

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Request of)	<u>DOCKET NO. 01-071-01</u>
Wolf Creek Water & Sewer)	
Company, Inc. for a Rate)	<u>REPORT AND ORDER</u>
Increase	

ISSUED: March 25, 2002

SYNOPSIS

Wolf Creek Water & Sewer Company, Inc. sought increase in various rates to be charged. The Commission established new rates.

By the Commission:

Wolf Creek Water & Sewer Company, Inc. (the Company or Wolf Creek) filed a request for a rate increase on October 3, 2001. The matter was set for hearing with notice given. Customers of Wolf Creek were provided information about the rate request and the hearing through a mailing made by the Company to all of its customers. The matter was heard February 28, 2002, before Doug Tingey, Administrative Law Judge, at the offices of the Public Service Commission (the "Commission"). Appearing on behalf of Wolf Creek were Lowell Peterson, Wolf Creek Vice-President and Harlan Schmitt, C.P.A. Michael Ginsberg, Assistant Attorney General, of the Utah Attorney General's Office, appeared on behalf of the Division of Public Utilities (DPU), as did Barry Golding, a staff member of the DPU. The following customers of Wolf Creek appeared and offered testimony: Allan Wiscomb, Gary Bingham, Steve Balek, and Bart Smith.

The Company witnesses testified as to the reasonableness of the proposed rates and the correctness of the supporting material used by the Company and used for the DPU in its analysis.

Immediately prior to the hearing, the DPU submitted its Memorandum and recommendations, indicating it had completed an audit of Wolf Creek's past operations and records. The DPU recommended three adjustments to the Company's proposed expenses, and testified that with those adjustments the proposed rates were just and reasonable. More specifically, the DPU found that after its adjustments, and using a rate of return on equity of 12%, and an overall rate of return of 8.45%, that the proposed rates would result in a revenue deficiency of \$13,394, but that the company had agreed to and could absorb that shortfall.

The customers each testified regarding the impact of the proposed water rate changes on them, and other customers, and particularly those situated in the Patio Springs area. With the increase in the tiered rates for the Company, these customers testified that they would be impacted more than other customers. The customers agreed that a rate increase was necessary. However, the customers proposed a rate structure with smaller increases in the tiered portion of the rates. The customers also expressed concern that the potential for many new connections to the system from real estate developments may lead to future over-earning by the company. No customers addressed the proposed increase in sewer rates.

In response to the customer concerns, Mr. Petersen, on behalf of the Company, proposed a lower schedule of tiered rates that were half-way between the Company's original request, and the customers' proposed rates. The Division testified that in its opinion the revised company proposed rates would be just and reasonable. The three proposed monthly rate structures are as follows:

	Original Company	Revised Company	Customer Proposed
Base rate - up to 12,000 gallons	\$20.00	\$20.00	\$20.00
12,001 to 20,000 gallons	2.00 per 1000 gals.	2.00 per 1000 gals.	2.00 per 1000 gals.
20,001 to 40,000 gallons	3.50 per 1000 gals.	3.00 per 1000 gals.	2.50 per 1000 gals.
40,001 to 60,000 gallons	5.00 per 1000 gals.	4.00 per 1000 gals.	3.00 per 1000 gals.
60,001 to 80,000 gallons	6.00 per 1000 gals.	5.00 per 1000 gals.	4.00 per 1000 gals.
Over 80,000 7.00 per 1000 gals.	7.00 per 1000 gals.	6.00 per 1000 gals.	5.00 per 1000 gals.

The customers also testified regarding a meter reading problem this past summer. Meters were read over a week later than they should have been in at least one month. The customers expressed their concern that timely and accurate meter reading will be even more important with increased tiered rates. The Company admitted to a past meter reading problem, recognized the need for timely and accurate meter reading, and indicated that late readings would not happen in the future.

DISCUSSION

Wolf Creek has not had a rate change since 1991. The rate increase requested in this matter is substantial. The requested increase in the base rate, which most customers pay, is in excess of 77%. Since at least 1991 the Company has had tiered rates in effect. The base rate has included up to 12,000 gallons per month, with the rates for additional usage increasing to a maximum of \$2.25 per 1000 gallons for usage over 18,000 gallons per month. The Company's application states that the proposed increase is necessary "to insure the economic viability of the Company and to encourage the prudent use of the Company's increasingly scarce water resource." The Division supported the proposed tiered rates to encourage conservation. This is consistent with Commission practice and policy.

Such tiered rates are designed to reflect costs and to provide economic incentive to large volume users to decrease their use. In this matter the Wolf Creek customers explained the major reasons that many residents of Patio Springs use more water than average. It is predominantly from outside water use. The customers testified that Patio Springs residents have larger lots than others, and also do not currently have access to secondary water for outside use. As discussed in the hearings, the company that owns and operates the secondary water system at one time considered extending its system to Patio Springs, but did not receive adequate support from the residents of Patio Springs. The testimony indicated that the owners of the secondary system remain willing to serve Patio Springs if adequate financial support is received from the residents there. With the increase in rates approved in this matter, Patio Springs residents may find it economically prudent to obtain service from the secondary water system.

Utility company rates are set based upon their reasonable and prudent costs. While the customers offered testimony regarding the impact of a rate increase on them, they did not challenge any of the costs of the Company. The DPU audited the costs, and after three adjustments, found the costs reasonable. The DPU further found that with the rates originally proposed by the Company the company would fall short of earning its authorized rate of return. The revised rates can only exacerbate the shortfall.

The customers testified regarding real estate development that could generate a large number of new connections to the Wolf Creek system. The customers expressed concern that the revenue from those connections could lead to Company earnings in excess of its authorized rate of return. The testimony conflicted as to whether the largest potential development had yet received the necessary governmental approvals. If such development and new connections should take place, it will be some time in the future. At this time, the timing and number of new homes that will be constructed is speculative. The Company must report its costs and earnings to the DPU at least annually. Those reports are public records. If future development and increased connections lead to over-earning by the Company we expect the DPU or the customers of Wolf Creek to bring that before this Commission for appropriate rate adjustment. A new rate case may be commenced at any time.

This is a significant increase. Company rates have not been changed since 1991, and the needed increase now is large. With the amended proposal made by the Company during the hearing, however, most large volume water users will see a smaller percentage increase than those that just use the base amount. The proposed increase in the basic usage charge is over 77 percent. For large users under the Company's amended proposal, only users of 84,000 gallons or more per

month will see a percentage increase that large. While the impact on large users is significant, it is not unfair.

With the establishment of higher tiered rates, timely meter reading is essential. The Company has pledged to timely and accurately read meters, and if it should not do that, or otherwise not comply with Commission rules, the customers should bring that to the attention of the Division of Public Utilities and this Commission.

Based upon the evidence presented, the Administrative Law Judge recommends entry of the following:

FINDINGS OF FACT AND CONCLUSION OF LAW

1. Wolf Creek is a certificated water and sewer corporation operating in the State of Utah, subject to Commission jurisdiction.
2. Wolf Creek's current rates are insufficient to provide adequate revenues to recover the Company's reasonable operating expenses.
3. The modified proposed rates presented by the Company at the hearing provide a reasonable opportunity to generate sufficient revenues for the Company to recover its reasonable operating expenses.
4. The modified proposed rates are just and reasonable. These modified proposed rates are:

WATER RATES

a. Base charge per month, including the first 12,000 gallons: \$20.

b. Usage rates per month:

12,001 gallons to 20,000 gallons: \$2.00 per 1,000 gallons;

20,001 gallons to 40,000 gallons: \$3.00 per 1,000 gallons;

40,001 gallons to 60,000 gallons: \$4.00 per 1,000 gallons;

60,001 gallons to 80,000 gallons: \$5.00 per 1,000 gallons;

Over 80,000 gallons: \$6.00 per 1,000 gallons.

c. Stand-by fee: \$5.00 per month.

d. Connection fee: \$2,000.

SEWER RATES

a. Monthly usage: \$15.00.

b. Stand-by fee: \$5.00 per month.

c. Connection fee: \$2,000.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

The modified proposed rates set forth in this Report and Order are approved by the Commission. Wolf Creek Water & Sewer Company, Inc., may make the rates effective from the issuance date of this order or a later date which can be accommodated by the Company's billing system. Wolf Creek Water & Sewer Company, Inc. shall submit revised tariff

sheets reflecting the new rates approved by the Commission. The Division of Public Utilities shall review the revised tariff sheets for compliance with this Report and Order.

Dated at Salt Lake City, Utah, this 25th day of March, 2002.

/s/ Doug Tingey
Administrative Law Judge

Approved and confirmed this 25th day of March, 2002, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard,
Commission Secretary

G#28751