

WATER/RSK/JB5/RAS

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water & Sewer Advisory Branch**

**RESOLUTION NO. W-4737
January 29, 2009**

R E S O L U T I O N

(RES. W-4737) DEL ORO WATER COMPANY (DOWC), COUNTRY ESTATES DISTRICT. ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$3,741 OR 3.91% IN 2009.

SUMMARY

By Draft Advice Letter, filed on August 28, 2008, DOWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2009, this resolution grants an increase in gross annual revenues of \$3,741 or 3.91%, which is estimated to provide a return on rate base of 10.81%.

BACKGROUND

DOWC, a Class B water utility, has requested authority under Section 7.6.2 of General Order 96-B and Section 454 of the Public Utilities Code to increase its water rates by \$11,539 or 12.83% for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. DOWC's request shows 2009 gross revenues of \$89,923 at present rates, increasing to \$101,462 at proposed rates. DOWC is requesting a return on rate base of 10.8%.

The present rates were established on May 27, 2008 by approval of a Consumer Price Index (CPI) increase for TY 2008 totaling \$3,877 or 4.1%. The last general rate increase was granted on December 16, 2004, pursuant to Resolution (Res.) No. W-4512. A rate increase of \$3,063 or 4.22% was authorized, resulting in a rate of return on rate base of 8.56% for test year 2004.

DOWC provides service to 90 customers in its Country Estates District in Kern County. DOWC has other districts serving the communities of Ferndale in Humboldt County; Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs in Butte County; Johnson Park and Mt. Lassen in Shasta County; Walnut Ranch in Colusa County; Strawberry in Tuolumne County; and River Island, 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.

Res. W-4512 authorized 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 Res. W-4512.

Res. W-4576 authorized Del Oro to increase rates by \$12,813 or 16.95% to reflect the cost found reasonable by the Division of Water and Audits (DWA) of new primary and secondary booster pumps and backup generator in rate base. These capital additions address reliability problems raised in DHS' Compliance Order. Water Quality compliance issues remain outstanding.

NOTICE AND PROTESTS

Notice of the proposed rate increase was mailed to the Country Estates customers on October 15, 2008 and DWA held a public meeting in Bakersfield on November 24, 2008. No protests were received concerning the proposed rate increase. One customer attended the public meeting. His main concern was that a payment mailed close to the deadline for late payments may arrive late due to the distance from Country Estates to Chico, the main office for DOWC. He was assured by DOWC representatives that no late payment charges are assessed until 2 or 3 days after the deadline and a simple phone call to the business office would assure that no late payment charges would occur. He asked why the public meeting wasn't held closer to Country Estates. DOWC responded that the meeting place had been used in the past and had drawn an average of 10 to 12 attendees. The customer and DOWC discussed alternate sites for future meetings. DWA agrees that the site was too far removed (10 to 15 minutes by car) and should be changed in the future.

DISCUSSION

DWA made an independent analysis of Country Estates' summary of earnings. Appendix A shows DOWC's and the DWA's estimates of the summary of earnings at present, requested and recommended rates for the test year 2009. Appendix A also shows the difference between DOWC's and the DWA's estimates of revenue, expenses and rate base. Some of Country Estates' expenses are common expenses that are allocated to twelve of DOWC's districts. The cost allocation percentage of 1.09% is used. It is based on the number of Country Estates connections compared with the total number of connections in the DOWC system including Country Estates.

Revenues

DOWC understates their test year revenue estimates by not using rates which were increased as recently as May 27, 2008. DWA recalculated the revenues at the current rates which reduces the revenue increase from \$11,539 to \$5,803.

Purchased Power

DOWC estimates test year power cost of \$18,124. DWA used the latest energy rates in effect for PG&E which increases the estimated power expense to \$19,153. DOWC included in this estimate an allowance for water loss of 15.2%. DOWC used a three year average of water loss which has increased from 9.74% in 2005 to 19.68% in 2007. The CPUC allowance for water loss is 7% to 10%. We expect DOWC to make progress on reducing its water loss. Accordingly, DOWC should file a plan to reduce water loss in the Country Estates District within 90 days of the effective date of this resolution. DOWC shall also file quarterly reports beginning with the first quarter of 2009 on actual water losses and efforts undertaken to reduce losses. Quarterly reports shall continue until water losses are within the Commission allowance for two consecutive quarters.

Transportation Expense

DOWC estimated this expense using a cost for gasoline at \$4.25 per gallon. Current gasoline prices are less than half that amount. Reducing the cost of gasoline by 50% reduces the transportation cost by \$2,125. The most recent DOE Short-Term Energy Outlook projects average gasoline price for 2009 at \$2.03 per gallon. Recent California prices are running \$0.105 per gallon higher than the national average. Finally, the gasoline prices in Bakersfield are currently below the state average.

DWA recognizes that the price of gasoline is highly volatile at the moment. DOWC has expressed interest in establishing a means to track gasoline prices for recovery in rates. DWA would not object to creating a memorandum account for this expense that would track changes in gasoline prices, both up and down, from the \$2.125 per gallon adopted in this resolution. DOWC should file an advice letter requesting establishment of a memorandum account to reflect the volatility in gasoline prices.

Other Volume Related Expenses

DOWC used a three year average to estimate this account. However, in response to DWA data requests, DOWC agreed that 2005 expenses were too high and should not be considered. DWA agrees to the 2007 recorded expense at \$1,641.

Regulatory Commission Expenses

DOWC included costs for their Certified Public Accountant for attending public meetings. However in response to DWA data requests, DOWC removed that portion thereby reducing the estimate by \$971 and the 3 year average to \$1,656.

DOWC was informed of DWA's differing views of expenses and after discussion have agreed on the results herein.

COMPLIANCE

Del Oro is under a Commission order to make the system improvements in its Country Estates District as required by DHS. A Memorandum of Understanding (MOU) between the Buck Owens Production Company and DOWC has been drafted and is awaiting signature to provide easements necessary for DOWC to connect with an alternate source of water. This MOU is a critical first step in achieving full compliance to "submit a water master plan to the Division [DWA] addressing issues such as quality, adequacy, and reliability of its water supply..." Res. W-4512, OP 6. If a necessary easement cannot be negotiated, DOWC is reminded that Public Utilities Code Section 618 provides that "A water corporation may condemn any property necessary for the construction and maintenance of its water system."

Mr. Jesse Dhaliwal from the California Department of Public Health (CDPH) was present at the public meeting on November 24, 2008. He provided an e-mail from the DOWC Engineer consulting on the pipeline project. That e-mail gives a projected in-service date of October 1, 2009. That date is very tenuous as many milestones have to occur as projected by the engineers.

Mr. Dhaliwal also produced a letter from his office dated December 12, 2007 to DOWC advising that they are under order to make quarterly sampling of the Cindy Well due to detection of perchlorate in October of 2007. His office has not received any test results from DOWC's lab. Finally, Mr. Dhaliwal produced a "Delinquent Monitoring Schedule Report" from his office showing DOWC to be lax in reporting testing at Country Estates. DOWC representatives present at the meeting committed to investigating and resolving all of these matters with CDPH.

The utility has been filing annual reports as required.

COMMENT

This is an uncontested matter in which the resolution grants the relief requested. This proceeding is subject to the public review and notice comment exclusion pursuant to Public Utilities Code §311(g) (3).

FINDINGS AND CONCLUSIONS

1. The DWA's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the DWA (Appendix B) are reasonable and should be adopted.
3. DHS extended until April 20, 2007 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".
4. DOWC sent an e-mail response on August 13, 2008 with an updated plan and schedule of time-line milestones and estimates for completion on October 1, 2009.
5. DOWC should continue to exercise due diligence in seeking to resolve all water sampling and reporting deficiencies with DHS.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section §311(g) (3).
7. DOWC experienced water loss in the Country Estates District in 2007 of 19.68% which is significantly above the 7% target adopted in D.07-05-062.
8. DOWC shall file a plan to address water losses within 90 days of the effective date of this resolution. DOWC shall also file quarterly reports beginning with the first quarter of 2009 on actual water losses and efforts undertaken to reduce losses. Quarterly reports shall continue until water losses are within the Commission allowance for two consecutive quarters.

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 an Advice Letter 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. We expect Del Oro Water Company to make progress on reducing its water loss. Accordingly, Del Oro Water Company is ordered to file a plan within 90 days of the date of this Resolution to reduce water loss in the Country Estates District.
3. Del Oro Water Company is ordered to file quarterly reports with the Director of the Division of Water and Audits beginning with the first quarter of 2009 on actual quarterly losses and efforts undertaken to reduce losses. Quarterly reports shall continue until water losses are within the Commission allowance for two consecutive quarters.
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 29, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

Appendix A

Del Oro Water Company
 County Estates District
 Summary of Earnings
 Test Year 2009

<u>Category</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended</u>
	<u>Present Rates</u>	<u>Requested Rates</u>	<u>Present Rates</u>	<u>Requested Rates</u>	<u>At Present ROR</u>
<u>Operating Revenues:</u>					
Flat Rate	0	0	0	0	0
Metered	89,923	101,462	95,659	101,462	99,400
Private Fire Protection	0	0	0	0	0
Total	89,923	101,462	95,659	101,462	99,400
<u>Operating Expenses</u>					
Purchased Water	0	0	0	0	0
Purchased Power	18,124	18,124	19,153	19,153	19,153
Purchased Chemicals	0	0	0	0	0
Other Volume Related Expenses	2,622	2,622	1,641	1,641	1,641
Employee Labor	18,302	18,302	18,259	18,259	18,259
Materials	1,349	1,349	1,349	1,349	1,349
Contract Work	473	473	473	473	473
Water Testing	0	0	0	0	0
Transportation Expense	7,840	7,840	5,715	5,715	5,715
Other Plant Maintenance Expense	0	0	0	0	0
Office Salaries	5,086	5,086	5,472	5,472	5,472
Management Salaries	1,465	1,465	1,401	1,401	1,401
Employee Pension and Benefits	1,499	1,499	1,495	1,495	1,495
Uncollectibles	808	808	808	808	808
Office Service & Rentals	1,100	1,100	1,099	1,099	1,099
Office Supplies & Expenses	2,954	2,954	3,043	3,043	3,043
Professional Services	406	406	388	388	388
Insurance	2,180	2,180	2,159	2,159	2,159
Regulatory Commission Exp.	1,980	1,980	1,656	1,656	1,656
General Expenses	1,916	1,916	1,916	1,916	1,916
minus expenses capitalized					0
Total Operating Expenses	68,104	68,104	66,027	66,027	66,027
<u>Total Deductions</u>					
Depreciation Expense	6,696	6,696	6,696	6,696	6,696
Property Taxes	0	0	0	0	0
Payroll Taxes	0	0	0	0	0
Taxes other than Income	3,603	3,603	3,603	3,603	3,603
States Income Tax	1,018	2,029	1,709	2,222	2,040
Federal Income Tax	1,575	3,154	2,644	3,437	3,155
Total Deductions	12,892	15,482	14,652	15,958	15,494
Total Deductions and Expenses	80,996	83,586	80,679	81,985	81,521
Net Revenue	8,927	17,876	14,980	19,477	17,879
<u>Rate Base:</u>					
Average Plant	203,337	203,337	203,337	203,337	203,337
Average Depr. Res.	43,570	43,570	43,570	43,570	43,570
Net Plant	159,767	159,767	159,767	159,767	159,767
Less: Advances/Contributions	0	0	0	0	0
Add: Supplies/working Cash	5,675	5,675	5,675	5,675	5,675
Rate Base	165,442	165,442	165,442	165,442	165,442
Rate of Return	5.40%	10.81%	9.05%	11.77%	10.81%

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, 2196, 2552, and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County.

RATES

Quantity Rates:

All water, per 100 cu. ft.	\$ 1.75 (R)
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Service Charge:

	Per Meter <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 15.84 (I)
For 3/4-inch meter	\$ 23.76
For 1-inch meter	\$ 39.60
For 1-1/2-inch meter	\$ 79.19
For 2-inch meter	\$126.71
For 3-inch meter	\$237.58 (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.