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DPU Exhibit 2
November 14, 2007

MEMORANDUM

TO: Public Service Commission of Utah

FROM: Division of Public Utilities
Jeffrey P. Millington, Director
Laura Scholl, Manager, Telecom and Water Section
Paul Hicken, Utility Analyst

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

The Utah Division of Public Utilities (DPU) has completed an analysis of the proposed rate increase on an incremental basis for Lakeview Water Corporation (LWC), located in Huntsville, Utah. The Division previously concluded that the culinary water rates proposed by the Lakeview Water Corporation were just and reasonable, and the recommendation was made to the Commission that the rates be adopted. In order to lessen the impact of immediate large rate increase, an analysis was done to show the effects of adopting the proposed rates over a three year phase-in period.

HISTORICAL GROWTH and PROJECTION

The forecasting model shown in DPU Exhibit 2.1, starts with year 2006 which is the last year for which expenses and revenues were known. Based on a historical average of 10.5% annual growth over the last seven years (DPU Exhibit 2.2), the model projects revenues and, expenses for the next five years. The phase-in period for basic water service spreads over 3 years beginning in 2008 with a \$10 increase which brings the base rate to \$26. In 2009, there is an \$8 increase bringing the base rate to \$34. The base rate tops out at \$35 in 2010 with a \$1 increase. The model does not increase the base rate to \$36 as proposed, because it shows that the company could be profitable at the \$35 rate after 3 years. The other

proposed rates for tiered usage, connection fees, and standby fees would be effective in the first year rather than phased in over 3 years.

In order to complete the analysis, several assumptions were made based on historical growth patterns over the last seven years. These patterns are shown in DPU Exhibit 2.2. It is assumed that customer growth would occur at the rate of 10.5% per year. It is assumed that half of the new connections each year would be single family connections and half would be multi-family connections. It is assumed that with the new connections each year, 60% of the connection fees would be booked as revenues and 40% of the fees would be booked as Contributions In Aid of Construction. The analysis holds standby customers constant at 20 per year based on company estimates. The analysis assumes that Operation and Maintenance costs increase at 12.4% annually based on the last seven year history. Plant additions and repairs are hard to project but based on historical costs over the last seven years and normalized for the life of the asset, the plant costs have averaged nearly \$15,000 per year.

REVENUE REQUIREMENT

The revenue requirement is shown in DPU Exhibit 2.3. This estimates the amount of revenue needed for years 2007-2011. The analysis includes an authorized rate of return on the rate base, and it covers the estimated taxes and operating expenses. As shown by the exhibit, the revenue requirement is projected to increase by 5 or 6 percent each year.

RATE DESIGN

The rate design shown in DPU Exhibits 2.4 through 2.8 demonstrates the impact of the rate phase-in on the company. DPU Exhibit 2.4 shows the estimated revenue shortfall of nearly \$80,000 during 2007, prior to the implementation of the proposed rates. In 2008, after the first year of the newly implemented rates, the model still shows a revenue shortfall of \$22,700. After the second year of rate phase-in, the model shows a loss of \$5,500 for the company. Finally in 2010 with the third year of the phased in rates, the model shows the company with positive revenues. In 2011 the model shows the company over-earning by about \$3,000.

SUMMARY

The Division believes allowing for increased rates, phased in over 3 years, balances both the interests of the consumers and the water company. As a result, the DPU recommends a phased in approach be adopted by the Commission.