

**The commission received the following comments and questions from customers. Staff's responses are identified and contained in boxes.**

**Questions relating to Suncadia Water tariff Docket No. UW-081226 – 10/24/2008**

In reviewing the materials relating to Suncadia Water Company's request to the WUTC in Docket No. UW-081226 and the detail supplied by the Suncadia consultant, residential owners at Suncadia have put forth a number of questions to the WUTC staff and Suncadia Water dating back to June 2008. Some of those questions that we believe would have a material impact on either the base rate or the consumption rate have not been responded to. Additionally, we have not seen nor received any information or supporting details to show that the WUTC Staff's review of the company's operations and financial records show that the new rates are justified. The WUTC staff concluded that the July filing lacked this justification and the current filing is not materially different from what we have been able to determine.

We have broken the questions down into the following general categories and subcategories. As detailed below, the questions fall generally into the following categories:

**Base Rate**

- Affiliated interest transactions
- Allocation of costs between irrigation and domestic systems

**Consumption Rate**

- Affiliated interest transactions
- Flat rate versus conservation rate

**General Concerns & Conclusions**

**BASE RATE**

The residential customers of Suncadia Water oppose the base rates as filed on the following points:

- The allowable return on investment is recovery of capital and debt that was not disclosed as part of the residential property purchase.

**Staff Response 1.** The commission does not require disclosure of this information as part of a residential property purchase.

- The operating expenses have been disproportionately applied to the potable water system versus the irrigation water system. The irrigation water system is only used by the Developer, an affiliated interest.

**Staff's Response 2.** Staff has reviewed the company's allocation of maintenance staff operating costs between the two water systems and believes they are reasonable for this case. The company

allocated maintenance staff expenses, net of ancillary charge revenues, based upon experience. The company does not have time records or other written documentation. Although the company has committed to maintaining timesheets in the future, it has not yet begun doing so. The company reviewed its maintenance staff work load and assigned amounts to potable water service, fire protection service, irrigation water service, and ready-to-serve class customers. Within the potable water class and irrigation class, the company allocated 50 percent to the base charge and 50 percent to the usage charge. The overall maintenance staff cost is about 71 percent to potable water and 29 percent to irrigation.

The commercial properties of the Developer have not paid for water for the past 2+ years while residential customers have paid a flat rate. This is not factored into the commercial rates and potentially impacts the base rate costs.

**Staff's Response 3.** What the Developer, or anyone else, paid for water in the past is not an issue properly before the commission in this rate case. What the customers suggest is known as "retroactive rate making." Well established case law prohibits regulatory commissions from conducting retroactive rate making with regulated companies, much less non-jurisdictional companies.

<b>BASE RATE DETAILS</b>	<b>BASE COSTS</b>	<b>BASE RATE</b>
Allowable return on invest.	\$ 72,805	\$ 13.90
Operating Expenses & Fixed Costs	\$ 131,815	\$ 25.16
<b>TOTAL</b>	<b>\$ 204,620</b>	<b>\$ 39.06</b>

<b>BASE RATE FIRE PROT. DETAILS</b>	<b>BASE COSTS</b>	<b>BASE RATE</b>
Allowable return on invest.	\$ 21,032	\$ 2.86
Operating Expenses & Fixed Costs	\$ 5,927	\$ .81
<b>TOTAL</b>	<b>\$ 26,959</b>	<b>\$ 3.67</b>

#### **Affiliated Interest Transactions**

Per the information filed and docket #081636 Suncadia, LLC ("Developer") and Suncadia Water Company, LLC ("Suncadia Water") are affiliated interests within the meaning of RCW 80.16.010. Thus, the burden of proof is on Suncadia Water to show that their current flat rate of \$35 for single family residences is insufficient to sustain the water system and that their proposed new rate is reasonable.

The base rate is based on 436.6 equivalent residential units (ERUs). The information from the Suncadia Water consultant shows that there were 160 customers as of August 2008, yet all of the ERU calculations still use 125.

**Staff's Response 4.** Staff's analysis shows that there are 160 customers, 125 of which are single-family residential customers. See Staff Response 23 for calculations.

1. Suncadia Water seeks to recover capital and debt costs through its base residential water rate. We do not disagree with this being included in the commercial property rates since these are owned and operated by the Developer.

**Staff's Response 5.** Staff has reviewed the filing to determine appropriate rates that all customers will pay. Return of investment and return on investment are proper expenses for Suncadia Water to recover. Those expenses reflect the fixed costs of water system plant and are properly included in base charges.

This residential water system cost recovery was not disclosed at the time of purchase to the residential property owners.

**Staff's Response 6.** The commission does not regulate developers, their transactions, or notices involving those transactions. This is not the proper forum to address this issue. Staff recommends that the customers consult legal counsel if they wish to pursue this matter.

Property owners assumed that they paid for the costs of the water system in the same way that the cost of other utility infrastructures (electricity, gas, network, etc.) were included in the purchase price of their property.

**Staff's Response 7.** Property owners sometimes make this mistake. However, even if there were a specific contract between the Developer and the property owner regarding water service, that contract would not bind the commission. The Legislature delegated the authority and responsibility to regulate water companies to the commission, and the commission cannot regulate in the public interest if it is bound by third party contracts prior to commission oversight and regulation. Once a water company becomes jurisdictional, contracts are treated the same as tariffs and are subject to commission review and approval. Staff recommends that the customers consult legal counsel if they wish to pursue this matter.

Copies of HUD Property Report and Washington Public Offering Statement from the sales agreement paperwork from Thomas Miller, Suncadia residential single-family lot owner have been provided. Note that the HUD report only contains the table of contents and the pages relating to utilities. Pages 18 and 19 cover the water system. On the WA Public Offering Statement, the water system is covered on pages 7 and 11. According to the information that we have been provided, capital and debt recovery costs account for \$16.76 (39%) of the base rate.

**Staff's Response 8.** Staff has reviewed the portions of these reports as provided in the customers' comments and believes both reports accurately describe staff's understanding of the facts in this case.

Previously, the WUTC Staff has responded that they use "historical costs of assets when first placed in service for utility use. This cost is reflected on the company books and is being depreciated over its useful life on a straight-line basis.

**Staff's Response 9.** The proper regulatory treatment of assets is known as "rate base," historical costs of assets when first placed into service, minus accumulated depreciation (straight-line over the useful life of the asset), minus contributions-in-aid-of-construction (CIAC).

"Capital Recovery" fees are not regulated since the developer, Suncadia, LLC, recovers them and they are not part of the regulated tariff."

**Staff's Response 10.** "Capital Recovery Fees" is a term used in the Developer's document titled "Addendum To Mountainstar Resort Homesites Lot Reservation And Purchase And Sale Agreement," which states "Capital Recovery Fees are for the purpose of reimbursing Seller for capital costs related to the construction of the off-site infrastructure for these utilities and area not in lieu of charges levied by the applicable utilities in connection with the provisions of water and sewer service to the Homesite."

The Developer contracted with the City of Cle Elum to provide potable water for domestic use and non-potable water for irrigation. The Developer contributed land and paid approximately \$16.6 million in construction costs for facilities that are now owned and operated by the City of Cle Elum.

For potable water, the facilities pump water from the Yakima River, treat, store, and deliver the water to Suncadia Water's distribution system. For non-potable water, the facilities pump water from the Yakima River and deliver the water to Suncadia Water's distribution system.

To recover its costs, the Developer charges, by separate contract, the purchaser of each lot / unit a "Capital Recovery Fee," set at \$3,777 in the document that staff reviewed. The Developer has collected approximately \$3.8 million to date and expects to increase the fee over time and to eventually recover approximately \$11.6 million of its investment.

Staff believes this is an appropriate way to recover costs incurred to build facilities that neither the Developer nor Suncadia Water now own. If Suncadia Water owned these facilities, staff would recommend that each customer pay a "facilities charge," in the same manner in which the Developer charges a "Capital Recovery Fee," except that staff would set the fee to recover the full original cost and provide a return on the investment at Suncadia Water's weighted average

cost of capital over the usable life of the assets or projected build-out, whichever is shorter.

We need a further explanation of this statement since capital recovery is part of the "allowable return on investment" fee structure, so we are confused if this is not part of the regulated tariff.

**Staff's Response 11.** To summarize:

"Capital Recovery Fees" collected by Suncadia, LLC relate to the construction of the off-site infrastructure and are not regulated by the commission or included in rates set by the commission.

Rates set by the commission in this general rate case are related to capital plant installed within the Suncadia resort development to provide water service, and are known as rate base. Rates include an opportunity for Suncadia Water to recover reasonable costs (return of investment through depreciation expense) and an opportunity to earn a reasonable return on its investment (weighted cost of capital applied to rate base).

2. If the WUTC agrees that recovery of capital and debt costs can be included in the base rate, it is unclear why increasing the ready-to-serve (RTS) rate by \$10.79 (+108%) would only marginally reduce the base rate for active customers. There are approximately 4 times the number of RTS customers as opposed to the active customers (~608 vs. ~160). The logic of the filing and analysis do not clearly show how the increased RTS rate is being applied to reduce the impact on the base rate of the residential customers (most, if not all of the RTS customers are residential properties).

**Staff's Response 12.** Both ready-to-serve customers and customers receiving water take up capacity on the water system and incur cost for operations. The customers receiving water incur additional expenses for the delivery and use of water. The proposed rates were set using a cost of service analysis that shows the following:

Residential Base Charge v Ready-to-Serve Charge

(Note: All calculations are per month per ERU.)

	RTS	Residential Base
Depreciation.	\$ 3.93	\$ 3.93
Return on investment in rate base.	\$ 13.90	\$ 13.90
Total for plant and return.	\$ 17.83	\$ 17.83
Cost driven by plant in service: maintenance staff, property tax, utility excise tax, customer service staff and office/postage/phone.	\$ 2.96	\$ 2.96
	\$ 20.79	\$ 20.79
Operating supplies, engineering, purchased power, purchased water (fixed contract portion) operating expenses and general fire protection costs.	\$ 21.94	\$ -
Monthly total.	\$ 42.73	\$ 20.79

3. Suncadia Water has been charging residential property owners \$35 per month as soon as the property is occupied going back to the spring of 2006. Commercial properties have been using potable water from the same system throughout that time and have apparently not been charged anything for their water service during that time. From the information filed, the golf courses have also been supplied irrigation water at no cost, as well. Since the golf courses and commercial properties are owned and operated by the Developer, it would seem fair that there be a "true up" of their water service payments prior to instituting a new rate structure. Suncadia should provide all documentation showing the fair cost of the irrigation and commercial system water usage for the past 2+ years so that the residential customers are not subsidizing the commercial properties. This should be equitably applied to the base and usage costs.

**Staff's Response 13.** Staff understands the customers' perspective. However, staff respectfully disagrees. What the customers' suggest is known as "retroactive rate making." Well established case law prohibits regulatory commissions from conducting retroactive rate making with regulated companies, much less non-jurisdictional companies.

4. It is not clear that the system was transferred to Suncadia Water at the lower of cost or market. The Suncadia Water residential customers have not seen evidence from Suncadia Water or WUTC staff that all of the assets included in the rate base, as requested by Suncadia Water, have been appropriately valued and accounted for. In particular, it is important for Suncadia Development to make available to the WUTC its sources and valuation basis of the assets transferred, determine if the assets should be excluded from rate base because they constitute contributions in aid of construction ("CIAC") and determine the appropriate costs of capital associated with the assets transferred. More specifically, The CIAC percentage, accumulated depreciation percentage, and resulting % of net utility plant in service are not clearly supported and justified from the filing. See the table below showing the discrepancy between potable and irrigation water systems.

	Utility Plant in Service	Accumulated Depreciation	Accum. Deprec. Percentage	CIAC Plant In Service	CIAC Plant In Service Percentage
Potable	\$ 19,240,490	\$ 112,264	0.6%	\$11,619,115	60.4%
Irrigation	\$ 1,884,837	\$ 32,340	1.7%	\$ 1,257,414	66.7%

**Staff's Response 14:** Asset costs are assigned directly and allocated. Staff reviewed the company's asset assignment, costs (both direct and allocated), and depreciation schedules, and concludes Suncadia Water's accounting is accurate and correct.

Utilities for potable water, irrigation water, sewer and the "dry utilities" (e.g. telecommunications, electrical and cable) are often constructed at the same time. Suncadia Water advised staff that the potable water system and the irrigation water system share a common trench of less than one mile. Some costs (e.g. materials, etc.) are easily assigned directly to each utility. Other costs (e.g. trenching, surveying, paving, erosion control, etc.) are shared, or common, costs that must be allocated. The company used the direct costs of each utility to assign the common costs. The pipe used for both systems is identical. Each utility service was assigned

the percentage of common costs equal the percentage of its direct costs to the total direct costs of all utilities. This allocation method is relatively standard among engineering companies and staff believes it results in a reasonable allocation of the indirect costs.

The Developer contributed \$9,563,607 in water rights to Suncadia Water. This provides a significant benefit to customers because water rights do not depreciate. As investment, customers would pay \$930,539 (using 9.73 percent return that staff recommends in this rate case) every year, or, assuming that potable water uses 50 percent of the water rights, approximately \$11.35 per month per ERU. As contributed plant, customers will pay nothing for the water rights.

Staff has allocated the cost of the water rights, offset by the same amount of contribution-in-aid-of-construction (CIAC), to the two separate water systems based on 2007 usage. As a practical matter, it makes no difference how the water rights are allocated, because the allocation is offset by the same amount of CIAC, resulting in "zero" cost to customers.

### **Allocation of costs between irrigation and domestic systems**

It is not clear from the information provided in the filing that 93% of the total cost of the water system was required to install the potable water system. For example, it would seem fair that the irrigation system cover 50% of the common corridor installation areas and costs required to cross the river to the "Tumble Creek" area of the property. We lack information about how these costs were allocated from the filing and do not have the sophisticated staff required to evaluate these costs, but from our general knowledge of the property, it does not seem reasonable that the irrigation water system only incurred 7% of the total system capital costs. The allocation of these costs has had a significant impact on base rate and cost to residential customers as opposed to the golf courses which are the sole users of the irrigation water and are owned and operated by the Developer. We have been told that the WUTC Staff would review the cost of all assets listed and the depreciation life assigned. This review will also include all assets listed as CIAC (Contributions in Aid of Construction). This review has not yet been made available.

**Staff's Response 15.** Staff reviewed the company's asset assignment, costs (both direct and allocated), depreciation schedules, and contributions-in-aid-of-construction (CIAC), and concluded that Suncadia Water's accounting is accurate and correct.

See also Staff Response 14.

1. If Suncadia Water can recover capital costs and debt costs, the allocation of system costs between potable and irrigation systems needs to be more fully explained. See the table below for the relative weightings of Utility Plant in Service and Net Utility Plant in Service. There is no justification for these relative weightings in light of the fact that the irrigation system is operated only for use by the Developer.

Utility Plant in Service	% of Utility Plant	Net Utility Plant In Service	% of Total Net Utility Plant In Service
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Potable	\$ 19,240,490	91.1%	\$ 7,509,111	92.7%
Irrigation	\$ 1,884,837	8.9%	\$ 595,084	7.3%

**Staff's Response 16:** See Staff Responses 14 and 15.

2. According to the filing, the two maintenance staff are assigned to work on irrigation system 80% of the time during the 5.5 months of high water usage. This makes sense given that the irrigation system has 80% of the pump capacity and using "raw" water requires additional maintenance on filters and other system components. The current allocation of maintenance staff costs are that the remaining 6.5 months are paid for 100% by the potable "side." While the irrigation side of the system is not being used during those 6.5 months and the potable water system is, there does not seem to be sufficient work during the "winter" months when the entire system is covered with snow that would require 100% of 2 maintenance staff to accomplish. The net result of the current allocation is that the potable water system is paying for 71% of the maintenance staff costs. A more equitable allocation of maintenance staff costs would seem to be closer 60% potable and 40% irrigation during the "winter" months. This is a \$35,000 per year cost difference that impacts both the base rate and consumption rate.

**Proposed allocation of maintenance staff costs**

	Summer Maint. Staff Cost (5.5 mos.)	Actual % Summer Maint. Staff	Winter Maint. Staff Cost (6.5 mos.)	Actual % Winter Maint. Staff	Total Maint. Staff	% Total Maint. Staff
Potable	\$ 20,176	37%	\$ 64,055	100%	\$ 84,231	71%
Irrigation	\$ 34,024	63%	\$ 0	0%	\$ 34,024	29%
TOTAL	\$ 54,200	100%	\$ 64,055	100%	\$ 118,255	100%

**Equitable allocation of maintenance staff costs**

	Summer Maint. Staff Cost (5.5 mos.)	% Summer Maint. Staff	Winter Maint. Staff Cost (6.5 mos.)	% Winter Maint. Staff	Total Maint. Staff	% Total Maint. Staff
Potable	\$ 10,840	20%	\$ 38,432	60%	\$ 49,273	42%
Irrigation	\$ 43,360	80%	\$ 25,622	40%	\$ 68,982	58%
TOTAL	\$ 54,200	100%	\$ 64,055	100%	\$ 118,255	100%

**Staff's Response 17:** See Staff Response 2.

3. Residential owners previously asked if costs were allocated based on short-run or long-run incremental costs. Given the nature of the system, we believe use of long-run costs is more appropriate. WUTC staff responded that they were unclear of this allocation and would get additional information to support this method of allocation. The residential owners have not received a response to this question from the WUTC staff nor Suncadia Water and we believe



this could have a material impact on the rates.

**Staff's Response 18:** Staff reviewed a twelve-month test period ending 2007 to establish operating costs. Annual operating expenses (short term cost) are analyzed for a representative twelve-month test period and are recovered over the same period of time. Long term asset costs, net of CIAC, are recovered over their useful lives on a straight-line depreciation basis. Return on the un-depreciated amount, rate base, is calculated using the average of the beginning of the test period and the end of the test period. Staff calculated the average beginning and end of year rate base to be \$7, 534,403.

4. If excess capacity is to be included in rate base, what if any mechanism will be used to provide for intergenerational equity, that is, requiring future connections to contribute a proportionate share of the capital cost of the system, through latecomer fees or otherwise? The residential owners have not received a response to this question from the WUTC staff nor Suncadia Water and this could have a material impact on the rates.

**Staff's Response 19:** Excess capacity is not included in the rate base. The company's proposal allocates rate base per ERU (\$2,210) and the rate case includes rate base for only current ERUs. Although staff believes that this allocation tends to understate actual plant required to serve current customers, we believe that is a reasonable approach in this case.

Staff sees no intergenerational equity issue and there is no need for latecomer fees, etc. The only CIAC normally paid by any customer, other than the Developer, are the connection charges which are published in the company's tariff. Suncadia does not currently have a connection charge as part of its tariff or this filing. If a connection charge were applicable, then all customers would pay the same connection charge.

## CONSUMPTION RATE

The residential customers of Suncadia Water oppose the consumption rates as filed on the following points:

The operating expenses have been disproportionately applied to the potable water system versus the irrigation water system. The irrigation water system is only used by the Developer, an affiliated interest.

**Staff's Response 20.** See Staff Response 2.

Without having a tiered rate structure, conservation is not encouraged and the commercial properties of the Developer are being subsidized by the residential customers.

Suncadia Water has filed for a flat consumption rate until a reevaluation in 2010. This does not

encourage conservation and is contrary to the expectations of the residential customers. As you can see from the table below 73% of the consumption rate is due to operating expenses.

<b>DETAILS</b>	<b>CONSUMPTION COSTS</b>	<b>PRICING RATE</b>
Cost of water (est. usage)	\$ 72,805	\$ .72
Operating Expenses	\$ 193,821	\$ 1.93
<b>TOTAL</b>	<b>\$ 266,626</b>	<b>\$ 2.65</b>

**Staff's Response 21.** Staff agrees that multiple usage blocks with increasing rates will encourage conservation. However, staff does not believe there is sufficient usage data available at this time to set an appropriate rate design. Staff believes the proposed rate design treats all customers fairly. Staff is recommending that the commission require the company to track usage data, report the results to the commission, and file a rate case no later than May 1, 2010.

#### **Affiliated Interest Transactions**

**Staff's Response 22.** Staff reviewed the affiliated transactions, both with respect to the services and the payments, and concluded that the services are necessary operating functions and the payments are reasonable.

1. Considering that The Lodge and parks irrigation are the highest volume users of potable water irrigation per the supplied information, it would seem that the residential owners are subsidizing the exorbitant water usage of Developer properties.

**Staff's Response 23.** Staff's analysis shows the 125 single-family residential customers represent 29 percent of the ERUs and will pay 23 percent of the revenue for the potable water system (29 percent of the base charge revenue and 16 percent of usage revenue). Those customers will pay 12 percent of the total company revenue. Staff believes the proposed rates are reasonable for all customers.

ATTACHMENT B  
 Customer Comments and Staff's Response

Monthly Revenue	No. of Customers	No. of ERUs	Payment								Overall % of Total
			Base			Usage		Total			
			Rate	\$	% of Total	\$	% of Total	\$	% of Total		
Single-Family Residential	125	125	\$42.73	\$5,341	29%	2,228	16%	\$7,569	23%	12%	
Lodge	1	222.2	\$9,494.61	\$9,495	51%	3,885	28%	\$13,380	41%	20%	
Other (Non-Residential)	No. of Customers	No. of ERUs									
1 inch	19	19	\$42.73	\$812	4%	1,927	14%	\$2,739	8%	4%	
2 inch	2	6	\$136.74	\$273	1%	478	3%	\$752	2%	1%	
3 inch	2	12	\$256.38	\$513	3%	956	7%	\$1,469	5%	2%	
4 inch	2	20	\$427.30	\$855	5%	1,275	9%	\$2,130	7%	3%	
	25	57									
Potable Irrigation											
1.5 inch	2	4	\$78.12	\$156	1%	847	6%	\$1,004	3%	2%	
2 inch	5	16	\$124.99	\$625	3%	510	4%	\$1,135	3%	2%	
3 inch	2	12	\$234.36	\$469	3%	1,970	14%	\$2,439	7%	4%	
	9	32									
Potable Monthly Total	160	436.2		\$18,538	100%	14,076	100%	\$ 32,615	100%		
Non-Potable (Irrigation)	3	NA	\$3,220.77	\$9,662		7,620		\$ 17,282		26%	
Ready to Serve	608	608	\$20.79	\$12,640		\$0		\$ 12,640		19%	
Fire Protection			Various	\$2,247		\$0		\$ 2,247		3%	
Ancillary Charges			Various	\$597		\$0		\$ 597		1%	
Total Revenue				\$ 40,841		\$ 21,696		\$ 65,381		100%	

There needs to be consideration given to applying tiered pricing based on usage that fairly spread these costs to the users of the system.

**Staff's Response 24.** See Staff Response 21.

It also is not clear why the calculations continue to be based on 125 single-family residences when calculating potable ERUs when their own information shows that number to be 160 in August 2008. That understates the ERUs by 9.1% and artificially raises the consumption rate.

**Staff's Response 25.** Staff's analysis shows that there are 160 customers, 125 of which are single-family residential customers. See Staff Response 23 for calculations.

<b>CONSUMPTION DETAILS</b>	<b>Est. 2008 Usage in 1,000 gals.</b>	<b>Est. Consumption Costs</b>	<b>Consumption %</b>
Residential	29,828	\$ 79,044	40%
Commercial	43,195	\$ 114,467	60%
<b>TOTAL</b>	<b>73,023</b>	<b>\$ 193,511</b>	<b>100%</b>

<b>BASE RATE DETAILS</b>	<b>Base Rate Costs</b>	<b>Base Rate %</b>
Residential	\$ 155,059	65%
Commercial	\$ 83,093	35%
<b>TOTAL</b>	<b>\$ 238,152</b>	<b>100%</b>

**Flat rate versus consumption rate**

Suncadia Water has chosen to place more of the costs in the base rate to the benefit of the commercial properties and to the detriment of the residential owners. The Developer has enforced strict controls on landscaping and water features in residential construction, while following different guidelines for their commercial construction. While we would expect a reevaluation of the tiers used in the consumption rate when they have better data, there should be tiered rates to appropriately transfer the cost of the highest using customers to them.

The Pricing Rate is reached by dividing the Consumption Costs by the estimated usage of 73,023,000 gallons for 2009. At the very least, we would expect to see a high usage surcharge of at least 3 times a more reasonable base rate for usage above 14,000 gallons per month.

**Staff's Response 26.** Staff's analysis shows that the base rates on the potable system will generate about 57 percent of Suncadia Water's revenue requirement, which is generally less than other regulated water companies. Single-family customers will pay base rates that are 71 percent of the projected class revenue, which is more consistent with other regulated water companies. Staff agrees that multiple usage blocks and increasing rates will encourage conservation and to ensure all customers pay for the water they use. However, staff does not believe that we have sufficient water usage data at this time to set multiple usage blocks and increasing rates. See Staff Response 23 for calculations.

The tables above illustrate the discrepancy between the actual water usage by the commercial properties of the Developer versus what they pay. The net is that the residential owners pay for 54% of the cost of potable water and use 40% of the resource while the commercial properties pay for 46% of the cost and use 60% of the resource.

**Staff's Response 27.** Staff's analysis shows the single-family residential customers will pay 23 percent of the cost of the potable water system and 12 percent of total costs. Staff believes the proposed rates are reasonable for all customers. See Staff Response 23 for calculations.

This is one of the main reasons why the residential owners would prefer to see more of the charge against usage and have it tiered as opposed to increased base rate and a flat consumption. We have asked this question previously and have not received a response from the WUTC staff nor Suncadia Water. This seems to be a key issue that should be resolved prior to setting or recommending a rate.

**Staff's Response 28.** Staff disagrees. As stated above, there is insufficient data to set multiple usage blocks and increasing rates at this time.

Rates are properly set using water sold, as measured at the customer's meter. Suncadia Water does not have sufficient data to do that. Instead, Suncadia Water proposes to use average water purchased to set metered rates. The result will under-collect revenue because all water systems have some leakage, the difference between water purchased and water sold, delivered to the customer's meter. Department of Health rules will require all water systems to achieve less than ten percent leakage no later than 2020.

Staff believes the proposed rates are reasonable with respect to the amount of revenue projected to be generated by base charges and usage charges. The proposed base rates will generate approximately 71 percent of the revenue on the potable water system, which is consistent with other regulated water systems. However, the base rates for all customers will generate 62 percent of the total revenue. Also, Suncadia Water will charge customers only the base charge during the winter months that it does not read meters because they are covered with snow and ice. That may create a cash flow problem. Staff will review the revenue split between base charges and usage charges during the next rate case.

Staff believes that setting rates based on purchased water is a reasonable first step to transition to metered rates and eventually, multiple usage blocks with inverted rates to encourage conservation. To ensure that the customers pay for the water they use and that the company receives adequate revenue for the water it purchases, staff recommends that if the commission approves the revised rates, that the commission require Suncadia Water to "true up" the variable portion of the purchased water component of the water usage charges to reflect the actual amount of water purchased during the first twelve months, as set forth in greater detail in staff's memorandum, Attachment C. The actual purchased water cost as compared to projected purchased water cost will be distributed among all customers using each customer's actual usage, and billed or credited over the following twelve months.

To set more accurate rates, including multiple usage blocks with inverted rates, staff recommends the commission require Suncadia Water to file a new rate case, using actual customer usage data, no later than May 1, 2010.

## GENERAL CONCERNS

The close relationship Suncadia Water and the Developer are such that we are not confident that we can rely on fair and equitable delineation of the potable and irrigation system costs and treatments. Having the Developer provide accounting and management services does not provide the kind of protection that the customers of the water company should expect since the Developer also has commercial interests served by Suncadia Water. The Developer's questionable treatment of the transfers and costs make this a serious concern.

Suncadia Water was unable to account for over 83% of the potable water used in 2007. That is troubling information when rates are being set based on the information provided about costs and allocation of other resources within this water system.

**Staff's Response 29.** Staff understands that customers may not trust the Developer to advance the customers' interest. That is why the commission, not the Developer, sets the rates. Suncadia Water must demonstrate to the commission that it needs additional revenue and that the proposed rates to generate the revenue are fair, just, reasonable, and sufficient.

Staff reviewed the affiliated transactions, both with respect to the services and the payments, and concluded that the services are necessary operating functions and the payments are reasonable.

Staff reviewed the company's asset assignment, costs (both direct and allocated), depreciation schedules, and contributions-in-aid-of-construction (CIAC), and concludes Suncadia Water's accounting is correct.

Staff is unaware of "The Developer's questionable treatment of the transfers and costs..."

Water use in 2007 has no bearing on this case because the company proposes to set rates using 2007 purchased water. Rates are properly set using water sold, as measured at the customer's meter. Suncadia Water does not have sufficient data to do that at this time. Instead, Suncadia Water proposes to use average water purchased to set metered rates. The result will under collect revenue because all water systems have some leakage, the difference between water purchased and water delivered to the customer's meter. Department of Health rules will require all water systems to achieve less than ten percent leakage no later than 2020.

Staff believes that setting rates based on purchased water is a reasonable first step to transition to metered rates and eventually, multiple usage blocks with inverted rates to encourage conservation. To ensure that the customers pay for the water they use, and that the company receives adequate revenue for the water it purchases, staff recommends that if the commission approves the revised rates, that the commission require Suncadia Water to "true up" the water usage component of the purchased water portion of the rate payments to reflect the actual amount of water purchased during the first twelve months, as set forth in greater detail in Attachment C. The actual purchased water cost as compared to projected purchased water cost will be distributed among all customers using each customer's actual usage, and billed or

credited over the following twelve months.

To set more accurate rates, including moving to multiple usage blocks with inverted rates, staff recommends the commission require Suncadia Water to file a new rate case no later than May 1, 2010, using actual customer usage data.

## CONCLUSIONS

Based on the information contained in the filing and related information, it is not clear that the current flat rate of \$35 per month is providing inadequate income from the single-family residences of Suncadia. We request that the WUTC not approve this rate change as filed until more information is provided that would support that such a change would not unduly benefit the Developer's commercial properties to the detriment of the residential owners. If you look at the residential rate illustration below with the capital cost recovery removed, you see why this is the case. Some of the residents of Suncadia have been reading their own meters and have had consistent usage of 6,000 gals in high usage summer months and less than 3,000 gallons in other months with an average of 4,000 gallons per month.

<b>MONTHLY SINGLE FAMILY RESIDENTIAL RATE</b>	<b>Current Flat Rate</b>	<b>Proposed Consumption Rate</b>	<b>Proposed Cost Comparison</b>
Base Rate	\$ 35.00	\$ 42.73	
Capital Recovery & Debt		(\$ 16.76)	
Consumption Rate (4 K gals)	N/A	\$ 10.60	
<b>TOTAL</b>	\$ 35.00	\$ 36.57	+4%

The difference between the adjusted proposed rate above and the current residential rates is \$3,014 ( $\$1.57 * 12 \text{ months} * 160 \text{ customers}$ ) per year, far different from the \$670,092 (554 percent) increase Suncadia Water has requested. If they remove the capital cost recovery from the RTS fees as they should be, those fees would actually go down from the proposed rate of \$20.79 by \$13.90 to \$6.10 reducing income by \$28,454 ( $\$3.90 * 12 * 608$ ).

**Staff's Response 30.** Staff disagrees. Ready-to-serve customers pay for the plant placed in service to provide water on demand, plus operating costs for billing, accounting, etc. Plant placed into service is reflected by the return of investment measured by depreciation and return on investment, as measured by the return on rate base. Suncadia Water conducted a separate cost of service study to identify ready-to-serve costs. Staff reviewed the cost-of-service study and the company's books and records, and concluded that the revised \$20.79 ready-to-serve charge is fair, just, reasonable, and sufficient.

From the information above, it appears that the single-family residents of Suncadia are already paying more than their fair share for water.

**Staff's Response 31.** Staff disagrees. Staff has completed its review of the company's supporting financial documents, books and records. Staff believes the Suncadia Water's proposed methodologies, as adjusted by staff and agreed to by the company, taken as a whole, provide reasonable results, both in terms of revenue requirement and rates. Staff's review shows that the expenses are reasonable and required as part of the company's operations. Additional customer comments do not alter staff's opinion that the company's financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.