

W-2

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities Branch

RESOLUTION NO. W-3393
April 13, 1988

R E S O L U T I O N

(RES. W-3393) DEL ORO WATER COMPANY (DOWC). ORDER
AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$47,490
OR 9.30% ADDITIONAL ANNUAL REVENUE.

DOWC, by draft advice letter accepted by the Water Utilities Branch (Branch) on July 20, 1987, requested authority under Section VI of General Order (G.O.) 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$120,432 or 23.96%. DOWC estimates that 1987 gross revenue of \$502,568 at present rates would increase to \$623,000 at proposed rates and would produce a rate of return of 10.76% on rate base. DOWC serves about 3,353 general metered and 2 metered irrigation customers in the community of Magalia, Butte County.

The present rates have been in effect since October 7, 1983 pursuant to Resolution No. W-3121, dated September 30, 1983, which authorized a general rate increase.

The Branch made an independent analysis of DOWC's summary of earnings. Appendix A shows DOWC's and the Branch's estimated summary of earnings at present, requested and adopted rates. Appendix A shows differences in revenues, expenses and rate base.

The Branch's estimate of operating revenues at present rates is higher than DOWC's. DOWC and the Branch agree on the number of customers and the growth in customers during the test year, but DOWC's accountant erred by including only one-half the annual growth in calculating its present rates revenue figure. DOWC made the same error in calculating its revenues at proposed rates, but still arrived at a figure close to the Branch's apparently due to a compensating error in its complex spreadsheet program that it was never able to discover. DOWC's accountant has examined the Branch's calculations for revenues at both present and proposed rates and agrees they are correct.

The differences in estimates for operating expenses are in purchased power, materials, other plant maintenance expense, employee pension and benefits, uncollectibles, office supplies and expenses, professional services, insurance, regulatory commission expense, general expenses, depreciation expense, property taxes, payroll taxes and income taxes.

The Branch's estimate of purchased power expense is lower than DOWC's. DOWC estimated its power expense as its 1986 recorded cost plus an increment due to customer growth. The 1986 figure is no longer applicable because during 1986 DOWC purchased power under six different power schedules while it now uses only three. The Branch's method of performing a detailed analysis of water pumped and electric energy used under each applicable schedule and applying the latest power company rates is more accurate than simply escalating the previous year's figure.

The Branch's estimate of materials expense is much lower than DOWC's. DOWC proposed basing most of its other expense estimates on the average of the 1985 and 1986 recorded figures, and the Branch concurred. In this case, DOWC provided no justification for its \$12,000 materials expense estimate which is more than twice the recorded figure for each of the last two years. The Branch's estimate is the average of the past two years' figures adjusted for customer growth and inflation. The escalation factors used by the Branch for this and other accounts were those provided by the Advisory Branch of the Commission Advisory and Compliance Division.

DOWC's estimate of other plant maintenance expenses represents its costs for an alarm system and answering and paging services. The Uniform System of Accounts for water utilities requires that these expenses be classified under office supplies and expenses. The Branch has included these expenses in its estimates of office supplies and expenses addressed below.

DOWC's estimate of employee pension and benefits is \$5,000 compared to the Branch's higher estimate of \$11,870. The \$6,870 difference is due to the Branch's inclusion in this category of employee health insurance which DOWC inadvertently included in the insurance account.

DOWC did not estimate uncollectibles for the test year. However, it has recorded uncollectible expenses for 1985 and 1986. The Branch estimated uncollectibles at 0.15% of revenues based on the average uncollectibles experienced during the past two years.

DOWC estimated \$17,800 for office supplies and expense by increasing its 1986 recorded figure for customer growth. The Branch took the two year recorded average escalated for inflation and customer growth to arrive at a corresponding figure of \$18,318, then added \$4,026 for DOWC's alarm system and answering and paging services which DOWC had erroneously included in its other plant maintenance expense. The \$4,026 figure is also the recorded average for the past two years escalated for inflation and customer growth.

DOWC's estimate of \$8,200 for professional services includes \$5,000 for legal fees, \$1,500 for general accounting services and \$1,700 for accounting work relating to the preparation of this general rate increase request. The Branch included \$968 in legal fees, \$1,007 in general accounting services, and \$1,770 for rate case work (but reclassified the latter amount to the regulatory commission expense account). DOWC estimated its legal fees as a lump sum without explanation. The Branch examined the recorded legal fees for the past

two years and found most of them to be related to a legal dispute with a neighboring irrigation district drilling a well which DOWC believes may jeopardize its water supply, and the possible purchase of another water utility. The Branch's \$968 in legal fees represents the annual amount spent to date on the water supply dispute because DOWC is pursuing it in the best interests of its customers and the dispute is expected to continue during the next three years. However, the Branch did not include an amount for legal work involving the purchase of another water utility because that is more properly investment groundwork for the owner than a reasonable and necessary expense for the benefit of its water customers. The Branch's estimate of \$1,007 for general accounting service is the recorded average for the past two years escalated for inflation and customer growth. The Branch estimated \$1,770 for work on this general rate increase request, but classified it as regulatory commission expense as explained later.

The Branch's \$12,102 estimate for insurance expense is significantly less than DOWC's \$20,023. Much of the difference is due to the Branch's reclassification of \$6,870 in employee health insurance which more properly belongs in the employee pensions and benefits account as discussed earlier. The remaining difference is due to the fact that the Branch based its estimate on the current 1987-88 insurance premiums which were not available to DOWC when it prepared its estimates.

As mentioned earlier, DOWC included \$1,700 for the expense of this rate case under its professional services estimate. Under the Uniform System of Accounts, rate case expenses are to be accounted for as regulatory commission expense. The Branch's \$1,770 is based on amortizing the \$5,310 total cost of the rate case over the three-year minimum rate case cycle.

DOWC's estimate of general expense is a one-time contribution to the Chico Chamber of Commerce. The Branch has excluded this amount in keeping with established Commission practice concerning utility donations that do not directly benefit customers.

The difference in estimates of depreciation expense is due to the difference in average utility plant estimates.

Both DOWC's and the Branch's estimates of property taxes were based on the 1986-1987 property tax bills. The difference is due to DOWC's erroneously including a pump assessment tax of \$608 in the property taxes estimate. DOWC now agrees that the pump assessment tax is no longer applicable, so the Branch has excluded that amount from its estimates.

The small difference between the Branch's and DOWC's estimates of payroll taxes is due to DOWC's incorrectly using a tax rate of 0.7% for Federal Unemployment Insurance instead of the correct rate of 0.8% for 1987. The Branch estimate of \$11,996 for payroll taxes reflects the 0.8% tax rate.

The Branch's income tax estimate at proposed rates is much lower than DOWC's because DOWC used a straight 40% federal income tax rate and considerably understated its interest expense deduction. Because DOWC's rates from this proceeding will become effective during 1988, the Branch used the 1988 federal

income tax rates established by the Tax Reform Act of 1986 and the corresponding state income tax rate. The Branch's tax calculations include a deduction for interest expense of \$50,015 based on the long-term debt in DOWC's capital structure as recommended by the Accounting and Financial Branch of the Commission Advisory and Compliance Division. Appendix D, page 2 shows the Branch's calculation of income taxes at adopted rates.

The differences in rate base between DOWC and the Branch are in utility plant, depreciation reserve, contributions, working cash and materials and supplies.

DOWC's estimate of average plant is \$3,234,550 compared to the Branch's estimate of \$3,200,020. The difference is due to differing estimates of plant additions and retirements. DOWC's estimate of plant additions for the test year includes: (1) completion of Well No. 8 and related facilities for \$118,000; (2) installation of a chlorinator for \$2,500; (3) building a pumphouse at Well No. 7 for \$25,000; (4) installing an emergency power generator for \$20,000; and (5) purchasing a new truck for \$15,000. DOWC prepared its estimates in early to mid-1987 and only the well construction and related facilities were completed by the end of test year 1987. Therefore the Branch has included only \$118,000 in plant additions for 1987. The Branch also included plant retirements of \$6,560 in 1987 based on the average recorded retirements in 1985 and 1986.

Even though the chlorinator and emergency generator proposed for addition in 1987 were not installed, the Branch believes these items will help maintain adequate and reliable water service. The Branch therefore recommends DOWC be encouraged to complete them during 1988. DOWC should be allowed to file an advice letter to begin recovering the reasonable costs when they have been completed and placed in service.

DOWC's estimate of the average depreciation reserve is \$1,163,870, while the Branch's estimate is \$1,160,050. The difference is due to the differences in depreciation accrual and retirement estimates for the test year described earlier.

The slight difference in contributions estimates is due to the Branch's use of the recorded 1987 beginning-of-year contributions which varied slightly from DOWC's estimate. The Branch and DOWC agreed on the additional contributions for 1987.

The difference in working cash is due to differing operating expense estimates, the Branch's recognition of annual service charges paid in advance, and DOWC's inadvertent calculation of working cash as though it billed bi-monthly rather than monthly. The Branch used the Commission's Standard Practice U-16, Determination of Working Cash Allowance, to arrive at its working cash estimate.

DOWC based its materials and supplies estimate on 1986 recorded data. The Branch's slightly higher estimate results from the Branch's use of the average recorded 1985 and 1986 data escalated for customer growth and inflation.

The Accounting and Financial Branch of the Commission Advisory and Compliance Division has examined DOWC's capitalization and recommends a capital structure consisting of 61% long-term debt at a cost of 10.75% and 39% equity at a cost of 11.50%, for a recommended overall return of 11.05% on rate base. Although this is greater than the 10.76% return proposed by DOWC, it still results in DOWC being granted a revenue increase less than it requested. The Water Utilities Branch's recommended summary of earnings to produce an 11.05% return on rate base is shown as the last column in Appendix A.

DOWC was informed of the Branch's differing views of revenues, expenses, rate base and rate of return and has stated that it accepts the Branch's estimates.

A notice of the proposed rate increase was mailed to all customers on July 28, 1987. Eleven letters were received in response to the notice - nine protested the magnitude of the rate increase, one complained of inefficient administrative operations, and one complained of fluctuating water pressures in different locations. Regarding the magnitude of the proposed rate increase and inefficient administrative operations, the Branch carefully scrutinized all elements of DOWC's proposal during its investigation and is satisfied with DOWC's efficiency and believes that the increase being recommended is reasonable. As to the fluctuating pressure complaint, the Branch took pressure readings throughout the system during its field investigation and found them to be in compliance with requirements set forth in the Commission's G.O. 103, "Rules Governing Water Service, Including Minimum Standards for Design and Construction."

The Branch conducted a public meeting in Magalia on August 21, 1987 to receive public input and answer customers' questions. Fifty-four people attended the meeting. The primary sentiment expressed was that the rate increase proposed by DOWC was too high. Additional comments were made about lower water rates in surrounding communities; lack of information regarding the justification for rate increases; water quality; and water conservation. DOWC's and the Branch's representatives discussed the proposed increase and other items of concern expressed by the customers at the public meeting.

The Branch has drafted a letter explaining the Commission's action in this matter and after this resolution is signed it will be mailed to all those who wrote in about DOWC's proposal. The draft letter is attached as Appendix E.

A field investigation of DOWC's system was made on August 12, 1987. Portions of the water system were inspected; water pressures and methods of operation checked; customers and employees interviewed; and company records inspected. The investigation indicated that service is satisfactory and DOWC's system is in compliance with the requirements of G.O. 103. There are no outstanding Commission orders requiring system improvements.

According to the California Department of Health Services, the quality of DOWC's water meets the state standards. All of DOWC's water is from wells. Completion of well No. 8 with a design pumping capacity of 1,000 gallons per minute provides an adequate water supply and sufficient pressure to satisfy fire requirements. DOWC has encouraged water conservation by eliminating flat rates and distributing water conservation kits. All of DOWC's customers are now metered. No further conservation measures are needed at this time.

DOWC's present general metered rates consist of an annual minimum charge of \$118.80 plus a commodity charge of \$0.65 per 100 cubic feet (Ccf) of usage above the minimum allowance (800 Ccf).

Commission rate design policy for water utilities calls for the conversion of minimum charge rates to service charge rates. In addition, Decision 86-05-064 effective May 28, 1986 established a new rate design policy calling for rates which recover up to 50% of fixed expenses through the service charge, phasing out lifeline rates, and reduction of the number of quantity blocks.

To make all the changes that the rate design policy calls for at this time would cause considerable disparity in the increase in customers' monthly bills at various consumption levels. Depending upon usage, some customers would experience increases in their monthly bills well in excess of twice the system average increase.

To spread the increase more evenly among customers, the Branch recommends that DOWC's metered rate schedule be converted from a minimum to a service charge schedule with two quantity blocks, one for usage up to 800 Ccf per month and one for all usage over that amount. The service charge would be set at a level which recovers approximately 75% of DOWC's fixed costs as compared to the more than 100% recovered by its present minimum charge.

DOWC's current metered irrigation service schedule provides a quantity rate considerably below that for its other metered customers. The Branch recommends that this schedule eventually be eliminated and its two users brought into the general metered rate schedule. To combine the schedules now, however, would cause irrigation customers to receive increases of about 85%, which would be excessive compared to the increases for other metered customers. The Branch's recommended irrigation rate schedule would reduce the disparity by half and move in the direction of consolidation by establishing uniform service charge levels but a single irrigation quantity rate of \$0.48 per Ccf compared to the tail block rate of \$0.65 per Ccf for other customers. For the two irrigation customers, this results in an increase of about 40.1% compared to an overall increase of 9.3% for all customers.

The Branch recommends that the Commission authorize an increase in gross annual revenue of \$47,490 or 9.30%.

At the recommended rates shown in Appendix B, the monthly bill for a typical metered customer with a 5/8 x 3/4-inch meter using the system average of 9 Ccf would increase from \$10.55 to \$12.25 or 16.1%. A comparison of the present and recommended rates is shown in Appendix C.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Branch (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Branch's recommendation are reasonable and should be adopted.
4. The installation of a chlorinator and emergency generator will help maintain adequate and reliable water service. DOWC should be authorized to file an advice letter to recover in rates the reasonable costs associated with installation of the chlorinator and the emergency generator.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company to file an advice letter incorporating the summary of earnings and revised rate schedules attached to this resolution as Appendices A and B respectively, and concurrently to cancel its presently effective rate Schedules Nos. 1A and 3M. Such filing shall comply with General Order 96-A. The effective date of the revised schedules shall be the date of filing.
2. Del Oro Water Company is authorized to file an advice letter to recover in rates the reasonable cost of installing a chlorinator and an emergency generator after those facilities have been placed in service.
3. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on April 13, 1988. The following commissioners approved it:

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners


VICTOR R. WEISSER
Executive Director

APPENDIX A

DEL ORO WATER COMPANY

SUMMARY OF EARNINGS
(Test Year 1987)

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenues</u>					
Metered	\$ 502,568	\$ 623,000	\$ 510,889	\$ 623,571	\$ 558,379
Other	0	0	0	0	0
Total Revenues	502,568	623,000	510,889	623,571	558,379
<u>Operating Expenses</u>					
Purchased Power	125,000	125,000	119,521	119,521	119,521
Employee Labor	38,772	38,772	38,772	38,772	38,772
Materials	12,000	12,000	5,838	5,838	5,838
Contract Work	20,000	20,000	20,000	20,000	20,000
Transportation	10,500	10,500	10,500	10,500	10,500
Other Plant Maint.	6,000	6,000	0	0	0
Office Salaries	70,369	70,369	70,369	70,369	70,369
Mgmt. Salaries	30,444	30,444	30,444	30,444	30,444
Empl. Pens. & Benefits	5,000	5,000	11,870	11,870	11,870
Uncollectibles	0	0	766	935	836
Office Svc. & Rentals	41,000	41,000	41,000	41,000	41,000
Office Supp. & Exps.	17,800	17,800	22,344	22,344	22,344
Professional Services	8,200	8,200	1,975	1,975	1,975
Insurance	20,023	20,023	12,102	12,102	12,102
Reg. Comm. Exp.	0	0	1,770	1,770	1,770
General Expense	2,400	2,400	0	0	0
Subtotal	407,508	407,508	387,271	387,440	387,341
Depreciation	51,560	51,560	50,705	50,705	50,705
Property Taxes	14,525	14,525	13,917	13,917	13,917
Payroll Taxes	11,939	11,939	11,996	11,996	11,996
Income Taxes	200	46,889	300	32,200	10,171
Total Deductions	485,732	532,421	464,189	496,258	474,130
Net Revenue	16,836	90,579	46,700	127,313	84,249
<u>Rate Base</u>					
Average Plant	3,234,550	3,234,550	3,200,020	3,200,020	3,200,020
Average Depr. Res.	1,163,870	1,163,870	1,160,050	1,160,050	1,160,050
Net Plant	2,070,680	2,070,680	2,039,970	2,039,970	2,039,970
Less: Advances	359,040	359,040	359,040	359,040	359,040
Contributions	950,630	950,630	950,710	950,710	950,710
Plus: Working Cash	74,480	74,480	25,220	25,220	25,220
Mat'l & Suppl.	6,500	6,500	6,990	6,990	6,990
Rate Base	841,990	841,990	762,430	762,430	762,430
Rate of Return	2.00%	10.76%	6.13%	16.70%	11.05%

APPENDIX B

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Del Oro Water Company

Schedule No. 1A

ANNUAL GENERAL 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, he may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis. (C)

2. The opening bill for metered service, except upon 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 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 the customer. (C)

APPENDIX B
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Del Oro Water Company

Schedule No. 3M

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation service.

TERRITORY

All territory served by Del Oro Water Company, Inc. in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

Quantity Rate:

	<u>Per Meter</u> <u>Per Month</u>	
All water per 100 cu.ft.....	\$0.48	(I)

Annual Service Charge:

	<u>Per Meter</u> <u>Per Year</u>	
For 1-inch meter.....	\$144.00	(R)
For 1-1/2-inch meter.....	192.00	
For 2-inch meter.....	259.20	
For 3-inch meter.....	480.00	
For 4-inch meter.....	652.80	(R)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

SPECIAL CONDITIONS

1. An application for service under this schedule shall be filed by the customer with the utility. Such application shall set forth the conditions of service requested and the proposed use of water.

2. The size of meter for the above service shall not be greater than reasonably necessary to furnish service to the area to be irrigated.

APPENDIX C

Del Oro Water Company

COMPARISON OF RATES

A comparison of present and the Branch's recommended rates is shown below:

METERED SERVICE

	<u>Present Rates</u> (Minimum Charge)	<u>Proposed Rates</u> (Service Charge)
	<u>Per Meter Per Month</u>	
Quantity Rates:		
First 800 cu.ft., or less.....	\$ 9.90	-
Over 800 cu.ft., per 100 cu.ft..	0.65	-
First 800 cu.ft., per 100 cu.ft..	-	\$ 0.45
Over 800 cu.ft., per 100 cu.ft..	-	0.65

Minimum/Service Charge:

	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter.....	\$ 9.90 (800 cu.ft.)	\$ 8.00
For 1-inch meter.....	16.67 (1,900 cu.ft.)	12.00
For 1-1/2-inch meter.....	26.67 (3,400 cu.ft.)	16.00
For 2-inch meter.....	36.67 (4,900 cu.ft.)	21.60
For 3-inch meter.....	45.83 (6,300 cu.ft.)	40.00
For 4-inch meter.....	54.17 (7,600 cu.ft.)	54.40

A comparison of monthly bills at present and the Branch's recommended rates for customers with 5/8 x 3/4-inch meters is shown below:

<u>Usage</u> 100 cu.ft.	<u>Present</u> <u>Bills</u>	<u>Recommended</u> <u>Bills</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 9.90	\$ 8.00	\$(1.90)	(19.2)
5	9.90	10.25	0.35	3.5
8	9.90	11.60	1.70	17.1
9 (Avg.)	10.55	12.25	1.70	16.1
15	14.45	16.15	1.70	11.8
20	17.70	19.40	1.70	9.6
30	24.20	25.90	1.70	7.0
40	30.70	32.40	1.70	5.5
50	37.20	38.90	1.70	4.6

APPENDIX D

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ADOPTED QUANTITIES
(1987 Test Year)

Name of Company: Del Oro Water Company
 Net-to-gross Multiplier: N/A
 Federal Tax Rate: 15.0%
 State Tax Rate: 9.3%
 Local Franchise Tax Rate: 0
 Business License: 0
 Uncollectible Rate: 0.15%

Expenses:

1. Purchased Power - Electric
 Pacific Gas and Electric Company
 Schedule date: July 1, 1987

Schedule:	A-1	A-1P	A-10	
\$/kWh Used - Summer	0.10096	0.10096	0.08403	
kWh Used - Summer	3	71,487	837,712	
Power Cost - Summer	\$ 0	\$ 7,217	\$ 70,393	
\$/kWh Used - Winter	0.08297	0.08297	0.06630	
kWh Used - Winter	12	23,479	393,834	
Power Cost - Winter	\$ 1	\$ 1,948	\$ 26,111	
Total kWh Used	15	94,966	1,231,546	
Subtotal Summer & Winter	\$ 1	\$ 9,165	\$ 96,504	
Surcharge @ \$0.0002/kWh	\$ 0	19	246	
Customer Charge	\$ 60	\$ 225	\$ 1,800	
Demand Charge	0	0	11,501	
Total	\$ 61	\$ 9,409	\$ 110,051	
Total Cost				\$ 119,521

2. Purchased Water

3. Pump Tax - Replenishment Tax

4. Payroll and Employee Benefits:

Operations and Maintenance Payroll	\$ 38,772
Administrative & General Salaries	100,813
Total	139,585

Payroll Taxes	11,996
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5. Ad Valorem Taxes

Tax Rate	1.058%
Assessed Value	\$ 1,315,461

APPENDIX D

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ADOPTED QUANTITIES

Service Connections

<u>Metered Irrigation Service</u>	
4"	2
<u>Annual General Metered Service</u>	
5/8 x 3/4"	3,326
1"	14
1-1/2"	7
2"	4
3"	2
Total	<u>3,353</u>

Metered Water Sales Used to Design Rates (Ccf)

<u>Metered Irrigation Service</u>	30,765
<u>Annual General Metered Service</u>	
0 - 8	119,578
Over 8	252,245
Total	<u>371,823</u>

ADOPTED INCOME TAX CALCULATIONS

Test Year 1987

<u>Item</u>	<u>CCFT</u>	<u>FTT</u>
Operating Revenues	\$558,379	\$558,379
Operating Expenses	387,341	387,341
Property Taxes	13,917	13,917
Payroll Taxes	11,996	11,996
Tax Depreciation	50,705	50,705
Interest Expense	50,015	50,015
State Income Tax	-	4,130
Subtotal Deduction	<u>513,974</u>	<u>518,104</u>
State Taxable Income	44,405	
State Income Tax @ 9.3%	4,130	
Federal Taxable Income		40,275
Federal Income Tax @ 15%		6,041
Total Income Taxes		<u>10,171</u>

APPENDIX E

TO CUSTOMERS WHO HAVE WRITTEN REGARDING DEL ORO WATER COMPANY'S REQUEST FOR A 24.0% RATE INCREASE.

Dear Customer:

On July 28, 1987, Del Oro Water Company notified its customers by mail that it was requesting authority from the Public Utilities Commission to raise its rates for water service by an average of 24.0%. After considering all factors presented, the Commission has authorized an increase in gross annual revenues of \$47,490 or 9.30%. For a 5/8 x 3/4-inch metered rate customer using the system average of 900 cubic feet per month, the increase would be from \$10.55 to \$12.25.

Following Del Oro's request, the Commission staff conducted a thorough investigation of the company's operations including an analysis of the revenue, expense, and plant investment data which the utility relied on for its proposal. The staff made adjustments to Del Oro's estimates and recommended that the Commission authorize an increase. The major reason for the increase is to cover increased operating expenses.

Eleven letters were received from Del Oro's 3,355 customers in response to the notice - nine protested the magnitude of the rate increase, one complained of inefficient administrative operations, and one of fluctuating water pressures. The Commission staff carefully scrutinized all elements of Del Oro's proposal during its investigation and is satisfied with Del Oro's efficiency and believes that the increase granted is reasonable. As to the fluctuating pressure complaint, the staff took pressure readings throughout the system during its field investigation and found pressures to be in compliance with requirements set forth in the Commission's General Order No. 103, Rules Governing Water Service.

In establishing rates, the Commission's role is twofold. Rates must be kept as low as possible and, at the same time, be sufficient to cover operating expenses and provide a fair return on the utility's investment in its water system. You may be assured that the utility's request was thoroughly reviewed and evaluated before this increase was granted.

We appreciate that you took the time to provide your opinions on the proposed rate increase. If you have any questions, please call Jess Sekhon of our staff at (415) 557-2145.

Very truly yours,

JAMES C. McVICAR, Program Manager
Water Utilities Branch