

WATER/RSK/PTL/LEP/ijj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4805
December 3, 2009

R E S O L U T I O N

(RES. W-4805), DEL ORO WATER COMPANY (DOWC), ARBUCKLE DISTRICT. ORDER AUTHORIZING A GENERAL RATE INCREASE, (GRC) PRODUCING ADDITIONAL ANNUAL REVENUE OF \$13,543 OR 52.2% FOR TEST YEAR (TY) 2009.

SUMMARY

By Draft Advice Letter, filed on July 3, 2009, DOWC seeks to increase its Arbutle District's (Arbutle) rates for water service to recover increased operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on August 6, 2009. By Advice Letter (AL) 236, the Division granted Arbutle an interim increase of \$26 or 0.1% effective July 7, 2009.

For TY 2009, this resolution grants an increase in gross annual revenues of \$13,543 or 52.2% which is estimated to provide a rate of return of 10.80%.

BACKGROUND

DOWC, a Class B water utility, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its Arbutle water rates by \$14,811 or 57.7% for test year 2009. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Arbutle's request shows 2009 gross revenues of \$25,654 at present rates, increasing to \$40,465 at proposed rates. Arbutle is requesting a rate of return of 11.11%.

DOWC in Application (A.) 08-01-018 requested a Certificate of Public Convenience and Necessity (CPCN) to acquire Arbutle Water Company with initial rates for water service at the existing Arbutle flat rate of \$39.96 per month. The Commission in Decision (D.) 08-09-010 granted DOWC a CPCN and authorized Arbutle a flat rate of \$39.96 per month pending a GRC filing by DOWC. On February 24, 2009, DOWC notified the Division of the transfer of ownership of Arbutle to DOWC which was

effective February 18, 2009. The present rates were established on July 7, 2009, pursuant to AL 236, which authorized an interim rate increase.

DOWC in D.08-09-010 was required to file a GRC to implement metered rates once sufficient data was available. Del Oro was also required to record the difference between the developer's cost of building the water system (\$812,138) and the total amount paid for the water system (\$100,000), as Contributions-in Aid-of-Construction.

Arbuckle serves approximately 54 flat rate residential water customers in the Almond Ranch Estates, approximately one mile southwest of the town of Arbuckle, Colusa County, California.

The water system, installed in 2004, is comprised of two wells of 19 gallon per minute (gpm) and 55 gpm, a 10,000-gallon steel hydro-pneumatic tank at the well site, and a distribution system of 8-inch PVC pipe.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on August 10, 2009. Arbuckle received one letter protesting the increase.

An informal public meeting was held on Tuesday, September 15, 2009, at 6:30 pm at Pierce High School Library, 960 Wildwood Road, Arbuckle, CA. Five people attended the meeting. Peter Liu, the Project Manager, declared the meeting open and explained the Commission procedures, as well as the purpose of the meeting. Paul Matulich, Vice President, Janice Hanna, Director of Corporate Accounting, and Susan Howard, Director of Public Relations, represented DOWC. Susan Howard gave a presentation to explain the need for the rate increase. One member of a homeowners association was very upset over the acquisition of Arbuckle by DOWC but was satisfied when Janice Hanna showed him the escrow papers. The rest of the meeting consisted of questions and comments by the customers, which either Mr. Liu's or Arbuckle's representatives responded to.

DISCUSSION

The Division made an independent analysis of Arbuckle's operations. Appendix A shows Arbuckle's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2009. Arbuckle is in agreement with the Division's recommended requirement and the rates shown in Appendix B.

The Division staff reviewed operating revenues and expenses, including purchased power, employee labor, materials, contract work, transportation, office salaries, management, employee pension and benefits, uncollectible expense, office services and

rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and taxes other than income taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

Arbuckle's general approach for estimating their operating expenses, excluding purchased power, offices supplies and expenses, professional services, insurance, taxes other than income, uncollectible and salaries, is based on taking the average of the past three years (2006-2008) and applying a 3% inflation factor. The Division accepted Arbuckle's methodology for estimating operating expenses.

DOWC serves multiple districts and therefore costs in several areas are shared among the districts. These costs include: employee labor and benefits, office and management salaries, office supplies & expenses, professional services and insurance. DOWC used a cost allocation factor for Arbuckle based on the number of customers Arbuckle has as a percentage of DOWC's total number of customers in all their districts. The Division staff reviewed DOWC's cost allocation methodology for the costs categories listed in this paragraph; and verified that DOWC adequately allocated the percentage applicable to Arbuckle.

The Division staff audited actual bills for expenses to makes its estimates, and where bills were not available relied on the company's recorded costs (the company used projections for expenses where actual bills were not available).

DOWC requested a Rate of Return of 11.11% for Arbuckle. DOWC is a Class B water utility and the allowed rate of return is 10.8%. Based on current rates, Arbuckle's annual revenues for TY 2009 is \$25,920. At the recommended test year revenue of \$39,463, the increase will be \$13,543 or 52.2%.

Arbuckle's current rate structure consists of one flat rate schedule: AR-1A, Residential Flat Rate Service. The Division's proposed new meter rates Schedule No. AR-2 is shown in Appendix B. The new schedule can be used when and/or if Arbuckle meters its customers.

At the Division's recommended rates shown in Appendix B, a flat rate residential customer's bill will increase from \$40.00 to \$60.90 a 52.3% increase. 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.

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 protestants and made available for public comment on November 3, 2009. No comments were received.

FINDINGS

1. DOWC filed for a general rate increase for Arbuckle based on taking the average of the last three years' (2006-2008) recorded expenses and then applying a 3% inflation factor.
2. The Division now agrees with Arbuckle's inflation rates.
3. For shared costs, DOWC used a cost allocation method based on the number of customers Arbuckle has as a percentage of DOWC's total number of customers. The Division relied on recorded costs for expenses, where actual bills were not available.
4. Except as described in the preceding findings, we find the Division's estimates to be reasonable.
5. The Division's recommended summary of earnings (Appendix A) are reasonable and should be adopted.
6. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
7. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Inc, 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 Schedule AR-1A, Residential Flat Rate Service. The effective date of the revised rate schedule shall be five days after the date of filing.

2. The quantities (Appendix D) used to develop the Division's recommendations are adopted.
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 3, 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
 DEL ORO WATER COMPANY
 ARBUCKLE DISTRICT
 SUMMARY OF EARNINGS
 Test Year 2009**

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Interim	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Water Sales	\$25,654	\$40,465	\$25,920	\$40,843	\$39,463
<u>Operating Expenses:</u>					
Purchased power	8,351	8,351	8,351	8,351	8,351
Employee labor	3,176	3,176	3,176	3,176	3,176
Materials	312	312	312	312	312
Contract work	981	981	981	981	981
Transportation	2,431	2,431	2,431	2,431	2,431
Office salaries	3,418	3,418	3,418	3,418	3,418
Management	8,69	8,69	8,69	8,69	8,69
Employee pension & benefit	960	960	960	960	960
Uncollectible expense	55	55	55	55	55
Office services & rentals	650	650	650	650	650
Office supplies & expenses	941	941	941	941	941
Professional services	146	146	146	146	146
Insurance	912	912	912	912	912
Regulatory expense	333	333	167	167	167
General expenses	427	427	427	427	427
Total operating expenses	23,962	23,962	23,796	23,796	23,796
Depreciation expense	961	961	961	961	961
Taxes other than income	695	695	695	695	695
State taxes	800	1,381	800	1,361	1,239
Federal income taxes	0	2,020	0	2,105	1,916
Total deductions	26,418	29,019	26,252	28,917	28,606
Net Revenue	(764)	11,446	(332)	11,926	10,857
Rate Base					
Average Plant	812,644	812,644	812,644	812,644	812,644
Aver. Acc. Dep.	11,162	11,162	11,162	11,162	11,162
Net Plant	801,482	801,482	801,482	801,482	801,482
Less: Advances	-	-	-	-	-
Contributions	701,456	701,456	701,456	701,456	701,456
Plus: Materials & supplies	1,000	1,000	500	500	500
Working Cash	1,997	1,997	0	0	0
Rate Base	103,023	103,023	100,526	100,526	100,526
Rate of Return	-0.74%	11.11%	-0.33%	11.86%	10.8%

(END OF APPENDIX A)

**APPENDIX B
DEL ORO WATER COMPANY
ARBUCKLE DISTRICT**

**Schedule No. AR-1A
RESIDENTIAL FLAT RATE SERVICE
Test Year 2009**

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The subdivision known as Almond Ranch Estates and vicinity, approximately five miles north of Arbuckle, Colusa County, California.

RATES

	Per Month	
	<u>Per Month</u>	
For a single-family residential unit	\$ 60.90	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than 1-inch 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 of 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 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 the customer.

**APPENDIX B
DEL ORO WATER COMPANY
ARBUCKLE DISTRICT**

**Schedule No. AR-2
RESIDENTIAL METERED SERVICE
Test Year 2009**

APPLICABILITY

Applicable to all metered rate residential water service.

TERRITORY

The subdivision known as Almond Ranch Estates and vicinity, approximately five miles north of Arbuckle, Colusa, California.

RATES

Quantity Rate:

All water used, per 100 cu.ft	\$ 0.805	(N)
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Service Charge:

Per Meter
Per Month

For 5/8 x 3/4-inch meter	\$ 22.00	(N)
For 3/4-inch meter	33.00	
For 1-inch meter	55.00	
For 1-1/2-inch meter	110.00	
For 2-inch meter	176.00	
For 3-inch meter	330.00	(N)

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 Rate.

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. L.C.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit, at the company's option, be furnished on the account of the landlord or property owner.

(END OF APPENDIX B)

APPENDIX C

DEL ORO WATER COMPANY
 ARBUCKLE DISTRICT

COMPARISON OF RATES
Test Year 2009

COMPARISON OF RATES:

FLAT RATERESIDENTIAL SERVICE

	<u>Per Meter Per Month</u>		
	<u>Interim Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
For a single-family residential unit	\$40.00	\$60.90	52.2%

METERED RESIDENTIAL SERVICE

	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Percent Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter	N/A	\$ 22.00	N/A
For 3/4-inch meter		33.00	
For 1-inch meter		55.00	
For 1-1/2-inch meter		110.00	
For 2-inch meter		176.00	
For 3-inch meter	N/A	330.00	N/A
Quantity Rate:			
All water, per 100 cu.ft.	N/A	\$ 0.805	N/A

(END OF APPENDIX C)

APPENDIX D

**DEL ORO WATER COMPANY
ARBUCKLE DISTRICT**

ADOPTED QUANTITIES

Test Year 2009

1. Purchased power	\$ 8,351
2. kWh	31,200
3. Uncollectibles	\$ 55
4. Taxes other than income	\$ 695

Service Connections

Residential Flat Rate	54
Water Sales	31,327 Ccf

INCOME TAX CALCULATIONS

Test Year 2009

<u>Line</u> <u>No.</u>	<u>Item</u>	<u>State</u> <u>Tax</u>	<u>Federal</u> <u>Tax</u>
1.	Operating Revenues	\$ 39,463	\$ 39,463
2.	Operating Expenses	\$ 23,796	\$ 23,796
3.	Depreciation	\$ 961	\$ 961
4.	Taxes Other Than Income	\$ 695	\$ 695
5.	State Taxable Income	\$ 14,011	\$ 14,011
6.	State Tax (@8.84%)	\$ 1,239	\$ 1,239
7.	Federal Taxable Income	=====	\$ 12,772
8.	Federal Income Tax		\$ 1,916
			=====

(END OF APPENDIX D)