

WATER/RSK/FLC/JB5/MRB/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4726
December 4, 2008

RESOLUTION

**(RES. W-4726), LUKINS BROTHERS WATER COMPANY
(Lukins). ORDER AUTHORIZING A DISTRIBUTION SYSTEM
IMPROVEMENT CHARGE OF \$169,840.**

SUMMARY

Lukins, a Class C water utility serving 937 customers, has requested authority under General Order 96-B, Rule 7.6.2 and Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$223,804 or 66.7 % for test year 2008. The water system is in urgent need of improvement to provide adequate water for fire protection. It is in the public interest for public safety that a resolution granting a Distribution System Improvement Charge of \$169,840 be imposed. This interim measure is issued, pending a final resolution in Lukins' rate case.

SYSTEM DESCRIPTION

Lukins provides domestic water service to 946 flat rate connections and 16 metered residential customers. By written agreement, Lukins also provides public fire protection water service to 7 fire hydrants. The service territory is in the Lukins Brothers Subdivision, totally within the City of South Lake Tahoe in El Dorado County.

The system began in the 1940's to serve seasonal and annual residents in the Lukins Brothers Subdivision. In 1953, when Lukins was granted a Certificate of Public Convenience and Necessity, the system's 20 customers were served by two wells through two-inch and four-inch mains. The system now includes approximately 400 feet of two-inch main, 48,000 feet of 4-inch main, 7,600 feet of 6-inch main, and 1,300 feet of 8-inch main. The mains and wells are almost fully depreciated; 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. Also, there are too few hydrants in the service area to meet current fire code standards.

DISCUSSION

Need for System Rehabilitation

Lukins began serving customers near Lake Tahoe in 1947. In 1965, as the population increased, the City of South Lake Tahoe was incorporated, including the Lukins service area within its boundaries. The much newer South Tahoe Public Utility District (STPUD) began serving water to the rest of the City in 1974, and serves over 16,000 residences and 660 businesses.

STPUD considered buying LBWC and commissioned a study by Brown & Caldwell Engineering. The engineering report of August, 2006, estimated a cost of \$18.4 Million to upgrade the system to State, local, and STPUD standards. The ISO rating of fire protection for part of the Lukins service area is 9/10, the lowest rating for fire safety. The low rating was given because there are not enough hydrants, and the mains are 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 of South Lake Tahoe. The fires did not come into the Lukins service area. The City, the local fire agencies, customers and Lukins all want the Lukins system to be improved. Lukins does not have the funds to invest, and few or no grants are available for fire protection improvements. Lukins would like to get private loans for a series of construction projects. A private or public lender would require plans and cost estimates for improvement before lending money.

Lukins requested proposals for engineering design of water system rehabilitation and replacement of the 12th St. water main. A consortium of local firms, C2me Engineering and Haen Engineering, submitted a proposal for engineering services in July, 2008. They propose to do preliminary design of overall system rehabilitation and detailed design of 12th St. water main replacement, for the sum of \$169,840.¹ The preliminary design of total system rehabilitation will assume that construction work will be done in separate phases over several years.

The Water and Sewer Advisory Branch recommends that the Commission impose a distribution system improvement charge on Lukins' customers for the purpose of funding the engineering design of system rehabilitation. The proposed charge would total \$169,840 and would be levied proportional to meter sizes or flat rates. Lukins

¹ The principals of the engineering companies are California-registered civil engineers in good standing. They live and work in the Lake Tahoe area and are familiar with the special environmental, construction, and regulatory constraints in effect around the lake.

should be required to open a separate bank account to be used only for infrastructure rehabilitation including planning, engineering design and construction. Receipts from the charge should be placed in this account and used only to pay for infrastructure rehabilitation.

Water Action Plan on Infrastructure Investment

The Public Utilities Commission's Water Action Plan (WAP,) adopted on December 15, 2005, calls for safe, high quality water, highly reliable water supplies, efficient use of water, reasonable rates, and viable utilities. A primary objective of the WAP is to promote infrastructure investment. The WAP noted that many small water companies are in such precarious financial condition that additional investment may not be affordable.

As part of long-term financing of infrastructure rehabilitation, the WAP calls for examination of a Distribution System Improvement Charge (DSIC) to promote infrastructure improvement. The DSIC would be a clearly identified and separate rate component. The revenue from the DSIC would be dedicated solely to infrastructure improvements, including planning, engineering, design and construction.

The Commission agrees with Branch that a DSIC is an appropriate method to apply to the Lukins' General Rate Case for distribution system rehabilitation. LBWC cannot afford additional investment, and customers desire rehabilitations. This initial DSIC will be for preliminary engineering and design of projects expected to take several years to complete.² After completion of the preliminary design, additional DSICs or other funding mechanisms will be needed for each phase of the project.

SLT requested that part of the initial DSIC surcharge be spent for construction. We disagree. This surcharge is sufficient only for preliminary design of overall system rehabilitation and for detailed design of the 12th St. Main replacement. SLT also requested approval of the consultants chosen, monthly reports on the amount in the DSIC trust account, and the establishment of penalties for noncompliance. The Commission will continue to exercise its jurisdiction in these areas.

SLT requested implementation of the most critical fire protection upgrades (not specified) by the end of 2009. Preparation time needed for environmental documents

² For long-term planning or projects which will take longer than the normal period between general rate cases, the WAP requires large water companies to file a Water Management Plan. After completion of the preliminary engineering study, and not later than the next General Rate Case, Lukins will be required to submit a Water Management Plan to the Division of Water and Audits.

and acquisition of permits in the Tahoe Basin preclude significant improvements by the end of the 2009 construction season.

SLT requested that Lukins provide a 20-year System Improvement Plan (SIP) within 45 days and that SLT and other interested parties have the right to comment on the SIP.

The Commission agrees that a proposed SIP should be prepared and considers 90 days to be adequate time for its preparation. Because the cost of system improvement will devolve upon Lukins' ratepayers, public meetings with them should be held to discuss the proposed SIP and to determine ratepayer willingness to fund different portions of the proposed SIP.

NOTICE AND PUBLIC MEETING

On July 15, 2008, a Notice of Proposed Rate Increase was mailed to all customers announcing Lukins' request to increase water rates. A public meeting was held on August 22, 2008. The primary concern of customers and officials was the need for system rehabilitation to provide enough water for fire safety. Several customers complained that Lukins was asking for a rate increase but had not asked for any funds to improve the existing system. Three customers complained of low water pressure in the summer, and several mentioned frequent main leaks.

Customers asked whether Mr. Lukins was willing to sell the system to STPUD. Ernie Claudio, an STPUD representative, said STPUD had looked at the system and decided it would cost the agency too much to improve it.

The City Manager of the City of South Lake Tahoe spoke of inadequate fire flow, high fire insurance rates, and the need for public safety for the 24,000 people in South Lake Tahoe, not just those in the Lukins tract. He also said the City of South Lake Tahoe would look for grants which could help Lukins to improve the infrastructure.

Mr. Bragen, from the Commission's Water and Sewer Advisory Branch, told the customers that when system improvements are made, the customers will be paying for those improvements in higher rates, however, all revenues received from the DSIC will go directly into new facilities. None of these revenues will result in additional profit to Lukins.

COMMENTS

A draft of this Resolution was served on November 4, 2008 to all parties, for 30 days public review and comment. A list of parties served is attached to this draft Resolution. Comments were received from SLT and from Lukins. They have been incorporated in the text of this Resolution as appropriate.

FINDINGS AND CONCLUSIONS

1. Rehabilitation of the LBWC distribution system is urgently needed.
2. It is in the interest of public safety that an interim resolution be approved.
3. Engineering design services are needed as part of the rehabilitation of the Lukins Brothers Water Company's distribution system.
4. Lukins Brothers Water Company should be required to contract for engineering design services.
5. A Distribution System Improvement Charge is reasonable and should be imposed to collect the \$169, 840 engineering design costs.
6. Receipts of this Distribution System Improvement Charge should be deposited within 30 days after collection in a separate trust account and used only for engineering design for distribution system rehabilitation. The utility should file a copy of the trust account agreement with the Commission within 15 days after execution, and should annually file a report of deposits and withdrawals with the Commission. The agreement with the fiscal agent should require that quarterly trustee reports about account activity be sent to the Commission.
7. Lukins Brothers Water Company should be required to submit a Preliminary System Improvement Plan for 20-year improvement of the distribution system within 90 days after completion of the preliminary engineering design.
8. Lukins Brothers Water Company should be required to submit a System Improvement Plan for 20-year improvement of the distribution system prior to the next General Rate Case.

IT IS ORDERED that:

1. Lukins Brothers Water Company is ordered to file an advice letter within fifteen days incorporating the revised schedules attached to this resolution as Appendix A, and concurrently to cancel its presently effective rate schedules - 1A, Annual General Metered Service, and 2A, Annual Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of its filing.
2. Lukins Brothers Water Company shall engage consultants for engineering design services for the water system. Design services shall be for water system

rehabilitation of the Lukins Brothers Water Company's distribution system and 12th St. water line replacement.

3. A Distribution System Improvement Charge for engineering design services, in the amount of \$169,840, is imposed.
4. The utility shall establish and maintain a separate bank account in which all deposits of the Distribution System Improvement Charge proceeds and disbursements are made. Withdrawals from the account shall be used only for infrastructure improvements and shall be booked as contributions.
 - a. The utility shall deposit all Distribution System Improvement Charge proceeds collected with a fiscal agent into a trust account. Such deposits are made within 30 days after the surcharges are collected from customers.
 - b. The utility shall establish and maintain a separate account in which all billed Distribution System Improvement Charge revenue and interest is recorded. The account is reduced by withdrawal of monies used to design infrastructure and any fees to the trust account.
 - c. The utility shall file with the Commission a copy of the trust account agreement within 15 days of execution.
 - d. Once a year the utility shall send a comparative report to the Director of the Water Division stating the deposits and withdrawals from the trust account.
 - e. A service fee equal to the DSIC times the number of years from the time this charge was imposed until service is rendered, with a maximum of \$2,000 shall be charged to customers requesting future services to currently undeveloped lots and will be the accumulated total of the Distribution System Improvement Charge as applied to the property being furnished water service from the initial effective date of the Charge to the date of connection. The service fee will be due and payable upon connection of water service to the property. Thereafter the customer shall pay the applicable tariff rates. Notice of this fee is added to the utility's request for water service form. All service fees collected will be deposited into the Distribution System Improvement Charge account.

5. Within 90 days after completion of the preliminary engineering design, Lukins Brothers Water Company shall submit to the Division of Water and Audits a Proposed System Improvement Plan for 20-year improvements of the distribution system.
6. Within 15 days of completion of the Proposed System Improvement Plan, Lukins Brothers Water Company shall schedule public meetings with customers to discuss their willingness to fund each phase of the Plan.
7. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 4, 2008; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX A
Page 1
LUKINS BROTHERS WATER COMPANY
Schedule No. 2A
ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

	<u>Water</u> <u>Per Year</u>	<u>DSIC</u>	(N)
For a single-family residential unit including premises	\$294.85	\$143.17	(N)
For each additional single-family residential unit on the same premises and served from the same service connection	\$173.43	\$ 84.21	(N)
Hotels, apartments and motels:			
For first room or unit	\$294.85	\$143.17	(N)
For each additional room or unit on the same premises and served from the same service connection	\$138.75	\$ 67.37	(N)
For each market, store, or office	\$294.85	\$143.17	(N)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1 inch in diameter.
2. For service covered by the above classifications, if the utility so elects, a meter shall be installed and service provided under Schedule 1A, Annual Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the meter service charge for the same period shall be made on or before that date.
3. The Distribution System Improvement Charge (DSIC) is a one-time charge to (N) fund engineering studies of system rehabilitation and 12th St. main replacement. (N)

(continued)

APPENDIX A
Page 2
LUKINS BROTHERS WATER COMPANY
Schedule No. 1A
ANNUAL METERED SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

Quantity Rate:				
	All water, per 100 cu.ft.		\$1.02	
Service Charge		Per Meter		
		<u>Per Year</u>	<u>DSIC</u>	(N)
For	5/8 x 3/4 inch meter	\$150.89	\$95.45	(N)
For	3/4 inch meter	\$166.50	\$143.17	
For	1 inch meter	\$228.94	\$238.62	
For	1-1/2 inch meter	\$303.52	\$477.23	
For	2 inch meter	\$405.84	\$763.57	
For	3 inch meter	\$754.33	\$1,431.70	
For	4 inch meter	\$1,030.22	\$2,386.17	
For	6 inch meter	\$2,060.53	\$4,772.33	
For	8 inch meter		\$7,635.73	
For	10 inch meter		\$10,976.37	(N)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water computed at the quantity rate.

SPECIAL CONDITIONS

1. The annual service charge and surcharge apply to service during the 12-month period commencing January 1, and are due in advance. When a customer has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated service charge and surcharge in advance at intervals of less than one year in accordance with the utility's established billing periods.
2. The Distribution System Improvement Charge (DSIC) is a one time charge to fund engineering studies of system rehabilitation and 12th St. main replacement. (N)