

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



June 2, 2009

File No.: 602-19

TO: All Interested Parties

Enclosed is draft Resolution W-4760 of the Division of Water and Audits. It will be on the Commission's July 9, 2009 agenda. The Commission may then act on this Resolution or it may postpone action until later.

When the Commission acts on the draft resolution, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare a different resolution. Only when the Commission acts does the resolution become binding on the parties.

Parties to this matter may file comments on this draft resolution. An original and 2 copies of the comments, with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor  
Attention: Peter Liu  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Parties may submit comments on or before July 2, 2009. The date of submission is the date the comments are received by the Division of Water and Audits. Parties must serve a copy of their comments on Del Oro Water Company on the same date that the comments are submitted to the Division of Water and Audits.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft resolution, a table of authorities and appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the draft resolution, and shall make specific reference to the record or applicable law. Comments which fail to do so will be accorded no weight and are not to be submitted.

Persons interested in comments of parties may write to Peter Liu or telephone him at (415) 703-1390.

/s/ RAMI KAHLON  
Rami Kahlon, Director

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Division of Water and Audits

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Enclosures: Draft Resolution W-4760  
Certificate of Service  
Service List

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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  
July 9, 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.

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SUMMARY

By Draft Advice Letter filed on August 4, 2008, Del Oro Water Company, Inc. (DOWC) seeks to increase its Paradise Pines District (PPD) 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; Pine Flat, and Country Estates in Kern County; and River Island 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 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 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 2009, while the Division used a 3.8% and -0.8% inflation rate for labor and non labor expenses; DOWC is now in agreement with the Division's escalation factors. 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 in this paragraph; 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 utilities) description and in the same area code. The ACWA does yearly surveys of both privately owned and publicly owned water utilities. Division Staff found PPD's TY 2009 salaries comparable to the salaries for water utilities surveyed by ACWA in the same area code.

The Division staff audited actual bills for expenses to make its estimates, and where bills were not available relied on the company's annual reports (the company had used projections for expenses where actual bills were not available).

DOWC is a Class B water utility and the allowed rate of return is 10.80%. 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 (One Ccf is equal to 100 cubic feet) 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.

**COMMENTS**

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this draft Resolution was mailed to the utility and protestants and made available for public comment on June 2, 2009. Comments were received from \_\_\_\_\_, and reply comments from \_\_\_\_\_.

**FINDINGS**

1. DOWC filed for a general rate increase based on taking the average of the past three years' (2005 - 2007) recorded expenses and then applying a 3% inflation rate.
2. The Division used different rates of 3.8% and -0.8% inflation rates for labor and non labor expenses; and DOWC now agrees with the Division's inflation rates.
3. The Division used annual reports for expenses, where actual bills were not available.
4. Except as described in the preceding findings, we find the company's estimates to be reasonable.
5. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
6. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
7. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.

**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,

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2. 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 their filing.
3. Del Oro Water Company, Paradise Pines District, is authorized to increase its annual revenues by \$341,135 or 22.8% for test year 2009.
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 July 9, 2009; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

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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>	
<b>Operating Revenue</b>					
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	
Other Water Revenue	\$0	\$0	\$0	\$0	
	\$1,494,265	\$1,847,341	\$1,494,265	\$1,847,341	\$1,835,400
<b>Operating Expenses</b>					
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
<b>Subtotal</b>	\$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
<b>Total Deductions</b>	\$1,564,283	\$1,672,739	\$1,552,305	\$1,661,796	\$1,660,741
<b>Net Revenue</b>	-\$70,018	\$174,602	-\$58,040	\$185,545	\$174,659
<b>Rate Base</b>					
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
<b>Net Plant</b>	\$1,731,688	\$1,731,688	\$1,731,688	\$1,731,688	\$1,731,688
<b>Less Advances</b>	\$191,420	\$191,420	\$191,420	\$191,420	\$191,420
Contributions	\$106,204	\$106,204	\$106,204	\$106,204	\$106,204
<b>Plus Working Cash</b>	\$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
<b>Rate Base:</b>	\$1,616,777	\$1,616,777	\$1,616,777	\$1,616,777	\$1,616,777
<b>Rate of Return</b>	-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

**Month**

	<u>Per</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)		

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SRF Surcharge:  
Per Meter

<u>Month</u>		<u>Per</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)	

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.

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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>
<b>Service Charge:</b>				
	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%
<b>Quantity Charge:</b>				
<b>Metered</b>	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%

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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

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of draft Resolution W-4760 on all parties in these filings or their attorneys as shown on the attached list.

Dated June 2, 2009, at San Francisco, California.

\_\_\_\_\_  
/s/ Josie L. Jones

JOSIE L. JONES

Parties should notify the Division of Water and Audits, Public Utilities Commission, 505 Van Ness Avenue, Room 3106, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number of the service list on which your name appears.

SERVICE LIST  
DRAFT RESOLUTION W-4760

Mrs. Edith Bender  
13767 West Park Drive  
MAGALIA CA 95954

Mrs. Emily Boris  
14177 Racine Circle  
MAGALIA CA 95954

Ms. Joanne Murray  
P. O. Box 432  
MAGALIA CA 95954

Mr. John Jacobson  
14670 Carnegie Road  
MAGALIA CA 95954

Mr. Larsen  
13679 Endicott Circle  
MAGALIA CA 95954-9550

Mr. Mark Johnson  
13929 Chestnut Circle  
MAGALIA CA 95954

Mr. Nick Pizzica  
15226 Torey Pine Road  
MAGALIA CA 95954-9130

Mr. Van Wagner  
6494 Woodward Avenue  
MAGALIA CA 95954-8709

Mrs. Ivey  
6059 Guilford Circle  
MAGALIA CA 95954-9561

Mr. Robert Fortino, President  
Del Oro Water Company  
Drawer 5172  
CHICO CA 95927

Mr. Walter Boris  
14177 Racine Circle  
MAGALIA CA 95954

Susan Howard  
Community Relations Director  
Del Oro Water Company  
Drawer 5172  
CHICO CA 95927

Paul Matulich  
Vice President  
Del Oro Water Company  
Drawer 5172  
CHICO CA 95927

Janice Hanna  
Director of Corp. Accounting  
Del Oro Water Company  
Drawer 5172  
CHICO CA 95927