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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS **RESOLUTION NO. W-4809**
Water and Sewer Advisory Branch **December 17, 2009**

R E S O L U T I O N

(RES. W-4809), LAKE ALPINE WATER COMPANY (LAWC) ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING ADDITIONAL ANNUAL REVENUES OF $97,356 OR 18.9% FOR TEST YEAR 2009.

SUMMARY

By a draft advice letter filed on May 20, 2009 and revised on August 31, 2009, LAWC requested an increase of $130,541 or 25.36% in annual gross revenue for test year 2009 to recover operating expenses and earn an adequate return on its plant investment. The Division of Water and Audits (Division) accepted this draft advice letter as complete for filing on June 26, 2009.

For Test Year 2009, this Resolution grants an increase in gross revenues of $97,356 or 18.9% which is estimated to provide a rate of return of 13.25%.

BACKGROUND

The California Water Association (CWA) assisted LAWC, a Class D water utility, in requesting authority under Rule 7.6.2 of General Order 96-B and Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its rates by $130,541 or 25.36%. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. LAWC's request shows 2009 gross revenues of $514,819 at present rates increasing to $645,360 at the proposed rates.

The present rates became effective on March 31, 2008, with the approval of Advice Letter 83, which authorized a Consumer Price Index (CPI) rate increase of 2.5%. The last general rate increase became effective on December 12, 2006, pursuant to Res. W-4626.

LAWC currently provides service to approximately 321 metered and 180[1] residential flat rate customers in a service area located about three miles west of Lake Alpine adjacent to State Highway 4, Alpine County. LAWC is run by a Board of five Directors: Bruce C. Orvis – President; Charles J. Toeniskoetter – Vice President, who bought into the utility in 2003; Bruce C. Orvis III; Steven L. Hallgrimson, and David B. Ritchie. Roma P. Orvis (wife to Bruce C. Orvis) is the Secretary-Treasurer of the company.

The original plant has been in place since 1964. Updates were done to the plant in November 2005, which included a new filtration system, a new tank and software system. These improvements and plant additions with the exception of the tank were funded by a loan from the State Environmental Protection Agency and were certified by California Department of Public Health (DPH) in 2007. The plant improvements funded by the loan were not included in rate base. There is also a redundancy system in place for everything in order to ensure no disruption in service. A four year project of meter installations was carried out by LAWC from 2005 to 2008 in compliance with the state's water conservation objectives.

LAWC obtains its water supply from Bear Lake. It has water rights to Bear Creek and can divert water from there to Bear Lake if the need arises. The cost of acquiring these water rights is not being passed on to existing customers but will be paid for by future customers through Facilities Fees, as the area grows and develops. Currently, LAWC has two wood storage tanks and one steel storage tank which are all in regular use. They are the following: the Clear-Well tank which has a storage capacity of 200,000 gallons with a flow rate of 833 GPM, feeds the other two tanks and the main part of town; the Bloods-Ridge tank has a capacity of 100,000 gallons and flow rate of 416 GPM; and the Spring-Cliff tank has a capacity of 300,000 gallons and flow rate of 1250 GPM.

NOTICE, PROTESTS, AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on July 22, 2009. Fifty-two letters questioning the rate increase were received.

An informal public meeting was held on Friday, August 21, 2009, at The Perry Walther Building, located in Bear Valley. The meeting was attended by approximately thirty-five customers. The Division's staff explained to the participants the Commission rate-setting procedures, while LAWC representatives cited justifications for the proposed rate increase. Staff and LAWC responded to various questions from the attendees.

[1] The 180 residential flat rate customers represent customers who live in condominiums, whose condominiums can't be metered due to the building's plumbing structure.

Some of the concerns most frequently brought up by customers were the quality of the water and the inequitable distribution of the proposed rate increase. These concerns, along with others, was also discussed and addressed by LAWC representatives. The meeting was adjourned at 8:25 pm.

DISCUSSION

The Division's staff (staff) made an independent analysis of LAWC's operations. Appendix A shows LAWC and the Division's estimated summary of earnings at present, proposed, and recommended rates for Test Year 2009. LAWC is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

Staff reviewed operating revenues and expenses including purchased power, materials, contract work, water testing, other plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, general expenses, depreciation, and taxes other than income. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonably necessary.

Staff audited actual bills for expenses to make its estimates, and also used different inflation rates than LAWC, who used projections across all expenses when recorded information did not apply. Based on the Office of Ratepayer Advocates memorandum of July 31, 2009, the Division uses a non-labor inflation rate of -5.3% and a labor inflation rate of 3.8% for the appropriate operating expense.

LAWC has requested a Rate of Return of 13.75%. LAWC is a Class D water utility for rate-making purposes. The Division's Utility Audit, Finance and Compliance Branch (UAFCB) currently recommends a Rate of Margin of 24% and a Rate of Return from 12.75% to 13.75% for a Class D, 100% equity financed utility. The two methods are available for the Division to utilize in the rate-making process: (1) Rate of Return, and (2) Rate of Margin.

In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the Rate of Return and Rate of Margin methods. Both methods are to be used. Per (D.) 02-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. The UAFCB has recommended a Rate of

Margin of 24% for Class D water utilities. The Rate of Margin of 24.00% calculations yields allowable revenue to be $533,575, while Rate of Return of 13.25%[2] yields allowable revenues to be $612,175 which is the higher level and was chosen.

LAWC's current rate structure consists of two schedules: No. 1A, Annual Metered Service & No. 2AR, Annual Residential Flat Rate Service; the rates in both schedules will be increased. The rates proposed by the Branch are shown in Appendix B. At the recommended Rate of Return the increase in revenue will be $97,356 or 18.9% for test year 2009.

In compliance with the water conservation goals of the state, LAWC has achieved a 49% reduction in water consumption over the course of four years through the installation of meters for its customers, which began in 2005 and was completed in the summer of 2008.

At the Division's recommended rates shown in Appendix B, the yearly bill for a flat rate residential customer using a 5/8 x 3/4-inch connection will increase from $973.13 to $1,178.40 which is $205.27 or 21.1%. While the bill for a 5/8-inch metered customer using 5 Ccf (reflects the average consumption for a LAWC customer) would increase from $505.56 to $975.08, which is $469.52, or 92.9%. Even though these percentage increases look larger than the overall increase of 18.9%, there is in actuality little or no increase in rates for residential customers who are being switched from flat rates to metered rates with an average consumption of 5Ccf, for whom the old flat rate of $973.13 will change to a metered bill of $975.08. Customers who remain on the flat rate billing system will realize an increase of 21.1% close to the overall increase of 18.9%, since they get unmetered access to water. A comparison of customer bills for present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

LAWC has no outstanding compliance orders. The 2008 annual report filed by LAWC, however, appears to contain errors that should be updated in the 2009 annual report. The Division has discussed these errors with LAWC. As of October 19, 2009, the DPH findings were that the system has no major deficiencies and considers LAWC to be in compliance with all applicable water quality regulations and standards.

[2] 13.25% was used, as that is the midpoint of the range recommended by UAFCB.

The Division found that LAWC also needs to update Schedule No. LC, and the following tariff rules: 5, Special Information Required on Forms; 10, Disputed Bills; and Form 3, Bill for Service.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

The draft resolution was served on the utility and all those who submitted letters to the Division questioning the rate increase for public comment on November 2, 2009. Comments were received from six rate payers, and reply comments addressing the concerns raised by the rate payers were received from the water utility on December 3, 2009. The comments expressed concerns about the rate increase and the addition of plant improvements to the rate base. After an in-depth review of the comments, the Division found there to be no justification for disallowing the rate increase, since only reasonable and just expenses were allowed in the rates. The discussion of which plant improvements are included in rate base has been revised.

FINDINGS

1. LAWC is a California corporation run by a board of five Directors.
2. Plant additions and improvements were done in November 2005, which included a new filtration system, a new tank and software system.
3. These plant additions and improvements with the exception of the tank were funded by a loan from the State Environmental Protection Agency (EPA) and were certified by California Department of Public Health (DPH) in 2007; the additions and improvements funded by the loan are not included in rate base.
4. The cost of the Bear Creek water rights are not being passed on to existing customers, but will be paid for by future customers through Facilities Fees,
5. LAWC operators all possess water treatment, water distribution, and wastewater treatment plant certification.
6. Comments on the draft resolution were received from six rate payers on and before December 3, 2009.
7. Replies to the rate payers' comments were received from LAWC on and before December 3, 2009.

8. The Division reviewed all the comments and found there to be no need for delays or grounds for disallowing the Division's recommended rates, as only reasonable and just expenses have been allowed in the rates.
9. The overall revenue increase is an estimated 18.9%; the customers being moved from flat rate service to metered service will see little increase in their bills with average usage.
10. LAWC is in agreement with the Division's recommended rates.
11. The Division's recommended earnings (Appendix A) are reasonable and should be adopted.
12. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
13. The facilities fee recommended by the Division (Appendix B) is reasonable and should be adopted.
14. The quantities (Appendix D) used to develop Division's recommendations are reasonable and should be adopted.
15. LAWC should correct the errors discovered by the Division in the 2008 annual report and make corresponding corrections in the 2009 annual report.
16. LAWC needs to update following tariff rules: Rule 5, (Special Information Required on Forms); Rule 10, (Disputed Bills); and Form 3, Bill for Service.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Lake Alpine Water Company, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancels its presently effective Schedule Nos. 1A, Annual Metered Service; 2AR, Annual Residential Flat Rate Service; and F, Facilities Fees. The effective date of the revised rate schedules shall be five days after the date of its filing.
2. Lake Alpine Water Company shall update the following tariff rules: Rule 5, Special Information Required on Forms; Rule 10, Disputed Bills; and Form 3, Bill for Service.

3. 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 17, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

Appendix A
Lake Alpine Water Co.

Summary of Earnings
Test Year 2009

	Item	Utility Estimated Present Rates	Utility Estimated Requested Rates	Branch Estimated Present Rates	Branch Estimated Requested Rates	Recommended Rates (ROR)
	Operating Revenue					
	Metered Water Revenue	$28,599	$630,680	$28,599	$630,680	$385,384
	Flat Rate Revenue	$472,540	$0	$472,540	$0	$212,111
	Fire Protection Services	$4,510	$4,510	$4,510	$4,510	$4,510
	Other Water Revenue	$9,110	$10,110	$9,110	$10,110	$10,110
	Non utility Income	$60	$60	$60	$60	$60
	Total	$514,819	$645,360	$514,819	$645,360	$612,175
	Operating Expenses					
615	Purchased Power	$29,105	$29,105	$29,105	$29,105	$29,105
618	Other Volume Related Expenses	$13,907	$13,907	$13,064	$13,064	$13,064
630	Employee Labor	$76,139	$76,139	$76,139	$76,139	$76,139
640	Materials	$4,438	$4,438	$4,170	$4,170	$4,170
650	Contract Work	$9,550	$9,550	$6,267	$6,267	$6,267
	Water Testing	$13,620	$13,620	$13,620	$13,620	$13,620
660	Transportation Expenses	$9,845	$9,845	$9,249	$9,249	$9,249
664	Other Plant Maintenance	$3,512	$3,512	$3,299	$3,299	$3,299
670	Office Salaries	$18,622	$18,622	$18,622	$18,622	$18,622
671	Management Salaries	$53,104	$53,104	$53,104	$53,104	$53,104
674	Employee Benefits	$43,049	$43,049	$31,515	$31,515	$31,515
676	Uncollectibles Expense	$1,340	$1,340	$1,340	$1,340	$1,340
678	Office Services & Rentals	$4,621	$4,621	$4,214	$4,214	$4,214
681	Office Supplies & Expenses	$8,866	$8,866	$8,866	$8,866	$8,866
682	Professional Services	$30,050	$30,050	$25,950	$25,950	$25,950
684	Insurance	$24,895	$24,895	$24,705	$24,705	$24,705
688	Regulatory Commission Expense	$50	$50	$50	$50	$50
689	General Expenses	$2,166	$2,166	$2,051	$2,051	$2,051
	Subtotal	$346,879	$346,879	$325,331	$325,331	$325,331
	Depreciation	$49,068	$49,068	$51,360	$51,360	$51,360
	Taxes other than Income	$32,679	$32,679	$32,679	$32,679	$32,679
	State Income Taxes	$7,614	$19,154	$8,846	$21,365	$17,928
	Federal Income Taxes	$14,630	$60,282	$13,684	$69,176	$55,352
	Interest expense	$0	$0	$0	$0	$0
	Total Deductions	$450,870	$508,062	$431,901	$499,912	$482,650
	Net Revenue	$63,949	$137,298	$82,918	$145,448	$129,525
	Rate Base					
	Average Plant	$1,998,067	$1,998,067	$1,916,682	$1,916,682	$1,916,682
	Less:Ave. Accum. Depreciation	$677,104	$677,104	$616,749	$616,749	$616,749
	Net Plant	$1,320,963	$1,320,963	$1,299,933	$1,299,933	$1,299,933
	Less Advances					
	Contributions	-$514,262	-$514,262	-$514,262	-$514,262	-$514,262
	Plus Working Cash	$28,907	$28,907	$28,907	$28,907	$28,907
	Materials & Supplies	$9,013	$9,013	$9,013	$9,013	$9,013
	Add:Accumulated Amortization of CIAC	$154,042	$154,042	$154,042	$154,042	$154,042
	Rate Base:	$998,663	$998,663	$977,633	$977,633	$977,633
	Rate of Return	6.40%	13.75%	8.48%	14.88%	13.25%

APPENDIX B
Lake Alpine Water Company

Schedule No. 1A
ANNUAL METERED SERVICE
Test Year 2009

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

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

RATES

Quantity Rates:

All water used, per 100 cu. ft…	$ 4.85	(I)

Service Charge:	Per Meter Per Year	
For 5/8 x ¾-inch meter	$ 684.32	(I)
For 3/4-inch meter	$ 1,026.48	(I)
For 1-inch meter	$ 1,710.80	(I)
For 1-1/2-inch meter	$ 3,421.59	(I)
For 2-inch meter	$ 5,474.55	(I)
For 3-inch meter	$ 10,264.78	(I)
For 4-inch meter	$ 17,107.96	(I)

The annual service charge is applicable to all metered service it is a readiness to serve charge to which is added the charge for water used during the billing period computed at the Quantity Rate.

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, bi-monthly or quarterly) in accordance with the utility's established billing periods.
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 or 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 a 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.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(Continued)

APPENDIX B
Lake Alpine Water Company

Schedule No. 2AR
ANNUAL RESIDENTIAL FLAT RATE SERVICE
Test Year 2009

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

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

RATES	Per Service Connection Per Year	
For a single-family residential unit including premises	$ 1178.40	(I)
For each additional single-family residential unit on the same premises and served from the same service connection	$ 518.50	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 3" inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. A meter may be installed at the option of the utility in which event service thereafter will be furnished under Schedule No.1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the service charge for the same period shall be made on or before that day.
4. The annual flat rate 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 flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.
5. The opening bill for flat rate service shall be the established annual flat rate 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.
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(Continued)

APPENDIX B
Lake Alpine Water Company

Schedule No. F
FACILITIES FEES
Test Year 2009

APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

TERRITORY

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

RATES

Initial Fee for each Service Connection:

For 5/8 x ¾-inch meter	$ 4,000 (I)
For 3/4-inch meter	$ 6,000 (I)
For 1-inch meter	$ 10,000(I)
For 1-1/2-inch meter	$ 15,000(I)
For 2-inch meter	$ 25,000(I)
For 3-inch meter	$ 42,000(I)
For 4-inch meter	$ 50,000(I)

SPECIAL CONDITIONS

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.

2. Payments made under this schedule are not subject to the reimbursement fee set forth in Schedule No. UF.

3. Facilities Fees authorized herein shall be deposited with five days of receipt in a separate bank account paying interest. A direct confirmation from the bank shall be mailed to the Director of the Water Division after making such deposit to verify the amount deposited.

4. Facilities fees shall be treated as Contribution-in-Aid-of-Construction and follow the requirements as specified in the Internal Revenue Code Section 118 to qualify as such.

5. Facilities Fees shall be accounted for as Contribution-in-Aid-of-Construction in accordance with the Commission's prescribed Uniform System of Accounts. In addition, the balance of facilities fees collected, including interest shall be reported in utility's annual report to the Commission.

6. The plant constructed with facilities fees shall be removed from rate base for rate-making purposes.

APPENDIX C
Lake Alpine Water Company
Yearly Comparison of Rates

		Per Service Connection Per Year		
		Present Metered Rates	Recommended Metered Rates	Percent Increase
Service Charge:				
	For 5/8 x 3/4-inch meters	$ 358.56	$ 684.32	90.9%
	For 3/4-inch meters	$ 537.78	$ 1,026.48	90.9%
	For 1-inch meters	$ 774.66	$ 1,710.80	120.8%
	For 1-1/2-inch meters	$ 1,190.80	$ 3,421.59	187.3%
	For 2-inch meters	$ 2,010.28	$ 5,474.55	172.3%
	For 3-inch meters	$ 3,329.12	$ 10,264.78	208.3%
	For 4-inch meters	$ 5,633.89	$ 17,107.96	203.7%
Flat Rate		973.13	1178.40	21.1%
Quantity Charge:				
Metered	All use, per 100 cu. ft. . . .	2.45	4.85	97.8%

A yearly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

Usage 100 cu. ft.	Present Metered Rates	Recommended Metered Rates	Amount Increase	Percent Increase
0	358.56	684.32	325.76	90.9%
5 (avg)*	505.56	975.08	469.52	92.9%
10	652.56	1,265.84	613.28	94.0%
15	799.56	1,556.60	757.04	94.7%
20	946.56	1,847.36	900.80	95.2%
30	1,240.56	2,428.88	1,188.32	95.8%
40	1,534.56	3,010.40	1,475.84	96.2%

APPENDIX D
Lake Alpine Water Company

ADOPTED QUANTITIES
Test Year 2009

1. Purchased Power	
Total Cost	$ 29,105
2. Water Sales in Ccf	26401
3. Payroll	
Office Salaries	$ 18,622
Management Salaries	$ 53,104
4. Property Taxes	$ 11,062

Annual Metered Service

Service Connections - Meter Size	
5/8 x 3/4"	301
3/4"	11
1"	2
1-1/2"	1
2″	5
3″	0
4″	1
Total Metered	321

Flat Rate Service Connections

Residential unit	5/8″	180
Business unit		0
Churches		0
Total Flat Rate customers		180

Adopted Tax Calculation Test Year 2009

1. Operating Revenues	$612,175
2. Expenses	$325,331
3. Depreciation	$ 51,360
4. Taxes other than income	$ 32,679
5. Taxable Income for State Tax	$202,804
6. State Tax (min 800)	$ 17,928
7. Taxable Income for FIT	$184,876
8. Federal Tax	$ 55,352