

Date of Issuance 5/11/ 2009

WATER/RSK/FLC/PTL/LEP/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4761
May 7, 2009

R E S O L U T I O N

(RES. W-4761), DEL ORO WATER COMPANY - WALNUT RANCH DISTRICT. ORDER AUTHORIZING THE COLUSA INDUSTRIAL PARK INTERTIE PROJECT. THE PROJECT IS ESTIMATED TO COST \$348,408 AND INCREASE THE AVERAGE MONTHLY CUSTOMER BILL BY 113% PHASED IN OVER SIX YEARS (APPROXIMATELY 18.83% EACH YEAR).

SUMMARY

By Advice Letter 188 filed on June 6, 2008, Del Oro Water Company, a Class B water utility, requested the Division of Water and Audits (Division) for authority to proceed on a critical Service Improvement Plan Alternative Water Supply and authorize a capital improvement project to construct a 3,300-foot long pipeline in order to bring water from a new private water source to Del Oro's Walnut Ranch District. This project is necessitated by excessively high levels of iron, manganese, and total dissolved solids at the Walnut Ranch District's current wells. The project is estimated to cost \$348,408 and is estimated to result in an increase to a customer's water bill by 113% phased-in over six years (approximately 18.83% each year).

BACKGROUND

In accordance with Standard Practice U-36-W (Service Improvement Plan Requirements) published by the Division of Water and Audits, a Class B water utility is required to give notice to its customers and the Division prior to commencing on capital improvements that will increase the rate base by more than 10% in any given year. This prior notification process affords the customers an opportunity to voice their opinion on any such projects that may significantly

impact their water rates. The process likewise affords the Commission an opportunity to analyze the projects beforehand as to their prudence and appropriateness, as well as their benefit to the ratepayers. If the consensus of the customers is to retain poor quality (but not unsafe) service rather than pay for improvements, the utility is on notice that the proposed improvements may not be permitted into the rate base, absent the Commission's express prior approval. Even in the absence of customer protests, the Commission may still, upon its analysis, reject the projects or modify the proposed projects with alternative proposals. If the utility proceeds with the capital improvements despite the absence of the Commission's express prior approval, the proposed improvements may again be excluded from the rate base.

By Advice Letter 188, filed on June 6, 2008, Del Oro Water Company-Walnut Ranch District (DOWCWR) requested from the Division of Water and Audits approval for a capital improvement project to construct a 3,300-foot long pipeline in order to convey water from Colusa Industrial Park to DOWCWR. This project, referred to as the Colusa Industrial Park Intertie Project, has been necessitated by excessively high levels of iron, manganese, and total dissolved solids (TDS) at DOWCWR's current wells at the Walnut Ranch subdivision. 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 by the Federal Environmental Protection Agency (EPA) through its Secondary Drinking Water Standards, while the detected levels of iron and TDS are near their respective MCLs. Besides offering significant reduction in all three contaminants, water from Colusa Industrial Park also meets all EPA primary and secondary drinking water standards.

DISCUSSION

This intertie project is estimated to cost \$348,408, with all or most of which to be added to the current rate base of \$102,473. The project is expected to be completed within one year. At the 10.75% rate of return on rate base adopted in the last general rate case in Res. W-4681, the rate base addition will result in a rate increase of \$56.64 per flat rate customer per month. Additionally, the contractual arrangement between Colusa Industrial Park and Del Oro stipulates a \$130 per acre-foot price that Colusa Industrial Park will charge Del Oro. At DOWCWR's latest 5-year average production of 79.50 acre-feet per year, an additional \$11.04 per month of purchased water cost will be passed on to each

DOWCWR customer. This \$11.04 purchased water cost will be offset by an estimated \$5,000/year of savings (or \$5.34 savings per customer) in purchased power costs since the current pumps at the Walnut Ranch subdivision will be retired to a standby role once the intertie project is completed.

The overall effect is that a typical DOWCWR customer will see the average monthly bill increase by 113% phased-in over six years (approximately 18.83% each year). Likewise, DOWCWR's annual revenues will increase from \$51,574 to \$109,922.

The project consists of the following cost components:

Colusa Industrial Park Intertie Project

1	3,300 feet of 12-inch pipeline	\$256,000
2	County encroachment permit	\$6,000
3	Conceptual design	\$17,516
4	Engineering	\$18,258
5	Surveying/construction administration	\$15,633
6	Contingency	\$35,000
Total		\$348,408

On July 9, 2008 the Division received a package from Fred Leonard indicating that the majority of DOWCWR property owners intended to pursue annexation with the city of Colusa. Including in the package were 66 form letters from residents of DOWCWR declaring their discontent with Del Oro and their intent to discontinue their association with Del Oro as soon as they were able to secure an alternate source of potable water from the City of Colusa. They were under the impression that the City of Colusa was receptive to the quick annexation of DOWCWR. On April 7, 2009 a meeting was held to ascertain the position of the County Board of Supervisors regarding the assistance the City of Colusa was willing to provide to DOWCWR. At the meeting it became clear that the residents of DOWCWR had not submitted a formal request for annexation and if one was to be received, it would go through the standard Local Agency Formation Commission (LAFCO) process.

The City's position is that there is no pending application for annexation and if one is received it will go through the standard LAFCO process. The Colusa

County Board of Supervisors meeting minutes of April 17, 2009 show that with two Community Service Areas already in existence, the Supervisors have no desire to create another one. In addition, Walnut Ranch residents submitted no formal request for annexation and therefore, the Board of Supervisors recommends letting Del Oro supply Walnut Ranch with water from the Colusa Industrial Park Intertie Project.

The Division reviewed the City's and the County's positions, comments, and suggestions, and also examined workpapers for the Colusa Industrial Park Intertie Project and concluded that the project is a prudent and necessary investment. No entity other than Del Oro Water Company is presently available to supply the residents of Walnut Ranch with potable water, and the intertie project is needed for Del Oro to supply water of adequate quality.

NOTICE AND PROTESTS

A notice of the intertie project was mailed by Del Oro to all DOWCWR customers and interested parties on June 6, 2008. No formal protest was received. After the end of the protest period, on July 9, 2008, the Division received the package from Fred Leonard described above.

COMPLIANCE

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

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311 (g) (3), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The Colusa Industrial Park Intertie Project is necessary for Del Oro Water Company to avoid the excessively high levels of iron, manganese, and total dissolved solids at the Walnut Ranch District's current wells.

2. Approximately 66 residents of Walnut Ranch District declared their intent to discontinue their association with Del Oro Water Company as soon as they were able to secure an alternate source of potable water from the City of Colusa.
3. No application for annexation to Colusa has been received, and if one is received it will go through the standard Local Agency Formation Commission process.
4. The County's position is that it has no desire to create another Community Service Area and recommends letting Del Oro Water Company supply Walnut Ranch with water from the Colusa Industrial Park Intertie Project.
5. The Colusa Industrial Park Intertie Project requested by Del Oro Water Company for its Walnut Ranch District is a prudent and necessary investment. No entity other than Del Oro Water Company is presently available to supply the residents of Walnut Ranch with potable water, and the intertie project is needed for Del Oro to supply water of adequate quality.
6. Del Oro Water Company - Walnut Ranch District should be permitted to file a Tier 2 advice letter upon completion of the project for a rate base offset.
7. The intertie project cost is capped at \$348,408 and is estimated to result in an increase to a customer's water bill by 113% phased-in over six years.

THEREFORE IT IS ORDERED THAT:

1. Del Oro Water Company - Walnut Ranch District is permitted to proceed with the Colusa Industrial Park Intertie Project sought in Advice Letter 188.
2. Del Oro Water Company - Walnut Ranch District is permitted to file a Tier 2 advice letter upon completion of the Colusa Industrial Park Intertie Project for a rate base offset.
3. The Colusa Industrial Park Intertie Project is capped at \$348,408 and is estimated to result in an increase to a customer's water bill by 113% phased-in over six years.

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 May 7, 2009; the following Commissioners voting favorably thereon:

/s/Paul Clanon

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners