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MEMORANDUM



Date: April 21, 2004

To: Public Service Commission

From: Division of Public Utilities
Irene Rees, Director
Wesley Huntsman, Manager
Bary M. Golding, Analyst

Subject: Wolf Creek Water and Sewer Company
Rate Increase Request Docket No. 03-071-T01
Wolf Creek Water Conservancy
Application for Certificate of Authority Docket No. 03-2417-01

Introduction

On June 17, 2003 Wolf Creek Water and Sewer Company (Wolf Creek) filed a tariff with the Commission which included proposed changes to the Company's rates and rules (Docket No. 03-071-T01).

On October 30, 2003 Wolf Creek Water Conservancy (Conservancy) filed an application for a Certificate of Convenience and Necessity to operate as a public utility providing secondary water to all areas currently receiving culinary water from Wolf Creek Water and Sewer Company (Docket No. 03-2147-01).

On January 21, 2004 a hearing was held to consider approval of interim rates for Wolf Creek in No. 03-071-T01. During the hearing the parties agreed that a hearing would be scheduled no later than May 1, 2004 to consider a final recommendation regarding permanent rates for Wolf Creek, along with Conservancy's application for a Certificate of Authority. On January 27, 2004 the Commission issued an order approving the proposed interim rates for Wolf Creek.

The Division's review of the proposals for both Companies is ongoing. The complexity of the issues involved with these two interrelated companies and delays in receiving information concerning Conservancy's proposal for water rates for a golf course owned by Wolf Creek Resort, the parent company of the two water companies, has made it impossible to meet the May 1, 2004 hearing deadline. Scheduling conflicts between the parties involved in the case do not allow the hearing to be scheduled later in May.

Wolf Creek Water Conservancy is an existing company which has operated without Public Service Commission regulation for several years but is now requesting Commission regulation. The irrigation season for Conservancy begins about the first of May. Since the hearing will be delayed until after that time, the Division feels that it is appropriate for the Commission to approve the Conservancy's certificate in order to formalize Commission regulation of Conservancy prior to the beginning of the 2004 irrigation season. The Division also feels that it would be appropriate for the Commission to set the rates which were in effect at the beginning of the 2003 irrigation season as initial interim rates for the Company.

Recommendation

The Division recommends that the Commission approve a Certificate of Convenience and Necessity for Wolf Creek Water Conservancy to operate as a public utility providing secondary water service to all areas currently receiving culinary water from Wolf Creek Water and Sewer Company. The Division recommends that the Commission set the company's initial rates as the rates which were in effect at the beginning of the 2003 irrigation season. These interim rates should be approved pending the outcome of the final hearing which will be scheduled in June 2004. The Division recommends that the Commission approve Conservancy's certificate and initial interim rates under summary procedure.

Proposed Initial Interim Rates for Wolf Creek Water Conservancy

\$12.75 per month flat rate for areas which had secondary water available prior to 2003

\$15.00 per month flat rate for areas to which the secondary water system was extended in 2003

The Division proposes that the Commission extend the interim rates previously approved for Wolf Creek Water and Sewer until permanent rates are approved.

The Division requests that the Commission schedule a hearing for Thursday, June 10, 2004, at 9:00 a.m., to consider permanent rates for Wolf Creek Water Conservancy (Docket No. 03-2147-01) and Wolf Creek Water and Sewer Company (Docket No. 03-071-T01). The Division proposes a single hearing to consider both of these dockets simultaneously because the two companies serve the same customers and rate structure of Wolf Creek Water and Sewer may have an impact on whether more customers decide to connect to the Wolf Creek Water Conservancy system.

Discussion

The principles of Wolf Creek Water Conservancy are the same as those involved in Wolf Creek Water and Sewer Company. Conservancy has provided secondary water to most developments within the Wolf Creek service area for several years. During the last rate hearing for Wolf Creek Water and Sewer (Docket No. 01-071-01) residents of the Patio Springs subdivision expressed concern that most other areas of the Wolf Creek service area had secondary water provided by Wolf Creek Water Conservancy. At that time Wolf Creek agreed to look into extending the secondary system to areas not currently served by Conservancy.

During 2003 Conservancy extended lines into most of the remaining areas of the Wolf Creek service area including Patio Springs. In conjunction with the extension of the secondary system to these areas the Division met with company representatives and determined that Wolf Creek Water Conservancy was an investor owned company subject to Commission regulation. The company voluntarily submitted its application for a certificate shortly thereafter.

The certificate application for Conservancy includes a proposal for a tiered rate structure based on metering of all connections. All new connections to the Conservancy system made beginning in 2003 include a meter. During the 2003 season Conservancy started installing meters on all existing connections. This conversion process is not complete at this time.

Representatives of the customers have expressed concern to the Division that Conservancy may begin

charging the proposed metered rates at the beginning of the 2004 season if the Commission does not approve a certificate and rates prior to the beginning of the irrigation season. The Division feels that it is appropriate for the Commission to approve the certificate for Wolf Creek Water Conservancy and set the initial interim rates at the flat rate level which was in place prior to the filing of Conservancy's application.

The secondary system which served Conservancy's customers prior to the extension of service into Patio Springs was installed by developers at the time the subdivisions were developed. In order to extend secondary service to Patio Springs and other areas not previously served Conservancy had to invest in facilities to increase the system's capacity. Distribution lines also had to be run into these new service areas. All of these improvements were paid for by Conservancy.

Because of the investment required to extend service to these areas Conservancy charged these customers a flat rate of \$15.00 per month during 2003 rather than the \$12.75 rate which was being charged in the existing service area. All customers who connected to the system during 2003 paid a \$1,500 connection fee and agreed to pay the \$15.00 flat rate.

The Division feels that it is reasonable for the Commission to leave the existing flat rates in effect as the initial interim rates for Wolf Creek Water Conservancy until permanent rates can be discussed during the proposed June 10th hearing.