

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Cedar)
Ridge Distribution Company for a Certificate) DOCKET NO. 11-2423-01
of Public Convenience and Necessity to)
Operate as Public Utility Rendering Culinary) REPORT AND ORDER
Water Service or Expansion of Service Area) CERTIFICATE NO. 2423
)

ISSUED: July 11, 2011

By The Commission:

This matter is before the Commission on the Application of Cedar Ridge (Cedar Ridge or Company) Distribution Company for a Certificate of Public Convenience and Necessity (CPCN) to Operate as Public Utility Rendering Culinary Water Service. Cedar Ridge filed a complete application on April 21, 2011. After reviewing the Application, the Division of Public Utilities (Division) found that Cedar Ridge met the *prima facie* qualifications for issuance of a CPCN. *See Division June 29, 2011 Recommendation*, p.1. The Division had conducted a review of the Company’s water system, company records, and reviewed customers’ concerns. The Division stated the Company had provided it with access to “all the documents, records, access and explanations on concerns the Division requested.” *Id.* at p.2.

Cedar Ridge is located in Box Elder County, east of Tremonton, Utah and north of Deweyville City. It has provided culinary and irrigation water since 1980. It serves 25 single-family homes in the Cedar Ridge Subdivision Phase 1, 5 single-family homes, and 1 commercial business for a total of 31 active customers. There is also one vacant lot in the subdivision and one vacant piece of property lying without the subdivision, with access to the water system—however these lots are not using water. The Company’s president, David Thompson, owns the two vacant pieces of property. The water system has a total of 33 connections.

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The Company was incorporated on March 3, 1981 as a non-profit domestic corporation and is in good standing with the Division of Corporations. Mr. Thompson owns 100% of the stock and controlling interest of the Company.

The Company also has an approved rating from the Division of Drinking Water to provide water service for 26 lots of Phase 1 of the Cedar Ridge Subdivision and six customers outside of the subdivision for 32 total connections.

The Division noted that approval from the Division of Drinking Water is required for the vacant lot outside the subdivision to classify the water system as approved for 33 connections. For those 33 connections, 47.85 acre feet of water rights are needed by the Company. Regarding the water rights, the Division stated:

Mr. Thompson recorded a quit-claim with Box Elder County on March 23, 1981 transferring water rights under application A46987 to the Cedar Ridge Distribution Company. On April 6, 2011, he conveyed the same water right #29-2099, which provides use for 25 irrigation acres, 50 stock units and 25 domestic connections to be recorded with the Division of Water Rights. However, an additional 11.6 acre feet of water rights needs to be conveyed or assigned to the Company for the remaining eight (8) connections of the total 33 potential connections. Mr. Thompson has water rights in his name, which exceeds this requirement. As of June 27, 2011, the Division of Water Rights did not have any water rights recorded for the Company. It is recommended that the necessary water rights be conveyed or assigned with the proper use designation and recorded with Box Elder County and the Division of Water Rights.

Division Recommendation, pp.2-3.

Regarding utility plant and equipment, the Division found that the Company had all the utility plant, land, and easements needed for delivery of water as of March 1981, the date it incorporated. Despite the basic utility plant in place when the Company originally commenced, and an additional well drilled in 1986, the Company did not install water meters to each of the individual connections. The cost of the utility plant and land as reported on the

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balance sheet was \$350,410 as of December 31, 2010. Mr. Thompson made loans to the Company (as evidenced by promissory notes) in the amount of \$34,500 to replace system pumps, and as of December 31, 2010, the Company still owed him \$22,366.54.

In 2010, Mr. Thompson, in an effort to minimize his personal involvement with the Company, sold the water well drilled in 1986 to the city of Tremonton for \$190,000. Tremonton agreed to give first priority to the Company in delivering its water. Tremonton agreed to maintain the pipeline to the delivery point near the storage tank, the pump and well facilities. Tremonton provides the operations and maintenance to include electricity for pumping, water testing, etc. in exchange for the Company's payment of a prorated charge for those costs.¹ The Company remains responsible for the storage tank, land, alarms, small pump and pump house, distribution mains and service lines, valves, water rights, etc.

Currently, the Company charges the following rates, which rates have been in effect since 1989, except for a special assessment made August 2010:

Monthly water use (without meters)	\$45 per month
Late Fee per incident	\$5.00
Reconnect Fee	\$75.00 per incident
Stand by fee	\$0.00

Since the Company has no meter installed for each customer, it can only estimate each customers' usage. It estimates each customer uses about 24,800 a month during the winter months, and about 208,000 gallons a month during the summer months (May, June, July, August). The current rates do not recover costs like the capital costs of the water system, in-kind operating expenses like Mr. Thompson's time, nor his secretary's time, office space and related utilities, computer expenses, etc. Since its inception, Mr. Thompson has subsidized costs to keep

¹ Currently the pro-rated costs are \$.35 per 1,000 gallons.

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water prices artificially low, in order to help sell the improved lots. Based on the proposed interim rates, however, the only projected out-of-pocket operational expenses covered are: 1) Tremonton City Water costs, \$11,700; 2) Repairs, \$3,600; 3) Reserve, \$1,440, for a total of \$16,740.

One of the challenges facing the Company as it implements a new rate (*See Docket No. 11-2423-02*) is determining actual water usage. One aspect of that challenge is determining actual customer usage. Since each lot is not metered, the Company can only estimate usage. Customers with leaks or with overages do not bear the true costs of their leaks or overages. Additionally, not all the water used comes from customer usage—some of it is lost through leaks. Mr. Thompson has determined that there is a leak in the system, existing for the past 14 months. He has contracted with the same company that performs remediation for Tremonton. That company will begin the work of locating and halting the leak, starting in mid-July 2011. The Division has noted that although individual water meters are not mandatory, the water meters would greatly assist the Company in determining actual usage for each user, and manage its resources more effectively. The water meters would also allow the Company to implement more equitable and non-discriminatory rates among its users. The Division requested the Commission approve the meter installation project, as the project will cost more than 5% of the Company's utility plant cost value. *See Utah Admin. Code R746-401-3*. The estimated cost of the project is \$49,507 for the 33 connections. The cost of the water meter installation will be recovered in the new rates to be determined in Docket 11-2423-02.

The ALJ of the Commission held a duly-noticed hearing on the issuance of the CPCN on June 29, 2011 in Deweyville, Utah. The Division was represented by assistant

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attorney general, Patricia Schmid. Shauna Benvegnu-Springer was the Division's witness. The Company was represented by Lee Kapaloski. Mr. Thompson was the Company's witness. The Commission also permitted public witness comment. Public witnesses were Daryl Anderson, Barbara Anderson, Dorothy Hogan, Eugene Hogan, and Lori Wisler. Many of the comments and questions centered on the possible rate changes to take place in Docket 11-2423-02. The members of the public were encouraged to raise those issues again in the rate case docket. The ratepayers were supportive of the issuance of the CPCN and generally recognized it would be beneficial to them.

The Commission finds that the Company has satisfied its burden to show it has the necessary technical, financial, and managerial resources and abilities to operate and that its Application should be granted.

ORDER

1. The Application is approved and the Company is granted Certificate No. 2423. However, the Company shall ensure the necessary water rights are recorded so as to allow the Company to properly serve the needs of its system;
2. The interim tariff is approved (Monthly water use, \$45 per month; Late Fee per incident, \$5.00; Reconnect Fee, \$75.00 per incident; Stand by fee, \$0.00);
3. The meter installation project is approved in the amount of \$49,507;
4. The Company is authorized to serve 33 connections at this time;
5. Pursuant to Sections 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses

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to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of Sections 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 11th day of July, 2011.

/s/ Ruben H. Arredondo
Administrative Law Judge

Approved and confirmed this 11th day of July, 2011, as the Report and Order of the Public Service Commission of Utah.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
D#207765