

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of  
WaterPro, Inc., for a Culinary  
Water Rate Case,

Docket No: 12-2443-01

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HEARING FOR WATER RATE CASE  
ADMINISTRATIVE LAW JUDGE REIF  
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TAKEN AT: Heber M. Wells Building  
160 East 300 South  
Salt Lake City, Utah

DATE: January 29, 2013

TIME: 9:00 a.m.

REPORTED BY: Kellie Peterson, RPR

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Hearing for Water Rate Case

January 29, 2013

PROCEEDINGS

ADMINISTRATIVE LAW JUDGE REIF: Let's go on the record. Good morning everyone. I am Melanie Reif, Administrative Law Judge for the Utah Public Service Commission, and this morning, we are hearing the rate case in docket No. 12-243-01. This matter is entitled, "The application of WaterPro, Inc., for a culinary water rate case." Let's start by taking appearances, please.

MR. JENSEN: Darrin Jensen with Draper Irrigation, WaterPro.

ADMINISTRATIVE LAW JUDGE REIF: Mr. Jensen, are you an attorney?

MR. JENSEN: I am not.

ADMINISTRATIVE LAW JUDGE REIF: Okay, and are you going to be represented by counsel?

MR. JENSEN: We are not.

ADMINISTRATIVE LAW JUDGE REIF: Okay, and you know you have the opportunity if you choose?

MR. JENSEN: Yes. I talked to our attorneys and they felt that they are down the street and if I get in panic mode, I have to get them a call and they will run right up. No, we didn't feel it was necessary.

1 ADMINISTRATIVE LAW JUDGE REIF: Okay, very  
2 well. And the other gentlemen who are with you?

3 MR. ANDRA: Trevor Andra with Epic Engineering.

4 MR. GARDNER: David Gardner with WaterPro.

5 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
6 Mr. Gardner, what is your position with WaterPro?

7 MR. GARDNER: I am the assistant general  
8 manager.

9 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
10 Mr. Jensen, do you intend to call witnesses today, either  
11 yourself or the other gentlemen who are here today?

12 MR. JENSEN: I do not. I didn't know we were  
13 supposed to. I mean, we have only been through one of these  
14 and it was pretty cut and dry.

15 ADMINISTRATIVE LAW JUDGE REIF: It is not that  
16 you have to. It is just good for me to know if you are going to.

17 MR. JENSEN: I don't plan on it. If you have  
18 questions, I may refer to Trevor, who is our engineer. And so  
19 that would be something that I would refer to on a technical  
20 question that I may not be able to answer, that Trevor helped  
21 produce the--comes up with the calculations with the rate base  
22 and has worked directly with Mark.

23 ADMINISTRATIVE LAW JUDGE REIF: Okay. So  
24 would you, essentially, be the witness for the company, then?

25 MR. JENSEN: Yes.

1 ADMINISTRATIVE LAW JUDGE REIF: Okay. Then  
2 I'll be putting you under oath, as I normally would any other  
3 witness.

4 MR. JENSEN: Okay.

5 ADMINISTRATIVE LAW JUDGE REIF: And then  
6 you would be subject to cross-examination by the Division,  
7 should they wish to do so, and I may have questions as well, so  
8 just to help you with the way that the procedure works.

9 MR. JENSEN: Okay.

10 ADMINISTRATIVE LAW JUDGE REIF: Thank you  
11 very much. Patricia?

12 MS. SCHMID: Patricia E. Schmid with the Attorney  
13 General's Office for the Division of Public Utilities, and with me  
14 as the Division's witness is Mark A. Long.

15 ADMINISTRATIVE LAW JUDGE REIF: Thank you,  
16 welcome. Okay, great. Mr. Jensen, this is your application, so  
17 we will begin with you this morning.

18 MR. JENSEN: Perfect. Just to give you a little  
19 background on the company, I am sure you have read and  
20 understand, but WaterPro, in essence, is a regulated entity.

21 MS. SCHMID: Pardon me? Can we go off the  
22 record for one moment?

23 (A discussion was held off the record.)

24 ADMINISTRATIVE LAW JUDGE REIF: On the  
25 record. Mr. Jensen, before we get started with your testimony

1 today, will you please raise your right hand; and do you swear  
2 the testimony you are about to give is the truth?

3 MR. JENSEN: Yes.

4 ADMINISTRATIVE LAW JUDGE REIF: Thank you.  
5 You may proceed.

6 MR. JENSEN: Okay, thank you. As I was  
7 indicating, WaterPro is the regulated entity with the Division.  
8 WaterPro, as we see WaterPro with inside the company and we  
9 have worked with the Division and kind of let them know, there  
10 are three actual entities within our company. Draper Irrigation  
11 is our parent company and the owner of all assets. And then--  
12 and Draper Irrigation is exactly what it is. At one time it was  
13 just an irrigation company and then grew to serving culinary  
14 water to the residents of Draper.

15 We refer to the culinary side, or it would be in our  
16 mind, the regulated entity, the culinary side, which is DWS,  
17 which would be Draper Water Service. Now there is--at one  
18 point, we had a business license under Draper Water Service  
19 and we let that go by the wayside and just really ran things as  
20 far as the water end of it under Draper Irrigation. And then we  
21 do have entity called WaterPro, and WaterPro was formed to  
22 manage Draper Irrigation and Draper Water Service as a for  
23 profit organization.

24 The reason--and I can go into a lot of detail but I  
25 will give you the Reader's Digest version, the reason WaterPro

1 was developed and kind of came--although it is owned by Draper  
2 Irrigation, it came--so Draper at this time was a smaller, you  
3 know, city and there were other cities, Saratoga Springs, Eagle  
4 Mountain, and some other cities that were being developed.

5 And at the time, management and board of  
6 directors thought, well, this gives the company a good  
7 opportunity to go into these smaller cities and manage them.  
8 Well, they weren't going to manage them under Draper  
9 Irrigation, so that is how WaterPro was formed, to be a for profit  
10 and go in and manage these other entities, these other cities,  
11 along with managing--the owner of the company, as far as the  
12 owner of WaterPro which would be Draper Irrigation and Draper  
13 Water Service. Since then, the company has taken a new  
14 direction and the City of Draper has grown and we decided to  
15 pull back and let's just manage what we started out to back in  
16 1888, and that is just the City of Draper, and that's what we  
17 have done.

18 When it became time to regulate, because there  
19 were two companies that were set up, there was Draper  
20 Irrigation and there was WaterPro, the Division looked at, well,  
21 we can't--we can't regulate an irrigation company, so let's  
22 regulate WaterPro. And, in essence, so in the Division's mind  
23 at that time--I think today, but with an understanding, is that  
24 WaterPro is the culinary side in the Division's mind and on  
25 record, but we look at it as really the management side of all



1 things.

2 And so when I talk about things, I am not trying to  
3 talk in circles. I just want to give you a brief idea of where  
4 WaterPro came from, how WaterPro--you know, where it came  
5 about and what we actually do at WaterPro today.

6 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
7 you. You mentioned Draper a couple of times.

8 MR. JENSEN: Yes.

9 ADMINISTRATIVE LAW JUDGE REIF: Is that your  
10 short name for Draper Irrigation?

11 MR. JENSEN: Draper City.

12 ADMINISTRATIVE LAW JUDGE REIF: Draper City.

13 MR. JENSEN: Yes.

14 ADMINISTRATIVE LAW JUDGE REIF: Okay, I just  
15 wanted to be clear on that.

16 MR. JENSEN: Okay.

17 ADMINISTRATIVE LAW JUDGE REIF: Thank you  
18 very much.

19 MR. JENSEN: Draper Irrigation, I will probably  
20 refer to as DIC, Draper Irrigation Company, and then I'll make  
21 sure when I say Draper, it's Draper City, which is the area that  
22 we provide service to.

23 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
24 backing up just for historical and also going forward with the  
25 company's ambition, does Draper Irrigation provide irrigation

1 water to the homeowners in the Draper area?

2 MR. JENSEN: We do some on the  
3 lower--we don't pump up. You know, Draper has its flat lands  
4 and then it has its hillside, and we only provide irrigation water  
5 to those that live kind of in the flatlands because it would be too  
6 expensive.

7 ADMINISTRATIVE LAW JUDGE REIF: Okay.

8 MR. JENSEN: Then we also provide water,  
9 because we have, you know, years back, to a few residents in  
10 Sandy and a few residents in Bluffdale.

11 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
12 you.

13 MR. JENSEN: You bet. And, again, WaterPro is--  
14 you know, came about to kind of manage and maintain and do  
15 the administrative details for the company, which they still do.  
16 All expenses that come in that are not directly for--if they go to  
17 culinary side, they are automatically pushed to the culinary side,  
18 or if they are an irrigation expense, they are automatically  
19 pushed to the irrigation side of the company.

20 If an expense comes in, administrative expense or  
21 fuel expense for vehicles, or payments for vehicles, that is  
22 divided up on a 77/23 split. And how that has come to pass is  
23 we have looked at the revenues on what makes up the revenues  
24 for the company, and 77 percent of all revenues made by the  
25 company are from the culinary side; 23 percent of those

1 revenues come up from the irrigation side of the company. So  
2 that is where that 77/23 is. So it is not a direct expense, which  
3 those are pretty easy to determine. They are not a direct  
4 expense. Then those professional expenses will be split up on  
5 that 77/23 split.

6 As I indicated, Draper Irrigation was founded by  
7 farmers who owned the water rights and the land. When DIC,  
8 Draper Irrigation Company, has sold the land, the proceeds  
9 have, in essence, benefited the entire company because we  
10 don't look at the irrigation side as--I mean, we keep them  
11 separately but we don't look at the irrigation side as this big,  
12 money making side of the company because they own all the  
13 assets and the culinary side goes by the wayside.

14 When--any proceeds that come into the company,  
15 whether we have sold land that has been owned by the irrigation  
16 company, we have, in essence, used those funds to help build  
17 all systems, to help build the culinary side, to help expand our  
18 treatment plant, to pay for, you know, new lines that have--or  
19 upgraded lines which have gone in, which has helped us  
20 maintain our debt.

21 So by utilizing the funds that have come in as land  
22 has been sold, we have been able to really minimize the debt  
23 that the company has, to continue to expand its--working to  
24 expand our treatment plants, to build our reservoirs, our tanks  
25 and so forth. And our tanks, all of our tanks are culinary. We

1 have an irrigation pond, but when I refer to reservoirs, or held  
2 tanks, wells, those are all culinary side of the company.

3 So, again in our mind, we--although we keep things  
4 separate, so when it comes to revenue coming in and rate base,  
5 we do look as the company as a whole. You know, we run  
6 different books for each side so we can keep it very separate,  
7 so when it comes time to, you know, do a rate case, that when  
8 we turn things in directly to the Commission, they are looking  
9 strictly just at culinary items, but because we are as a company  
10 as a whole, Draper Irrigation, or the irrigation things, will funnel  
11 in, as well.

12 It is our goal as a company to give the best  
13 possible service to our customers at the least expense, which,  
14 again in turn, taking those revenues off of land sales and  
15 splitting them up and see what is best for the company. Our  
16 goal has been, and continues to this day, we do our very best  
17 what we can without any rate increases; although without a rate  
18 increase at this time, the company is currently projecting to  
19 operate in an increasing loss and will be unable to make the  
20 necessary capital improvements.

21 Now to clear up the capital improvements, we are  
22 projecting in our connections with the rate increments, with the  
23 rate requests, our improvements necessary to continue to  
24 operate our current system and serving our current customers  
25 effectively. Now these improvements are not intended to help

1 us deal with new connections, and those are taken care of with  
2 impact fees. When a customer moves in, there is an impact fee  
3 that they must pay to help take care of new tanks that may need  
4 to be built because of the impact that they are going to be, or  
5 upgrading main lines in the streets, those impact fees go to, you  
6 know, to help build those infrastructures.

7 ADMINISTRATIVE LAW JUDGE REIF: Mr. Jensen,  
8 as I understand your application, the impact fees are not before  
9 the Commission.

10 MR. JENSEN: No, I just wanted to let you know  
11 that kind of a --

12 ADMINISTRATIVE LAW JUDGE REIF: Okay.

13 MR. JENSEN: Kind of help with the understanding  
14 of the rates and impact fees, but no, that is correct.

15 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
16 you.

17 MR. JENSEN: Within our service area, we deal  
18 with different zones, and within these zones, they pay a  
19 different rate. And the reason for it is, again, Draper has its  
20 flatlands and then it has its hillsides. And each hillside has a  
21 different elevation, and based on where you live within that  
22 elevation, your rate could be slightly higher. And the reason for  
23 that is that we have to lift that water in route to get it up to  
24 those residents, and, again, we keep each area within Draper,  
25 so they each pay their fair, fair water rate.

1                   And so not everyone is absorbing all of those  
2                   electrical costs, that everyone's rates are the same, we say,  
3                   okay, those in this valley, you do not have, you know, pumping  
4                   costs to lift the water, and so your rates would be our base rate.  
5                   And then based on the other different areas where they live,  
6                   based on how many times it has to be lift, or the electrical  
7                   costs, that is factored into their rate. So that is why we do  
8                   have, you know, a few different rate zones within our service  
9                   area.

10                   ADMINISTRATIVE LAW JUDGE REIF: Okay. One  
11                   quick bit of clarification, in your application when you refer to  
12                   these different areas, I believe as tiers --

13                   MR. JENSEN: Tiers are different.

14                   ADMINISTRATIVE LAW JUDGE REIF: Tiers are  
15                   different, okay.

16                   MR. JENSEN: And I am more than happy to explain  
17                   that.

18                   ADMINISTRATIVE LAW JUDGE REIF: Okay,  
19                   please do.

20                   MR. JENSEN: Tiers are designed to really help  
21                   with conservation and that people will pay, again, for what they  
22                   use. There we have a base cost, which every customer pays,  
23                   that provides them, in essence, a service to their home, and  
24                   then above that, they would pay anywhere from--you know, from  
25                   the first 18,000 gallons, they would pay this rate, then the next

1 tier, they would pay this rate, and the next tier, and, again, it is  
2 so people pay for exactly what they use. Those who abuse and  
3 use more water will pay for that, based on which tier they factor  
4 in.

5 ADMINISTRATIVE LAW JUDGE REIF: Okay. So in  
6 looking at your application, I am--I see the tiers, I see the base  
7 rates.

8 MR. JENSEN: Okay.

9 ADMINISTRATIVE LAW JUDGE REIF: Are the  
10 zones listed there, as well?

11 MR. JENSEN: There should be a separate sheet  
12 just showing--in fact, it's this sheet that was just passed out.

13 ADMINISTRATIVE LAW JUDGE REIF: The  
14 document that Ms. Schmid passed out for illustration?

15 MR. JENSEN: Yes.

16 ADMINISTRATIVE LAW JUDGE REIF: Okay.

17 MR. JENSEN: So amended Exhibit 1.5.

18 ADMINISTRATIVE LAW JUDGE REIF: Okay, I do  
19 see that.

20 MR. JENSEN: Do you have that?

21 ADMINISTRATIVE LAW JUDGE REIF: Yes, I do.

22 MR. JENSEN: So you see the different tiers and  
23 then you'll see the different categories where you have main  
24 residents, South Mountain, South Mountain Zone Five, Cove of  
25 Bear Canyon, Little Valley.

1 ADMINISTRATIVE LAW JUDGE REIF: Ms. Schmid?

2 MS. SCHMID: Could we go off the record for one  
3 moment?

4 (A discussion was held off the record.)

5 ADMINISTRATIVE LAW JUDGE REIF: Mr. Jensen,  
6 you may proceed.

7 MR. JENSEN: I would like to, for the record,  
8 introduce this as WaterPro 1. It is the--it would be the general  
9 rate case increase, rate recommendation, and then gives the  
10 different zones and shows the individual tiers for each of those  
11 zones.

12 ADMINISTRATIVE LAW JUDGE REIF: Is there any  
13 objection?

14 MS. SCHMID: No objection, but I would like to note  
15 that it's amended Exhibit 1.5 from Mr. Long's testimony.

16 ADMINISTRATIVE LAW JUDGE REIF: So noted.  
17 And this will be marked as WaterPro No. 1, and your exhibit is  
18 entered into that, sir.

19 MR. JENSEN: Okay. Is there more clarification on  
20 this that you would like me to go into?

21 ADMINISTRATIVE LAW JUDGE REIF: I don't think.  
22 So I think you addressed my question and this lays it out very  
23 simply, thank you.

24 MR. JENSEN: All right, perfect. And it is just  
25 requested at this time that we are requesting a four percent



1 increase. It's less than the five percent recommended by our  
2 independent consulting engineers, one that is here today.

3 We looked at both four and five, and we felt that  
4 with staff and board of directors, that the four percent was  
5 adequate to meet the needs of the company at this present time  
6 and we feel that this would be the very best interest of the  
7 company and the interest of our customers. Mind you, we have  
8 not had a rate increase for more than ten years. We did do a  
9 rate adjustment, which brought our baseline and rates into  
10 effect back in 2007, but that was just readjustment and not an  
11 increase.

12 ADMINISTRATIVE LAW JUDGE REIF: Mr. Jensen,  
13 could you clarify once again when the actual rate increase took  
14 place before your present application?

15 MR. JENSEN: We came back to the Division back  
16 in 2007, and that was for, in essence, to realign our, our  
17 baselines. We reduced our baseline. Our baseline at that time  
18 was \$24 a month and we reduced that down to 18, and then took  
19 that, the loss in funds there, and just moved that over into  
20 recalculation of making our tier rates.

21 Before, for the base, you received--you received  
22 5,000 gallons for that base. We reduced the base, gave them,  
23 you know, our residents, zero water for that, and then just  
24 added that into the tier rates. And so really it was just a  
25 baseline adjustment when we came to the Division back in 2007.

1 ADMINISTRATIVE LAW JUDGE REIF: Okay, and I  
2 think you also mentioned that perhaps ten years ago, that you  
3 came in for a rate adjustment?

4 MR. JENSEN: It was prior to our being regulated  
5 by the Public Utility Commission.

6 ADMINISTRATIVE LAW JUDGE REIF: And so  
7 where did you seek that rate adjustment?

8 MR. JENSEN: That's prior to being regulated. That  
9 was, again, we had --

10 ADMINISTRATIVE LAW JUDGE REIF: That was  
11 not before the Commission?

12 MR. JENSEN: No.

13 ADMINISTRATIVE LAW JUDGE REIF: Okay.

14 MR. JENSEN: Strictly through our board of  
15 directors and our stockholders.

16 ADMINISTRATIVE LAW JUDGE REIF: Okay, that  
17 makes sense, thank you very much. Please go ahead.

18 MR. JENSEN: That is really all I have.

19 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
20 Ms. Schmid, any questions for Mr. Jensen?

21 MS. SCHMID: No.

22 ADMINISTRATIVE LAW JUDGE REIF: Okay. Well,  
23 Mr. Jensen, I do have some questions for you, if you will allow  
24 me just a moment. Perhaps can go off the record.

25 (A discussion was held off the record.)

1 ADMINISTRATIVE LAW JUDGE REIF: Mr. Jensen,  
2 I've read your testimony that has been submitted and I have a  
3 question for you about the capital improvements that WaterPro  
4 has planned as a result of the four percent increase, should it  
5 be approved by the Commission.

6 If you have your testimony available, I am looking  
7 at lines 18 through 28, and I was hoping you could help me  
8 better understand what capital improvements you had in mind.  
9 This is a document that was filed with the Commission on  
10 September 6, 2012. It was not part of the rate application. This  
11 is your direct testimony.

12 MR. JENSEN: There's a variety of improvements,  
13 mainly to upsize or replace old mains within the--within our city,  
14 the City of Draper, within our service area. I don't know if you--I  
15 don't know what documentation you have. I don't know what  
16 has been presented, if you actually have copies of the  
17 improvement projects or not.

18 ADMINISTRATIVE LAW JUDGE REIF: I have  
19 copies of what have been filed.

20 MR. JENSEN: Okay.

21 ADMINISTRATIVE LAW JUDGE REIF: And right  
22 now, I am looking at your direct testimony, which do you have a  
23 copy of that?

24 MR. JENSEN: I did not bring my testimony.

25 ADMINISTRATIVE LAW JUDGE REIF: Let's go off

1 the record for a moment. I want to make sure that you have  
2 this.

3 (A discussion was held off the record.)

4 ADMINISTRATIVE LAW JUDGE REIF: We will be  
5 back on the record. So, Mr. Jensen, I have given you a copy of  
6 your testimony, your direct testimony, that was filed with the  
7 Commission on September 6, 2012. And, again, my question  
8 relates to on line 18, it refers to the purpose of your testimony,  
9 and it says, "The fundamental purpose of my testimony is to  
10 introduce our case requesting an increase in water rates for our  
11 customers. Without an increase in rates, the company is  
12 currently projected to operate at an increasing loss and will be  
13 unable to make necessary capital improvements."

14 MR. JENSEN: Right.

15 ADMINISTRATIVE LAW JUDGE REIF: And you go  
16 on to say some other things through line 28. So what I was  
17 asking is if you could please elaborate on the capital  
18 improvements, the necessary capital improvements, that you're  
19 referring to in your testimony.

20 MR. JENSEN: Definitely. Our capital improvement  
21 comes from two different categories, and this was submitted  
22 with our application when we applied for the rate increase with  
23 the Commission. We have a replacement of lines and then we  
24 actually have improvements. And I could--in the replacement of  
25 lines, I could go one by one, if you would like. There are

1 probably about 15 or 16 of those, different mainlines that are in  
2 the street.

3 And then our improvements are, for example, one,  
4 where we take our water out of Big Willow and we want to  
5 rebuild and replace that infrastructure; purchase additional land  
6 to drill a new well; to automate sections of our system that may  
7 not be automated that we are still actually doing manually; to  
8 look at our pump station in South Mountain and do an upgrade  
9 there. That has been in existence for quite some time and it's  
10 time now to rebuild a pump or to bring that up to where we are--  
11 so it's effectively and efficiently operating today.

12 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
13 you. Are you referring to the application itself?

14 MR. JENSEN: Yes, I am.

15 ADMINISTRATIVE LAW JUDGE REIF: Can you  
16 direct me to which page you are looking at?

17 MR. JENSEN: Well, or you can actually-- you can  
18 look at Mark Long's testimony, Exhibit 1.4. Our page in our  
19 application is not numbered and so--but the same, the same  
20 outline that I am going over is also in Mark Long's testimony.

21 ADMINISTRATIVE LAW JUDGE REIF: Okay, and is  
22 it the exhibit that we marked as WaterPro No. 1?

23 MR. JENSEN: It is not.

24 ADMINISTRATIVE LAW JUDGE REIF: It is not?  
25 Okay. And is this from your testimony or his rebuttal testimony?

1 MR. JENSEN: His direct testimony.

2 MR. LONG: It's actually in the rebuttal, as well.

3 MR. JENSEN: The rebuttal.

4 ADMINISTRATIVE LAW JUDGE REIF: Okay.

5 MR. JENSEN: That's it.

6 ADMINISTRATIVE LAW JUDGE REIF: Thank you,  
7 Mr. Jensen. Are there any other items, other than what is listed  
8 here, that would be categorized as capital improvements?

9 MR. JENSEN: Not that we are doing based on the  
10 rate increase, no.

11 ADMINISTRATIVE LAW JUDGE REIF: Okay, all  
12 right. Thank you for that clarification. I appreciate it very  
13 much.

14 MR. JENSEN: Okay.

15 ADMINISTRATIVE LAW JUDGE REIF: I have some  
16 other questions and they relate to Mr. Andra, Mr. Trevor Andra's  
17 testimony.

18 MR. JENSEN: Okay.

19 ADMINISTRATIVE LAW JUDGE REIF: And Mr.  
20 Andra has not been sworn in, but inasmuch as he would be  
21 speaking for himself on this, I would prefer to have him sworn  
22 in.

23 Mr. Andra, is that acceptable to you?

24 MR. ANDRA: Yes.

25 ADMINISTRATIVE LAW JUDGE REIF: Okay. So

1 this will relate to your testimony that you have filed in this case.  
2 Will you please raise your right hand, and do you swear the  
3 testimony that you are about to give is the truth?

4 MR. ANDRA: Yes.

5 ADMINISTRATIVE LAW JUDGE REIF: Thank you.  
6 Okay. Mr. Andra, do you have a copy of your testimony?

7 MR. ANDRA: I do.

8 ADMINISTRATIVE LAW JUDGE REIF: Okay. At  
9 the bottom of page 2 of your testimony, line 46, there is a  
10 question that states, "What do these projections show would be  
11 the result of the four percent increase in rates." Would you  
12 read the reply that you have submitted into the record?

13 MR. ANDRA: Yes. "For the year ended December  
14 31, 2012, which is the last year without the four percent rate  
15 increase, the projection shows a loss of \$656,480; in the year  
16 ended December 31st, 2013, which is the first year that takes  
17 the proposed increase into effect, that loss is reduced to  
18 \$21,346; and from 2014, a gain of \$150,542 is projected. That  
19 is followed by a projected loss of \$256,622 in 2015, a loss of  
20 \$363,129 in 2016, and a loss of \$29,818 in 2017."

21 ADMINISTRATIVE LAW JUDGE REIF: Okay. Mr.  
22 Andra, would you do me a favor? There is a microphone in front  
23 of you and there is a little button that says, "Push." Would you  
24 please make sure that is on?

25 MR. ANDRA: Okay.

1 ADMINISTRATIVE LAW JUDGE REIF: That will  
2 make it much easier for me to hear you and the court reporter to  
3 record your statements.

4 Mr. Jensen has explained and has testified that the  
5 four percent increase is necessary in this case, and that without  
6 it, the company cannot continue to operate without a loss. I'm a  
7 little bit confused as to the parts of your testimony, starting on  
8 about line 48 about halfway through, when you start taking into  
9 account, assuming that the rate increase is granted, why there  
10 would be continued losses. And maybe I am misunderstanding  
11 your testimony, so don't hesitate to clarify. Could you help me  
12 understand that, please?

13 MR. ANDRA: Yes. As Darrin stated previously, we  
14 recommended a five percent increase, which would help those  
15 losses not be as great. They, you know, decided as a board  
16 four percent would be okay and we agree with that, also.

17 And if you look at my testimony lines 75, it  
18 mentions a payment that they have for their water treatment  
19 plant of \$457,000 and \$460,000. Those payments end in 2018,  
20 and we were looking into the future, also, when we decided on  
21 that rate, the percent, and once those payments, once the water  
22 treatment payments are done, they are going to see that as  
23 revenue rather than as a--well, not as revenue but they won't  
24 have that expense.

25 ADMINISTRATIVE LAW JUDGE REIF: So the loss



1 would be diminished after 2018?

2 MR. ANDRA: Yes.

3 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
4 it is the decision of the company to, in essence, continue to  
5 operate as a loss?

6 MR. ANDRA: Yes.

7 ADMINISTRATIVE LAW JUDGE REIF: Between  
8 that time?

9 MR. ANDRA: Between then, as we have 2014  
10 projected as a gain, and then there's, yes, smaller losses for the  
11 following three years.

12 ADMINISTRATIVE LAW JUDGE REIF: Does the  
13 company intend to offset those losses in some way?

14 MR. JENSEN: Again, because the company runs  
15 two different entities, the irrigation and the culinary, and there  
16 are funds that we have set aside because of land sales, we can  
17 operate the culinary side as a loss during those times, knowing  
18 those funds will come back once loans are paid off.

19 ADMINISTRATIVE LAW JUDGE REIF: Okay.

20 MR. JENSEN: We also look at--you know, our goal  
21 is, again, to keep--am I okay to speak?

22 ADMINISTRATIVE LAW JUDGE REIF: Yes, yes.

23 MR. JENSEN: Okay. It is the our goal as a  
24 company to keep rates as low as we possible can and so many  
25 things can fluctuate from year to year. And so we can take this

1 list and look at our improvements, and based on, okay, we  
2 believe this is how much revenue we're going to make and we  
3 believe this is what our expenses are going to be, but until that  
4 actual year has accrued, you really don't know.

5 So, again, we try to err on the side of caution and  
6 say we believe that we can run in a deficit for a couple of years,  
7 knowing that it will all balance out over the next couple, versus  
8 let's raise them really high to take care of our deficit and then  
9 we come back in to the Commission and now we are making too  
10 much money and we need to do a rate decrease to finalize it  
11 once the payment is off. And because the company has the  
12 funds because of the land sales and, you know, a variety of  
13 other projects that we have had, we feel it is best to maintain an  
14 even flow of our rate and keep them as low as we possibly can.

15 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
16 you very much. And as I understand your testimony, the board  
17 has reviewed all of this and has approved this approach?

18 MR. JENSEN: Yes.

19 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
20 the loan that you're referring to, Mr. Andra, back to you, please, is  
21 that a loan to the parent, or is it an independent loan.

22 MR. ANDRA: I believe it's a Division of Drinking  
23 Water Loan.

24 ADMINISTRATIVE LAW JUDGE REIF: Okay. So  
25 with the State of Utah?

1 MR. ANDRA: Yes.

2 ADMINISTRATIVE LAW JUDGE REIF: Okay. All  
3 right, very good. Mr. Jensen, we have addressed your request  
4 for a rate increase, that part of your application. There is also  
5 another part of your application that is pending as a result of  
6 some subsequently filed materials regarding the fire service  
7 user fee, and I think this will be a good opportunity for you to  
8 address that before we move on to the Division since that is, in  
9 essence, a supplement to your application. Are you prepared to  
10 address that?

11 MR. JENSEN: Can you give me a second?

12 ADMINISTRATIVE LAW JUDGE REIF: Sure. We  
13 will be off the record.

14 (A discussion was held off the record.)

15 MR. JENSEN: I am going to refer to David  
16 Gardner, our assistant general manager who actually worked  
17 directly with the engineers in developing this and came up with  
18 these.

19 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
20 Mr. Gardner, before we have you go on the record and provide  
21 your testimony, I would like to have your sworn in.

22 MR. GARDNER: Sure.

23 ADMINISTRATIVE LAW JUDGE REIF: Are you  
24 prepared to do that today?

25 MR. GARDNER: Yes.

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ADMINISTRATIVE LAW JUDGE REIF: All right.  
Would you raise your right hand, please, and do you swear that  
the testimony you are about to give is the truth?

MR. GARDNER: Yes.

ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
you. Did you understand my question regarding the  
supplemental material filed in this case concerning the request  
for fire service user fee?

MR. GARDNER: Would you like to expand upon it  
just a little bit? Are you asking why this fee is being charged?

ADMINISTRATIVE LAW JUDGE REIF: Well, as part  
of the hearing process, it's the applicant's opportunity to outline  
their application and to, essentially, explain and justify why they  
are seeking what they requested. And on December 12, 2012,  
the Commission received a fire--a private fire service user fees  
document, and on December 17, 2012, we received a  
supplement to that document.

These documents indicate that in addition to the  
four percent increase that is being sought as part of the  
application that was filed in July of 2012, that there is an  
additional request as a part of this document--these documents,  
I should say. And so I just was hoping that you could address  
that, expand upon it, explain why it's necessary so that we can  
have that on the record.

MR. GARDNER: This is a fee that is charged by

1 some other entities, so we looked at it and there are certain  
2 costs in providing fire service. These are private lines that go  
3 from our mains to buildings for fire protection. And so this is to  
4 recover the cost in sizing of mains and just the maintenance of  
5 keeping track of those and assisting those and providing service  
6 for those users. The rates came from a national survey put out  
7 by--they went through the AWWA, and so they did a--we had a  
8 study done of what was the appropriate amount to charge for  
9 these services.

10 ADMINISTRATIVE LAW JUDGE REIF: It's my  
11 understanding that, presently, there's not a fire service user fee  
12 in place --

13 MR. GARDNER: That is correct.

14 ADMINISTRATIVE LAW JUDGE REIF:  
15 --with WaterPro.

16 MR. GARDNER: So this is a new fee that would be  
17 an added into our rate structure.

18 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
19 can you help me understand, I believe that this is somewhat  
20 different than the general rate application, in that there are only  
21 a certain number of individuals who is will be effected by this?

22 MR. GARDNER: Correct. At the time the study  
23 was done, there was 92 individuals, and it's usually--this is  
24 almost all commercial. We do have a few residential now that  
25 the homes in Draper are becoming so large that the fire

1 department is requiring fire service to some of these homes, and  
2 it puts an additional burden on the system to provide that  
3 amount of flow for--the fire flows for those structures.

4 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
5 would you like to summarize what the fees are that you are  
6 looking, that you are proposing as part of your application, and  
7 my understanding is that it's based on, I believe, it's the pipe  
8 size?

9 MR. JENSEN: It is on the connection going into the  
10 home.

11 ADMINISTRATIVE LAW JUDGE REIF: Okay.

12 MR. GARDNER: Yes. So from the main into the  
13 facility, it's rated on the size of connection because like a  
14 four-inch connection requires twice as much water as a two. A  
15 six requires twice as much as a four and they are almost  
16 expediential that way until you get past ten inch, which we don't  
17 have. So it is just looking at the demand that would be required  
18 to put out that fire and the valves and the "T" and all the things  
19 that need to be maintained by us to provide that service to those  
20 individuals.

21 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
22 the fees as I see them, and please tell me if this is correct, so  
23 for the 92 connections that would be affected, as I'm  
24 understanding this, each one of those would receive an annual  
25 administrative cost. Would that be a fee of \$23.06; is that

1 correct?

2 MR. GARDNER: Well--yes.

3 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
4 then an annual fire protection capacity cost of \$3.07 and then it  
5 totalled at an annual fire service user fee of \$26.13?

6 MR. GARDNER: Yes.

7 ADMINISTRATIVE LAW JUDGE REIF: Okay. So  
8 that would be for somebody who has a two-inch pipe, and the  
9 four-inch pipe totals at \$42.07?

10 MR. GARDNER: Correct.

11 ADMINISTRATIVE LAW JUDGE REIF: The six-inch  
12 pipe at \$78.15, and eight-inch pipe at \$140.68, and ten-inch  
13 pipe as \$234.97?

14 MR. GARDNER: That is correct.

15 ADMINISTRATIVE LAW JUDGE REIF: Okay, and  
16 those are the amounts that you are seeking, and, again, there is  
17 a breakdown with the administrative cost being consistent  
18 throughout each one of those at \$23.06 and the annual fire  
19 protection capacity cost changing varying on the size of the  
20 pipe?

21 MR. GARDNER: That's correct. You have it.

22 ADMINISTRATIVE LAW JUDGE REIF: Okay. Is  
23 there anything else that you would like to add with respect to  
24 that part of the application?

25 MR. GARDNER: This is something that we have

1 looked at for a long period of time, just trying to be equitable  
2 because it does take time and administrative cost, so this is our  
3 first attempt at this, and we feel we have done a good job of  
4 studying this out and coming up with a fair rate for these  
5 individuals.

6 ADMINISTRATIVE LAW JUDGE REIF: Okay. Do  
7 you know whether these 92, approximately 92, individuals or  
8 owners are aware of this fee being proposed before the  
9 Commission?

10 MR. JENSEN: They are not.

11 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
12 with respect to the general application, the four percent rate  
13 increase, are the individuals who are proposed to be affected by  
14 that, are they aware of the pending application?

15 MR. GARDNER: Yes.

16 MR. JENSEN: Yes, they are. We brought it up  
17 more than a year ago in our stockholder meetings, and then in  
18 the last three months, we had it going out in our newsletters and  
19 also going out on our website.

20 ADMINISTRATIVE LAW JUDGE REIF: Okay. One  
21 other question, please, Mr. Jensen, back to your general rate  
22 increase that you are asking for the four percent, and I am  
23 looking at WaterPro Exhibit No. 1.

24 MR. JENSEN: The one that we submitted in today?

25 ADMINISTRATIVE LAW JUDGE REIF: Yes, yes.



1 MR. JENSEN: Our one and only.

2 ADMINISTRATIVE LAW JUDGE REIF: Would I be  
3 correct in understanding this as WaterPro is requesting a rate  
4 increase involving each and every one of these, what I believe  
5 you call, zones; so we have the main residents, the South  
6 Mountain Country Club, South Mountain Zone Five, Cove of  
7 Bear Canyon, Little Valley on South Mountain, would the rate  
8 increase involve every one of those?

9 MR. JENSEN: Yes, it would four percent.

10 ADMINISTRATIVE LAW JUDGE REIF: Okay. Is  
11 there any area that is not listed here that would be affected?

12 MR. JENSEN: No.

13 ADMINISTRATIVE LAW JUDGE REIF: Okay, and,  
14 again, these owners have been notified?

15 MR. JENSEN: Several times.

16 ADMINISTRATIVE LAW JUDGE REIF: Okay, okay.  
17 Were you intending to notify the 92 or so owners with respect to  
18 the fire service user fee?

19 MR. JENSEN: They will be notified. And if I can,  
20 this--we added this in at the end. We have talked about this.  
21 Our first study was back in 2009, knowing that we would have to  
22 go through the Commission in order to add this. Well, it's a  
23 lengthy process, as you well know, to go through the  
24 Commission to collect \$6,400, and so we thought at the time, we  
25 will just wait until our next increase.

1 Well, the increase came and everything was  
2 submitted, and we were in a managers' meeting and went, oh,  
3 this would maybe be a really good time to submit that. So that  
4 is when it was submitted, went to Mark, Mr. Long, and we said  
5 we would like to submit it. He said, not a problem. Do an  
6 addendum and submit this to us.

7 It was an oversight on our part to notify each of  
8 these customers to let them know this would be a part of it. It  
9 wasn't intentional. It was an oversight. We will allow them a  
10 process that we will send them notification in giving them  
11 approximately 90 days before any fee would be placed on them  
12 with this fire, fire flow.

13 So we would send out a letter notifying them that in  
14 90 days, they will notice or see on their bill from WaterPro  
15 showing that these rates are--will be taken effect and if they  
16 have any questions, they can feel free to come talk to us. And  
17 then, again, 30 days prior to, we will send out another  
18 notification out to them, just, again, this is what we are doing, if  
19 you would like to come in, sit down, or see calculations or how  
20 we've come up with this, we would be more than happy to sit  
21 down and talk to you.

22 ADMINISTRATIVE LAW JUDGE REIF: So you  
23 foresee that should the Commission grant your request with  
24 respect to the fire service user fee, and let's just say  
25 hypothetically speaking, that that request is granted, that the

1 order is signed, just to make it simple, February 1st.

2 MR. JENSEN: Right.

3 ADMINISTRATIVE LAW JUDGE REIF: That you  
4 would let your users know that they have 90 days from the date  
5 of the Commission's order before you would start taking the --

6 MR. JENSEN: Before we would bill them.

7 ADMINISTRATIVE LAW JUDGE REIF: Okay.

8 MR. JENSEN: Yes, we actually planned on June  
9 1st would be the first time we actually sent, billed these  
10 residents for this fire service user fee, so and that way, we gave  
11 them--we don't want to spring any fees on to anyone, although  
12 they are minimal, but a fee is a fee, so we wanted to give them  
13 ample time to understand it and give them time to come in and  
14 talk to us or call us to understand exactly what we were doing  
15 so that there were no surprises.

16 ADMINISTRATIVE LAW JUDGE REIF: I don't  
17 remember reading about the June timeline; is that something  
18 that --

19 MR. JENSEN: That was inhouse.

20 ADMINISTRATIVE LAW JUDGE REIF: Okay.

21 MR. JENSEN: Yes.

22 ADMINISTRATIVE LAW JUDGE REIF: All right.  
23 One thing that I do want to mention is that sometimes when the  
24 Commission issues orders, at the end of the order, there will be  
25 an opportunity for individuals to seek reconsideration or,

1 essentially, appeal the order or aspects of the order, and they  
2 usually have somewhere in the neighborhood of 20 days to do  
3 that. And should an appeal not be filed, then the rate effect or  
4 the change would take affect immediately after that.

5 MR. JENSEN: Okay.

6 ADMINISTRATIVE LAW JUDGE REIF: So that's  
7 another possible way that this could be resolved, if the  
8 Commission chooses that this is acceptable and that they want  
9 to approve it. Now before we move to the Division, there are  
10 some important aspects of rate increases that are essential from  
11 the standpoint of testimony and making sure that the record is  
12 clear, and what I would like to ask you today, Mr. Jensen, is it  
13 your view, is it the view of WaterPro, who is the applicant in this  
14 case, that what you're requesting is just and reasonable?

15 MR. JENSEN: Yes.

16 ADMINISTRATIVE LAW JUDGE REIF: Okay, and,  
17 Mr. Andra, I am going to ask you the same thing since you have  
18 testified in this case; and is it also your position that what  
19 WaterPro is requesting is just and reasonable?

20 MR. ANDRA: Yes.

21 ADMINISTRATIVE LAW JUDGE REIF: Okay, and,  
22 Mr. Gardner, is it also your position that what is being requested  
23 is just and reasonable?

24 MR. GARDNER: Yes.

25 ADMINISTRATIVE LAW JUDGE REIF: And one

1 step further, would it be WaterPro's position, Mr. Jensen, that  
2 granting your request would be in the public interest?

3 MR. JENSEN: Yes, it would be.

4 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
5 you, Mr. Andra, same question.

6 MR. ANDRA: Yes.

7 ADMINISTRATIVE LAW JUDGE REIF: Mr. Gardner,  
8 same question?

9 MR. GARDNER: Yes.

10 ADMINISTRATIVE LAW JUDGE REIF: Okay, thank  
11 you. I don't think I have any further questions for the applicant  
12 right now. If I do, I will come back to them. I would like to let  
13 the Division proceed, and thank you for your patience. I want to  
14 be sure that what is happening and what--that my questions are  
15 as clear as possible to you, especially since you don't have a  
16 lawyer present, and so if you have any questions, please,  
17 please, don't hesitate to let me know.

18 MR. JENSEN: Thank you.

19 ADMINISTRATIVE LAW JUDGE REIF: Ms. Schmid?

20 MS. SCHMID: Thank you. The Division would like  
21 to call Mr. Long as its witness. Can he please be sworn?

22 ADMINISTRATIVE LAW JUDGE REIF: Mr. Long, do  
23 you swear the testimony you're about to give is the truth?

24 MR. LONG: Yes.

25 ADMINISTRATIVE LAW JUDGE REIF: You may

1 proceed.

2 MS. SCHMID: Good morning. Could you please  
3 state your full name, business address, for whom you work and  
4 position, for the record?

5 MR. LONG: Yes. My full name is Mark Allen Long,  
6 my business address is 160 East 300 South, Salt Lake City,  
7 84114, and I work for the Division of Public Utilities.

8 MS. SCHMID: As a?

9 MR. LONG: As an utility analyst.

10 MS. SCHMID: And, Mr. Long, on behalf of the  
11 Division, have you participated in this docket?

12 MR. LONG: Yes.

13 MS. SCHMID: Did you prepare and file what has  
14 been marked for identification as DPU Exhibit 1, which is your  
15 direct testimony and associated exhibits, and DPU Exhibit No. 2,  
16 which is your rebuttal testimony and associated exhibits, and  
17 cause them to be filed?

18 MR. LONG: Yes, I have.

19 MS. SCHMID: Do you have any changes or  
20 corrections to those?

21 MR. LONG: No.

22 MS. SCHMID: If asked the same questions today,  
23 would your answers be substantially the same?

24 MR. LONG: Yes, they would.

25 MS. SCHMID: With that, the Division requests the

1 admission of DPU Exhibit 1 with its direct testimony and  
2 attached exhibits, and DPU Exhibit No. 2, Mr. Long's rebuttal  
3 with its attached exhibits.

4 ADMINISTRATIVE LAW JUDGE REIF: Is there any  
5 opposition to the admission of those? Hearing none, DPU  
6 Exhibit No. 1 and DPU Exhibit No. 2 are both admitted.

7 MS. SCHMID: Mr. Long, do you have a summary  
8 you would like to present?

9 MR. LONG: Yes.

10 MS. SCHMID: Please proceed.

11 MR. LONG: To begin, the Division of Public  
12 Utilities, hereafter referred to as the Division, would like to add  
13 just a couple of items regarding WaterPro's history with the Utah  
14 Public Service Commission, hereafter referred to as the  
15 Commission.

16 WaterPro's 9,339 customers make it by far the  
17 larger water company regulated by the Utah Public Service  
18 Commission. To put its size into prospective, the next largest  
19 Commission regulated water company has about 350 customers.

20 On November 7, 2005, the Commission granted  
21 WaterPro a certificate of Public Convenience and Necessity, No.  
22 2443. WaterPro's tariff was approved at the same time.

23 On February 28, 2006, WaterPro filed for approval  
24 to revise its tariff's base rate and tiered usage fees, resulting in  
25 a proposed increase to some of its current tiered customers and

1 rates. The Commission approved the tariff revision and rate  
2 increase on January 12, 2007, in docket 06-2443-01T.

3 In August, 2009, docket 09-2443-01, WaterPro filed  
4 an application for a rate increase. After the Division issued  
5 several data requests and following extensive communications  
6 with WaterPro personnel, there remained several unresolved  
7 issues. The rate increase sought in this document was actually  
8 a nine percent increase from current rates, which is five percent  
9 higher than the proposed and recommended rates in this  
10 document before us, which would have caused substantial  
11 over-earnings had the rates gone through at that time.

12 On February 3, 2010, WaterPro formally withdraw  
13 its application for a rate increase. Subsequent to WaterPro's  
14 withdrawal, is an extensive work in converting its system of  
15 accounts to comply with the National Association of Regulatory  
16 Utility Commissioners, otherwise known as NARUC, which the  
17 Commission has adopted and incorporated in Utah  
18 Administrative Rule R746-330-4. WaterPro has also changed its  
19 accounting procedures to comply with regulatory accounting  
20 methods and treatment of expenses to comply with NARUC and  
21 regulatory standards.

22 The following is a brief narrative of the case and  
23 the Division's conclusions. Additional information is available in  
24 the Division's direct testimony and supporting exhibits and its  
25 rebuttal testimony and its supporting amended exhibits filed in



1 this case.

2           On or about July 9, 2012, WaterPro filed an  
3 application for a rate increase. The Commission assigned it  
4 docket No. 12-2443-01. The Division found WaterPro's books  
5 and records to be well maintained and complete. The Division  
6 conducted a comprehensive and thorough review, including the  
7 examination of hundreds of source documents and dozen and  
8 dozen of pages of general ledgers and check registers.  
9 Because of the size and complexity of WaterPro compared to  
10 most of the other water companies the Commission regulates,  
11 the Division's review was more involved and time consuming  
12 than typical; although, no stone was left unturned.

13           The Division's amended exhibits 1.1 through 1.6  
14 are self-explanatory; however, the Division would like to  
15 comment on Exhibit 1.2, disallowed culinary water expenses. In  
16 the 2011 test year, the Division found four accounts that had  
17 questionable or one-time expenses. Several one-time  
18 expenses, all of--most, if not all, of advertising and all of  
19 donations were disallowed.

20           Included in these accounts were employee perks  
21 that averaged \$1,466 for each 24 of the company's employees  
22 per year, which appears excessive for a regulated public utility  
23 WaterPro's size. Some of these perks included over \$10,000 for  
24 catered meals for employees at Buzz baseball games, over  
25 \$7,000 for the 2011 employee Christmas party and thousands of

1 dollars more in employee drawings and food for luncheons. The  
2 Division disallowed the catered Buzz game meals and other  
3 perks, such as cable TV service in the employee break room.  
4 This and other disallowed perks brought the average employee  
5 perk to \$939 per employee per year, which still appears  
6 excessive. WaterPro and the Division agreed to reduce the  
7 \$939 remaining employee perks funded by the regulated culinary  
8 water distribution system that WaterPro refers to as Draper  
9 Water Services, or DWS, by 50 percent in the test year and  
10 going forward, to \$469 per employee per year. This does not  
11 preclude WaterPro from providing these perks organize paying  
12 for other expenses from sources other than DWS and DWS's  
13 rates. The total disallowed culinary water expenses were  
14 \$79,897. Because WaterPro's expenses in the test year are  
15 \$3,751,416, the \$79,897 adjustment was not material enough to  
16 affect the originally requested rates. Even with the adjustments  
17 to expense, WaterPro is still not over-earning with the modest  
18 increase in rates they seek; furthermore, the recommended  
19 rates are within one quarter of a percent of WaterPro's revenue  
20 requirement.

21                   Unlike most water rate cases, the Division is not  
22 making a recommendation requiring WaterPro to have a formal  
23 capital reserve account. The company already has an informal  
24 policy of maintaining several million dollars in reserves and the  
25 Division verified that the last three annual reports submitted by

1 the company shows an average cash balance of \$3,924,300 and  
2 2011's annual report shows \$2,746,285 in cash reserves. The  
3 main reason is that the Division--for the Division's  
4 recommendation for a capital reserve account in prior cases is  
5 that the typical small water company regulated by the  
6 Commission has no savings or reserves and does not have the  
7 ability to borrow funds. WaterPro has millions in reserves and  
8 the ability to borrow funds. The Division was recently informed  
9 that the company anticipates creating a formal policy regarding  
10 a capital reserve account.

11 WaterPro submitted a technical memorandum on  
12 December 12, 2012 and on December 17, 2012, followed up by  
13 submitting a supplemental filing, both submissions addressing  
14 WaterPro's request to add an annual private fire service user  
15 fee to the original application for a rate increase. This fee will  
16 affect only those 92 customers WaterPro provides the additional  
17 fire service for. The annual fee is based on the customer's pipe  
18 size WaterPro is providing the service for. The annual  
19 customer's private fire service user fee range from \$26.13 to  
20 \$234.97, for a total addition to WaterPro's income of \$6,476.68.  
21 This was a percentage increase of 0.12 percent of total income  
22 and does not materially affect the rates.

23 And as we discussed earlier, the Division would  
24 recommend that the Commission order WaterPro to start the  
25 rate on June 1, 2013, which would give them ample time to

1 notify the customers and explain to them what this fire service  
2 fee is for.

3           The Division also noted during their dealings with  
4 WaterPro that they are very reluctant to raise customer rates.  
5 To this end, funds from the sales of land belonging to  
6 WaterPro's unregulated Draper Irrigation Company, otherwise  
7 referred to as DIC, and other business transactions have and  
8 are being used to build infrastructure, and to a certain extent,  
9 supplement the operations for the benefit of DWS. Without  
10 these subsidies, DWS would likely be required to charge higher  
11 rates.

12           The Division believes that its rates and fees  
13 contained in the Division's amended exhibit 1.5 are just and  
14 reasonable and in the public interest. And rather than recite  
15 every one of those lines, the Division would ask that the Court  
16 would accept the amended Exhibit 1.5.

17           The impact of the recommended rate increase on  
18 individual customer's bills are minimal. The Division calculates  
19 that the average monthly increase per connection is going to be  
20 about \$1.74. To date, the Division has not received any  
21 correspondence from any customers regarding the proposed  
22 rate increase or expressing any financial hardship concerning  
23 the proposed rate increase.

24           The Division believes that its recommended rates  
25 and private fire service user fee set forth in amended Exhibit 1.5

1 are just and reasonable and consistent with the public interest;  
2 and, therefore, the Division recommends that the Commission  
3 approves these new rates and fees.

4 MS. SCHMID: Thank you. I have a couple--or a  
5 few questions just to clarify what you said. Could you please  
6 tell us how many customers WaterPro has, approximately?

7 MR. LONG: Did I not say that right? 9,339  
8 customers.

9 MS. SCHMID: And turning now to the private fire  
10 service user fees, I think that the correct number for the  
11 greatest fee that would be charged is \$234.97; is that correct.

12 MR. LONG: That's correct.

13 MS. SCHMID: And, lastly, given Mr. Jensen's  
14 testimony that they would be willing to delay implementation of  
15 the private fire service fee by 90 days, would that be something  
16 the Division could support, if the Commission finds that  
17 reasonable?

18 MR. LONG: Yes, the Division would support that,  
19 as well.

20 MS. SCHMID: Mr. Long is now available for  
21 cross-examination and questions from the Administrative Law  
22 Judge.

23 ADMINISTRATIVE LAW JUDGE REIF: Thank you  
24 for your testimony, Mr. Long. You refer to amended Exhibit No.  
25 1.5. I just want to be sure, earlier in the proceeding, we entered

1 into evidence WaterPro Exhibit No. 1, which I believe is the  
2 same document you are referring to; is that correct?

3 MR. LONG: Yes, that's the same.

4 ADMINISTRATIVE LAW JUDGE REIF: Okay. So  
5 that has been entered into evidence, so the Commission does  
6 have that. And let's go off the record.

7 (A discussion was held off the record.)

8 ADMINISTRATIVE LAW JUDGE REIF: Back on the  
9 record. Mr. Long, I don't think it's been brought up yet during  
10 this hearing, and I know that your testimony made it clear, but I  
11 want to be sure that there is reference to that in the hearing  
12 today, that the test year that you, meaning the Division, took  
13 under consideration is the test year of 2011; is that correct?

14 MR. LONG: That's correct.

15 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
16 your testimony also referred to, and you have mentioned today,  
17 that the increase is minimal. In fact, in your testimony on line  
18 211, on page 13 in your--this is your direct testimony, you refer  
19 to it, as you say, "The Division calculates that the average  
20 monthly increase per connection is \$1.74, and that to date,  
21 neither the company nor the Division has received any  
22 correspondence regarding the project rate increase." Is that the  
23 case as of this morning, as well?

24 MR. LONG: The Division hasn't received any  
25 concerns at all from customers. I can't speak for WaterPro.

1 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
2 Mr. Long, is it your understanding that the testimony that's been  
3 given today concerning the fire service user fee will affect,  
4 approximately, 92 users?

5 MR. LONG: At the time I received it, I believe it's  
6 92 customers.

7 ADMINISTRATIVE LAW JUDGE REIF: Okay. And  
8 one other bit of clarification, in your Exhibit 1.1, which is  
9 attached to your rebuttal testimony and as you've testified  
10 today, your adjustments result in an adjusted figure of \$79,897  
11 to the WaterPro expenses that were submitted; yet, you've also  
12 indicated that that amount, and I am paraphrasing, is not high  
13 enough to make a material difference in the expenses such that  
14 there would be or should be any variation in the percentage that  
15 WaterPro is requesting for the rate increase; is that correct?

16 MR. LONG: That is correct.

17 ADMINISTRATIVE LAW JUDGE REIF: Okay. And,  
18 again, could you please remind me what the--you gave a  
19 percentage of the difference between the \$79,897 percent  
20 adjustment, what that difference was from the amount that  
21 WaterPro was asserting at \$3,831,314?

22 MR. LONG: I believe it was 0.12 percent.

23 ADMINISTRATIVE LAW JUDGE REIF: Okay, all  
24 right. Thank you, Mr. Long.

25 MR. LONG: I am sorry, could you clarify that last

1 question? I may have misspoke.

2 ADMINISTRATIVE LAW JUDGE REIF: I think  
3 towards the end of your testimony, you were saying that and this  
4 related to the minimalness of the adjustment, and I think that  
5 you were giving a figure that related to the percent of the  
6 adjustment expense related to the amount requested by  
7 WaterPro, and I think what you said previously answered my  
8 question.

9 MR. LONG: Okay.

10 ADMINISTRATIVE LAW JUDGE REIF: Was there  
11 something else that you--

12 MR. LONG: I wasn't sure if you were talking or  
13 referring to the \$79,000 for the adjustments from the expenses  
14 or the fire user fee.

15 ADMINISTRATIVE LAW JUDGE REIF: Oh, I was  
16 talking about the adjustments. Thank you, thank you.

17 MR. LONG: Okay.

18 ADMINISTRATIVE LAW JUDGE REIF: Thank you,  
19 Mr. Long, I appreciate your testimony very much. The  
20 Commission also wishes to note that it was very helpful, too,  
21 and you did make note of this today, that there was great  
22 cooperation, and I think there were some other things here that I  
23 know the Commission was very pleased to see and we  
24 appreciate you making note of that. That helps us in  
25 understanding your position, as well as the company's position,



1 so thank you very much.

2 I jumped in with questions and I know, Mr. Jensen,  
3 you have the opportunity to also ask Mr. Long any questions  
4 that you would like. Do you have any questions for Mr. Long?

5 MR. JENSEN: Nope, I have none, thank you.

6 ADMINISTRATIVE LAW JUDGE REIF: Okay. One  
7 thing that I do need to do, or I would like to do just to make sure  
8 that it's covered, and that, Mr. Jensen, I am going to help you  
9 out here a little bit since you don't have the advantage of  
10 counsel. We have entered into evidence the testimony of the  
11 Division. We have not entered into evidence your application or  
12 your supplemental materials or your testimony, and at this time,  
13 I would, barring any objections, would like to do so.

14 And so at this time, the Commission enters into  
15 evidence WaterPro's rate case application filed with the  
16 Division--filed with the Commission on July 1, 2012, as well as  
17 the direct testimony of Darrin L. Jensen, filed September 6,  
18 2012, the direct testimony of Trevor Andra, filed September 6,  
19 2012, a technical memorandum filed by the applicant on  
20 December 12, 2012, and a supplement to that technical  
21 memoranda filed on December 17, 2012. All of these are  
22 admitted into evidence and are part of the record.

23 At this time, I would like to ask if there are any  
24 questions or remaining issues that any of you have?

25 MR. JENSEN: We have none.

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MS. SCHMID: The Division has none.

ADMINISTRATIVE LAW JUDGE REIF: Okay, thank you very much. This hearing is adjourned and an order will be forthcoming. Thank you all.

(The hearing was concluded at 10:40 a.m.)

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REPORTER'S CERTIFICATE

State of Utah )

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County of Salt Lake)

I, Kellie Peterson, Certified Shorthand Reporter,  
Registered Professional Reporter, and Notary Public for the  
State of Utah, do hereby certify:

THAT the foregoing proceedings were taken before  
me at the time and place set forth herein; that the witness was  
duly sworn to tell the truth, the whole truth, and nothing but the  
truth; and that the proceedings were taken down by me in  
shorthand and thereafter transcribed into typewriting under my  
direction and supervision;

THAT the foregoing pages contain a true and  
correct transcription of my said shorthand notes so taken.

IN WITNESS WHEREOF, I have subscribed my  
name and affixed my seal this 7th day of February, 2013.

\_\_\_\_\_

Kellie Peterson, RPR