

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
WATER BRANCH

RESOLUTION NO. W-4442  
DECEMBER 4, 2003

**RESOLUTION**

**(RES. W-4442), DEL ORO WATER COMPANY, MAGALIA  
DISTRICT (MAGALIA). ORDER AUTHORIZING A GENERAL  
RATE INCREASE IN RATES PRODUCING \$29,668 OR 21.2% IN  
ADDITIONAL ANNUAL REVENUE.**

**SUMMARY**

By Draft Advice Letter, filed on January 28, 2003, Magalia 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 2003, this resolution grants an increase in gross annual revenues of \$29,668 or 21.2%, which is estimated to provide a rate of return on rate base of 8.53%.

**BACKGROUND**

Magalia requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$44,538 per year or 31.86% in 2003. Magalia's request shows that its gross annual revenue of \$139,762 at present rates would increase to \$184,300 at proposed rates.

Magalia's current rates became effective on February 14, 2003, pursuant to Decision (D.) 03-01-076, dated January 30, 2003, which authorized surcharges to repay a loan for costs associated with a California Environmental Quality Assurance review of a regional capital improvement project. Magalia's last general rate increase was granted pursuant to Res. W-4048 dated June 25, 1997, that authorized an increase of \$3,614 or 4.48%. This resolution also authorized a rate base offset of \$38,539 or 47.76%, which became effective on February 4, 1998. Magalia presently serves approximately 266 metered connections in the unincorporated community of Magalia, approximately 20 miles northeast of Chico in Butte County.

**DISCUSSION**

Magalia is a district of Del Oro Water Company (Del Oro), a Class B water utility subject to the jurisdiction of this Commission. Del Oro provides water to the city of Ferndale in Humboldt County, the community of Johnson Park in Shasta County, and a portion of the city of Bakersfield, in Kern County. Del Oro operates two water systems (the Paradise Pines District and the Magalia District) in an unincorporated area known as Magalia in Butte County. Del Oro also provides water service through a subsidiary called Stirling Bluffs located in the

unincorporated communities known as Stirling City (North of the Town of Paradise) and in the Lime Saddle District located south of the Town of Paradise. The Branch made an independent analysis of Magalia's summary of earnings. Appendix A shows Magalia's and the Water Division (Division) estimates of the summary of earnings at present, requested, and recommended rates for test year 2003. Appendix A also shows the difference between Magalia's and the Division's estimates of revenue, expenses and rate base.

Magalia imports water from the Paradise Pines District in off-peak months and purchases water from Stirling Bluffs in peak months. The Stirling Bluffs purchased water also comes from the Paradise Pines District, as the water is first gravity fed from Stirling Bluffs through the Paradise Irrigation District (PID) system to the Paradise Pines District. The water is then delivered to the Magalia system via a booster pump.

Some of Magalia's expenses are common expenses that are allocated to all of Del Oro's six districts and its subsidiary based on a formula adopted in the 1991 general rate case of Del Oro's Paradise Pines District. The formula allocates to Magalia a percentage of the total expenses. The percentage is based on the number of Magalia's connections compared with the total number of connections in the Del Oro system including its subsidiary.

Magalia's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 8.78%. The Water Division's Audit & Compliance Branch has performed a cost of capital analysis and determined that the rate of return should be 8.53%. This recommendation is based on an analysis of the capital structure and embedded cost of debt for DOWC as well as a determination of a reasonable return on equity for a Class B utility. Magalia was informed of the Division's differing views of revenues, expenses and rate base and it agrees with the Division's findings.

Magalia is a district of DOWC, a Class B water company. D.92-03-093 recommends Class B utilities recover up to 50% of fixed costs in their readiness-to-serve charge. The Division recommends a rate structure that allows recovery of 60% of Magalia's fixed costs in the readiness-to-serve charge. The Division could not reduce the percentage because the fixed cost percentage could not be reduced to 50% without violating the current rate design policy that states no customer should receive an increase greater than twice the system average increase authorized. The Division recommends that the percentage of fixed costs collected in the service charge be reduced to 50% in the utility's next general rate case. The current rate design service charge allocation is not in compliance with the Division rate design policy established by decision (D.86-05-064), dated May 21, 1986, which established service charge allocation ratios based on meter size. The proposed rates in Appendix B incorporate graduated service charge rates based on meter size. In order that no customer receives an increase greater than twice the system average increase authorized, the service charge ratios in Appendix B deviate from the ratios established by the prevailing rate design policy.

The Division recommends that this deviation be corrected in future general rate cases for Magalia.

At the Division's recommended rates shown in Appendix B, the monthly bill for an average residential customer using 8,000 gallons of water will increase by \$12.32 from \$35.53 to \$47.85 or 34.7%. 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.

### **NOTICE AND PROTESTS**

A notice of the proposed increase in rates initially filed by Magalia was mailed to each customer on March 1, 2003. The Division has received two letters protesting the rate increase. The Consumer Affairs Branch received 22 complaints in 2000, 24 complaints in 2001, and 3 complaints in 2002, but they were complaints about the Del Oro Water Company and not district specific. A public meeting was held on March 25, 2003. Only three customers attended the meeting. In addition to protesting the increase, the primary concern was the need for Magalia to purchase water. Magalia's representatives promised to investigate the need for purchase water and to look at alternatives, if necessary.

There are no outstanding Commission compliance orders for the Magalia District.

### **FINDINGS AND CONCLUSIONS**

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

### **IT IS ORDERED that:**

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company, Magalia District, to file an advice letter incorporating the Summary of Earnings and revised rate schedule attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. MD-1A – Annual Metered Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Del Oro Water Company, Magalia District shall increase its annual revenues by \$29,668 or 21.2%, based on reasonable rates for 2003.

December 4, 2003

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 4, 2003; the following Commissioners voting favorably thereon:

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WILLIAM AHERN  
Executive Director

MICHAEL R. PEEVEY  
President

CARL W. WOOD  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
Commissioners

Commissioner Loretta M. Lynch, being necessarily  
absent, did not participate.

**APPENDIX A**  
**DEL ORO WATER COMPANY - Magalia District**  
**SUMMARY OF EARNINGS**  
**Test Year 2003**

	Utility Estimated		Division Estimated		Division Recommended Rates
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
<u>Operating Revenues:</u>					
Metered Rate	\$139,762	\$184,300	\$139,762	\$184,489	\$169,430
<u>Operating Expenses:</u>					
Purchased Water	\$ 27,457	\$ 27,457	\$ 23,430	\$ 23,430	\$ 23,430
Power	21,878	21,878	18,798	18,798	18,798
Other Vol. Related Costs	3,954	3,954	3,954	3,954	3,954
Employee Labor	12,283	12,283	12,000	12,000	12,000
Materials	1,114	1,114	1,114	1,114	1,114
Contract Work	3,212	3,212	2,940	2,940	2,940
Transportation	3,359	3,359	3,359	3,359	3,359
Other Plant Maintenance	2,184	2,184	1,797	1,797	1,797
Office Salaries	11,150	11,150	10,892	10,892	10,892
Management Salaries	6,150	6,150	6,013	6,013	6,013
Employee Pension & Ben.	4,229	4,229	4,229	4,229	4,229
Uncollectibles	216	216	216	216	216
Office Service & Rentals	4,742	4,742	3,229	3,229	3,229
Office Supplies & Exp.	4,672	4,672	4,672	4,672	4,672
Professional Services	2,447	2,447	1,809	1,809	1,809
Insurance	3,609	3,609	3,107	3,107	3,107
Regulatory Expense	2,222	2,222	1,768	1,768	1,768
General Expenses	<u>1,522</u>	<u>1,522</u>	<u>1,522</u>	<u>1,522</u>	<u>1,522</u>
Subtotal	104,850	116,406	104,849	104,849	104,849
Depreciation	14,968	14,968	14,968	14,968	14,968
Taxes Other Than Income	6,108	6,108	5,827	5,827	5,827
State Tax	800	2,028	800	2,908	1,331
Federal Income Tax	0	3,134	0	4,498	2,059
Total Deductions	<u>138,282</u>	<u>142,642</u>	<u>123,672</u>	<u>130,278</u>	<u>126,262</u>
Net Revenue	1,480	41,648	16,090	5,4211	40,387
Rate Base:					
Average Plant	924,499	924,499	924,499	924,499	924,499
Average Accum. Dep.	326,824	326,824	326,824	326,824	326,824
Net Plant	597,675	597,675	597,675	597,675	597,675
Less: Advances	9,279	9,279	9,279	9,279	9,279
Contributions	124,529	124,529	124,529	124,529	124,529
Plus: Working Cash	9,701	9,701	8,737	8,737	8,737
Supplies	1,000	1,000	1,000	1,000	1,000
Rate Base	474,568	474,604	473,604	473,604	473,604
Rate of Return	2.81%	8.778%	2.81%	10.99%	8.53%

**APPENDIX B**

Sheet 1

Schedule No. MD-1A

**ANNUAL GENERAL METERED SERVICE**

**Test Year 2003**

**APPLICABILITY**

Applicable to all metered water service furnished on an annual basis to the Magalia service area.

**TERRITORY**

All territory served by Del Oro Water Company, Inc. in the area known as the Magalia County Water District, located north of the Town of Paradise Pines District of Del Oro Water Company.

**RATES**

Quantity Rate:

All water, per 1,000 gallons ..... \$ 3.05 (I)

CEQA Surcharge: Per Meter Per Month

For 5/8 x 3/4 inch meter ..... \$ 1.45 (I)

For 3/4 inch meter ..... 1.80 (N)

For 1 inch meter ..... 2.18 |

For 2 inch meter ..... 2.90 |

For 3 inch meter ..... 3.30 (N)

Annual Service Charge:

For 5/8 x 3/4 inch meter ..... \$264.00 (I)

For 3/4 inch meter ..... 330.00 (N)

For 1 inch meter ..... 396.00 |

For 2 inch meter ..... 528.00 |

For 3 inch meter ..... 600.00 (N)

(D)

The monthly surcharge is specifically for the repayment of the Environmental Clearance loan authorized by Decision 03-01-076.  
The monthly surcharge rates are subject to adjustment.

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

APPENDIX B  
Sheet 2

Schedule No. MD-1A  
(continued)

**ANNUAL METERED SERVICE**

**SPECIAL CONDITIONS**

1. 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 year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods for water used.
2. The opening bill for metered service, except for conversion from flat rate service, shall be the established annual service charge for the service. Where initial service is established after the first day of the 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 year. The balance of the payment of the initial charge shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial charges shall be due to the customer.
3. The established billing cycle for water used is monthly. The billing cycle may be at longer intervals during the winter season.

(D)  
(D)
4. All bills are subject to reimbursement fee set forth on Schedule No. UF. 

(L)
5. A late charge will be imposed per Schedule No. LC. 

(L)
6. 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 will, at the company's option, be furnished on the account of the landlord or property owner.

(L)  
|  
(L)  
(D)

**APPENDIX C**  
**DEL ORO WATER COMPANY**  
Magalia District  
Schedule No. MD-1A  
**ANNUAL METERED SERVICE**  
**COMPARISON OF RATES**

METERED SERVICE	Present <u>Rates</u>	Proposed <u>Rates</u>	Percent <u>Increase</u> (Decrease)
QUANTITY RATE:			
For all water, per 1,000 gallons	\$ 2.25	\$3.05	35.6.7%
CEQA Surcharge	<u>Per Meter Per Month</u>		
For 5/8 x 3/4 inch meter	\$ 1.16	\$1.45	25.5%
For all other meter sizes	1.94	0.00	N/A
Additional units	0.77	0.00	N/A
For 3/4 inch meter	0.00	1.81	N/A
For 1 inch meter	0.00	2.18	N/A
For 2 inch meter	0.00	2.90	N/A
For 2 inch meter	0.00	3.30	N/A
 <b><u>ANNUAL SERVICE CHARGE</u></b>			
For 5/8 X 3/4 inch meter	\$196.44	\$264.00	34.4%
For all other meter sizes	338.64	0.00	N/A
Additional units	146.28	0.00	N/A
For 3/4 inch meter	0.00	330.00	N/A
For 1 inch meter	0.00	396.00	N/A
For 2 inch meter	0.00	528.00	N/A
For 3 inch meter	0.00	600.00	N/A

Comparison of a monthly typical bill for residential metered customers with a 5/8x3/4-inch is shown below at current and recommended rates for test year 2003.

Usage (000) gals.	Present <u>Rates</u>	Recommended <u>Rates</u>	Amount Increase Decrease	Percent Increase (Decrease)
0	\$17.53	\$23.45	\$5.92	33.8%
5	28.78	38.70	9.92	34.5%
8(avg.)	35.53	47.85	12.32	34.7%
10	40.03	53.95	13.92	34.8%



**APPENDIX D**  
**DEL ORO WATER COMPANY**  
Magalia District  
**ADOPTED QUANTITIES**  
Test Year 2003

Offset Items

1. Purchased Power	
Pacific Gas & Electric Company	
Effective Date March 4, 2003	
Schedule A-1 Small General Service	
Energy Charge:	
Summer, per kWh per month	\$0.22010
Winter, per kWh per month	\$0.14031
CUSTOMER CHARGE:	
Single Phase Service, per day	\$0.26612
Polyphase Service, per meter	\$0.39425
Schedule A-6 Small General-Time-of-Use Service	
Energy Charge	
\$/per kWh Summer	
Peak	\$0.34322
Part Peak	\$0.15839
Off Peak	\$0.10169
\$/per kWh Winter	
Part Peak	\$0.17113
Off Peak	\$0.11720
METER CHARGE per meter per day	
Rate A-6	\$0.22341
CUSTOMER CHARGE per meter per day	
Single Phase Service	\$0.26612
Polyphase Service	\$0.39425
Total Energy Cost	\$ 18,798
Total kWh	119,339
Average Unit Cost \$/kWh	\$0.158
2. Purchased Water	\$23,430
3. Payroll	
Employee Labor	\$12,000
Office Salaries	\$10,892
Management Salaries	\$ 6,013
4. Ad Valorem Taxes	\$ 3,567
5. Payroll Taxes	\$ 2,260
<u>Service Connections</u>	
6. Meter Size	
5/8x3/4"	262
1"	1
2"	2
3"	<u>1</u>
Total Metered	266
Meter Water Sales Used to Design Rates	32,200,000 gallons

**APPENDIX D**  
**DEL ORO WATER COMPANY**  
**Magalia District**  
**ADOPTED INCOME TAX CALCULATIONS**  
Test Year 2003

Line <u>No.</u>	<u>Item</u>	State <u>Tax</u>	Federal <u>Tax</u>
1.	Operating Revenues	\$169,430	\$169,430
2.	Expenses	\$104,850	\$104,850
3.	Property Taxes	\$ 3,567	\$ 3,567
4.	Depreciation	\$ 14,968	\$ 14,968
5.	Payroll Taxes	\$ 2,260	\$ 2,260
6.	Interest	\$ 28,719	\$ 28,719
7.	State Taxable Income	\$ 15,066	
8.	State Tax (@8.84%)	\$ 1,332	\$ 1,332
		=====	=====
9.	Federal Taxable Income		\$ 13,734
10.	Federal Income Tax (@15%)		\$ 2,060
11.	TOTAL STATE AND FEDERAL INCOME TAX		\$ 3,392

**(END OF APPENDIX D)**