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Division of Public Utilities

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Exhibit DPU 4.0

--==-- MEMORANDUM ==--

TO: PUBLIC SERVICE COMMISSION OF UTAH

FROM: DIVISION OF PUBLIC UTILITIES
Philip J. Powlick, Division Director
Bill Duncan, Manager, Telecom & Water Section
Shauna Benvegna-Springer, Utility Analyst

DATE: January 13, 2009

SUBJECT: DIVISION'S RESPONSE to Public Comments Submitted and Voiced at the Public Hearing on December 16, 2008 In the Matter of the Request of White Hills Water Co., Inc. for Approval of a Rate Increase

RE: Docket No. 08-2199-01, 08-2199-T01

RECOMMENDATION: APPROVE MODIFIED RATE

The Division would like to provide additional information to the Commission and other interested parties regarding the Division's recommendation for the approval of a rate increase in the above docket and submit a modified residential rate.

HISTORY OF WATER RESEVOIRS:

Based on the information the Company has submitted to the Division, corroborated with records from the Company, the Company installed water storage reservoirs as follows:

Description	Capacity	Installation Date
Water Storage Tank – Large	1,000,000 gallons	1987
Water Storage Tank – Small	220,000 gallons	1987
Water Storage Tank – Small	500,000 gallons	2001

In the July 28, 2003 Report and Order issued by the Commission, the “third tank” (referred to as the 500,000 gallon reservoir) was disallowed as part of the rate base because the Company testified that “the tank was and is not necessary to provide for current service or fire protection needs.” The Division consulted with the Division of Drinking Water’s Section Engineering Manager, Ying Ying Macauley, who provided a report regarding the required capacity for 130 residents of the White Hills Water Company. Based upon the DDW Capacity Calculations, Ms. Macauley writes:

“This water system's current storage and source capacities both exceed the demand of their existing connections significantly.” (See Exhibit 5.2 and 5.3)

The Company is using the two small reservoirs for current operations and using the large reservoir as redundant water storage for catastrophic events. As such, the Division recalculated the rate base, deducting the amount of \$168,000 for the large water storage reservoir of 1,000,000 gallons as reported in the Company’s Annual Report to the Commission. The adjusted revenue requirement for the Company to maintain viability would be \$173,100 each year.

It should also be noted that during the 2003 rate case, even though the Commission made the

disallowance for the “third tank”, the Company would still be under earning revenue by \$25,000. Mr. White testified that his development company, White Hills Land Company, would subsidize the loss in order to keep the rates as low as possible.

CONCERNS REGARDING THE LARGE RATE INCREASE:

During the public hearing, several residents cited concerns regarding the proposed large increase in the residential water rate. The residents currently charged \$20.00 minimum base rate per month would experience a 90% increase in the Company’s proposed minimum base rate to \$38.00 per month. For a customer using 50,000 gallons per month of water during a summer month, the resident would experience an increase of 191%. (Please reference Exhibit 5.1)

COMPARABLE PRIVATE RESIDENTIAL RATES:

The Division did compare similar private water systems within a range of 200 connections or less. (See Exhibit 5.1) The Division did not use municipal water systems (such as those listed on Exhibit 5.1) for two primary reasons. One, municipal systems do not pay taxes, nor are they allowed a return on investment like a private water system. Secondly, the number of households are very large (in the thousands) to spread the costs to residents, where this is not the case with a small private system. As illustrated in Exhibit 5.1, the Company’s proposed rates are within the current ranges of other similar systems. A resident who uses 50,000 gallons a month would experience a 191% increase and be near the average of \$201.00 for a monthly bill.

MODIFICATION OF RESIDENTIAL RATE:

After further review of the adjustments to the rate base and operating expenses, the Division is recommending a modified residential rate. The adjustments for repairs, the 1,000,000 tank and the insurance damages decrease the Company's expenses. Maintaining the previously recommended residential rate would position the Company to be over earning. The Division recommends a \$38.00 minimum rate for the first 10,000 gallons per month to cover the fixed costs of the water company operations. The next 10,000 gallons per month would decrease to \$1.25 per 1,000 gallons. The next 10,000 gallons per month would increase to \$2.00 per 1,000 gallons and use above 30,000 gallons would increase to \$4.40 per 1,000 gallons. The rationale for the increasing tiers is to encourage water conservation, yet generate enough revenue to maintain a financially sound water system.

CONCLUSIONS:

The Division is recommending a modified residential rate of the \$38.00 minimum base rate for zero to 10,000 gallons used each month. The second 10,000 gallons used each month would be charged an additional \$1.25 per 1,000 gallons. The third 10,000 gallons used each month would be charged an additional \$2.00 per 1,000 gallons. Water used above 30,000 gallons per month would be charged an additional \$4.40 per 1,000 gallons. The recommended rates are just and reasonable. All prior Division recommendations regarding this docket remain the same.