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**Division of
Public Utilities**

JUDITH JOHNSON

Interim Director

MEMORANDUM

Date: August 15, 2003

To: Public Service Commission

From: Judith Johnson
Wes Huntsman
Bary M. Golding

Subject: Wolf Creek Water and Sewer Company
Rate Increase Request Docket No. 03-071-T01

Recommendation

The Division of Public Utilities recommends that the Commission approve the proposed rates and rules filed by Wolf Creek Water and Sewer Company (Company).

Discussion

The Division performed an audit of the Company's operations in connection with the Company's rate request and found the information filed by the Company in support of its request to be fair and accurate.

Wolf Creek Water and Sewer Company is associated with Wolf Creek Resort. In the past employees of Wolf Creek Resort have performed services on behalf of the water company without inter-company reimbursements to offset these costs. With the current proposal, the Company's proposed expenses reflect the cost of services provided by Wolf Creek Resort personnel to the water company. The Division has reviewed records relevant to these inter-company transactions and feels that the proposed expenses fairly reflect the cost of services provided to the water company.

The Division used a test year of 2002 actual results with adjustments for reasonable estimates of anticipated increases in costs. The Division proposes a net rate base of \$980,036, with a rate of return of 8.67% weighted

cost of debt and equity, for a total revenue requirement of \$293,542. Based on the proposed rates the Company's income would fall \$5,742 short of meeting the proposed return. The Company has agreed to absorb this shortfall.

The Division made the following adjustments to the Company's proposed expenses. The Division reduced the Company's proposed Accounting and Legal expenses by \$5,100. This allows \$3,000 for ongoing accounting and legal costs and \$3,400 for amortization of the legal and accounting costs related to the Company's rate case over a three year period.

The Division removed the \$3,210 from engineering expense and added it to the Company's proposed utility plant in service since this cost should have been capitalized rather than treated as an expense.

The Division eliminated the Company's proposed rent expense for the pump house, culinary reservoirs, pipelines and sewer ponds. The Division feels that these facilities should be owned by the water company and included in rate base rather than being owned by the developer and rented back to the water company. The current proposal does not include these assets in rate base.

Rates

<u>Description</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
Water Rates		
Base Charge - up to 12,000 gal.	\$20.00	
Base Charge - up to 8,000 gal.		\$20.00
Usage Rates:		
Old - 12,001 to 20,000 gal.	\$ 2.00 per 1,000 gal.	
New - 8,001 to 20,000		\$ 2.00 per 1,000 gal.
Old - 20,001 to 40,000 gal.	\$ 3.00 per 1,000 gal.	
New - 20,001 to 40,000 gal.		\$ 4.00 per 1,000 gal.
Old - 40,001 to 60,000 gal.	\$ 4.00 per 1,000 gal.	
New - 40,001 to 60,000 gal.		\$ 6.00 per 1,000 gal.
Old - 60,001 to 80,000 gal.	\$ 5.00 per 1,000 gal.	
New - 60,001 to 80,000 gal.		\$10.00 per 1,000 gal.
Old - Over 80,000 gal.	\$ 7.00 per 1,000 gal.	
New - 80,001 to 100,000 gal.		\$20.00 per 1,000 gal.
New - All usage over 100,000 gal.		\$40.00 per 1,000 gal.
Stand-by Fee	\$ 5.00 per month	\$180.00 per year
Connection fee	\$2,000.00	\$2,000.00
Turn on service for a new customer where a meter is already in place		\$250.00
Reconnection fee after disconnection		\$100.00
Customer Account Change		\$15.00
Meter Tested (at customer request within 12 months after the meter was tested and found to be working properly.)		\$40.00

<u>Description</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
Sewer Rates		
Stand-by Fee	\$ 5.00 per month	\$15.00 per month

No other changes to the sewer rates are proposed in this case.

The Company's proposed rates for usage in excess of 20,000 gallons are intended as conservation rates to

encourage a reduction in water usage within the community. A secondary water system is available for irrigation use and customers should be able to adequately meet their culinary needs without exceeding 20,000 gallons usage per month.

Rules

The Division proposes a few changes to the rules included within section A. of the tariff.

The proposed rule requiring the payment of unpaid standby fees prior to obtaining water service should be changed to eliminate the statement, "...including those fees incurred by a prior owner..." A utility cannot charge a customer for fees incurred by a previous owner of a property. The Company could file a lien against the property to ensure payment of these fees upon sale of the lot.

The proposed rule requiring payment of a \$250.00 "meter upgrade fee" should be eliminated. The Company should upgrade meters as needed and recover those costs through depreciation and return on rate base.

The "NOTE" regarding payment of unpaid water bills should be eliminated. A utility cannot charge a customer for fees incurred by a previous owner of a property.

"Note 2" should be eliminated because it duplicates the meter reading and billing rules already stated in the Company's proposed rules in sections B.8 and C.1, respectively.

Summary

The Division feels that the proposed rates are fair and reasonable and represent a fair effort by the Company to encourage water conservation while allowing customers sufficient water to meet their needs. The Division recommends that the Commission approve the Company's proposed rates and rules with the changes set forth in this memorandum.