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State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

TO: Public Service Commission of Utah

FROM: Division of Public Utilities
Chris Parker, Division Director
William Duncan, Telecommunications / Water Manager
Shauna Benvegnu-Springer, Utility Analyst

DATE: July 25, 2013

SUBJECT: In the matter of the Application for Interim Rate Increase for Cedar Ridge Distribution Company for an Increase in Rates for Water Usage Over 12,000 Gallons per Month to \$.50 per 1,000 Gallons

RE: Docket No. 13-2423-01

RECOMMENDATION:

The Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) approve the interim rate increase in the overage rate to \$.50 per 1,000 gallons and any fraction of 1,000 gallons for Cedar Ridge Distribution Company (Company) and rename it Water Usage Rate. The Water Usage Rate should include all water used and any fraction of 1,000 gallons during the billing cycle.

The Division recommends the Commission approve a deduction in the minimum monthly rate to \$52.80 from \$57.00 per month and remove the 12,000 gallons of water received which is included in the minimum monthly rate.

EXPLANATION:

On May 6, 2013, Company filed a request with the Utah Public Service Commission for a General Rate Case Increase. On July 18, 2013 the Company applied for an Interim Rate

Increase. The Company is basing its interim rate increase on the amounts requested in its Application for a General Rate Case Increase.

The Division has performed an initial, limited review of the general and interim rate increase applications and the exhibits filed in support of the aforementioned applications. The Division believes that the Company met its obligation under Utah Code §54-7-12 (4)(a) for approval of its request for an interim rate increase and has presented adequate prima facie evidence that the interim rate increase is justified as required by Utah Code §54-7-12(4)(a)(iii).

The Division believes that the final rates will be very similar in order to properly fund the operating costs of purchasing water wholesale through a contract with Tremonton City to provide water to the Company's water system. Tremonton City increased the rate of delivering water to the Company's system from \$.35 per 1,000 gallons to \$.50 per 1,000 gallons effective July 1, 2012.

The Company did not request an increase immediately, knowing that the customers, except for two or three connections, do not use over 12,000 gallons of water a month during seven months of the year and could recoup the cost with the lower water usage. The minimum monthly rate of \$57.00 per month included a component cost of 12,000 gallons at \$.35 per 1,000 gallons or \$4.20 per connection in the rate. Logically, an additional \$1.80 should be added to the minimum monthly rate to cover the cost of the 12,000 gallons. To deliver this minimum amount of water at \$.50 per 1,000 gallons the wholesale component cost is \$6.00 from \$4.20, thus the minimum monthly rate should increase to \$58.80 per month.

MONTHLY MINIMUM RATE:

The Company did not request an increase in the monthly minimum rate for the 12,000 gallon component. If an increase of \$1.80 was added to the monthly minimum rate to cover the cost of the 12,000 gallons, the Company would be over earning by \$5,283.60 annually based on the previous rate model. This component was included in the minimum rate since a history of the water usage by customer was not available until the meter project was completed on or about May 24, 2012. Customers should be charged on the amount they use, not necessarily the amount they could use. The Division recommends that \$4.20 (12 x \$.35) originally formulated in the minimum monthly rate be removed to decrease the monthly minimum rate to \$52.80 from \$57.00 per month and the 12,000 gallon minimum amount of water be removed.

OVERAGE RATE vs. WATER USAGE RATE:

With the completion of the meter project, water usage records by customer are available. During the period June 1, 2012 to December 31, 2012 customer's water usage ranged from a low of 140,550 gallons to a high 1,294,460 gallons annually. As part of the interim rates, the Division recommends the Commission approve changing the overage rate to a water usage rate and renaming the same. The water usage rate would charge all customers for the amount they each use and the fraction of 1,000 gallons at \$.50 per 1,000 gallons.

FLAT RATE or BUDGET RATE:

The Company believes there are some customers who desire to pay a flat or budget rate monthly with a true-up adjustment amount once a year. The Division will work with the Company to develop this as an option for the customers in the general rate case.

ROUNDING UP vs. ANY FRACTION OF 1,000 GALLONS:

A number of customers have questioned the methodology of the billing process of rounding up to the nearest 1,000 gallons used. The Company adopted this practice with the first billing cycle of June 2012. Tremonton City uses this practice and the Company is charged the wholesale usage rounded up to the nearest 1,000 gallons used. The maximum amount the Company would be charged annually from Tremonton City is \$6.00 or less, assuming the overall water system usage was over 1 gallon over the next 1,000 gallon mark each month.

Because the rounding practice is being applied to 31 customer billings each month, the maximum amount the Company would receive annually is \$186.00 or less, assuming the overall customer water usage was over 1 gallon over the next 1,000 gallon mark each month.

In preparing the monthly bills, an additional manual calculation is required to round up to the nearest 1,000 gallons instead of billing the actual water usage and any fraction thereof. As an example, if a customer uses 21,001 gallons the water usage would be rounded up to 22 thousand gallons and multiplied by \$.50 for a cost of \$11.00 for billing cycle. In using the actual water usage and any fraction thereof the cost would be \$10.50, or 21.001 multiplied by \$.50, for the billing cycle. To compensate the Company, the \$6.00 rounding amount will be calculated in the cost of service during the general rate case evaluation and recommendation.

The Division recommends the Commission deny the request to round up to the nearest 1,000 gallons and utilize the actual water usage and any fraction of 1,000 gallons methodology. This is the general practice in many of the tariffs approved by the Commission. It would alleviate the concern and complaints of the customers. It would lessen the workload of the billing clerk by eliminating the additional calculation in the billing process, and eliminate the rounding reconciliation when comparing and balancing the records.

INTERIM RATE CLARIFICATION:

The change in the minimum monthly rate and overage rate to water usage rate will cover the Company's current monthly operating expenses until the Division completes its evaluation of the general rate case and final rates are approved by the Commission. However, the Division recommends that if the final approved rates are higher than the approved interim rates, the Company will be prohibited from collecting additional funds from its ratepayers to make up the shortfall. If the final approved rates are lower than the approved interim rates, the Division recommends that the Company be required to issue appropriate refunds by crediting its customer's accounts in the next billing cycle following the final Commission order.

CONCLUSION:

The Division believes the interim rates recommended are just and reasonable. The Division has discussed the recommendation with the Company. The Company concurs with the recommendation. The Company is mailing a copy of this recommendation to each customer today, Friday July 26, 2013, through the US Postal Service. Most customers should receive the copy of the Division’s recommendation on Saturday, July 27, 2013.

Please refer to the chart below for the current rates of the Company and the recommended rates by the Division:

Current Rates		Recommended Rates	
Monthly Minimum Fee for Connected Customers (includes up to 12,000 gallons of water usage)	\$57.00	Monthly Minimum Fee for Connected Customers (does not include a minimum amount of water usage)	\$52.80
Overage Rate per 1,000 gallons (water usage in excess of 12,000 per month rounded up to the nearest 1,000 gallons)	\$.35	Water Usage Rate per 1,000 gallons (for all water used and any fraction of 1,000 gallons)	\$.50

The Division of Public Utilities recommends the Public Service Commission of Utah approve the interim rate increase in the overage rate/water usage rate to \$.50 per 1,000 gallons and any fraction of 1,000 gallons used for Cedar Ridge Distribution Company.

The Division recommends the Commission approve a deduction in the minimum monthly rate to \$52.80 from \$57.00 per month and remove the 12,000 gallons of water received which is currently included in the minimum monthly rate.

The Division recommends the Overage Rate be renamed to Water Usage Rate and include all water used during the month charged at \$.50 per 1,000 gallon, plus any fraction of 1,000 gallons, during a billing cycle.

cc: David Z. Thompson, Cedar Ridge Distribution
Patricia Schmid, Attorney General’s Office
Justin Jetter, Attorney General’s Office