

Docket No. 12-2443-01
DPU Exhibit 1.0
Mark A. Long
December 4, 2012

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

IN THE MATTER OF THE)	DOCKET NO. 12-2443-01
APPLICATION OF WATERPRO, INC.)	
FOR A CULINARY WATER RATE CASE)	DPU Exhibit No. # 1.0

DIRECT TESTIMONY

OF

Mark A. Long

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

December 4, 2012

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION**
3 **WITH THE DIVISION OF PUBLIC UTILITIES.**

4 A. My name is Mark A. Long. My business address is Heber M. Wells Building,
5 160 East 300 South, 4th Floor, Salt Lake City, Utah. I am employed as a Utility
6 Analyst in the Telecommunications & Water Section.

7 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **EXPERIENCE.**

9 A. I received a Bachelor of Science degree in Accounting from The University of
10 Utah. I was employed for twenty two years with the Utah Tax Commission as a
11 tax auditor and a criminal investigator. I have been employed by the Utah
12 Division of Public Utilities (Division) since December of 2008.

13 **II. IDENTIFICATION OF WITNESS**

14 **Q. FOR WHICH PARTY WILL YOU BE OFFERING TESTIMONY IN**
15 **THIS CASE?**

16 A. I will be offering testimony on behalf of the Division.

17 **Q. HAVE YOU TESTIFIED BEFORE THE UTAH PUBLIC SERVICE**
18 **COMMISSION (COMMISSION) ON PRIOR OCCASIONS?**

19 A. Yes. I have testified before the Commission as an expert witness, most recently
20 in Docket Nos. 10-2529-01, 11-097-01, 11-097-02 and 11-097-03.

21 **Q. PLEASE DESCRIBE YOUR PARTICIPATION IN THE DIVISION'S**
22 **REVIEW OF WATERPRO, INC. (WATERPRO).**

23 A. I have been involved with and participated in the review and investigation of
24 WaterPro's operations, revenues and expenses. I reviewed and analyzed all of the
25 documentation and data submitted with the rate case request. I reviewed 100% of
26 the general ledger and the check register for the test year. I also reviewed
27 hundreds of source documents to determine their propriety.

28 **III. PURPOSE OF TESTIMONY**

29 **Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.**

30 A. The purpose of my testimony is to present my analysis, which includes
31 adjustments to various company account balances and verifies the propriety of
32 other account balances. I will also make a recommendation regarding the new
33 rates as requested by WaterPro in its rate increase request.

34 **IV. BACKGROUND OF COMPANY**

35 **Q. PLEASE TELL US ABOUT THE HISTORY OF THE COMPANY.**

36 A. In order to explain the history and existence of WaterPro, I must first start with its
37 founding company, Draper Irrigation Company (DIC), which was established in
38 1888 when its founding members contributed their water flow rights from five
39 mountain streams for the benefit of all members. The DIC was later incorporated
40 under the laws of the State of Utah as a non-profit mutual irrigation company.

41 The water service area of DIC is located in Draper City in the southeastern
42 portion of the Salt Lake Valley, Salt Lake County, Utah. WaterPro, a for-profit
43 company, was later created to perform the management and operations of DIC as
44 well as the regulated culinary water distribution system that WaterPro refers to as
45 Draper Water Services (DWS). WaterPro is an active company in good standing
46 with the Division of Corporations. Although WaterPro is a for-profit corporation,
47 DWS is treated as non profit. DWS is the primary supplier of culinary water
48 within the City of Draper.

49 **Q. WHAT IS THE FINANCIAL ARRANGEMENT BETWEEN DIC,**
50 **WATERPRO AND DWS?**

51 A. WaterPro allocates 77% of its expenses to DWS and 23% of its expenses to DIC.
52 The 77/23 split is based on the proportion of annual sales of DWS and DIC and is
53 verified annually and adjusted as needed by WaterPro's independent accounting
54 firm. DIC, owns the water rights and sells water to DWS at an amount
55 significantly less per acre foot than current market value.

56 **Q. HOW LONG HAS IT BEEN SINCE WATERPRO'S DWS HAD A RATE**
57 **INCREASE?**

58 A. DWS has not had a rate increase since 2007. It is currently requesting a 4%
59 increase in rates in all rate classes, which is an increase of approximately
60 \$200,000.

61 **Q. DOES THE DIVISION WISH TO ACKNOWLEDGE THE COMPANY'S**
62 **PARTICIPATION IN THE RATE CASE PROCESS?**

63 A. Yes. The Division would like to acknowledge WaterPro's Darrin Jensen's, Chief
64 Executive Officer and General Manager, willingness to provide information
65 timely and his cooperation during the Division's investigation. Since the last
66 review of DWS's books and records, the Company has spent a lot of time and
67 effort changing its accounting records and processes to comply with applicable
68 regulatory laws and to accommodate the Division's future investigations. The
69 Division also wishes to acknowledge Trevor Andra with Epic Engineering who
70 was readily available and accommodating to the Division regarding the schedules
71 and complex analysis that he prepared in support of the rate increase.

72 **Q. WHAT IS THE TEST YEAR AND WHY DID THE DIVISION CHOOSE**
73 **IT?**

74 A. The test year is 2011, which is the last complete year accounting records are
75 available. The Division also reviewed the prior years' financial statements and
76 any available information in 2012 to verify that 2011 is representative of WDS's
77 business.

78 **Q. IN YOUR OPINION, ARE THE BOOKS AND RECORDS OF THE**
79 **COMPANY RELIABLE AND ACCURATE?**

80 A. Yes. WaterPro, including DWS and DIC undergo an annual audit by the
81 independent accounting firm of Hansen, Barnett & Maxwell, P.C. Additionally,
82 there are adequate checks and balances present in the Company.

83 **V. SUMMARY OF EXHIBITS**

84 **Q. WHAT EXHIBITS ARE YOU INCLUDING IN SUPPORT OF YOUR**
85 **DIRECT TESTIMONY?**

86 A. The exhibits referred to in this testimony are identified immediately below and
87 will be discussed in further detail in the body of the testimony.

- 88 • Exhibit 1.1, Expense Analysis of Test Year - 2011.
- 89 • Exhibit 1.2, Disallowed Expenses
- 90 • Exhibit 1.3, Income Statement Analysis & Projection
- 91 • Exhibit 1.4, Proposed Replacements and Improvements
- 92 • Exhibit 1.5, Rate Recommendation

93
94 **Q. PLEASE EXPLAIN WHY THE DIVISION PREPARED EXHIBIT 1.1,**
95 **“EXPENSE ANALYSIS OF TEST YEAR - 2011.”**

96 A. Exhibit 1.1 lists the expenses that are recommended by the Division to remain in
97 this rate case as well as those expenses the Division believes should be disallowed
98 in this rate case. The details making up the adjusted amounts are found in Exhibit
99 1.2, “Disallowed Expenses.”

100 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.2, “DISALLOWED**
101 **EXPENSES” IN THE DIVISION’S EXHIBITS.**

102 A. In the Division’s examination of the general ledger, it revealed four general ledger
103 accounts that had questionable expenses included in this rate case. The expense
104 accounts in question are:

- 105 • Advertising/PR,
- 106 • Printing,
- 107 • Donations and
- 108 • Company Meetings/Functions.

109 **Q. WHAT PROCEDURES DID THE DIVISION USE TO REVIEW THESE**
110 **FOUR QUESTIONED ACCOUNTS?**

111 A. The Division performed a 100% examination of each general ledger entry as well
112 as a 100% examination of each questioned expense in the check register.
113 Additionally, the Division inspected a majority of the source documents for each
114 transaction. The findings are listed in Exhibit 1.2.

115 **Q. PLEASE EXPLAIN LINE 189 OF EXHIBITS 1.2 TITLED,**
116 **“ADJUSTMENT OF 1/2 OF THE REMAINING COMPANY**
117 **MEETINGS/FUNCTIONS ACCOUNT.”**

118 A. In the Division's review of general ledger account "Company Meeting/Functions
119 Expense" the Division noted that average employee 'perks,' were excessive at
120 \$1,466 per employee each year. WaterPro said that it used these 'perks' to
121 motivate their employees, which in turn, benefits WaterPro's customers with
122 excellent service and lower over-time wages paid out which helps in keep rates
123 reasonable.

124 The Division disallowed many of these employee 'perks' because they were for
125 one-time expenditures or for totally unrelated business expenses such as cable TV
126 for the employees' break room. Even with these adjustments to the general ledger
127 account "Company Meeting/Functions Expense," there remained \$22,531.12 in
128 this account to be spent on DWS's 24 employees. This averages to \$939 per
129 employee per year, which the Division believes is still excessive. The Company
130 and the Division agreed that if half of the remaining 'perks' from the general
131 ledger account "Company Meeting/Functions Expense" were funded by DWS
132 through rates and the other half funded by DIC, the ratepayers would still receive
133 excellent service while the 'perks' funded through rates would be much more
134 reasonable at an average of \$469 per employee per year.

135 **Q. DOES IT APPEAR AS THOUGH THE HIGH DOLLAR AMOUNT OF**
136 **EMPLOYEE 'PERKS' ARE BEING PAID TO OFFSET LOWER THAN**
137 **AVERAGE WAGES?**

138 A. No. I compared many of the Company's key employees compensation amounts
139 to the national averages of other small to medium water utilities compensation
140 amounts, using a study titled, "*American Water Works Association, 2011 Water*
141 *Utility Compensation Survey, Reporting Data for Utilities Serving Populations*
142 *Below 100,000.*" The company is compensating its employees within the average
143 compensation range, but on the high side of the average. Based on this data, the
144 Division believes that it remains appropriate to allow some employee 'perks' at
145 the amount discussed above, \$469 per employee per year, but not the total amount
146 requested by the Company in its rate increase request.

147 **Q. PLEASE STATE THE PURPOSE OF THE INCLUSION OF EXHIBIT 3.3,**
148 **"INCOME STATEMENT ANALYSIS AND PROJECTION" AND**
149 **SUMMARIZE ITS RESULTS.**

150 A. In general, the exhibit shows the adjustments and the projection of expenses from
151 the test year 2011 forward to 2012 and 2013. These expenses a.k.a., 'Revenue
152 Requirement,' are then used to calculate what rates are necessary to produce
153 revenues sufficient to cover the expenses. For more information regarding
154 specific details for many of the line items included in this exhibit please refer to
155 the footnotes contained in Exhibit 1.3.

156 **Q. PLEASE EXPLAIN THE REASON FOR THE INCLUSION OF EXHIBIT**
157 **3.3, "PROPOSED REPLACEMENTS AND IMPROVEMENTS."**

158 A. This is included for information purposes only. No adjustments are recommended
159 by the Division.

160 **Q. DID THE DIVISION REVIEW THE CAPITAL ASSETS AND**
161 **DEPRECIATION EXPENSE?**

162 A. Yes. Since the last Division review of the Company's books and records, the
163 Company has spent a great deal of time and resources in ensuring that it uses the
164 correct depreciation rates as listed in Utah Administrative Rule R746-332-2. No
165 exceptions were noted and no adjustments are recommended by the division.

166 **Q. WHY IS THERE NO RATE OF RETURN APPLIED TO DWS'S**
167 **INVESTMENT IN THE WATER SYSTEM?**

168 A. Although WaterPro is a for-profit corporation, DWS is treated as a non-profit
169 entity. The Company did not request a rate of return (profit) on its culinary water
170 business, DWS.

171 **Q. IF WATERPRO, A.K.A. DWS, HAS OUTSTANDING LOANS ON ITS**
172 **BOOKS, WHY ISN'T THE RECOVERY OF INTEREST EXPENSES**
173 **ASSOCIATED WITH THESE LOANS SOUGHT BY THE COMPANY?**

174 A. It is, although the Company combined its annual principle and interest obligations
175 and did not separate the two amounts in its rate increase request. For ease of
176 understanding, the Division left the interest expense as part of the loan obligation
177 rather than show it as part of the return on investment to recover interest expense.

178 Both methods recover the Company's interest expense at identical amounts.
179 Additional details regarding the loans may be viewed in footnotes 6 and 7 of
180 Exhibit 1.3.

181 **Q. IS THE DIVISION MAKING A FORMAL RECOMMENDATION FOR**
182 **THE CREATING OF A CAPITAL RESERVE ACCOUNT AND IF NOT,**
183 **WHY?**

184 A. No, not in this case. The company has an informal policy of maintaining several
185 million dollars in reserves. A review of the last three Annual Reports submitted
186 by the Company, shows an average cash balance of \$3,924,300 and 2011's
187 Annual Report shows \$2,746,285 in cash reserves. Part of the reason for the
188 Division's recommendation for a capital reserve account in prior rate cases is that
189 the typical water company regulated by the Commission has no savings or
190 reserves and does not have the ability to borrow funds. The Company has
191 millions in reserve and the ability to borrow funds. The Division was recently
192 informed that the Company anticipates creating a formal policy regarding a
193 capital reserve requirement.

194 **VI. RECOMMENDATION**

195 **Q. BASED ON YOUR INVESTIGATION, DO YOU HAVE A**
196 **RECOMMENDATION REGARDING THE RATES AS REQUESTED BY**
197 **THE COMPANY?**

198 A. Yes. The Division recommends that the rates requested by the Company be
199 approved. Although the Division made several adjustments, the amount of the
200 adjustments were not significant enough to affect the overall rates. Please see
201 Exhibit 1.5, Rate Recommendations, for the amounts recommended for approval .

202 VII. CONCLUSION

203 During the audit and investigation of WaterPro, et al, the Division noted that the
204 Company is very reluctant to raise customer rates. To this end, funds from the
205 sales of land belonging to DIC and other business transactions have, and are,
206 being used to build infrastructure, and to a certain extent, supplement the
207 operations for the benefit of DWS. Without the subsidies, DWS would likely be
208 required to charge higher rates.

209 The effect of this recommended rate increase on individual customer's bills is
210 minimal. The Division calculates that the average monthly increase per
211 connection is \$1.74. To date, neither the Company nor the Division has received
212 any correspondence regarding the proposed rate increase.

213 The Division believes that its recommended rates set forth in Exhibit 1.5 are just
214 and reasonable and consistent with the public interest and, therefore, the Division
215 recommends that the Commission approve these new rates.

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

217 A. Yes it does. Thank you.