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Exhibit DPU 1.1

--==-- 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: November 12, 2009

SUBJECT: In the Matter of the Request of Cedar Point Water Company for Approval of a Rate Increase

RE: Docket No. 09-2404-02

RECOMMENDATION: APPROVE

The Division of Public Utilities (DPU or the "Division") recommends that the Public Service Commission of Utah (PSC or the "Commission") approve a rate increase to be effective January 1, 2010. However, Cedar Point Water Company's (Cedar Point or the "Company") proposed rate increase is excessive as determined by the DPU. The Division recommends that the Commission approve the Division recommended rates.

INTRODUCTION:

On March 20, 2009, the Company filed an application for a rate increase due to the financial losses experienced during calendar year 2006, 2007, and 2008 of \$25,990, \$58,077, and

\$169,998 respectively. The Company is located seven miles east of Apple Valley, Washington County, Utah with 42 metered customers and 37 stand-by customers for 79 residential customers. The current tariff became effective on January 21, 2005. The Division of Public Utilities (DPU or the “Division”) completed a compliance audit and site visit on October 28, 2009. The Division completed an analysis of the proposed rate increase for Cedar Point Water Company (Cedar Point or the “Company”) following the compliance audit. Cedar Point has experienced financial losses for the past three (3) years, consecutively from 2006 through 2008.

BACKGROUND:

The Company received a Certificate of Public Convenience and Necessity (CPCN) Number 2404 on January 21, 2005. The current service area includes the subdivisions of South Zion Estates Phase I and II (total lots 28), South Zion Estates Phase 3 (total lots 14), Cedar Point Phase 1 (total lots 23) and Cedar Point Phase 2 (total lots 75) plus 14 residents surrounding the area prior to development of the subdivision. The service area is supported by two (2) active underground wells, namely the Cook Well#1 and the Jessop Well#2. The system is approved for approximately 169 connections for **indoor water use only** by the Division of Drinking Water. Currently Cedar Point consists of 42 residential connections and 37 stand-by customers. Initially, the Company has charged \$30.00 per month minimum charge, which included 12,000 gallons. Water usage over the 12,000 gallons was charged \$1.18 per thousand gallons. A stand-by charge of \$10.00 per month is assessed to those lots that have been developed but have not paid the connection fee, nor connected to the water system.

The Company requested a tariff increase on March 20, 2009 (shown in the following table) under Docket No. 09-2404-01:

Current Rates		Proposed Rates	
Water Usage Rates			
Residential Rate		Effective 1/1/2010	
Min. Rate: up to 12,000 gallons	30.00 per month	Min. Rate: up to 12,000 gallons	100.00 per month
Tier 1: usage per 1,000 gal over 12,000 gallons	1.18 per 1,000 gal	Tier 1: usage per 1,000 gal over 12,000 gallons	1.18 per 1,000 gal
Connection Fees			
Turn on service fee	\$100.00	Turn on service fee	\$100.00
Non-Payment Disconnect Charge	Not applicable	Non-Payment Disconnect Charge	Not applicable
Non-Payment Reconnect Charge	Not Applicable	Non-Payment Reconnect Charge	Not applicable
3/4" service line	\$1,500.00	3/4" service line	\$1,500.00
5/8" service line	\$1,000.00	5/8" service line	\$1,000.00
Stand-By Fees			
Developed Lot	\$10.00	Developed Lot	\$10.00
Additional Charges			

ANALYSIS:

The Division reviewed the annual reports submitted by the Company for the years ending December 31, 2005 through December 31, 2008. The Company willingly provided information to the Division for analysis, such as water utilization records, some expense records, and explanations for various transactions. The Division met with the Company's representatives, Jerry Eves, Roger Sanders, Max Barker and Christopher Edwards, and discussed profitability, future costs and water rate design. The Division has found the Company to be cooperative, however slow to access and provide information. The Company is current on all its reporting

requirements to the Division. The Division used the calendar year 2008 as the test year for the basis of expenses and rate base. Adjustments by the Division were made to revenue, expenses, and depreciation of certain assets for a 12 month period. The Division also disallowed certain expenses the Division believes should not be borne by the ratepayers. The developer of the water system built the system with the intention of having it serve 4,000 connections. Due to the downturn in the economy, development of future lots have been halted and only 4% of the system is being used for the current developed subdivisions.

DIVISION RECOMMENDATIONS:

RATES:

The Division's analysis shows the proposed rates by the Company are not just or reasonable. The adjusted rate base is \$232,940 based upon 4% of the usefulness of the water system to the current customers. The rate of return on rate base was not calculated since currently there is a negative common equity in the Company, no contributed capital of the system and debt service has been suspended for the next five years. Operating expenses were adjusted to be \$33,836 bringing the revenue requirement for the Company to \$33,836. The amount the Company would collect by implementing the Company's proposed \$100.00 rate and tier rate overage fees would be \$57,556, hence the Company would be over-earning by \$23,720 (see DPU Exhibit 1.5). Therefore, the Division recommends a minimum rate of \$45.00 per month, a stand-by rate of \$15 per month and an overage rate of \$1.95 per 1,000 gallons per month over the minimum 12,000 gallons received in the base amount. The amount the Company would collect would be \$33,828; thus under-earning by \$8 (See calculation from DPU Exhibit 1.5). However, projected revenues are based on current usage amounts. Should the increased tariff be adopted, usage may decline

by the residents. Therefore, the Company's may not reach the forecasted revenue and would realize a potential loss of \$4,488. The increase represents a 50% increase for the minimum amount and the standby amount, with a 65% increase in the overage amount.

UTILIZATION:

The Company's high levels of fixed expenses are expected to be covered by revenue from the minimum billing rate. The Division does not want to rely solely on utilization overages. If the current 42 customers are billed at the minimum \$45.00 recommended rate, then the \$29,340 revenue will cover the \$27,700 in fixed expenses. See Exhibit 1.2.

Below, the Division has illustrated the impact to customers due to the rate increase. The percentage of change from current to recommended rates on Customer 1 is 50%, Customer 2 is 58%, and Customer 3 is 62%, respectively.

CURRENT MONTH BILL

Customer	Usage in gallons	Min Rate (30.00)	Tier 1 (\$1.18) 12,000+	Total Bill
Customer 1	10,000	30.00		30.00
Customer 2	37,000	30.00	29.50	59.50
Customer 3	110,000	30.00	115.64	145.64

RECOMMENDED MONTH BILL

Customer	Usage in gallons	Min Rate (45.00)	Tier 1 (\$1.95) 12,000-	Total Bill
Customer 1	10,000	45.00		45.00
Customer 2	37,000	45.00	48.75	93.75
Customer 3	110,000	45.00	191.10	236.10

RESERVES:

The Division is concerned about the Company's lack of financial reserves. The Company does not anticipate infrastructure replacements in the very near future, however the Company currently does not have any reserves set aside for such. It is imperative that the Company prepare and foresee for the normal use and replacement of the infrastructure for an effective water system. Therefore, the Division recommends that the Company place the annual total depreciation amount into a reserve account; i.e. for 2008, the amount would be \$5,474. This is equal to the amount claimed on the Company's depreciation schedule based off the Commission approved service lives in Rule R746-322-1. (See Exhibit 1.4)

CONCLUSION:

The Division concludes that the proposed rates as recommended by the Company are not just and reasonable. The Company has incurred financial losses for the past three (3) years. The Division recommends:

- a) the residential minimum rate be increased to \$45.00 per month from \$30.00 per month minimum charge,
- b) the overage rate be increased from \$1.18 per 1,000 gallons per month to \$1.95 per 1,000 gallons per month for usages over 12,000 gallons;
- c) increase the standby rate per month to \$15 from \$10;
- d) deposit the amount of annual depreciation expense into a reserve savings/investment account for future replacement of the current system.