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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 13-2195-02
Hi-Country Estates Homeowners Association)	
for Approval of Its Proposed Water Rate)	RESPONSE TO COMMENTS
Schedules and Water Service Regulations)	FROM WATER CUSTOMERS
)	

Hi-Country Estates Homeowners Association (“**Hi-Country**”) hereby responds to the comments submitted regarding Hi-Country’s Application to Approve Proposed Water Rate Schedules and Water Service Regulations:

A few Hi-Country customers submitted comments to the Commission regarding the rate case filing with the Commission on July 10, 2013. Hi-Country appreciates the involvement of its water customers in proceedings before the Commission and wishes to provide information regarding some of the concerns raised in the submitted comments.

1. Standby Fees

The proposed rates include an increased standby charge to be paid by owners of lots that are not currently connected to Hi-Country’s water system. The standby fee under the currently effective rates is \$12.41 per month and the standby fee under the proposed rates is \$27.60 per month.

The standby fees exist to ensure availability of water service to undeveloped lots and to developed lots not currently connected to the water system within Hi-Country's service area. Hi-Country must be prepared to serve all future customers and maintain the system infrastructure to ensure that water service will be available in the future to all lots within the Hi-Country service area. Indeed, connections that use no water from the system should still reasonably bear some of the overhead costs relating to the system, such as inspections and routine maintenance. The collection of standby fees ensures that all lots within Hi-Country's service area will have water service available if and when needed in the future, whether to the current owners or new owners. Additionally, the standby fees ensure the availability of water for fire protection purposes for all lots in the service area.

2. Capital Reserve Charges

The proposed rates include a monthly capital reserve charge. Capital reserves are a necessary part of a sound financial management plan for an on-going and effective water system. Setting aside reserves is critical to developing and maintaining financial stability and can mean the difference between a system that is self-sustaining and one that may fall victim to disrepair or become financially unstable during even a relatively small emergency. Capital reserves are funded through rates and maintained in a protected account and allowed to accumulate or be used for qualifying expenses as the need arises.

Capital improvements for which use of capital reserve funds would be appropriate are typically high-cost items with long service lives, including the distribution pipe mainlines, storage reservoirs, wells, etc. Expenditures that qualify as capital expenditures are those which extend the life of an asset and/or enhance its original value with better quality materials or system upgrades. Capital improvements do not include such minor expenses as routine repairs,

small tools, maintenance supplies, service contracts, and other such day-to-day supplies. Expenses for these items are properly classified as operating and maintenance expenses. Additionally, capital reserve funds received from existing customers will not be used for system expansion (i.e., to extend main lines to serve new areas or customers or to install new services).

By including a relatively small capital reserve charge in rates, Hi-Country will build up a dedicated fund to deal with the inevitable major repairs and necessary improvements to the water system. The alternative to gradually building up a capital reserve fund through monthly rates is to rely on special assessments if and when the water company needs funding for major repairs or improvements or to respond to an unexpected emergency. Hi-Country believes that the monthly charge is a better option for customers and for the company as it ensures predictability of rates and availability of reserve funds when needed.

3. Rate Structure and Base Rates versus Overage Rates

Hi-Country's water rate structure includes 10,000 gallons of water per month in the base rate under both the existing and proposed rates. The base amount of water is intended to cover most of the indoor water needs of a typical family and is an amount often used by other water companies in Utah. The Utah Division of Water Rights and the Utah Division of Drinking Water use 0.45 acre-foot as a guideline for the annual indoor water needs of a single family, which equals approximately 12,200 gallons per month.

The base rate proposed under the new rate structure reflects the costs of providing water to the Hi-Country customers. As the base rate is paid by every active customer, every month, the revenues from the base rate are very predictable and allow Hi-Country to make sound financial decisions and ensure short- and long-term financial solvency. Overage charges to individual customers and across the entire customer base are, unlike the base rates, somewhat

unpredictable. A given customer may incur significant overage charges one month and not incur any overage charges in the next month. Such unpredictability presents a challenge for Hi-Country as it leads to unpredictable revenues each month, while the company expenses remain relatively constant. With the proposed base rate, Hi-Country has attempted to strike a proper balance between value provided to water customers and revenue predictability.

WHEREFORE, Hi-Country respectfully requests that the Commission accept this Response to Comments from Water Customers.

Respectfully submitted this 27th day of August, 2013

SMITH HARTVIGSEN, PLLC

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CERTIFICATE OF SERVICE

I hereby certify that on the 27th day of August, 2013, I served a true and correct copy of the foregoing **Response to Comments from Water Customers** by causing the same to be delivered to the following:

Via hand delivery and email to:

UTAH PUBLIC SERVICE COMMISSION
c/o Gary Widerburg, Commission Secretary
160 East 300 South, Fourth Floor
Salt Lake City, Utah 84111
psc@utah.gov

Via U.S. mail to:

John S. Flitton
Lara A. Swensen
FLITTON&SWENSEN
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