"	11
1"	13
1-1/2"	0
2"	6
3"	0
4"	1
6"	1
Total Metered	358

**Adopted Tax Calculation Test Year 2009**

1. Operating Revenues	\$339,890
2. Expenses	\$267,6013.
3. Depreciation	\$ 24,921
4. Payroll Taxes	\$ 4,991
5. Property Taxes	\$ 7,812
6. Taxable Income for State Tax	\$ 34,640
7. State Tax (min 800)	\$ 3,062
8. Taxable Income for FIT	\$ 31,578
9. Federal Tax	\$ 4,737