

WATER/RSK/BMD/PTL/AAS/jlj

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION NO. W-4891  
October 20, 2011

### RESOLUTION

**(RES. W-4891), ALPINE VILLAGE WATER COMPANY (ALPINE).  
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC),  
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$4,260 OR 23.2%  
FOR TEST YEAR (TY) 2011 AND \$ 4,124 OR 18.2% FOR ESCALATION  
YEAR 2012.**

---

### SUMMARY

By Advice Letter (AL) 15 filed on January 18, 2011, Alpine seeks to increase its rates for water service to recover operating expenses and earn an adequate return on its plant improvement.

For TY 2011, this resolution orders an increase in gross revenues of \$4,260 or 23.2%. For escalation year 2012, this resolution orders an increase in gross revenues of \$4,124 or 18.2%. The increases in gross revenues are estimated to provide a Rate of Margin of 24.89% over a two-year period. The rate schedules to implement the 2011 increase and the escalation increase for year 2012 are set forth in Appendix B.

### BACKGROUND

Alpine, a Class D water utility, is requesting authority under Rule 7.6.2 of General Order 96-B (G. O. 96-B) and Water Industry Rule 7.3.3 (5), and Section 454 of the Public Utilities Code to increase its rates by \$4,260 or 23.2% for TY 2011, and by \$4,590 or 20.3% for escalation year 2012.

The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return.

The last GRC became effective on August 25, 2005, pursuant to Res. W-4551, which granted an increase in revenues of \$2,822 or 30.0% for TY 2005, \$2,823 or 30.0% for TY 2006, and \$3,002 or 32.0% for TY 2007. The present rates became effective on October 11, 2007, by approval of AL 13, which was authorized in Res. W-4551.

Alpine is operated as a partnership by Charles W. Roberts and John P. Roberts. Alpine's service area consists of 22 acres within the boundaries of Sequoia National Forest in Tulare County Tract 417, an unincorporated area of the county approximately

ALPINE/AL 15/RSK/BMD/PTL/AAS/jlj

16 miles east of Springville, California, in Tulare County. Elevations range from 6,355 to 6,710 feet above sea level. The water supply is derived from perennial springs located about 500 feet north of Tract 417. These springs have a continuous flow of approximately 10-20 gallons per minute. The water from the springs flows into a 44,000-gallon storage tank from where it flows by gravity into the distribution system. The tank level is monitored continuously via an internet connection.

In the summer of 1992, due to drought conditions, the springs dried up and the utility was forced to seek an alternate source of water, a well was dug, and a pump installed. In 2004, Alpine built a new 65,000-gallon storage tank.

Alpine currently has 51 customers, and most of them are seasonal customers. Of these, 31 have meters installed and 20 are flat rate. No meters are presently read. All customers are presently charged the flat rate fee.

### **NOTICE, PROTESTS, AND PUBLIC MEETING**

AL 15 was served in accordance with G. O. 96-B on January 18, 2011.

A notice of the proposed rate increase was mailed to each customer and to the general service list on January 12, 2011.

A public meeting was held on March 4, 2011, at 52784 Redwood Drive, Springville, California. Three people attended the meeting. The Division of Water and Audits (Division) staff explained the process of the rate increase at the Commission, while Alpine's representative reviewed the rate request. The customers had no disapprovals or comments about the size of the increase. No written comments about AL 15 were received.

In setting rates in this resolution, we have balanced the financial requirements of Alpine with the rate concerns of its customers.

### **DISCUSSION**

Division staff made an independent analysis of Alpine's operations. Appendix A shows Alpine's and the Division's estimated summary of earnings at present, proposed, and recommended rates for TY 2011 and escalation year 2012. The Division informed Alpine of how the methodologies it used differed from those used in Alpine's request.

Alpine is in agreement with the Division's recommended revenue requirement and the rates shown in Appendix B.

The Division's estimate of Alpine's operating expenses was based on current actual costs. The Division verified the operating expenses by reviewing annual reports, and supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonably necessary.

Alpine has requested a revenue increase of \$4,260 or 23.2% from its present revenue of \$18,384 which would yield \$22,644 for TY 2011. In addition, Alpine has requested an additional revenue increase of \$4,590 or 20.3%, which would yield \$27,234 for escalation year 2012. Alpine requested the increase over a two year period in order to reduce the rate shock. Division concurs.

Alpine, at 51 service connections, is a Class D water utility for rate-making purposes. There are two methods available for the Division to utilize in the rate-making process: (1) Rate of Return (ROR), and (2) Rate of Margin (ROM). The Division's Utility Audit, Finance and Compliance Branch currently recommends a ROM of 24.89% and a ROR from 12.00% to 13.00% for TY 2011 for a Class D, 100% equity financed utility.

Per Decision 92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. The ROR of 13.0% for TY 2011 would result in revenue of \$5,867. The ROM of 12.1% method for TY 2011 results in revenue of \$22,644, and ROM of 24.89% over a two-year period (i.e., to be earned by escalation year 2012) results in revenue of \$26,768. Therefore, Division recommends using the ROM method.

Alpine's current rate structure consists of two schedules: Nos. 1A, Metered Service; and 2AR, Residential Flat Rate Service. No meters are presently read. All customers are presently charged the flat rate fee. Since water quantity usage is unknown, the existing meter schedule cannot be used and should be deleted. In order to accumulate water quantity usage, Alpine should track each metered customer's water use data for at least one year. Thereafter, it may seek authorization for an appropriate general rate increase that includes meter rates.

At the Division's recommended rates, the increases in revenues will be \$4,260 or 23.2% for TY 2011, and \$4,124 or 18.2% for escalation year 2012. At the recommended rates for 2011 shown in Appendix B, yearly flat rates will increase from \$368.64 to \$440.00, a difference of \$75.36 or 20.4%, and in escalation year 2012 from \$444.00 to \$524.86, a difference of \$80.86 or 18.2%. A comparison of customer bills at present, recommended TY and escalation rates are shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D. Alpine should be required to file a Tier 2 advice letter on or before November 20, 2012, for the 2012 escalation rates and the escalation rates should be made effective on January 1, 2013. Alpine should not request recovery

of the Consumer Price Index increase for years 2011 and 2012 since the appropriate increases in gross revenues are considered and phased-in over a two year period.

### **COMPLIANCE**

Alpine has no outstanding compliance orders. The utility has been filing annual reports as required. The California Department of Public Health reports that water quality meets standards. Alpine should file a Tier 1 advice letter within 30 days from the effective date of this resolution revising its Title Page to meet current Commission standards.

Compliance with G. O. 103-A requirements for submission of plans for operations is required. The Division recommends that Alpine should conform to General Order 103-A requirements by submitting its current operation and maintenance plans, electronically or in hard copy, to the Division within nine months from the effective date of this resolution. Nine months is a reasonable time to generate this information.

### **COMMENTS**

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code Section 311(g) (2), the otherwise 30-day period for public review and comment is being waived.

### **FINDINGS**

1. Alpine Village Water Company (Alpine) provides water service to 51 customers in Tulare County.
2. AL 15 was served in accordance with General Order 96-B on January 18, 2011. On January 12, 2011, a notice of the proposed rate increase was mailed to each customer and to the general service list.
3. In reviewing Alpine's request, the Division made an independent analysis of Alpine's operations.
4. The Division's estimate of Alpine's operating expenses was based on current actual costs. The Division verified the operating expenses by reviewing annual reports, and supporting documents for substantiation and accuracy and included the amounts that were deemed reasonably necessary.

5. The Division informed Alpine of how the methodologies and escalation rates it used differed from those used in Alpine's request. Alpine now agrees with the Division's recommended revenue requirement.
6. The present rates became effective on October 11, 2007, with the approval of AL 13 which was authorized in Alpine's last General Rate Case.
7. For Test Year 2011, it is appropriate to grant Alpine an increase in gross revenues of \$4,260 or 23.2%, which is estimated to provide a Rate of Margin of 12.1%.
8. For escalation year 2012, it is appropriate to grant Alpine an increase in gross revenues of \$4,124 or 18.2%.
9. The increases in gross revenues are estimated to provide to Alpine a total rate of margin of 24.89% over two years.
10. At the recommended rates for 2011, shown in Appendix B, yearly flat rates will increase from \$368.64 to \$444.00, a difference of \$75.36 or 20.4% in TY 2011; and from \$444.00 to \$524.88, a difference of \$80.88 or 18.2% in escalation year 2012.
11. Alpine currently has 51 customers and most of them are seasonal customers. Of these, 31 have meters installed and 20 are flat rate. No meters are presently read. All customers are presently charged the flat rate fee.
12. Since water quantity usage is unknown, the existing meter schedule cannot be used and should be deleted. Alpine should track each metered customer's water use data for at least one year. Thereafter, it may seek authorization for an appropriate general rate increase that includes meter rates.
13. The Division of Water and Audits' recommended earnings (Appendix A) are reasonable and should be adopted.
14. The rates recommended by the Division of Water and Audits (Appendix B) are reasonable and should be adopted.
15. The quantities (Appendix D) used to develop Division of Water and Audits' recommendations are reasonable and should be adopted.
16. Alpine should be ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution revising its Title Page to meet the current Commission standards.

17. Alpine should be required to file a Tier 2 advice letter on or before November 20, 2012, for the escalation rates of 2012 and the escalation rates should be made effective on January 1, 2013.
18. Alpine should not request recovery of the Consumer Price Index for years 2011 and 2012.
19. Alpine should conform to GO 103-A requirements by submitting its current operation and maintenance plans, electronically or in hard copy, to the Division within nine months from the effective date of this resolution.

**THEREFORE IT IS ORDERED:**

1. Authority is granted under Public Utilities Code Section 454 to Alpine Village Water Company to file a supplement to Advice Letter 15 to make effective the revised Schedule AR, Residential Flat Rate Service, attached to this Resolution as Appendix B and concurrently cancel its similar presently effective rate schedule, as well as Schedule 1A, Metered Service. The effective date of the revised schedule shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.
3. Alpine Village Water Company shall record water use data for at least one year before it can seek authorization for an appropriate general rate increase that includes meter rates.
4. Alpine Village Water Company is ordered to file a Tier 1 advice letter within 30 days from the effective date of this resolution to revise its Title Page in order to meet current Commission standards.
5. Alpine Village Water Company shall file a Tier 2 advice letter on or before November 20, 2012, for the escalation rates of 2012 and the escalation rates shall be made effective on January 1, 2013.
6. Alpine Village Water Company shall not request recovery of the Consumer Price Index for years 2011 and 2012.
7. Alpine Village Water Company shall conform to General Order 103-A requirements by submitting its current operation and maintenance plans, electronically or in hard copy, to the Division within nine months from the effective date of this resolution.

8. 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 October 20, 2011; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon  
Executive Director

MICHAEL R. PEEVEY  
President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

**APPENDIX A**  
**Alpine Village Water Company**  
**Summary of Earnings – Test Year 2011**

	Utility Estimated		Division Estimated		Division
	Present	Requested	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	ROM Rates
<b>Operating Revenues:</b>					
Water Sales	\$ 18,384	\$ 22,644	\$ 18,384	\$ 22,644	\$ 22,644
<b>Operating Expenses:</b>					
Purchased Power	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350
Other Vol. Rel. Exp.	\$ 142	\$ 142	\$ 146	\$ 146	\$ 146
Employee Labor	\$ 2,750	\$ 2,750	\$ 2,700	\$ 2,700	\$ 2,700
Materials	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Contract Work	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Transportation	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400
Other Plant Maintenance	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200
Office salaries	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
Management	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Employee Pension & Bnfts	\$ -	\$ -	\$ -	\$ -	\$ -
Uncollectibles	\$ -	\$ -	\$ -	\$ -	\$ -
Office Services & Rentals	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies & Exp	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175
Professional Svcs	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700
Insurance	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
Regulatory Comm Exp.	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550
General Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 16,017	\$ 16,017	\$ 16,971	\$ 16,971	\$ 16,971
Depreciation Expense	\$ 1,751	\$ 1,751	\$ 1,751	\$ 1,751	\$ 1,751
Taxes other than income	\$ 460	\$ 460	\$ 460	\$ 460	\$ 460
CA Franchise Tax	\$ -	\$ -	\$ 800	\$ 800	\$ 800
Federal Income Taxes	\$ -	\$ -		\$ 399	\$ 399
Interest Expense	\$ 1,108	\$ 1,108	\$ 1,108	\$ 1,108	\$ 1,108
Total Deductions	\$ 19,336	\$ 19,336	\$ 21,090	\$ 21,489	\$ 21,489
<b>Net Revenue</b>	\$ (952)	\$ 3,308	\$ (2,706)	\$ 1,155	\$ 1,155
<b>Rate Base:</b>					
Avg Plant	\$ 81,949	\$ 81,949	\$ 81,949	\$ 81,949	\$ 81,949
Avg Dep Res	\$ 38,801	\$ 38,801	\$ 38,801	\$ 38,801	\$ 38,801
Net Plant	\$ 43,148	\$ 43,148	\$ 43,148	\$ 43,148	\$ 43,148
Less: CIAC	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: Materials & Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Working Cash	\$ 1,983	\$ 1,983	\$ 1,983	\$ 1,983	\$ 1,983
Rate Base	\$ 45,131	\$ 45,131	\$ 45,131	\$ 45,131	\$ 45,131
Rate of Return	-2.1%	7.33%	-6.00%	2.56%	2.56%
Rate of Margin	0.9%	24.9%	-8.5%	12.1%	12.1%



**APPENDIX A**  
**Alpine Village Water Company**  
**Summary of Earnings – Escalation Year 2012**

	Utility Estimated		Division Estimated		Division
	Present	Requested	Present	2011	Recommended
	Rates	Rates	Rates	Rates	2012 ROM Rates
<b><u>Operating Revenues:</u></b>					
Water Sales	\$ 18,384	\$ 27,234	\$ 18,384	\$ 22,644	\$ 26,768
<b><u>Operating Expenses:</u></b>					
Purchased Power	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350
Other Vol. Rel. Exp.	\$ 142	\$ 142	\$ 146	\$ 146	\$ 146
Employee Labor	\$ 2,750	\$ 2,750	\$ 2,700	\$ 2,700	\$ 2,700
Materials	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Contract Work	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Transportation	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400
Other Plant Maintenance	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200	\$ 3,200
Office salaries	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ 1,000
Management	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Employee Pension & Bnfts	\$ -	\$ -	\$ -	\$ -	\$ -
Uncollectibles	\$ -	\$ -	\$ -	\$ -	\$ -
Office Services & Rentals	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies & Exp	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175
Professional Svcs	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700
Insurance	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
Regulatory Comm Exp.	\$ 550	\$ 550	\$ 550	\$ 550	\$ 550
General Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses	\$ 16,017	\$ 16,017	\$ 16,971	\$ 16,971	\$ 16,971
Depreciation Expense	\$ 1,751	\$ 1,751	\$ 1,751	\$ 1,751	\$ 1,751
Taxes other than income	\$ 460	\$ 460	\$ 460	\$ 460	\$ 460
CA Franchise Tax	\$ -	\$ -	\$ 800	\$ 800	\$ 800
Federal Income Taxes	\$ -	\$ -		\$ 399	\$ 1,018
Interest Expense	\$ 1,108	\$ 1,108	\$ 1,108	\$ 1,108	\$ 1,108
Total Deductions	\$ 19,336	\$ 19,336	\$ 21,090	\$ 21,489	\$ 22,108
<b>Net Revenue</b>	\$ (952)	\$ 7,898	\$ (2,706)	\$ 1,155	\$ 4,660
<b>Rate Base:</b>					
Avg Plant	\$ 81,949	\$ 81,949	\$ 81,949	\$ 81,949	\$ 81,949
Avg Dep Res	\$ 38,801	\$ 38,801	\$ 38,801	\$ 38,801	\$ 38,801
Net Plant	\$ 43,148	\$ 43,148	\$ 43,148	\$ 43,148	\$ 43,148
Less: CIAC	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: Materials & Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Working Cash	\$ 1,983	\$ 1,983	\$ 1,983	\$ 1,983	\$ 1,983
Rate Base	\$ 45,131	\$ 45,131	\$ 45,131	\$ 45,131	\$ 45,131
Rate of Return	-2.1%	17.50%	-6.00%	2.56%	10.33%
Rate of Margin	0.9%	50.7%	-8.5%	12.1%	24.89%

(END OF APPENDIX A)

**APPENDIX B**

**Sheet 1**

**ALPINE VILLAGE WATER COMPANY**

**Schedule No. 2AR**

**Test Year 2011**

**RESIDENTIAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all residential rate service furnished on a flat rate basis.

**TERRITORY**

Alpine Village, Tract 417 and vicinity, located approximately five (5) miles north of Camp Nelson, Tulare County.

**RATES**

	Per Service Connection <u>Per Year</u>	
1. For a single- family residential unit, including premises	\$444.00	(I)
(a) For each additional single-family unit on the same premises and served from the same service connection	\$205.11	(I)

**SPECIAL CONDITIONS**

1. The above flat rates apply to service connections not larger than 1-inch diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule 1A, Metered Service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B**  
**Sheet 2**  
**ALPINE VILLAGE WATER COMPANY**  
**Schedule No. 2AR**  
**Escalation Year 2012**  
**RESIDENTIAL FLAT RATE SERVICE**

**APPLICABILITY**

Applicable to all residential rate service furnished on a flat rate basis.

**TERRITORY**

Alpine Village, Tract 417 and vicinity, located approximately five (5) miles north of Camp Nelson, Tulare County.

**RATES**

	Per Service Connection <u>Per Year</u>	
1. For a single- family residential unit, including premises	\$524.88	(I)
(a) For each additional single-family unit on the same premises and served from the same service connection	\$242.44	(I)

**SPECIAL CONDITIONS**

1. The above flat rates apply to service connections not larger than 1-inch diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule 1A, Metered Service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**(END OF APPENDIX B)**

**APPENDIX C**

**ALPINE VILLAGE WATER COMPANY**

**COMPARISON OF RATES**

A comparison of Alpine's present rates and the Division's recommended rates is shown below:

**RESIDENTIAL FLAT RATE SERVICE**

	Per Service Connection Per Year		
	Present	Recommended	Percent
	<u>TY Rates</u>	<u>Rates</u>	<u>Increase</u>
<b><u>Test Year 2011</u></b>			
For a single family residential unit	\$368.64	\$444.00	20.4%
<b><u>Escalation Year 2012</u></b>			
For a single family residential unit	\$444.00	\$524.86	18.2%

**(END OF APPENDIX C)**

**APPENDIX D**

**Alpine Village Water Company**  
**ADOPTED QUANTITIES**

Purchased Power

Pacific Gas & Electric                      \$ 350

Service Connections

Metered      5/8"                      31

Flat                      20

Tax Calculations

Federal Tax Rate:                      15% for first \$50,000

CCFT:                      8.84% (\$800 minimum)

Item	2011	2012
	State Tax	State Tax
Operating Revenue	\$22,644	\$26,768
O&M Expense	\$17,079	\$17,079
Taxes Other Than Income	\$ 460	\$ 460
Depreciation	\$ 1,751	\$ 1,751
 Taxable Income for CCFT	 \$ 3,354	 \$ 7,478
CCFT	\$ 800	\$ 800
	<u>Federal Tax</u>	<u>Federal Tax</u>
Taxable Income for FIT	\$ 3,058	\$ 6,817
FIT	\$ 399	\$ 1,018
 Total Income Tax	 \$ 1,199	 \$ 1,818

**(END OF APPENDIX D)**