
PUBLIC UTILITIES COMMISSION505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298Draft Resolution No. W-4681
Agenda ID 7462

March 11, 2008

TO: Parties to Del Oro Water Company's Walnut Ranch District's General Rate Increase:

Enclosed is a draft Resolution W-4681 of the Division of Water and Audits. It will be on the Commission's April 10, 2008 agenda. The Commission may act on the 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 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. Original and 2 copies of the comments, with a certificate of service, should be submitted to:

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

Parties may submit comments on or before March 31, 2008. 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 all persons on the service list attached to the draft Resolution, 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. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted. Late submitted comments will not be considered.

/s/ RAMI S. KAHLON
Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4681
Certificate of Service
Service List

DRAFT

Agenda Item #7462

WATER/RSK/JPT/SHI/jj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

**RESOLUTION NO. W-4681
April 10, 2008**

R E S O L U T I O N

(RES. W-4681), DEL ORO WATER COMPANY - WALNUT RANCH DISTRICT. ORDER AUTHORIZING A GENERAL RATE INCREASE TO PRODUCE ADDITIONAL ANNUAL REVENUE OF \$17,433 OR 51.1% IN TEST YEAR 2007.

SUMMARY

By draft Advice Letter filed on February 27, 2007, Del Oro Water Company, a Class B water utility, requested a general rate increase for its Walnut Ranch district for test year 2007. This resolution authorizes an increase of \$17,433 or 51.1%, relative to revenue at present rates, for a 10.75% return on rate base for test year 2007.

BACKGROUND

Prior to March 17, 2005, the water system now referred to as the Walnut Ranch district of the Del Oro Water Company (Del Oro) was owned and operated by the Walnut Ranch Water Company. By Decision 05-03-021, which became effective on March 17, 2005, the Walnut Ranch Water Company was acquired by Del Oro and the water system became the Walnut Ranch district of Del Oro.

By draft Advice Letter filed on February 27, 2007, Del Oro Water Company - Walnut Ranch District (DOWCWR) requested authority under Section 454 of the Public Utilities Code to increase revenues by 64% or \$20,548 for an 11.5% return on rate base for test year (TY) 2007. The purpose of the rate increase was to recover increased operating expenses and to provide an adequate rate of return on plant investment. DOWCWR has not had a general rate increase since its acquisition by Del Oro in 2005. The last general rate increase occurred under the

Walnut Ranch Water Company in 1986, per D.86-04-008. DOWCWR's present rates became effective on May 11, 2007 per Resolution W-4643, which authorized an interim rate increase of 2.4%.

DOWCWR's service territory consists of a subdivision known as Walnut Ranch Unit 1 and vicinity, located approximately 1 mile south of the City of Colusa, in Colusa County. As of February 15, 2008, DOWCWR had 81 active flat rate service connections and no metered rate connections, serving approximately 182 residents.

DOWCWR derives its water supply from two wells located within the Walnut Ranch subdivision. Both wells were constructed in 1978 and were drilled to a depth of over 200 feet. Well 1 is equipped with a 45 horsepower motor, while Well 2 is equipped with a 75 horsepower motor. Wells 1 and 2 can produce respectively 500 and 900 gallons per minute. Since Wells 1 and 2 are located only 20 feet from each other and are drilled to similar depths, they are treated as a single source. In recent years, both wells have registered excessively high levels of iron, manganese, and total dissolved solids (TDS). The system has a 5,000-gallon steel storage tank pressurized to between 45 and 65 pounds per square inch (PSI). The water mains consist of four, six, and eight-inch standard cement asbestos pipes installed nearly forty years ago.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed rate increase was mailed by DOWCWR to each customer on May 3, 2007. The Division of Water and Audits (Division) received letters of protest against the proposed increase from three customers.

The Division's staff and Del Oro representatives held a public meeting on June 13, 2007 at the Colusa High School library. Twenty-one customers attended the meeting. The Division's staff explained to the participants Commission rate-setting procedures, and Del Oro's Director of Community Relations cited justifications for the proposed rate increase. Among the reasons cited by Del Oro for the large rate increase were:

1. A long interval since the last general rate increase in 1986, while expenses have increased considerably due to inflation;

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2. High per-customer fixed operating costs, particularly employee labor and transportation costs, due to a small customer base;
3. Expenditures in 2005 and 2006 necessary to correct crumbling infrastructures and;
4. Engineering expenses related to solving the problem of high iron, manganese, and TDS levels.

The remainder of the meeting consisted of comments and questions by the customers. The customers were strongly opposed to the requested rate increase due to the poor water quality. Several customers stated that they were not necessarily opposed to the large rate increase so long as there was assurance by Del Oro that the poor water quality problem would be solved. Several customers expressed that, although they understood the poor water quality existed prior to Del Oro's acquisition of the water system, Del Oro nevertheless should not be allowed to pass on the costs arising from "a poor business decision" to their customers.

DISCUSSION

This resolution authorizes an increase of \$17,433, or 51.1%, in revenue for a 10.75% return on rate base for test year 2007. Appendix C shows the rate impact for a typical customer.

The Division performed an independent analysis of DOWCWR's summary of earnings. Appendix A shows DOWCWR's and the Division's estimates of the Summary of Earnings for test year 2007. The Division's estimate for the required revenue differs from those DOWCWR's estimate due primarily to revision in the rate base, the change in the recommended rate of return, the estimated purchased power, and estimated payroll.

Water Quality

The two wells at the Walnut Ranch subdivision have suffered from excessively high levels of manganese, iron, and total dissolved solids (TDS). Of the three contaminants, the manganese level is the most severe, measuring in excess of six times the maximum contaminant level (MCL) established for this contaminant, while the detected levels of iron and TDS are near their respective MCLs. Since all three contaminants fall under the dictates of the Secondary Drinking Water Standards established by the Environmental Protection Agency (EPA), their

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detected levels, however severe, by definition affect only the taste, odor, and appearance, but not the health and safety of the drinking water. It is for this reason that neither the Environmental Protection Agency nor the California

Department of Public Health (CDPH) enforces these secondary maximum contaminant levels.

At the public participation meeting on June 13, 2007, the customers complained vocally about the deleterious effects of the high iron, manganese, and TDS levels, including:

1. Significantly reduced longevity of water appliances, such as water heaters;
2. Water pipes, even PVC pipes, with severe buildup of deposits, clogged shower heads, and sprinkler heads;
3. Severe staining of walls, foundations, and sidewalks, and spotting on cars and dishes; and
4. Unpleasant tasting water of poor cosmetic appearance that led 96% of all DOWCWR residents to resort to bottled drinking water.

Del Oro is currently exploring options to address the high contaminant levels. The options Del Oro has explored include:

1. Building a water treatment facility at the present well site to reduce the contaminant levels;
2. Constructing a new well and pump station on another parcel of land located within or adjacent to the existing Walnut Ranch district;
3. Connecting to the City of Colusa; and
4. Connecting to wells located at the Colusa Industrial Park located 3,500 feet away.

Option 1 is infeasible due to the limited space on the existing lot, the poor condition and the low remaining life of the present wells, and the lack of a sewer system to discharge salt wastes created by such a treatment facility. The cost for a treatment facility, even if it were feasible, is estimated to be from \$300,000 to \$400,000.

Option 2 is estimated to cost from \$660,000 to \$800,000. Besides its high cost, one problem with option 2 is the uncertainty of the quality of any water extracted

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from it. Even after vast sums have been spent, there is no guarantee that water from a new well will be of an acceptable quality.

Option 3 is infeasible due to the City of Colusa's operational problems with its own wells. The city has expressed no interest in supplying water to DOWCWR.

Option 4 is estimated to cost from \$300,000 to \$400,000. Water from the Colusa Industrial Park is shown to offer significant reduction in all three contaminants. It is the most cost effective and feasible solution available that has a high degree of certainty to achieve the desired result and is, therefore, the solution on which DOWCWR is expanding efforts.

In line with the practice of the EPA and the CDPH not to enforce the Secondary Drinking Water Standards for contaminants that affect only the taste, odor, and appearance, but not the health and safety of the drinking water, the Division will for the time being allow Del Oro to address this problem at its own pace on a voluntary basis.

Although fully one-fourth of DOWCWR customers attended the public meeting and almost every customer who attended expressed outrage over the poor water quality, the customers were uniformly unaware of the huge rate impact that a solution to the problem would create. If Del Oro solved the water quality problem by using Option 4, it would add \$300,000 to \$400,000 to DOWCWR's rate base. Even ignoring the cost of purchased water from Colusa Industrial Park, the monthly flat rate service charge would jump to roughly \$120 per customer from the \$53 currently recommended in this resolution, based purely on the increase in the rate base alone. It is largely for this reason that the Division chooses to only monitor the situation and not impose a costly solution at this time. The Division will instead allow Del Oro to come up with a solution on a voluntary basis at its own pace.

Del Oro stated to the Division that it is proceeding with Option 4 and expects to have the pipeline project completed by the next GRC. For this option, it has been required by Butte County to complete an environmental impact study at a cost of approximately \$35,000. Although Del Oro has not indicated a definite timetable for completion of the pipeline project, Del Oro stated that prior to commencing and adding significant cost to the rate base, it will first file a Tier-3 advice letter

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with the Division for approval. During the advice letter process, the customers will be informed of the precise rate impact such a project will create and will have an opportunity to express their opinion on it. The Division recommends that Del Oro conduct a survey of the customers and proceed with the project only if at least a simple plurality of the customers is in favor of it.

Low-Income Assistance Program

Public Utilities Code § 739.8 directs the Commission to consider programs to provide rate relief for low-income ratepayers. The Water Action Plan adopted on December 15, 2005, further signaled the Commission's intention to make low-income rate assistance a primary rate design objective. As the Commission has no universal requirement currently in effect to compel water utilities to offer low-income assistance, its implementation is considered on a case-by-case basis.

In determining the feasibility of a low-income assistance program for DOWCWR, the Division took into account the following factors:

1. Percentage of all DOWCWR customers projected to participate in the program;
2. Size of discount offered to the low-income assistance program participants;
3. Projected rate impact on the non-participating customers due to implementation of the program; and
4. Funding mechanism for the program.

As a preliminary feasibility test for a low-income assistance program, the Division chooses a program that offers a 20% discount on the flat rate service fee. In line with currently authorized water utility low-income assistance programs, the Division adopted the income eligibility guidelines published annually by the Energy Division applicable to the CARE program (California Alternative Rate for Energy) available to energy customers. The income guidelines used in the CARE programs are based on 200% of the federal poverty income guidelines at different household sizes.

Using household income data from the 2006 U.S. Census American Community Survey, the Division estimates that approximately 40% of the households in Colusa County qualify for low income assistance using the 200% poverty level income guidelines established for CARE. Statewide participation rate of eligible low income energy customers in the CARE program has hovered around 72%.

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Assuming the same 72% participation rate by 40% of the total customers who are eligible, it is estimated that approximately 29% of the total customers would ultimately participate. At the rates and discounts recommended by the Division, this would produce an average monthly discount of \$5.57 per participating customer and a monthly surcharge of \$2.25 per non-participating customer, producing an overall billing differential of \$7.82 or an effective discount of 15%

that the low income customers will receive off the total monthly bill. The Division deems this estimated surcharge of \$2.25 an acceptable burden on the non-participating customers, as it is similar to low-income program surcharges for other water utilities regulated by the Commission.

The Division therefore recommends that DOWCWR be ordered to file a Tier-3 advice letter within 60 days of the effective date of this resolution to propose a low-income assistance program to offer a discount to its low-income customers. The precise details of an actual program may deviate from the one the Division chose as a feasibility test. The Division will review proposals to be submitted by DOWCWR to ensure that the objective of water conservation is preserved. DOWCWR should also propose a memorandum account to track expenses incurred in the provision of the rate assistance program as well as the amount of discounts provided.

Rate of Return on Rate Base

By July 1, 2007, Del Oro Water Company had retired the majority of its long-term debts, and, in so doing, Del Oro's debt/equity mix was changed substantially from 44%/56% to 3%/97%. This had a corresponding effect on the recommended rate of return, since it is generally calculated as the weighted average of returns on Del Oro's outstanding long term debts and the market return on equity for companies of comparable size and risk to Del Oro's. Using a purely weighted-average approach, the rate of return would jump from 9.40% (assuming the old debt/equity ratio) to 11.01% (using the new debt/equity ratio). The Division instead recommends that a 10.75% rate of return be adopted in an effort to balance ratepayer interest and to recognize Del Oro's efforts to purchase troubled small water utilities.

Water Conservation

Through the Water Action Plan adopted on December 15, 2005, the Commission signaled its intention to encourage utilities to adopt aggressive water conservation measures. Del Oro's conservation program consists largely of an

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educational page on its website showing the water loss rates of leaking faucets and a table showing how modifications in the manner of usage during daily activities such as showering, toilet flushing, tooth brushing, and outdoor watering, etc. can have a profound impact on water consumption. While the Division finds the information on the webpage valuable, this educational effort is only effective to the extent that the information on the webpage can be disseminated broadly to water users. Although an increasing number of

customers have begun to utilize Del Oro's website to pay their bills online, the overall customer exposure to the conservation information webpage is questionable. The Division concludes that the effectiveness of this education effort can be enhanced at reasonable cost by the use of regular bill inserts to convey the same information. However, as Del Oro currently uses a postcard billing format, any requirement for Del Oro to send out bill inserts would force it to incur a material expense by converting to an envelop format. The Division, therefore, makes the following recommendations:

1. DOWCWR should be ordered to modify the postcard bill to include conservation information, and
2. DOWCWR should be ordered to include a conservation information insert whenever DOWCWR mails out an annual Consumer Confidence Report.

COMPLIANCE

DOWCWR is currently providing water service to its customers according to the standards of General Order 103. DOWCWR has regularly filed annual reports with the Division. There are no outstanding Commission orders requiring system improvements.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

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The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments.

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.

2. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.

3. The rate increase authorized herein is justified and the resulting rates are just and reasonable.

4. The amount of increase authorized herein is justified and the resulting rates are just and reasonable.

5. Within 60 days from the effective date of this resolution, Del Oro Water Company - Walnut Ranch district should be required to file an advice letter to establish a low-income assistance program that offers a discount to qualified low-income customers. The eligibility criteria will be modeled after the CARE programs available to energy customers.

6. Del Oro Water Company - Walnut Ranch district should be required to modify the postcard billing statements to include, where practicable, information on water conservation. Del Oro Water Company - Walnut Ranch district should also be required to include conservation information insert when it mails out its annual Consumer Confidence Report on water quality.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code, Section 454, for Del Oro Water Company - Walnut Ranch district to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. WR-2R, Residential Flat Rate Service.

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The effective date of the revised rate schedule shall be 5 days after the date of filing.

2. Del Oro Water Company – Walnut Ranch district is authorized to increase annual revenues by \$17,433 or 51.1%, for a rate of return of 10.75% on rate base for test year 2007. This results in test year 2007 revenue of \$51,570.
3. The quantities (Appendix D) used to develop the Division’s recommendations are adopted.
4. Within 60 days from the effective date of this resolution, Del Oro Water Company – Walnut Ranch district is required to file an advice letter to

establish a low-income assistance program that offers a discount to qualified low-income customers. The eligibility criteria will be modeled after the CARE programs available to energy customers.

5. Del Oro Water Company – Walnut Ranch district is required to modify the postcard billing statements to include, where practicable, information on water conservation. Del Oro Water Company – Walnut Ranch district should also be required to include conservation information insert when it mails out its annual Consumer Confidence Report on water quality.
6. 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 April 10, 2008; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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Resolution W-4681

April 10, 2008

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Appendix A
Del Oro Water Company
Walnut Ranch District

Summary of Earnings
Test Year 2007

<u>Account</u>	<u>Category</u>	<u>Utility Estimated</u>		<u>Division Estimated</u>		<u>Division Recommended</u>
		<u>2006</u>	<u>Present Rates</u>	<u>Requested Amounts</u>	<u>Present Rates</u>	
<u>Operating Revenues:</u>						
460	Flat Rate	\$ 33,618	\$ 32,105	\$ 52,653	\$ 34,137	\$ 52,653
470	Metered	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ 33,618	\$ 32,105	\$ 52,653	\$ 34,137	\$ 52,653
<u>Operating Expenses</u>						
610	Purchased Water		-	-		
615	Purchased Power	3,996	4,718	4,718	5,094	5,094
	Purchased Chemicals	-	-	-	-	-
618	Other Volume Related Expenses	439	448	448	448	448
630	Employee Labor	6,664	8,222	8,222	6,998	6,998
640	Materials	425	2,186	2,186	2,186	2,186
650	Contract Work	2,058	1,776	1,776	1,776	1,776
	Water Testing	-	-	-	-	-
660	Transportation Expense	3,625	4,972	4,972	4,972	4,972
664	Other Plant Maintenance Expense	-	-	-	-	-
670	Office Salaries	2,873	4,331	4,331	4,331	4,331
671	Management Salaries	1,295	1,321	1,321	1,321	1,321
674	Employee Pension and Benefits	732	1,704	1,704	1,704	1,704
676	Uncollectibles	104	-	-	-	-
678	Office Service & Rentals	972	307	307	307	307
681	Office Supplies & Expenses	1,560	687	687	687	687
682	Professional Services	385	255	255	255	255
684	Insurance	1,166	1,655	1,655	1,655	1,655
688	Regulatory Commission Exp.	-	1,400	1,400	1,400	1,400
689	General Expenses	3,005	144	144	144	144
800	minus expenses capitalized	-	-	-	-	-
	Franchise fees	-	-	-	-	-
	Total Operating Expenses	\$ 29,299	\$ 34,126	\$ 34,126	\$ 33,278	\$ 33,278
<u>Total Deductions</u>						
403	Depreciation	1,371	2,244	2,244	2,244	2,244
408	Taxes other than Income	772	2,254	2,254	1,829	1,829
	Interest	-	-	-	-	-
	Total Deductions	\$ 2,143	\$ 4,498	\$ 4,498	\$ 4,073	\$ 4,073
	Total Deductions and Expenses	\$ 31,442	\$ 38,624	\$ 38,624	\$ 37,351	\$ 37,351
	Net income before taxes	\$ 2,176	\$ (6,519)	\$ 14,029	\$ (3,214)	\$ 15,302
	Income Taxes	\$ 800	\$ 800	\$ 3,213	\$ 800	\$ 3,201
	Net Revenue	\$ 1,376	\$ (7,319)	\$ 10,816	\$ (4,014)	\$ 12,101
<u>Rate Base:</u>						
	Average Plant	\$ 90,665	\$ 98,249	\$ 98,249	\$ 106,788	\$ 106,788
	Average Depr. Res.	\$ (2,057)	\$ (4,702)	\$ (4,702)	\$ (4,815)	\$ (4,815)
	Net Plant	\$ 88,608	\$ 93,547	\$ 93,547	\$ 101,973	\$ 101,973
	Less: Advances/Contributions	\$ -				
	Add: Materials and Supplies	\$ -	\$ 500	\$ 500	\$ 500	\$ 500
	Rate Base	\$ 88,608	\$ 94,047	\$ 94,047	\$ 102,473	\$ 102,473
	Rate of Return	1.55%	-7.78%	11.50%	-3.92%	11.81%

Appendix B

Schedule No. WR-2R

RESIDENTIAL FLAT RATE SERVICE

WALNUT RANCH DISTRICT

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The subdivision known as Walnut Ranch Unit 1 and vicinity, approximately one mile south of Colusa, Colusa County, California.

RATES

	<u>Per Month</u>	
For a single-family residential unit	\$ 53.06	(l)
For each additional single-family residential unit on the same premises and served from the same service connection.....	\$ 26.53	(l)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than 1-inch in diameter.
2. 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 customers 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 utility's established billing periods.
3. The established billing cycle for water used is monthly.
4. the opening bill for metered service, except upon 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 years. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If 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 customer.

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Resolution W-4681

April 10, 2008

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**Appendix C
Del Oro Water Company
Walnut Ranch District**

Comparison of Rates

	Present Monthly Charge	Division Recommended Monthly Charge	Percent Increase
Single family unit	\$ 35.12	\$ 53.06	51%
Additional unit on same connection	\$ 17.56	\$ 26.53	51%

**Appendix D
 Del Oro Water Company
 Walnut Ranch District**

**Adopted Quantities
 Test Year 2007**

Total water sold, CCF	36,305
Total water produced, CCF	36,305
Total kWh	35,070
kWH/CCF pumped	0.97
Composite power factor (\$/kWH)	\$ 0.14525

Per Month

For a single-family residential unit	\$ 53.06
For each additional single-family residential unit on the same premises and seved from the same service connection.....	\$ 26.53

Incomes Taxes

Income before Interest and Expense	\$ 14,219
Interest Expense	\$ -
State Taxable Income	\$ 14,219
State Income Tax	\$ 1,257
Federal Taxable Income	\$ 12,962
Federal Income Tax	\$ 1,944
Total State and Federal Income Taxes	\$ 3,201

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a copy of Draft Resolution W-4681 on all parties in this filing or their attorneys as shown on the attached list.

Dated March 11, 2008, at San Francisco, California.

/s/ JOSIE L. JONES
Josie L. Jones

NOTICE

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.

SERVICE LIST
DRAFT RESOLUTION W-4681

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Lyle Montgomery
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Robert S. Fortino, President
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Resolution W-4681
DEL ORO/DRAFT AL/RSK/JPT/SHI/jlj

April 10, 2008