BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of: The Application of Grand Staircase Water Company, L.L.C., for a Certificate of Convenience and Necessity to Operate as a Public Utility Rendering Culinary Water Service.	Docket No. 10-2529-01

TRANSCRIPT OF HEARING PROCEEDINGS

TAKEN AT: Public Service Commission
160 East 300 South
Salt Lake City, Utah

DATE: September 21, 2011

TIME: 9:07 a.m.

REPORTED BY: Kelly L. Wilburn, CSR, RPR

APPEARANCES

Presiding:

DAVID CLARK, Hearing Officer

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WITNESSES

For the Division

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For the Company

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EXHIBITS

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SEPTEMBER 21, 2011 9:07 A.M.

P R O C E E D I N G S

HEARING OFFICER: This is the time and place for the hearing on an amended settlement stipulation In the Matter of: The Application of Grand Staircase Water Company, L.L.C., for a Certificate of Convenience and Necessity to Operate As a Public Utility Rendering Culinary Water Service.

This is Docket No. 10-2529-01. And the certificate has been granted, but with further examination of the rates under which the certificated company would operate. And that's really our subject today and the subject of the settlement stipulation.

So let's, let's begin with appearances of counsel. Mr. Smith is the Applicant's counsel. Would you please proceed?

MR. SMITH: Thank you, your Honor. My name is Craig Smith, I'm an attorney with Smith Hartvigsen. And I am the attorney for the Applicant, Grand Staircase Water Company.

HEARING OFFICER: Thank you.

MS. SCHMID: Patricia E. Schmid, with the Attorney General's Office, representing the Utah Division of Public Utilities.

HEARING OFFICER: Thank you. And if there are no preliminary matters, then Mr. Smith the time is yours to.

MR. SMITH: I'm gonna just give a little bit of background about the resort itself, and then I'm gonna turn the time over to the Division who's got their statement.

And it's gonna cover -- this really isn't so much about the rates or how we got the rates, but just to give the background so that you understand kind of what this is about. It's kind of a very unique area and development.

I was retained in 2001 to develop a resort in Southern Utah. And the person who was the instigator, I guess, of this, or at least the person who had the vision to develop this resort is a man by the name of Christoph Henkel. He's actually an Austrian who lives in London. But he comes from a very -- one of the wealthiest families in Europe.

And he loves the Western United States. For many years he's brought his family to a place called Dunton Hot Springs, which is near Telluride. And they would spend their summers there at, at the hot springs. It's kind of a ranch resort, I don't know exactly how -- what to call it.

But the -- on one of his trips to the United

States and -- to Dunton he was shown some property that was just outside of Page, Arizona, just cross the Utah line. And a little bit of history on this piece of property is it was originally planned -- and why it was in private hands is it was originally planned to be the town site for Page when they -- before they built the dam.

And they were looking for a town site so that the workers would have a place to live. And they -- the Bureau of Reclamation had selected this site and had planned it for a town site there. And then a senator from Arizona who was very powerful came and said, No, no, we can't have, have these folks living in Utah, we need them living in Arizona.

And so that was -- the plans were changed and Page is in, as everyone knows, is across the border in Arizona. And Page became the, the place where all the workers lived. And so this area is between Page and Big Water. It's a very remote area. It is adjacent Highway 89.

Mr. Henkel purchased this land with the plans of someday trying to develop a resort there. He started this effort actively, like I said, ten years ago. It took about eight years to get the resort built. The resort is built and operational.

It took purchasing of land from SITLA. It took exchanging land from -- with the United States Government to get the proper site to site the hotel and resort. And through these efforts, and from really out of nothing, we have what's now known as the Amangiri Resort.

And just to give a little background on the name, Amangiri comes from -- Ãman is a -- is the operator of the resort. It's not the owner but the operator of the resort. And Ãman Resorts are probably the top luxury high-end resorts around the world.

They're based out of Singapore. And most of their resorts that they own are not in the United States but around the world. They do operate the Amangani in Jackson Hole, which is also owned by the same owners that own the Amangiri.

The Ãman Resorts are known for privacy, exclusivity, and also being a destination. And that's what really was important, is to have something that would bring people to a very remote area. I think, you know, for about the first five years I worked on this project I couldn't get anybody to really believe that we were gonna build a luxury hotel in the middle of nowhere.

Big Water was best known for being the home of Alex Joseph, who was a very -- about 15, 20 years ago a very well-known polygamist in Southern Utah. And was the mayor of Big Water for many years until he died. And, frankly, a lot of his former wives still live in that area and it's -- others live in the area.

But it's kind of a, kind of a place where people who like to be alone sort of live, and so there wasn't much to recommend it. It is close to Lake Powell but the resort is not on Lake Powell. In fact, the land we traded with a national recreation area was the land that was actually across the highway and closest to Lake Powell.

Again, that wasn't our goal was to, was to be near but not on Lake Powell. Because of the remote area we've had to install all of the utilities that are there. And that's one of the things that brings us here today, obviously, is there was no water, no sewer, no power, no gas, no telephone, no Internet.

All the things that you typically would expect to find at a five-star resort you would not -- were not available there and so we had to develop all of those, those utilities. And including the Grand Staircase Water Company.

And so we did develop the Grand Staircase Water Company. We had to develop it out of scratch.

There was nothing there. We did have water rights that we pur -- had been purchased with the land, but there was no water system.

That has been built. And I guess that leads us to why we're here today is kind of this is, in my view, kind of the final step in our process of developing this water company and bringing it in to, you know, full service.

In addition to the hotel -- which is not a large hotel, it's a 31-room hotel -- there is a plan to build approximately 30, 30 to 35 villas that will be built around the hotel. Those will be individually owned, hence we will be serving the public. And that's why the need for approval of our rates from the Public Service Commission, and that's why we're here today.

HEARING OFFICER: Have any of those lots been sold? Are they owned by people other than the developers at this stage?

MR. SMITH: No, they are not. We are only gonna sell constructed villas. We have constructed the first villa and it will go -- it will be sold, but it hasn't been sold yet. So we have -- nothing's been sold yet. But lots *per se*, the plan is not to sell lots *per se* because the villas have to have a very uniform look. And again, this is kind of a -- all kind of works together here.

And so we have constructed -- and Mike Gardner would know this better than I have -- but I understand we're very near completion or at completion of the first villa. And then we'll build and sell those as we find buyers.

HEARING OFFICER: Uh-huh.

MR. SMITH: So that's a little bit of just background on this area. If you were to go to the resort -- and I've had the good fortune of going there once -- it is -- there's nothing in Utah that is nicer than the Amangiri.

It is -- you -- I don't care if you go to the nicest place you can go to in Salt Lake, or Park City, or wherever you go, it is really in a class by itself. It attracts world-class visitors. Just to drop a couple names: Bill Gates, Brad Pitt, Angelina Jolie, I could probably give you a bunch of others.

And if you were the manager of the airport in Page you'd probably know who all the people come, because a lot of people in through -- with their private jets.

It's been very popular, very successful, despite our economy. It's run at nearly full capacity since it's been opened. And hopefully at some point we'll be doing some other phases, but for now this is, this is what we've done. And so with that background I'll turn the time over to the Division to provide their opening statement.

HEARING OFFICER: Thank you Mr. Smith.

MS. SCHMID: Thank you. Mr. Mark Long will be the Division's witness. May he please be sworn?

HEARING OFFICER: Yes, thanks.

(Mr. Long was duly sworn.)

HEARING OFFICER: Thank you.

MARK A. LONG,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MS. SCHMID:

Q. Mr. Long, could you please state your full name, business address, by whom you are employed, and your title?

A. Yes. My full name is Mark A. Long. My business address is Heber M. Wells Building, 160 East 300 South in Salt Lake City, Utah 84114. I'm employed as a utility analyst for the Division of Public Utilities.

Q. On behalf of the Division have you

participated in matters involving Grand Staircase Water Company?

A. Yes, I have.

Q. Have you -- specifically have you had discussions, negotiations, reviewed the settlement stipulation and the proposed tariff?

A. Yes.

MS. SCHMID: With that as a background, Mr. Long has prepared a statement in support of the stipulation, which I would ask to have entered as Hearing Exhibit 1. And with it -- that's been distributed to the parties in the room.

With it is also a Confidential Hearing Exhibit A, which is an ownership chart. While normally I would not ask that the Division's witness be allowed to read a lengthy statement in support into the record, I think because of the complex nature of this case that an oral presentation will be beneficial.

So with that I'd like to move the admission of Hearing Exhibit 1, and Confidential Hearing Exhibit A.

HEARING OFFICER: I assume there's no objection, Mr. Smith?

MR. SMITH: No objection.

HEARING OFFICER: Okay. They'll be received in evidence.

MS. SCHMID: Thank you.

(Exhibit No. 1 and Confidential Exhibit A were received.)

Q. (By Ms. Schmid) Mr. Long, do you have a statement in support of the stipulation?

A. Yes, I do.

Q. Please proceed.

A. We've pretty much already talked about the application for the CPCN, so I'll skip to paragraph 2. The Division and Grand Central -- Grand Staircase Water -- which I'll refer to as "GSW" heretofore -- has spent numerous hours over the past year investigating, discussing, and finally resolving the many issues surrounding the tariff submitted by GSW and a requested effect -- with a requested effective date of October 1, 2011.

The most significant issues resolved between the parties are discussed below. The Division feels that the parties have reached resolutions captured in the amended stipulation that provide just and reasonable rates and charges that protect the interest of consumers in obtaining service that is adequate, efficient, and just and reasonable at the lowest possible cost, while maintaining the financial viability of GSW and also giving GSW the opportunity to earn a sufficient and fair rate of return.

The Division feels that the issues resolved in the amended settlement stipulation filed September 6, 2011, has produced a tariff for GSW that is in the public interest and will produce just and reasonable rates, and ask the Commission to approve the amended stipulation and tariff as filed.

Since Mr. Smith has already given a very good history and background of the resort I'm going to skip the first paragraph under "Background" and just kind of start on the second one there.

The approximate 34-suite hotel has suites that cost from a thousand to $3,600 per day. That was from their website as of yesterday. The 31 luxury villas in the resort, when built, are estimated to have a market price of approximately $10 million each.

The natural desert landscape of the resort is a vital and critical feature of this resort. All utilities, including the water, sewer, power, and gas, have been buried. Even the water tank is below grade so as not to be visible to resort guests.

The entire water system was designed and built at additional expense to promote the natural desert landscape that is critical to the resort and villa. The landscaping requirements, along with other unique features of the resorts, significantly affected the cost of the water system construction.

The first issue that the Division wishes to discuss is the recovery of infrastructure cost and the effect of ownership on Grand Staircase Water Company. And the issue is whether or not the value of GSW's original utility plant and assets could be or would be recovered by the owners of GSW through the sale of lots.

Typically the owner of the water Company is also the developer of the land development and recovers the cost of the public utility infrastructure through the sale of lots in the development. As stated in Administrative Rule R746-330-6, there is a rebuttable presumption that the value of the original utility plant and assets has been recovered in the sale of lots in a development to be served by a developer-owned water or sewer utility.

However, in this case the owners and investors of GSW claim that they could not recover their costs of the water infrastructure through the sale of lots because they are not the developer of the resort.

Because GSW had privacy concerns regarding the ownership of GSW and the resort that is served by GSW the Division was not initially provided adequate documentation to determine if the developer, Canyon Land Development, had a significant interest in the water company.

Additionally, the Division could not determine what interest Christoph Henkel and Page Three, LLC, two of the three owners of GSW, have in the development of the resort.

Ultimately, on July 20, 2011, the Division received information concerning the ownership structure of Grand Staircase Water Company and that of its related owners and investors.

Since the ownership structure and related interests are complex the Division constructed an ownership matrix and highlighted areas of commonality and related interests between the water company, owners/investors, and the developers, which I have marked as Confidential Exhibit Hearing A and my attorney has already distributed.

The Division's research confirmed that although Christoph Henkel has a direct majority interest in Page Three and has an indirect majority interest in Canyon Land Development, these interests are not substantive in regard to ownership of GSW.

Therefore, the Division recommends -- or the Division believes that GSW is not a developer-owned water utility, and as a result the value of the original utility plant in service is not recoverable by the developer through the sale of lots. Accordingly, Utah Administrative Rule 746-330-6 does not apply in this case.

The next issue that the Division wishes to discuss are the connection fee amounts.

HEARING OFFICER: Mr. Long, before you, before you start with that let me just have a minute to --

MR. LONG: Okay.

HEARING OFFICER: -- see what Confidential Exhibit A is telling me.

(Pause.)

HEARING OFFICER: I'm gonna try to speak about this in a way that's not going to compromise this information, but -- I guess I also would like to understand why it's confidential, Mr. Smith, in a moment.

But the arrows that connect the boxes, the down arrows?

MR. LONG: Yes.

HEARING OFFICER: Those -- that's not a -- that arrow's not depicting an ownership relationship? Or, or is it?

I mean, this kind of looks like the owners of Grand Staircase Water Company, that that group owns all of these three entities below it. Kind of in different combinations and with some other partners added in certain of the entities.

Am I reading that right, or that -- is that what it's trying to tell me?

MR. LONG: As far as the Division knows, that's correct.

HEARING OFFICER: Okay. And Mr. Smith, am I --

MR. SMITH: Yeah, I think that's basically correct. Not everybody has ownerships in every entity, as you can see.

HEARING OFFICER: Right, right.

MR. SMITH: There are some people, like Christoph Henkel, who has got some ownership in pretty much everything. But there's others, like Kjell Spangberg --

HEARING OFFICER: Right.

MR. SMITH: -- and Schoanau-Riedweg, who don't, but.

HEARING OFFICER: Uh-huh.
MR. SMITH: Or, you know.
HEARING OFFICER: And is it just -- is it the relation -- is it the ratios or the percentages that are the confidential information here?
MR. SMITH: Yes.
HEARING OFFICER: I want to make sure I know how to speak about it in a way that's not gonna create problems, but.
MR. SMITH: Yeah. One of the things I learned in working on this project for ten years is that in -- most -- as you can see, most of these investors, Christoph Henkel is, as I mentioned before, Austrian. Behr (phonetic) Kuhlmann is German. Kjell Spangberg is Swedish.
HEARING OFFICER: Uh-huh.
MR. SMITH: Ms. Schoanau-Riedweg is Swiss. They have a very different business sensibility in Europe, and things are much more private and confidential in Europe.
They don't have the disclosure laws in Europe for publicly-held companies that we have in the United States. Hence, it is very important to European investors, their confidentiality and privacy is extremely important to them.

HEARING OFFICER: Uh-huh.

MR. SMITH: Because they just have never had to disclose these sorts of things. Even though, for example, the Henkel Company that Christoph Henkel is part of owns major corporations in the United States. They do it in a way that, that.

So that's part of the reason, is just we have people who are willing to come and invest in this company but not willing to have all of their, what they consider their very personal, private business affairs displayed to the world.

And there's also some confidentiality in the percentages, as you pointed out, due to the fact of, you know, these various different internal business dealings.

HEARING OFFICER: Uh-huh.

MR. SMITH: So that's, that's kind of the reason. We just have investors who have a different sensibility than maybe we would, something like that. And again, it's because of the, the laws in Europe don't require disclosures of information.

So this has been, frankly, difficult for me to even get this information to the Division of Public Utilities because they were very concerned about having it disclosed. And I very much appreciate the

Division's sensitivity towards this.

HEARING OFFICER: And I couldn't get it, or a member of the public couldn't get it from corporate --

MR. SMITH: No.

HEARING OFFICER: -- records --

MR. SMITH: No. There would be no --

HEARING OFFICER: -- that are on file in the --

MR. SMITH: There's no public records that would show this that you'd be able to access this information.

HEARING OFFICER: If I, if, just kind of boiling this down, it does seem to me that ultimately Mr. Henkel has -- is in control of all of these entities, either directly or indirectly, through Page One -- or Page Three. Is that a correct, correct understanding of what I'm seeing?

MR. SMITH: I think it appears to be so. I really -- can't really comment beyond that, because I really don't know.

HEARING OFFICER: Okay.

MR. SMITH: I'm not the, you know, like I say, I'm their Utah counsel. They have other attorneys who have structured and set up these entities who are much more knowledgeable about who controls and who's members in this. I'm just providing information that's been provided to me.

HEARING OFFICER: Uh-huh. What I'm trying to understand is the language in that -- Mr. Long's sentence regarding these interests are not substantive in regard to ownership of GSW. It's also in the amended settlement stipulation.

MS. SCHMID: Perhaps --

HEARING OFFICER: And so I -- if kind of all roads lead to Mr. Henkel, I need to understand that impression that I'm getting in relation to this, this sentence about the lack of substantiveness of the GSW ownership in relation to the developer.

MR. LONG: Well, and really what the Division feels is, is that because the developer of the land is only a 5 percent owner of the water company then it really isn't developer owned, regardless of what Henkel's relationship is in the other companies.

HEARING OFFICER: Okay. I, I think I understand your position. So I think that concludes my immediate questions about that. Why don't you continue with the connection fee amounts.

MR. LONG: Okay.

HEARING OFFICER: Thank you.

MR. LONG: The next issue is the connection fee amounts. And at issue is whether or not it was appropriate for GSW to have connection costs that are significantly higher than those typically approved for regulated water companies.

GSW's initial tariff request had the following connection and turn-on fees as a total amount. For example, residential connection fees were 70,000, commercial connection fees 80,000, and the hotel connection fee is 110,000.

HEARING OFFICER: Uh-huh.

MR. LONG: Connection fees are typically set at an amount needed to recover the cost of material and labor incurred by the water company to connect the lot to the main waterline. To put these amounts into perspective, the average connection fee for water companies regulated by the Commission is $3,000.

However in this case, after much investigation, discussion, negotiation, the Division and GSW agree that the following connection fees, although high in comparison to the average regulated water company, were appropriate in this case.

And to read those, the residential is set at 66,500, commercial 66,700, and the hotel is 68,000. And in the next issue these will be broken up into more of a detailed amount that we can -- which we plan to discuss those then.

HEARING OFFICER: Sure. What those amounts are recovering --

MR. LONG: Yeah.

HEARING OFFICER: -- beyond just making the physical connection to the system?

MR. LONG: Yes, exactly.

HEARING OFFICER: Okay.

MR. LONG: The Division had previously determined, as explained above, that because this is not a developer-owned water utility -- that this is not a developer-owned water utility; therefore, the value of the original infrastructure cannot be recovered by the owners/investors of GSW through the sale of lots.

Since the value of the original infrastructure cannot be recovered through the sale of lots, GSW's owners and investors need another mechanism to recover their initial outlay for the infrastructure that was designed and built at additional expenses to promote the natural desert landscape that is critical to the resort and villas.

By incorporating a project cost recovery fee as part of the connection fees paid when a lot connects to the water system, GSW's owners and investors are able to recover their investment of the original value of the water infrastructure.

The Division would recommend that the following connection fees are justified and appropriate and should be adopted by the Commission. And this chart here shows the break up --

HEARING OFFICER: Right.

MR. LONG: -- of these -- of those aforementioned connection fees.

HEARING OFFICER: And these are the same as in the tariff, I'm sure?

MR. LONG: Yes, they are. Yes, these are taken directly from the tariff.

HEARING OFFICER: Thank you.

MR. LONG: Did you want me to read those in?

HEARING OFFICER: I don't think you need to, Mr. Long.

MR. LONG: Okay. The reason the Division supports the above connection fees are, No. 1, the hookup fee is set at an amount to recover the actual costs of installing the connection.

The project cost recovery fee is designed so that at full build out of the villas GSW's owners and investors will have recovered their investment in the original value of the infrastructure.

And the revenue fee component of the connection fees will go to the owners and investors of Grand -- of GSW, which will be used by them to subsidize the expenses of the water company as needed until full build out of the resort completed.

Do you wish me to go to the next issue?

HEARING OFFICER: Give me just one second to.

(Pause.)

HEARING OFFICER: This might be a time to ask a question -- just terminology related question about page 5 of the settlement stipulation. There's a -- it refers to the "project improvement fee"? And is that -- I'm sorry, I'm on -- that's like the fifth line of paragraph 17.

And I guess I'm -- that may not be involved in this set of fees that you're talking about here, but I wasn't sure I saw that referenced anywhere else and I -- so I'm -- can either of you help me with that term?

MR. LONG: I think what paragraph 17 is trying to explain is that collecting all the project cost recovery fees at full -- at the end of full build out will not exceed the original cost of the water infrastructure.

HEARING OFFICER: Right.

MR. LONG: So in other words, they're not gonna make a profit on that. They're gonna just recover the cost.

HEARING OFFICER: But is the project improvement fee different than the project --

MR. LONG: Oh, I see what you're.

HEARING OFFICER: -- cost recovery fee, or is that a, is that maybe a term that was used in an earlier draft or something that didn't get changed? I'm just trying to understand. Let me give you a minute to think about that.

(A discussion was held off the record.)

HEARING OFFICER: Mr. Smith, do you want to address this, or Ms. Schmid, either of you?

MR. SMITH: Why don't you go ahead.

MS. SCHMID: After review it appears that the last sentence in paragraph 17 of the amended settlement stipulation needs to be amended for consistency. As such, we ask that the term "project improvement fee" in the last sentence of paragraph 17 be stricken, and in its place the phrase "project cost recovery fee" be inserted.

HEARING OFFICER: Okay, thank you for that clarification. Mr. Long, back to you.

MR. LONG: Okay. The next issue we wish to discuss is the rate base, and whether the rate base on GSW's books should be used for regulatory purposes. GSW's rate base is much higher than that of a typical developer-owned water company because of the inclusion of the value of the original infrastructure, or the original utility plant in service, which includes the water well, pumping equipment, water tank, and transmission system.

Typically, water companies regulated by the Commission do not include the value of the original infrastructure in rate base because the developer contributes the infrastructure to the water company in the form of contribution in aid of construction -- which furthermore I'll refer to as "CIAC" -- and then the developer recovers the value of the contributed infrastructure through its sale of lots.

As each lot in the -- and in analyzing this the Division believes as each lot in the service area is developed and GSW collects the connection fee, the total hookup fee and the project cost recovery fee is added to GSW's CIAC account, which in turn reduces the rate base proportionately. And the graph below demonstrates this.

HEARING OFFICER: Uh-huh.

MR. LONG: The Division recommends that the owners/investors of GSW be allowed to include their investment of the original value of the water infrastructure in the rate base and have the opportunity to earn a 12 percent return on investment through rates.

Additionally, the Division believes that it is appropriate and proper for the total hookup fees and project cost recovery fees to be added to CIAC, both of which will reduce the rate base.

HEARING OFFICER: Thank you. And I assume it's anticipated that the purchasers of the villas will pay the connection fees, right? The developer's not gonna pay those as they --

MR. SMITH: That's correct. They'll be paid by the purchasers of the villas.

HEARING OFFICER: Thank you. And there aren't any of those yet?

HEARING OFFICER: None yet.

MR. SMITH: Okay. One of my interests is notice to any existing owners, and what -- so I just want to be very certain that there aren't any.

MR. SMITH: Right.

HEARING OFFICER: So that they would have an opportunity to participate in the process of establishing the rates that they'll pay, including the connection fees.

MR. SMITH: Right. We wanted to get all of these kinds of things so that when someone comes in to buy that they would know the cost of everything. And we're, we're, you know that's why this is important. And we very much appreciate the moving up of this hearing so that we can get things done because, as I said, we're ready to market our first villa.

HEARING OFFICER: Uh-huh. Mr. Long?

MR. LONG: All right. The last issue that the Division wishes to comment on is the funding mechanism of the capital reserve account. Often regulated water companies are unable to satisfy unexpected expenses or capital demands.

To assist regulated water companies in preparing for these events the Division is recommending that water -- that regulated water companies establish and maintain a capital reserve account, and is also doing so in this case.

Typically the capital reserve account is funded through the rates paid by the owners of both connected and non-connected lots by depositing the funds in a dedicated account within 30 days of the end of the billing cycle.

Because water companies regulated by the

Commission are typically small companies owned by property developers who have limited resources, funding the capital reserve account within 30 days after each billing cycle has been recommended by the Division and approved by the Commission in prior cases in order to ensure a full and complete funding, as well as to ensure that the funds are set aside in a dedicated account.

But for the reasons set forth below the Division recommends that the Commission approve the stipulation, which proposes a unique method of funding the capital reserve account. GSW owners and investors and the developer of Amangiri Resort, on the other hand, have extensive resources.

They have proposed funding the capital reserve account for the non-connected lots from the project cost recovery fees as the lots are developed and connected, rather than within 30 days from the end of the billing cycle.

At the end of each calendar year a reconciliation of the capital reserve account shall be conducted by GSW to ensure that full funding has taken place. On the occasions that there is a shortfall at the end of any given calendar year in the capital reserve account between the amounts deposited from the project cost recovery fees and the total amounts due from the standby fees of the non-connected lots, GSW's owners/investors and the resort developer shall have more than adequate resources to fund the capital reserve account without creating a significant risk of non-funding or placing a financial hardship on the developers or owners/investors.

Any additional amounts still due and owing to the capital reserve account from non-connected lots not covered by the project cost recovery fees shall be paid by the investors of GSW with non-GSW funds, or shall be paid by the resort developer in order to make the capital reserve account whole.

By requiring a reconciliation and a full funding at the end of each calendar year the risk of non-funding is limited to a maximum of one year's funding of the non-connected lots. Additionally, at full build out of the resort GSW's capital reserve account will be funded entirely through the rates within 30 days after the billing cycle.

The Division recommends that the funding of the capital reserve account be allowed as described above and for the reasons described above. In order to protect the public interest the parties have agreed and set forth in the stipulation that when project cost recovery fees are utilized to fund the capital reserve account the rate base shall not be affected adversely. And the necessary accounting entries will be made to ensure that the rate base will decline and CIAC will increase at the same rate set forth in Issue 3 above.

Did you want to stop here, or do you want me to?

HEARING OFFICER: Yeah, thanks. I'm just trying to absorb this.

MR. LONG: It's a lot to absorb.

HEARING OFFICER: Yeah. So give me just a second, please.

MR. LONG: Okay.

(Pause.)

HEARING OFFICER: So when -- you used the term "funded" in this paragraph -- or in these paragraphs to describe the capital reserve account. Is that, is that a permanent -- it's not a financing technique. It's a permanent source of funds for the unconnected lots, the monthly transfer of 150 or -- $155 from the project cost recovery fees to the capital reserve account; is that right?

MR. LONG: That's correct.

HEARING OFFICER: Okay. And as you

calibrated the project cost recovery fee you must have made some assumption about how long the lots would be unconnected in order to reach the conclusion that the project cost recovery fee will, at full build out, recover the full original investment in the utility plant.

Am I, am I right about that? And can you help me with what the assumptions are and?

MR. LONG: Well, that's correct. First of all, the water company has projected that there will be full build out at the end of 2019. And if Mr. Smith has, you know, further details on that.

HEARING OFFICER: Uh-huh.

MR. LONG: But that's what they provided us, and that's what the Division has assumed.

HEARING OFFICER: Uh-huh.

MR. LONG: As each of these lots are sold, the full amount of the project cost recovery fee -- so for example the $40,000 -- will be remitted to that account.

HEARING OFFICER: Right.

MR. LONG: And then that will -- as long as there's two of them, so it'll more than fund that.

HEARING OFFICER: Uh-huh.

MR. LONG: And then on the occasions that there isn't, then the difference will need to be made up.

HEARING OFFICER: Okay. And you've provided for that. But at what point would that prevent full recovery of the investment in the original value of the infrastructure is what I'm concerned about.

Is there some point where if, if villas aren't sold and the sale of one, or two, or three lots has to sustain the capital reserve account each month and year after year, is there some point where we're not gonna get the original cost of the investment recovered through the project cost recovery fee.

MR. LONG: And you know, one of the things I didn't mention in here, but the, the owners and investors of the water company have pledged to continue to subsidize this basically as long as they need to.

It's not a typical developer-owned company, where the developer wishes to sell everything and then, and then leave. These people have, as you can see through the ownership matrix, have interest above and beyond just selling the lots. And --

MR. SMITH: Mr. Clark, if I can just interject a little bit here hopefully I can help clarify.

HEARING OFFICER: Sure, thanks.

MR. SMITH: Some of the unique features that I am sure are unique to this project -- at least all that I've worked on. And I certainly haven't worked on every project that's ever come before the Commission, but I have worked on a number of particularly water-related projects. Is that -- couple, couple unique features.

One is one I think that Mr. Long just mentioned. This is not a situation where the developer is, you know, developing, selling, and moving on. The developer/owner will continue to own the hotel, which is the, kind of the cornerstone of this whole development.

HEARING OFFICER: Uh-huh.

MR. SMITH: And that's, you know, this is a develop-to-own project. Villas will be sold. Again, they will not be sold as lots, but they will be sold as villas.

And one of the other kind of unique features is the need, for tax and business reasons that I have to admit I don't fully understand. If I understood all of how this was structured tax-wise I'd be charging $600 an hour and sitting in an office in San Francisco right now.

Mike laughs because he knows who I'm talking about who did this. But it's important to us -- I mean, this goes back to that earlier question you had on that earlier issue -- is to respect the separation between the water company and the, and the developer, and the owner -- and the developer. Because they are -- they're separate people who've done separate investments, and it's important to us to not have one kind of subsidizing the other one.

Now that being said, there may be need to subsidize the water company by the developer. And the traditional way of doing that would be standby fees. And we chose not to do standby fees, with the hope that our lot -- villa sales will cover that.

If it doesn't we're gonna have to come in and subsidize the company. We understand that and we've made that pledge.

HEARING OFFICER: And that pledge, can you point me to -- I think it's here, but maybe you could help me with looking at the settlement stipulation and --

MS. SCHMID: I believe if we look at -- sorry. I believe if we look at paragraph 21 of the settlement stipulation.

HEARING OFFICER: Yeah, thanks.

MS. SCHMID: It discusses the obligation to fund. And in that section you'll note that there is no date certain upon which the obligation to fund expires. The obligation to fund expires when the needs are satisfied. So it is a continuing obligation.

MR. SMITH: Yeah. And we're -- that was easy to do because we have way to too much invested to let water -- some problem with the water company prevent us providing good water service, as you can imagine. And so that's why we, you know, that was an easy pledge.

It was something that when I went back to my clients they said, Well, we're gonna do this anyway. I mean, if any -- if something were to break tomorrow, you know, if we were to have a major problem with the water system tomorrow, that would be repaired. And we would have the funds to do so.

This has been a very expensive project and we are over budget many ways, but we're, we're, we are very much committed to this project and to keeping it very viable. Obviously no one's gonna come and spend $10 million to buy a villa and have their water service not be more than adequate.

HEARING OFFICER: For the record, I'm gonna read a sentence from the stipulation. I think this is the one we've been speaking about most directly:

"Any additional amount still due and owing to the capital reserve account from non-connected lots not covered by the project cost recovery fees shall be paid by the owners/investors of GSW with non-GSW funds, or shall be paid by the resort developer in order to make the capital reserve account whole."

Is that the language that?

MR. SMITH: I think that's the language we've been, we've been talking about --

HEARING OFFICER: Yeah, okay.

MR. SMITH: -- Mr. Clark.

HEARING OFFICER: Thank you.

MR. LONG: And I'd like to add one thing.

HEARING OFFICER: Yes.

MR. LONG: I think to go even further than -- further along these lines, either in the original CPCN application or the bylaws it also discussed about continuing -- the investors and developers to continue to fund the water company or subsidize the water company even in terms of day-to-day maintenance expenses and, you know, not just for this one issue only.

HEARING OFFICER: Thank you. I interrupted you, Mr. Long, so let's take you back to your testimony.

MR. LONG: Well, I'm trying to find my place now. In conclusion, based on the preceding explanations for each major issue in the case and its investigations, discussions, and negotiations involving other issues in the case, the Division feels that it's reached resolutions through the submitted amended stipulation that support the public interest, will result in just and reasonable rates, as well as provide GSW an opportunity to earn a sufficient and fair rate of return.

The Division notes that GSW is a unique water company with a unique base of customers. Thus, the treatment of this case is not reflective of an underlying philosophical change about the State's regulation of water companies.

Accordingly, the Division requests the Commission approves the amended stipulation and Tariff No. 1 as submitted with the stipulation, to have an effective date of October 1, 2011.

HEARING OFFICER: Thank you.

MR. SMITH: I would move that we admit the stipulation -- or I should say the amended stipulation that's been entered -- that's been referred to into evidence.

HEARING OFFICER: Let's call it Exhibit 2.

MR. SMITH: Thank you.

HEARING OFFICER: And I assume there's no objection?

MS. SCHMID: None.

HEARING OFFICER: Hearing none, it will be received as Exhibit 2.

(Exhibit No. 2 was received.)

HEARING OFFICER: Now Mr. Smith, did you intend to present witnesses?

MR. SMITH: I do. I do have two witnesses I would like to present. They're both on the phone. I'd like to start first, if that's okay, with Mr. Mark -- Mike Gardner.

Mike, can you hear me?

MR. GARDNER: I can.

MR. SMITH: Good. I wanted to make sure you hadn't fallen asleep or wandered away from the phone.

MR. GARDNER: Yes.

HEARING OFFICER: Let me administer an oath first, if I may. Is that --

MR. SMITH: Yeah. You're gonna be put under oath, Mr. Gardner, so go ahead.

(Mr. Gardner was duly sworn.)

HEARING OFFICER: Thank you. Mr. Smith?

MICHAEL W. GARDNER,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. SMITH:

Q. Thank you Mr. Gardner. First of all, can you state your name and address just for the record, please?

A. Yeah. My name is Michael William Gardner. I'm -- my office is located at No. 1 Kayenta Road, Canyon Point, Utah 84741.

Q. And that, as I understand it that's located at the Amangiri Resort; is that correct?

A. That's correct.

Q. And what is your current job?

A. I'm a, I am the project manager for Canyon Land Development, one of the owners of the Grand Staircase Water Company.

Q. Okay. And why are you here to testify today?

A. To briefly review the history of the amended settlement stipulation, and confer Grand Staircase Water Company's belief that the amended settlement stipulation is just and reasonable and in the public interest.

I'll let others -- I will let other witnesses speak about the specific details of the stipulation.

Q. Okay. And can you just briefly describe the Grand Staircase Water Company? I understand you're the, kind of the hands-on manager at the site. Just take a minute and explain about the Company and its purposes.

A. Yeah. The Company provides culinary water service to the Amangiri Resort, a world-class resort located in Southern Utah near the Utah-Arizona border. When we started this project there were no existing culinary water services in the area, so the system and infrastructure was built from scratch.

The water system is now fully operational, currently providing culinary water service to the hotel, resort service building, and resort entry building. The system also has the capacity and the infrastructure to service up to 31 villas when they are constructed and connected to the water system.

Q. I understand the first villa is either at completion or near completion. Could you just tell us what the status of that is?

A. I'm going to turn that villa over to

operations as soon as I'm off of this phone call. And we plan on having a couple of, couple of weeks to do some dry runs before we open it up for rental or, or to service, you know, from the hotel.

Q. I see, okay. Can you briefly describe the, kind of the history of this matter and -- as you understand it?

A. Yeah. Grand Staircase Water Company filed its application for a certificate of public covenant and necessity on September 9th in 2010. And the Public Service Commission granted the certificate on March 14, 2011. But it did not approve that -- excuse me. It did not approve the requested rates at that time.

And the Division of Public Utilities and the Grand Staircase Water Company have conducted settlement discussions in good faith regarding the proposed rates. No other persons or parties have intervened in the case or objected to the proposed rates, so no other persons or entities were involved in the settlement discussions.

And the Division and the Grand Staircase Water Company came to an agreement on the proposed rates, and as a result entered into the amended settlement stipulation which was signed and filed with the Commission on September 6, 2011.

Q. Okay. And what's the Grand Staircase Water Company's position in regard to the amended settlement stipulation?

A. On behalf of the Grand Staircase Water Company I want to thank the Division for working with the Company to reach this agreement. I believe this agreement works for the Division, Grand Staircase Water Company, and the public interest.

The amended settlement stipulation is a product of a lot of work -- of a lot of hard work by the Division and the settle -- and the Grand Staircase Water Company, excuse me. I state that the Company supports the amended settlement stipulation. It was negotiated in good faith by the parties to the stipulation.

The Company believes the stipulation is in the public interest, and that the proposed tariff rates and fees are just and reasonable. The Company recommends that the Commission approve the amended settlement stipulation as it is filed.

Q. Thank you. Do you have any other information you'd like to share with the Commission today?

A. Not at this time.

Q. Thank you.

MR. SMITH: I don't know, Mr. Clark, if you have questions or if the Division has questions.

HEARING OFFICER: Just a couple. Just a couple of questions. But let me ask Ms. Schmid first if she has any.

MS. SCHMID: Only one, and it is more of a global question or statement. When we have been referring to the amended settlement stipulation herein we've been referring to the amended stipulation as corrected here today; is that correct?

MR. GARDNER: Yes.

HEARING OFFICER: And I assumed that, too. Thank you.

Mr. Gardner, just a question about the project cost recovery fee. I noticed that it's the same for -- whether it's a residential, or commercial, or the hotel service. And that while the hookup fee's slightly different, the revenue fee is the same.

So basically the hotel connection fee is, is just slightly more than a total residential connection fee. I'm, I'm just interested in the reasons for that. I'm assuming that doesn't really reflect the, the ratio of usage of the utility system, so is there -- can you help me with that structure?

MR. GARDNER: You know, I, I was not involved in the structure of the rates as -- or in most of the negotiations. And I think that Krystal McCauley --

MR. SMITH: Yeah, it's probably --

MR. GARDNER: -- the next witness, may be better suited to answer that question.

MR. SMITH: Yeah, I was gonna suggest. And we may just want to swear her right now, she's my next witness, and maybe she can start answering that question. But our rate analyst that's worked with this is Krystal McCauley, who's also on the phone. And --

HEARING OFFICER: Good.

MR. SMITH: -- that's who I was planning to call next anyway. So Krystal, I hope we -- you're there.

MS. McCAULEY: Yes, I'm here.

HEARING OFFICER: I think that's fine.

MR. SMITH: Is that okay?

HEARING OFFICER: You bet. And then all three witnesses can contribute to any answers that they want to.

MR. SMITH: I think that would be good.

HEARING OFFICER: We'll assume kind of a panel approach from here on out.

MR. SMITH: I think that will be most

helpful.

(Ms. McCauley was duly sworn.)

HEARING OFFICER: Thank you. And do you have my question in mind?

MS. McCAULEY: Yes. You're asking about the connection fees being very close with regard to residential, versus commercial, versus the hotel?

HEARING OFFICER: Right.

MS. McCAULEY: Okay. We, early on when we first developed rates and submitted them we did have a bigger difference for the hotel. Later down the road, as we were discussing things more with the Division on trying to segregate out what cost versus rates should be put together, we had broken the connection fee out into a hookup fee and a project cost recovery fee component so that everything was very clear on what related to costs versus what would relate to just revenue for the Company.

And as those discussions went on there was not a great significance on a need for having that project cost recovery any different for any of the hookups. The actual cost of the hookup was not significantly higher than the residential and commercial.

So I personally did feel like we needed a slight difference, just because residential, versus commercial, versus hotels normally do have a difference. So I used only the actual hookup fee cost, and I increased the project cost recovery fee just slightly from each other.

And that's, that's really just basically how it got where it was.

HEARING OFFICER: I suppose what I'm observing here is that if the cost -- project cost recovery fee is the means of recovering the investment in the utility facilities that it just strikes me as unusual that the hotel, which is certainly going to use a much higher volume of the water, is making the same contribution as the -- as a residential buyer.

MS. McCAULEY: Well --

HEARING OFFICER: And I'm not sure that, I mean, since no one's there now and they'll -- the lots have to be marketed with this burden, so to speak, I suppose it's -- that would -- that will be for the new owners to -- or potential buyers to determine whether that's palatable to them or not.

But I just wondered what the thinking was behind that.

MS. McCAULEY: I do have one more comment I can make on that.

HEARING OFFICER: Uh-huh.

MS. McCAULEY: The monthly usage fees?

HEARING OFFICER: Uh-huh.

MS. McCAULEY: I have a chart which I break down every level of tier and what our rate is, and then I come back to a calculated estimate on what the per unit is --

HEARING OFFICER: Uh-huh.

MS. McCAULEY: -- at the total end of the month when they pay a water bill. And monthly usage fees for the hotel are slightly higher. We set those slightly higher than the other two. Than the commercial and the residential.

So in the long run the hotel is paying a little bit higher on a monthly basis. So the need or -- for it to be coming higher in the project cost recovery, which is just a one-time shot? I personally believe that this, this way of allocating it was pretty equitable and the hotel is going to be paying for their share.

HEARING OFFICER: Thank you. And Ms. McCauley did you --

Let me ask you, Mr. Smith. Did you have some additional information you wanted to present by way of direct testimony through this witness?

MR. SMITH: I do have some additional.

HEARING OFFICER: Yeah, why don't we go to that.

MR. SMITH: Okay.

KRYSTAL McCAULEY,

called as a witness, having been duly sworn,
was examined and testified as follows:

DIRECT EXAMINATION

BY MR. SMITH:

Q. Ms. McCauley, can you just state your name and address for the record, please?

A. Yes. My name is Krystal McCauley. I reside and I work at 2235 Powwow Trail, Deloitte, Wisconsin.

Q. Okay. And what is your current occupation?

A. Utility consultant.

Q. And prior to that have you worked in the utility business?

A. Yes, I was a utility analyst for the Division of Public Utilities for both telecom and water.

Q. And that's -- that was here in the State of Utah?

A. Yes, it was.

Q. What is the purpose of your testimony today?

A. My testimony is to review specific elements of the amended settlement stipulation and to confirm my belief and express that in the case here that, that the amended settlement stipulation and the proposed rates and tariff are just and reasonable and in the public interest.

Q. Okay. Could you just take a few minutes and talk about some of the key points of the amended settlement stipulation?

A. Yes. The Division did a very long summary of a lot of the issues, so I don't want to give that much detail at this point. I would like to go over some of the specifics and either recant those or maybe add a little bit more of explanation.

So I'll just go ahead and start with the rate base issues. Basically the rate base includes the cost of the original utility plant in service necessary to service the current phase of the development. As I heard it, that was established: The hotel, there's a couple business lines, and the 31 villas.

As new customers come online and connect to the system the rate base will be reduced by amounts collected in the connection fees. And these will be classified as contributions in aid of construction, or as been discussed here -- I've always called it CIAC, but it's been referred here today as CIAC.

So the portion of the connection fee that will be going to CIAC is 63 percent of that connection fee. I will discuss the connection fee a little bit more in just a moment.

The projected rate base for 2019, after all the collections have been -- and this may not be exactly 2019, but the projections when all the villas are sold, if it's done within the time frame by 2019, the rate base would be down to 185,783.

The rate of return used in -- or I should say that was agreed upon in the stipulation is -- the projected revenue requirement is using a 12 percent rate of return. I believe that the 12.0 percent is a reasonable rate of return.

Now I'd like to go back to the connection fee for just a moment. In previous cases -- and this may be what the Commission is used to seeing -- a connection fee, if it was broken out between a cost recovery mechanism for rate base and a revenue, it was just called a "connection fee."

And it had a percentage -- we've used a few -- done this in a few water cases before where there was a percentage that went to the CIAC and a percentage that went to revenue. And that was used in determining what the rates should be set at in a rate calculation setting.

So in this case, because the connection fee was so large, it felt necessary to break the connection fee into components so that it could be more clearly understood what the connection fee was for and why.

So the connection fee itself is broken out into three components: A hookup fee, the project cost recovery fee, and revenue. So as discussed, the hookup fee is very closely related to the actual cost of connecting, connecting a villa to the water system.

These collections will be categorized and booked as CIAC, which will offset the cost of that hookup fee. So as the Company installs a hookup fee and they incur those costs and those go into the rate base account these collections will go to offset that cost.

The project cost recovery fee, this is the portion that relates to the rate base. And, let's see, I'm getting ahead of myself. The, the project cost recovery fee was, was set at a level that once the connection fees are collected they will not exceed the cost of the original utility plant.

The -- one of the reasons we did set this at a high rate also was the contemplation of the capital reserve fee. So I'm gonna go ahead and jump to that for just a moment, the capital reserve account, and then I'll go back to the revenue portion.

So the capital reserve account needs to be, each year, funded in an amount that equals the depreciation expense. Now, in this case where we have CIAC, which offsets rate base, you also have some amortizations that offset depreciation.

So the actual amount of depreciation on regulatory books is gonna show up less. So to set the amount that is our target, it basically is the depreciation that would be calculated on the original utility plant without any adjustments. So that is our target.

This target to be funded, with only a few customers would -- it would need -- we would need to be charging the developer for unsold lots. So in this situation the capital reserve account, if it's being funded by the developer, then basically the water company and fees it is collecting are going to, to -- in my mind it was gonna fund it twice. So -- I mean bill the system twice.

So our, our view was that we want customers to build up the reserve account so that -- because it's the customers who are im -- gonna be the ones impacted in the future when things go wrong, or things need to be repaired, or replaced, or rebuilt.

So the design was that -- and the agreement with the Division is that the connection fees, as they are collected, can be used to fund the capital reserve account.

And it was really hard for me not to jump in and want to talk to you guys when you were trying to get that explanation out of who's gonna fund it and how. But in the stipulation, as you discussed, that was all covered.

First it comes from the collection of the capital reserve fee to the actual customers. The second funding mechanism is taking the funds from the connection fees. Then anything remaining is agreed that it would be covered also.

And that -- and then that way each year the annual target amount for the capital reserve account is funded.

HEARING OFFICER: And --

MS. McCAULEY: Now going back -- go ahead.

HEARING OFFICER: Pardon me for interrupting you. This is Dave Clark, the presiding officer here.

The third, the third option is then the owners/investors of GSW with non-GSW funds, or the project -- or the resort developer --

MS. McCAULEY: Yes.

HEARING OFFICER: -- to contribute to the capital reserve account, right?

MS. McCAULEY: Yes.

HEARING OFFICER: Okay. So the sentence in the stipulation that reads:

"The annual capital reserve account target has been set to approximate GSW's annual depreciation expense, or the annual amortization of CIAC, or a combination of the two."

Can you just help me with that a little bit in this context?

MS. McCAULEY: Yeah. Can you give me the line number?

HEARING OFFICER: Yeah, it's, it's, that's the first sentence in paragraph 22.

MS. McCAULEY: Twenty-two, okay. Okay, give me just a moment.

HEARING OFFICER: Uh-huh.

(Pause.)

MS. McCAULEY: Okay. They put a lot of the "ors" in there. Let's see. Or the annual amortization of CIAC, or a combination of the two.

In the target that I have calculated and given to the Company and they submitted in their information to the Division?

HEARING OFFICER: Uh-huh.

MS. McCAULEY: We did use the target of the -- GSW's annual depreciation expense prior to any amortization of the CIAC.

So it was set -- okay, if you think about it this way: If you have a $1 million facility and you want to, every year, put away money into a savings account and way down the road end up with a million dollars.

HEARING OFFICER: Uh-huh.

MS. McCAULEY: You know, if you do this by a calculation, you would have to then use that full million dollars -- or the depreciation related to that specific million dollars.

If you take and add in amortization you're gonna have a different number. You're gonna have a lower number.

HEARING OFFICER: Uh-huh.

MS. McCAULEY: Does that make sense?

HEARING OFFICER: It does make sense to me. That's why I wondered about this sentence. I wondered under what circumstance it would be the annual amortization of CIAC, not the depreciation expense. And under what circumstance it would be a combination of those two, as opposed to the depreciation expense.

MS. McCAULEY: Yes. I think you need to go to the next sentence.

HEARING OFFICER: Okay.

MS. McCAULEY: Which states:

"The annual capital reserve account target shall not include the annual amortization amount of the CIAC assets, the distribution systems."

That, that was one of the pieces that gave us the idea, Okay, well we can't use the amortization at all. Oh, the -- to the extent that they are also included in the annual depreciation expense, okay. They did isolate the one specific one, but they didn't, they didn't leave out the rest of the CIAC.

All right, I, I'm trying to think of why it was written this way, and I think I have the idea of why. In some of the reporting the -- only one number shows up, and it's just the depreciation minus the amortization. So you have a lower number.

So you have that lower number, you actually have to add back the amortization to get to your higher number. And I think that's why we had to write it this way.

HEARING OFFICER: That's why it's the "or the combination of the two"?

MS. McCAULEY: Yes.

HEARING OFFICER: It says.

MS. McCAULEY: You have to add the depreciation and the amortization together to get your higher number that relates to the full amount of the install -- the actual installed facility.

HEARING OFFICER: And any comments from counsel on where we are at this stage? Are we -- since I know you were probably involved in the actual drafting I just want to make sure we're.

MS. SCHMID: It covers the contingencies.

HEARING OFFICER: Okay. All right, thank you. I apologize for interrupting you, Ms. McCauley.

MS. McCAULEY: Nope, that was a very good question.

HEARING OFFICER: Is --

MS. McCAULEY: So I --

HEARING OFFICER: Thank you. I wondered if there was more that you wanted to offer on the settlement agreement generally.

MS. McCAULEY: Okay. Yes, I, I think we've pretty much covered the project cost recovery fee, its uses, and how the capital reserve account is funded.

Basically the rates in -- the rates set forth in the schedule and the proposed tariff attached to the amended settlement stipulation, they have been set at a tiered -- in a tiered format, which does encourage water conver -- conservation, excuse me.

And the Company really believes that this was important for the desert climate. And I, I agree with them that this was a proper format for the tariff.

I'm just looking at my notes here to see if I've covered everything.

(A discussion was held off the record.)

HEARING OFFICER: I'm sorry Ms. McCauley, did -- go ahead Mr. Smith.

Q. (By Mr. Smith) I was gonna say, Ms. McCauley, do you have any other things you want to talk about of the amended stipulation as we've corrected it here today?

A. Yeah, let me just summarize a couple more things and then I'll be done.

Q. Okay.

A. I think we've got -- I think we've adequately gone over the subsidies for the annual cash short -- in the annual cash shortfall for both operating expenses and for funding the, the project costs --

what were we calling it in this case? The capital reserve account, excuse me.

The only other thing I would want to mention is in the revenue requirement calculations you normally see a line for taxes. And since Grand Staircase Water Company is a partnership and does not pay income taxes directly we did not include any taxes in the revenue requirements.

I'm reviewing my notes. I guess that completes my highlights of the proposed tariff and the settlement stipulation at this time.

Q. Great. Do you have a position with regard to the amended settlement stipulation?

A. Yes, my overall position? I believe that the amended settlement stipulation, and I guess to clarify as amended here today, is in the public interest. And that the proposed tariff rates and fees are just and reasonable.

As a result, I support the amended settlement stipulation and recommend that the Commission approve it as it is filed.

MR. SMITH: Thank you. That's all the questions that I have for Ms. McCauley, Mr. Clark.

HEARING OFFICER: Thank you. Anything further from either party?

MS. SCHMID: I do have one question for Ms. McCauley, and then Mr. Long would like to make a clarifying statement.

HEARING OFFICER: Thank you.

CROSS EXAMINATION

BY MS. SCHMID:

Q. Ms. McCauley, early in your statement you referenced that the Commission has approved the percentage treatment of connection fees in the past. Is that sort of correct?

A. Yes.

Q. Okay.

A. Yes, that's correct.

Q. Can you -- did the Commission do -- did the Commission allow the percentage approach to be used in the Eagles Landing case?

A. Yes, it did. Eagles Landing Water Company?

Q. Yes?

A. Yes.

Q. And do you -- you mentioned that it had been used -- the Commission had done it in some cases. Do you remember the names of any other cases in which the percentage was allowed?

A. Yes, I'm trying to -- oh, Lakeview Water Company.

Q. Okay.
A. And this was not just an original asset company -- this wasn't a start-up company, it was a, a rate increase --
Q. Okay.
A. -- filing.
Q. Thank you.
A. That Lakeview Water Corp.
MS. SCHMID: Those are all my questions for Ms. McCauley. If now would be appropriate, Mr. Long has a clarification to make.
HEARING OFFICER: Sure. Mr. Long.
MR. LONG: Yes. I just wanted to weigh in a little bit on paragraph 22 of the stipulation --
HEARING OFFICER: Uh-huh.
MR. LONG: -- that you had a question on.
HEARING OFFICER: Thank you.
MR. LONG: And I think really to help clarify that, if you were to look at the tariff, No. 15 that talks about the capital reserve accounting requirements, that's what that is getting at. That the capital reserve account is targeted to equal the annual depreciation expense and annual amortization of the contribution and aid.
And what happens is the assets are

reclassified into the contribution and aid account, then they're taken -- then they're -- they no longer have a depreciation expense. And so really by combining the two you're simply keeping the original infrastructure as it would have been depreciated without the CIAC and the depreciation separated. If that makes sense, it.

HEARING OFFICER: Thank you.

MR. LONG: Yes.

HEARING OFFICER: I appreciate clarification. I also want to mention, Mr. Long, I appreciate your extra effort to prepare your written statement and to go through it in so much detail. I found that very helpful in addressing a lot of questions that were -- that had formed as I read the stipulation, and I didn't have to ask.

Anything else from either party?

MR. SMITH: All I'd like to say is to thank the Commission for the time today, but also to thank -- especially thank the Division for their effort, time, attention to this matter.

I know the Division has many -- like the Commission has many, many other matters going on, and this is a very small water company in a very remote part of the state. But they've spent a lot of time and effort. As we -- as you can tell, we've worked through a lot of unique features here.

And I'm very personally appreciative of the Division and their counsel in being able to reach this stipulation that we've reached. And I want to thank them for their time and effort doing that.

HEARING OFFICER: Thank you. Anything further?

MS. SCHMID: Nothing further from the Division.

HEARING OFFICER: Then we'll be off the record.

(The hearing was concluded at 10:31 a.m.)

C E R T I F I C A T E

STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

This is to certify that the foregoing proceedings were taken before me, KELLY L. WILBURN, a Certified Shorthand Reporter and Registered Professional Reporter in and for the State of Utah.

That the proceedings were reported by me in stenotype and thereafter caused by me to be transcribed into typewriting. And that a full, true, and correct transcription of said proceedings so taken and transcribed is set forth in the foregoing pages, numbered 1 through 66, inclusive.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

SIGNED ON THIS **3rd** DAY OF **October**, **2011**.

Kelly L. Wilburn, CSR, RPR
Utah CSR No. 109582-7801

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