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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of Hi-Country Estates	)	
Homeowners Association’s filing to comply	)	<b>RESPONSE TO COMMENTS BY</b>
with the order issued on May 5, 2014, in Docket	)	<b>THE DIVISION OF PUBLIC</b>
No. 13-2195-02, Application of Hi-Country	)	<b>UTILITIES</b>
Estates Homeowners Association for Approval	)	Docket No. 14-2195-T01
of its Proposed Water Rate Schedules and Water	)	
Service Regulations	)	

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Hi-Country Estates Homeowners Association (“Hi-Country” or the “Company”), by and through its undersigned counsel, Smith Hartvigsen, PLLC, hereby responds to the comments by the Division of Public Utilities (the “DPU”), dated May 30, 2014, regarding Hi-Country’s revised tariff. Hi-Country submitted a revised tariff to the Public Service Commission (the “Commission”) on May 15<sup>th</sup>, 2014 in order to comply with the Commission’s Report and Order in Docket 13-2195-02, dated May 5<sup>th</sup>, 2014. On May 30, 2014, the DPU submitted a memorandum to the Commission recommending that the Company’s proposed tariff be rejected for several reasons. Through this Response, the Company desires to clarify its position on the points in the

DPU's Memorandum. As the DPU's Memorandum is numbered broken into "Language Additions", "Corrections", "Rates and Fees" and "Reserve Fund", this Response will respond to each section in order.

Language Additions #1: The Company included this language to clarify that customers will only receive service if they agree to pay for such service. The Company believes this is a clear statement as to the functioning of every utility company in existence; however, the Company has no objection to removing this language if the Commission so orders.

Language Additions #2: This language was added to modify the allocation of costs for backup water for normal usage, addressing contamination, and fire suppression. It is the Company's opinion that fire suppression is beneficial for both active and standby customers and should be allocated accordingly (in recent years a range fire threatened the subdivision served by the Company). The Company believes that costs for contamination and normal usage should be borne by active customers only.

Language Additions #3: The Company agrees with the change suggested by the DPU.

Language Additions #4: The Company agrees with the change suggested by the DPU.

Language Additions #5: The Company agrees with the change suggested by the DPU.

Language Additions #6: The Company agrees with the change suggested by the DPU.

Language Additions #7: No change suggested and no response required.

Corrections #8: The Company agrees with the change suggested by the DPU.

Corrections #9: The Company has no objection to the change suggested by the DPU.

Corrections #10: The Company has no objection to the change suggested by the DPU.

Corrections #11: The Company has no objection to the change suggested by the DPU.

Corrections #12: The Company has no objection to the change suggested by the DPU.

Rates and Fees: No change suggested and no response required.

Reserve Fund: The Company agrees with the establishment of a reserve fund as discussed in the various hearings and filings and in the Commission's order in Docket 13-2195-02. The Company believes that language to that extent should be included in the tariff; however, the Company has serious concerns about certain portions of the language proposed by the DPU. In particular, the Company is concerned that the requirements set forth in the DPU's proposed language are unnecessarily burdensome.

As the Commission is aware, Hi-County has a contractual arrangement with Herriman City under which Herriman is responsible for the operation and maintenance of the Hi-Country water system and for billing and collecting from Hi-Country customers. Hi-Country believes this arrangement is extremely beneficial to Hi-Country and its customers. The services provided by Herriman, as a neighboring municipality with extensive experience running its own municipal water system, utilizing state-certified water system operators, could not be performed by any other organization without a significant increase in cost that would necessarily be borne by Hi-Country customers. Herriman has already made significant internal and process changes in order to take over the Hi-County billing and collections; Hi-Country desires to reduce the burden on Herriman of administering the capital reserve fund to the greatest extent possible.

The language proposed by the DPU requires that monthly payments from each individual customer be analyzed in order to apply portions of the payment to expenses and to the capital

reserve fund. Also, the DPU's proposed language requires monthly analysis of the capital reserve fund balance. Hi-Country believes that compliance with these requirements would require significant additional work by Herriman or the engagement of an outside accountant by Hi-Country, at additional expense, in order to perform such analysis. Hi-Country also believes that such granular analysis is unnecessary in light of the amounts at issue and instead suggests that reconciliation and analysis of the capital reserve fund be performed annually. Hi-Country believes that this approach is equally effective in ensuring that capital reserve fund amounts are treated properly and that this approach will require significantly less work to administer. Accordingly, Hi-Country proposes the following language with regard to the capital reserve fund:

1. ***Capital Reserve Accounting Requirements.*** *A Capital Reserve Account, targeted to equal the annual depreciation expense, annual amortization of any contribution in aid of construction of the Company's water system assets and equipment, and the amount above the cost of service (i.e., \$.54 per 1,000 gallons) for water consumption rates (together, the "Capital Reserve Fees"), shall be established, subject to the following:*
  - a. *Capital Reserve Fees generated from rates shall be deposited into the Capital Reserve Account, which shall be a restricted account.*
  - b. *Deposits made to the Capital Reserve Account may be made using actual amounts collected in each month or may be made using estimated monthly amounts (based on the preceding year, adjusted as appropriate) with necessary corrections to be made at the end of the fiscal year.*
  - c. *Deposits to the Capital Reserve Account shall be made within 30 days of the end of each month.*
  - d. *Withdrawals from the Capital Reserve Account shall be made for capital replacements and improvements only.*
  - e. *In accordance with Utah Administrative Rule R746-401-3A, expenditures in excess of five (5) percent of total Utility Plant in Service shall require the Company to file a report with the Commission, at least thirty (30) days before the purchase or acquisition of the asset or project, and to obtain written Commission approval before transacting such acquisitions.*

- f. Upon submission of the Annual Report to the Public Service Commission, the Company shall also provide a separate accounting of the Capital Reserve Account including a reconciliation of estimated payments, if any. Such detailed accounting, including any copies of bank statements and possible other sensitive information, shall be marked as “confidential.”*
- g. The balance in the Capital Reserve Account shall be clearly identifiable in the financial statements as a restricted account.*
- h. In identifying a qualifying expenditure for replacement or improvements that may be made from the Capital Reserve Account, the Company shall consider the following guidelines:
  - i. Capital improvements are typically high cost items with long service lives, including, but not limited to, the distribution pipe main lines, storage reservoirs, wells, and surface water intakes. Expenditures that qualify as capital expenditures are those that extend the life of an asset, enhance its original value with better quality materials or system upgrades, or replace such assets.*
  - ii. Capital improvements do not include minor expenses such as repair clamps, inventory parts and fittings, spare pieces of pipe kept to facilitate repairs, small tools, maintenance supplies such as paint or grease, service contracts, and other day-to-day supplies. Expenses for these items are properly classified as “operating and maintenance” expenses.*
  - iii. Additionally, it is not appropriate to use Capital Reserve Account funds received from existing Customers for system expansion, that is, to extend main lines to serve new areas or new Customers or to install new services. Funds for the expansion of the system should come from new development, impact fees, connection fees, assessments or other sources so that those benefiting from the improvement contribute the funds for its construction.**
- i. In the event that any customer accounts are delinquent at the end of the fiscal year, the amounts received from each delinquent customer shall be first applied to operating expenses and then to cover the customer’s portion of the Capital Reserve Fee. A reconciliation, clearly indicating the circumstances surrounding those instances when the Capital Reserve Account was not fully funded, shall be provided by the Company with the detailed ‘annual accounting’ of the Capital Reserve Account.*
- j. Interest accruing on funds held in the Capital Reserve Account shall become a part of the Capital Reserve Account and can only be used in accordance with this section (a. through j).*

Hi-Country desires to accomplish approval of its revised tariff in the most expeditious and efficient manner possible in order to minimize the costs to the Hi-Country customers. Hi-Country also believes that discussion of changes to the tariff can be accomplished through written filings. Accordingly, Hi-Country is willing to waive the scheduled hearing before the Commission and requests that the Commission issue an order detailing changes that should or should not be made to the Company's tariff.

Dated this 9<sup>th</sup> day of June, 2014

/s/ Adam S. Long

J. Craig Smith

Adam S. Long

SMITH HARTVIGSEN, PLLC

*Attorneys for Hi-Country Estates*

*Homeowners Association*

**CERTIFICATE OF SERVICE**

I hereby certify that on the 9<sup>th</sup> day of June, 2014, I served a true and correct copy of the foregoing **RESPONSE TO COMMENTS BY THE DIVISION OF PUBLIC UTILITIES** 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 email to:

Utah Division of Public Utilities  
Chris Parker  
chrisparker@utah.gov

William Duncan  
wduncan@utah.gov

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Attorney General's Office  
Patricia Schmid  
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/s/ Adam S. Long  
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