

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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| In the Matter of the Application of            | ) |                  |
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| WATERPRO, Inc.                                 | ) |                  |
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| for a Certificate of Convenience and Necessity | ) | Docket No. _____ |
| to Operate as a Public Utility Rendering       | ) |                  |
| Culinary Water Service                         | ) |                  |
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**TESTIMONY OF  
BRUCE C. CUPPETT, CHIEF EXECUTIVE OFFICER**

My name is Bruce C. Cuppett, and I am the chief executive officer of both WaterPro, Inc. and its corporate parent, Draper Irrigation Company. I am pleased to appear before you today to submit the official application for WaterPro to obtain a Certificate of Convenience and Necessity for the delivery of culinary water within Draper City in the southeast corner of Salt Lake Valley and for approval of the applicable rates and fees to be charged to its customers. That formal application has been filed with the Public Service Commission, and we understand that it has been reviewed by the Division of Public Utilities. We are pleased to present that application to you for your consideration today.

As you consider this application, we would like to summarize, if we could, a bit of our history to explain why we are here today.

Draper Irrigation Company was founded by pioneer settlers in this valley in 1888. Our handwritten articles of incorporation filed “In the District Court for the Third Judicial District of Utah Territory,” and signed on 27th day of March, 1888, by C. F. Zane, Judge of the Third District Court, are included in our application at Tab C. The descendants of some of those pioneers who signed the articles of incorporation in 1888 continue to live and own property in our service area. People familiar with Draper will recognize many of those family names.

The Draper pioneers formed Draper Irrigation Company as a mutual association to manage the watershed in the mountains and the water collection and distribution system to irrigate their crops in the Draper area. Homes and businesses had individual wells for culinary water. This system continued for decades. By the late 1920s, the population density of the service area increased sufficiently that there began to be a demand for a reliable supply of quality culinary water. Therefore, in 1928, Draper Irrigation constructed its first culinary water storage, treatment and distribution facilities to accommodate approximately 200 homes and businesses. This system was expanded through the ensuing decades as additional homes were built in Draper. As you might expect, Draper experienced a significant acceleration of urbanization in the 1970s. The increasing demand for culinary water strained both our culinary system and the allocation of our available water. Therefore, we concluded that in order to meet anticipated demand, we would have to conserve the demand for irrigation water within our service area. We recognized that the existing ditch irrigation system was inefficient and resulted in the waste of a lot of water, so from an engineering, financial and customer-acceptance perspective, we began a steady conversion to a pressurized pipeline irrigation system separate from the culinary system. After 15 years of study, we began construction in 1993 of our pressurized irrigation system to provide irrigation water to approximately 600 users. Draper Irrigation spent approximately \$9.5 million for a sophisticated storage, pumping, distribution, and delivery system. This \$9.5 million infrastructure was funded both from Draper Irrigation's own funds and from the proceeds of an \$8.5 million loan from the Utah Department of Water Resources. Draper Irrigation continues to amortize that loan, which currently has an outstanding balance of approximately \$6.8 million. Since 1999, we have provided culinary water service within an exclusive service area under a franchise granted by Ordinance No. 306 of the City of Draper.

When Draper Irrigation's pressurized irrigation system was placed in service in 1995, it delivered pressurized irrigation water to approximately 600 users and culinary water to approximately 1,500 users.

The burst in growth in our area in the 1970s paled by comparison to the growth that we experienced in our area in the 90s. While we had approximately 800 culinary users in 1980, we had grown to approximately 1,075 users in 1990. However, the number of our culinary customers has

burgeoned to over 4,600 by 2000 and more than approximately 6,500 today and our service area continues to be converted from farmland to urban uses.

Although much of the growth in the south and other portions of the Draper area outside the service area of Draper Irrigation, we expect that we will continue to experience significant conversion of remaining parcels of agricultural land within our service area to urban uses.

Draper Irrigation has conducted all of its activities as a mutual water company, formally organized as a Utah nonprofit corporation, with roots back to 1888 as noted above. This is consistent with the agricultural roots of water companies organized not for commercial purposes, but to deliver water exclusively to their members or stockholders. As such, Draper Irrigation Company believed that it was exempt from Public Service Commission regulation pursuant to the statutory provisions that we refer to in our application. As we also note in our application, we also believed that we were exempt from regulation under a Public Service Commission order issued in 1977 as well as a specific letter of exemption that we obtained in mid-2001.

Earlier this year, the Department of Public Utilities reviewed the statutory and regulatory conditions for finding an exemption from Public Service Commission regulation and advised us informally that it had concluded that our June 2001 letter of exemption could no longer be relied upon. Draper Irrigation undertook immediately to review the position of the Division of Public Utilities and the alternatives available. We rather quickly concluded that the appropriate course of action for Draper Irrigation Company was to implement the necessary reorganization required to seek a Certificate of Public Convenience and Necessity, so that it could be a regulated utility subject to the jurisdiction of the Public Service Commission. With almost 120 years of history, 600 irrigation users, approximately 6,500 culinary users, and with full culinary and pressurized irrigation systems in a service area with significant development activity, this is no modest undertaking. While we recognize the urgent need to comply with applicable requirements, we also wanted to do it prudently and judiciously. We believe we have done so, as reflected in our application now before you for consideration.

There is one item, however, that is not completed. In discussing various issues with the staff of the Division of Public Utilities, in particular, Wes Huntsman and his colleagues and Patricia Schmid and

the Office of the Attorney General, we discovered an issue respecting the structure of the capitalization of Draper Irrigation Company. Without boring you with the interplay of Draper Irrigation's two classes of stock, the Utah Nonprofit Corporation statute, and the requirements applicable to Draper Irrigation as a nonprofit, mutual irrigation company meeting the requirements of Section 501(c)(12) of the Internal Revenue Code, we determined that we needed to amend our articles of incorporation to redefine the rights applicable to the Class A stock, which represents the right to obtain pressurized irrigation, and Class B common stock which will be issued automatically to a culinary customer for the period during which that customer obtains culinary water service from us. Although the Class B common stock is not really significant from an equity ownership perspective, it is important because as a Section 501(c)(12) company under the Internal Revenue Code, we are required to receive at least 85% of our revenues from the sale of goods or the providing of services to our stockholders. Therefore, we need to make sure that our customers are stockholders.

Our application includes at Tab B our proposed amendment to the articles of incorporation that sets forth the rights of the Class A and Class B common stock. That amendment has been approved by the board of directors and we have mailed to all of the stockholders entitled to vote on this matter a request that they consent to the amendment. We anticipate that we will receive those consents within the next few weeks. When we do so, we will formally amend the application to reflect the approval and the related filing of the amendment with the Division of Corporations and Commercial Code.

I would like to make one other organizational note. You will note that the application is being made by WaterPro, Inc. Draper Irrigation Company has essentially bifurcated its organization. Draper Irrigation will continue to provide pressurized irrigation water to its customers and will provide water under a long-term agreement, which is included in the application, to WaterPro. WaterPro will then be the entity that will actually provide culinary water service to customers within the service area, subject to the jurisdiction of the Public Service Commission.

With that introduction, we are pleased to submit for your consideration and action the application of WaterPro for a Certificate of Convenience and Necessity to Operate as a Public Utility Rendering Culinary Water Service and the related rates and fees proposed to be charged.

We would be happy to respond to your questions or provide any other information that might be helpful to your considerations.