

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
SMALL WATER BRANCH**

**RESOLUTION NO. W-4048*
JUNE 25, 1997**

RESOLUTION

**(RES. W-4048) DEL ORO WATER COMPANY, MAGALIA DISTRICT
(DOWCM). ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING \$3,614 OR 4.48% ADDITIONAL ANNUAL REVENUE.**

BY DRAFT ADVICE LETTER SEPTEMBER 15, 1996.

SUMMARY

This resolution grants an increase in gross annual revenues of \$3,614 or 4.48% for test year 1997. The increase will provide a 20% rate of return (operating ratio) on the expenses for the test year 1997.

BACKGROUND

DOWCM requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$47,175 or 63.5%. The purposes of the Informal General Rate Case are to discontinue a surcharge currently collected for funding a facilities project, recover increased operating expenses, and prevent a negative rate of return. DOWCM's request shows that 1997 gross revenues of \$74,208 at present rates would increase to \$121,383 at proposed rates allowing a rate of return on rate base of 10.8%.

The present rates were established on July 27, 1993, by Decision (D.) 93-06-078, which authorized the Del Oro Water Company to file a tariff schedule for its newly acquired DOWCM. DOWCM's service area is located north of the Town of Paradise, and south of Del Oro's Paradise Pines District in the unincorporated community of Magalia on Skyway Road, approximately 20 miles northeast of Chico in Butte County. DOWCM estimates that it will serve approximately 700 customers through approximately 360 metered connections in the test year 1997.

DISCUSSION

The Small Water Branch (Branch) made an independent analysis of DOWCM's summary of earnings. Appendix A shows DOWCM's and the Branch's estimates of the summary of earnings at present and requested rates. Appendix A also shows differences between DOWCM's and the Branch's estimates in revenues and rate base.

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

By D.93-06-078, Del Oro was authorized to collect 78 cents per 1000 gallons and to borrow funds to construct a "baby intertie" that will enable Del Oro to flow Del Oro's Paradise Pines District (DOWCPP)

well water, when available in non-drought periods, back up a 10-inch intertie pipeline to the baby intertie boosting it into the DOWCM system, thereby meeting the desires of the DOWCM customers for well water rather than surface water wherever possible. In addition, the baby intertie will also help Del Oro at other times to divert water from another Del Oro water system, the Stirling Bluffs Corporation (SBC). The SBC water will be wheeled south via the Paradise Irrigation District (PID) system to DOWCPP and to the DOWCM system.

This intertie system has not yet been constructed. DOWCM, recognizes that recovery of any construction costs exceeding customer contributions will not be allowed until the project is placed in operation. However, because of a new engineering design at a significantly higher cost than approved in D. 93-06-078 DOWCM has requested the Branch look at the new construction costs and authorize recovery of the higher amounts using the Advice Letter process when the proper time arrives.

Del Oro must decide if the project, in the long run, is the most cost effective method to alleviate DOWCM's capacity and pressure problems and also determine if the system's ratepayers can bear the burden of the increased rates. The DOWCM service area is built out at 360 mostly residential connections. Without additional customers to absorb the cost, noting the four-year time lag from the time when the baby intertie was deemed "essential" (and considered today by DIIS as an option), considering the lack of complaints from customers at the public meeting about the baby intertie possibly indicating customer ignorance of the cost impact, and the significant increased costs since the project was initially approved, make a cost-benefit analysis a reasonable and prudent action for the utility to perform. Branch recommends the utility conduct a study of all possible solutions before proceeding with the baby intertie project.

If the utility finds the baby intertie as the most prudent solution to currently existing problems, including the need to reduce dissolved copper, contained in the May 30^a, 1997 letter from the DIIS, Branch recommends the funds authorized under D.93-06-078 of \$218,000 plus engineering, indirect and contingencies be increased to \$298,000 plus engineering, indirect and contingencies. According to the DIIS letter of May 30^a, Del Oro has until June 30^a, 1997 to submit a plan and schedule for a study to address the copper action level exceedances in the Magalia system.

DOWCM's ratebase is very small (in the range of \$18,000). Under guidelines established in Commission Decision (D.) 92-03-093, Commission staff must calculate net revenues by both the traditional ratebase/return method and the operating ratio method, selecting the method that produces the most revenue. Accordingly, the revenue requirement has been determined using the operating ratio method granting a 20% return on the utility's expenses.

Since the intertie project is not included in ratebase, the current surcharge for the proposed baby intertie project (\$0.78 per 1,000 gallons of water delivered) will continue. However, Branch's preliminary investigation into the surcharge collection and distribution of funds revealed that the surcharge money was placed in a risk-bearing account with a financial institution, and there were other accounting irregularities.

Branch recommends the Audit and Finance Branch (AFB) of the Commission's Water Division be instructed to conduct an audit in order to determine the amount of money that should have been available for the baby intertie project had the funds not been in a risk bearing account (incurring not only losses due to risk but also fees paid to the financial institution). The audit should determine if any of these funds were spent on items not related to the baby intertie project. Any deficiency found by AFB should be reimbursed by DOWCM.

According to a DIIS letter dated June 2, 1997: *If the State Revolving fund (SRF) is approved by the voters in June 1998 and if refinancing of existing projects is allowed, this office will place the Magalia water system on the SRF priority list as a water system with both inadequate source capacity and substandard water pressure. If funding is made available to Del Oro Water Company to refinance this project at a lower interest rate, this may help reduce future water rates in Magalia.*

COMPLIANCE

The pressures to approximately 30 connections are below General Order (G.O.) 103 levels. DOWCM is violating Section II.3.a. of G.O. 103 which states that the utility shall maintain normal operating pressures of not less than 40 p.s.i.g, and not less than 30 p.s.i.g at times of peak seasonal loads. Certain residents at the higher elevations receive only 18 to 20 psi. DOWCM should be ordered to perform a study to determine how to best solve this problem, and discuss the solution with Water Division.

Magalia must use the Uniform System of Accounts to accurately book the company's employee labor, contract work, transportation expense, office salaries, management salaries, employee pensions and benefits, office supplies and expenses, insurance, and office services and rentals. Currently, DOWCM is using a flat rate of \$24,000 per year for all these accounts recorded as a monthly "administrative fee" booked under the office service and rentals account. Such accounting procedures do not comply with the Uniform System of Accounts per D. 85-04-076.

RATES

At the Branch's recommended rates shown in Appendix B, the bill for a 5/8 x 3/4-inch metered residential customer using the system average of 9 Ccf would increase from \$19.60 to \$20.50 per month, a 4.61% increase. A comparison of customer bills at present and recommended rates is shown in Appendix B. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

The utility published a legal notice in the November 2 and 7, 1996 editions of the Paradise Post in Paradise, informing its customers of the proposed rate increase and of the public meeting to be held by the Commission. Branch staff members, Richard Tom and Kerrie Evans, conducted a field investigation of DOWCM's system and service area on December 3rd and 4th. Bill Gustavson directed a tour of the service area and explained the operation of the water system. Robert Fortino and Arlene Darby made the company's records available for inspection and provided other clerical assistance.

The Branch received no letters of complaint regarding the proposed rate increase. Over the past three years, the Consumer Services Division (CSD) received seven complaints or inquiries regarding the DOWCM system. According to the DHS inspection report of January, 1996 there were four complaints recorded with the company. Two of the complaints were in regard to low pressure, one for turbidity and one for taste and odor.

According to the DHS, DOWCM is a well operated system that employs conscientious and qualified professionals who ensure proper operation of the water system which meets drinking water quality standards.

Findings and Conclusions

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 recommendations are reasonable and should be adopted.
4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. An audit of the Magalia District Surcharge Account by the Audit and Finance Branch of the Water Division and appropriate actions as a result of the audit should be ordered by the Commission.
6. Del Oro should either begin construction of the intertie project and/or some other plan to alleviate the problems of supply, water pressure, and copper levels within 30 days of this resolution.

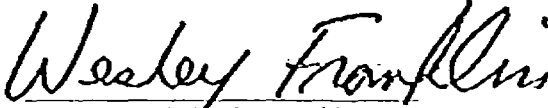
June 25, 1997

7. Should Magalia build the baby intertie project, the utility should monitor the status of the State Revolving Fund and pursue the associated funds to refinance the baby intertie project if such financing becomes available to the Del Oro Water Company.
8. Within 180 days of this order, Magalia should present a study showing the best solution to its low pressure problems and discuss those requirements with Water Division staff.
9. Beginning with the 1997 Annual Report, Magalia should comply with the Uniform System of Accounts per D. 85-04-076.

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 schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. MD-1A. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be the date of filing.
2. Del Oro Water Company, Magalia District, shall assist in the audit of the Magalia District Surcharge Account by the Audit and Finance Branch of the Water Division and comply with Commission orders as a result of the audit.
3. Del Oro Water Company, Magalia District, shall either begin construction of the intertie project and/or some other plan to alleviate the problems of supply, water pressure, and copper levels within 30 days of this resolution.
4. Del Oro Water Company, Magalia District, shall make a good faith effort to solve its low pressure problems.
5. Del Oro Water Company, Magalia District, shall comply with the Uniform System of Accounts per D. 85-04-076.
6. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on June 25, 1997. The following commissioners approved it:


Wesley M. Franklin
Executive Director

P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEPER

RICHARD A. BILAS

Commissioners

Appendix A Summary of Earnings Worksheet
Del Oro Water Company, Magalla District
Test Year 1997

| Item | Utility Estimated | | Branch Estimated | | Adopted Rates |
|---------------------------|-------------------|-----------------|------------------|-----------------|---------------|
| | Present Rates | Requested Rates | Present Rates | Requested Rates | |
| Operating Revenues | | | | | |
| Metered | 72,813 | 81,438 | 77,085 | 86,334 | 80,699 |
| Other | | | | | |
| Total Revenues | 72,813 | 81,438 | 77,085 | 86,334 | 80,699 |
| Operating Expenses | | | | | |
| Purchased Water | 18,800 | 18,800 | 18,800 | 18,800 | 18,800 |
| Purchased Power | 6,029 | 6,029 | 6,029 | 6,029 | 6,029 |
| Employee Labor | 7,775 | 7,775 | 7,775 | 7,775 | 7,775 |
| Materials | 10 | 10 | 10 | 10 | 10 |
| Contract Work | 681 | 681 | 681 | 681 | 681 |
| Transportation | 2,572 | 2,572 | 2,250 | 2,250 | 2,250 |
| Other Plant Maintenance | 1,312 | 1,312 | 1,312 | 1,312 | 1,312 |
| Office Salaries | 8,396 | 8,396 | 8,396 | 8,396 | 8,396 |
| Management Salaries | 4,479 | 4,479 | 4,479 | 4,479 | 4,479 |
| Employee Pens. & Benefits | 1,174 | 1,174 | 1,174 | 1,174 | 1,174 |
| Uncollectibles | 26 | 26 | 26 | 26 | 26 |
| Office Services & Rentals | 4,576 | 4,576 | 4,576 | 4,576 | 4,576 |
| Office Supply & Expenses | 2,485 | 2,485 | 2,485 | 2,485 | 2,485 |
| Professional Services | 700 | 700 | 700 | 700 | 700 |
| Insurance | 1,755 | 1,755 | 1,755 | 1,755 | 1,755 |
| Reg. Comm. Exp. | 0 | 0 | 300 | 300 | 300 |
| General Expense | 1,074 | 1,074 | 550 | 550 | 550 |
| Subtotal | 61,844 | 61,844 | 61,298 | 61,298 | 61,298 |
| Depreciation | 2,485 | 2,485 | 2,485 | 2,485 | 2,485 |
| Property Taxes | 92 | 92 | 92 | 92 | 92 |
| Income Taxes | 3,163 | 3,163 | 2,974 | 5,056 | 3,788 |
| Total Deductions | 67,584 | 67,584 | 66,849 | 68,931 | 67,663 |
| Net Revenue | 5,229 | 13,854 | 10,236 | 17,403 | 13,036 |

Appendix B

Rates

**Del Oro Water Company, Magalia District
Test Year 1997**

Schedule No. MD-1A

ANNUAL METERED SERVICE

MAGALIA DISTRICT

APPLICABILITY

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

TERRITORY

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

RATES

| Quantity Rates | Per Meter Per Month | |
|--------------------------------------|---------------------|-----|
| For all water, per 1000 gallons..... | \$1.27 | (I) |
| | | |
| Service Charge | Per Meter Per Year | |
| For 1/2-inch meter..... | \$143.40 | (I) |
| For all other sizes..... | 247.20 | (I) |
| Additional Units ¹ | 106.80 | (N) |

¹ Additional Units are in accordance with Special Condition Four. (N)

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 computed at the Quantity Rates

Intertie Surcharge

For all water, per 1000 gallons.....\$0.78

This surcharge will terminate when Del Oro funds and begin construction of the Rolls Intertie Project in accordance with Paragraph 5 of the Order, effective June 23, 1993 - reference Decision 93-06-078.

Appendix C

Comparison of Rates

**Del Oro Water Company, Magalia District
Test Year 1997**

| | | Per Service Connection Per Year | | |
|---|---------------|---------------------------------|-------------------|------------------|
| | | Present Rates | Recommended Rates | % Increase |
| Metered Rate Service | | | | |
| Service Charge: | | | | |
| 5/8 x 1/4-inch meter | | 137.40 | 143.40 | 4.37 |
| all other meters | | 237.00 | 247.20 | 4.30 |
| Additional Units | | 102.00 | 106.80 | 4.71 |
| Quantity Charge | | | | |
| All water, per 100 cu. ft. | | 1.21 | 1.27 | 4.96 |
| A monthly comparison bill for a customer with a 5/8 x 1/4 -inch meter is shown below: | | | | |
| Monthly Usage in 100 cu. ft. | Present Bills | Recommended Bills | Amount Increase | Percent Increase |
| | \$ | \$ | \$ | % |
| 0 | 11.45 | 11.95 | 0.50 | 4.37 |
| 3 | 14.17 | 14.80 | 0.63 | 4.48 |
| 5 | 15.98 | 16.70 | 0.72 | 4.53 |
| (average) 9 | 19.60 | 20.50 | 0.90 | 4.61 |
| 15 | 25.03 | 26.20 | 1.17 | 4.69 |
| 20 | 29.55 | 30.95 | 1.40 | 4.73 |
| 30 | 38.60 | 40.45 | 1.85 | 4.78 |
| 50 | 56.71 | 59.45 | 2.74 | 4.84 |
| 100 | 101.96 | 106.95 | 4.99 | 4.66 |

Appendix D-1

Quantities

**Del Oro Water Company, Magalia District
 Test Year 1997**

Offset Items

| | |
|-----------------------|--------|
| Purchased water | 18,800 |
| Purchased power | 6,029 |

Purchased Power

| | |
|--|------------------|
| Pacific Gas & Electric | |
| <i>Rate Schedule</i> | <i>A-1-Small</i> |
| Effective Date | 1/1/96 |
| Customer Charge (per meter per month): | |
| Single Phase Service | \$8.10 |
| Polyphase Service | \$12.00 |
| Summer Energy Charge (\$kWh) | 0.14870 |
| Winter Energy Charge (\$kWh) | 0.10193 |

| | |
|--|------------------|
| <i>Rate Schedule</i> | <i>A-6-Small</i> |
| Customer Charge (per meter per month): | |
| Single Phase Service | \$8.10 |
| Polyphase Service | \$12.00 |
| Meter Charge (per meter per month) | \$6.80 |
| Summer Peak Charge (\$kWh) | 0.23258 |
| Summer Partial Peak Charge (\$kWh) | 0.10288 |
| Summer Off-Peak Charge (\$kWh) | 0.05618 |
| Winter Partial Peak Charge (\$kWh) | 0.11562 |
| Winter Off-Peak Charge (\$kWh) | 0.07169 |

| | |
|--|--------------------|
| <i>Rate Schedule</i> | <i>A-10-Medium</i> |
| Effective Date | 1/1/96 |
| Customer Charge (per meter per month): | \$75.00 |
| Demand Charge (per kW of max. demand) | |
| Summer | \$6.70 |
| Winter | \$1.65 |
| Summer Energy Charge (\$kWh) | 0.05915 |
| Winter Energy Charge (\$kWh) | 0.07279 |

| | |
|---------------------------------------|-----------|
| Average Rate Limiter | |
| Summer (\$kWh) | 0.14043 |
| Peak-Period Rate Limiter | |
| Summer (\$kWh) | 0.97773 |
| Customer Charge (Per meter per month) | |
| Demand less than 500 kW | \$81.00 |
| Demand greater than 499 kW | \$175.00 |
| Total Cost | 200,542 |
| Total kWh | 1,697,650 |
| Average Unit Cost (\$kWh) | 0.11813 |

| | |
|----------------------|------|
| Property Taxes | \$92 |
|----------------------|------|

Appendix D-2

Quantities

**Del Oro Water Company, Magalia District
Test Year 1997**

Service Connections

Metered Rate:

| | |
|----------------------|-----|
| 5/8 x 3/4-inch | 257 |
| 1-inch..... | 1 |
| 2-inch..... | 2 |
| Total metered..... | 260 |

Additional Units.....106

Metered water sales used to design rates.....33,422.5 Ccf

Appendix D-3

Quantities

Tax Calculations

Del Oro Water Company, Magalia District
Test Year 1997

Taxes

| | |
|----------------------------|-------|
| Federal Tax Rate | 15% |
| State Tax Rate | 8.84% |
| Local Franchise Rate | 0% |

| Line | Item | State Tax \$\$ | Federal Tax \$\$ |
|------|------------------------------|-------------------|---------------------|
| 1. | Operating Revenues | 80,699 | |
| 2. | Expenses | 61,298 | |
| 3. | Taxes other than Income | 92 | |
| 4. | Depreciation Expense | 2,485 | |
| 5. | Interest | 0 | |
| 6. | Taxable Income for State Tax | 16,824 | |
| 7. | State Tax (at 8.84%) | 1,487 | |
| 8. | Taxable Income for FIT | | 15,337 |
| 9. | Federal Income Tax (at 15%) | | 2,301 |
| 10. | Total Income Taxes | | 3,788 |