



DEL ORO WATER COMPANY

Firmly committed to producing and delivering a safe, dependable supply of quality water in a cost effective manner with service that exceeds the expectations of our customers.

Strawberry District **Fourth of July PICNIC** 2009

We are very pleased to have been invited to the Strawberry Fourth of July Picnic once again. Today, we would like to take this opportunity to

- 1) Provide an update of Phase I Capital Improvement Projects, including completed projects, projects in progress, and their costs,
- 2) Present Phase II Capital Improvement Projects,
- 3) Briefly explain several current surcharges, and
- 4) Review the current level of Herring Creek.

Figure I depicts the wall of the **Herring Creek Intake Basin**, the location at which water enters Del Oro's system and where the level of the creek is measured.



Figure 1: Herring Creek Intake

Capital Improvement Projects in the District

In Resolution W-4744, effective February 20, 2009, the Public Utilities Commission made specific stipulations for Del Oro Water Company to complete. The following report is an overview of those actions and Del Oro's progress on them.

- 1) Del Oro Water Company is to complete mapping its distribution system and inform the Division of Water and Audits no later than June 30, 2009.

COMPLETED

The first draft of the distribution map was completed on July 18, 2007, with a revision made August 4, 2008. As with any utility that maintains a mapping system; a base map is created and updated annually, as information is provided.

ONGOING

The map is continuously updated, with another revision to be completed in the fall. A copy of the map in its current state of completion is here on display today for viewing by interested homeowners.

- 2) Del Oro Water Company is to make an assessment of the condition of its water tanks for possible repairs and replacement and report the results to the Division of Water and Audits no later than June 30, 2009.

COMPLETED

Del Oro has completed the assessment of the four water storage tanks in the Strawberry District: a 420,000 gallon steel tank at the treatment plant, the 126,000 gallon Lower Dymond steel tank, the 126,000 gallon Upper Dymond steel tank, and a 25,000 gallon redwood tank on Georges Drive. While all but the main storage tank at the treatment plant need some level of attention, the Lower Dymond tank is clearly in the worst condition.

ONGOING

The necessary materials have been ordered and Del Oro crews will begin installing underground piping later this summer that will permit water to be pumped directly to the Upper Dymond tank. Successful completion of the Lower Dymond tank bypass will permit its removal.



Figure 2: Lower Dymond storage tank

- 3) Del Oro Water Company is to develop a contingency plan to prevent water outage to its customers in the eventuality of failure of the tanks and submit a report to the Division of Water and Audits no later than June 30, 2009.

COMPLETED

Del Oro has obtained the necessary stand-by equipment, as well as permission from the Tuolumne Utilities District, to draw water from the South Fork of the Stanislaus River in a water emergency. Essentially, this will become the (temporary) secondary source of water in the event that Herring Creek ceases to provide an adequate flow or in the event of a tank failure.



ONGOING

Customers are reminded that the tremendous effort put forth by all agencies must be repeated on an annual basis, as the agreement offers only a temporary solution, rather than a permanent one. In 2007, the cost of preparing for a potential water emergency was \$13,478.63. In 2008, the cost was \$11,820.

Figure 3: Emergency pumping equipment

- 4) Del Oro Water Company is to investigate the option of obtaining funding for tank repairs and replacements through the recently enacted Federal Economic Stimulus Plan and report its progress to the Division of Water and Audits by June 30, 2009.

COMPLETED

An investigation into funding options for tank repairs and replacement revealed that three options were available.

Option #1; Funding obtained from the **Federal Economic Stimulus Plan**. This type of funding carries a low interest rate, but a myriad of specific requirements make the project substantially more expensive overall; perhaps as much as 25% more. Prevailing wage, labor compliance supervisors, completion of an extensive environmental impact report, and various soil reports and site surveys add unnecessary cost to the project that will ultimately be funded by ratepayers.

Option #2: Application for a **State Revolving Fund (SRF) Loan**. This type of funding carries a relatively low interest rate; currently around 2.5%, but it will likely increase in the near future. In addition, a State Revolving Fund Loan is dependent on the State of California having sufficient funds in the budget to make such a loan. Even if that were a possibility, this type of loan usually takes between three (3) and five (5) years to secure. Repairs are needed much sooner than that.

Option #3: Funding obtained from **Del Oro Water Company**. This is clearly a more cost-effective approach. While interest is higher with this option (a 10.8% rate of return), the project is subject to fewer regulatory processes, which will make the project much less expensive, thus saving ratepayers dollars over the alternatives.

- 5) Del Oro Water Company is to complete the conversion of all flat rate customers to metered service no later than October 31, 2009.



ONGOING

Del Oro crews are installing meters ahead of schedule, despite challenges to the project, including a short work season. We are pleased to report that, as of June 30, a total of 46 customers have been converted from flat rate to metered service. With materials being delivered as needed, the goal is to complete all meter installations before winter sets in.

To accomplish this goal, Del Oro is currently accepting bids from outside contractors to supplement our efforts.

Figure 4: Badger meter, Model 25

- 6) Del Oro Water Company should file an Advice Letter to request the establishment of a balancing account to track the difference between actual and adopted gasoline prices for each District.

COMPLETED

Effective March 19, 2009, Advice Letter No. 213 established an account to track increased fuel costs not yet included in the charges appearing on your monthly bill.

- 7) Del Oro Water Company should file an Advice Letter to request the establishment of a balancing account to track the difference between actual and adopted purchased power costs.

COMPLETED

Resolution W-4467 established an account to track the increased cost (if any) of purchased power not yet included in the charges appearing on your monthly bill.

- 8) Del Oro Water Company should reduce purchased power costs by using electrical equipment during off-peak hours, use timers to switch pumps and consider the use of time of day metering.



ONGOING

The water treatment plant in the Strawberry District currently utilizes basic equipment and instrumentation for daily operation, requiring substantial operator observation and interaction.

To reduce staffing and operational expenses, Del Oro intends to acquire and install a Supervisory Control and Data Acquisition (SCADA) system. This will effectively accomplish two goals: 1) facilitate operation of the treatment plant with less operator interaction, and 2) facilitate the use of time-of-day meters, which will allow us to take advantage of off-peak power usage.

The cost of this project is estimated at \$50,000 (see Table 5 on page 8), but has not yet been scheduled.

Figure 5: Standby generator at the treatment plant

- 9) Del Oro Water Company should submit a metered water usage report to the Division of Water and Audits no later than January 31, 2011.

ONGOING

Del Oro Water Company will submit a water usage report to the Commission when all flat rate customers have been converted to metered service.

- 10) Del Oro Water Company should file a report with the Division of Water and Audits on the number of customers in the Strawberry District who are eligible for life line rates and the impact of those rates no later than Jan. 31, 2010.

COMPLETED

Del Oro Water Company conducted an informal survey of customers of all Strawberry customers in February 2009 to determine if there was a sufficient numbers of residents who already qualify, or who might qualify, for the Low Income Ratepayers Assistance (*LIRA*) Program. Only six (6) customers will automatically qualify for the Low Income Ratepayers Assistance (*LIRA*) Program for the District, while an additional fourteen (14) might possibly be eligible for the program.

Customers were mailed a one-page survey on February 18, 2009 and asked to return their responses to Del Oro no later than April 1, 2009. Of the 378 customers to whom the survey was mailed, 136 (36%) surveys were completed and returned. Results of the survey were forwarded to the Commission in June 2009. As of this date, no changes to the rate design have been proposed.

- 11) Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company Strawberry District to file an Advice Letter incorporating the summary of earnings and the revised rate schedules and cancel Schedules ST-1A; Annual Metered Service, Strawberry District, and Schedule ST-2A; Annual Flat Rate Service, Strawberry District.

COMPLETED

Del Oro's rules, regulations, and rate schedules were updated in February 2009.

- 12) Del Oro Water Company Strawberry District is authorized to increase its annual revenues by \$71,042, or 31.98% for test year 2009.

COMPLETED

Advice Letter No. 214, effective February 20, 2009, increased Del Oro's annual revenue by \$71,042. The result was a \$9.60 (24%) increase in the *Readiness to Serve Charge* for metered customers with a 5/8" x 3/4" meter, and an increase of \$2.02 per ccf in the *Quantity Charge*. Customers with flat rate service saw an increase of \$16.08 (32%). These increases are reflected in your current rates.

Results of the Water Leakage Study

COMPLETED

Because the distribution system was in such a serious state of disrepair when Del Oro purchased the water district in 2006, an aggressive approach was necessarily taken to reduce the quantity of water lost as a result of leaking and corroded pipes within the distribution network. In 2006, Del Oro purchased leak detection equipment for \$2,671, and the process began. In 2007, a detection study was completed by H.D. Waterworks, at a cost of \$2,301. A total of 17 major leaks were discovered as a direct result of the field study, all of which were repaired by early 2008.

In total, Del Oro spent \$4,972 to locate leaks in the system, and is proud to report that the volume of water produced at the water treatment plant in 2008 was reduced by 42% as compared to 2006 (see Table 1).

Del Oro officials fully expect additional leak repair and universal metered service to reduce the volume of treated water processed at the plant. This being the case, the savings would be reflected in overall operational expenses.

Year	Water Produced (gallons)	Year/Year Reduction		Total Reduction from 2006	
		gallons	% reduced	gallons	% reduced
2006	51,717,065				
2007	38,702,405	13,014,660	25.17%		
2008	29,965,159	8,737,246	22.58%	21,751,906	42.06%

Table 1: Volume of Water Produced at the Strawberry Treatment Plant

Test Wells

COMPLETED

As a joint venture between Sierra Pacific Industries and Del Oro Water Company, three test wells were drilled in search of an alternate source of water, none of which produced any significant quantity of water. Del Oro's share of the expenses for this project totaled \$45,793.10 (\$4,529.90 for engineering and \$41,263.20 for well drilling services).

Investigation of Water Rights

ONGOING

This is an ongoing project. To date, Del Oro has spent \$21,797.45 researching Strawberry water rights.

Breakdown of Capital Improvement Project Expenses

Next, we would like to present a more detailed overview of the expenses associated with the Phase I and Phase II Capital Improvement Projects for the Strawberry District.

Table 2 presents a list of **Phase I COMPLETED** Capital Improvement Projects, along with their respective costs. While the total cost of these projects comes to \$297,942.5, only \$178,850.00 of that amount has been included in current rates.

Phase I COMPLETED Capital Improvement Projects	Amount
Task #51: System Review	\$7,349.53
Task #52: Water Demand	\$2,765.00
Task #53: Review of Treatment Facility	\$11,443.43
Task #54: System Mapping Project	\$13,947.50
Task #55: System Modifications and CIP	\$10,863.69
Task #56: Meetings	\$4,633.19
Task #57: Filter Media Replacement	\$44,910.39
Task #58: Herring Creek Intake Revitalization	\$400.00
Task #59: Emergency River Intake Pump	\$69,007.81
Task #64: Water Leakage Study	\$4,972.00
Task #65: Mainline Repairs	\$2,072.50
Task #66: Roadway Access	\$41,221.16
Task #68: Treatment Plant Repairs/Upgrades	\$4,208.51
Task #70: Alternate Water Source	\$12,557.25
Task #71: Test Wells	\$45,793.10
Task #72: Investigation of Water Rights	\$21,797.45
COMPLETED Capital Improvement Projects:	\$297,942.51
Amount currently included in rates:	\$178,850.00
Amount <i>not yet</i> included in rates:	\$119,092.51

Table 2: Phase I COMPLETED Capital Improvement Projects

Table 3 presents a list of the **Phase I ONGOING** Capital Improvement Projects, along with their respective costs.

Phase I ONGOING Capital Improvement Projects	Amount
Task #60: Treatment Plant Pipe/Valve Replacement	\$100,401.90
Task #61: Georges System Back-up Pump	\$8,500.00
Task #62: Emergency Generator	\$61,509.26
Task #63: Treatment Plant Main Booster Pumps	\$9,120.00
Task #67: Lower Dymond Booster Tank	\$19,000.00
Task #69: Meter Purchase and Installation	\$74,838.88
ONGOING Capital Improvement Projects sub-total:	\$273,370.04
(The total of these projects has not yet been included in the rates.)	

Table 3: Phase I ONGOING Capital Improvement Projects (NOTE: The amount of the COMPLETED Phase I Capital Improvement Projects not yet included in rates (\$119,092.51) added to the amount of the ONGOING Capital Improvement Projects (\$273,370.04) equals \$392,462.55, which will eventually be included as a factor in the rates.

Table 4 (the spreadsheet contained in your folder) provides a detailed overview of ALL Phase I Capital Improvement Projects; completed projects (in **yellow**) and ongoing projects (in **green**). Expenses are listed according to whom they were paid and whether the cost was attributed to engineering (in **black**) or construction (in **blue**). Expenses already included in current rates are shown in the **light blue** shaded section.

Table 5 presents **Phase II/III PROPOSED** Service Improvement Plan for the future.

Phase II/III Proposed Service Improvement Plan	Amount
Installation of Plant Automation (SCADA system)	\$50,000.00
Upper Dymond Tank replaced with new 350,000 gallon tank	\$300,000.00
Installation of Hydropneumatic Tank at the Treatment Plant (as an alternative to replacing the Georges tank)	\$200,000.00
Herring Creek Intake Basin Revitalization	\$30,000.00
Mainline Repairs & Hydrant Replacements/Repairs	\$420,000.00
TOTAL	\$1,000,000.00

Table 5: Phase II *Proposed* Service Improvement Plan for the Strawberry District

Finally, it is important that customers are made aware of potential rate base adjustments resulting from current and proposed Capital Improvements Projects in the district. Tables 6 and 7 provide an example of how a typical residential customer's monthly water bill might change after various phases of the Capital Improvement Plan are completed. (*Based on water usage of 1,000 cf per month.)

Table 6 presents an estimate of changes following completion of all Phase I Capital Improvement Projects.

Estimated Change Based on Balance of \$392,463	Current Rate	Adjusted Rate
Quantity Rate	\$ 3.79	\$ 4.59
Readiness to Serve Charge	\$ 49.13	\$ 59.46
TOTAL of Quantity and Readiness Charges (does not include taxes and other line items)	\$ 87.03	\$105.32
Estimated Increase: \$ 18.29		

Table 6: Estimated Changes Following Completion of Phase I Capital Improvement Projects

Table 7 presents an estimate of the change for each \$100,000 done in Phase II and Phase III Proposed Service Improvement Projects.

Estimated Rate Change per \$100,000 in CIP	Current Rate	Adjusted Rate
Quantity Rate	\$ 4.59	\$ 4.78
Readiness to Serve Charge	\$ 59.46	\$ 61.90
TOTAL of Quantity and Readiness Charges (does not include taxes and other line items)	\$105.32	\$109.68
Estimated Increase: \$ 4.36		

Table 7: Estimated Changes per \$100,000 in Capital Improvement Projects

Explanation of Surcharges

Advice Letter No. 224

The primary purpose of the surcharge proposed by Advice Letter No. 224 is to reimburse the utility for unanticipated costs in the amount of \$11,820.87 associated with preparations for obtaining an emergency water supply from the South Fork of the Stanislaus River in 2008.

Expenses included environmental permits obtained from the California Department of Fish and Game by Inland Ecosystems, Inc. (Del Oro's environmental consultants) for the anticipated emergency water diversion from the Stanislaus River; administrative expenses associated with processing our request to the Tuolumne Utilities District; the cost of the containment berm obtained from United Rentals; and the cost of the permit review by the California Department of Transportation. It is important to note that all expenses were audited by Commission staff prior to authorization of reimbursement.

Del Oro has requested permission from the Public Utilities Commission to recover the loss in revenue by establishing a **surcharge of \$2.61 per customer per month for a period of twelve (12) months.**

The Commission recommends that water companies establish two memorandum accounts; one to track water testing and treatment costs *in excess* of those already authorized in their last general rate case, and another to track user fees imposed by the California Department of Public Health Office of Drinking Water *in excess* of those already authorized in their last general rate case. The former is referred to as a **Water Quality Memorandum Account** (WQMA) and the latter as a **User Fee Memorandum Account** (UFMA).

Advice Letter No. 225

Having established the WQMA and the UFMA, Del Oro filed Advice Letter No. 225 to recover a total of \$521 in expenses resulting from CDPH User Fees for its Strawberry District. Reimbursement would be a **one-time surcharge of \$1.38 per customer.**

Advice Letter No. 226

Advice Letter No. 226 was filed to recover \$5,420 in expenses resulting from water sampling, testing, reporting, and treatment of water in its Strawberry District. This Advice Letter proposes a **surcharge of \$2.39 per customer for six (6) months.**

It is important to mention that Del Oro is fully aware of the impact several relatively small surcharges can have on an individual household. In light of the explanations given, it should be clear that recovery of expenses related to compliance with guidelines imposed by the California Public Utilities Commission, the Department of Public Health, and the Environmental Protection Agency is critical, since none are factored into a District's primary rate design.

None of these charges are fixed, nor are they necessarily charged on an annual basis.

Overview of the Strawberry District



Figure 6: NEW Piping out of the Floc Basin



Figure 7: NEW Filter Valves

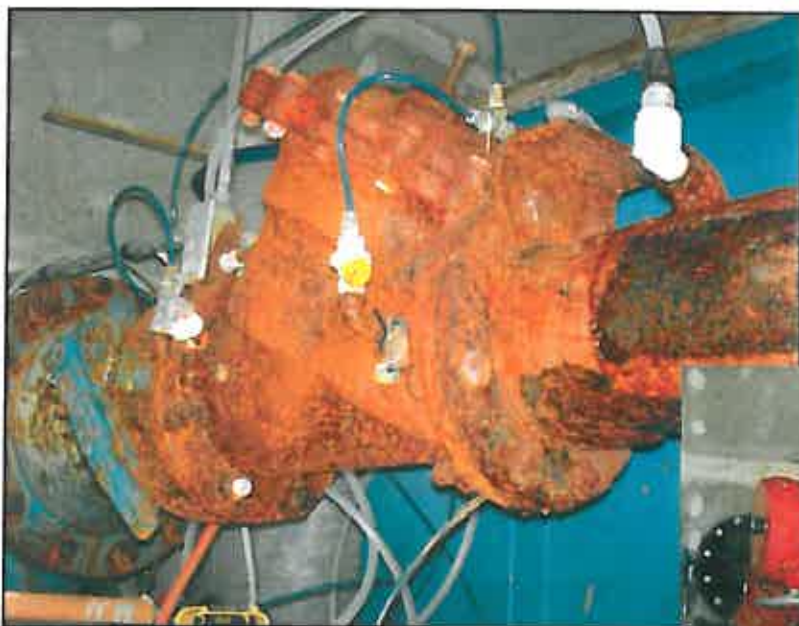


Figure 8: Floc Basin Inlet Pipe (before)

Figures 6-9 depict valves and pipes inside the water treatment plant.



Figure 9: Floc Basin Inlet Pipe (after replacement)

Review of Herring Creek

Herring Creek originates at the point where the waters of Herring Reservoir spill over a 16 foot high dam (Figure 10). Downstream, water from Herring Creek enters Del Oro's distribution system over an 18" wall, into the intake basin, and then into pipes that ultimately empty into the floc basin at the treatment plant.

As Strawberry's primary source of water, it is critical to keep a watchful eye on the level of Herring Creek at all times. Therefore, Del Oro field operators make the trek to the Herring Creek intake basin every day: 1) to measure and record the depth of Herring Creek as it flows over the wall of the intake basin, and 2) to clear any debris from the surface filters that could clog or hamper water flow.



Figure 10: Herring Creek Reservoir Dam

The data generated by measuring the level of Herring Creek at the intake basin are sent to our corporate office, where a graph is created to reflect the long-term patterns of the waterway. During the most critical summer months, these graphs can be viewed on the Strawberry District page of our website: <http://www.delorowater.com>. Table 8 is an example of the graph that can be viewed on our website. Tables 9-12 compare May and June of 2008 to May and June of 2009.

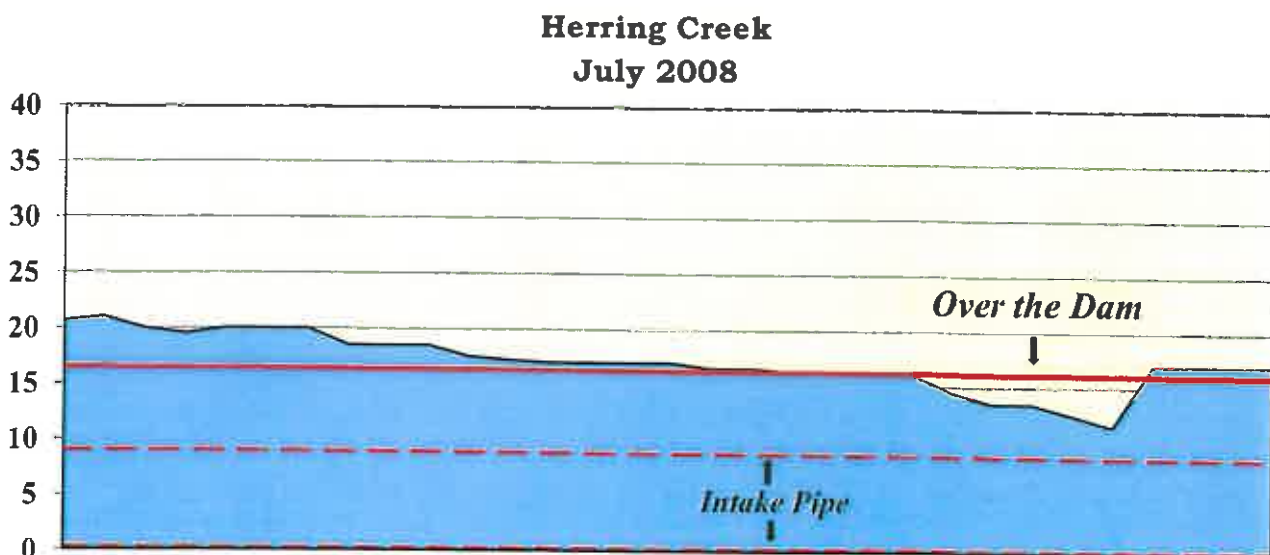


Table 8: Herring Creek graph for the month of July 2008

DEL ORO WATER COMPANY

Herring Creek Intake Levels Strawberry District

May 2008

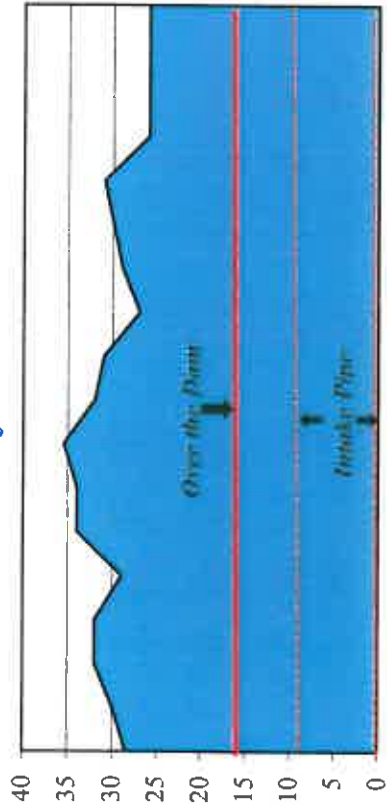


Table 9: Herring Creek graph for the month of May 2008

June 2008

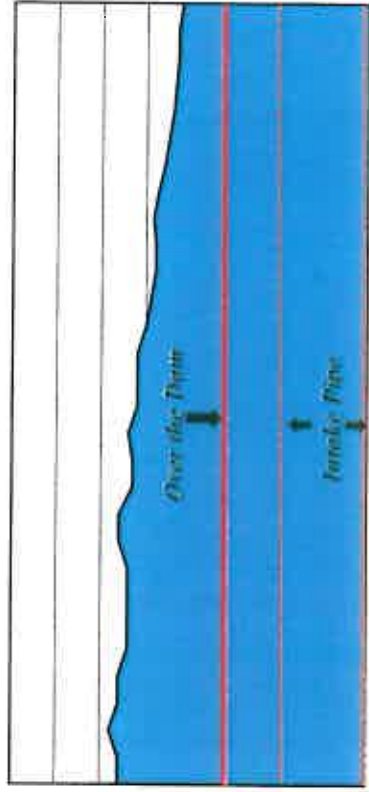


Table 10: Herring Creek graph for the month of June 2008

May 2009

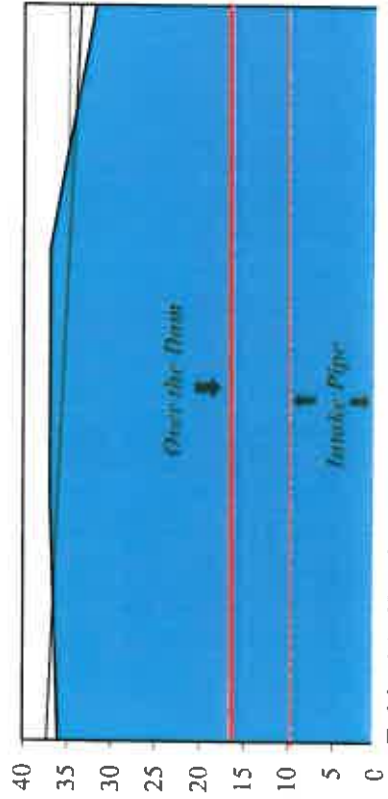


Table 11: Herring Creek graph for the month of May 2009

June 2009

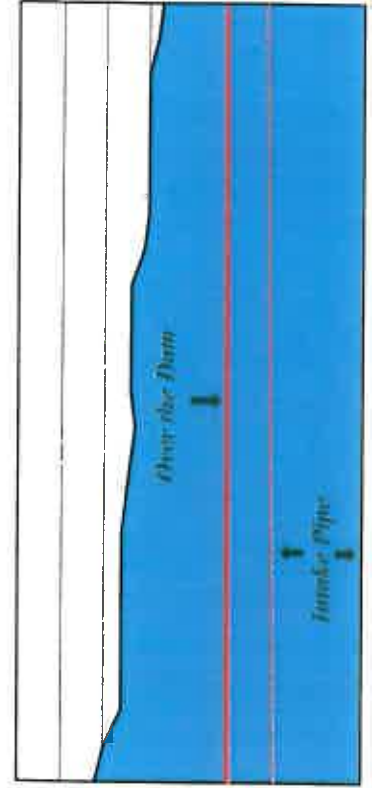


Table 12: Herring Creek graph for the month of June 2009

In conclusion, we would like to remind everyone that CONSERVATION is critical. California is currently experiencing a third consecutive year of drought-like conditions.

In fact, our state is facing the most significant water crisis in its history. Del Oro urges all customers to closely monitor landscape and outside water usage before Herring Creek becomes a trickle.

As always, it is a pleasure to serve you.

Please do not hesitate to contact us with any questions or concerns.

DEL ORO WATER COMPANY

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toll free

Visit our website for information about the district, Herring Creek, your bill, and to make a payment.

<http://www.delorowater.com>

Thank you

