State of Utah
Department of Commerce
Division of Public Utilities

KLARE BACHMAN Executive Director
JASON PERRY Deputy Director
IRENE REES Director, Division of Public Utilities

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Governor
GAYLE F. MC KEACHNIE
Lieutenant Governor

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MEMORANDUM

Date: June 15, 2004

To: Public Service Commission

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

Subject: Wolf Creek Water Conservancy Inc.
Application for Certificate of Authority Docket No. 03-2417-01

INTRODUCTION

This memorandum contains more comprehensive recommendations than those which the Division previously filed with the Commission as well as detailed supporting information. The recommendations contained in this memorandum replace the Division's previous recommendations regarding Wolf Creek Water Conservancy Inc. (Company) which were filed with the Commission on April 24, 2004 and April 30, 2004.

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 listed below. The Division recommends that these proposed rates be approved on an interim basis and remain in effect through the 2004 irrigation season. Permanent rates will be considered in a later proceeding after the Company has provided the Division with more accurate usage data on water sold to all classes of irrigation customers during 2004.

The Division recommends that the Commission order the Company to remove from its proposed tariff all provisions which would charge a customer for charges incurred by a previous owner of a particular property.

The Division proposes that the Commission require the Company to file with the Commission a formal plan for metering water usage on the golf course and all other properties which are served by Wolf Creek Water Conservancy Inc. before of approval of metered usage rates can receive further consideration by the Commission.

RATES & RULES

Residential Irrigation Rates

Residential Metered Usage Rates	
Irrigation Water Usage	$15.00 per month flat rate
Residential Unmetered Usage Rates	
Irrigation Water Usage	$15.00 per month flat rate
Irrigation Water Connection Fee: Service to Property Line, one time charge for each service	$1,000
Patio Springs, Eden Hills & Eagle Ridge Connection Fee	$2,500
Annual Irrigation Stand-By Fee	NONE

Other Charges

Turn on service for a new customer where a meter is already in place	$ 50.00
Reconnection Fee - after disconnection	$100.00
Customer Account Change	$ 15.00
Meter Testing - Customer requested meter test more than once within a year, in compliance with PSC R746330-3.C	$ 40.00

Multi-Family Rates

Irrigation Water Usage per Irrigated acre	$15.00 per month flat rate
Irrigation Water Connection Fee per irrigated acre	$1,000
Connection fees are charged on a phase by phase basis	

Meter Installation Charge:

1" Meter	$ 500
1 ½" Meter	$ 750
2" Meter	$1,000
3" Meter	$2,000
4" Meter	$3,000
6" Meter	$5,000

*Meter size is based on acreage and will be determined by Wolf Creek Conservancy.
** Installation charge subject to change due to increased cost of labor and materials.

Golf Course and Other Commercial Facilities Rates

Irrigation Water Usage per Irrigated acre	$15.00 per month flat rate
Irrigation Water Connection Fee per irrigated acre	$1,000

Meter Installation Charge:

1" Meter	$ 500
1 ½" Meter	$ 750
2" Meter	$1,000
3" Meter	$2,000
4" Meter	$3,000

6" Meter	$5,000

*Meter size is based on acreage and will be determined by Wolf Creek Conservancy.
** Installation charge subject to change due to increased cost of labor and materials.

DISCUSSION

Test Year

Wolf Creek Water Conservancy is an existing company which has operated without formal Public Service Commission regulation for several years but is now applying for Commission regulation. The Company submitted 2002 actual operating data with its application; however, 2002 figures do not include the cost of services provided by Wolf Creek Resort employees which were not previously charged to Wolf Creek Conservancy. The Company also had a substantial increase in the number of irrigation customers it serves during 2003 because service lines were installed in two subdivisions which did not previously have secondary service available.

In addition to the 2002 actual operating data the Company also submitted 2004 projected financial information with its application which included the costs of services provided by Wolf Creek Resort Employees. The Division proposes a test year of 2004 original projected costs based on the projections which were submitted with the Company's application. The Division feels that these 2004 projected figures provide the most accurate estimate of the true costs of operations.

The Company provided the Division with "2003 Actual" data on June 4, 2003. The Division has found that the Company's "2003 actual" numbers contain a lot of estimated, projected or assigned costs which are really not known and measurable and which are difficult to verify. The majority of the projected or assigned expenses are for services provided by employees of Wolf Creek Resorts and allocated to Wolf Creek Conservancy. The Company does not have any formal procedures for tracking and distribution of inter-company costs.

In its order dated January 27, 2004 in Docket No. 03-071-T01, the Commission ordered Wolf Creek Water and Sewer to "formalize its procedures for tracking and distribution of costs between related entities." Wolf Creek Water and Sewer and Wolf Creek Water Conservancy are both subsidiaries of Wolf Creek Resorts and are managed and operated by the same people. To date the Company has not implemented formal procedures for tracking and distribution of costs between related entities.

When the Division met with Company officials on March 16, 2004 the Company provided updated projections for 2004 operations. The Company's projected costs have again escalated without any substantive information to support or justify the increased costs.

The Irrigation Company's total operating costs according to the information provided to the Division were as follows:

2002 actual	$55,603
2004 original projections	$107,404
2003 actual	$180,568
2004 revised projections	$242,299

*See attachment 1 for detailed information

Rates

The Division recommends that the Company's proposed $15.00 flat rate "unmetered" rate be applied to all customers, based on a residential equivalent standard of 1 acre of irrigated property equals one connection consistent with the Company's proposal for multi-family connections, until all irrigation connections are fully metered. The Division feels that it is difficult to justify charging some customers escalating metered rates for all water used above 20,000 gallons per month while other customers, including the golf course owned by Wolf Creek Resort, are allowed unlimited usage for a flat fee.

A flat rate of $15.00 actually translates to a monthly rate of $30.00 for the irrigation season since the Company proposes to charge the monthly rate all year, even though the Company's irrigation season is only six months.

The Division opposes the Company's proposed stand-by fee for the irrigation system. There is no regulatory requirement to size the system to serve all customers in the service area as there is with a culinary system under Division of Drinking Water regulations. The Division does not feel that a stand-by fee is appropriate for the irrigation system since connection to the system for existing lots which did not have availability of irrigation water prior to 2003 is and should remain optional.

The Division opposes the Company's proposed $200 meter upgrade fee. The Division feels that if the Company's meters need to be upgraded they should develop a plan to make the needed upgrades to all meters which do not meet the "new meter standards" and capitalize the upgrade costs. If meters are only upgraded as new owners request service there will likely be several connections whose meters do not get upgraded. On the other hand, if a property changes hands more than once within a few years each owner of that property would be charged a "meter upgrade fee" under the proposed tariff, regardless of whether the meter needed to be upgraded.

Connection Fees

The Division has proposed changing the Company's proposed connection fee for multi-family and commercial connections to $1,000, the same as a single family residential connection. The Company did not provide any information which shows that the per unit cost of making a connection to a commercial or multi-family property is higher than the cost of a single family residential connection. The connection fee is intended to offset a portion of the cost of the water facilities required to provide water service. A one acre single family lot should require the same amount of water infrastructure as a one acre portion of a larger multi-family or commercial parcel. The cost of installing a larger meter for multi-family or commercial connections is

already addressed in the Company's "installation charge" which is assessed in addition to the connection fee based on the size of meter being installed.

The Division has also proposed changing the Company's proposed connection fee for Patio Springs, Eden Hills & Eagle Ridge to $2,500. The Company did not provide specific justification for the difference between the connection fees for these subdivisions. The Division agrees that the Company is justified in charging higher connection fees in these areas since the secondary system was not installed in these areas when they were originally developed and the Company had to install additional infrastructure to serve these areas during 2003.

Golf Course

Beginning in the fall of 2003 the Division has asked the Company several times to submit a formal plan for how the golf course, owned and operated by Wolf Creek Resort, would be charged for its water usage. In mid-April the Company provided the Division with its proposal (attachment 2) which is based on estimated annual usage of 2.0 acre feet of water per acre irrigated or about 652,000 gallons per acre. The Company's proposal estimates that the golf course includes 110 acres of irrigated land, for a total annual water usage of 220 acre feet, or 143,440,000 gallons. The Company proposes that the golf course be charged a "commercial rate of 60% of the normal rate charged for other customers on the Wolf Creek Water Conservancy secondary system."

The primary justification for the proposed 40% discount for the golf course was that they would agree that "during times of drought, the golf course will significantly reduce its gross irrigation requirements." The proposal further states that "the administrative overhead for delivery of water to the Wolf Creek Golf Course is significantly less than a typical residential connection." The Company did not provide any information to substantiate or quantify its claims of reduced costs or reduced usage by the golf course. Furthermore, during six months of the year the golf course's service is not interruptible since the system only operates during the summer irrigation season.

The Company also did not provide any specific information to show that the actual cost of delivering water to the affiliated resort golf course is any less than the cost of delivering water to other large water users such as condominium complexes. They also did not provide sufficient information to show in terms of dollars and cents exactly how the golf course's rate of "60% of the normal rate charged for other customers on the Wolf Creek Water Conservancy secondary system" would be billed on a monthly basis.

The Division feels that the criteria for calculating the rates for the golf course and all other commercial irrigation customers should be the same as those used to calculate irrigation usage charges for condominiums and other multi-family dwelling complexes to avoid cross subsidization of the resort by the regulated utility. The Company has provided no information which would justify treating the golf course or any other Wolf Creek Resort owned commercial properties different from other multi-family dwelling complexes or commercial properties for rate purposes. The cost of delivering a gallon of water to the golf course is no different from the

cost of delivery to other large water users. In many instances the lines which serve the golf course pass through the golf course and also serve other single family and multi-family residences.

The Company proposes imposing "conservation rates" on residential customers to discourage "excessive water use." This argument appears directly contrary to the discount proposed for the affiliated resort properties. Company representatives speak in terms of usage in excess of 40,000 being excessive but the golf course, according to the Company's own numbers, uses an average of 108,666 gallons of water per residential equivalent acre each month for the six month irrigation season, and they have proposed a 40% discount for the golf course.

The Division feels that before the Company can ask the Commission to impose metered "conservation rates" on residential customers they need to devise a method to meter water usage to <u>all</u> customers, including the golf course. The Division acknowledges that metering the golf course may be difficult but it is not impossible. One possible method which could be used measure the amount of water used by the golf course would be to meter all water which enters the secondary system and then subtract all water used by metered customers. The Division feels that this amount, minus a reasonable allowance for leakage (5% to 10%) would be a reasonable measurement of golf course usage.

Rules

In several places the Company's proposed rates and rules refer to charging a customer for charges incurred by the previous owner of their property. Commission rules prohibit a utility from charging a customer for any charges incurred by a previous owner. All such references should be removed from the Company's proposed rates and rules.

Summary

The Division feels that the interim rates it has proposed are fair and reasonable. The Division feels that until complete and accurate usage information is available it is difficult to evaluate any proposal based on metered usage rates. The Division also feels that it is unreasonable to impose metered usage rates on all customers except properties owned by Wolf Creek Resort, the parent company, particularly when the Wolf Creek Golf Course is the single largest user on the system.