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Division of Public Utilities

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August 6, 2007

MEMORANDUM

TO: Public Service Commission of Utah

FROM: Division of Public Utilities
Constance B. White, Director
Laura Scholl, Manager, Telecom and Water Section
Paul Hicken, Utility Analyst

RE: Lakeview Water Corporation – Proposed Rate Increase; **Docket No. 06-540-T01**

RECOMMENDATION

Based on its audit and analysis, the Division concludes that the culinary water rates proposed by the Lakeview Water Corporation are just and reasonable. The company has not had a rate increase in 25 years and the increased rates are needed. Therefore, the Division recommends that the Commission allow the proposed rates to become effective. If the Commission has concerns about the immediate and significant rate increase, they should consider an incremental increase over the next several years.

SUMMARY

The Division has reviewed the application for rate increase for culinary water service for Lakeview Water Corporation (LWC). The LWC currently has 136 full time water users comprised of 5 commercial users, 76 multi-family users and 55 single family residences.

The LWC received a Certificate of Public Convenience and Necessity in April 1982. At that time there were 80 residential customers and the rates for culinary service were effective with the issuance of the certificate. The rates have not changed since that time. Based on increased operational costs and demand for water due to growth in the area (there are now 136 customers), LWC has requested rate changes shown in the following table.

ACTUAL RATES		PROPOSED RATES	
Water Usage Rates			
Base Rate: up to 12,000 gal	\$16 per month	Base Rate: up to 12,000 gal	\$36 per month
Tier 1: 12,001 to 15,000 gal	\$1.50 per 1,000 gal	Tier 1: 12,001 to 20,000 gal	\$3.25 per 1,000 gal
Tier 2: 15,001 to 25,000 gal	\$1.75 per 1,000 gal	Tier 2: 20,001 to 40,000 gal	\$3.75 per 1,000 gal
Tier 3: 25,001 or more gal	\$2.25 per 1,000 gal	Tier 3: 40,001 to 60,000 gal	\$4.25 per 1,000 gal
		Tier 4: 60,000 to 80,000 gal	\$5.50 per 1,000 gal
		Tier 5: 80,000 or more gal	\$7 per 1,000 gal
Connection Fees			
Single Family Dwelling Unit (Development) $\frac{3}{4}$ in	\$1,000	Single Family Dwelling Unit (Development) $\frac{3}{4}$ in	\$3,500
Other Single Family Dwelling Unit $\frac{3}{4}$ in	\$1,500	Other Single Family Dwelling Unit and Single Business Connections $\frac{3}{4}$ in	\$4,000
Multi-family Unit	\$1,000	Multi-family Unit	\$3,000
Stand-By Fees			
Single Connection	\$5	Single Connection	\$10

ANALYSIS

The Division has reviewed annual reports for years ending December 31, 2005 and 2006. In addition, LWC has readily provided information to the Division for analysis, such as water usage tables, asset depreciation tables, purchase, and expense records. The Division has met with LWC representatives and spoken on several occasions to discuss earnings and expenses, and they have been very cooperative.

Expense Adjustments - The Division has included some expense adjustments in the analysis shown on DPU Exhibit 1.0 (A): a) an adjustment to purchased water, b) an adjustment to repairs and maintenance, c) an adjustment to

contractual services – professional, d) an adjustment to contractual services – engineering, e) an adjustment to depreciation expense.

Purchased Water. This adjustment reduces total expense by \$1,644. According to the Weber Basin Water Conservancy memo, about \$1,644 of the water purchases, were priced lower than culinary water and they were labeled as irrigation water.

Repairs & Maintenance. This adjustment reduces total expenses by \$1,351. Repairs were much higher during the test year than in previous years. Therefore, this item was adjusted by \$1,351 to meet the average cost over the past 6 years.

Contractual Services – Professional. This adjustment reduces total expenses by \$2,400. This cost was out of period and it appeared to be a one-time cost rather than a recurring expense.

Contractual Services – Engineering. This adjustment reduces total expenses by \$4,306. The engineering costs were abnormally high during the test year and could not be identified in the documentation. Therefore, this item was adjusted by \$4,306 to meet the average over the past 6 years.

Depreciation Expense. This adjustment increased 2005 depreciation expense by \$12,910 in order to bring it up to the DPU adjusted amount of \$17,344 as shown in DPU Exhibit 1.0 (B). Some assets were not depreciated using the proper schedule permitted for water companies, and two water tanks were mistakenly left off of the depreciation schedule.

Rate Base Adjustments – The Division made several adjustments to the rate base as shown in DPU Exhibit 1.1: a) Several assets were added to the rate base including two water tanks and some meter upgrades. In addition, there was an adjustment for Contributions In Aid of Construction, and b) Accumulated depreciation was adjusted.

Water Tanks. These adjustments increased the overall rate base. Two water tanks were inadvertently left out of the rate base. One tank was added in 1983 at a cost of \$114,710. Another tank was added on 2004 at the cost of \$254,170. They were added back into the rate base at their depreciated value as shown in DPU Exhibit 1.0 (B)

Meters. This adjustment increased rate base by \$7,881. New meters were added in 2006 at a cost of \$7,881.

Contributions In Aid of Construction. This adjustment reduced rate base by \$36,000 due to CIAC for anticipated new connections.

Accumulated Depreciation. This adjustment increased rate base by \$5,595. It was a reduction in accumulated depreciation that was necessary after depreciation was recalculated using the PSC allowed depreciation schedule.

Revenue Adjustments – Several adjustments were made to the revenues as shown in DPU Exhibit 1.3: a) an adjustment was made for anticipated connection fees, b) an adjustment was made for standby fees, c) there was an adjustment for the proposed minimum water bill, and d) there was an adjustment for the proposed overage charges.

Connection Fees. This increased revenues by \$12,000. It was based on estimated connection fees of \$48,000 of which 25% should be booked as revenue and 75% booked as CIAC.

Standby Fees. This increased revenues by \$2,400. It was based on company estimates of 20 residential customers at \$10 per month.

Minimum Water Bill. This increased revenues by \$48,000 per year. It was based on 136 connections at proposed \$36 per month.

Overage Charges. Increased revenues by \$45,528. It was based on proposed tier rates for overage charges.

RATES

The Division analysis shows the proposed rates to be just and reasonable. Even with the proposed rate increase, LWC appears to be under-earning. The overall effect of this rate change is that it will bring much needed revenue to LWC, which appears to have been subsidized by the developer for a number of years. Although the proposed basic rate, connection fees, and standby fees are more than double the existing rates, they are still within an acceptable range of other regulated water companies, and the Division supports the rate increase as proposed by Lakeview Water Corporation:

Usage Rates

- \$36 per month base rate up to 12,000 gallons
- \$3.25 per 1000 gallons from 12,001 to 20,000 gallons
- \$3.75 per 1000 gallons from 20,001 to 40,000 gallons
- \$4.25 per 1000 gallons from 40,001 to 60,000 gallons

- \$5.50 per 1000 gallons from 60,001 to 80,000 gallons
- \$7 per 1000 gallons from 80,001 or more gallons

Connection Fees

- \$3,500 per $\frac{3}{4}$ inch single family development unit
- \$4,000 per $\frac{3}{4}$ inch single family other unit
- \$3,000 per multi-family unit

Standby Fees

- \$10 per single connection