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**M E M O R A N D U M**

**TO:** Public Service Commission of Utah

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

**RE:** Dammeron Valley Water Works – Audit of Operations and Billing Practices; **Docket No. 07-2025-01**

The Division of Public Utilities (DPU) has completed its audit of Dammeron Valley Water Works (DVWW) water usage and billing practices for years 2004, 2005 and 2006. Our report answers the following questions proposed in the Public Service Commission's (PSC) audit request: 1) Were the complainants billed correctly in accordance with the filed tariff?; 2) Was water loaned to some customers at a lower rate and did it result in lost revenue to the company?; and, 3) Were customers billed in a manner that was inconsistent with the filed tariff? In addition, we compared customer water utilization records with customer billings for all three years and found numerous inconsistencies with the billings, which resulted in lost revenue to the company.

**Complainants Were Not Billed Correctly**

The complainants, Douglas J. Markham and Andrea Gasporra, were not correctly billed from May through October 2006. The DPU analysis compared water utilization records with billing records for the Gasporra property - account #595, and Gasporra Pasture - account #596, and determined that these two accounts were under billed by a combined total of \$6 dollars during that time period. However, from November through December 2006, the accounts were over billed by a total of \$1,304. The complainants were purportedly conveyed the property in May 2006, and from May through December, it appears the billing discrepancy for both of their accounts was \$1,298 of over billing.

Prior to the conveyance of the property, these two accounts were owned by the Bradley family. From January through April 2006, the accounts were under billed by \$3,202. During 2005 and 2004 while owned by the Bradleys, the accounts were under billed by \$3,765 and \$7,465 respectively. The total billing discrepancy to the Bradleys for these two accounts from January 2004 through April 2006 was \$14,432 of under billing.

### **Irrigation Shares Were Provided To Some Customers**

During 2004, DVWW had 407 customer accounts, 167 of which already owned irrigation water shares. The remaining 240 accounts had irrigation shares provided to them during the months of July through October. During this time, DVWW provided additional irrigation water (up to 40,000 gallons per month) to each of these 240 accounts that otherwise did not have irrigation shares. This water was authorized to all customers in a letter dated June 15, 2004, in order to keep the terrain green, establish drought resistant grasses and reduce the fire hazard. The water was billed at \$0.25 per 1,000 gallons up to 80,000 gallons per billing cycle. In essence, the customers of service type 1, 2, or 3 who did not own irrigation shares were allowed to use irrigation shares at the discounted rate before they were billed at the normal overage rate. Their billings followed the normal tariff rates through the basic charge and the next tier charge, but instead of billing at the overage rate, the next 80,000 gallons were billed at the irrigation rate. The overage rate applied only after irrigation use was counted.

This policy which applied from July through October of 2004 only, resulted in a reduction of revenue for the company because each of these customers was allowed to use up to 80,000 gallons per billing period at the irrigation rate of \$0.25 per thousand, instead of the overage rate of \$2.00 per thousand gallons. During these four months, there were 91 customers that avoided overage charges due to the loaned irrigation shares and the estimated total revenue lost as a result of this policy was \$8,898.

### **Customer Billings Were Inconsistent With The Filed Tariff**

During 2004 while this policy of "loaning" irrigation shares was in effect, the billings to these 240 customers of service type 1, 2, or 3 were not consistent with the filed tariff. Even though the irrigation rate was part of the filed tariff, the fact that it was made available to customers that did not own irrigation shares was inconsistent with the tariff. All customers were notified in advance and everyone was given the same opportunity to use the extra irrigation water but the notice was still not filed with the Division and the discounted rate was not approved. Of the 240 customers that had the irrigation water available to them, only 91 customers (38%) actually used enough water to go into overage charges.

In addition to the discounted irrigation rates, we found other inconsistencies with customer billings that did not match up with reported utilization. We compared the utilization records of those customers using over 40,000 gallons per billing period, with the reported billing amounts for the same customers. Billing for each account is assessed at the basic rate for the first 40,000 gallons used per billing period. The next tier charge applies after the basic rate is assessed and the amount of gallons charged at this tier rate varies depending upon service type. Tiered charges are assessed at \$1.50 per 1,000 gallons up to the next level of billing. Irrigation rates are assessed next if the account owns irrigation shares. Each irrigation share is 80,000 gallons per period and rates are \$0.25 per 1,000 gallons. Overage charges are assessed after basic, tier, and irrigation charges are added. The overage rate prior to July 2004 was \$1.50 per 1,000 gallons and after July it was \$2.00 per 1,000 gallons.

We found many examples of under billing and over billing at the first tier level, the irrigation level, and the overage level. The DPU analysis compares actual company billings with amounts that should have been billed to each of the customers in the sample data. The difference is indicated as either under billing or over billing by the company. These billing comparisons are summarized in the following tables.

<b>SUMMARY OF TIERED BILLINGS</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>3 YR TOTAL</b>
DVWW Actual	\$8,877	\$7,926	\$8,837	\$25,640
DPU Proposed	\$9,849	\$8,435	\$9,861	\$28,145
(Under)/Over	(\$972)	(\$509)	(\$1,024)	(\$2,505)

As shown in this table, customers were aggregately under billed at the first tier level for each of the three years reviewed. The total amount under billed for three years at this tier level was \$2,505. The data applies only to the accounts that showed over 40,000 gallons of use per billing period, because these are the accounts to which tiered charges applied. During 2004, there were 126 accounts that were included in the review. During 2005 and 2006, there were 121 and 152 accounts respectively, included in the review. The audit did not consider other accounts where utilization was less than 40,000 gallons per period.

<b>SUMMARY OF IRRIGATION BILLINGS</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>3 YR TOTAL</b>
DVWW Actual	\$6,614	\$3,996	\$4,419	\$15,029
DPU Proposed	\$4,957	\$3,167	\$4,323	\$12,447
(Under)/Over	\$1,657	\$829	\$96	\$2,582

The summary of irrigation charges shows that customers were aggregately over billed for each of the three years of utilization reviewed. The total amount of over billed irrigation for the three years was \$2,582. According to the DPU analysis, irrigation charges should have been applied to 125 of 126 accounts reviewed in 2004. Irrigation charges were appropriate for 30 of 121 accounts in 2005, and 37 of 152 accounts tested in 2006.

<b>SUMMARY OF OVERAGE BILLINGS</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>3 YR TOTAL</b>
DVWW Actual	\$6,954	\$17,016	\$33,466	\$57,436
DPU Proposed	\$19,431	\$22,190	\$35,450	\$77,071
(Under)/Over	(\$12,477)	(\$5,174)	(\$1,984)	(\$19,635)

The DPU analysis of overage billings for the three years shows that overage was aggregately under billed by a total of \$19,635. In 2004, overage charges were appropriate for 90 of 126 accounts. Overage charges applied to 111 of 121 accounts for 2005 and 139 of 152 accounts for 2006.

The analysis showed that for the three years of customer utilization reviewed, the total amount under billed due to billing errors was \$19,558.

### **Conclusions And Recommendations**

- 1) Dammeron Valley Water administration and billing is fraught with errors. DPU recommends that DVWW contact an independent Certified Internal Auditor to conduct a review of its billing and collection practices. This review along with steps to correct the errors shall be reported to the PSC no later than December 1, 2007.

- 2) Based on the DPU analysis, DVWW has failed to act in accordance with its tariffs on file with the PSC and is in violation of Section 54-3-7 of the Utah Code (UCA). Therefore, unless DVWW complies with the first recommendation above, the DPU recommends the PSC consider penalties of not less than \$500 per offense as provided under UCA 54-7-25.
- 3) The DPU concludes that the complainants were over billed by \$1,298 for the period between May through December 2006. DVWW should immediately correct this billing error and resolve this and any other billing errors to customers whether under or over billed, by no later than November 1, 2007.
- 4) DPU notes that DVWW has a pending request for a proposed conservation tariff. In a separate memo to follow, the DPU will recommend that the requested tariff be denied until such time that DVWW can provide clear and convincing evidence that its billing and collection practices are accurate, and the company is in full compliance with its filed tariffs, and that the proposed tariff is justified in accordance with the corrected financial statements that reflect what DVWW should have billed and collected from its customers.