

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**In the Matter of the Petition for an Order
to Show Cause Regarding Exemption
from Commission Regulation of Boulder
King Ranch Estates Water Company**

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**DOCKET 02-2254-01
Exhibit No. DPU 1.0 Settlement

Supplemental Testimony Of
WESLEY D. HUNTSMAN**

**FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

June 25, 2003

Supplemental Testimony of Wesley D. Huntsman

1 **Q. Please state your name and where you are employed.**

2 A. Wesley D. Huntsman. I am employed by the Utah Division of Public Utilities
3 (“Division”) as Manager of the Customer Service and Water Section.

4 **Q. Are you the same Wesley D. Huntsman who previously filed direct testimony in this**
5 **case dated May 29, 2002 and supplemental testimony dated December 31, 2002?**

6 A. I am.

7 **Q. Are your education, qualifications, and current responsibilities at the Division**
8 **detailed in that previously filed testimony?**

9 A. They are.

10 **Q. What is the purpose of your supplemental direct testimony in this case?**

11 A. I will summarize the results of settlement discussions with representatives of
12 Boulder King Estates Water Company (Boulder King), sponsor revised Exhibits in
13 support of the Settlement, and discuss the Company’s financial status including
14 delinquent assessments, interest charges, liabilities, rate base, and revenue requirement.
15 My analysis supports the monthly water rates, system connection fees, and the amounts
16 receivable from each property owner at November 30, 2003 as set forth in the revised
17 Exhibits in support of the settlement. In addition, I will outline the other non-rate issues
18 included in the settlement agreement between the Division and Boulder King. I have
19 concluded that the agreed upon monthly fees for water usage and ready to serve standby
20 fees are just and reasonable. I also believe that the method used to compute the system

1 connection fees for lots previously served by the system installed in 1990 and those lots
2 only served by the new system installed in 2000 is equitable to all property owners and
3 should be approved by the Commission. In determining the proper amount receivable at
4 November 30, 2002 from each customer and lot owner, I recognized the charges billed by
5 Boulder King subsequent to the April 19, 1999 when the Water Company obtained a
6 Letter of Exemption from the Commission and connection fees paid to Boulder King
7 since it was incorporated on March 26, 1993.

8 **Q. Did you participate in the settlement negotiations between the Division and Boulder**
9 **King representatives?**

10 A. Yes, I did.

11 **Q. Do you believe the settlement agreement results in rates and charges which are fair**
12 **and equitable?**

13 A. Yes, I do.

14 **Recovery of Improvement Costs from Lot Owners**

15 **Q. What issues did the settlement agreement address regarding the recovery of**
16 **improvement costs from lot owners?**

17 A. First, the settlement agreement details the system improvement costs made to date
18 in the subdivision which the parties agree should be recovered in future rates charged by
19 Boulder King to its customer/ members and what improvement costs should be
20 apportioned to Mr. Clarkson as the subdivision developer, either as non-water system
21 improvements or as Contribution in Aid of Construction. Second, the settlement

1 agreement documents the interest charges have been assessed by Boulder King which are
2 recognized as equitable receivable amounts from individual lot owners. Third, the
3 settlement agreement resolves other rate-making issues such as: 1) The amount of
4 allowable rate base for rate-making; 2) The level of debt service and related interest
5 which should be allowed for rate-making; 3) An equitable way to account for connection
6 fees associated with the dry lots in the subdivision; and 4) that Mr. Clarkson must pursue
7 collection of unpaid water fees prior to April 16, 1999 and any unpaid improvement
8 package fees associated with non water system costs through civil actions and likewise,
9 customers may initiate civil actions to recover any improvement package overcollections
10 by Mr. Clarkson.

11 **Rebuttable Presumption of Recovery:**

12 **Q. Please explain how the settlement agreement recognizes the Commission's**
13 **presumption of recovery of initial system costs and its impact on the settlement.**

14 A. The Commission has a longstanding policy, extending back over more than 20
15 years, of requiring that real estate developers pay all costs of privately-owned water
16 systems up front and recover their costs for such improvements in the price of lots unless
17 they can show that such costs were not recovered in lot sales.

18 In negotiating the settlement, the Division recognized that a number of lots were
19 initially sold as dry lots prior to the time that the original water system was installed by
20 Mr. Clarkson. Therefore, the Division concluded that Boulder King would probably have
21 been able to overcome the "rebuttable presumption" detailed in Commission

1 Administrative Rule R746-330-6. Therefore, the original system costs allocable to those
2 lots were not charged to the developer's contribution in aid of construction. However, in
3 those cases where the price of lots indicated that water system costs were recovered in the
4 price of the lot, the cost of the system allocable to that lot was charged to the developer's
5 contribution in aid of construction (See Exhibit DPU 1.6A Settlement). In those
6 instances where the Division was able to verify that the original lot owner purchased a dry
7 lot and later agreed to reimburse Mr. Clarkson for the water and power improvements,
8 only the amount paid for the water improvement was applied toward the agreed upon
9 system connection fee. In those instances where lot owners paid improvement packages
10 subsequent to the April 26, 1993 incorporation date of Boulder King, the entire amount
11 was applied toward the agreed upon system connection fee.

12 **Water System Connection Fees:**

13 **Q. Describe how the settlement agreement addresses connection fees for Boulder King.**

14 A. The settlement agreement recognizes that Boulder King installed the water system
15 in two phases. The first phase was installed prior to 1990 and served 44 of the total 61
16 lots in the present subdivision. Exhibit 1. 3, attached to my testimony filed on May 29,
17 2002, is a diagram of the original water system installed. In 2000, the second phase was
18 installed which allowed Boulder King to serve the remaining 17 lots in the subdivision.
19 Exhibit 1. 4, attached to my testimony filed May 29, 2002, is a diagram showing the 17
20 lots for which the water system was expanded. The parties have agreed to allocate the
21 cost of the two phases to the lots served by each segment and allocate the well and tank

1 system improvements in 2001 to all 60 lots in the subdivision.

2 Exhibit DPU 1. 6 Settlement, attached is a spreadsheet showing the agreed upon
3 cost allocation and connection fee by lot number. Column (1) shows the costs allocated
4 to lots served by the old system phase (the number was reduced from 44 to 43 because no
5 costs should be allocated to the lot on which the well and storage tank are located).

6 Column (2) shows the costs of system improvements which are allocable to 60 lots.

7 Column (3) shows the allocation for the cost of the system expansion to serve the 17

8 additional lots in the subdivision which were never served by the old system. Columns

9 (4) and (5) show the value of water rights transferred to the lots at the time the two phases

10 were installed and the amounts allocable to each lot. Column (6) is a sum of the costs

11 which the parties agree would support the connection fee for each lot. Lots served by the

12 old phase will be assessed a connection fee totaling \$4,870 and lots served by the new

13 phase will be assessed a connection fee totaling \$6,909. Column (7) shows

14 “Improvement Package” payments to Boulder King as of November 30, 2002 by each lot

15 owner and Column (8) shows amounts recognized as constructively received from the

16 developer, Mr. Clarkson. Column (9) shows the total amount of contributions in aid of

17 construction received to date from customers and Mr. Clarkson toward the connection

18 fees. Columns, (10) and (11), show the current amounts the parties agree are outstanding

19 connection fees applicable for each lot and whether that receivable is for a water using

20 account or a standby member account. The parties have agreed that \$31,259 connection

21 fees receivable from the six dry lots are the developer’s risk and that they will be

1 reimbursable to Mr. Clarkson when and if the owners of those lots request water system
2 service and pay connection fees to Boulder King. The parties have also agreed that the
3 \$12,370 connection fees for the lots not currently connected to the system (standby lots)
4 would be due and payable to Boulder King at the time the lot owners apply for service.

5 **Interest on Delinquent Accounts:**

6 **Q. What did the parties agree upon regarding the accrued interest on past due**
7 **accounts of Boulder King and the interest rate the Company should be allowed to**
8 **charge customers on an ongoing basis?**

9 A. The parties agreed that Boulder King would be entitled to recover interest on
10 unpaid monthly water usage and standby fees from April 19, 1999 to date at the 18%
11 annual interest rate specified in the Company's Bylaws. The parties have also agreed that
12 subsequent to the Commission's order, the interest rate on all delinquent water fees and
13 connection fees would be 12 % annually.

14 **Bank Loan:**

15 **Q. Did the parties agree upon the proper portion of the Bank of Ephraim loan which**
16 **Boulder King should repay and the portion payable by Mr. Clarkson?**

17 A. Not specifically; however, as shown in Exhibit DPU 1. 9, page 1, the Boulder
18 King subdivision development costs, system improvements, and water rights total
19 \$459,709 (line 3). Boulder King bank records show that \$6,832 in development costs
20 were paid out of Water Company operating funds (lines 6 to 8). In addition, \$50,977 was
21 funded from the Water Loan in the name of the Water Company (line 10). Therefore, the

1 total amount supplied by Dale Clarkson from other equity and loan sources was \$401,900
2 (line 11). In computing the amount currently payable to Mr. Clarkson by Boulder King,
3 The Division allocated \$12,381 of the bank loan to the Water Company for the system
4 improvements included in rate base (DPU 1.6 Settlement Column 12).

5 **Revenue Requirement:**

6 **Q. What monthly rates did the parties agree upon?**

7 A. As previously explained in my testimony, it was necessary to reconstruct financial
8 statements from which rate-making determinations could be made. I have attached the
9 referenced pro-forma financial statements used to support the rates agreed upon and
10 shown in Exhibit DPU 1.18 pages 1 and 2 Settlement attached. Column (2) of the
11 Exhibit shows the revenue and expense adjustments necessary to support the rates agreed
12 upon by the parties. The parties agree that monthly rates for unmetered water usage for
13 customers connected to the system should increase from \$15 to \$35 per month. The
14 parties also agree that the monthly standby/ready to serve fee should increase from \$5 to
15 \$13 per month (DPU 1. 18, page 2 Settlement, footnotes #6 and #7). These rate
16 increases should allow Boulder King the opportunity to cover expected operating
17 expenses and the cost of debt and equity capital.

18 **Q. Do you believe that the new rates agreed upon by the parties are just and**
19 **reasonable?**

20 A. Yes. Even though the agreed upon rates more than double the current fees, they
21 are not unreasonable when compared to other small water utilities in the state; indeed, I

1 believe that the proposed rates are just and reasonable. The proposed rates should also
2 reduce the necessity for Mr. Clarkson to continue to subsidize the system's operations or
3 for Boulder King to borrow funds to meet current operating costs.

4 **Q. Does that conclude your testimony?**

5 A. Yes.