

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
SMALL WATER BRANCH**

**RESOLUTION NO. W-4049*
JUNE 25, 1997**

RESOLUTION

**(RES. W-4049) DEL ORO WATER COMPANY, PARADISE PINES (DOWCPP).
ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING \$74,283
OR 7.18% ADDITIONAL ANNUAL REVENUE.**

BY DRAFT ADVICE LETTER FILED ON AUGUST 27, 1996

SUMMARY

This resolution grants an increase in gross annual revenues of \$74,283 or 7.18% for test year 1997. The increase will provide a 10.9% rate of return on the rate base in the test year.

BACKGROUND

DOWCPP requests 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 in its Paradise Pines District \$84,203 or 8.1% in 1997. DOWCPP's estimated that test year 1997 gross revenues of \$1,034,367 at present rates would increase to approximately \$1,118,570 at proposed rates, allowing a rate of return on rate base of 10.9%. DOWCPP serves approximately 4,434 metered rate connections serving approximately 10,970 customers or 2.5 customers per connection. The DOWCPP service area is in and around the community of Paradise Pines in Butte County.

The current rates were established on December 21, 1994, pursuant to Resolution No. W-3901 which authorized an increase in revenue of \$166,905 or a general rate increase of 19.7%.

DISCUSSION

The Branch made an independent analysis of DOWCPP's summary of earnings. Appendix A presents DOWCPP's and the Branch's estimated summary of earnings at present, requested and adopted rates for the test year. Appendix A also shows differences in revenues, expenses and rate base. DOWCPP was informed of the Branch's differing views of revenues, expenses and ratebase and has stated it accepts the Branch's estimates.

PURCHASED WATER

The average water loss is 26% for 1995 and 1996. This rate is well above what it should be.

The utility agreed to aggressively repair the leaks and return the water loss rate to the 12-14% loss range. Branch determined that with only a 12% loss rate purchased water should be significantly reduced. The utility stated the purchased water estimate could be lowered to 289 acre feet and Branch agreed; however, significant loss in pumped water, drought, or unanticipated water uses could make purchased water a need in the future even with a water loss rate in the 12-14% range.

Because purchased water costs should fall once the system is repaired, Branch recommends that the purchased water account be recovered as a surcharge in the rates. The quantity rate surcharge for purchased water expenses would

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be in the tariffs for as long as it takes to repair the system, up to a maximum of one year. This gives Del Oro up to one year to return the water loss rate to a reasonable percent. Branch also recommends Del Oro record the expenses associated with correcting the water loss rate problem to a separate memorandum account for potential recovery at a later date.

No recovery of any funds for system repairs will occur until a section of main under Masterson Way is replaced. Ordering Paragraph 3 of D.91-08-012 (a decision for the Paradise Pines District) states: *Del Oro Water Company is authorized to file an advice letter rate increase request to recover all reasonable costs associated with the addition of a generator and pump house, replacement of a large section of main under Masterson Way and the purchase of additional water supply after these items are placed in service.* DOWCPP has not replaced the main as ordered by the Commission.

Branch has determined with a 14% water loss rate a purchased water quantity of 34.5 Ac.Ft. would be sufficient. Rate design includes a purchased water allowance for 34.5 Ac.Ft. or \$16,215 at \$470 per Ac.Ft. in the base rate for the quantity charge. The purchased water surcharge is for the remaining 254.5 Ac.Ft. requested by the utility.

CONTRACT WORK

The utility requested a scheduled tank cleaning be recovered in rate base. Branch and Del Oro agreed to amortize the entire amount of the tank cleaning over seven years and not allow this expense to be included in ratebase. Since the tank cleaning includes more than contract work, the amortized expense for the tank cleaning was recorded in the Other Plant Maintenance account to easily delineate the amount for future GRC applications.

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 on December 3, 1996, in the utility's service area.

The Branch's representative explained Commission rate setting procedures and DOWCPP's representative explained the need for the rate increase. The bulk of the increase is for the purchase and installation of three stand-by generators previously authorized by the Commission, cleaning and refurbishing of the inside of the storage tank as mandated by the Department of Health Services and the cost of purchased water from the Paradise Irrigation District.

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 DOWCPP system. The CSD complaints dealt mainly with the amount of bills. According to the company's water quality complaint records for 1996, 17 customer complaints were received. Eleven of these complaints focused on the quality of the water (e.g., cloudy water) and the remaining six involved the delivery of the water pressure (mostly low). All 17 were promptly corrected.

The Branch recommends the Commission authorize an increase of \$74,283 or a system wide increase of 7.1%. This would increase estimated annual revenue from \$1,034,367 at present rates to \$1,108,650 at adopted rates. A residential 5/8-inch metered rate customer using an average of nine Ccf would realize an increase on a monthly bill from \$19.00 to \$20.35 or 7.18%. This increase will produce a 10.90% return on rate base.

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.

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4. The rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Any offset rate increase request should be analyzed using an 10.90% return on investment.
6. The utility should comply with Ordering Paragraph 3 of Decision 91-08-012 within 12 months of the effective date of this resolution.
7. The purchased water quantity surcharge should be eliminated by June 1998 unless the utility can show cause to continue the surcharge at the same or some other rate.
8. Del Oro should record the expenses associated with correcting the water loss rate problem into a separate memorandum account for potential recovery at a later date.
9. The utility should report to the Small Water Branch the percentage of unaccounted for water by letter on the first of each month until Branch cancels the report.

IT IS ORDERED that:

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company Paradise Pines 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 PP-1A. Its filing shall comply with General Order 96-A. The effective date of the new schedules shall be the date of filing.
2. The Del Oro Water Company Paradise Pines District will request any offset rate increase be analyzed using an 10.90% return on investment.
3. The Del Oro Water Company Paradise Pines District will comply with Ordering Paragraph 3 of Decision 91-08-012 within 12 months of the effective date of this resolution.
4. The Del Oro Water Company Paradise Pines District may record the expenses associated with correcting the water loss rate problem into a separate memorandum account for potential recovery at a later date.
5. The Del Oro Water Company Paradise Pines District's purchased water quantity surcharge rate will be eliminated by June 1998 unless the utility can show cause to continue the surcharge at the same or some other rate.
6. The utility shall report the percentage of unaccounted for water to the Small Water Branch monthly.
7. 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. NEEPER
RICHARD A. BILAS
Commissioners

Appendix A

Summary of Earnings

Del Oro Water Company, Paradise Pines District
Test Year 1997

| Item | Utility Estimated | | Branch Estimated | | Adopted Rates |
|---------------------------|-------------------|------------------|------------------|------------------|------------------|
| | Present Rates | Requested Rates | Present Rates | Requested Rates | |
| Operating Revenues | | | | | |
| Metered | 1,034,367 | 1,118,570 | 1,034,367 | 1,073,939 | 1,108,650 |
| Other | | | | | |
| Total Revenues | 1,034,367 | 1,118,570 | 1,034,367 | 1,073,939 | 1,108,650 |
| Operating Expenses | | | | | |
| Purchased Water | 141,000 | 141,000 | 34,409 | 34,409 | 135,730 |
| Purchased Power | 189,663 | 189,663 | 198,042 | 198,042 | 189,663 |
| Employee Labor | 96,089 | 96,089 | 96,089 | 96,089 | 96,089 |
| Materials | 15,738 | 15,738 | 17,655 | 17,655 | 15,738 |
| Contract Work | 19,973 | 19,973 | 19,199 | 19,199 | 18,385 |
| Transportation | 31,787 | 31,787 | 26,920 | 26,920 | 29,353 |
| Other Plant Maint. | 1,404 | 1,404 | 2,272 | 2,272 | 13,905 |
| Office Salaries | 103,767 | 103,767 | 103,767 | 103,767 | 103,767 |
| Mgmt. Salaries | 55,352 | 55,352 | 55,352 | 55,352 | 55,352 |
| Empl. Pens. & Benefits | 14,516 | 14,516 | 14,516 | 14,516 | 14,516 |
| Uncollectibles | 1,999 | 1,999 | 2,085 | 2,085 | 2,085 |
| Office Svc. & Rentals | 56,556 | 56,556 | 45,654 | 45,654 | 51,000 |
| Office Supp. & Exps. | 40,357 | 40,357 | 40,580 | 40,580 | 40,580 |
| Professional Services | 10,000 | 10,000 | 7,365 | 7,365 | 7,365 |
| Insurance | 22,090 | 22,090 | 22,090 | 22,090 | 22,090 |
| Reg. Comm. Exp. | 5,000 | 5,000 | 5,411 | 5,411 | 5,411 |
| General Expense | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Subtotal | 806,791 | 806,791 | 692,906 | 692,906 | 802,529 |
| Depreciation | 139,234 | 139,234 | 162,296 | 162,296 | 131,091 |
| Payroll taxes | 20,745 | 20,745 | 20,745 | 20,745 | 20,745 |
| Property taxes | 16,064 | 16,064 | 16,719 | 16,719 | 16,719 |
| Income Taxes | 800 | 9,996 | 800 | 20,078 | 14,908 |
| Total Deductions | 983,634 | 992,830 | 893,466 | 912,744 | 985,992 |
| Net Revenue | 50,733 | 125,740 | 140,901 | 161,195 | 122,658 |
| Rate Base | | | | | |
| Average Plant | 4,376,734 | 4,376,734 | 4,349,338 | 4,349,338 | 4,349,338 |
| Average Depr. Res. | -2,588,813 | -2,588,813 | -2,575,666 | -2,575,666 | -2,575,666 |
| Net Plant | 1,787,921 | 1,787,921 | 1,773,672 | 1,773,672 | 1,773,672 |
| Less: Advances | -195,964 | -195,964 | -195,964 | -195,964 | -195,964 |
| Contributions | -554,696 | -554,696 | -564,095 | -564,095 | -564,095 |
| Deferred income taxes | | | -3,830 | -3,830 | -3,830 |
| Plus: Working Cash | 67,233 | 67,233 | 57,742 | 57,742 | 66,877 |
| Mat'l & Suppl. | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| CWIP | 43,088 | 43,088 | 43,088 | 43,088 | 43,088 |
| Rate Base | 1,153,582 | 1,153,582 | 1,116,613 | 1,116,613 | 1,125,748 |
| Rate of Return | 4.40% | 10.90% | 12.62% | 14.44% | 10.90% |

Appendix B**Rates**

**Del Oro Water Company, Paradise Pines District
Test Year 1997**
Schedule No. PP-1A
**ANNUAL GENERAL METERED SERVICE
PARADISE PINES DISTRICT**
APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District service area.

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 Charge: | All Water, per 100 cu. ft. | |
|--------------------------|----------------------------|-----|
| Base Rate | \$0.895 | (D) |
| Quantity Surcharge Rate* | <u>\$0.244</u> | (N) |
| Total, per 100 cu. ft. | \$1.139 | (I) |

*The quantity surcharge rate is to be collected for 12 months beginning July 1997 through June 1998 only and shown as a separate item on all bills.

| Annual Service Charge: | Per Meter Per Year | |
|--------------------------------|-----------------------|-----|
| For 5/8 x 3/4-inch meter | \$121.20 | (I) |
| For 3/4-inch meter | 182.40 | |
| For 1-inch meter | 306.00 | |
| For 1.5-inch meter | 427.80 | |
| For 2-inch meter | 587.40 | |
| For 3-inch meter | 1,011.00 | |
| For 4-inch meter | 1,337.40 | (I) |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

Appendix C

Comparison of Rates

**Del Oro Water Company, Paradise Pines District
Test Year 1997**

| | Per Service Connection Per Year | | | |
|---|---------------------------------|-------------------|-----------------|------------|
| | Present Rates | Recommended Rates | % Increase | |
| Metered Rate Service | | | | |
| Service Charge: | | | | |
| 5/8 x 3/4-inch meter | 113.40 | 121.20 | 6.9 | |
| 1/4 - inch | 170.40 | 182.40 | 7.0 | |
| 1-inch meter | 283.80 | 306.00 | 7.8 | |
| 1 1/4 - inch | 397.20 | 427.80 | 7.7 | |
| 2-inch meter | 510.60 | 557.40 | 15.04 | |
| 3-inch meter | 879.00 | 1,011.00 | 15.02 | |
| 4-inch meter | 1,162.20 | 1,337.40 | 15.07 | |
| Quantity Charge | | | | |
| Total charge All water, per 100 cu.ft. | 1.061 | 1.139 | 7.2 | |
| Quantity Charge structure: | Base Rate | 0.895 | | |
| | Surcharge purchased water | 0.244 | | |
| | Total charge | 1.139 | | |
| A monthly comparison bill for a customer with a 5/8 x 3/4 -inch meter is shown below: | | | | |
| Monthly Usage in 100 cu. ft. | Present Bills | Recommended Bills | Amount Increase | % Increase |
| | \$ | \$ | \$ | % |
| 0 | 9.45 | 10.10 | 0.65 | 6.9 |
| 3 | 12.63 | 13.52 | 0.89 | 7.0 |
| 5 | 14.75 | 15.80 | 1.05 | 7.1 |
| (average) 9 | 19.00 | 20.35 | 1.35 | 7.1 |
| 15 | 25.37 | 27.19 | 1.82 | 7.1 |
| 20 | 30.67 | 32.88 | 2.21 | 7.1 |
| 30 | 41.28 | 44.27 | 2.99 | 7.2 |
| 50 | 62.50 | 67.05 | 4.55 | 7.2 |
| 100 | 115.55 | 124.00 | 8.45 | 6.8 |

Appendix D-1

Adopted Quantities

**Del Oro Water Company, Paradise Pines District
Test Year 1997**

Offset Items

| | |
|--|--------------------|
| Purchased water | \$135,730 |
| Purchased power | \$189,663 |
| Purchased Power | |
| Pacific Gas & Electric | |
| Rate Schedule | <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 |
| Rate Schedule | |
| Customer Charge (per meter per month): | <i>A-6-Small</i> |
| 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 |
| Rate Schedule | |
| Effective Date | <i>A-10-Medium</i> |
| 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) | 0.08915 |
| Winter Energy Charge (\$kWh) | 0.07279 |
| Average Rate Limiter | |
| Summer (\$kWh) | 0.14013 |
| 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 | 1,697,680 |
| Average Unit Cost (\$kWh) | 0.11813 |

Property Taxes.....16,719

Appendix D-2

Adopted Quantities

**Del Oro Water Company, Paradise Pines District
Test Year 1997**

Service Connections

Metered Rate:

| | |
|----------------------|-------|
| 5/8 x 3/4-inch | 4102 |
| 1-inch | 21 |
| 1 1/2 inch | 9 |
| 2-inch | 2 |
| 3-inch | 3 |
| 4-inch | 2 |
| Total metered | 4,439 |

Metered water sales used to design rates 490,000 Ccf

Appendix D-3

Adopted Quantities

**Del Oro Water Company, Paradise Pines District
Test Year 1997**

Tax Calculations

Federal Tax Rate.....15%
 State Tax Rate.....8.84%
 Local Franchise Rate.....0%

| Line | Item | State Tax \$\$ | Federal Tax \$\$ |
|------|------------------------------|-------------------|---------------------|
| 1. | Operating Revenues | 1,108,650 | 1,108,650 |
| 2. | Expenses | 802,529 | 802,529 |
| 3. | Taxes other than Income | 37,464 | 37,464 |
| 4. | Depreciation Expense | 131,091 | 131,091 |
| 5. | Interest | 92,095 | 92,095 |
| 6. | Taxable Income for State Tax | 66,216 | |
| 7. | State Tax (at 8.84%) | 5,853 | |
| 8. | Taxable Income for FIT | | 60,363 |
| 9. | Federal Income Tax (at 15%) | | 9,054 |
| 10. | Total Income Taxes | | 14,908 |