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Intervenor Docket 16-098-01

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Community Water	**)**	**Docket No. 16-098-01**
Company, LLC	**)**	
	)	**Rebuttal Testimony of Intervenors**
	)	**Terry Lange, Red Pine HOA and Guy**
	)	**Rawson in the Matter of Increased Rates**
	)	**and Tariff Submitted by Community**
	)	**Water Co., LLC on August 24, 2016**

Duly sworn as Intervenors in Docket 16-098-01, I, Terry Lange, and I, Guy Rawson hereby submit the following Rebuttal Testimony for the stated Rate Case.

There are several issues which warrant clarification to and rebuttal of Direct Testimony of other Intervenors as well as statements made by the Company, Community Water Company ("CWC") in their Data Request Responses. These include:

- Reiteration of previous Direct Testimony on the allocation of water for each connected customer, and
- Reiteration of previous Direct Testimony on meter charges for each connected customer and additional meter charges for separate irrigation meters for those same customers, and
- Rebuttal comments to the Direct Testimony of Michael Folkman made on behalf of CWC, and CWC Response to 4th Data Request, and
- Rebuttal comments to the Direct Testimony of William Grenney

Background Information

The customers of Community Water Company understand that they should pay a fair and equitable rate for the delivery of water. Understanding that the CWC system is in need of significant repair, the customers support fully a reasonable, equitable and sustainable rate increase at this time. However, the many years of deferred maintenance needs to be considered as it impacts this rate increase.

Until 2014, ASC Utah and TC-FC, the parent companies of CWC failed to seek a new rate since 2001 to maintain the system. This lack of diligence and corresponding failure to maintain the system by CWC has put the current

customers in a bind, and essentially made them financially responsible for the costs of neglect and corresponding deferred maintenance. This is all in light of TC-FC's desire to divest themselves of CWC. CWC was a company that TC-FC's predecessor ASC Utah chose to acquire because when acquired from Jack Roberts, CWC had certain assets (infrastructure, water rights, etc.) that apparently were deemed valuable to them. Those assets benefitted ASC Utah and TC-FC in their effort to further their business interests and now what remains is a system that has not been maintained, and the cost of repairs is falling on the backs and pocketbooks of the current customers.

Our Rebuttal Testimony is submitted to assist the Division of Public Utilities (DPU) in developing a Rate that yields sufficient revenue to complete necessary repairs on a prioritized schedule to help secure a reliable supply of high quality water for the customers.

The PSC approved Interim Rate (September 15, 2016), assuming the water allocation of 12KG at Tier 1 is integrated into the final rate, will result in an increase of just over 50% for the customers of Hidden Creek using 2015 water use data. For the Red Pine customers, the PSC approved rate represented just over a 124 % increase from the current rates for water usage for 2015.

While CWC rates might seem low compared to other water providers in the Snyderville Basin, much of this discrepancy can be explained by the nature of the CWC system. Unlike other water providers that have expansive systems, the CWC system is clustered at the base of Willow Creek Drainage Basin. Unlike other providers, there are no long networks of pipeline required to import water into their infrastructure. Mountain Regional, for example, imports much of its water from

the Rockport Reservoir well field over 15-20 miles to the east. Both SWDC and Mountain Regional have numerous pump stations and pumping zones in their rate structure, resulting in intense use of energy to deliver water to their customers.

In contrast, CWC essentially operates a gravity charged system fed by its 2 reservoirs located in Willow Draw (WTP) above the entire Service District. The entire Service District is concentrated in a very small area at the base of Canyons Resort. There are no pumping stations in the system, except one dedicated to an on mountain lodge which the Resort pays to operate. While older, the Water Treatment Plant used to withdraw water from Willow Creek is what can be described as low technology, and is augmented by two wells. Because the quality of the well water is very good, disinfection chemicals are only required for the irrigation system when water is withdrawn from Willow Creek to feed the WTP. These elements make the CWC system very affordable to operate.

We understand that some adjustments to the approved final rate may be made going forward since the rate will be based upon a one year evaluation--2015. Our comments regarding the assumptions and values used in the 2015 case year are offered to help the DPU improve its assessment of financial conditions under which CWC operates under a “typical” year. Future rate changes can be made after the new rate has been in effect for a reasonable time period (2-3 years), and the effects of those improvements and corresponding rate increase can be realized in terms of revenue and resulting system reliability.

Reiteration of Tier 1 Allocation of Water for Connected Customers on Shared Meters

We are still somewhat uncertain as to whether the Interim Rate approved by the PSC on September 15, 2016 includes the allocation of 12,000 gallons of water per month for each connected customer that pays the base rate of $33.20. In an attempt to clarify the PSC approval issued on September 15, the PSC issued a clarification on September 30, 2016. It clarified that the base rate shall be applied to each customer. It also clarified that the interim rates are effective October 1, 2016 on a prospective basis. The clarification never specifically addressed the base allocation of 12KG at the Tier 1 rate for all customers. Because this is perhaps the most critical aspect of the new rate to the Red Pine, Hidden Creek and Plat B & D HOAs as pointed out in our comments and those of Scott Savage on behalf of Plat B & D, we are respectfully requesting that this point is clear in the final rate approval. By not including the Tier 1 allocation of 12,000 gallons for each connected customer that pays the base rate of $33.20 per month, over 400 customers of the approximate 500 customers could be treated in an inequitable manner. The approach brought forth by CWC at the Hearing, with some minor changes like those provided in Amended Exhibit B which was not accepted into the record due to DPU opposition, should be integrated into the Final Rate.

Reiteration of Previous Direct Testimony on Meter Charges for Irrigation Meters

Based upon comments made by CWC at the Hearing on September 13, 2016, it was unclear if CWC intended to bill connected HOA customers both for the base rate/customer and for separate irrigation meters. The Interim Rate approved by the Commission on September 15, 2016 was not clear on this issue. This approach to billing, if approved, will in essence raise the base rate for customers in HOAs like Hidden Creek, Red Pine and Plat B & D where shared meters serve hundreds of

customers. This represents an inequity in the billing system that at this point we are not certain has been corrected. This issue was addressed in our Direct Testimony in detail. It was also addressed in the Direct Testimony of Ms. Stacy Wilson submitted on September 21, 2016. It is worth noting that the three (3) large HOAs noted above constitute over 80% of the customer base which deserves equitable treatment. While it may be assumed that this issue has been rectified throughout the process, we are respectfully requesting that this point be clarified in the final rate approval so that the customer base of the HOAs is treated equitably.

Rebuttal Comments to the Direct Testimony of Michael Folkman made on behalf of CWC, and CWC Response to 4th Data Request

Our comments on these two submittals are combined because the Direct Testimony of Michael Folkman and the 4th Data Response from CWC are directly linked and need to be looked at together in order to develop an appropriate response.

We also wish to mention the 6/13/2016 testimony of Mr. William Duncan of the Utah DPU. In that testimony Mr. Duncan points out that both the Bowen-Collins Report, which is considered an engineering study, and the fact that CWC wishes to divest themselves of CWC do not factor into determining the DPU proposed rate at this time.

It appears that many items from Exhibit A of Michael Folkman's testimony also represent an engineering study and the CWC Response to the 4th Data Request argues for needed improvements to hasten the transfer of CWC to another party.

Improvements to Facilitate a Transfer to Summit Water Distribution Co. SWDC

As a general comment on these two submittals, we believe that designing a new rate to satisfy SWDC in order to facilitate the transfer of Community Water is:

- Outside the jurisdiction of the DPU and should not serve as the basis of any decision related to revised rates by the DPU or the PSC,
- Not a good base assumption because the transfer of CWC to SWDC has numerous problems including SWDC shareholder approval and issues of integration since CWC is a PSC regulated company while SWDC is not a PSC regulated company. Furthermore, SWDC is currently leasing water from Mountain Regional under the Regionalization Plan developed by Weber Basin Water Conservancy District and entered into by SWDC and Mountain Regional. If CWC does have a shortfall, it would be difficult for SWDC to routinely satisfy this shortfall at a fair and reasonable price.
- Unjustified because the improvements that CWC seeks to include as part of the rate base to facilitate the transfer are not driven by any regulation of the Division of Drinking Water (DDW) or Division of Water Resources (DWR), and
- Unfair to the rate payer because many of the improvements that CWC seeks to include in the rate base so that SWDC will assume control of CWC is arbitrary and self serving to facilitate the transfer rather than in the best interest of the customers of CWC.

Comments on particular line items presented on Page 6 of Exhibit B are addressed below. It should be noted that while many of repairs provided in the table on Page 6 may be legitimate, it is a matter of who is responsible for paying for these items that need to be addressed, and when these repairs occur. If infrastructure components are within the owner's property, then with the exception of meters which are owned by CWC, the cost of improvements remain with the property

owners/customers. This is stated in the Current Tariff (See Tariff Para. 3 and Para. 20 of Rules Section, and Para. 4 of Facility Extension Policy). While the rates of the Current Tariff are being revised, the rest of the Tariff remains in effect.

Water Treatment Plant

In Section 4.1A of the Response to 4th Data Request submitted by CWC, the decision by CWC to assign a low priority and not include the cost of any repairs to the Water Treatment Plant (WTP) in Willow Draw is, in our opinion, shortsighted and demonstrates that a comprehensive, sustainable plan to control operating costs is lacking. We understand that including costs to maintain the WTP could potentially increase the rate that the DPU develops. However, long-term operating costs could be reduced by continuing to maintain the WTP as long as feasible.

The decision to mothball the WTP may be the result of TC-FC's focus on transferring the company as quickly as possible. Abrupt closure/shut-down of the WTP will require CWC to purchase water at least an order of magnitude greater cost than the cost of producing water ($0.46 per KG vs. $5.30 per KG) from the WTP if its life can be extended. Details on these relative costs are provided in the Direct Testimony of William Grenney.

The concept of purchasing water routinely and for an ongoing undefined period of time is extremely troublesome because SWDC is currently leasing water from Mountain Regional for its own use. Buying brokered water from SWDC is not a cost-effective, sustainable long-term plan for the customers of CWC. It will not become cheaper. Purchasing water will result in ongoing, higher operating costs that ultimately will have to be addressed in future rate increases.

The WTP basically runs only during the irrigation season. This is when water is at a premium for every supplier in the Snyderville Basin. The need to increase rates will be accelerated if the current improvements and Final Rate approved by the PSC is based upon purchasing water rather than producing its own water for as long as the WTP can be operated.

While it is true that the WTP is older and in need of repair, we would support including some capital costs to keep the WTP running as long as possible. Since the WTP basically operates during the irrigation season, improvements can be made over the winter months when it is offline. This would not cause any interruption in the delivery of water to the customer base. With some regular maintenance and upgrades, it could continue to be a source of approximately 220 gpm. This is a very significant source of water especially during the irrigation season when water becomes scarce and expensive.

Replacement of Service Valves

Section 4.1C of the 4th Response includes over $158,000 to replace service valves in the Red Pine Chalets and Townhomes, and an additional $68,000 to replace similar valves in Park West Village. According to Section 4.1 of the Response to Data Request, these can also be referred to as shut-off valves for each unit. However, if the case of Red Pine, they are located within the property boundary of the Red Pine HOA. In the case of the 25 Chalet buildings with 8 units in each building, there is a redundant main shutoff valve within each of the 25 buildings which serves the same purpose of the 25 exterior shutoff valves. All of the redundant interior main shutoff valves are in working order.

In Section 4.10, CWC explains that to facilitate the improvements to the system,

they will request the owners to install or replace these service valves. If the owners fail to do so on a reasonable schedule they intend to complete the work themselves from the capital reserve account and back charge the owners. Regardless of how this gets done, these costs should not be included in the Table of the Exhibit as a cost to be incurred by CWC.

Colby School Water Meter Vault

The Response to the 4th Data Request addresses a $20,000 expense to construct a new vault at the Colby School (Section 4.9). Apparently an agreement between the owner of Colby School and CWC has been made that provides for the owner to cover the meter cost and CWC to cover the cost of the vault. CWC identifies other unmetered buildings at the Colby School and a possible future expanded use as the need for the Company to cover the cost of the vault. CWC does state that expanded future use will likely be served by SWDC, not CWC.

If the improvements are inside the property limits of Colby School, then according to the Tariff, with the exception of new meters, the improvements should be paid for by the property owner/customer. Additionally, CWC also confirms our research that any expanded use by the property owner would be supplied water from SWDC, not CWC which negates any potential value to the $20,000 investment by CWC.

The final rate increase should be based on required improvements completed in a reasonable sequence and priority to yield the greatest positive impact on operating costs as well as the system reliability to deliver high quality water to its customers. In some cases, costs may need to be added (WTP maintenance) while other costs that violate the Tariff need to be eliminated requiring the customer to pay for these

upgrades. The objective should be to develop a rate going forward that will allow CWC to maintain and improve its system at a reasonable cost to its customer base.

Rebuttal Comments to the Direct Testimony of William Grenney

We have reviewed the Direct Testimony of Mr. William Grenney. Mr. Grenney concludes that based upon the financial performance of 2015, perhaps a more substantial increase is in order. We respectfully disagree with the conclusion that a greater rate increase is needed at this time to operate CWC long-term for several reasons explained below. Rather, 2015 represented a year of exceptional conditions resulting in increased operating costs that are unlikely to occur in a single year.

System Loss

The system loss used in the Net Income Analysis (NIA) in Table 8 is 43%. This is a very large loss for any system regardless of the age of the infrastructure and condition of meters. A review of water use information submitted by CWC to the Utah State Engineer database identified that for the past 2 years CWC lost approximately 43% in both years. In contrast, average loss for the past 7 years using values reported in this same database was approximately 24%. There were two years with very low system losses within this 7 year period which might be the result of a data entering error which could skew the loss down. Even without those two years, the calculated loss for those 5 years before 2014 was below 33%.

Historically, the loss of water often occurred in Willow Draw where the main water pipe from the two reservoirs was located. Resort activities (running heavy equipment, excavating for snowmaking and other work) resulted in pipeline breaks

because the pipe was not buried very deeply when initially installed or as discovered later, not properly bedded. For this reason, chasing leaks and repairing the water pipe in Willow Draw was almost a routine practice. When the golf course was built at the Resort in 2013, much of this pipe was replaced with new pipe using better installation methods (deeper burial, proper bedding material). For this reason, one would expect that system loss would be reduced even with the same metering equipment. Therefore, there is reason to question what caused the large difference between produced and delivered water during the last two years.

Purchased Water

Another reason that the case year of 2015 is not representative of the typical operating costs for CWC is because they were required to purchase water from SWDC in the amount of $6,493 to cover a shortfall from mid-October through the end of the year. While we don't dispute the occasionally, short term need to purchase water, the extended period of purchasing water in 2015, which by the way extended into the spring of 2016, is not typical.

The need to purchase 1.2 M G of water persisted from October 2015 until April 2016. Water purchased in 2016 is outside the case year used by DPU. In some cases, there is a need to purchase water in what might be considered a typical year. However, that is not an ongoing need over the history of CWC (see Direct Testimony, Francis Amendola). Purchasing water can be driven by many factors as Mr. Amendola points out in his Direct Testimony. Furthermore, CWC could be in a situation to sell water outside the irrigation season, which could be used for snowmaking water delivered to Canyons Resort by SWDC or for other uses. In fact, the water production summary shown on Exhibit A through September, 2016

provided by CWC documents show that in June and July of 2016, CWC sent over 853,000 gallons to SWDC.

Repair of Wagon Trail #2

The delayed repair of the Wagon Trail #2 well created a situation where it became necessary to purchase water from SWDC. This repair, while potentially hindered by snow conditions in Willow Draw where the well is located, did not occur until June of 2016. While it is uncertain why the leak was not isolated and the repair made until mid-2016, this situation forced CWC to continue to purchase water for about 2.5 months of 2015, and into 2016 until the repair was completed. This does not seem to be a typical situation. As a result, operating expenses for the case year of 2015 included what could be considered avoidable costs.

The extensive Net Income Analysis completed by Mr. Grenney and presented in Table 8 of his Direct Testimony shows that CWC would have operated at a $7108 loss. However, Table 8 includes a large volume (1.2+ MG) of purchased water for the last 3 months of the year. In Exhibit B we show the same analysis using all of Mr. Grenney's assumptions and costs, but eliminated the amount for purchased water and had the equivalent volume of water supplied by pumped water because only wells operate in last quarter of the year. The WTP is for the most part offline once irrigation season ends and snowmaking begins in Willow Draw. By just eliminating the cost of purchased water, CWC basically operated in essentially a breakeven condition (-$370) for 2015.

In summary, we believe that the conditions of 2015 were somewhat extreme and do not represent a typical year for CWC. The system loss of 43% is excessive, and a recent development over the past two years. For the previous 7 years, system

loss averaged 24% using data from the Water Use Survey Database maintained by the Office of State Engineer. Even a more conservative estimate of loss, throwing out low loss values for that period resulted in a 33% loss. The loss of 43% remains difficult to explain especially in light of the new pipeline installed in Willow Draw from the construction of the golf course at the Resort. This section of pipeline was always problematic for leaks before the replacement was completed. The accuracy of this loss should be verified. It taints the entire NIA presented in Table 8 of the Direct Testimony because it is increased the cost of pumped, water produced at the WTP, and purchased water. Also, the extended need to purchase water for the last 2.5 months of 2015, which actually extended until mid-2016 was an atypical occurrence. Leaks rarely go unattended for over 6 months. And last, by eliminating purchased water while retaining additional costs included in the NIA provided in Table 8, CWC essentially broke even in 2015. Some of these additional costs like chemicals for water treatment still are awaiting documentation. We believe that approving a greater rate than that currently proposed by CWC would be unjustified.

Dated the 26th day of October, 2016

/s/ Terry Lange
President Red Pine HOA

/s/ Guy Rawson
Vice-President Hidden Creek HOA