

WATER/FLC/JB5/SRW/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W- 4762
August 20, 2009

RESOLUTION

**(RES. W-4762), DUNNIGAN WATER WORKS (DWW).
ORDER AUTHORIZING GENERAL RATE INCREASES
PRODUCING ADDITIONAL ANNUAL REVENUES OF
\$35,215 OR 81% IN WATER REVENUES AND \$24,878 OR
39.88% IN SEWER REVENUES FOR TEST YEAR 2009.**

SUMMARY

The Grant Park Development, Inc. dba Dunnigan Water Works (DWW) filed an informal general rate increase request with the Division of Water and Audits (DWA) for both water and sewer service on May 5, 2008. DWW requested authority to increase rates for water service by \$80,372 or 185%. DWW requested authority to increase rates for sewer service by \$21,833 or 35%. The stated purpose of these rate increases is to recover operating expenses and costs related to plant improvements.

DWW's request shows that 2008 gross water revenues of \$43,445 at present rates would increase to approximately \$123,817 at proposed rates with 0% rate of return on rate base and no return on margin; and 2008 gross sewer revenues of \$62,377 at present rates would increase to approximately \$84,210 at proposed rates with 0% rate of return on rate base and no return on margin.

For test year 2009, this resolution grants an increase of \$35,215 or 81% in annual water revenues. This resolution also authorizes an increase in annual sewer revenues of \$24,878 or 39.88 % for test year 2009. DWA did not include the \$5,718 in land lease revenues from excess adjacent land as an offset to the sewer revenue requirement since DWA did not include any plant in rate base at this time nor was any depreciation expense included in the calculation of State and Federal income taxes.

The initial rates were established on April 12, 2007 pursuant to Decision (D.) 07-04-018 which granted DWW's Certificates of Public Convenience and Necessity (CPCN) for

operation of a water utility and sewer utility within the service area known as Dunnigan, Yolo County and authorized the initial rates which were already in effect.¹

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) recommended interim rate increases for water and sewer services. The increases were based on the results of cash flow analyses from the utility financial statements. Advice Letters 3-W and 3-SS were filed on July 29, 2008. The interim rate increases were effective August 1, 2008. The utility notified their customers with the August 2008 billing statements. The interim rate increases are subject to adjustment, up or down, pending a final determination by the Commission in this general rate case resolution pursuant to Commission Res. W-4540.

SYSTEM DESCRIPTION

Grant Park Development acquired the land, Country Fair Estates Mobile Home (MH) and Happy Time RV Parks (RV), and water and sewer systems in May 1998. DWW has provided water and sewer services to the RV and MH Parks since. DWW currently provides flat rate water and sewer service to an equivalent of 228 meter connections in the MH and RV Parks.

DWW's existing water system includes two wells with a total capacity of approximately 550 gallons per minute (gpm). The wells supply two master meters serving the RV and MH parks through Schedule 80 PVC pipe, and C-900 main piping. Current water storage capacity is 255,000 gallons.

DWW's existing sewer system consists of Schedule 40 ABS lateral piping, C-900 main line piping, a primary submersible wastewater grinder lift station pump, and a secondary submersible wastewater grinder lift station pump. Sewage is pumped to nearby collection ponds. The ponds perimeter has sampling stations for monitoring ground water quality to prevent contamination.

NOTICE AND PUBLIC MEETING

Notice of the proposed rate increases was mailed to the DWW's customers on June 13, 2008. DWA held a public meeting in Dunnigan on July 17, 2008. The meeting had approximately 66 people in attendance. Thirty-four people signed the Sign-Up Sheet(s). Twenty-six people gave e-mail addresses and seven gave postal addresses to receive correspondence concerning this case.

¹ "At the request of the Water Division, DWW currently charges water and sewer rates based on similar rates charged by the City of Woodland, the nearest municipal water and sewer system." (D.07-04-018, page 2, footnote 5)

There were recurring questions concerning the separation of utility rates from mobile home park space lease rents. The owner insisted that there is a difference between "space rent and services provided." Also, there were recurring statements that the owners/managers were inaccessible as "the phone is never answered" and "there is never anyone in the office." The owner lives in the mobile home park and the office is inside his home. He insists that he is on the premises every day and that all residents have both his office phone and cell phone numbers. More than one resident indicated that they were frequently flooded, which resulted in toilet backups with more unanswered calls. The owner categorically denied those charges. At this point DWA staff interjected that complaints about the utility not responding to problems should be addressed to the Commission's Consumer Affairs Branch.

Several individuals questioned a rate increase of \$0.48 which started in June 2007. The increase reflects the 1.5% CPUC User Fee which was added to their bill following D.07-04-018 granting the CPCN and initial rates. There were questions concerning the utility's requirement to notify customers of the new charge and also whether late fees of \$10 could be assessed for non-payment of the unknown increase. DWA staff agreed to look into the question of late fees and customer notice but advised the customers to simply request the late charges, if any, be waived under the circumstances. Questions regarding the CPUC requirement of an emergency number and service were left open to investigation. Questions concerning a low income program were explained as available generally to customers of large utilities because of the large customer base available over which to spread the low-income subsidy. There was a question concerning costs charged to the RV Park and the response was that monthly RV users paid the same rate as Mobile Home Park users (daily or weekly users paid a pro-rated cost).

CUSTOMER COMPLAINTS

DWA received six letters of protest prior to the public meeting. All of the issues raised in these letters were addressed at the public meeting. DWA also received copies of eight letters from DWW's customers who sent their August bill payment to the Commission's Consumer Affairs Branch with letters protesting the interim rate increase. All of the customers checks were returned as the interim rates are the correct rates authorized and in effect until changed by a Commission resolution.

DWA received two letters² from the law office of David Grabill representing the Homeowners Association (HOA) of Country Fair Estates Mobile Home Park. Among other things, Mr. Grabill indicated that the HOA requests "a full public hearing on this

² DWA received letters dated August 13, 2008 and October 1, 2008.

application". DWA responded in writing to Mr. Grabill explaining that the Commission attempts to resolve rate requests from Class D water and sewer utilities on an informal basis that is less costly for all parties. It was explained that the cost of a formal proceeding, including evidentiary hearings, can approach a small utility's annual revenue requirement and this cost would be included in customers' rates on a going forward basis. Mr. Grabill requested a copy of any DWA report or resolution and his name was added to the service list for this proceeding.

SUMMARY OF EARNINGS

DWA performed an independent analysis of DWW's summary of earnings. DWA used DWW's revenues and expenses for 2008 for test year 2009. Appendix A shows DWW's and DWA's summary of earnings at initial, requested, and recommended rates for test year 2009.

The UAFCB of the Commission assigned an auditor to examine the records of DWW. Data requests were issued for documentation of plant and expense expenditures. DWA has incorporated the audit findings in this resolution as appropriate and consistent with its review and analysis of DWW's operations. However, in some instances DWA did not adopt the audit findings. The criteria for an audit finding are not the same as the criteria for setting just and reasonable rates. An audit will recommend a disallowance if expenses are undocumented. For rate-making purposes for small water and sewer utilities, absence of documentation does not preclude DWA from recommending expense levels sufficient to maintain a financially viable utility.³

Operating Revenues

DWW currently provides flat rate water and sewer service to 228 meter-equivalent connections in the MH and RV Parks. In addition, Grant Park Development pays DWW for water and sewer service provided to the MH and RV Parks as business uses. These business uses include park clubhouses, swimming pools, showers, and landscaping (irrigation). The business uses are estimated at 50 equivalent meter connections. DWW revenues include billings for 50 additional water and sewer connections. DWA estimates of revenues and rates use 278 total water and sewer connections. DWA recommends that DWW install meters for all business uses and bill accordingly. This will provide more accurate water usage information for billing purposes.

³ Section 454(b) of the Public Utilities Code states that the "Commission may adopt rules it considers for each class of utility providing for the nature of the showing require to be made in support of proposed rate changes . . ."

DWW (sewer) revenues include a land lease for excess land adjacent to the sewer collection ponds. The lease revenues for 2008 are estimated at \$5,718, an increase of \$1,483.

Purchased Power

This account includes the cost of purchased power. DWW's recorded 2007 costs are \$3,880 (water) and \$776 (sewer). On April 6, 2006, DWW provided billings for purchased power but the amounts were much greater than recorded or requested. DWW provided copies of two Pacific Gas & Electric Company's account billings for 2007 - 2008. One account was only for Well #1 pump with annual billings of \$2,581. For explanation, DWW produced a worksheet which developed rolling 12-month averages which brought the recorded billings to the level of \$3,000. This amount would be attributed 100% to water operations. The remaining \$880 is a reasonable amount for the additional booster pumps to maintain system pressure. DWW responded to the power costs in DWA estimates and stated that the power cost should be increased to \$7,832 based on submitted 12 month average power costs. DWA discussed this issue with DWW and both parties agreed that the current level of power costs is reasonable.

DWA staff advised DWW to install meters for the booster pumps and wastewater pump to get accurate power cost measurements for sewer operations. DWW installed a sub-meter to measure the power for the wastewater pump and measured the actual consumption for one month. The daily power consumption was 11.11 kWh per day. By using this daily consumption DWW was able to reconstruct the electric bills for the 12 months of 2007. DWW computed billings for wastewater power consumption is \$643. DWA will accept and use the revised power expense of \$643 for sewer operations.

Interest Expense

DWW includes \$17,376 in annual interest expense for the water operations. DWW took out a loan for \$368,768 in February of 2004. The funds were used to make capital improvements to the water system. The improvements included "a new well, the elevated water storage, and associated pipelines" (E-mail from Frank B., dated October 21, 2008).⁴

In response to DWA's data requests, DWW's owner Jerry Berger indicated that the water tank structure for water tanks and water treatment facility was actually built in 1998 and 1999. He states that he "underestimated cost for projects and borrowed to pay his debts." The interest expense should be removed from operation and maintenance expenses and treated as a "below the line" item.

⁴ Frank B. (Brommenschenkel) & Associates consultant for DWW.

Other Volume Related Expenses

Work papers indicate this expense was \$6,729 (Water) and \$7,052 (Sewer) in 2007 with no increase forecast for 2008. DWA requested that 2007 invoices be made available for audit in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$5,482 (Water) and \$839 (Sewer). DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW did not provided details of these expenses to either DWA or UAFCB to support its full request. On April 6, 2009, DWW responded to the Staff Report by providing a quarterly invoice of \$2,060⁵ or \$8,240 annually for water testing expenses as required by the Regional Water Quality Control Board. DWA accepted the \$8,240 as a reasonable expense and used \$9,079 as the sewer expense for water testing.

Employee Labor

Work papers indicate this expense was \$14,627 (Water) and \$16,494 (Sewer) in 2007 with 4.1% increases in 2008 [(\$15,226 (Water) and \$17,170 (Sewer)]. In response to DWA's data requests, DWW produced the names, hourly rates, and hours forecast for 2008. There are three employees working part-time for DWW with weekly hours ranging from 5 to 8 hours for water and 6 to 9 hours for sewer O&M. DWW demonstrated the accounting for the employee hours at the company headquarters in Paso Robles. DWA is satisfied that the employee labor costs are reasonable.

Employee labor expenses were audited by the UAFCB in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$5,119 (Water) and \$5,773 (Sewer).

DWA will not adjust the employee labor according to the UAFCB audit. Based on DWA's experience, the employee labor expense estimated by DWW is a reasonable level for a company of this size. A total of \$32,396 annually equates to one full-time position earning \$15.58 per hour.

Transportation

Work papers indicate this expense was \$2,524 (Water) and \$2,846 (Sewer) for 2007 with 2.25% decreases (Water) and no change (Sewer) forecast for 2008 (\$2,467 (Water) and \$2,846 (Sewer)). DWA requested that 2007 invoices be made available for audit in December 2008.

⁵ The invoice was from Excelchem Environmental Laboratories, dated, 11/21/08.

DWW produced a worksheet which computed fuel expenses based on actual miles driven from recorded odometer readings, average miles per gallon for utility-owned vehicles, and the average cost of gasoline. For the water utility the expense was for 765 gallons at \$3.30 per gallon. For the sewer utility the expense was for 863 gallons at \$3.30 per gallon.

DWA adjusted the fuel expense to reflect the fact that gasoline is now selling for less than the average cost per gallon used by DWW. The Department of Energy's July 2009 Short-Term Energy Outlook projects average gasoline price for 2009 at \$2.57 per gallon on the west coast (Petroleum Administration Defense District V). Recent California prices are running \$0.06 per gallon higher than the west coast average. The total \$2.63 per gallon, when substituted into DWW's worksheet, reduces the total Transportation Expense from \$5,370 to \$4,282. The revised estimate was divided 50/50 between Water and Sewer or \$2,141 each.

DWW responded to the Staff Report that these expenses should be higher based on the expenses of nearby Rolling Green Water and Sewer. DWA expenses are based on miles driven and a reasonable cost of fuel as indicated above. DWA did not adjust these expenses.

Office Salaries

Work papers indicate this expense was \$3,421 (Water) and \$3,858 (Sewer) in 2007 with 11.7% and 5.7% increases, respectively, forecast for 2008 [\$3,820 (Water) and \$4,079 (Sewer)]. In response to DWA's data requests, DWW produced the name, hourly rate, and hours forecast for 2008. There is one employee working part-time for DWW at six hours per week, three hours charged to water and three hours charged to sewer. DWW demonstrated the accounting for the employee hours at the company headquarters in Paso Robles.

Office salaries expenses were audited by the UAFCB in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$1,197 (Water) and \$1,350 (Sewer).

DWA will not adjust the office salaries according to the UAFCB audit. Based on DWA's experience regulating Class D water companies, the office salaries expense estimated by DWW is a reasonable level for a company of this size. A total of \$7,899 equates to 312 hours per year at approximately \$25 per hour.

Management Salaries

Work papers indicate this expense was \$12,000 (Water) and \$12,000 (Sewer) in 2007 with no change forecast for 2008. In response to DWA's data requests, DWW confirmed

that the owners are paying themselves a monthly salary of \$1,000 each for working as Plant Operator (Mel Smith) and Business Manager (Jerry Burger). DWA is satisfied the management salaries expenses are reasonable.

Management salaries expenses were audited by the UAFCB in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$4,200 (Water) and \$4,200 (Sewer). DWA will not adjust the management salaries according to the UAFCB audit. Based on DWA's experience regulating Class D water companies, the Management Salaries expense estimated by DWW is reasonable for a Class D water company.

Employee Pensions and Benefits

Work papers indicate this expense was \$5,226 (Water) and \$5,893 (Sewer) in 2007 with 4.1% increase (Water) and no change (Sewer) forecast for 2008 (\$5,440 (Water) and \$5,893 (Sewer). DWA requested that 2007 invoices be made available for audit in December 2008. DWW broke down the expenses as follows:

	Water	Sewer
Employee Health Insurance	\$796	\$897
Workers Comp	1,580	1,782
Xmas Bonus & Misc. Expenses.	1,645	1,855
Continuing Education	1,205	1,359
Total	\$5,226	\$5,893

Employee pension and benefits expenses were audited by the UAFCB in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$402 (Water) and \$453 (Sewer). These amounts reflect acceptance of the continuing education expense. The cost is recommended by UAFCB to be amortized over three years since the benefits accrue for more than one year. DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW has not provided details to substantiate the other costs in this expense category to either DWA or UAFCB. However, on April 6, 2009, DWW responded to the Staff Report with back up work papers to support their request of \$3,584 and \$4,038 for Water and Sewer. DWA reviewed the work papers and based on its experience regulating Class D water companies, made adjustments based on clerical staff working six hours per week or 15% instead of 20% used by DWW and on the salaries paid for the staff instead of the higher salaries used in the pension calculation.

Based on DWA’s analysis, DWA included an additional expense of \$1,013 for both water and sewer to arrive at an appropriate amount for pensions and benefits. After adding the dollar amounts recommended by UAFCB the total amount for Pensions and Benefits is \$1,415 and \$1,466 for water and sewer respectively.

Office Services and Rentals

Work papers indicate this expense was \$2,473 (Water) and \$2,991 (Sewer) in 2007 with 4.1% increase (Water) and no change (Sewer) forecast for 2008 (\$2,575 (Water) and \$2,991 (Sewer). In response to DWA’s data request, DWW broke down the expenses as follows:

	Water	Sewer
Trash removal	\$394	\$444
Internet & Phone	1,174	1,324
Office Supplies	748	844
Credit Card Services	157	178
Office Rentals		202
Total	\$2,473	\$2,992

DWA requested that 2007 invoices be made available for audit in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$49 (Water) and \$55 (Sewer).

The UAFCB audit disallows all but a small fraction of Internet and Phone expense. DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW has not provided details to substantiate these expenses to either DWA or UAFCB. DWW responded to the Staff Report by requesting a minimum of \$2,000 for Water and \$3,000 for Sewer based on the expenses of Rolling Green Water and Sewer. DWA has included for Water and Sewer an additional \$1,800 per year each for rent. This estimate is based on rent levels of other Class D water companies.

Office Supplies and Expenses

Work papers indicate this expense was \$1,616 (Water) and \$1,823 (Sewer) in 2007 with 4.1% increase (Water) and no change (Sewer) forecast for 2008 (\$1,683 (Water) and \$1,823 (Sewer). In response to DWA’s data request, DWW broke down the expenses as follows:

	Water	Sewer

Postage	\$391	\$440
Supplies	394	444
Phone	831	938
Total	1,616	1,822

DWA requested that 2007 invoices be made available for audit in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$833 (Water) and \$939 (Sewer).

The UAFCB audit has disallowed cell phone charges of \$783 (Water) and \$884 (Sewer). The audit shows that cell phone use was related to Grant Park Development's other businesses. DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW responded to the Staff Report that the expense for water should be increased to \$1,795 based on the expenses of Rolling Green Water. After a review, because usage could not be shown to be related to the utilities, DWA did not make any adjustments to this expense.

Professional Services

Work papers indicate this expense was \$4,223 (Water) and \$4,762 (Sewer) in 2007 with 38.6% decrease (Water) and no change (Sewer) forecast for 2008 (\$2,594 (Water) and \$4,762 (Sewer). In response to DWA's data request DWW broke down the expenses as follows:

	Water	Sewer
CPA Services	\$176	\$199
Consulting	4,047	4,563
Total	\$4,223	\$4,762

DWA requested that 2007 invoices be made available for audit in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$1,525 (Water) and \$1,719 (Sewer).

The UAFCB audit has adjusted the consulting costs by amortizing those expenses over three years. The audit shows that the consultant's services were for more than one year and incurred on a non-recurring basis. DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW responded to the Staff Report that expenses as of March 31, 2009, for Frank B & Associates has been \$16,906 besides \$375 annual cost per year for an outside auditor. These expenses should be amortized over three years and thus a Water and Sewer cost of \$6,011. DWA

reviewed the requested expenses. For a class D water company typical costs range from several hundred dollars to \$3,000 based on test years 2006 and 2007. DWA estimated costs of \$3,244 per year for three years or \$9,732 for Water and Sewer combined are reasonable. This results in \$1,525 and \$1,719 for water and sewer, respectively.

Insurance

Work papers indicate this expense was \$3,071 (Water) and \$3,463 (Sewer) in 2007 with 43.2% decrease (Water) and no change (Sewer) forecast for 2008 (\$1,744 (Water) and \$3,463 (Sewer). In response to DWA's data request, DWW broke down the expenses as follows:

	Water	Sewer
Commercial. Liability	\$41	\$47
Commercial Property	157	177
Business Auto	2400	2707
Additional Auto	224	253
Commercial Inland Marine	533	601
Total	\$3,355	\$3,785

DWW auto insurance comprises 78.2% of total insurance expenses. DWW listed five vehicles used in their operations in Dunnigan, yet DWW has only one full-time equivalent employee in Dunnigan. This is an unreasonable expense for DWW's customers to bear. DWA believes that one vehicle dedicated full time to DWW is sufficient. DWA has disallowed 80% of the auto insurance expense. All other insurance expenses are considered reasonable. DWW responded to the Staff Report that DWW has three part time employees that do repair work and any repairs required generally require at least two employees at the job site. Insurance expenses should be for three cars or \$3,200 each for Water and Sewer. As discussed above DWA has allowed wages for one full-time equivalent employee and thus car insurance for one vehicle as reasonable. This results in \$1,256 and \$1,417 for water and sewer, respectively.

Regulatory Commission Expenses

Work papers indicate this expense was \$0 for Water and \$0 for Sewer in 2007 with \$2,000 for Water and \$2,000 for Sewer forecast for 2008. This account includes all expenses (except salaries of regular utility employees) incurred in connection with formal cases before regulatory commissions such as a rate increase request before the Commission. This would include the preparation of the DWW showing submitted to the Commission, representation at public meetings, and responding to data requests.

DWW retained the services of Frank B and Associates to prepare and present this rate increase request. However those expenses have been included in Professional Services and to include anything here would be double counting. DWA has disallowed all of the expenses listed for this account.

General Expenses

Work papers indicate this expense was \$1,914 for Water and \$4,360 for Sewer in 2007 with 43.5% decrease (Water) and no change (Sewer) forecast for 2008 (\$1,082 (Water) and \$4,360 (Sewer).

DWA requested that 2007 invoices be made available for audit in December 2008. The results of that audit are contained in the report prepared by the UAFCB. In that report the expenses in this account are reduced to \$69 (Water) and \$78 (Sewer). The UAFCB audit disallowed all expenses to this account except a \$69 charge to Water for equipment rental and \$78 hotel charge to Sewer. All other charges were undocumented or unsupported. DWA has reflected the UAFCB adjusted numbers in the Summary of Earnings found in Appendix A. DWW has not provided details of these expenses to either DWA or UAFCB.

In the course of the audit investigation, DWW sent a copy of a Demand for Payment of Annual Waste Discharge Fees from the State Water Resources Control Board. DWW asserts this fee is part of the 2007 recorded expenses for this account. The UAFCB audit did not include this fee in any expense accounts. The fee for July 1, 2007 through June 30, 2008 was \$3,117. The fee for July 1, 2008 through June 30, 2009 is \$4,384. For test year 2008 rate-making purposes, the appropriate process would be to prorate the fees for a 2008 expense of \$3,751. DWA has determined that the most recent invoice is a reasonable estimation for this expense on a prospective basis and has been included in the summary of earnings found in Appendix A of this report. DWW responded to the Staff Report that invoices from the County Health Department for permits, inspections, and sampling totaled \$1,789 and should be included as an expense for Water. DWA estimate for Other Volume Related Expenses would include this \$1,789 expense for Water. DWW also provided a recent billing from the Regional Water Quality Control Board for their annual permit fees of \$4,384. DWA has included this \$4,384 expense in the estimate for General Expense for Sewer.

Rate Base

Rate Base represents a utility's investment. Rate Base is comprised of the cost of average plant in service plus working cash allowance less average depreciation reserve. The rate base claimed by DWW is \$1,990,059 (Water) and \$2,265,310 (Sewer). In response to DWA's data request, DWW provided the following schedule of increases to plant from the original purchase to the present.

	Water	Sewer
Original cost at 4/15/1998	\$576,500	\$907,148
Plant Additions - 1998	107,965	108,505
Plant Additions - 1999	275,598	92,549
Plant Additions - 2000	204,439	181,409
Plant Additions - 2001	212,674	144,954
Plant Additions - 2002	199,477	180,279
Plant Additions - 2003	7,737	4,535
Plant Additions - 2004	223,504	0
Plant Additions - 2005	401,269	260,168
Plant Additions - 2006	69,941	67,898
Plant Additions - 2007	373	547,100
Total	\$2,279,477	\$2,494,545

DWA was not provided documentation to verify any of the plant figures given. DWW has been unable or unwilling⁶ to provide DWA with documentation to support these plant investments. DWW's filing does not seek any return on investment. DWW's owner Mr. Burger has stated that he is willing to defer the return on investment until he has 2,000 customers. In order to defer the return on investment and to continue the investigation of the plant numbers, DWA removed all plant dollars from the Summary of Earnings. This has multiple effects on the computation of revenue requirement and rates. DWW's owner understands that any future attempt to earn a return on investment will require full documentation of all rate base figures beginning with the original purchase and all subsequent plant additions. Pursuant to D.92-03-093, DWA calculated a return on margin as an alternative to a rate of return on rate base. DWA has incorporated a 24% rate of margin based on the 2009 Test Year in the summary of earnings shown in Appendix A for both the water and sewer systems⁷.

DWW operated the water and sewer utility without a CPCN from 1998 to 2007. DWW applied for a CPCN in order to expand their operations to serve the expected growth in the Dunnigan area. The plant additions and investments represented in the above table were not approved or authorized by this Commission. The records were not kept in the manner prescribed by this Commission. DWW has been advised by DWA that any

⁶ DWW owner indicated that the plant numbers were approved by the ALJ and he didn't see any need to "do this again". Decision 07-04-018 speaks for itself. DWA contacted ALJ DeBerry to confirm that no agreements were made to any plant or expense figures.

⁷ Pursuant to D.92-03-093 (43 CPUC 2d, 582), the Commission recognized that the range of returns may require revision and thus annually a recommendation on the appropriate range of returns is prepared. The 2009 recommendation is attached in Appendix C.

future plant additions and financing must be approved by this Commission pursuant to Public Utilities Code §§ 816-851.

RATE DESIGN

DWW's current water rate structure consists of one schedule: No. 1, General Flat Rate Service. DWW has requested establishing a new metered schedule for water service. DWA believes a metered water schedule is appropriate to give customers a choice and to encourage water conservation. DWA has developed a metered rate schedule based on the revenues and average quantity used by existing customers. The water and sewer rates recommended by DWA are shown in Appendix B.

Interim rates for water and sewer flat rate service have been in effect since August 1, 2008. The adopted rate for flat rate water service decreases from the interim rate of \$25.04 to \$23.58. The \$1.46 per month over collection between the interim rate and the final rate approved herein should be refunded to water customers as a monthly credit spread over six months. The recommended rate for flat rate sewer service increases from the interim rate of \$21.70 to \$26.16. The \$4.46 per month shortfall between the interim rate and the final rate approved herein should be surcharged to sewer customers on a monthly basis spread over six months. DWW should be authorized to file a Tier 1 advice letter to collect the uncollected revenues for sewer service by a monthly surcharge spread over six months for under collected revenues to sewer customers and to refund to water customers by a monthly credit spread over six months for over collected revenues from August 1, 2008, the effective date of interim rates, to the effective date of the rates authorized in this resolution.

COMPLIANCE

DWW filed their first Annual Report with the Commission for water and sewer for 2007. DWW filed its 2008 Annual Report on May 28, 2009.

COMMENTS

A DWA Staff Report was sent to DWW and all individuals who requested a copy for a 30-day public review and comment on February 26, 2009. DWA has incorporated changes as appropriate based on written comments from DWW. The draft resolution was sent to DWW and individuals on the service list for a 30-day public comment on April 21, 2009. Timely comments were received from, Mr. David Grabill, an attorney on behalf of the Country Fair Estates Homeowners Association and Al Bent, the vice president of the HOA and a resident of the mobile home park served by DWW.⁸

⁸ In response to the Staff Report, DWA received a letter signed by 45 residents of the mobile home park along with an additional twenty e-mails and letters expressing disagreement that Mr. Grabill represents the majority of the members of the Country Fair Estates Homeowners

Mr. Grabill raises two arguments in response to the draft resolution. First, he contends that the Certificate of Public Convenience and Necessity (CPCN) “does not allow [DWW] to charge for the operation and maintenance of the water and sewer systems inside the parks.” (Comments at p. 2) Mr. Grabill has fundamentally misunderstood the Commission’s decision granting CPCNs to DWW to operate a water and sewer utility within the service area known as Dunnigan, Yolo County (see Ordering Paragraph #1 of Decision (D.) 07-04-018). In D. 07-04-018, the Commission concluded that “DWW should be allowed to continue to charge RV and MH Parks *occupants*, and DWW’s office, DWW’s current flat rates of \$13.05 and \$18.70 per month for water and sewer service, respectively.” (emphasis added) (Conclusion of Law # 9.) All recommended changes that rely on this fundamental misunderstanding of DWW’s service territory are rejected.

Second, Mr. Grabill’s argues that DWA has disregarded the audit findings of the Commission’s Utility, Audit, Finance and Compliance Branch in determining expense levels in establishing rates. This is incorrect. DWA considered each and every audit finding. DWA adopted those audit findings that were consistent with reasonable utility ratemaking. The criteria for an audit finding are not the same as the criteria for setting just and reasonable rates. An audit will recommend a disallowance if expenses are undocumented. For rate-making purposes for small water and sewer utilities, absence of documentation does not preclude DWA from recommending expense levels sufficient to maintain a financially viable utility. For example, Mr. Grabill contends that “there is no basis shown in the Draft Resolution for allowing this utility a 20% return on its gross operating revenues.” (Comments at p. 5) To the contrary, the 20% return on margin is consistent with established Commission practice as set forth in D.92-03-093, as well as consistent with the return authorized by the Commission to other Class D water utilities with a 2008 Test Year.

On May 9, 2009, Mr. Grabill submitted comments on the draft resolution. Many of the comments raised by Mr. Grabill were raised in his previous submissions and have been responded to above. Mr. Grabill also requested to see information provided to DWA by DWW subsequent to the issuance of the Staff Report. Mr. Grabill did so because DWA revised some of its findings based on the newly provided information. As such, DWA provided Mr. Grabill with this new information.

Mr. Grabill requests that the new information be disregarded because UAFCB did not have an opportunity to review it. While it is preferable that UAFCB review all the appropriate information and that the utility not avoid the audit review by failing to

Association. Various correspondences indicate that Mr. Grabill represents between 10% and 15% of the residents.

provide requested and apposite information in a timely fashion, there is no procedure that requires DWA to consult with UAFCB in a GRC when DWA obtains additional information not provided to UAFCB. Accordingly, there was no error.

Additional findings have been added to this Resolution to make clear the basis for the adopted expense figures supporting the authorized rates.

FINDINGS AND CONCLUSIONS

1. Dunnigan Water Works provides flat rate water and sewer service to 228 customers in the Country Fair Estates Mobile Home and Happy Time RV Parks.
2. Dunnigan Water Works provides water and sewer service to business uses in the Country Fair Estates Mobile Home and Happy Time RV Parks.
3. The business uses are estimated at 50 equivalent meters.
4. The Division of Water and Audits use a total of 278 water and sewer customers to estimate revenues and calculate rates.
5. The power purchase expense of \$3,880 for water service is estimated based on recorded 2007 expenses.
6. The Division of Water and Audits did not include \$5,718 in land lease revenues from excess adjacent land as an offset to the sewer revenue requirement since no plant was included in rate base at this time.
7. The power purchase expense for sewer service of \$643 is estimated based on a daily sampling of power consumption used to reconstruct electricity bills for the 12 months of 2007.
8. Interest expense of \$17,376 for financing plant investments prior to Commission jurisdiction over Dunnigan Water Works is disallowed.
9. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for other volume related expenses of \$5,482 for water service and \$839 for sewer service.
10. The Division of Water and Audits accepts the \$8,240 in annual water testing expenses required by the Regional Water Quality Board for the sewer system based on quarterly invoices from Excelchem Environmental Laboratories for a total of \$9,079.
11. The Division of Water and Audits based on its experience, along with hourly rates and forecasted hours for 2008 provided by Dunnigan Water Works, finds one full-time equivalent employee at \$32,396 per year is a reasonable expense for employee labor for the combined water and sewer utility.
12. The Division of Water and Audits based on its experience, along with an hourly rate and forecasted hours for 2008 provided by Dunnigan Water Works, finds one part-

time employee working six hours per week at \$7,889 per year is a reasonable expense for office salaries.

13. The Division of Water and Audits based on its experience with other Class D water and sewer utilities finds that a management salary of \$12,000 per year each for the water and sewer utility is a reasonable management expense.
14. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for employee pensions and benefits.
15. The Division of Water and Audits has reviewed Dunnigan Water Works' work papers (invoices) submitted in response to the Staff Report and made adjustments based on adopted hours worked and salaries. \$1,013 in annual health insurance and workers' compensation insurance expense for the water and sewer utility each are found reasonable under employee pensions and benefits expense.
16. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for offices services and rentals.
17. The Division of Water and Audits imputes an annual office rental expense of \$1,800 each for the water and sewer utility as a reasonable annual office rent based on rent levels adopted for other Class D water companies.
18. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for office supplies and finds this level a reasonable expense.
19. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for professional services as reasonable based on recent estimates for Class D water companies.
20. The Division of Water and Audits finds Dunnigan Water Works' insurance expenses reasonable with the exception of auto insurance which has been reduced by 80%. Auto insurance is based on full-time use of one vehicle as opposed to five vehicles requested.
21. The Division of Water and Audits adopts the audit finding of the Utility Audit, Finance and Compliance Branch for general expenses as reasonable.
22. The Division of Water and Audits finds \$4,384 in annual waste discharge fees from the State Water Resources Control Board is a reasonable expense for the sewer utility.
23. The Division of Water and Audits calculated state and federal income taxes for the water and sewer utilities based on current tax rates.
24. The Division of Water and Audits has removed all plant investment from rate base until Dunnigan Water Works can provide documentation to support these plant investments.

25. The Division of Water and Audits has included a 24% return on margin as authorized by the Commission for Class D water companies during Test Year 2009.
26. The Division of Water and Audits' recommended increase in annual water revenues by \$35,215 or 81% for test year 2009 is reasonable.
27. The Division of Water and Audits' recommended increase in annual sewer revenues by \$24,878 or 39.88% for test year 2009 is reasonable.
28. The Summary of Earnings (Appendix A) for Water and Sewer are reasonable and should be adopted.
29. The Division of Water and Audits use the adopted revenue requirements and 278 service connections to design rates.
30. The proposed rates (Appendix B) for Water and Sewer are reasonable and should be adopted.
31. Dunnigan Water Works documentation and record keeping for water and sewer expenses is inadequate and needs immediate correction.
32. In order to provide more accurate water usage information for billings, Dunnigan Water Works should install meters for all mobile home and RV park business uses.
33. Before filing any future rate cases, Dunnigan Water Works should prepare full documentation of all plant expenditures starting with the initial purchase of the water and sewer utilities in April 1998 and all plant additions for each year up to the time of a future filing for review by the Division of Water and Audits.
34. Before making any further additions to plant requiring outside financing, Dunnigan Water Works should file an advice letter pursuant to §§ 816-851 of the Public Utilities Code requesting Commission authorization to secure financing and encumber utility assets.
35. Dunnigan Water Works should credit customers the difference of \$1.469 (\$25.04 less \$23.58) for General Flat Rate Service (Water) for every month from August 1, 2008 to the date the new rates are adopted. The total credit due plus interest at the 90-day commercial paper rate should be returned to customers over a period of six months.
36. Dunnigan Water Works should surcharge customers the difference of \$4.46 (\$26.16 less \$21.70) for General Flat Rate Service (Sewer) for every month from August 1, 2008 to the date the new rates are adopted. The total surcharge plus interest at the 90-day commercial paper rate should be recovered from customers over a period of six months.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Dunnigan Water Works, 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 schedules: 1, General Flat Rate Service (Water) and 1, General Flat Rate Service (Sewer). The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Dunnigan Water Works is authorized to file an advice letter to surcharge for sewer service the difference between the interim rates approved August 1, 2008, and the final rate approved in this resolution plus interest at the 90-day commercial paper rate. The surcharge will be collected over six months.
3. Dunnigan Water Works shall file an advice letter within thirty (30) days of the effective date of this resolution to surcredit for water service the difference between the interim rate approved August 1, 2008, and the final rate approved in this resolution plus interest at the 90-day commercial paper rate. The credit will be refunded over six months.
4. This resolution is effective today.

I certify that the forgoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 20, 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

Appendix A-1
Grant Park Development
Dunnigan Water Works Water Division
Summary of Earnings
Test Year 2009

Category	Utility Estimated		Branch Estimated		Recommended At Initial ROM
	Initial Rates	Requested Rates	Initial Rates	Requested Rates	
Operating Revenues:					
Fiat Rate	\$43,445	\$123,817	43,445	123,817	78,660
Metered	0	0	0	0	
Private Fire Protection	0	0	0	0	0
Total	43,445	123,817	43,445	123,817	78,660
Operating Expenses					
Purchased Water	0		0	0	0
Purchased Power	3,880	3,880	3,880	3,880	3,880
Purchased Chemicals	0	0	0	0	
Other Volume Related Expenses	6,729	6,729	5,482	5,482	5,482
Employee Labor	15,226	15,226	15,226	15,226	15,226
Materials	1,445	1,445	1,445	1,445	1,445
Contract Work	0	0	0	0	0
Water Testing	0	0	0	0	0
Transportation Expense	2,467	2,467	2,141	2,141	2,141
Other Plant Maintenance Expense	1,206	1,206	1,206	1,206	1,206
Office Salaries	3,820	3,820	3,820	3,820	3,820
Management Salaries	12,000	12,000	12,000	12,000	12,000
Employee Pension and Benefits	5,440	5,440	1,415	1,415	1,415
Uncollectibles	90	90	90	90	90
Office Service & Rentals	2,575	2,575	1,849	1,849	1,849
Office Supplies & Expenses	1,683	1,683	833	833	833
Professional Services	2,594	2,594	1,525	1,525	1,525
Insurance	1,744	1,744	1,256	1,256	1,256
Regulatory Commission Exp.	2,000	2,000	0	0	0
General Expenses	18,458	18,458	69	69	69
minus expenses capitalized					
Total Operating Expenses	81,357	81,357	52,237	52,237	52,237
Total Deductions					
Depreciation Expense	33,302	33,302	0	0	0
Property Taxes	1,948	1,948	1,948	1,948	1,948
Payroll Taxes	5,874	5,874	5,874	5,874	5,874
Taxes other than Income	0	0	0	0	0
States Income Tax	800	800	800	5,636	1,644
Federal Income Tax	0	80	0	9,531	2,544
Total Deductions	41,924	42,004	8,622	22,989	12,010
Total Deductions and Expenses	123,281	123,361	60,859	75,226	64,247
Net Revenue	-79,836	456	-17,414	48,591	14,413
Rate Base:					
Average Plant	2,178,030	2,178,030	0	0	0
Average Depr. Res.	187,971	187,971	0	0	0
Net Plant	1,990,059	1,990,059	0	0	0
Less: Advances/Contributions	0	0	0	0	0
Add: Supplies/working Cash	0	0	0	0	0
Rate Base	1,990,059	1,990,059	0	0	0
Rate of Return	-4.01%	0.02%	NA	NA	NA
Rate of Margin					24.00%

Appendix A-2
Grant Park Development
Dunnigan Water Works - Sewer Division
Summary of Earnings
Test Year 2009

<u>Category</u>	Utility Estimated		Branch Estimated		Recommended At Initial ROM
	Initial Rates	Requested Rates	Initial Rates	Requested Rates	
<u>Operating Revenues</u>					
Flat Rate	\$62,377	\$84,210	\$62,377	\$84,210	\$87,255
Other (Rent)	5,718	5,718	5,718	5,718	
Private Fire Protection	0	0	0	0	0
Total	\$68,095	\$89,928	\$68,095	\$89,928	\$87,255
<u>Operating Expenses:</u>					
Purchased Water	0		0	0	0
Purchased Power	808	808	643	643	643
Purchased Chemicals	0	0	0	0	
Other Volume Related Exps.	7,052	7,052	8,240	9,079	9,079
Employee Labor	17,170	17,170	17,170	17,170	17,170
Materials	689	689	689	689	689
Contract Work	0	0	0	0	0
Water Testing	0	0	0	0	0
Transportation Expense	2,846	2,846	1,799	1,799	1,799
Other Plant Maint. Expense	699	699	699	699	699
Office Salaries	4,079	4,079	4,079	4,079	4,079
Management Salaries	12,000	12,000	12,000	12,000	12,000
Empl. Pension and Benefits	5,893	5,893	1,466	1,466	1,466
Uncollectibles	88	88	88	88	88
Office Service & Rentals	2,991	2,991	1,855	1,855	1,855
Office Supplies & Expenses	1,823	1,823	939	939	939
Professional Services	4,762	4,762	1,719	1,719	1,719
Insurance	3,463	3,463	1,417	1,417	1,417
Regulatory Commission Exp.	2,000	2,000	0	0	0
General Expenses	4,360	4,360	4,462	4,462	4,462
minus expenses capitalized					
Total Operating Expenses	70,723	70,723	57,265	58,104	58,104
<u>Total Deductions</u>					
Depreciation Expense	9,600	9,600	0	0	0
Property Taxes	2,153	2,153	2,153	2,153	2,153
Payroll Taxes	6,363	6,363	6,363	6,363	6,363
Taxes other than Income	0	0	0	0	0
States Income Tax	800	800	800	2,022	1,824
Federal Income Tax	0	0	227	3,127	2,822
Total Deductions	18,916	18,916	9,543	13,665	13,162
<u>Total Deductions & Expens.</u>	89,639	89,639	66,808	71,769	71,266
Net Revenue	-21,544	289	1,287	18,159	15,989
Rate Base:					
Average Plant	2,321,230	2,321,230	0	0	0
Average Depr. Reserve	56,120	56,120	0	0	0
Net Plant	2,265,110	2,265,110	0	0	0
Less: Advances/Contrib.	0	0	0	0	0
Add: Supplies/working Cash	200	200	0	0	0
Rate Base	2,265,310	2,265,310	0	0	0
Rate of Return	-0.95%	0.01%	NA	NA	NA
Rate of Margin					24.00%

APPENDIX B
Sheet 1
Grant Park Development
Dunnigan Water Works - Water Division
Schedule No. 1

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished on a monthly basis.

TERRITORY

Dunnigan along Interstate 5 in the area of County Roads 9 and 99, Country Fair Estates, Road 8 Plaza, and Dunnigan Truck & Travel Center, Yolo County.

RATES

	Per Service Connection	
	<u>Per Month</u>	
For each Mobile Home Residential Unit	\$ 23.58	(R)
For each Recreational Vehicle Unit	\$ 23.58	(R)
For each Commercial Business Unit	\$ 23.58	(R)

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. The above General Flat Rate Service applies to a service connection not larger than one inch in diameter.
4. An additional single-family residential unit shall qualify for additional charge only if such a residential unit includes cooking and bathing facilities.
5. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1-A, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day.

APPENDIX B
Sheet 2

Grant Park Development, Inc.
Db a Dunnigan Water Works

Schedule No. 1A

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on a monthly basis.

TERRITORY

Dunnigan along Interstate 5 in the area of County Roads 9 and 99, Country Fair Estates, Yolo County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
All water, per 100 cu. ft.	\$ 1.67 (N)
Service Charge:	<u>Per Meter</u> <u>Per Month</u>
For 5/ 8 x 3/4-inch meter	\$ 6.50 (N)
For 3/ 4-inch meter	\$ 9.75
For 1-inch meter	\$ 16.24
For 1-1/ 2-inch meter	\$ 32.48
For 2-inch meter	\$ 51.97
For 3-inch meter	\$ 97.45 (N)

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.

APPENDIX B
Sheet 3

Schedule No. 1

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all sewer service.

TERRITORY

Dunnigan along Interstate 5 in the area of County Roads 9 and 99,
Country Fair Estates, Road 8 Plaza, and Dunnigan Truck & Travel Center,
Yolo County.

RATES

	Per Service Connection	
	<u>Per Month</u>	
For each Mobile Home Residential Unit.....	\$ 26.16	(I)
For each Recreational Vehicle Unit	\$ 26.16	(I)
For each Commercial Business Unit.....	\$ 26.16	(I)

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. A late charge will be imposed per Schedule No. LC.
3. Bills were rendered in advance of the period for which service will be provided.
4. In accordance with Section 2714 of the Public Utilities Code and Commission Resolution No. W-3976, if a tenant in a rental unit leaves owing the utility, service to subsequent tenants in that unit will, at the Utility's option, be furnished on the account of the landlord or property owner.

APPENDIX C
Sheet 1

STATE OF CALIFORNIA
PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94133-3298

ARNOLD SCHWARZENEGGER, Governor



February 27, 2009

RE: Rates of Return and Rates of Margin for Class C and D Water Utilities

TO: COMMISSION

By this memorandum, the Division of Water and Audits (DWA) updates its recommended Rates of Return and Rates of Margin for Class C and D water utilities.¹ These updates have been calculated in accordance with Resolution W-4524, which revised the Standard Practice that addresses how the rate of return and rate of margin are calculated for Class C and D water utilities.

DWA considered a number of factors in determining the rates of return. DWA assessed the movement in actual and forecasted interest rates over the last year's (lower actual rates that are forecast to recover to near recent historical). In addition, DWA took into account the high operational risks faced by Class C and Class D water utilities and the constant level of authorized rates of return for Class A water utilities in 2008 over 2007 (average of 8.95% and 8.94%, respectively).

In determining the rates of margin for Class C and D water utilities, DWA considered the Class B water utilities most recent authorized average rates of return of 9.68%, their most recent imputed rates of margin of 17.58%, and the recommended rates of return for Class C and D water utilities, as calculated above.

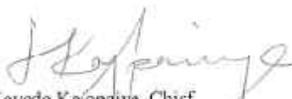
For 2009, DWA recommends that the following rates of return and rates of margin be used for Class C and Class D water utilities informal general rate cases (supporting documentation is attached):

	Rates of Return (ROR)	Rates of Margin
Class C	12.00% to 13.00%	23%
Class D	12.75% to 13.75%	24%

If you have any questions regarding the Rates of Return or Rates of Margin recommendations, please contact Sean Wilson of the Division of Water and Audits (1-415-703-1818, smw@cpuc.ca.gov).

Sincerely,


Ramf Kahlon
Director, Division of Water and Audits


Kayode Kaopaiye, Chief
Utility Audit, Finance, & Compliance
Branch

Attachment

¹ As required by D.92-03-093, in Phase I of I.90-11-033 (Water Risk OII).

APPENDIX C
Sheet 2

**CALCULATION OF CLASS C & D WATER COMPANY²
 RATES OF RETURN (ROR) & RATES OF MARGIN (ROM)³**

- ◆ Rates are calculated using both return-on-ratebase and operating ratio methods.
- ◆ The method that produces the higher result is used.
- ◆ ROR is set at a level above or below the recommended ranges, if warranted.
- ◆ Where little or no rate base exists, the ROM is used.
- ◆ The ROM is applied to Operating Expenses to determine the estimated dollar return, which is then compared with the average dollar ROR on rate base.
- ◆ Calculations are based on the assumption that there is a comparable relationship between authorized Class B ROR and ROM and Class C and D ROR and ROM.
- ◆ Class C and D water operations, finances, and risks are more similar to those of the Class B water companies, than with Class A water utilities.

Data Use in the Determination of the Rates of Return and Rates of Margin

Year	Recommended ROR Range		Actual Interest Rates from the Federal Reserve			
	Class C Water	Class D Water	90-day	1-Year	5-Year	30-Year
			Treasuries	Treasuries	Treasuries	Treasuries
2007	12.10% - 13.10%	12.85% - 13.85%	4.46%	4.53%	4.43%	4.84%
2008	12.50% - 13.00%	12.75% - 13.75%	1.40%	1.83%	2.80%	4.28%
2009 (as of 02/09)			0.13%	0.44%	1.60%	3.13%
Forecast for 2010 (As of 02/09)			Forecast Interest Rates from DRI			
			0.84%	1.14%	2.30%	3.78%

Calculation of Rate of Margin	Input	Class C ROM	Class D ROM
Avg Class B Rate of Margin (ROM)	17.58%		
Avg Class B Rate of Return (ROR)	9.68%		
Avg Class C ROR	12.50%		
Avg Class D ROR	13.25%		
Avg Class C ROM = Avg Class B ROM * (Avg Class C ROR / Avg Class B ROR)		23%	
Avg Class D ROM = Avg Class B ROM * (Avg Class D ROR / Avg Class B ROR)			24%

² Class C water utilities have 501 to 2,000 customers. Class D water utilities have 500 or less customers.
³ Pursuant to D.92-03-093, Ordering Paragraph 8 and Resolution W-4524.