WATER/RSK/KOK/DLW/RHG

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
UTILITY AUDIT, FINANCE AND
COMPLIANCE BRANCH

RESOLUTION W-4886
October 20, 2011

R E S O L U T I O N

RESOLUTION W-4886. RESOLUTION GRANTING LUKINS BROTHERS WATER COMPANY, INC. AUTHORITY TO BORROW $2,000,000, FROM FINANCIAL INSTITUTIONS; TO ENCUMBER ITS ASSETS IN CONNECTION WITH THE LOAN; AND TO INSTITUTE A SURCHARGE TO PAY OFF THE LOAN.

By Advice Letter No. 43 filed on February 24, 2011.

SUMMARY

This Resolution grants Lukins Brothers Water Company, Inc. (LBWC) the authority requested in its Advice Letter (AL) 43.

LBWC requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code, to: [1]

1. Borrow $2,000,000, from La Quinta Capital, LLC (LQC) or other financial institutions;
2. Use the loan proceeds to finance any loan issuance costs and Phase 1 and part of Phase 2 of its construction project establishing new water mains and fire flow for its currently inadequate system;
3. Establish a surcharge to make payments of principal and interest on the loan and accumulate a sinking fund reserve equal to one year's debt service; and
4. Encumber utility assets in connection with the loan.

[1] All statutory references are to the Public Utilities Code unless otherwise indicated.

BACKGROUND

LBWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. LBWC provides water service to approximately 933 flat-rate connections and 20 metered residential customers. By written agreement, LBWC also provides public fire protection water service to 13 fire hydrants. LBWC's service territory is in the Lukins Brothers subdivision, totally within the City of South Lake Tahoe (City) in El Dorado County. Two other water utilities, the South Tahoe Public Utility District (STPUD) and the Tahoe Keys Homeowners Association serve water to the remainder of the City.

LBWC's water system currently includes approximately 400 feet of two-inch water mains, 48,000 feet of four-inch mains, 7,600 feet of 6-inch mains, and 1,300 feet of 8-inch mains. According to LBWC, the mains and wells are almost fully depreciated and some parts of the system cannot carry sufficient water for adequate fire flow because the mains are too small. LBWC asserts that its system does not meet the current fire code standards because, among other things, it does not have sufficient hydrants in its service area.

Beginning in the 1940's, LBWC served seasonal and annual residents in the Lukins Brothers subdivision. In 1953, LBWC used two wells to provide water to 20 customers through two-inch and four-inch mains. In 1965, as the population increased, the City was incorporated, which resulted in the inclusion of LBWC's service area. In 1974, STPUD started providing water to the rest of the City, which consisted of over 16,000 residences and 660 business outfits.

In 2006, STPUD considered buying LBWC and commissioned a study by Brown & Caldwell Engineering. In its engineering report of August, 2006, Brown & Caldwell Engineering estimated a cost of $18.4 million to upgrade LBWC's system to state, local, and STPUD standards. The Insurance Services Office, Inc. (ISO) rating of fire protection for part of LBWC's service area is a 9/10, the lowest rating for fire safety.[2] The low rating was given because there were not enough hydrants and the mains were too small to carry adequate flow for fire fighting.

On June 24, 2007, the Angora fire, ignited by an illegal campfire, burned 3,100 acres of land and destroyed 254 homes in and around the City. The fire did not come into LBWC's service area, but the City, local fire agencies, customers and LBWC saw the

[2] ISO, a subsidiary of Verisk Analytics, provides data, underwriting, risk management and legal/regulatory services to property-casualty insurers and other clients with a focus on community fire-protection efforts and Building Code Effectiveness Evaluations. Since ISO monitors regulatory standards and insurance laws, it makes many filings and other communications with regulatory authorities on behalf of its clients. Founded in 1971 in a merger of smaller underwriting service organizations, ISO became a private, for-profit company in 1997 and is owned by its member insurers and employees.

need to improve LBWC's system so that, among other things, the system would provide adequate fire flow. However, LBWC claims it did not have the funds to invest nor were there any grants available to it for its fire protection improvements.
LBWC intended to get private loans for a series of construction projects to improve its system. Because a private or public lender would require plans and cost estimates for the improvements before lending money, LBWC solicited proposals for an engineering design of its water system rehabilitation, including the replacement of its 12th St. water main.

On July, 2008, a consortium of local firms, Haen Engineering and c2me Engineering, submitted a proposal for the engineering services. For the sum of $169,840, they proposed to do a preliminary design for the overall system rehabilitation and a detailed design of the 12th St. main replacement. On April 29, 2008, LBWC filed a Draft Advice Letter seeking among other things, approval to implement a surcharge to fund the engineering study.

On November 12, 2008, the City filed a complaint with the Commission against LBWC, Case (C.) 08-11-013. In its complaint, the City alleged that LBWC created a severe hazard to life, property and the public safety, which required immediate action.

In response to LBWC's Draft Advice Letter filed April 29, 2008, the Commission authorized LBWC to impose a System Improvement Charge (SIC) of $169,840 to fund the engineering design of LBWC's system rehabilitation and the 12th St. main replacement.[3] The Commission indicated that the rehabilitation of LBWC's system was urgently needed and the SIC was an appropriate method to fund the planning for the system rehabilitation. The Commission noted that LBWC could not afford additional investment at that time. The charge to be levied on LBWC's customers was based on meter size and flat rate.

The SIC authorized in Res. W-4726 was for the preliminary engineering and design of the projects which was expected to take several years to complete. The Commission specified that after the preliminary design phase, additional SIC or other funding mechanisms would be needed for each phase of the project.

In conjunction with the SIC authorization, the Commission required LBWC, among other things, to:

[3] See Resolution (Res.) W-4726, dated December 4, 2008. In Res. W-4726, among other things, the Commission referred to LBWC's SIC as a Distribution System Improvement Charge or DSIC. In order to avoid confusion with the DSIC mechanism approved for California-American Water Company in Decision 07-08-030, dated August 23, 2007, we now refer to LBWC's charge as a SIC.

1. Establish and maintain a separate bank account into which all deposits of the SIC surcharges and disbursements were to be made. The Commission ordered that withdrawals from the account be used only for infrastructure improvements and be booked as contributions.
2. Deposit all SIC surcharges within 30 days of collection with a fiscal agent.
3. Establish and maintain a separate account into which all billed SIC revenue and interest was to be recorded and reduced by the withdrawal of monies used to design infrastructure and any fees for the trust account.
4. Within 90 days after completion of the preliminary engineering design, submit to the Commission's Division of Water and Audits (DWA), a 20-year Proposed System Improvement Plan (PSIP) for improvements to its system.
5. Within 15 days of completion of the PSIP, schedule public meetings with customers to discuss their willingness to fund each phase of the plan.

By AL 40, that became effective December 21, 2008, LBWC imposed the SIC charge on its flat-rate and metered service customers.[4] By AL 41, that became effective October 27, 2009, LBWC terminated the SIC.

LBWC deposited its SIC surcharge collections in a Plumas Bank checking account, separate from LBWC's Bank of the West checking account. According to LBWC, there was no formal trust agreement created for handling the SIC surcharge although there were emails between DWA's staff, LBWC, and the Plumas Bank regarding the terms of the bank account. As of June 30, 2011, LBWC had billed its customers $169,320.51, collected $169,081.92 and had paid $107,881.61 for the engineering study. Based on the foregoing, LBWC should have had approximately $61,200 remaining in the bank account but, as of June 30, 2011, the balance in the Plumas Bank account was only $44,628.26, including a $5,000 deposit in transit.

LBWC is currently reconciling it's SIC surcharge collection, the bank deposits, and SIC payments to determine and correct any errors. On July 14, 2011, LBWC confirmed, that it mistakenly placed approximately $15,800 of the SIC surcharge collection in its Bank of the West checking account instead of the Plumas Bank checking account. To correct this

[4] In Res. W-4726, the Commission also authorized LBWC to collect a service fee equal to the SIC times the number of years from the time the charge was imposed until service is rendered or the date of connection, with a maximum of $2,000 from customers requesting future services to currently undeveloped lots. LBWC did not include a request to implement this service fee in its AL 40. Consequently, LBWC did not implement the service fee.

error, LBWC asserts it will deposit the amount of $15,808.47 to its Plumas Bank checking account. After it deposits the $15,808.47, $763.58 remains unaccounted for from the amounts collected by June 30, 2011, and $1,002.17 remains unaccounted for from the total amount billed.[5]

On May 15, 2009, Haen Engineering and c2me Engineering (Consultants) issued its Draft Design Report (Report) on LBWC's water system rehabilitation and replacement. The Consultants estimated that the cost to completely rehabilitate LBWC's water system will be $29,797,939, which will then have a life expectancy of 50 years. In the Report, the Consultants identified the design, administration, and construction of water system requirements of the city, state agencies, including the Commission, the American Water Works Association and the National Fire Protection Association. Attached to the Report was a detailed worksheet showing the Consultant's proposed 11 phases of construction and their costs, the proposed water system layout and required fire-flows, and the water system pressure distribution. In compliance with Res. W-4726, about the first week of June, 2009, LBWC provided copies of the Report to concerned permitting and regulatory agencies, including the Commission.

On July 2, 2009, LBWC entered into a Stipulation Agreement with the City. Due to the challenges of obtaining funding necessary to construct and complete system improvements and upgrades, and the short-term need to address critical fire hazard areas and conditions, the City stipulated the following priorities:

Priority No. 1 – Master Planning for the entire LBWC system
Priority No. 2 – Design for the 12th St. Waterline (Phase 1)
Priority No. 3 – Phase 1 construction
Priority No. 4 – Design for James Avenue, Eloise Avenue and Dunlap Drive Loop (Phase 2)
Priority No. 5 – Phase 2 construction
Priority No. 6 – Design for remainder of LBWC system including All required fire hydrants (Phase 3)
Priority No. 7 – Phase 3 construction

The Stipulation Agreement requires LBWC to use its best efforts to find funding and proceed with the improvements expeditiously in accordance with the priority list that emphasized Phases 1 and 2 identified in the Report.

[5] On October 5, 2011, LBWC deposited the amount of $16,810.64 ($15,808.47 plus the unaccounted amount of $1,002.17) to its Plumas Bank account. As of October 5, 2011, $763.58 still remains unaccounted for. The reconciliation of the SIC account is also part of the ongoing audit of LBWC's records which is being conducted by UAFCB.

On July 14, 2009, LBWC held a public meeting to discuss the Report. In attendance were approximately 25 customers and 25 persons from agencies concerned with the proposed project, including the staff from DWA and the Commission's Public Advisor's Office. The City Manager gave a brief talk regarding fire hazards in the area, finding ways to fund segments of the project, and the need to prevent a rate shock to LBWC's customers. The Consultants went into detail about the construction and the cost of each phase. LBWC explained that Phase 1 of the project would be the backbone of the system and would provide immediate relief for many of the system's problems. Customer concerns focused on costs and the surcharge to be imposed on ratepayers. The City, the local fire agencies, customers and LBWC all decided that they want the system to be improved. In particular, the City requested implementation of the most critical fire protection upgrades as soon as possible.

In D.09-07-025, dated July 15, 2009, the Commission dismissed C.08-11-013, upon receiving a joint request for withdrawal from the City and LBWC.

On September 15, 2009, the Consultants issued a supplement to its Report to correct minor errors in its designs; identify a strategy to maximize fire-flow protection for residential customers; clarify that while LBWC's service area had been given a 9/10 ISO rating, the entire City has a Class 5 ISO rating; and respond to written comments received from three agencies regarding minimum fire-flow, current and proposed use of existing interties, combined demand of maximum day use and required fire-flows, and City requirements, permits and fees.

A. Haen Engineering and c2me Engineering Recommendations

As expected, the Consultants indicated that LBWC's existing distribution system is undersized and provides minimal fire protection. While LBWC's ratepayers enjoy safe "non-chlorinated" well water, their fire protection system is virtually nil and the pressure at some locations is less than satisfactory. Due to its 4-inch mains, LBWC's system is unable to provide adequate fire-flow. Modern municipal hydrants are not effective unless connected to a minimum 6-inch line.

The Consultants divided the rehabilitation and replacement of LBWC's water system into 11 construction phases. Phasing identifies individual projects that are constructible in terms of direct impacts, such as traffic circulation and the necessity to maintain water service. The Consultants designed the rehabilitation starting with larger diameter transmission mains connecting sources, followed by smaller diameter distribution main loops. This phasing scheme is intended to maximize the number of customers benefiting from increased service pressure early in the system replacement process.

The Consultants indicated that the fire hydrant and valve installation phasing will be built consistent with the pipeline construction phasing. In a given construction phase, a

fire hydrant will be provided at the end of an installed section of pipe to provide the ability to "blow-off" water for disinfection and flushing. As a pipeline segment crosses through an intersection where future phases will be joined at a tee or cross fitting, valves matching the future pipeline diameter will be provided so that future construction can proceed without water service outages. Valves will be provided at intersections and at 800-foot intervals. Due to the looped nature of the distribution system, three valve groups will be provided at intersections. This gives the ability to isolate a given block with a four valve closure and any given street can be fed from two directions.

The Consultants identified the 12th St. Waterline Project as the first construction phase. This project will connect both LBWC's source locations with a 12-inch transmission main. The Consultant projects that the 12th St. Waterline Project will be one of the most challenging construction phases in the district due to the many existing utilities. A City storm drainage system currently runs down 12th Street. The existing sewer is generally near a street's center, however there are sewer services at regular intervals which must drain by gravity. There is a ten-foot sanitary separation preferred between the sewer and storm drains and the water system. The City also requested avoidance of the street shoulder where future storm drain drop inlets may be located.

During construction, LBWC will maintain customer water service at all times, excepting brief scheduled local shutdowns. LBWC will construct the new system in parallel with the old system from an initial valved intertie. During installation of the new pipeline, the contractor will run new water service lines up to existing customer connection points at the property line. The pipeline will be disinfected, pressure tested, bacteriologically tested, and flushed prior to swapping service connections over to the new water line. Finally, when all customers have been connected to the new system, LBWC will take the existing main out of service and abandon it in place.

The Consultants stated that STPUD construction practices and standards are thought to represent the best local practices in the water industry and recognized that LBWC may potentially become incorporated into the STPUD system. Therefore, the Consultants recommended that the design and construction of LBWC's system conform to STPUD's standards. Residential connections will be 1-inch minimum for single or double services and the 1-inch minimum size is in anticipation of future residential sprinklering requirements.

The Consultants estimated the total rehabilitation and replacement costs for all 11 phases, as summarized in the following table.

Table 1
Estimated Costs for LBWC's Water System Rehabilitation and Replacement

Item	Phase 1	Phase 2	Phase 3 to Phase 11[6]	Total
Mobilization & Demobilization	$ 81,300	$ 90,200	$ 936,700	$1,108,200
Traffic Control	40,700	45,100	309,100	394,900
Erosion Control	21,000	23,000	156,700	200,700
New Well Construction			1,000,000	1,000,000
Storage Tank w/Booster Pump		3,000,000	3,000,000	6,000,000
6-inch Pipe	22,900	45,750	1,076,750	1,145,400
8-inch Pipe			769,020	769,020
12-inch Pipe	341,110	386,470	746,620	1,474,200
6-inch Valve	24,500	45,500	154,000	224,000
8-inch Valve	31,500	4,500	81,000	117,000
12-inch Valve	96,000	84,000	114,000	294,000
Fire Hydrant Assemblies	112,000	98,000	525,000	735,000
1-inch Services	68,250	61,250	1,496,250	1,625,750
1 ½-inch Services		8,000		8,000
2-inch Services		6,750	2,250	9,000
Paving	63,972	77,232	540,216	681,420
Mill and Overlay	255,888	308,928	2,160,864	2,725,680
Subtotal	1,159,120	4,284,680	13,068,470	18,512,270
10% Engineering	115,912	428,468	1,306,847	1,851,227
Subtotal	1,275,032	4,713,148	14,375,317	20,363,497
20% Contingency	255,006	942,630	2,875,063	4,072,699
Subtotal	1,530,038	5,655,778	17,250,380	24,436,196
4% Inflation (compounded)	1.04	1.08	1.28	
TOTAL	**$1,591,240**	**$6,117,289**	**$22,089,410**	**$29,797,939**

LBWC asserts that each phase of the construction has its own importance and can stand alone. Phase 1 ties the main water supply together and creates a main trunk line through the middle of the water system. Phases 1 to 4 consist of installing 12" main lines for fire protection for approximately 89% of the water system. According to LBWC, Phases 1 and 2 are critical and create the backbone for the entire system.

LBWC estimates that Phase 1 construction will be completed in the first year of construction and subsequent Phases 2 thru 11 will be completed annually, finishing in the year 2021.

[6] Totaled as a group and not shown by individual phases. The $2 million debt requested in the filing is intended only to fund Phase 1 and part of Phase 2 of LBWC's system upgrade.

B. Financial Information

In its Income Statement for the year ending December 31, 2010, LBWC reported that it generated total operating revenues of $471,292, with a net loss of $23,324. LBWC's Balance Sheet, as of December 31, 2010, as reported, is summarized in the following table.

Table 2
Balance Sheet as of December 31, 2009

Assets	Amount
Net Utility Plant	$229,985
Investments	0
Current Assets & Accrued Assets	60,381
Deferred Charges	0
Total Assets and Deferred Charges	**$290,366**
Liabilities & Equity	
Common Stock	$ 25,000
Other Paid-in Capital	0
Retained Earnings	(26,053)
Long-Term Debt	43,232
Current & Accrued Liabilities	248,187
Advances for Construction	0
Net Contributions in Aid of Construction	0
Total Liabilities & Equity	**$290,366**

LBWC's last general rate increase became effective October 27, 2009, pursuant to Res. W-4791, dated October 15, 2009. The Commission authorized an interim general rate increase of $126,460 or 36.03% over the then revenues at present rates of $350,981. In Res. W-4791, the Commission noted that LBWC's annual reports were inadequate and inaccurate. For this reason, DWA's Utility Audit, Finance & Compliance Branch (UAFCB) requested that the rate increase be interim, so that a surcharge or surcredit could be imposed in the future to adjust revenues to what they should have been based on an in-depth audit of LBWC's records. That audit is currently in progress. In addition, the Commission reaffirmed that LBWC's mains and wells are almost fully depreciated and they are near the end of their normal service life; some parts of the system cannot carry enough water for adequate fire flow because the mains are too small; and there are too few hydrants in the service area to meet current fire code standards. The Commission discussed LBWC's system improvement studies and indicated that construction plans for replacement of the 12th St. water main was being prepared, the overall water system rehabilitation would be done in 11 phases, and funding mechanisms would be needed to pay for each phase of the design and construction.

C. Financing Request

LBWC seeks authorization to (1) borrow $2,000,000 from LQC or other financial institutions to fund the construction of Phase 1 and part of Phase 2 of its proposed systems upgrades and any loan issuance costs, (2) impose a surcharge, and (3) encumber utility assets.

By letter dated January 20, 2011, shown as Exhibit B in LBWC's AL, LQC indicated its intention to provide private placement services for a debt offering up to the amount of $2,000,000 plus the cost of issuance of approximately $100,000. LQC requires a dedicated source of revenue for repayment of the principal amount of the loan plus interest and a reserve fund to be accumulated during the first ten years of the term. The issuance cost includes private placement fees, trustee fees, legal fees and other closing costs.

The proposed debt will carry an interest rate based on current rates, estimated to be 6.5% or less, with a term not to exceed 20 years. The estimated annual payment for the proposed debt for the first ten years is $196,824, and $178,932 thereafter. The loan is to be secured by LBWC's assets.

LBWC proposes to impose a monthly surcharge that will be in direct proportion to the capacity of each customer's meter, estimated as shown in Schedule I of its filing and in the following table.

Table 3
Proposed Monthly Surcharge

Service	1 to 10 years	11-19 years
5/8 x 3/4 –inch meter	$ 8.68	$ 7.89
¾-inch meter	13.01	11.83
1-inch meter	21.69	19.72
1 ½-inch meter	43.38	39.44
2-inch meter	69.41	63.10
3-inch meter	130.14	118.31
4-inch meter	216.90	197.19

LBWC indicated that the monthly bill for a commercial 1-inch metered customer using an average of approximately 600 cubic feet of water per month, at a quantity rate of $1.475 per 100 cubic feet, and a service charge of $32.51 is currently $41.36.[7] With the proposed surcharge, LBWC estimated that the monthly bill for the first 10 years would

[7] The monthly service charge of $32.51 is equal to the annual metered service rate of $390.11 divided by 12 months.

increase by $21.69 or 52.4% from $41.36 to $63.05. Thereafter, the increase would be $19.72 or 47.7% from $41.36 to $61.08.

The monthly bill for a typical single-family residential flat-rate customer with a ¾-inch service connection is currently $32.96.[8] With the proposed surcharge, LBWC estimated that the monthly bill for the first 10 years would increase by $13.01 or 39.5% from $32.96 to $45.97. Thereafter, the increase would be $11.83 or 35.9% from $32.96 to $44.79 for the remainder of the life of the loan.

D. Construction Budget

LBWC's projected construction budget for Phase 1 and part of Phase 2, as shown in Exhibit H in its AL, is shown in the following table.

Table 4
Construction Budget

Mains, Pipes, and Fire Hydrants (Phase 1 and part of Phase 2)	$1,502,000
Mobilization, Traffic control and Erosion Control (Phase 1)	143,000
Total Estimated Construction Costs	1,645,000
Contingency (Phase 1)	255,000
Loan Closing Costs	100,000
Total	**$2,000,000**

E. Cash Requirements Forecast

LBWC's estimated cash requirements forecast, as shown in Schedule J of its AL, is shown in the following table.

Table 5
Cash Requirements Forecast

Funds for Construction	$2,000,000
Bonds, Notes Retirement	0
Short-Term Debt Repayment	0
Total Cash Requirements	$2,000,000
Less: Estimated Cash Provided from Internal Sources	0
Funds Required from External Sources	**$2,000,000**

LBWC incurred a net loss of $23,324 for 2010 and asserts that it does not have the means at this time to finance any of its Phase 1 and part of Phase 2 project costs. As indicated earlier, the Commission, in Res. W-4791, only authorized an interim general rate

[8] The monthly flat-rate service charge of $32.96 is equal to the annual flat rate service rate of $395.52 divided by 12 months.

increase for 2009 and LBWC's rates may be adjusted based on the results of an in-depth audit of LBWC's records, currently being conducted by DWA's UAFCB.

F. Capital Structure

In Exhibit G to the AL, which LBWC revised April 26, 2011 and most recently on August 2, 2011, LBWC presented its capital structure as recorded, as of December 31, 2010, and adjusted to give pro forma effect to LBWC's proposed debt transaction. LBWC's proforma capital structure, as presented in its amended Exhibit G is shown in the following table.

Table 6
Proforma Capital Structure

		Recorded		Adjustments	Proforma	
Long-term debt	$	43,232	102.5%	$2,000,000(A)	$2,043,232	95.6%
Common Stock		25,000	59.3%	-	25,000	1.2%
Other Paid-In Capital		0	00.0%	597,798 (B)	597,798	27.9%
Retained Earnings		(26,053)	(61.8)%	(501,961)I	(528,014)	(24.7)%
Total Capitalization	**$**	**42,179**	**100.0**%	**$2,095,837**	**$2,138,016**	**100.0**%

(A) Issuance of $2,000,000 requested in this filing less the adjustment for $597,798 in long-term debt, as a result of the May 8, 2010 joint board meeting, where Melvin L. Lukins and Sons Inc. decided to forgive LBWC's debt for contract work performed in prior years.
(B) Melvin L. Lukins and Sons Inc. forgave LBWC's debt for contract work performed in prior years. The amount of $597,798 was recorded as a credit to Retained Earnings. This amount will be adjusted as Other Paid-In Capital to be recorded with other adjustments after UAFCB's audit of the utility.
(C) LBWC's proposed net income of $95,837 in Advice Letter 41 filed October 22, 2009 less the $597,798 loan forgiveness adjustment.

NOTICE AND PROTESTS

Pursuant to General Order 96-B, Water Industry Rule 4.1, on February 23, 2011, LBWC served its AL 43 on its service list, which included among other parties, some of LBWC's customers. Notice of AL 43 was made by publication in the Commission's Daily Calendar of February 28, 2011.

On March 3, 2011, one of LBWC's customers sent LBWC and DWA an objection to the proposed borrowing, rate surcharge and the burden of the system upgrade on customers. The customer suggested that a long-term solution for the community is to have STPUD acquire LBWC because STPUD has access to federal and state grants and loans that are beyond the reach of private entities. The customer asserts that STPUD

has the ability to handle LBWC's system replacement without 11 protracted phases stretching over an unknown length of time.

On March 12, 2011, another customer sent an objection by email, stating that the $2 million to be surcharged plus the costs of the remaining phases of the water system rehabilitation and replacement will be too much for customers to bear. The customer states that she has her own business and has never asked her customers to pay for improvements to her property.

LBWC acknowledged receipt of and responded to the objections on March 9, 2011 and March 15, 2011, respectively. LBWC stated that it understands the customers' concerns over a rate increase during today's economic conditions, but that it must take the initiative to begin rehabilitating its water system. By using the proposed $2 million debt in the most cost effective way possible, LBWC anticipates over a 30% increase in fire protection for its customers. LBWC also indicated that STPUD stated that it has no immediate access to funding for any projects and that STPUD's Board of Directors have voted that it was not in the best interest of its current STPUD customers to purchase LBWC.

On April 26, 2011, LBWC notified its customers by mail of the proposed loan and surcharge needed to repay the loan. On May 6, 2011, LBWC published a public notice containing the proposed loan, the surcharge, and the proposed rate change expressed in both dollar and percentage terms in the Tahoe Daily Tribune, a local newspaper circulated in El Dorado County.

On May 2, 2011, LBWC received an email from a customer who stated that it is unjust and unreasonable to expect customers to rebuild and upgrade a private water system without getting anything in return. The customer posed questions as to: a) who will oversee the loan, the project, and the expenditures; b) who is going to perform the construction work; c) how much surcharge will be collected; and d) how long will it take to complete the project.

By letter dated May 6, 2011, LBWC included the following points in its response to that customer:

1. The engineering study established the estimated cost of the rehabilitation project;
2. The project is estimated to be completed in 20 years. But the state of the economy plays a major role in the actual timeline;
3. LBWC will put the projects out for bid;

4. Loan advances and disbursements will be subject to the lender's requirements in accordance with a funding agreement and the surcharge collection will be subject to conditions to be imposed by the Commission;
5. The lender will only release funds on a project completion basis;
6. Funds received from the surcharge will be applied to pay for the loan;
7. LBWC will not profit from the surcharge;
8. With the completion of Phases 1 and 2, customers will see an estimated 40% increase in fire protection and increased water pressure throughout the system;[9]
9. LBWC will continue seeking and applying for alternative funding sources. The burden of the full cost of the 11 phases of work to be done will not be placed entirely on customers; and
10. All service and water pressure complaints should be reported to the company so that it may address them immediately.

DISCUSSION

As a public utility, LBWC has the responsibility to maintain its quality of service, provide adequate water flow for fire protection, and provide necessary improvements to its present water system. LBWC's mains and wells are almost fully depreciated and are near the end of their normal service life. Some parts of the water system cannot carry enough water for adequate fire flow because the mains are too small. Also, there are too few hydrants in the service area to meet current fire code standards. The City, the local fire agencies, customers, and LBWC are in agreement on the need to improve LBWC's system. The Stipulation Agreement with the City requires LBWC to use its best efforts to find funding and proceed with the improvements expeditiously in accordance with the priority list that emphasized Phases 1 and 2.

In Res. W-4726, the Commission recognized that the rehabilitation of LBWC's distribution system is urgently needed. Accordingly, completion of the proposed Phase 1 and a part of Phase 2 of the water system rehabilitation and replacement project will implement recommendations in the design report ordered by the Commission in Ordering Paragraph No. 2 in Res. W-4726.

The Commission, in its Water Action Plan (WAP) recognized that many small water companies are in such precarious financial condition that additional investment may not be affordable.[10] The WAP requires utilities to file a Water Management Plan for long-term projects which will take longer than the normal period between general rate cases. LBWC submitted its Report to DWA, which included Phases 1 to 11 of LBWC's

[9] As indicated earlier, on March 15, 2011 LBWC indicated that it anticipates over a 30% increase in fire protection.
[10] The Commission's WAP issued on December 15, 2005.

water system rehabilitation and replacement plan, thereby satisfying the Commission's requirement for the utility to file its Water Management Plan.

LBWC asserts that it exhausted every option to find an alternate source of funding to begin its system upgrades. LBWC claims that it explored state and federal grants, stimulus funding, bonds and loans, all to no avail. LBWC claims that it also worked with the City to secure public funds without success. Lastly, LBWC asserts that it is not able to disburse funds from its revenues or treasury for this rehabilitation project at this time. LBWC is hopeful that the economy will improve and grant funds may become available so that the entire estimated $29 million in upgrades will not be placed entirely on its customers.

Consequently, LBWC proposes to secure its $2 million funds requirement from LQC or other financial institutions. Section 817 provides that a public utility may issue stocks and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for certain purposes, including the construction, completion, extension, or improvement of its facilities and the improvement or maintenance of its service.

LBWC's proposed Phase 1 and part of Phase 2 of its system rehabilitation and replacement project falls within the scope of § 817 and would be a proper use of funds under § 817. However, we will not make a finding in this Resolution on the reasonableness of LBWC's proposed construction program or it's Report, as supplemented. Construction plans, expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases. We note that the remaining phases of the project, how they should be funded, and who should bear the costs, are outside the scope of this Resolution.

The construction of the planned improvements and the issuance of the proposed debt will significantly increase LBWC's assets and capitalization. The estimated change in the recorded capital structure, given the proposed issuance of debt, is material. However, recorded capital structures may or may not be used for the ratemaking capital structure. Capital structures are normally subject to review in general rate cases or other proceedings. We will not make a finding in this Resolution on the reasonableness of the projected capital ratios for ratemaking purposes.

Section 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, its shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Section 818 requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with

the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

As set forth herein, LBWC's proposed loan would be for the purpose of constructing and improving its water system and maintaining its service, which falls within the scope of purposes in § 817. Moreover, LBWC's proposed borrowing and the money, property, or labor to be procured or paid for with the proceeds of the debt authorized by this Resolution is reasonably required for the purposes specified in this Resolution, since these improvements will benefit ratepayers over many years. LBWC's proposed project is not reasonably chargeable to expenses or income.

Section 851 requires Commission authorization before a utility may "lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its… plant, system or other property necessary or useful in the performance of its duties to the public…" Section 851 permits the encumbrance of utility assets when such encumbrance serves to secure authorized debt and the Commission frequently authorizes such encumbrance where, as here, it is not adverse to the public interest.

Generally, financial risk is measured by the capital intensiveness of a utility or by the utility's cost of capital. However, many Class C and D water companies have low plant investment, or the plant is old and fully or almost fully depreciated. Similarly, most of those companies have only small amounts of debt because it is difficult for them to find lenders on the basis of the utility assets alone. LQC requires that LBWC provide satisfactory documentation showing that the Commission has approved a dedicated source of revenue for repayment of the loan and to accumulate a reserve fund during the first ten years of the term. The reserve fund would be built up by collecting an additional 10% of the amount otherwise necessary to make payments on the loan during the first 10 years of the loan repayment period. This creates a reserve sufficient to make the payments during the final twelve months of the loan.

We are aware that due to the current state of the economy, there are no funds available through state or federal grants for small water companies. Even the STPUD and the City cannot obtain public funding. Presently, credit is tight and banks and commercial lenders are very selective in lending and have strict credit guidelines and rigid conditions in their loan and funding agreements. To the extent that the source of funds requirement remains a condition of the lender to provide the funding, we need to consider LBWC's request for a surcharge.

The ratepayers ultimately pay for all water system requirements and improvements, regardless of the manner in which they are financed. If the utility owners invested their own funds to pay for the water system improvements, they would be entitled to

earnings on such funds. The surcharge method of recovery ensures that the loan will be repaid without financial stress to the water utility. The surcharge serves only to repay the loan and will not generate any profit to the utility owners.

Financing the system improvements with funds generated internally or by issuing privately placed debt or equity would ultimately result in an addition to ratebase that would earn a rate of return. The requested surcharge to repay the loan is a reasonable and lowest cost option for financing LBWC's proposed construction. Consequently, it is in the public interest to authorize LBWC to establish a surcharge if the lender requires a dedicated source of funds to repay the loan.

The Commission has ordered utilities to impose a service fee for new service to vacant and undeveloped lots when the Commission authorizes loan surcharges. The amount of the service fee, subject to a maximum amount of $2,000, is the accumulated total of the loan rate surcharge from its inception to the time of service connection. Only the monthly surcharge applies thereafter. Such service fees serve to recover some of the system improvement costs from future customers who will benefit from the system improvements. Here, as in the past, it is in the public interest to implement service fees and we will require LBWC to establish and implement them.

While using a surcharge is a reasonable and the lowest cost option for financing LBWC's proposed construction, we are concerned with the discrepancies noted herein with LBWC's SIC implemented for funding the engineering study. At this time, UAFCB's audit is not complete. Within 30 days of receiving UAFCB's audit report and recommendations, LBWC should comply with UAFCB's audit recommendations to rectify past discrepancies, correct LBWC's books of record and to assist in preventing future discrepancies.

As set forth herein, we will authorize LBWC to (1) obtain a loan in the amount of $2 million to fund Phase 1 and part of Phase 2 of its construction project, and any loan issuance costs, (2) encumber its assets in connection with the loan, (3) impose a surcharge on its customers and (4) require that LBWC impose a service fee for new service to currently vacant and undeveloped lots. Our approval does not authorize any capital expenditures or specific construction projects, but rather the creation of a funding mechanism to finance improvements to the existing utility system.

Since the final terms of the loan will not be established until LBWC executes the loan with LQC or other financial institutions, the precise surcharge, if any, cannot be determined at this time. We will require LBWC to file an advice letter to establish the surcharge, if a surcharge is required, and collect enough revenue before it needs to make its first loan payment. If LBWC decides to procure the debt authorized herein from a lender other than LQC, and the lender will not require a surcharge, LBWC must

notify the Commission of the fact in writing, and must not implement the surcharge authorized herein.

To ensure proper treatment of the surcharge and plant financed with the loan, if a surcharge is required, the Commission will impose the following conditions:

a. The loan repayment surcharge and service fee shall be separately identified on customers' bills.
b. The surcharge and service fee to repay the loan shall last until the loan is fully paid.
c. Surcharge and service fee revenues shall not be commingled with other utility revenue.
d. During the construction period, a separate bank account shall be established and maintained to ensure adequate accountability of deposits and disbursements of the loan funds.
e. Three months prior to the first monthly payment, LBWC shall file a Tier 2 Advice Letter to implement the surcharge and service fee on its customers, subject to the conditions set out in this Resolution, to repay the indebtedness authorized by this Resolution. LBWC shall include in the filing, a request to establish a balancing account, in which it shall record surcharge revenues, interest earned, loan payments and fiscal agent or loan related fees.
f. LBWC shall retain a fiscal agent approved by the lender to assist LBWC in meeting the repayment provisions of the loan. The fiscal agent cannot be replaced without ninety (90) days prior written notice to the lender and the Commission.
g. Prior to formally entering into a fiscal services agreement with a fiscal agent, LBWC shall file a Tier 2 advice letter to seek confirmation of the fiscal agent. Such filing shall include a copy of the draft fiscal services agreement. Any change in fiscal agent shall be done through a Tier 2 advice letter, subject to approval.
h. LBWC shall deposit all surcharge and service fee revenues with the fiscal agent within twenty five (25) days after the surcharges and fees are collected from the customers.
i. The fiscal agent shall maintain an interest-bearing account for the deposits, interest earned, payments of trustee fee and principal and interest on the loan.
j. LBWC shall provide DWA's UAFCB a copy of the check for the surcharge and service fee deposit within ten (10) days of remittance to the fiscal agent.
k. LBWC shall keep and maintain copies of the loan agreement, fiscal services agreement, bank statement, proof of payment and loan

related documents and shall provide copies to DWA's UAFCB within fifteen (15) days of execution.

l. Any surplus accrued in the bank account shall be refunded or applied on behalf of the customers when ordered by the Commission.
m. No less frequently than once per year, LBWC shall review the balance in the balancing account immediately following a payment to the lender, and if the balance is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next monthly payment, LBWC shall file a Tier 2 advice letter to reduce the surcharge or a Tier 3 advice letter to increase the surcharge.
n. The cost of the project financed through the surcharge shall be excluded from ratebase for ratemaking purposes.

The fiscal services agreement will secure the performance of the obligations imposed by the loan agreement between LBWC and the lender and provisions required by the Commission. Among other provisions, the fiscal services agreement should indicate that the fiscal agent does the following:

1. Receive monthly remittances from LBWC.
2. Transmit loan principal and/or interest payments to the lender in accordance with the terms of the loan agreement.
3. Promptly notify the lender and the Commission of any 30-day delinquency of remittances.
4. Promptly notify lender and the Commission if the reserve fund falls below or is not accumulating sufficiently to meet the required minimum at the time indicated.
5. Release no funds from the account except for the loan principal and interest payments or when ordered by the Commission in cases of excess funds in the account.
6. Maintain the monthly deposit for the reserve fund.
7. Upon request, provide the lender or the Commission a full statement of the account.
8. When the loan and interest are repaid to the lender in full, any remaining balance not owed to the lender pursuant to the loan agreement, less any accrued service charges, shall be returned to LBWC upon notification by the Commission.

In connection with the project to be funded by the authority granted in this Resolution, we are informing LBWC that the Commission encourages all investor-owned utilities to actively participate in the Commission's supplier diversity program as set forth in

General Order 156, whether mandated or otherwise, and provide financial opportunities to Women/Minority/Disabled Veteran Business Enterprises, as this is vital to the economic recovery and stability of our communities and our State.

ENVIRONMENTAL IMPACT

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by state or other regulations. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.[11] Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment are not "projects" subject to CEQA.[12]

This Resolution does not authorize any capital expenditures or construction projects. Construction projects which LBWC intends to finance via this filing should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). To the extent capital expenditures are financed with the proceeds of the loan issued pursuant to this Resolution, ongoing projects have already been subject to any necessary CEQA review undertaken prior to LBWC receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

LBWC should comply with all environmental permitting requirements applicable to the project that it will undertake in conjunction with the proposed loan.

COMPETITIVE BIDDING RULE

Under the provisions of Res. F-616, LBWC's proposed issuance of debt is exempt from the Commission's Competitive Bidding Rule because the principal amount does not exceed $20,000,000.

REPORTING REQUIREMENT

General Order 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and equity securities issued by the

[11] Public Resources Code Section 21090(b) (8).
[12] CEQA Guidelines Section 15378(b) (4).

utility during the prior month; (ii) the total amount of debt and equity securities outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and equity securities during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and equity securities. On or before the 25th day of each month, LBWC should file with the DWA's UAFCB the reports required by General Order 24-B.

FEES

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b). The fee for this financing authority as required by § 1904(b) is $3,000.[13] LBWC must issue the check payable to the California Public Utilities Commission and remit the payment to the Commission's Fiscal Office.

COMMENTS

While three customers expressed concern about the proposed loan and surcharge, there were no showings as to why the proposed project would not lead to the improvement of service or why the proposed surcharge would not be justified. DWA did not receive any formal protests.

Section 311(g) (1) generally requires that draft resolutions 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 in this matter was mailed to the parties and the three customers who expressed concern in accordance with § 311(g) (1) and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on September 16, 2011 by Carol Daum and on September 19, 2011 by Tom and Carol McMahon. These customers believe that due to the current economic condition, LBWC's proposed construction should be postponed and other matters, such as the completion of the UAFCB audit, the adjustment of the interim rate structure, and stricter conditions for the use of proceeds and the handling of the surcharge should first be determined. These comments resulted in nonsubstantive changes to the draft Resolution.

[13] The fee is assessed on $2,000,000 of authorized borrowing as follows: $2 times ($1,000,000/$1,000) + $1 times (1,000,000/1,000) equals $3,000.

LBWC's mains and wells are almost fully depreciated. The proposed Phase 1 and part of Phase 2 constructions are vital to the improvement of the water system and the provision of adequate flow for fire fighting. In 2006, the estimated cost to upgrade LBWC's system was $18.4 million. In 2009, the Consultants estimated the cost would be $29.8 million to complete the upgrades. There is no certainty as to how high the construction cost could be should the proposed project be deferred indefinitely nor are there any assurances that LBWC could procure grants or other financing options. The surcharge rates shall be reviewed periodically and if there is customer growth, the surcharge rates may be adjusted and reduced.

The proposed Phase 1 and part of Phase 2 of the water system rehabilitation and replacement project will trigger the implementation of the recommendations in the design report ordered by the Commission in Ordering Paragraph No. 2 in Res. W-4726. LBWC exhausted its options to find an alternate source of funding to begin its system upgrades and LQC's offer to provide private placement services for a debt offering up to the amount of $2,000,000 appears to be an opportunity for LBWC to procure the needed funding for the project.

This Resolution provides sufficient conditions and checks and balances to ensure that the surcharge and the plant financed by the loan are properly handled. We added new conditions on pages 18 and 19 and in the Ordering Paragraphs regarding the fiscal agent. Lastly, we expect that the loan agreement with the lender will specify the lender's conditions for loan advances and the disbursement of funds.

FINDINGS

1. LBWC, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.

2. LBWC is responsible for maintaining its quality of service and providing necessary improvements to its water system.

3. LBWC does not meet current fire code standards because it does not have sufficient hydrants nor adequate fire flow in its service area.

4. After the June 24, 2007 Angora fire, LBWC, the City, the local fire agencies, and customers concurred that LBWC's system needs improvement.

5. On July, 2008, Haen Engineering and c2me Engineering submitted a proposal costing $169,840 to do a preliminary design of the overall system rehabilitation and a detailed design of LBWC's 12th St. main replacement.

6. In Res. W-4726, the Commission stated that the rehabilitation of LBWC's distribution system is urgently needed and authorized LBWC to impose a SIC to fund the engineering design of LBWC's system rehabilitation and the 12th St. main replacement.

7. In Res. W-4726, the Commission stated that the SIC is an appropriate method for LBWC's distribution system rehabilitation because LBWC cannot afford additional investment and customers desire rehabilitations.

8. LBWC deposited its SIC surcharge collections in a Plumas Bank account, separate from LBWC's corporate checking account.

9. LBWC deposited some of its surcharge collections in its Bank of the West account before depositing them in its Plumas Bank account.

10. On May 15, 2009, Haen Engineering and c2me Engineering issued the Report on LBWC's water system rehabilitation and replacement. About the first week of June, 2009, LBWC provided copies of the Report to concerned government agencies, including the Commission. The Report indicated that LBWC's existing distribution system is undersized and provides only minimal fire protection.

11. According to the Report, rehabilitation and replacement of LBWC's water system should be divided into 11 construction phases. The total estimated cost of all phases is $29,797,939 and the new system is expected to have a life expectancy of 50 years.

12. According to LBWC, each phase of the construction has its own importance and can stand alone. The proposed Phase 1 ties the main water supplies together and creates a main trunk line through the middle of the water system. Phases 1 to 4 consist of installing 12" main lines for fire protection.

13. On July 14, 2009, a public meeting was held about the Report and possible sources of funds for the proposed construction.

14. On September 15, 2009, the Consultants issued a supplement to the Report to correct minor errors, discuss fire-flow protection, ISO classification, and respond to written comments on the Report.

15. The proposed Phase 1 and part of Phase 2 construction to be funded with the debt authority requested by LBWC in its AL 43 is listed in Table 4 of this Resolution.

16. On February 23, 2011, pursuant to the requirements of General Order 96-B, LBWC served its AL 43 on its service list, which included among others, some of LBWC's customers.

17. LBWC received a letter from three customers expressing concerns regarding the surcharge and the proposed project.

18. LBWC acknowledged receipt of the customers' concerns and responded to the customers on March 9, 2011, March 15, 2011, and May 6, 2011, respectively. LBWC explained why the rehabilitation and replacement project is necessary.

19. On May 6, 2011, LBWC published a public notice of the proposed loan and surcharge in the Tahoe Daily Tribune.

20. LBWC does not have the funds to invest nor is any grant available to it for its fire protection improvements.

21. LBWC needs the funding to meet the projected cash requirements for its construction project.

22. The proposed borrowing is for proper purposes.

23. LQC requires LBWC to secure this Commission's approval of the loan, a customer surcharge to repay the loan, and a security interest on the utility's properties.

24. The surcharge, as estimated based on current facts, will generate approximately $196,824 for the first 10 years and $178,932 thereafter and will not be commingled with other utility charges.

25. LBWC estimates the monthly bill for a commercial 1-inch metered customer using approximately 600 cubic feet of water per month, would increase by $21.69 or 52.4% from $41.36 to $63.05 during the reserve accumulation period.

26. LBWC estimates the monthly bill for a typical single-family residential flat-rate customer with a ¾-inch service connection, would increase by $13.01 or 39.5% from $32.96 to $45.97 during the reserve accumulation period.

27. With a surcharge type of recovery, the utility or its owners do not personally benefit from the loan.

28. UAFCB is currently conducting an audit of LBWC's books of record and is including a review of LBWC's SIC in the audit.

29. Implementing UAFCB's audit recommendations will improve LBWC's accounting practices and its books of records.

30. The Commission has required utilities to impose a service fee for new service to currently vacant and undeveloped lots when the Commission authorizes surcharge recovery for improvement loans.

31. Service fees serve to recover some of the system improvement costs from future customers who will benefit from the system improvements.

32. LBWC must comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with this filing.

33. In Res. F-616, the Commission specifically exempts debt issues of $20 million or less from its Competitive Bidding Rule.

34. General Order 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and preferred stock issued by the utility during the prior month; (ii) the total amount of debt and equity securities outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and equity securities during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and equity securities.

35. The Commission has routinely required utilities to maintain records to (i) identify the specific long-term debt issued, and (ii) demonstrate that the proceeds from such debt have been used only for authorized purposes.

36. Notice of the filing appeared on the Commission's Daily Calendar on February 28, 2011. No protests have been received except for the three discussed herein.

37. The fee for this financing authority as required by § 1904(b) is $3,000.

CONCLUSIONS OF LAW

1. LBWC's proposed plant construction costs are not reasonably chargeable to expenses or income.

2. LBWC's proposed loan to finance the construction of Phase 1 and part of Phase 2 of its construction project is for proper purposes.

3. It is not adverse to the public interest to authorize LBWC to enter into a loan agreement with LQC or other lenders for $2,000,000 to finance the construction discussed herein.

4. If required by the lender, it is reasonable to authorize LBWC to implement a surcharge, to recover the loan principal and interest payments and any bank and fiscal agent fees.

5. It is not adverse to the public interest to allow LBWC to encumber its assets to secure the proposed loan.

6. LBWC should be authorized to execute loan agreements and encumber its property to secure the debt authorized herein so long as the debt is to be used solely for the purposes specified in Table 4 of this Resolution.

7. If a surcharge is required by the lender, to ensure proper treatment of the surcharge and plant, LBWC should be subject to the conditions specified in this Resolution.

8. The loan authorization herein is not a finding of the reasonableness of the Report, as supplemented, LBWC's proposed construction or expenditures, the resulting capital structure, or the cost of money, nor does it indicate approval of matters subject to review in general rate case or other proceedings.

9. If the lender requires the loan to be repaid via surcharge, the cost of the plant financed by the loan authorized herein must not be included in ratebase.

10. If the loan is procured from a lender that requires a surcharge, three months prior to the first monthly loan amortization payment, LBWC should file, in accordance with General Order 96-B, a Tier 2 advice letter to establish the monthly surcharge on customer bills, as shown on Table 3 of this Resolution. LBWC should include in the filing, a request to establish a balancing account to be credited with revenue collected through the surcharge and any interest earned on the account, and reduced by loan payments and bank or fiscal agent fees.

11. If a surcharge is required, it is reasonable to require LBWC to impose a service fee so that new customers who will benefit from the system improvements will contribute to the recovery of those system improvements.

12. It is reasonable to require LBWC to implement UAFCB's audit recommendations that UAAFCB will include in its audit report.

13. LBWC's proposed loan is exempt from the Commission's Competitive Bidding Rule.

14. It is LBWC's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken using the debt authorized herein.

15. Consistent with § 824, LBWC should maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized herein.

16. LBWC should provide the Commission with the monthly reports required by General Order 24-B.

THEREFORE, IT IS ORDERED that:

1. Lukins Brothers Water Company, Inc is authorized to borrow $2,000,000 from La Quinta Capital, LLC or other financial institutions; encumber utility assets to secure the loan; use the loan proceeds to finance the construction of Phase 1 and part of Phase 2 of its construction project and any issuance costs; and if the lender requires a surcharge as a condition of the debt facility, impose a surcharge on its customers, as set forth herein.

2. If the lender requires a surcharge as a condition of the debt facility, the authority granted herein shall be subject to the following conditions:

a. Three months prior to the first monthly loan payment, Lukins Brothers Water Company, Inc. shall file a Tier 2 Advice Letter to establish the surcharge and service fee and collect enough revenue before it needs to make its first payment. The filing shall include the loan amortization schedule including the amount necessary to make each payment and accumulate the reserve; calculation of the surcharge based on the monthly loan amortization schedule and the amount to accumulate the reserve; and tariff sheets similar to those attached to this Resolution as Appendix A, updated for the correct amounts.
b. Lukins Brothers Water Company, Inc. shall separately identify the loan repayment surcharge on its customers' bills.
c. The surcharge to repay the loan shall last until the loan is fully paid.
d. Lukins Brothers Water Company, Inc. shall not commingle surcharge revenues with other utility revenue.
e. Lukins Brothers Water Company, Inc. shall use a balancing account to be credited with revenues collected through the surcharge and to be charged with payments of principal and interest on the loan, and fiscal agent or other loan-related fees. Lukins Brothers Water Company, Inc. shall include a request to establish this balancing account in its filing required in a. above.
f. Lukins Brothers Water Company, Inc. shall retain a fiscal agent approved by the lender to assist Lukins Brothers Water Company, Inc. in meeting the repayment provisions of the loan. The fiscal agent cannot be replaced without ninety (90) days prior written notice to the lender and the Commission.

g. Prior to formally entering into a fiscal services agreement with a fiscal agent, Lukins Brothers Water Company, Inc. shall file a Tier 2 advice letter to seek confirmation of the fiscal agent. Such filing shall include a copy of the draft fiscal services agreement. Any change in fiscal agent shall be done through a Tier 2 advice letter, subject to approval.
h. Lukins Brothers Water Company, Inc. shall deposit all surcharge and service fee revenue with the fiscal agent within twenty five (25) days after the surcharges and fees are collected from customers.
i. Any surplus accrued in the bank account shall be refunded or applied on behalf of the customers when ordered by the Commission.
j. No less frequently than once per year, Lukins Brothers Water Company, Inc. shall review the balance in the balancing account immediately following a payment to the lender, and if the balance is less than the required reserve or exceeds the required reserve by more than thirty five percent of the next monthly payment, Lukins Brothers Water Company, Inc. shall file a Tier 2 advice letter to reduce the surcharge or a Tier 3 advice letter to increase the surcharge.
k. The cost of the project financed through the surcharge shall be excluded from ratebase for ratemaking purposes.

3. Lukins Brothers Water Company, Inc. shall file with the Division of Water and Audit's Utility Audit, Finance and Compliance Branch copies of the loan agreement, fiscal services agreement, bank statement, proof of payment and loan related documents within 15 days of execution.

4. Lukins Brothers Water Company, Inc. shall not use the proceeds authorized by this Resolution to begin the construction of capital projects until Lukins Brothers Water Company, Inc. has obtained any required environmental review under the California Environmental Quality Act.

5. Lukins Brothers Water Company, Inc. is exempt from the Commission's Competitive Bidding Rule for the debt authorized herein.

6. Lukins Brothers Water Company, Inc. shall maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized by this Resolution.

7. Within 30 days of the conclusion of the Division of Water and Audits' audit of Lukins Brothers Water Company, Inc.'s records, Lukins Brothers Water Company, Inc.

shall comply with the Division of Water and Audits' audit recommendations. Failure to comply shall be reported to the Executive Director of the Commission for further action.

8. Within 30 days of implementing the Division of Water and Audits' audit recommendations, Lukins Brothers Water Company, Inc. shall inform the Division of Water and Audits' Director in writing of the steps Lukins Brothers Water Company, Inc. took to complete the audit recommendations.
9. On or before the 25th day of each month, Lukins Brothers Water Company, Inc. shall file with the Division of Water and Audits' Utility Audit, Finance and Compliance Branch the reports required by General Order 24-B. When the full amount of the debt has been received and reported, and the system improvements completed and all the capital expenditures reported, the General Order 24-B reporting shall terminate and will no longer be required.

10. The authority granted by this Resolution shall become effective when Lukins Brothers Water Company, Inc. pays $3,000 as required by Public Utilities Code § 1904(b). Lukins Brothers Water Company, Inc. must issue the check payable to the California Public Utilities Commission and remit the payment to the Commission's Fiscal Office.

11. 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 approved it.

_____
PAUL CLANON
Executive Director

APPENDIX A

Schedule 3
Loan Surcharge

APPLICABILITY

Applicable to all flat or meter service. This surcharge is specifically for the repayment of the loan described in Resolution W-_____.

TERRITORY

Lukins Tract and vicinity near State Highway 89 and U.S. Highway 50 in the City of South Lake Tahoe, California.

MONTHLY SURCHARGE

	Years 1-10	Years 11-19
For 5/8 x ¾-inch meter	8.68	7.89
For ¾-inch meter	13.01	11.83
For 1-inch meter	21.69	19.72
For 1-1/2-inch meter	43.38	39.44
For 2-inch meter	69.41	63.10
For 3-inch meter	130.14	118.31
For 4-inch meter	216.90	197.19
For 6-inch meter	433.81	394.37
For 8-inch meter	694.10	631.00
For 10-inch meter	997.76	907.06

SPECIAL CONDITIONS

1. The surcharge is in addition to the water bill. The surcharge must be identified on each bill. The surcharge is specifically for the repayment of the loan authorized by Resolution W-4886.

2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

3. The surcharge shall be deposited in a trustee account and shall be used only for the repayment of the loan described in Resolution W-4886.

4. A service fee will be charged for new service to vacant and undeveloped lots. The amount of the service fee, subject to a maximum of $2,000, shall be the accumulated total of the monthly surcharge from its inception to the time of service connection. Only the monthly surcharge applies thereafter. The service fee was authorized by Resolution W-4886.

5. The surcharge rates are subject to periodic adjustment.

TABLE OF CONTENTS

The following listed tariff sheets contain all effective rates and rules affecting the charges and service of the utility, together with other pertinent information:

Subject Matter of Sheet	Cal. P.U.C. Sheet No.

(END OF APPENDIX A)