

PROPOSED RESOLUTION

Resolution W-5125
WD

Agenda ID #15387

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5125
December 15, 2016

RESOLUTION

(RES. W-5125) LAKE ALPINE WATER COMPANY. ORDER GRANTING LAKE ALPINE THE AUTHORITY TO INCREASE THE SAFE DRINKING WATER STATE REVOLVING FUND SURCHARGE RATES TO PROVIDE ADEQUATE COLLECTION FOR FUTURE LOAN PAYMENTS.

SUMMARY

This Resolution grants Lake Alpine Water Company (LAWC) the authority requested in its Advice Letter (AL) No. 107 filed on August 11, 2016.

LAWC requests authority pursuant to Water Industry Rule 7.3.3 of General Order 96-B (GO 96-B) to:

Increase the Safe Drinking Water State Revolving Fund (SDWSRF) surcharge rates in order to provide adequate collection for future annual loan payments and reserve requirements totaling \$165,211.26.

A notice of the proposed surcharge increase was mailed to the majority of the customers on November 2, 2016 and by email to the rest of the customers on November 4, 2016. A notice of the proposed surcharge increase was also posted on November 4, 2016 on LAWC's website. No protests were received.

BACKGROUND

LAWC, a California corporation, is a Class D water company subject to the jurisdiction of the Commission. LAWC provides water service to 486 metered service connections in the Bear Valley Tract, Tract 1, located three miles west of Lake Alpine, adjacent to State Highway 4 in the western portion of Alpine County.

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Between 1997 and 2003, LAWC's plant was unable to adequately treat the inflow of high turbidity raw water due to shortcomings of its treatment equipment, primarily, the inadequacy of the flocculation/sedimentation and filtration processes.

By AL No. 65 filed on June 9, 2003, LAWC requested authority to borrow \$1,127,401 under the Safe Drinking Water State Revolving Fund (SDWSRF) administered by the State Water Resources Control Board (SWRCB) for upgrade of its water treatment plant.

On February 11, 2004, LAWC submitted a revised cost estimate of the water treatment plant upgrade and the construction cost of the building to house the treatment plant.

On February 24, 2004, LAWC was approved by the SWRCB for a total construction loan of \$1,037,554.

In Resolution (Res.) W-4480, dated July 8, 2004, the Commission authorized LAWC to borrow \$1,037,554 under the SDWSRF. The project consisted of replacing an existing in-line filtration plant with a microfiltration membrane treatment plant and included the construction of a building to house the treatment plant. Res. W-4480 authorized a surcharge to repay the loan principal, the interest, and a reserve requirement.¹

On September 13, 2004, LAWC filed AL No. 68 seeking authority for an additional \$1,500,000 under the SDWSRF to cover the full project and other related costs. On December 2, 2004, the Commission issued Res. W-4508 authorizing LAWC to borrow an additional \$1,500,000 under the SDWSRF and the corresponding surcharge for the payment of the total loan amount of \$2,537,554 (inclusive of the surcharge authorized by Res. W-4480) and the reserve requirement. The improvements to the water treatment plant were completed at the end of 2005 and permitted by the SWRCB after receiving a required Engineering Report from LAWC.

¹ The surcharge serves only to repay the loan and will not generate any income to the utility owners. The loan contract requires LAWC to accumulate a 10% reserve during the first 10 years of the loan or an amount equal to two semiannual payments. Once accumulated, the reserve would be maintained at that level until the loan is repaid in full. During the last year of the contract, the reserve would be applied to the loan payment.

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By Advice Letter No. 79, effective October 5, 2007, LAWC implemented the SDWSRF surcharge authorized in Res. W-4508.

On November 19, 2010, LAWC received a revised semi-annual payment schedule from DWR. The schedule indicated a uniform semi-annual payment of \$76,251.35 based on a final loan amount of \$2,413,361.51. Soon thereafter, LAWC submitted to the Commission a status report on its SDWSRF trust account as required by Res. W-4508 and indicated that the balance in the trust account was higher than necessary.

On June 30, 2011, LAWC filed AL No. 95 requesting a 24% reduction in surcharge rates due to the high balance in its trust account. AL No. 95 was approved and became effective July 1, 2011. The reduction in surcharge rates was estimated to produce a semi-annual surcharge collection of \$68,758.44. With a revised semi-annual loan payment of \$76,251.35, LAWC intended to fund the difference of \$7,492.91 (\$76,251.35 less \$68,758.44) in undercollection with the excess amount in its trust.

However, after LAWC's surcharge reduction in July 2011, the Utility Audit, Finance and Compliance Branch (UAFCB) reviewed LAWC's trust account and determined that pursuant to the Water Industry Rule 8.5 of General Order 96-B, LAWC should refund approximately \$251,338 of excess funds in its trust account.

On December 28, 2011, LAWC filed AL No. 97 to request authority to refund \$251,338 to customers and increase the surcharge rates to provide adequate collection for future semi-annual payments of \$76,251.35. On March 22, 2012, the Commission issued Res. W-4911 that authorized the refund of \$251,338 and ordered LAWC to file a Tier 2 AL to implement the surcharge rates.

By AL No. 101, as supplemented by AL No. 101-A, effective January 1, 2013, LAWC implemented the surcharge rates authorized in Res. W-4911, as shown in the following table. These are the rates currently in effect.

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Table 1
General Metered Service
Current Surcharge Rates

Size of Meter	Monthly Surcharge
5/8" x 3/4"	\$ 24.30
Condo unit service	\$ 24.30
3/4"	\$ 24.30
1"	\$ 40.51
1-1/2"	\$ 81.02
2"	\$129.63
3"	\$243.04
4"	\$405.08

In 2015, the Utility Audit, Finance and Compliance Branch (UAFCB) reviewed LAWC's trust account and estimated that LAWC has an annual undercollection of approximately \$15,000. LAWC was then instructed to file for a surcharge increase. However, because Res. W-5038, dated June 25, 2015, recently authorized LAWC to recover \$43,180.34 of intervenor compensation through a surcharge from its ratepayers, LAWC decided to defer filing for an increase of the SDWSRF surcharge.

On August 11, 2016, LAWC filed AL No. 107 to request permission to increase the SDWSRF surcharge by 10.73%.

LAWC estimates that it will need an annual revenue requirement of \$165,211.26, as shown in Appendix A of AL No. 107, and replicated in the following table.

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Table 2
Current Revenue Requirement

Semi-annual payment	\$ 76,251.35
Number of remaining payments	24
Total due	\$1,830,032.40
Plus required reserve	\$ <u>152,502.70</u>
Total w/ reserve	\$ <u><u>1,982,535.10</u></u>
Required annual revenue (\$1,982,535.10 divided by 12 years)	\$ <u><u>165,211.26</u></u>

LAWC indicates in the filing that it collects approximately \$149,203.80 per year and needs to make an annual loan payment and reserve of \$165,211.26, leaving an annual shortfall of \$16,007.46.

A. Proposed Surcharge Adjustment

In order to eliminate the \$16,007.46 shortfall (\$165,211.26 less \$149,203.80), LAWC requests authority to increase its surcharge rates by approximately 10.73%, as shown in the following table.

Table 3
Proposed Surcharge Rates

Metered Service Size of Service or Meter	Present Monthly Surcharge	Proposed Monthly Surcharge	Monthly Increase	Percent Increase
5/8 x 3/4-inch	\$ 24.30	\$ 26.91	\$ 2.61	10.73%
Condo unit service	\$ 24.30	\$ 26.91	\$ 2.61	10.73%
3/4-inch	\$ 24.30	\$ 26.91	\$ 2.61	10.73%
1-inch	\$ 40.51	\$ 44.86	\$ 4.35	10.73%
1-1/2-inch	\$ 81.02	\$ 89.71	\$ 8.69	10.73%
2-inch	\$129.63	\$143.54	\$13.91	10.73%
3-inch	\$243.04	\$269.11	\$26.08	10.73%
4-inch	\$405.08	\$448.54	\$43.47	10.73%

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With the proposed surcharge increase, a 5/8 x 3/4-inch metered customer's monthly surcharge would increase from \$24.30 to \$26.91, or by 10.73%.

We note here that in approximately the third quarter of 2017, LAWC would complete the reserve requirement of \$152,503 and the annual revenue requirement would decrease from \$165,211 to \$152,503 or 7.7%. Upon completion of the reserve, LAWC should file a Tier 2 AL to adjust the surcharge rates.

NOTICE AND PROTESTS

Pursuant to G.O. 96-B, Water Industry Rule 4.1, on August 12, 2016, LAWC served its AL No. 107 on its service list, which included among others, some customers. Notice of AL No. 107 was made by publication in the Commission's Daily Calendar of August 15, 2016. No protests have been received.

LAWC notified the majority of its customers by mail on November 2, 2016, and the rest by email on November 4, 2016, of the proposed surcharge increase that is needed to have sufficient funds for future loan payments. LAWC also posted the notice of the proposed surcharge increase on its website on November 4, 2016 because there is no local newspaper published or circulated in its area. No protests have been received.

DISCUSSION

Pursuant to the SWRCB's Rates and Charges in its Loan Contract for a Construction Loan under the SDWSRF, the supplier or borrower should meet the payments of the loan when due or raise sufficient funds through increased charges to meet the loan payments. It is therefore necessary that LAWC adjust the surcharge rates to provide adequate collection for future loan payments and to complete the reserve requirement. According to LAWC's calculation, a \$16,007.46 or 10.73% increase in surcharge rates is needed in order to meet the annual revenue requirement.

AL No. 107 and the surcharge calculation attached to the filing have been reviewed by the Water Division. The requested increase in surcharge rates is reasonable and will provide LAWC sufficient surcharge revenue to continue paying the SDWSRF loan and complete the reserve requirement.

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It is the Commission's responsibility to provide utilities with state funded loans to comply with the SWRCB's requirements on rates and charges. By AL No. 2157, California Water Service (CWS) requested authority to increase the surcharge in its Lakeland District due to an undercollection. By Res. W-5021 dated January 29, 2015, the Commission authorized the increase so that CWS could meet future loan payments. In AL No. 2147, CWS also requested authority to increase the surcharge in its Lucerne District and Res. W-5022 dated March 12, 2015, authorized the increase.

As set forth herein, we authorize LAWC to increase the surcharge rates.

Within 30 days of completion of the \$152,502.70 reserve requirement, LAWC should file a Tier 2 advice letter to adjust the surcharge rates. It has been the Commission's practice to require that changes in future surcharge rates be accomplished by normal advice letter procedures.

SAFETY AND COMPLIANCE

In this filing, LAWC requests authority to increase the SDWSRF surcharge rates. Since the improvements to LAWC's water treatment plant financed by the SDWSRF loan have been completed in 2005, there is no safety implications associated with AL No. 107. There are no outstanding Commission orders requiring LAWC system improvements. The utility has been filing annual reports as required.

COMMENTS

This is an uncontested matter in which the Resolution grants the relief requested. Accordingly, pursuant to § 311(g) (3), the otherwise 30-day period for public review and comment is being waived.

FINDINGS AND CONCLUSIONS

1. LAWC, a California corporation, is a Class D water utility subject to the jurisdiction of the Commission.
2. In Res. W-4480, the Commission authorized LAWC to borrow \$1,037,554 under the SDWSRF program to be paid through surcharge rates to fund capital improvements.

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3. In Res. W-4508, the Commission authorized LAWC to borrow an additional \$1,500,000 under the SDWSRF program to complete the project. The surcharge rates were calculated based on a total loan amount of \$2,537,554.
4. By AL No. 79, effective October 5, 2007, LAWC implemented the SDWSRF surcharge authorized in Res. W-4508.
5. By AL No. 95, effective July 1, 2011, LAWC reduced the surcharge due to a high balance in its trust account.
6. By AL No. 97, effective March 22, 2012, LAWC requested authorization to refund \$251,338 of excess funds in its trust account and to increase the surcharge.
7. On March 22, 2012, the Commission issued Res. W-4911 to authorize LAWC to refund \$251,338 to customers and required LAWC to file a Tier 3 AL to increase the surcharge.
8. By AL No. 101, as supplemented by AL No. 101-A, effective January 1, 2013, LAWC implemented the surcharge ordered in Res. W-4911.
9. In 2015, UAFCB reviewed LAWC's trust account and estimated that LAWC has an annual undercollection of approximately \$15,000.
10. On August 11, 2016, LAWC filed AL No. 107 indicating that it has a revenue shortfall of \$16,007.46 and requested permission to increase the SDWSRF surcharge by 10.73%.
11. Notice of AL No. 107 appeared on the Commission's Daily Calendar on August 15, 2016. No protests have been received.
12. On November 2, 2016, LAWC notified the majority of its customers by mail and on November 4, 2016 the rest of its customers by email of the proposed increase in surcharge rates.
13. On 4, 2016, LAWC published a notice containing the proposed refund and the proposed surcharge increase in its website because there is no local newspaper published and circulated in Bear Valley, California.

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14. With a state-funded and rate surcharge type of recovery, the utility or its owners do not personally benefit from the SDWSRF loan.
15. The Commission specifies that changes in surcharge collection rates should be accomplished by normal advice letter procedures.
16. The SWRCB requires LAWC to meet the payments of the loan when due or to raise sufficient funds through increased charges to meet the loan payments.
17. It is reasonable to adjust the current surcharge rates to provide adequate collection for LAWC's future semiannual payments and the accumulation of the reserve requirement.
18. Within 30 days of completion of the \$152,502.70 reserve requirement, LAWC should file a Tier 2 advice letter to adjust the surcharge rates.

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THEREFORE, IT IS ORDERED THAT:

1. The surcharge increase shown in Table 3, page 4 of this Resolution, and also indicated in Lake Alpine Water Company's tariff attached to Advice Letter No. 107, Schedule No. 1B, Safe Drinking Water State Revolving Fund Loan, General Metered Service is adopted
2. Lake Alpine Water Company shall file an advice letter to adjust the surcharge rates when the 10% reserve requirement is fully collected or if the number of customers increases.

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 15, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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Schedule No. 1B

SAFE DRINKING WATER STATE REVOLVING FUND LOAN GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Bear Valley tracts, and vicinity located about three miles west of Lake Alpine, adjacent To State Highway 4, Alpine County.

RATES

	October 1, 2016 – July 1, 2028 Per Month	(C)
Surcharge:		
For 5/8 x 3/4-inch meter.....	\$ 26.91	(I)
For condo unit service.....	\$ 26.91	(I)
For 3/4-inch meter.....	\$ 26.91	(I)
For 1-inch meter.....	\$ 44.86	(I)
For 1-1/2-inch meter.....	\$ 89.71	(I)
For 2-inch meter.....	\$ 143.54	(I)
For 3-inch meter.....	\$ 269.11	(I)
For 4-inch meter.....	\$ 448.54	(I)

The surcharge is for the repayment of the Safe Drinking Water State Revolving Loan.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. The surcharge is in addition to the water bill. The surcharge is specifically for the repayment of the Safe Drinking Water State Revolving Fund loan authorized by Resolution No. W-4508, dated December 2, 2004 and by Resolution No. W-4911.
3. The surcharge rates are subject to periodic adjustment.

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LAKE ALPINE WATER COMPANY ADVICE LETTER NO. 107 SERVICE LIST

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