

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In The Matter of the Rate Application of)	DOCKET NO. 15-098-01
Community Water Company, LLC.)	
)	DPU Exhibit No. 2.0
)	
)	Direct Testimony and Exhibits
)	
)	Ronald Slusher
)	

DIRECT TESTIMONY

OF

RONALD SLUSHER

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

December 18, 2015

REDACTED – PUBLIC

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS FOR THE RECORD?

A. My name is Ronald Slusher (Ron); I am employed as a Utility Technical Consultant for the State of Utah, in the Division of Public Utilities (“Division”); my business address is Heber M. Wells Building, 160 East 300 South, 4th Floor, Salt Lake City, Utah 84114-6751.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I received a Bachelor of Science degree from Westminster College in Computer Science. Prior to joining the Division in 2004, I worked as Project Manager for a local commercial construction company and an international machinery manufacturing company, preparing and completing action plans; implementing production, productivity, quality, and customer-service standards; and resolving problems, and completing audits.

Q. ARE YOU TESTIFYING ON BEHALF OF THE DIVISION?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

22 A. The purpose of my testimony is to explain the proposed adjustments made by the
23 Division to Community Water Company, LLC's ("Company" or "Community
24 Water") rate case application and to present the Division's recommendation on
25 rates that will be fair, just, and reasonable to both the Company and its customers
26 and in the public interest.

27

28 **Q. DO YOU KNOW HOW LONG HAS IT BEEN SINCE THE COMPANY**
29 **LAST FILED FOR A RATE INCREASE?**

30 A. Yes, it has been approximately 13 years. The Company filed for and was granted
31 its last rate increase on January 29, 2002 under docket number 01-098-01.

32

33 **II. GENERAL RATEMAKING COMMENTS**

34 **Q. FOR THE BENEFIT OF THE COMPANY AND ITS CUSTOMERS CAN**
35 **THE DIVISION BRIEFLY DESCRIBE THE RATE CASE PROCESS?**

36 A. Yes. Let me first remind interested parties that customers are not simply paying
37 for water; they are paying for the infrastructure and range of services required to
38 receive a clean and reliable water supply. Fresh, pure water is expensive to pump,
39 store, treat, and transport to the tap.

40 Since public utility rate making is prospective, rates are designed to fully recover
41 all costs prudently incurred by the Company in providing service now and in the
42 future. Thus, an estimate is made of the future cost of service based on a prior or
43 forecast test year, which includes operations and maintenance expenses, reserves

44 or savings, return on investment, and taxes. Test year costs can be adjusted to
45 include known and measurable¹ changes that the Company will incur. Test year
46 costs are also normalized to provide an accurate estimate of future costs.
47 Consumers have an obligation to reimburse the Company at rates that will provide
48 such an opportunity.

49

50 **Q. WHAT IS FULL-COST PRICING AND WHY IS IT IMPERATIVE THAT**
51 **COMMUNITY WATER IMPLEMENT FULL-COST PRICING?**

52 A. Full-cost pricing refers to the practice of setting rates charged to the ratepayers
53 that, if fully collected, will provide a revenue stream to recover the Company's
54 ongoing operations and maintenance expenses, reserves or savings, return on
55 investment and taxes. The most obvious benefit of full-cost pricing is the ability
56 of the Company to consistently meet all on-going operational, maintenance and
57 capital costs to provide a reliable level of service. It is also important that utilities
58 do not operate at a loss, depend on subsidies, or continually deplete cash reserves
59 so that degradation of the system does not result, thereby compromising the
60 quality of service provided.

61

¹ Prepared by NARUC Staff Subcommittee, Rate Case and Audit Manual on Accounting and Finance, (Summer 2003) 35. "known and measurable, it is widely accepted that adjustments should have a strong degree of certainty associated with them, and that there should be a reasonable ability to measure the item underlying the adjustment."

62 **Q. PLEASE EXPLAIN WHY FULL COST PRICING, WHICH INCLUDES A**
63 **CAPITAL RESERVE ACCOUNT, IS RECOMMENDED BY THE**
64 **DIVISION NOW, BUT WAS NOT RECOMMENDED WHEN**
65 **COMMUNITY WATER'S RATES WERE LAST APPROVED IN**
66 **JANUARY 2001.**

67 A. In the past, when a water company applied for a rate increase, the Division
68 reviewed other water companies of similar size, number of customers and general
69 geographical location to verify that the rates and fees of the applicant were
70 comparable. If the applicant company met this criterion, the Division gave a
71 favorable recommendation to the Commission for approval. In recent years, after
72 seeing several cases of under-funding and neglect, involving regulated water
73 companies that were no longer able to recover the costs of providing services, the
74 Division developed a full-cost pricing model that has been used in this
75 application. This model develops rates that cover the full-cost of service, which
76 include a capital reserve account. Details of the capital reserve account will be
77 discussed later in this testimony. Now, new applicants, as well as established
78 water companies seeking a rate increase, must have rates that cover the full cost
79 of service to receive a favorable recommendation from the Division.

80

81 **III. DIVISION'S ANALYSIS OF COMPANY'S CURRENT AND PROPOSED**
82 **RATES AND RATE STRUCTURES**

83 **Q. FOR THIS CASE, ON WHICH YEARS DID THE DIVISION BASE ITS**
84 **RECOMMENDATION?**

85 A. The Company used a test year of 2014, which is the last complete year accounting
86 records are available. The Division also reviewed financial statements for the
87 years 2013 and 2015. The Division used a combination of the 2013, 2014, and
88 2015 actual costs as a basis to project future costs so that the Division
89 recommended rates would reflect future obligations and revenues.

90

91 **Q. WHAT ARE THE COMPANY'S CURRENT RATES AND RATE**
92 **STRUCTURE?**

93 A. Please refer to Community Water's Exhibit A.7 "Copy of Current Tariff" for
94 current rates and rate structure. It was filed with the Company's application on
95 July 23, 2015.

96

97 **Q. WHAT DID THE DIVISION CONCLUDE ABOUT THE CURRENT**
98 **RATES AND RATE STRUCTURE?**

99 A. The Division's analysis show that the current rates and rate structure do not cover
100 fixed costs, are no longer just and reasonable, and are not in the public interest.

101

102 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES AND RATE**
103 **STRUCTURE?**

104 A. Please refer to Community Water's Exhibit B.10 "Efforts to Encourage
105 Conservation" for proposed rates and rate structure. It was filed with the
106 Company's application on July 23, 2015.

107

108 **Q. DID THE DIVISION ANALYZE THE COMPANY'S PROPOSED RATES**
109 **AND RATE STRUCTURE?**

110 A. Yes. Concerning the proposed rates, the Division analyzed the Company
111 projections of future costs that were used to develop the Company proposed rates.
112 The Division also spoke with Community Water personnel several times and
113 issued several data requests to assist the Division in understanding the theories
114 behind the proposed rate structure. The Division also conducted an on-site audit
115 of Community Water, consisting of reviewing invoices to validate the costs
116 included in the rate case model recommended by the Division.

117

118 **Q. WHAT DID THE DIVISION CONCLUDE ABOUT THE COMPANY'S**
119 **PROPOSED RATES AND RATE STRUCTURE?**

120 A. The Division concludes that the Company's proposed rates are not just and
121 reasonable and in the public interest. The Company's proposed rates are based on
122 substantial asset acquisitions that the Division is not recommending at this time,
123 because the amounts are not known and measurable. Additionally, it appears as

124 though the Company is not using the rules set forth in Utah Administrative Rule
125 R746-332 “Depreciation Rate for Water Utilities” to depreciate its assets and
126 instead appears to be using accelerated depreciation.

127

128 **IV. DIVISION’S DESCRIPTION OF MODEL USED, ADJUSTMENTS AND**
129 **PROPOSED RATES AND RATE STRUCTURE**

130 **Q. CAN YOU GIVE A DESCRIPTION OF WHAT THE DPU RATE BASE**
131 **MODEL DOES?**

132 A. Yes, the Division has developed this model over a period of several years and rate
133 case studies to produce a just and reasonable pricing structure that works within
134 the guidelines set forth by the Public Service Commission Rules and is in the
135 public interest.

136 The model uses information submitted by the Company, i.e. number of users, total
137 gallons delivered, expenses, assets and depreciation, et cetera. The Division
138 researches and analyzes the information; based on these findings, the Division
139 makes appropriate adjustments to the information provided. These adjustments
140 can reduce or increase the amounts submitted by the Company. The output is a
141 rate structure that the Division uses for its recommendation to the Commission.

142

143 **Q. DOES THE DIVISION HAVE A LIST OF THE ADJUSTMENTS IT MADE**
144 **TO COMMUNITY WATER’S PROPOSAL FOR A RATE INCREASE?**

145 A. Yes, they are listed on the Division’s exhibits:

- 146 • DPU Exhibit 2_3a Expense Allocation Notes.pdf
- 147 • DPU Exhibit 2_4a Adjustments to Expenses Notes.pdf
- 148 • DPU Exhibit 2_7a Depreciation Expense Notes.pdf.

149

150 **Q. WILL THE DIVISION PLEASE DESCRIBE THE ADJUSTMENTS IT**
151 **MADE THAT ARE LISTED ON THOSE EXHIBITS?**

152 A. Yes, on the first exhibit listed, DPU Exhibit 2_3a Expense Allocation Notes.pdf,
153 the Division has adjusted the number of customers that the Company serves. The
154 number submitted by the Company matches the numbers used on its annual
155 report, but was clarified under an extensive report performed by Bowen, Collins
156 and Associates.

157

158 The second exhibit, DPU Exhibit 2_4a Adjustments to Expenses Notes.pdf,
159 shows a total of 18 adjustments made by the Division that have a net effect of
160 reducing the expenses submitted by the Company a total of [REDACTED] Because of
161 the number of adjustments represented on this exhibit, the Division asks that
162 interested parties view the exhibit directly instead of listing each here.

163

164 The third exhibit, DPU Exhibit 2_7a Depreciation Expense Notes.pdf, shows the
165 adjustments made to the Company's assets. Community Water's depreciation
166 schedules provided in its rate case application matched the depreciation
167 information contained in its 2014 Water Annual Report, but the Division used a

168 combination of this information and the asset inventory provided by Bowen,
169 Collins and Associates to establish a complete asset inventory.

170

171 The Division feels that a combination of the two reports gives a more accurate
172 view of the Company's assets. Along with the adjustment to the assets, the
173 Division found that some items listed as fully depreciated still had balances; the
174 depreciation schedule now reflects these changes. The Bowen, Collins and
175 Associates inventory gives an estimated replacement value based on the values
176 for the year 2015. That report also provides an estimated installation date (year) of
177 the equipment. The Division recognized that using values established in 2015 for
178 equipment purchased as far back as the early 1970, would produce a depreciation
179 expense that is not in line with equipment purchased from that era. With that in
180 mind, the Division used a Consumer Price Index ("CPI") calculator to produce
181 dollar values approximately equal to the time period the equipment was purchased
182 in.

183

184 **Q. DOES THE DIVISION HAVE A PROPOSAL FOR COMMUNITY**
185 **WATER'S RATES AND RATE STRUCTURE?**

186 A. Yes, based on the adjustments made, the Division's recommended water rates and
187 rate structure are as follows: (refer to the Division's exhibit DPU Exhibit 2_2
188 Rate Schedule.pdf for a complete breakdown)

189

Recommended Rate Schedule

Monthly Rates		Monthly Water Usage Amounts	
<i>Standby Rate</i>	\$ 16.85		
<i>Base Rate for Connected Customers</i>	36.05	0 gals	0 gals
Tier 1 (Per 1,000 Gallons)	1.30	0 gals	12,000 gals
Tier 2 (Per 1,000 Gallons)	1.95	12,001 gals	24,000 gals
Tier 3 (Per 1,000 Gallons)	2.96	24,001 gals	36,000 gals
Tier 4 (Per 1,000 Gallons)	4.45	36,001 gals	<i>OVER</i>

190 The pricing shown is for an individual user/dwelling. Community Water serves
191 three Home Owner Associations (“HOA”) that have master meters with multiple
192 connections. These HOA’s should be billed according to the number of units in
193 their association. As an example, Hidden Creek Condominiums has 127 units, so
194 Community Water should use the recommended rate schedule and multiply all
195 amounts by 127.

196

197 **Q. PLEASE DESCRIBE HOW THE COMPANY’S AND THE DIVISION’S**
198 **PROPOSALS DIFFER.**

199 A. There are several areas where the Company’s rate schedules and the Division’s
200 schedules differ.

201 First, the Division added a standby fee for the Company’s three customers who
202 are currently receiving water service through another company. The standby fee
203 is for redundant service if the Company needs to provide water to these
204 customers.

205

206 Second, the Division has lowered the monthly user fee, or connected customer
207 fee, based on the removal of estimated infrastructure replacement costs that the
208 Company included on its application. While the Division agrees with the
209 Company that there are several infrastructure items that are likely in need of
210 replacement, the Division does not believe that these costs meet the criteria
211 needed to be included in rates as known and measurable changes. The Company
212 currently has only engineering estimates for these expenditures. The Division
213 cannot include amounts for assets in its recommended rates until the assets in
214 question are considered a known and measurable expense or capital addition.

215

216 Third, the Division lowered the rate per 1,000 gallons of water the Company
217 plans to charge and the number of gallons per tier breakdown. The Division feels
218 that the 5,000 gallons starting point no longer represents how the dwellings in the
219 area are used. When the Company was established, in 1984, the dwellings were
220 mostly used as part-time residents. After meeting with the Company and others,
221 the Division feels that this is no longer the case and that the tiers should be based
222 on full-time occupancy. Based on this decision, the Division used the calculations
223 of the Utah Division of Water Rights, see DPU Exhibit 3 Water Use Information
224 for Water Right Applications.pdf, for full and resident water user, which
225 calculates that amount of water used by a full-time resident as approximately
226 12,219 gallons per month. The Division rounds this number down to 12,000

227 gallons per month for ease of use. The Division also recommends that there
228 should be no usage allowance included in the base rate. This is a conservation
229 measure. If a resident chooses to use only 1,000 gallons per month, they should be
230 charged only for 1,000 gallons. When an allotment is included in the base rate,
231 whether it be 3,000, 5,000, or 10,000 gallons, there is no financial incentive for a
232 consumer to use less than that allotment.

233

234 Fourth, the Division believes that in order to promote financial sustainability, the
235 Company should establish and fund a capital reserve account to prepare for future
236 infrastructure replacement. Setting aside reserves is critical to developing and
237 maintaining financial stability and can mean the difference between a system that
238 is self-sustaining and one that may fall victim to disrepair or become financially
239 unstable during even a relatively small emergency. Capital reserves are funded
240 through rates, paid equally by all connected and standby customers, and should be
241 maintained in an escrow or other protected account and allowed to accumulate or
242 used for capital replacement, improvements and major restorations as the need
243 arises. Funding for the capital reserve account comes from two sources:

244 (1) Annual depreciation expense, the targeted minimum amount to be set aside
245 annually for capital reserves is equal to the company's annual depreciation
246 expense prior to making any adjustments for Contributions in Aid of Construction
247 (CIAC). The Division estimates this annual expense at [REDACTED] (refer to DPU
248 Exhibit 2_7 Depreciation Expense.pdf).

249 (2) Usage rates, any usage fee collected in excess of the \$1.30 per 1,000 gallons
250 cost of service and after deducting for the associated variable expenses should
251 also be set aside in the capital reserve account.

252

253 **V. RECOMMENDATION**

254 **Q. WHAT IS THE DIVISION'S RECOMMENDATION?**

255 A. The Division recommends that the Company charge a base rate and increase the
256 amount of the initial water tier from 5,000 gallons to 12,000 gallons, which is the
257 approximately the household average as determined by the Utah Division of
258 Water Rights.

259 With the 12,000 gallons in mind, the Division recommends the rate schedule
260 proposed in DPU Exhibit 2_2 Rate Schedule.pdf. The Division also recommends
261 that along with the new pricing structure that the Company submit a new tariff as
262 opposed to just submitting an amended pricing schedule. When the Company's
263 revenue requirement changes, it can file for a rate adjustment.

264

265 **VI. CONCLUSION**

266 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

267 A. Yes it does. Thank you.

268

269

VII. LIST OF EXHIBIT(S)

270

- DPU Exhibits 2.1-2.11 Rate Base Model for Community Water Company, LLC. (Excel workbook)

271

272

- DPU Exhibits 2.1-2.11 Rate Base Model for Community Water Company, LLC. (PDF file)

273

274

The following exhibits are individual sheets printed out from the “DPU

275

Exhibits 2.1-2.11 Rate Base Model for Community Water Company, LLC.

276

(Excel workbook)

277

- DPU Exhibit 2_1 Index Page.pdf

278

- DPU Exhibit 2_2 Rate Schedule.pdf

279

- DPU Exhibit 2_2a Rate Schedule Notes.pdf

280

- DPU Exhibit 2_3 Allocation of Annual Expenses and Annual Rates.pdf

281

- DPU Exhibit 2_3a Expense Allocation Notes.pdf

282

- DPU Exhibit 2_4 Adjustments to Expenses.pdf

283

- DPU Exhibit 2_4a Adjustments to Expenses Notes.pdf

284

- DPU Exhibit 2_5 Summary of Revenues and Expenses.pdf

285

- DPU Exhibit 2_6 Capital Reserves.pdf

286

- DPU Exhibit 2_7 Depreciation Expense.pdf

287

- DPU Exhibit 2_7a Depreciation Expense Notes.pdf

288

- DPU Exhibit 2_8 Contribution in Aid – CIAC.pdf

289

- DPU Exhibit 2_9 Rate Base.pdf

290

- DPU Exhibit 2_10 Return on Investment.pdf

- 291 • DPU Exhibit 2_11 Taxes.pdf
- 292 • DPU Exhibit 3 Water Use Information for Water Right Applications.pdf