

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Request of KWU, )  
INC./KAYENTA WATER USERS, INC. for )  
a Proposed Rate Adjustment )

DOCKET NO. 02-2181-01  
REPORT AND ORDER

ISSUED: January 16, 2003

SYNOPSIS

KWU, Inc./Kayenta Water Users, Inc. sought to increase various rates to be charged. The Commission established new rates.

By The Commission:

KWU, Inc., also known as Kayenta Water Users, Inc. (the Company or KWU) filed a request for a rate increase on July 1, 2002. The matter was set for hearing with notice given. Customers of KWU 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 December 6, 2002, before the Commission's Administrative Law Judge, in the chambers of the Washington County Commission in St. George, Utah. Terry Marten appeared and offered testimony for the Company. Wesley Huntsman and Bary Golding appeared and offered testimony on behalf of the Division of Public Utilities (DPU). Prior to the hearing customers were given the opportunity to file written comments with the Commission. Two customers appeared and offered testimony during the hearing.

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

Several written comments from customers were received prior to the hearing. Those comments addressed the size of the proposed rate increase, the usage amount contained in the base monthly charge, and stand-by fees. On at least one of those issues the customers disagreed. Some suggested that a lower amount of usage be included in the monthly base charge, while others suggested a higher amount. The issues raised by the customers were addressed in the testimony offered at the hearing.

Shortly before the hearing, the DPU submitted its Memorandum and recommendations, indicating it had completed an audit of KWU's past operations and records. The DPU recommended approval of the proposed rates, and implementation of certain accounting and billing changes discussed below.

DISCUSSION

KWU has not requested a change in rates for about ten years. During that time costs have increased substantially. As a result, the proposed increase in rates in this docket is sizeable. The Division presented the results of its audit of the Company records, including some adjustments for ratemaking purposes. The Division also noted that some accounting and billing costs of the Company had in the past been borne by the developer and not the Company. The Division's analysis shows that the proposed increases in rates would result in a 45% increase in revenues for the Company, and with that increase the Company would still fall short of meeting its rate of return. The specific rate and accounting changes are discussed below.

Base rate and excess usage rates: The proposed rates include an increase in the base monthly charge, and a decrease in the amount of usage covered under the base charge. The current base monthly charge is \$26.25. The proposed base

monthly charge is \$38.00. That is about a 45% increase in the monthly charge to each customer. In addition, the base monthly amount of usage under existing rates is 15,000 gallons. Under the proposed rates the monthly base is 10,000 gallons. Testimony was presented in support of the base usage amount of 10,000 gallons. The Company stated that 10,000 gallons is about average usage for many customers. The Division further testified that under Department of Environmental Quality standards, water systems must be sized to provide 400 gallons per day per connection for inside use only. That adds up to about 12,000 gallons per month. The Division stated that the 10,000 gallon base amount was a reasonable amount using that standard.

The rates for usage in excess of the base amount are currently charged in two tiers: from 15,001 to 35,000 gallons, the rate is \$1.75 per 1,000 gallons, and for usage over 35,000 gallons, the rate is \$2.00 per 1,000 gallons. The proposed rates have six rate tiers for usage in excess of the monthly base amount:

10,001 to 15,000 gallons	1.25 per 1000 gals.
15,001 to 20,000 gallons	1.40 per 1000 gals.
20,001 to 25,000 gallons	1.55 per 1000 gals.
25,001 to 30,000 gallons	1.70 per 1000 gals.
30,001 to 35,000 gallons	1.85 per 1000 gals.
35,001 gallons or more	2.00 per 1000 gals.

The testimony offered at the hearing was that the proposed tiered usage rates will make the company revenue more reflective of costs, and also give customers the ability to benefit from their individual conservation efforts. We agree.

**Connection fee:** The proposed rates also include an increase in the connection fee. Under current rates the connection fee is \$2,000. The proposed fee is \$3,000. The Division recommends increasing the fee as requested, and requiring that the company account for \$2,500 of each connection fee as a contribution in aid of construction, which would offset ratebase.

**Bills:** One of the customers that testified at the hearing raised the issue of the billing format of the company. Specifically the customer questioned why meter readings, and the associated calculation of usage, was not on the monthly bills. The Division suggested that the Company be required to put that information on the bills, and the Company stated that it could do so. Such information should be on customers bills. The addition of several more tiers of usage rates adopted herein increases the importance of customers having that information on a monthly basis. We will direct the company to modify its billing practices to include meter reads and usage information.

**Accounting issue:** The issue of the need for stand-by fees was raised by some customers in their written comments. During the hearing testimony was offered that some customers, and potential customers, are billed stand-by fees. It was explained that those fees are part of a water lease with the conservancy district. It is, in essence, the contractual cost to maintain the right to draw water in the future. That cost is one borne ultimately by the private developer, and not the Company. The fee has, however, been billed to Company customers and passed through to the developer, and then on to the conservancy district. Neither the expenses or the revenues associated with that water lease stand-by fee were used in calculating rates in this case. The developer testified that he bore the risk of collection of that fee, and he made up any shortfall each year and paid the conservancy district in full. The Division concurred with that testimony. The Division also suggested at the hearing that the Company be required to more clearly separate the stand-by fee billings and collections from other items. That suggestion is appropriate, and we will order the Company to separately and clearly track revenues and expenses associated with this stand-by fee.

Company rates have not been changed in ten years, and the requested increase now is quite large. Customers have benefitted from unchanged rates for some time. Unfortunately that has led to this request for a large increase, and customers have understandably expressed their unhappiness with that prospect. The increase is, however, needed to cover the expenses of the Company and provide it with the opportunity to earn a reasonable return. The proposed rates

should be approved.

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

FINDINGS OF FACT AND CONCLUSION OF LAW

1. KWU is a certificated water corporation operating in the State of Utah, subject to Commission jurisdiction.
2. KWU's current rates are insufficient to provide adequate revenues to recover the Company's reasonable operating expenses.
3. The proposed rates presented by the Company provide a reasonable opportunity to generate sufficient revenues for the Company to recover its operating expenses and earn a return.
4. The proposed rates are just and reasonable. The proposed rates are:
  - a. Base charge per month, including the first 10,000 gallons: \$38.
  - b. Usage rates per month:  
10,001 gallons to 15,000 gallons: \$1.25 per 1,000 gallons;  
15,001 gallons to 20,000 gallons: \$1.40 per 1,000 gallons;  
20,001 gallons to 25,000 gallons: \$1.55 per 1,000 gallons;  
25,001 gallons to 30,000 gallons: \$1.70 per 1,000 gallons;  
30,001 gallons to 35,000 gallons: \$1.85 per 1,000 gallons;  
Over 35,000 gallons: \$2.00 per 1,000 gallons.
  - c. Connection fee: \$3,000, with \$2,500 of each connection fee to be accounted for as a contribution in aid of construction.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

The proposed rates set forth in this Report and Order are approved by the Commission. KWU 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. KWU shall include meter readings and usage information on monthly customer bills. KWU shall also clearly and separately account for all stand-by fee revenues and expenses of the Company. KWU 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.

Any person aggrieved by this Order may petition the Commission for review within 20 days of the date of this Order. Failure so to do will forfeit the right to appeal to the Utah Supreme Court.

Dated at Salt Lake City, Utah, this 16<sup>th</sup> day of January, 2003.

/s/ Douglas C. Tingey  
Administrative Law Judge

Approved and Confirmed this 16<sup>th</sup> day of January, 2003, 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#32140