

DWA/RSK/PTL/CCG/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS

Water and Sewer Advisory Branch

RESOLUTION W-4873

March 10, 2011

RESOLUTION

(RES. W-4873), DEL ORO WATER COMPANY, INC. (Del Oro). ORDER AUTHORIZING A RATE BASE OFFSET REVENUE INCREASE, PRODUCING AN INCREASE IN GROSS ANNUAL REVENUE OF \$11,064 OR 20.93% IN THE WALNUT RANCH DISTRICT (Walnut Ranch).

SUMMARY

By Advice Letter (AL) 277 filed on November 3, 2010, Del Oro seeks a rate base offset of \$74,771.00 for water plant additions and replacements which would cause an increase in annual revenue of \$11,156 or 21.06% in Walnut Ranch.

This resolution grants the requested rate base offset at the Division of Water and Audits' (Division) calculated annual revenue increase over current revenue of \$11,064 or 20.93%. This increase will not result in a rate of return greater than the last authorized for Del Oro in Walnut Ranch.

BACKGROUND

Del Oro is a multi-district class B water company and presently provides service to approximately 86 flat rate service connections in Walnut Ranch. Walnut Ranch'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.

Del Oro requests authority under General Order 96-B (GO 96-B), Water Industry Rules 7.3.3 (8), and Section 454 of the Public Utilities Code to increase its rates by \$11,156 or 21.06% in Walnut Ranch for a rate base offset of critical water plant improvements that were performed on an emergency basis. The utility's last general rate increase (GRC) for Walnut Ranch, Res. W-4681 dated April 10, 2008, authorized an increase of \$18,698 or 56.9% with a 10.75% return on rate base. The present rates became effective on April 3, 2010, by approval of AL 265, which authorized a Consumer Price Index-Urban increase of \$1,392 or 2.7%.

NOTICE AND PROTESTS

AL 277 was served in accordance with GO 96-B on November 3, 2010. On November 19, 2010, a notice of the proposed rate increase was mailed to each customer. No protests were received by the Division.

DISCUSSION

The Division reviewed the documentation associated with the emergency water system improvements including invoices supporting the expenditures. DWA confirmed that: (1) the requested cost recovery associated with the plant additions did not exceed the authorized rate of return, and (2) these plant additions have been completed and are currently used and useful.

Del Oro has requested a rate base offset for water system improvements made through September 1, 2010, totaling \$74,771, including an emergency well pump repair and replacement, and the City of Colusa/Del Oro Water Company Emergency Intertie Project (Emergency Intertie Project). Due to a mathematical error in Del Oro's filing, the Division revised that number to \$74,753. The emergency repair and replacement of the main well pump was necessary after repeated failures of the old pump caused water outages for Walnut Ranch customers. The repeated pump failures are consequence of the deteriorated condition of Walnut Ranch's wells which produce copious amounts of sand that severely wear out the well pump. The wells are beyond repair and their replacement is both infeasible and cost prohibitive. Thus Del Oro expects the system to fail again at any time. To guarantee Walnut Ranch residents with a safe, reliable drinking water supply in the event of a system failure, Del Oro undertook the Emergency Intertie Project which connects the Walnut Ranch system to the City of Colusa's water system, and pursuant to an agreement executed between the two, the City agrees to supply Walnut Ranch residents with water on a temporary as-needed emergency basis. Both improvements were necessary and in the interest of Walnut Ranch's customers.

Division staff conducted a field inspection on December 7, 2010, and verified that the plant additions were prudent investments and are used and useful.

The Division recommends approval of the requested offset, with Staff's minor mathematical correction to Del Oro's filing, but recommends a different depreciation expense¹ based on the composite rate approved in its last GRC. This results in an increase in gross annual revenue of \$11,064 or 20.93% in Walnut Ranch. The recommended rate base is shown in Appendix A.

¹ Even if the plant addition has a non-average service life, it should be depreciated at the last approved composite rate.

COMPLIANCE

The State Department of Public Health (DPH) issued Compliance Order No. 01-21-10 (Order) on July 15, 2010, ordering Del Oro to achieve compliance with the maximum contaminant level for Arsenic of 10 ug/l, which the utility's water supply exceeds. Until such time as the utility is in compliance, DPH ordered Del Oro to report on how it will achieve compliance while imposing customer notification requirements. Del Oro's proposed solution is the Industrial Park Intertie Project, approved by Res. W-4761, dated May 7, 2009, but which has stalled due customer's desire to annex to the City of Colusa. The City of Colusa is now considering this annexation request and the residents are due to vote on that alternative on April 12, 2011. Pending the consumer's ultimate direction, Del Oro has suspended work on the Industrial Park Intertie Project. Subsequently, the Division removed from the recommended ratebase calculation the construction work in progress recorded by Del Oro in 2009 as it corresponds to the currently suspended Industrial Park Intertie Project, depicted in Appendix A.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

FINDINGS

1. The plant improvements total \$74,753 and include an emergency well pump repair and replacement and the Emergency Intertie Project.
2. The emergency repair and replacement of the main well pump was necessary after repeated failures of the old pump caused water outages for Walnut Ranch customers.
3. The Emergency Intertie Project guarantees Walnut Ranch residents a safe, reliable drinking water supply in the event of another system failure.
4. Both improvements were necessary and in the interest of Walnut Ranch's customers.
5. Division staff conducted a field inspection on December 7, 2010, and verified that the plant additions were prudent investments and are used and useful.
6. The increase in rate base of \$74,753 for Walnut Ranch and the resulting annual revenue requirement increase of \$11,064 or 20.93% are reasonable and should be adopted.

7. The Commission finds that, after investigation by the Division of Water and Audits, the rate base and revenue requirement increases and the resulting rate increase hereby authorized are just and reasonable.
8. The Division of Water and Audit's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
9. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.

THEREFORE IT IS ORDERED THAT:

1. Del Oro Water Company is authorized to file a supplemental advice letter incorporating the revised rate schedule attached to this resolution as Appendix B, and to concurrently cancel its presently effective Schedule No. WR-2R, Residential Flat Rate Service. The effective date of the revised schedule shall be five days after the date of filing.
2. 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 on March 10, 2011; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
Commissioners

APPENDIX A

Del Oro Water Company - Walnut Ranch

Summary of Earnings

| | Authorized Res. W-4681, AL 205 and AL 220 | Actual 2009 | CPI -U Increase | Division Suggested Ratebase Offset | Earnings Test at Division Recommended Rates |
|--|--|------------------------|----------------------------|---|--|
| Operating Revenues: | | | | | |
| Unmetered | 52,151 | 51,479 | 1,392 | 11,064 | 63,935 |
| TOTAL OPERATING REVENUES | 52,151 | 51,479 | 1,392 | 11,064 | 63,935 |
| Operating Expenses: | | | | | |
| Purchased Water | 0 | 0 | | | 0 |
| Purchased Power | 5,675 | 6,166 | | | 6,166 |
| Other Volume Related Expenses | 448 | 1,215 | | | 1,215 |
| Employee Labor | 6,998 | 7,448 | | | 7,448 |
| Materials | 2,186 | 103 | | | 103 |
| Contract Work | 1,776 | 2,410 | | | 2,410 |
| Water Testing | 0 | 0 | | | 0 |
| Transportation Expense | 4,972 | 3,670 | | | 3,670 |
| Other Plant Maintenance | 0 | 189 | | | 189 |
| Office Salaries | 4,331 | 3,927 | | | 3,927 |
| Management Salaries | 1,321 | 1,259 | | | 1,259 |
| Employee Pension and Benefits | 1,704 | 1,208 | | | 1,208 |
| Uncollectibles | 0 | 0 | | | 0 |
| Office Service and Rentals | 307 | 1,006 | | | 1,006 |
| Office Supplies and Expenses | 687 | 3,290 | | | 3,290 |
| Professional Services | 255 | 197 | | | 197 |
| Insurance | 1,655 | 1,388 | | | 1,388 |
| Regulatory Commission Expense | 1,400 | 1,098 | | | 1,098 |
| General Expenses | 144 | 1,069 | | | 1,069 |
| SUBTOTAL | 33,859 | 35,643 | | | 35,643 |
| Depreciation | 2,244 | 3,006 | | 1,571 | 4,577 |
| Taxes Other than Income | 1,829 | 751 | | | 751 |
| State and Federal Income Taxes | 3,201 | 3,731 | | 1,456 | 5,187 |
| Interest | | | | | |
| TOTAL DEDUCTIONS | 41,133 | 43,131 | | | 46,158 |
| NET REVENUE | 11,018 | 8,348 | | | 17,777 |
| RATE BASE | | | | | |
| Average Plant | 106,788 | 94,351 | | 74,753 | 169,104 |
| Less Average Accumulated Depreciation | 4,815 | 9,585 | | | 0 |
| NET PLANT | 101,973 | 84,766 | | | 169,104 |
| Less Deferred Income Taxes | 0 | 3,731 | | | 3,731 |
| Plus Materials | 500 | 0 | | | 0 |
| Plus Working Cash | 0 | 0 | | | 0 |
| Plus CWIP | 0 | 104,428 | | (104,428) | 0 |
| RATE BASE | 102,473 | 185,463 | | | 165,373 |
| RATE OF RETURN (ROR) | 10.75% | 4.50% | | | 10.75% |
| AUTHORIZED ROR | 10.75% | 10.75% | | | 10.75% |

(End of Appendix A)

APPENDIX B

WALNUT RANCH DISTRICT

Schedule No. WR-2R

RESIDENTIAL FLAT RATE SERVICE

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 Meter Per Month</u> | |
|---|----------------------------|-----|
| For single-family residential unit | \$ 68.43 | (I) |
| For each additional single-family residential unit on the same premises and served from the same service connection | \$ 33.32 | (I) |

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 customer 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 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 year. 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 to the customer.

(End of Appendix B)