

In the Matter of the Application of)
WILKINSON WATER COMPANY)
for a Change in Water Rates)

DOCKET NO. 97-019-01

REPORT AND ORDER

ISSUED: June 12, 1998

SYNOPSIS

Applicant having shown a need for increased revenues, and Applicant having acceded to adjustments proposed by the Division of Public Utilities, Utah Department of Commerce, and the adjusted proposed rates appearing to be just and reasonable, the Commission approved the same.

Appearances:

Marc Wangsgard For Wilkinson Water Company

Laurie Noda, Assistant Attorney " Division of Public Utilities,

General Utah Department of Commerce

By the Commission:

PROCEDURAL HISTORY

Pursuant to notice duly served, the above-captioned matter came on regularly for hearing the 6th day of May, 1998. Evidence was offered and received, and public witnesses were given the opportunity to testify. One public witness, Ms. Tina Merrett, presented an alternative rate base calculation based on purported Utah Division of Drinking Water storage requirements. The record was held open to allow her to substantiate the alternative storage requirements. She filed refined calculations. Thereafter, Applicant and the Division of Public Utilities, Utah Department of Commerce, filed motions to strike Ms. Merrett's calculations as uncorroborated hearsay. The Administrative Law Judge, having been fully advised in the matter, now enters the following Report, containing proposed Findings of Fact, Conclusions of Law, and the Order based thereon.

FINDINGS OF FACT

1. Wilkinson Water Company (hereafter "Applicant") is a water corporation within the meaning of the applicable Utah Statutes and it is certificated by this Commission.
2. Based on a 1997 test year, the Applicant seeks a rate increase amounting to 33.3% in its basic monthly charge for a maximum of 6,000 gallons, and an increase of approximately 43% in its charge per 1,000 gallons of usage over 6,000 gallons. In absolute numbers, Applicant proposes an increase from \$15.00 to \$20.00 for its base charge, and an increase from \$1.15 to \$1.65 for usage thereafter. The proposed rates would place Applicant in the mid range of private company water rates statewide. The Applicant's last rate increase was in 1995.

3. The Division of Public Utilities, Utah Department of Commerce (hereafter "DPU") has audited Applicant's books and records and on the basis of the audit recommended adjustments to the Applicant's original rate proposal. Applicant has acceded to the Division's adjustments.

4. No small part of the increase request is owing to an increase in rate base occasioned by the necessity for increased storage (and an associated pumping station) required by fire flow requirements imposed by Morgan County. Additionally, there is a major subdivision development under way in Applicant's service area, which prospectively requires even more storage. However, the developer has made major expenditures as contributions in aid of construction to mitigate the impact on current rate payers. Under the "used and useful" concept of ratemaking, DPU has also recommended disallowance of a portion of the increased storage not now required by present customers. As discussed below, we believe these factors render the proposed rate base just and reasonable.

5. Other details of the proposed rates, and the justification therefor, are contained in DPU Exhibit 1, and its attachments, annexed hereto and incorporated herein by this reference. We adopt the Findings made therein as our own.

DISCUSSION

Ms. Merrett raised two major issues in her proposed adjustments to Applicant's rate proposal. The first concerns the applicable fire flow requirements, which affects how much of Applicant's new 250,000 gallon storage tank is "used and useful," and therefore allowable in rate base. It also affects the amount of allowable depreciation. Ms. Merrett's calculation was purportedly that of an employee of the Utah State Division of Drinking Water (hereafter DDW). We held the record open for her to submit corroboration for this hearsay. She failed to do so. Accordingly, we cannot base any Finding or Conclusion on the proffered calculation.

We believe the confusion arises because of a difference between the minimum requirements for culinary water service, which is established by DDW, and fire flow requirements, which are established by the local jurisdiction, in this case Morgan County. Ms. Merrett has failed to show that Applicant's and DPU's figure for total storage requirement, including fire flow, is in error.

The other major issue raised by Ms. Merrett concerns legal expense, which Ms. Merrett contends should be borne solely by the Applicant's shareholders. Her contention does not conform with established ratemaking principles,⁽¹⁾ and we conclude that DPU's proposal, to amortize over three years the legal expenses incurred in connection with this case, is just and reasonable.

We have considered Ms. Merrett's other proposed adjustments, and while we appreciate the thought and effort that has gone into them, we are unable to agree with any of them.

CONCLUSIONS OF LAW

The Applicant's rate proposal, as adjusted, is just and reasonable; and on that basis the Application should be granted.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that:

The Application of WILKINSON WATER COMPANY for rate relief, incorporating the adjustments proposed by the Division of Public Utilities, Utah Department of Commerce, set forth in Exhibit DPU 1, be, and it is, approved.

Said Applicant may publish its tariff incorporating said rates effective on one-day's notice.

This Order is effective the day of its issuance.

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 12th day of June, 1998.

/s/ A. Robert Thurman

Administrative Law Judge

Approved and Confirmed this 12th day of June, 1998, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary

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Exhibit No. DPU 1

Recommendations of the Division of Public Utilities

In the Matter of the Proposed Rate Increase for

Wilkinson Water Company

SUMMARY

In response to the Company's request for a rate increase the Division audited the Company's books for 1996. The Company wanted to include in rate base facilities which were under construction at the time of the initial request for a rate increase. The Division and the Company agreed to delay the rate case to allow for completion of the facilities.

When the improvements were completed the Company's books for 1997 had been closed and the Division and the Company agreed to use 1997 as the test year in order to provide the most recent data as the basis for determining rates. The Division then conducted an audit of the Company's books for 1997.

The Division's audits found that the Company is operating within Commission rules and charging rates which are consistent with the Company's approved tariff.

This case was originally scheduled for a hearing on April 7, 1998. After the Company sent a notice of the hearing and proposed rate increase to its customers the Division received phone calls and letters from 17 customers. The Division and the Company decided to request a delay of the hearing until May 6, 1998 to allow more time for customer comments and to allow the Division time to provide more information to the customers.

On Thursday, April 23, 1998 Bary Golding with the Division held an informal meeting with the Company's customers in Mountain Green, Morgan County. About 35 customers attended the meeting. The purpose of the meeting was to answer customers' questions, allow time for customer comments and provide them with information regarding the Division's recommendation regarding the proposed rate increase. This meeting was not intended to replace the public comment period during the hearing. Customers were given information regarding the hearing and told that there would be a public comment period for those who wished to make comments at the hearing.

The customers who made comments at the meeting and by phone or letter were not in favor of the proposed rate increase. However, no information was provided to the Division which would justify a change in the Division's audit findings and recommendation in this case.

Recommendation

The Division recommends a test year of 1997 actual with adjustments as shown in exhibit 1.1. The Division proposes net rate base of \$89,546 (exhibit 1.2), a rate of return on rate base of 11.29% (exhibit 1.3) and a revenue requirement of \$79,052 (exhibit 1.3) to be recovered through the following proposed rates (see exhibit 1.4 for the rate calculation):

Original

Current Company Division

Rates Proposal Proposed

Base charge for 0 to 6,000 Gallons \$15.00 \$30.00 \$20.00

Charge per 1,000 gallons for

usage in excess of 6,000 gallons 1.15 1.49 1.65

The Company originally proposed implementation of a stand by charge but has since withdrawn that proposal. The Division proposes no change in other rates currently found in the Company's tariff.

The Division feels that the proposed rates are just and reasonable. They are within the midrange of rates charged by regulated water companies within Utah (Exhibit 1.5). The Division recommends that the Company be allowed to implement the proposed rates effective June 1, 1998.

Construction Cost Recovery

The primary reason the Company sought a rate increase was to recover the cost of Constructing a new storage tank and a related pumping station . The new tank was necessary for two reasons. First, the Company needed approximately 60,000 gallons of additional storage to comply with an increased fire flow requirement imposed by Morgan County. Second, Mike Babcock, a local developer, proposed developing a residential subdivision and commercial park within the Company's service area. Mr. Babcock's developments would require approximately 40,000 gallons of storage space.

Mr. Babcock's proposed residential development is located at an elevation higher than the Company's current storage tanks. This required the new tank to be located at a higher elevation to meet his needs. It also required construction of a pumping station to boost water from the Company's existing tanks to the new tank.

Mr. Babcock paid the full cost of the facilities required to serve his subdivision and commercial park. This included paying the full cost of the pumping station and the lines from the booster station to the tank. He also paid 18% of the cost of construction of the new tank and related rights of way. In addition Mr. Babcock paid the Company \$3,900 for the portion of the capacity of the Company's existing wells needed to serve his developments.

The proposed rates do not include any costs related to construction of facilities to serve Mr. Babcock's developments. Costs paid by Mr. Babcock are listed in the Division's rate base calculation as "Contributions in Aid of Construction" (Exhibit 1.2).

Since the new tank had to be built at a higher elevation the Company decided to build a 250,000 gallon tank to provide capacity for future development of property owned by the Wilkinson Family within the Company's service area, rather than build a 100,000 gallon tank to simply meet its current needs the. Approximately 60% of capacity of the new tank is excess capacity beyond the Company's current needs. The cost of the excess capacity is is not included in the Division's proposed rate base. It is listed in the Division's rate base calculation as "Capacity Held for Expansion" (Exhibit 1.2).

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Exhibit No. 1.1

Income Statement Adjustments**Line****No. Description**

8 Connection fees expected to be the same as 1997.

15 The Division proposes an increase of 20% for Mr. Wilkinson based on a 10% increase in the rate of pay and a 10% increase in the time he spends on water company business.

16 This reflects the actual annual cost the Company pays to Weber Basin.

17 The Company proposed a 100% increase in power costs due to the addition of the new pumping station. The Division feels that the actual increase will be only 25% because the Company will not have to pump most of the water delivered to customers to the upper tank.

18 1997 was an unusually low year for materials and supplies costs. The Division based its recommendation on the average of 1996 and 1997 actual which is more reflective of the Company's normal costs over time.

19 As in the 1995 rate case, the Company proposed rent expense for use of a portion of a hangar at the Morgan Airport for storage of the Company's supplies. The Company does not incur a cost to use this space and the request was, therefore, denied in the 1995 case. Since the situation has not changed the Division does not feel the rent is justified.

20 The Company proposed a 100% increase in transportation expense over 1996 actual costs. The Division proposes a 25% increase over 1997 actual costs due to mileage required to maintain the new tank and booster station.

22 The Company is required under the Federal Safe Drinking Water Act to complete a source protection plan by the end of 1998. The Company received a bid of \$16,000 for this but has not had the plan done at this time. The Utah Division of Drinking Water (DDW) has worked out an agreement with Morgan County where the County will hire a single firm to do source protection plans for all water systems within the county. The cost will be about \$4,000 per well. However, the State of Utah will pay ½ of the cost. Since the Company has two wells, its net cost will be \$4,000. Since the Company is required to complete a plan and the cost is known the Division recommends allowing recovery over three years.

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Exhibit No. 1.1

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24 The Company's actual legal costs for 1997 included \$6,000 for work related to the

construction of the new facilities. The Division 's proposal capitalizes this amount and includes it in rate base. In addition the Company spent \$6,502 on accounting and legal

services related to the rate case. The Division recommends spreading these costs over three years for an annual cost of \$2,167. The remaining \$2,833 represents ongoing legal and accounting costs.

25 This simply reflects the Company's actual costs in 1997.

26 The Division recommends that the Company be allowed to include an expense of \$25

per month to cover telephone charges related to the water company.

28 This simply reflects the Company's actual costs in 1997.

30 This reflects the increase in Depreciation Expense due to the new facilities.

31 Public Utility Regulatory fee.

32 Payroll taxes will increase due to the increase in wages.

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Exhibit No. 1.2

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Adjustments to Rate Base Calculation

Line

No. Description

1 This adjustment includes \$6,000 in legal fees related to construction of new facilities.

It also represents inclusion of one year of interest on the loan the Company obtained to pay for construction of the new facilities. The interest is included in Rate Base as an Allowance for Funds Used During Construction (AFUDC).

4 The Company proposed to keep an extra pump on hand for each of its wells.

The Division removed this item since the Company did not actually have the pumps on hand. The Division also questions the need to have extra pumps on hand since the Company has two wells and can obtain a new pump within about two days if one is needed.

5 This represents 60% of the Company's cost of the new tank, including the interest

discussed in line 1 above, to remove the cost of the excess capacity from rate base.

6 This difference results from the differences listed in the income statement.

10 This difference results from the differences listed in the income statement.

12 The Company did not subtract purchased water costs from its calculation.

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INCOME STATEMENT ANALYSIS Bary M. Golding

YEAR ENDED DECEMBER 31, 1997 Exhibit No. 1.1

A B C D E

1997 Company Division

Description Actual Adjustments Proposed Adjustments Proposed

Income Accounts

Operating Revenues

1 Unmetered Sales 60,418 0 60,418 0 60,418

2 Metered Sales-Res Customers 0 0 0 0 0

3 Metered Sales-Commercial 0 0 0 0 0

4 Meter Sales-Public Auth. 0 0 0 0 0

5 Fire Protection Revenue 0 0 0 0 0

6 Sales for Resale 0 0 0 0 0

7 Total Water Sales Revenues 60,418 0 60,418 0 60,418

Other Water Revenues

8 Forfeited Discounts 0 0 0 0 0

9 Connection Fees 2,500 (500) 2,000 500 2,500

10 Stand by fees 0 0 0 0 0

11 Other Water Revenues 0 0 0 0 0

12 Total Other Water Revenue 2,500 (500) 2,000 500 2,500
13 Total Water Revenues 62,918 (500) 62,418 500 62,918
Operating Expenses
14 Salaries & Wages-Employees 3,500 1,700 5,200 0 5,200 +20%
15 Salaries & Wages-Officers 20,950 3,150 24,100 (4,600) 19,500 +20%
16 Purchased Water 3,672 475 4,147 (80) 4,067
17 Purchased Power 7,562 6,050 13,612 (4,112) 9,500 +25%
18 Materials and Supplies 1,288 6,730 8,018 (5,409) 2,609 96+97/2
19 Rent 1,200 840 2,040 (840) 1,200
20 Transportation Expense 2,330 1,810 4,140 (1,140) 3,000 +25%
21 Insurance 5,192 123 5,315 0 5,315
22 Con. Serv. - Source Protect 0 16,000 16,000 (14,665) 1,335
23 Con. Serv. - Repair & Maint. 276 724 1,000 0 1,000
24 Con. Serv. - Actg., Legal, Eng. 12,502 789 13,291 (7,791) 5,500
25 Office Expenses 825 (61) 764 61 825
26 Utilities 0 0 0 300 300
27 License Fees 2,819 (2,394) 425 0 425
28 Water Testing 837 (637) 200 637 837
29 Total Op. & Maint. Expenses 62,953 35,299 98,252 (37,639) 60,613
Other Expense
30 Depreciation Expense 930 5,082 6,012 (2,193) 3,819
31 Regulatory Assessments 0 0 0 100 100
32 Taxes Other Than Income 1,868 603 2,471 (584) 1,887
33 Total Other Expense 2,798 5,685 8,483 (2,677) 5,806
34 Total Op. & Other Expenses 65,751 40,984 106,735 (40,316) 66,419
35 Op. Inc. Before Income Taxes (2,833) (41,484) (44,317) 40,816 (3,501)
36 Fed Income Tax-Opr Income 0 0 0 0 0
37 State Income Tax-Opr Income 0 0 0 0 0
38 Total Income Tax Expense 0 0 0 0 0
39 Net Operating Income/(Loss) (2,833) (41,484) (44,317) 40,816 (3,501)

Other Income & Deductions

40 Interest & Dividend Income 2,702 (2,631) 71 48 119
41 Interest Expense 0 (13,624) (13,624) 13,624 0
42 Total Other Income & Deduct 2,702 (16,255) (13,553) 13,672 119
43 Total Operating Profit/(Loss) (\$131) (\$57,739) (\$57,870) \$54,250 (\$3,620)

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Exhibit No. 1.2

WILKINSON WATER COMPANY

RATE BASE ANALYSIS

YEAR ENDING DECEMBER 31, 1997

COMPANY DIVISION

PROPOSED PROPOSED

DESCRIPTION RATEBASE ADJUSTMENTS RATEBASE

1 UTILITY PLANT IN SERVICE 289,701 20,952 310,653
2 ACCUMULATED DEPRECIATION (38,284) 0 (38,284)
3 NET UTILITY PLANT IN SERVICE 251,417 20,952 272,369
4 PLANT MATERIALS AND SUPPLIES 11,000 (11,000) 0
5 CAPACITY HELD FOR EXPANSION 0 (90,526) (90,526)
6 CONTRIB. IN AID OF CONST. (99,268) 0 (99,268)
7 CASH WORKING CAPITAL 12,113 (5,142) 6,971
8 NET WORKING CAPITAL (76,155) (106,668) (182,823)
9 TOTAL RATEBASE \$175,262 (\$85,716) \$89,546

Cash Working Capital Calculation:

10 Total Operations & Maintenance Expense 98,252 (37,639) 60,613
11 Less: Purchased Water 0 4,067 4,067
12 Adjusted Total Op. & Maint. Exp. 98,252 (41,706) 56,546
13 Line 12 x 45/365 \$12,113 (\$5,142) \$6,971

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Exhibit No. 1.3

WILKINSON WATER COMPANY

REVENUE REQUIREMENT

YEAR ENDED DECEMBER 31, 1997

DESCRIPTION

1 RATE BASE \$89,546

2 RATE OF RETURN ON RATE BASE 11.29% *

3 RETURN REQUIRED 10,106

4 TAXES 2,527 **

5 TOTAL RETURN REQUIRED 12,633

6 OPERATING EXPENSES 66,419

7 REVENUE REQUIREMENT \$79,052

*** RETURN CALCULATION**

Amount Ratio Rate Return

8 Common Equity \$54,508 28.62% 12.00% 3.43%

9 Debt \$135,925 71.38% 11.00% 7.85%

10 Totals \$190,433 100.00% 11.29%

** Line 4 was calculated based on the

following formula:

Federal tax rate 15%

State tax rate 5%

Total tax rate 20%

Tax gross up factor $.20/(1-.20) = 0.25$

Line 3 x .25 = 2,527

1. Since maintaining a utility's financial integrity is a benefit to the company, its vendors, and customers, as well as investors, this Commission, as well as all others we are aware of, has always considered reasonable legal expenses legitimate expenses for ratemaking purposes.