



State of Utah
Department of Commerce
Division of Public Utilities

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--= MEMORANDUM =--

TO: Public Service Commission of Utah

FROM: Division of Public Utilities
Chris Parker, Director
William Duncan, Manager, Telecommunication & Water Section
Shauna Benvegna-Springer, Utility Analyst

SUBJECT: In the Matter of the Application of Cedar Ridge Distribution Company for a Certificate of Public Convenience and Necessity to Operate as a Public Utility Rendering Culinary Water Service or Expansion of Service Area

RE: Docket No. 11-2423-01

DATE: June 29, 2011

RECOMMENDATION:

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah should:

- a) issue a Conditional Certificate of Public Convenience and Necessity (CPCN) to Cedar Ridge Distribution Company (Company) until the proper amount of water rights are conveyed or assigned,
- b) approve the tariff rates and fees as outlined as interim rates and fees,
- c) approve a meter installation project in the amount of \$49,507, and
- d) authorize the company for 33 connections.

EXPLANATION:

The Division of Public Utilities received a complete application from David Z. Thompson, President of Cedar Ridge Distribution Company, on April 21, 2011. The application indicates that the Company qualifies for a conditional Certificate of Public Convenience and Necessity (CPCN). On June 16, 2011, the Division conducted a review of the water system, company records and customer concerns of the Company. The Company has supplied the Division with

all the documents, records, access and explanations on concerns the Division requested. The following are the results of the Division's review of the application of a Certificate of Public Convenience and Necessity and tariff rates and fees:

ORGANIZATION:

The Cedar Ridge Distribution Company (the Company) is located in Box Elder County along the foothills of Highway 38 east of Tremonton City and north of Deweyville City. The Company has provided culinary and irrigation water since 1980. The customers include 25 single-family homes in the Cedar Ridge Subdivision Phase 1, in addition to five (5) single-family homes and one (1) commercial business north, west and south of the subdivision along Highway 38 for a total of 31 active customers. There is one vacant lot in the subdivision and one vacant piece of property outside the subdivision along Highway 38 that is developed with access to the water system. These lots are not using water. Mr. David Thompson owns the land for both of the two vacant connections. The total potential connections developed for the water system are 33 connections. Mr. Thompson owns property for 57 future residential homes, which are not yet developed.

The Company was incorporated on March 3, 1981 as a non-profit domestic corporation and has an "Active" status, which means it is in "Good Standing" with the Division of Corporations. The current Articles of Incorporation and Bylaws were filed at that time. Mr. Thompson owns 100% of the stock and controlling interest of the Company.

The Company also has an "Approved" rating from the Division of Drinking Water to provide water service for 26 lots of Phase 1 of the Cedar Ridge Subdivision and six (6) customers outside of the subdivision for a total of 32 connections to the water system. Approval from the Division of Drinking Water is required for the vacant lot outside the subdivision to classify the water system for 33 approved connections.

Surrounding the area there are three other water entities providing similar water service near the Cedar Ridge area. They are Tremonton City, Bear River Conservancy District and Deweyville City.

CONTROL AND OWNERSHIP OF ASSETS:

Water Rights:

For the 33 potential connections on the system, 47.85-acre feet of water rights are required to be assigned or conveyed in the Company name. Mr. Thompson recorded a quit-claim with Box Elder County on March 23, 1981 transferring water rights under application A46987 to the Cedar Ridge Distribution Company. On April 6, 2011, he conveyed the same water right # 29-2099, which provides use for 25 irrigation acres, 50 stock units and 25 domestic connections to be recorded with the Division of Water Rights. However, an additional 11.6 acre feet of water rights needs to be conveyed or assigned to the Company for the remaining eight (8) connections

of the total 33 potential connections. Mr. Thompson has water rights in his name, which exceeds this requirement. As of June 27, 2011, the Division of Water Rights did not have any water rights recorded for the Company. It is recommended that the necessary water rights be conveyed or assigned with the proper use designation and recorded with Box Elder County and the Division of Water Rights.

Utility Plant and Equipment:

The Company appears to have possessed all the utility plant, land and easements needed for delivery of water as a public utility on or about March 23, 1981. This included easements, land for the well and storage tank, a 50 hp Franklin submersible pump, 350 ft of 10” well casing, one pump house, 600 ft or 8” water line, and one 150,000 gallon storage tank, distribution main lines and service lines for a total cost of \$259,224.31. In 1986, a 16” diameter well, which test pumped 1200 gpm by the Division of Drinking Water, was drilled costing \$40,354.00, which was paid by the Company. The water system did not provide for water meters to each of the individual connections. The cost of the utility plant and land as reported on the balance sheet of the Company was \$350,410 as of December 31, 2010.

Water Well Purchase and Agreement:

In October 2002 the Company had the following pump repairs costs:

11/19/2002	Mountain Valley Pump – replace pump	\$ 8,310.05
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During 2009 and 2010 the Company had the following pump repairs costs:

05/19/2009	Peterson Bros Drilling – replace 2002 pump	\$13,681.00
12/18/2009	Peterson Bros Drilling – replace pump	\$10,000.00
04/16/2010	Mountain Valley Pump – replace pump	<u>\$ 8,223.29</u>
	TOTAL:	\$31,904.29

The average life of a pump is seven to eight years. During this period, Mr. Thompson made personal promissory notes (loans/note payable) to the Company for \$34,500 to finance the needs of the Company. The amount of debt owned to Mr. Thompson, according to Company records, is \$22,366.54 as of December 31, 2010. (See Exhibit DPU1)

Because of recent economic problems and Mr. Thompson’s time involved in resolving the pump repairs during 2009 and 2010, Mr. Thompson looked for ways to stabilize and minimize his involvement in the water system. On March 5, 2010, the parties of Tremonton City, David Z. Thompson and the Company entered into a water well agreement where the 16” water well and related facilities transferred to Tremonton City in exchange for \$190,000. Tremonton City received all the production of the water from the well with the agreement to sell and deliver water to the Company as first priority. Tremonton City was required to obtain and maintain the necessary water rights for their diversion of the water that they would use, and likewise the same was required for the Company to maintain the necessary water rights for their needs. Tremonton City maintains the pipeline to the delivery point near the storage tank, the pump and well

facilities to distribute water to the Company on a 24 hours a day, 7 days a week basis. Tremonton City provides the operations and maintenance to include electricity for pumping, water testing, etc. in exchange for the Company to pay a prorated charge for these costs. The cost to the Company as of January 1, 2011 is \$.35 per 1,000 gallons for the water delivered. This cost will be evaluated at the end of December 2011 to determine if the amount needs to be adjusted. The Division discussed the agreement with the Tremonton City water manager, Paul Fulgham on Tuesday, June 28, 2011. The remaining infrastructure of the storage tank, land, alarms, small pump and pump house, distribution mains and service lines, valves, water rights, etc. are the responsibility of the Company. The Division believes the well purchase and water agreement provide a protection to the Company and the customers to insure a safe, reliable and reasonable water service.

TARIFF RATES AND FEES:

The Company has submitted a proposed tariff with rates that the Division deems as reasonable and they are comparable to other small private water companies across the state. The Company has been charging these rates since November 1, 1989 and has not changed them for the past 22 years, with the exception of a special assessment made on August 9, 2010.

They current rates and fees are as follows:

Monthly Water Use (without meters)	\$45.00 per month
Late Fee per incident	\$ 5.00
Reconnect Fee	\$75.00 per incident
No stand by fee	\$0.00

It is estimated by the Company that each customer is allotted 24,800 gallons a month during the eight (8) winter months. During the four (4) summer months of May, June, July & August each customer is allotted 52,000 gallons a week or 208,000 gallons a month. Customers have raised concerns that the neighboring water entities were charging less for the water. Exhibit DPU 2 illustrates what the cost for the estimated amount of water would be using the rates for Tremonton City and Bear River Conservancy District compared to the Company. In comparing these neighboring water providers, it must be noted that they are government entities that are prohibited from earning a return on investment and do not pay taxes like a private company. The Company acknowledges that the rates charged do not recover all the capital cost of the water system nor in-kind operating expenses such as Mr. Thompson’s time, his secretary’s time, office space and related utilities, computer expense, etc. Mr. Thompson has been subsidizing the water company since its inception in order to keep the rates low to help sell the improved lots. The water rates only cover out-of pocket operational expenses as follows:

Annual Projected Costs for 2011:

Tremonton City water	\$11,700
Repairs	3,600
Reserve	<u>1,440</u>
TOTAL:	<u>\$16,740</u>

The rate is calculated and based on the annual costs of \$16,740 divided by 31 active connections divided by 12 months i.e. ($\$16,740 / 31 \text{ connections} / 12 \text{ months}$) equals \$45.00 a month per connection.

The Division finds the rates and fees to be just and reasonable until completion of Docket 11-2423-02, the Company's request for a rate increase, is concluded and the Commission takes further action.

CUSTOMER WATER METER INSTALLATION PROJECT:

The water system does not have water meters for individual customers. The Company has only estimated the average monthly winter usage to be 24,800 gallons per connection for 8 months of the year and the estimated average monthly summer usage to be 208,000 gallons per connection for 4 months of the year. This means each customer's estimated annual use is 1,030,400 gallons per year or 3.16 acre feet of water. The system is approved to provide 1.45-acre feet or 472,483 gallons annual to each individual connection. The Company's estimates are based upon a household of four individuals and irrigation water for 1 acre of property during May through August. Without water meters the actual household, usage is not known.

Mr. Thompson has acknowledged that he believes there has been a leak for the past 14 months in the system. He has been able to isolate it to the lower area of the system, but still has not been able to locate the leak or leaks to date due to the winter weather or scheduling problems. He has been working with a company that Tremonton City has contracted with, but they have not been able to schedule time until July 11, 2011 to work on the problem.

Even though there is not a law or rule requiring water meters to be placed on a water system, the Company is required to manage its resources and be accountable for the water diverted from the well within the water rights possessed. Tremonton City has placed a meter on the well and pipeline to service the Company in order to bill the delivery costs of the water from them. Water meters placed where the service line connects to the main water line for each individual customer helps the Company to manage and identify leaks very quickly and identify water users who use more than their allotted amount. Water users who exceed their allotment would be charged an overage fee for the additional water rights needed and costs to the system. Performance records of water systems show that 90% of most leaks happen in service lines from the water main distribution line to the residence or business. Having water meters for each customer assists the Company and the Commission to establish appropriate rates for the water used, provides feedback to the customer on water use and allows for conservation management. With water becoming a very valuable resource in the state, prudent water practices are strongly encouraged. Proper use and best water management practices can be implemented the use of water meters. When Company management and customers are provided feedback immediately, they are able to change their behavior quickly especially when conservation tariffs, rates and fees are implemented.

The Company submitted bids for the installation of meters to the water system and reviewed them with the Division. The Company has requested the Commission approve a meter installation project in compliance with Rule 746-401-3 because the project will cost more than 5% of the Company's utility plant cost value. The Division recommends the Company install a radio meter system immediately in order to minimize the amount of labor required to read and prepare the bills for the customers, help manage the water system and provide detailed water usage for the development of a just, reasonable and fair monthly rate to be charged to the customer. The Division recommends that the Commission approve the requested water meter project of \$49,507, which covers the following costs for 33 connections:

Labor to excavate and install the meter and system at \$384 per connection	\$12,672
Water meter parts and setter to include a saddle and valve at \$585 per connection	19,305
Core utility billing software and electronic interface to the meter reading system	<u>17,530</u>
TOTALS COST:	<u>\$49,507</u>

RECOMMENDATION:

The Division therefore recommends that the Commission:

- 1) approve the application of Cedar Ridge Distribution Company for a conditional Certificate of Public Convenience and Necessity (CPCN) until the necessary water rights are recorded,
- 2) approve the current charges of \$45 per month for water service, \$5 late fee and \$75 reconnection fee,
- 3) approve the water meter project of \$49,507, and
- 4) authorize the Company for 33 connections.