

WATER/RSK/PTL/jlj

DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch

RESOLUTION NO. W-4821
January 21, 2010

R E S O L U T I O N

RESOLUTION (RES.) W-4821, DEL ORO WATER COMPANY (DEL ORO), FERNDALE DISTRICT (FERNDALE), GENERAL RATE CASE (GRC). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$23,122 OR 5.15% FOR TEST YEAR (TY) 2009.

SUMMARY

By draft Advice Letter (AL) filed on July 17, 2009, and amended on July 28, 2009, Ferndale requested an increase of \$35,907 or 7.40% in annual gross revenue for TY 2009 to recover operating expenses and earn an adequate return on its plant improvement. The Division of Water and Audits (Division) accepted Ferndale's amended AL as complete for filing on July 29, 2009.

For TY 2009, this Resolution grants an increase in gross revenues of \$23,122 or 5.15%, which is estimated to provide a rate of return of 10.80%.

BACKGROUND

Del Oro is a Class B water utility. Ferndale has requested authority under General Rule 7.6.2 and Water Industry Rule 7.3.3 (5), of General Order 96-B, and Section 454 of the Public Utilities Code to increase its rates by \$35,907 or 7.40% for TY 2009. The purpose of the rate increase is to recover operating expenses and to provide an adequate rate of return. Ferndale's request shows 2009 gross revenues of \$449,378 at present rates increasing to \$485,285 at its proposed rates.

Ferndale's present rate became effective on July 20, 2009, by approval of AL 240, which authorized an interim rate increase of \$449 or 0.1%, subject to refund or increase to the rates established in this GRC. The last general rate increase was adopted by Res. W-4697, dated June 26, 2008, which authorized a general rate increase of \$79,734 or 19.56% and a rate of return of 10.8%.

Ferndale currently serves 757 residential metered rate customers in its service area in the City of Ferndale and adjacent unincorporated territory, in Humboldt County. The majority of customers are full-time residents, and are a mixture of retired or working individuals.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice regarding the general rate increase was mailed to each customer on September 21, 2009. A public meeting was held on October 28, 2009, and was attended by 10 customers. Division staff explained the process of the rate increase request before the Commission. Ferndale's representative reviewed the rate increase request. Division staff and Ferndale's representative responded to various questions from the attendees. The Division received one protest letter concerning the chlorine level, turbidity, and water pressure of the Ferndale system. A review of the 2008 Department of Public Health's Consumer Confidence Report for Ferndale shows the chlorine level is within the maximum contaminant level allowed, the turbidity results when hydrants are flushed causing a temporary discoloration of the water, and the water pressure is within the guidelines in General Order 103.

DISCUSSION

The Division made an independent analysis of Ferndale's operations. Appendix A shows Ferndale's and the Division's estimated summary of earnings at present and proposed rates for TY 2009 and the Division's recommended rates for TY 2009. Ferndale agrees with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

The Division reviewed Ferndale's operating expenses including purchased power, other volume related expenses, employee labor, materials, contract work, transportation expenses, other plant maintenance, office salaries, management salaries, employee pension & benefits, uncollectibles, office services & rentals, office supplies and expenses, professional services, insurance, the regulatory commission expense, general expenses, depreciation, and taxes other than income. Division staff verified operating expenses and the rate base by reviewing Ferndale's 2008 annual report and supporting documents for substantiation and accuracy.

Ferndale's current rate structure consists of one schedule: No. FD-1A, Annual General Metered Service. At the Division's recommended rates the increase in revenue will be \$23,122 or 5.15% for TY 2009.

At the Division's recommended rates shown in Appendix B, the monthly bill for a residential customer using 10 Ccf (One Ccf equals 100 cubic feet) of water with a 5/8 x 3/4-inch meter will increase from \$55.28 to \$58.25, which is \$2.97 or 5.37%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

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

COMMENTS

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

Accordingly, this draft Resolution was mailed to the utility and protestant and was made available for public comment on December 22, 2009. No comment was received.

FINDINGS

1. Ferndale currently serves 757 residential metered rate customers in its service area in the City of Ferndale and adjacent unincorporated territory, Humboldt County.
2. Ferndale has requested authority to increase its rates by \$35,907 or 7.40%, for TY 2009.
3. Ferndale's present rates became effective on July 20, 2009, by approval of AL 240, which authorized an interim rate increase of \$449 or 0.1%, subject to refund or increase to the rates established in this GRC.
4. A notice regarding the general rate increase was mailed to each customer on September 21, 2009.
5. The Division received one protest letter concerning the chlorine level, turbidity, and water pressure of the Ferndale system. The chlorine level and water pressure are within allowed levels and guidelines and the turbidity is a temporary condition and not dangerous to the public.

6. The last general rate increase was adopted by Res. W-4697, dated June 26, 2008, which authorized a general rate increase of \$79,734 or 19.56% and a rate of return of 10.8%.
7. The Division's staff verified Ferndale's operating expenses and the rate base by reviewing Ferndale's 2008 annual report and supporting documents for substantiation and accuracy.
8. There are no outstanding Commission orders requiring system improvements.
9. Ferndale agrees with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B.
10. The Division's recommended earnings (Appendix A) are reasonable and should be adopted.
11. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
12. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
13. For TY 2009, it is appropriate to grant an increase in gross revenues of \$23,122 or 5.15%, which is estimated to provide a rate of return of 10.80%.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted, under Public Utilities Code Section 454, to Del Oro Water Company, Ferndale District, to file an advice letter with the revised rate schedule attached to this Resolution as Appendix B and concurrently cancel its presently effective Schedule No. FD-1A, Annual General Metered Service. The effective date of the revised rate schedule shall be five days after the date of its filing.
2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
3. Del Oro Water Company, Ferndale District, is authorized to file an advice letter within 60 days from the effective date of this Resolution to collect under-collected revenues over a six-month period from the interim rate date to the effective date of the new rates.

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 January 21, 2010; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A
DEL ORO WATER COMPANY
FERNDALE DISTRICT
Summary of Earnings - Test Year 2009

	Utility Present Rates	Estimated Proposed Rates	Branch Interim Rates	Estimated Proposed Rates	Adopted Rates
Operating Revenues					
Metered Water Revenue	\$449,378	\$485,285	\$449,378	\$472,500	\$472,500
Total Revenue	449,378	485,285	449,378	472,500	472,500
Operating Expenses					
615 Power	8,785	8,785	8,084	8,084	8,084
618 Other Volume Related	4,341	4,341	4,341	4,341	4,341
630 Employee Labor	95,623	95,623	95,623	95,623	95,623
640 Materials	5,912	5,912	5,912	5,912	5,912
650 Contract Work	3,836	3,836	3,836	3,836	3,836
660 Transportation Expenses	13,114	13,114	13,114	13,114	13,114
664 Other Plant Maintenance	520	520	520	520	520
670 Office Salaries	43,204	43,204	43,204	43,204	43,204
671 Management Salaries	12,723	12,723	12,723	12,723	12,723
674 Employee Pensions and Benefits	33,245	33,245	33,245	33,245	33,245
676 Uncollectibles	606	606	606	606	606
678 Office Services and Rentals	9,301	9,301	9,301	9,301	9,301
681 Office Supplies and Expenses	20,447	20,447	20,447	20,447	20,447
682 Professional Services	2,486	2,486	2,486	2,486	2,486
684 Insurance	12,921	12,921	12,921	12,921	12,921
688 Regulatory Commission Expense	1,875	1,875	1,875	1,875	1,875
689 General Expense	1,727	1,727	1,727	1,727	1,727
Subtotal	270,666	270,666	269,965	269,965	269,965
403 Depreciation	45,631	45,631	43,954	43,954	43,954
408 Taxes Other Than Income	28,713	28,713	25,230	25,230	25,230
409 State Income Taxes	10,364	10,922	7,726	9,770	9,770
410 Federal Income Taxes	20,211	24,793	15,338	22,542	22,542
Total Deductions	375,585	380,725	362,213	371,461	371,461
Net Revenue	73,793	104,560	87,165	101,039	101,039
Rate Base					
Average Plant	1,524,204	1,524,204	1,499,610	1,499,610	1,499,610
Average Accum Dep	502,374	502,374	510,365	510,365	510,365
Net Plant	1,021,830	1,021,830	989,245	989,245	989,245
Plus: Working Cash	22,820	22,820	22,820	22,820	22,820
Mat'l & Supplies	7,000	7,000	7,000	7,000	7,000
Less: Advances	72,753	72,753	70,050	70,050	70,050
Contributions	10,888	10,888	11,168	11,168	11,168
Total Rate Base	968,009	968,009	937,847	937,847	937,847
ROR = Net Rev/Rate Base	7.623%	10.80%	9.29%	10.80%	10.80%

(END OF APPENDIX A)

APPENDIX B

**DEL ORO WATER COMPANY
FERNDALE DISTRICT**

Schedule No. FD-1A

ANNUAL GENERAL METERED SERVICE
Test Year 2009

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu. ft.	\$ 3.95	(I)
Service Charge:		
For 5/8 x 3/4 inch meter	\$ 18.75	(I)
For 3/4 inch meter	\$ 28.13	
For 1 inch meter	\$ 46.88	
For 1-1/2 inch meter	\$ 93.75	
For 2 inch meter	\$ 150.00	
For 4 inch meter	\$ 468.75	
For 6 inch meter	\$ 937.50	
For 8 inch meter	\$1,500.00	(I)

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

(END OF APPENDIX B)

APPENDIX C

**DEL ORO WATER COMPANY
FERDALE DISTRICT**

COMPARISON OF RATES
TEST YEAR 2009

	<u>Interim Rates</u>	<u>Recommended Rates</u>	<u>Amount of Increase</u>	<u>Percent Increase</u>
Service Charge:				
For 5/8 x 3/4-inch meter	\$18.04	\$18.75	\$0.71	3.94%
For 3/4-inch meter	\$27.06	\$28.13	\$1.07	3.95%
For 1-inch meter	\$45.10	\$46.88	\$1.78	3.95%
For 1 1/2-inch meter	\$90.20	\$93.75	\$3.55	3.94%
For 2-inch meter	\$144.32	\$150.00	\$5.68	3.94%
For 4-inch meter	\$451.00	\$468.75	\$17.75	3.94%
For 6-inch meter	\$902.00	\$937.50	\$35.50	3.94%
For 8-inch meter	\$1,443.20	\$1,500.00	\$56.80	3.94%

Quantity Rate:

All water per 100 cu.ft.	\$3.724	\$3.95	\$0.23	6.07%
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A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage 100 cu.ft.</u>				
5	\$36.66	\$38.50	\$1.84	5.02%
10	\$55.28	\$58.25	\$2.97	5.37%
15	\$73.90	\$78.00	\$4.10	5.55%

(END OF APPENDIX C)

APPENDIX D

**DEL ORO WATER COMPANY
FERNDALE DISTRICT**

ADOPTED QUANTITIES
TEST YEAR 2009

1. Purchased Power	
Total Cost	\$ 8,084
2. Water Sales in Ccf	65,636
3. Payroll	
Employee Labor	\$96,623
Office Salaries	\$43,204
Management Salaries	\$12,723
4. Payroll Taxes	\$16,981
5. Property Taxes	\$ 8,249
6. Service Connections - Meter Size	
5/8 x 3/4"	727
3/4"	7
1"	13
1-1/2"	5
2"	3
4"	0
6"	1
8"	<u>1</u>
Total Metered	757

Adopted tax calculation

1. Operating Revenues	\$472,500
2. Expenses	269,965
3. Depreciation	43,954
4. Payroll Taxes	16,981
5. Property Taxes	8,249
6. Interest Expense	22,833
7. Taxable Income for State Tax	110,518
8. State Tax (8.84%)	9,770
9. Taxable Income for FIT	100,748
10. Federal Tax	22,542

(END OF APPENDIX D)