

WATER/RSK/BMD/EVW/MML/drs

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4953
July 11, 2013

R E S O L U T I O N

(RES. W- 4953), LUKINS BROTHERS WATER COMPANY.
ORDER AUTHORIZING A RATE INCREASE, PRODUCING
ADDITIONAL ANNUAL REVENUES OF \$26,010 OR 5.45%.

SUMMARY

This Resolution approves Advice Letter 45-A, filed by Lukins Brothers Water Company on October 12, 2012. The advice letter seeks an increase in gross annual revenues of \$26,224, or 5.49%, over current interim rates, and a surcharge for the uncollected revenue from the date of the interim rate set by Resolution W-4791 to the effective date of the rates set herein. This Resolution authorizes an increase of \$26,010, or 5.45%, and a Tier 2 advice letter to be filed to recover the revenue shortfall.

BACKGROUND

Lukins Brothers Water Company (Lukins) is a Class C water utility located in South Lake Tahoe, El Dorado County, serving approximately 950 customers. Lukins filed Advice Letter (AL) 45-A as authorized by Resolution (Res). W-4791, which established a Test Year 2009 general rate increase of \$126,460, or 36.03%. Res. W-4791 did not reach a definite value on the rental value of the property leased by Lukins from its affiliate, but set a value of \$18,000 on an interim basis subject to later true up. Ordering Paragraphs 4 through 6 of Res. W-4791 deal with establishing the rental value of land used by Lukins:

4. The Commission shall provide a list of independent appraisers acceptable to the Commission to determine the value of land rental to Lukins Brothers Water Company.
5. Danny and Larry Lukins may hire and pay for an independent appraiser from the list, and the appraiser shall provide the appraisal to the Commission.

6. If the appraisal shows the rental value of the land is greater or less than the amount adopted in this Resolution, a Tier 3 advice letter shall be filed within 90 days of the date of the appraisal report requesting that rates be adjusted up or down. The advice letter shall also request a surcharge or surcredit to repay or recover the revenue difference between the interim rates and the adjusted rates.

Res. W-4791 also ordered an audit with a similar provision on true up, with a deadline 90 days after the completion of the audit. Lukins did not timely file an advice letter for the appraisal adjustment on the theory it would be captured when final adjustments were made due to the audit. When the audit report was being finalized it was apparent that no additional adjustments would be necessary due to the audit report. AL 45 was filed before the audit report was issued and requested an adjustment for the rental appraisal. AL 45-A was filed to replace AL 45 in order to correct the request for the surcharge allowed by Ordering Paragraph 6 of Res. W-4791. Lukins filed both AL 45 and AL 45-A as Tier 3 advice letters as required by Res. W-4791. Under General Order (G.O.) 96-B, Water Industry Rule 7.3.3, Tier 3 advice letters are generally disposed of by resolution pursuant to G.O.96-B, General Rule 7.6.2.

NOTICE AND PROTEST

AL 45-A was served on the advice letter service list and on parties of record to Res. W-4719 in accordance with General Order 96-B. Notice of the proposed increase was mailed to all customers on December 7, 2012. No protests were received.

DISCUSSION

Pursuant to Ordering Paragraphs 4 and 5 of Res. W-4791, Danny and Larry Lukins hired Lynn Barnett and Associates to provide an appraisal to establish the Annual Market Rent applicable to Lukins.

Lukins provided a copy of the detailed appraisal report to the Division of Water and Audits (DWA). The report detailed the rental value of facilities used in whole or in part by Lukins including two industrial buildings, an office space, a storage area, and a fenced lot. Each type of facility was compared to similar facilities in Lukins' operating area and a rental value was established for each facility. The appraiser gave an opinion on the percentage of each facility used by the water company and used those percentages to prorate the rental value of each facility to the water company. A table summarizing the appraiser's analysis is given in Appendix A.

The report concluded that the Annual Market Rent for the facilities dedicated to Lukins' use was \$43,500, as of December 15, 2009. DWA believes this to be a reasonable estimate and appropriate for application to the 2009 Test Year. However, it should be noted that the percentages of each facility used by the water company is subject to change by arrangement between Lukins and its affiliate. Therefore, DWA should evaluate these percentages in each future rate case so long as any of the space is shared with the affiliate.

Res. W-4791 allowed \$18,000 for rental of Lukins' facilities which means that Lukins' \$43,500 rental expense was understated by \$25,500 per year. In order to collect this amount, Lukins will also need to collect the 2% franchise tax imposed by the City of South Lake Tahoe on payments received from all of Lukins' customers. The rates in Appendix B are estimated to produce the required \$26,010, or 5.45% increase over current rates. The utility's request had an error in this calculation and that is the reason for the difference in the utility request and DWA's recommendation.

Ordering Paragraph 6 of Res. W-4791 also allows Lukins to establish a surcharge to recover the undercollected revenues due to the understated rental allowance. DWA estimates that Lukins needs to recover approximately \$95,400, or 20% of current rates, based on 44 months from the effective date of the rates set by Resolution W-4791 and the approximate effective date of the rates set herein. It has been Commission policy that a surcharge in excess of 10% is collected over a thirty-six month period. Lukins should therefore be authorized to file a Tier 2 advice letter to recover the shortfall over a thirty-six month period, or until the revenue shortfall is collected. Lukins is required by Public Utilities Code (PU Code) Section 792.5 to maintain a balancing account to track the surcharge collection.

Lukins also requested a surcharge to pay its consultant for filing AL 45 and AL 45-A. However, there was no provision to recover the cost of the consultant in Res. W-4791. The utility may seek recovery of these costs in its next general rate case.

COMPLIANCE

The utility has been filing annual reports as required.

COMMENTS

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

Accordingly, this draft resolution was mailed to the utility and made available for public comment on June 11, 2013. Lukins filed a comment requesting that DWA "...strike mention of an affiliate company being operated on the property" asserting that "This property has been utilized solely by Lukins Brothers Water Company since the (sic) 1998." However, as noted in Res. W-4791, "There is a conflict of interest between the Lukins brothers as officers of Lukins and as lessors of land to Lukins." Furthermore, DWA believes that the equipment stored on the property represents excess capacity and, regardless of past practices, the water company, the Lukins brothers, or others associated with the water company could begin using that excess capacity at any time. Therefore, no changes were made to the discussion.

FINDINGS

1. Lukins Brothers Water Company has filed Advice Letter 45-A in compliance with Resolution W-4791 to request an increase in gross annual revenues of \$26,224, or 5.49%, over current interim rates, and a surcharge to recover the uncollected revenue, from the effective date of the interim rates to the effective date of the rates set herein .
2. Danny and Larry Lukins hired Lynn Barnett and Associates to provide an appraisal to establish the Annual Market Rent in compliance with Ordering Paragraphs 4 and 5 of Resolution W-4791.
3. Lukins Brothers Water Company filed a copy of the detailed appraisal report with the Division of Water and Audits; the report provided a separate analysis for each of the facilities which was then prorated based on the portion each was used by Lukins Brothers Water Company.
4. A table summarizing the appraiser's analysis is given in Appendix A.
5. It is appropriate to adopt the rates in Appendix B, which are estimated to produce an increase of \$26,010, or 5.45%, over current rates.
6. The undercollected revenues of approximately \$95,400 represent 20% of annual revenues, and Lukins Brothers Water Company should be authorized to file a Tier 2

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advice letter to recover the shortfall over a thirty-six month period, or until the revenue shortfall is collected.

7. Lukins is required by P.U. Code Section 792.5 to maintain a balancing account to track the surcharge collection.

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Lukins Brothers Water Company, to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective Schedule No. 1A, Annual Metered Service, Schedule No. 2A, Annual Flat Rate Service, and Schedule No. 4, Private Fire Protection Service. The effective date of the rate schedules shall be five days after the date of filing.
2. Lukins Brothers Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates established in this Resolution, over a thirty-six month period or until the revenue shortfall is collected. This advice letter shall become effective upon approval of the Division of Water and Audits.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on July 11, 2013; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
CARLA J. PETERMAN
Commissioners

Appendix A

Appraisal of Market Rent for Lukins Brothers Water Co. Facilities

Facility	Market Rent	Appraiser's 2009 Value for % Use by Water Co.	Water Company Rent
1800 s.f. Industrial Bldg	\$19,440	50%	\$9,720
1440 s.f. Industrial Bldg	\$15,552	100%	\$15,552
Professional Office	\$3,600	100%	\$3,600
Storage Areas	\$4,800	100%	\$4,800
Fenced Yard Area	\$24,300	40%	\$9,720
	\$67,692		\$43,392
Appraiser's Conclusion for Market Rent			\$43,500

(End of Appendix A)

Appendix B

Lukins Brothers Water Company

Schedule No. 1A

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis

TERRITORY

This schedule is applicable within the entire territory served by the utility. (T)

RATES

Quantity Rates	<u>Per Meter Per Month</u>
All water, per 100 cu. ft.	\$ 1.58
Service Charge:	<u>Per Meter Per Year</u>
For 5/8 x 3/4 -inch meter	\$ 185.05
For 3/4 -inch meter	\$ 277.58
For 1 -inch meter	\$ 417.54
For 1-1/2 -inch meter	\$ 553.57
For 2 -inch meter	\$ 740.18
For 3 -inch meter	\$ 1,375.76
For 4 -inch meter	\$ 1,878.93
For 6 -inch meter	\$ 3,757.85
For 8 -inch meter	\$ 6,012.57
For 10 -inch meter	\$ 8,643.07

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the charge computed at the Quantity

(continued)

Appendix B (cont.)

Lukins Brothers Water Company

Schedule No. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

This schedule is applicable within the entire territory served by the utility. (T)

RATES

Water Per Year

For a single family residential unit, including premises	\$423.33	(I)
For each additional single-family residential unit on the same premises and served from the same service connection	\$254.00	(I)
Hotels, apartments and motels:		
For first room or unit	\$423.33	(I)
For each additional room or unit on the same premises and served from the same service connection	\$211.67	(I)
For each market, store or office	\$423.33	(I)

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one 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.

(continued)

Appendix B (cont)

Lukins Brother Water Company

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to water service furnished for private fire protection systems and to private fire hydrants.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Per Year

For each inch of diameter of service connection	\$97.61	(I)
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SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The maximum diameter for fire protection services shall not be more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed. The fire protection service connection shall be installed by the utility, according to specifications of the San Bernardino County Fire Department and the cost paid by the applicant. Such payment shall not be subject to refund. The utility may install a meter or the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water. The cost of the facilities will be paid by the applicant and not subject to refund.
5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of the system.

(End of Appendix B)

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CERTIFICATE OF SERVICE

I certify that I have, by electronic mail and/or mail, this day served a true copy of Resolution W-4953 on all parties in these filings or their attorneys as shown on the attached list.

Dated July 12, 2013, at San Francisco, California.

/s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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**Lukins Brothers Water Company
Service List**

jennifer@lukinswater.com