

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4576
December 15, 2005**

R E S O L U T I O N

**(RES. W-4576) DEL ORO WATER COMPANY (Del Oro), COUNTRY
ESTATES DISTRICT. ORDER AUTHORIZING A RATE BASE
OFFSET REVENUE INCREASE OF \$12,813 OR 16.95% ADDITIONAL
ANNUAL REVENUE.**

SUMMARY

By Advice Letter 134, filed April 8, 2005, Del Oro seeks to increase rates to reflect an increase in rate base for improvements to utility facilities including an emergency generator and booster pumps at the Cindy Well site. Del Oro requested to increase rates by \$14,801 or "approximately 20%". This resolution grants Del Oro authority to increase rates by \$12,813 or 16.95% to provide a return on the increased rate base found reasonable upon review by the Water Division.

BACKGROUND

Del Oro provides service to 89 customers in its Country Estates District in Kern County. Del Oro has other districts serving the communities of Ferndale in Humboldt County; Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs in Butte County; and Johnson Park in Shasta County; Pine Flat and Pine Mountain in Tulare County.

On March 23, 2004, Del Oro's Country Estates District was found in violation of water quality standards by the Department of Health Services (DHS). The primary violation cited in Compliance Order No. 03-19-040-001 (compliance order) was for the Upper Secondary Maximum Contaminant Levels (MCLs) for total dissolved solids (TDS). The compliance order directed Del Oro to submit a plan and time schedule to address water quality issues by June 30, 2004. The compliance order also dealt with reliability problems and specifically directed Del Oro to install a second booster pump at the Cindy Well site.

By Application 04-05-015, Del Oro requested authority to borrow up to \$100,000 for improvements in its Country Estates District and to recover the loan amount spent on improvements through a rate base offset. Decision 04-08-038 granted authority for the

loan but denied without prejudice the request for a rate base offset, deferring that ruling to the then pending general rate case.

Resolution (Res.) W-4512, dated December 16, 2004, authorized a general rate increase of \$3,063 or 4.22% and established the current rates which went into effect on December 28, 2004. Res. W-4512 authorizes Del Oro to install a second booster pump at an estimated cost of \$30,000 and an emergency generator at an estimated cost of \$45,000. However, no specific cap was adopted in Resolution W-4512.

By AL 134, filed April 8, 2005, Del Oro seeks to increase rates to reflect the cost of the new primary and secondary booster pumps and backup generator in rate base. Del Oro states that the cost of the new equipment is \$86,825.

NOTICE AND PROTESTS

Notice of the proposed rate increase was mailed to the Country Estates customers on June 8, 2005. Six letters were received by Water Division. Del Oro responded to each letter.

The major issue the customers raised was that of poor water quality. Each letter complained of problems which result from high TDS and two letters mentioned high arsenic and nitrate levels as a concern. The customers expressed concern that, while this project addresses the reliability issue, the quality issue is being ignored. One customer stated that there was a power outage on June 5, 2005 and that he went to the well and observed that the new backup generator did not appear to be connected. Another customer asked if Del Oro had applied for grant money.

DISCUSSION

The substantive issues of water quality and reliability raised in the customer letters were discussed in the general rate case resolution, W-4512, and the Commission ordered Del Oro to make the improvements required by DHS. Del Oro has been negotiating with East Niles Community Services District (East Niles CSD) to obtain a new source of water. DHS has extended until December 1, 2005 the requirement in the compliance order to submit a "plan and time schedule to address water quality issues". Del Oro learned on October 3, 2005 that East Niles CSD had rejected its latest proposal to connect to East Niles CSD's system to obtain high quality water. In light of the rejection, DHS will not grant further extensions. Del Oro has stated that it would continue to negotiate with East Niles CSD, but will also pursue a new well of its own in order to comply with the DHS timeline.

Del Oro provided documentation of its Proposition 50 (Prop 50) pre-application for Country Estates District. DHS has determined that the proposed "Well Site and

Treatment Plant” project to provide better quality water in Country Estates District is eligible under Prop 50 rules and has been ranked 102nd of 149 on the final 2005 Project Priority List (PPL) for Small Community Water System Facilities. It is unlikely that Del Oro’s project will be funded in 2005 given the DHS statement that “Based on available funding this year, some applicants near the top of the final PPLs will be invited to submit a full funding application”.

Water Division (WD) staff inspected the new facilities on June 14, 2005. The improvements were found to be as described in the workpapers and were operational. Del Oro described the June 5, 2005 failure of the back-up generator as a startup issue.

The WD is recommending a different rate base resulting in a different annual revenue increase. The WD reviewed the workpapers provided with Advice Letter No. 134 detailing \$86,825 in plant improvements at the Cindy Well and found them to be reasonable with the exception of one item. The exception is that Del Oro’s calculation for the increase in rate base included \$22,309 for an emergency generator which had been moved from its Paradise Pines District. Del Oro’s justification for this amount was that it was the current market value. Del Oro paid \$34,156 for the generator in April of 1997 and booked it as plant in their Paradise Pines District. As of December 31, 2004, \$17,420 in depreciation had been booked, leaving a net book value of \$16,736. WD has used \$16,736 as the value of the generator resulting in \$81,252 cost for the plant improvements.

WD made a \$1,150 adjustment for the retirement of the old pump, resulting in a net increase to average plant of \$80,102. WD’s depreciation calculation also differed from Del Oro’s. WD’s proposed adjustments to the Summary of Earnings result in a net increase in rate base of \$76,589 producing an increase in annual revenue of \$12,813 or 16.95% and are given in Appendix A.

Del Oro’s calculation of the new rates applies the revenue increase to the quantity charge alone. Commission policy allows Class B water companies to have rates designed to recover no more than 50% of fixed costs in service charges. Applying the revenue increase to only the quantity charge will decrease the percentage of fixed costs in the service charge. WD’s proposed rates apply the revenue increase to the quantity charge as requested. Del Oro should request in the next general rate case that the rate design be adjusted to recover 50% of fixed costs in the service charge. At the proposed rates, the quantity charge per Ccf (One Ccf is equal to one hundred cubic feet) will increase from \$1.297 to \$1.644 and the service charge will remain unchanged. The monthly bill for a 1-inch metered customer using 35 Ccf of water will increase by \$12.15 from \$74.48 to \$86.63.

Del Oro has stated that the emergency generator which was moved to Country Estates is no longer needed in Paradise Pines District, but has proposed no adjustment to the

Paradise Pines District rates. Del Oro should be required to file a rate decrease in Paradise Pines District to reflect the transfer of the emergency generator to Country Estates.

COMPLIANCE

Del Oro is under a Commission order to make the system improvements in its Country Estates District as required by DHS. The plant additions discussed herein constitute partial compliance with that order.

The utility has been filing annual reports as required.

COMMENT

Code §311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this draft was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from the date of mailing of this resolution to parties.

FINDINGS AND CONCLUSIONS

1. DHS has extended until December 1, 2005 the requirement in Compliance Order No. 03-19-040-001 for Del Oro to submit a "plan and time schedule to address water quality issues".
2. The plant improvements were operational on or before June 14, 2005.
3. Del Oro has made a pre-application for Proposition 50 funds for a well site and treatment plant project for Country Estates District.
4. The proposed rate base offset revenue increase of \$12,813 is reasonable.
5. The proposed rates are reasonable and should be authorized.
6. Del Oro should be required to file an advice letter to reduce rates in its Paradise Pines District to reflect the removal of the emergency generator from rate base.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Country Estates District, to file a supplement to Advice Letter No. 134 to make effective the revised rate schedule attached to this resolution as Appendix B,

and concurrently cancel its presently effective rate Schedule No. CE-1A, Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the new schedule shall be five days after the date of filing.

2. Del Oro shall file an advice letter within 30 days from the date of this resolution to reduce the rates in Paradise Pines District to reflect the removal of the emergency generator from rate base.
3. 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 December 15, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners

Appendix A

Summary of Earnings - Test Year 2005

Item	Authorized W-4512	Increases	At Proposed Rates
<u>Operating Revenue</u>			
General Metered Sales	\$75,575	\$12,813	\$88,388
Private Fire	\$0		\$0
Other Water Revenue	\$0		\$0
Other Unmetered Revenue	\$0		\$0
Total	\$75,575	\$12,813	\$88,388
Operating Expenses less			
Uncollectibles	\$55,149		\$55,149
Uncollectibles Expense	\$292	\$50	\$342
Depreciation	\$4,663	\$3,153	\$7,816
Taxes other than Income	\$3,623	\$801	\$4,424
Income Taxes	\$2,667	\$2,257	\$4,925
Total Deductions	\$66,395		\$72,655
Net Revenue	\$9,180		\$15,733
<u>Rate Base</u>			
Average Plant	\$118,478	\$80,102	\$198,580
Ave. Accumulated Depreciation	\$15,893	\$3,513	\$19,406
Net Plant	\$102,585		\$179,174
<u>Less:</u> Advances	\$0		\$0
Contributions	\$0		\$0
<u>Plus:</u> Working Cash	\$4,620		\$4,620
Materials & Supplies			
Rate Base:	\$107,205		\$183,794
Rate of Return	8.56%		8.56%

APPENDIX B

**Del Oro Water Company
Country Estates District**

Schedule No. CE-1A

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished to the County Estates District Service Area.

TERRITORY

Tracts Nos. 1951, 2552, and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$ 1.644 (I)
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Service Charge:

	Per Meter <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 11.64 (I)
For 3/4-inch meter	\$ 17.46
For 1-inch meter	\$ 29.09
For 1-1/2-inch meter	\$ 58.19
For 2-inch meter	\$ 93.10
For 3-inch meter	\$174.56 (I)

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.