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Division of Public Utilities

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July 28, 2008

TO: Public Service Commission of Utah

FROM: Division of Public Utilities
Philip J. Powlick, Director
William Duncan, Manager, Telecommunications and Water
Paul Hicken, Utility Analyst

RE: In the Matter of the Application of Eagle's Landing Water Company, L.L.C. for a Certificate of Convenience and Necessity to operate as a Public Utility Rendering Culinary Water Service.
Docket No. 07-2477-01

RECOMMENDATION

The Division of Public Utilities has reviewed the application from Eagle's Landing Water Company, to operate as a public utility providing culinary water service. The Division recommends that a Certificate of Public Convenience and Necessity be issued to the company and requests that the Utah Public Service Commission schedule a hearing as soon as possible.

BACKGROUND

Eagle's Landing Water Company, LLC submitted an application for a Certificate of Public Convenience and Necessity to provide culinary water service to a small mountain community of residential homes on US Highway 89 several miles south of the town of Thistle, in Utah county. The development consists of 95 single family lots on 299 acres. At the present time, there are 7 residents connected to the system. The water company is owned and fully financed by Hearthstone Development Inc., a registered corporation headquartered in Spanish Fork, Utah. The water company is registered with the Division of Corporations as a domestic, for profit corporation. The company has adequate water rights for more than the expected 95 connections. The water comes from a single well that was drilled in 1999 and has an approved flow rating of 120 gpm. The system was designed by a certified engineering firm and approved by engineers at the state Division of Drinking Water. The company's water quality has been tested regularly and they are currently in good standing with the DDW.

ANALYSIS AND EVALUATION

The analysis and evaluation of the application and proposal for Eagle's Landing Water Company is based on financial data provided by the company for CY 2007, and projected for years 2008 through 2016. This analysis is presented in DPU Exhibits 1.1 through 1.6.

The depreciation of company assets and the amortization of Contributions In Aid of Construction are shown in DPU Ex. 1.6. This information was provided by the company and it appears to be complete and accurate as to the asset values and depreciable lives of the assets used in the rate base. The cost for asset additions for years 2008 through 2016 is based on the estimated total cost of future asset additions to the system. This is understood to represent primarily meter installations and extended distribution lines. The amortization of CIAC over 30 years is appropriate.

DPU Ex. 1.5 is a projection that was provided by the company. It shows actual expenses and revenues for 2007 and projected revenues for 2008 through 2016. Revenue estimates are based on a projected number of new connections each year. The projections include only the revenues from connection fees and basic service fees. This exhibit also shows the actual expenses and the projected expenses until the year 2016.

The income statement for CY 2008 is shown in DPU Ex. 1.4. This exhibit includes actual revenues and expenses for 2007 and estimated amounts through the end of 2008. DPU constructed this statement based on financial information provided by the company. This information appears to be accurate and DPU makes no adjustments to the data. The notable information in this statement is that the company is operating at a net loss of $19,000 for the current year.

The rate-base analysis is shown in DPU Ex. 1.3. This exhibit was constructed by DPU to show the actual value of the rate-base when the system was put into operation in 2007, and the declining value of the rate-base each year as the assets depreciate. This exhibit is extended out to the year 2014 because this is the year that the rate design shows the company will finally have a net income instead of a net loss.

The analysis of the revenue requirements is shown in DPU Ex. 1.2. In this analysis, the DPU uses projected revenues and expenses and includes a 12 percent rate of return, to calculate the revenues needed for future operations. It covers the years from 2008 through 2014. It shows that as the value of the rate-base declines, the amount of revenues needed also decreases.

The DPU constructed a rate design analysis, DPU Ex. 1.1, to show how revenues from the proposed rates will affect the bottom line of the company over the years. This analysis is tied to the estimates and projections from the other exhibits. As shown in this exhibit, DPU projects that the company will have a revenue shortfall of nearly $62,000 by the end of the 2008 calendar year. With the proposed rate structure, the company will continue to have revenue shortfalls of lesser amounts for each of the next 5 years, until the year 2014 when the company will experience a revenue surplus of about $3,000.

The company is aware of the projected revenue shortfalls for the next 5 years. There are huge start up costs associated with new water companies. The owners of the water company have agreed to recover a majority of their system costs through the sale of the developed lots, as specified in R746-330-6.

PROPOSED RATES

The proposed rates are intended to provide revenues for operations and to recover some costs from asset depreciation in order to maintain and replace the system as needed. The rates as proposed by the company are outlined in the following table:

Eagle's Landing Water Company	
Water Usage	**Proposed Rate**
Basic Service: up to 10,000 gallons	$35 per month
Tier 1: 10,001 – 20,000 gallons	$2.50 per 1,000 gallons
Tier 2: 20,001 – 40,000 gallons	$3 per 1,000 gallons
Tier 3: 40,001 – 60,000 gallons	$3.50 per 1,000 gallons
Tier 4: 60,001 – 80,000 gallons	$4 per 1,000 gallons
Tier 5: over 80,000 gallons	$5 per 1,000 gallons
Other Fees	**Proposed Rate**
Connection Fee	$4,000
Stand by Fee	$10 per month
Turn On Fee	$100
Turn Off Fee	$25
Late Payment Fee	1.5% per month

These proposed rates are within an acceptable range of other regulated water companies. The Division feels the rates are appropriate and needed to compensate the company for the water service provided. The rates will bring much needed revenue to the company.

CONCLUSION

The Division finds the rates proposed in this application to be just and reasonable. The Division is also satisfied that the water user's rights and interests will be protected and therefore, recommends that the Commission approve of Eagle's Landing Water Company's application for a Certificate of Public Convenience and Necessity.