J. Craig Smith (4143)
Megan E. Garrett (11650)
SMITH HARTVIGSEN, PLLC
175 South Main St., Suite 300
Salt Lake City, Utah 84111
Phone: (801) 413-1600
Fax: (801) 413-1620

Attorneys for Hi-Country Estates Homeowners Association

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Hi-Country Estates Homeowners Association for Approval of Its Proposed Water Rate Schedules and Water Service Regulations	)	Docket No. 13-2195-02 **TESTIMONY OF KRYSTAL FISHLOCK-MCCAULEY**

Hi-Country Estates Homeowners Association ("Hi-Country") hereby submits the Testimony of Krystal Fishlock-McCauley in this docket.

Dated this 17th day of October, 2013

/s/ J. Craig Smith
J. Craig Smith
Megan E. Garrett
SMITH HARTVIGSEN, PLLC
Attorneys for Hi-Country Estates Homeowners Association

TESTIMONY

OF

KRYSTAL FISHLOCK-MCCAULEY

FOR

HI-COUNTRY ESTATES

HOMEOWNERS

ASSOCIATION

October 17, 2013

Docket No. 13-2195-02

SECTION I - INTRODUCTION

Please state your name and address.

Krystal Fishlock-McCauley. I live at 2235 Pow Wow Trail, Beloit, Wisconsin.

Please state your position with Hi-Country Estates Homeowners Association ("Hi-Country" or the "Company").

I was contracted to consult with the company on regulatory issues and to prepare accounting worksheets and provide expert witness testimony for this rate case.

Please give a brief overview of your qualifications as a company witness for Hi-Country.

I have 22 years' experience in accounting which includes 8 years' experience in public utility regulation. I worked six years with the Division of Public Utilities on various regulatory issues and spent an additional two years working for Wolf Creek Resort in charge of water and sewer regulatory issues.

Please state the purpose of your testimony.

The purpose of my testimony is to summarize the Company's position on several issues that have been raised during the course of the hearing process in this case. I will proceed as follows:

Section II – Financial Overview

Section III – Basis for 2012 Test Year and Test Year Adjustments

Section IV – Calculation of New Rates

Section V – Calculation of Capital Reserve Fees

Section VI – Other Topics

Section VII – Conclusion

SECTION II – FINANCIAL OVERVIEW

Please describe generally the finances of the Company.

The Company is a water company that serves primarily the lots inside the Hi-Country Estates subdivision. Note that the water company is a DBA of the Homeowners Association; all references in my testimony to Hi-Country refer to the water company unless clearly stated otherwise. The Company serves residential customers, with the exception of water provided to the U.S. Bureau of Land Management. Prior to this rate case, and still as of the date of this testimony, Hi-Country charges the following rates for water usage:

Base Rate (0 to 10,000 gallons)	$42.19
Overage Rate (10,000 gal to 20,000 gal)	$2.30 per 1,000 gal
20,001 gal to 30,000 gal	$2.67 per 1,000 gal
30,001 gal to 40,000 gal	$3.10 per 1,000 gal
40,001 gal plus	$3.60 per 1000 gal
Monthly Standby Fee	$12.41

Note that the rates in the preceding table are the recurring rates. Hi-Country also charges various fees for connections, account transfers, returned checks, and so on.

Calendar year 2012 was the first year for which an Annual Report to the Public Service Commission was required after Hi-Country recently came back under Public Service Commission ("PSC") jurisdiction. According to the annual report filed with the PSC, Hi-Country has 90 active residential customers, 35 standby customers, and one government

customer (the BLM, as noted earlier). During 2012, Hi-Country sold 21,216,000 gallons of water to residential customers, which calculates to an average of approximately 237,000 gallons of water per customer. Hi-Country provided 1,796,000 gallons of water to the BLM.

During 2012, Hi-Country had revenue of $95,168.26 and expenses of $71,556.36, leaving net income for 2012 of $25,075.25. Even though Hi-Country reported a positive net income number for 2012, it is important to recognize that Hi-Country was intentionally delaying some expenditures in anticipation of the transition of operations to Herriman and the rate case proceedings before the PSC. Also, Hi-Country has thus far not accumulated any capital reserve funds and also that the 2012 financial results do not take into account the costs of this rate case and general PSC compliance.

Hi-Country does not have any debt, except for routine, short-term accounts payable.

Section III – BASIS FOR 2012 TEST YEAR AND TEST YEAR ADJUSTMENTS

Please describe the selection of 2012 as the basis for the test year.

The year 2012 is the most recent complete year for which records are available. As noted previously, 2012 was the first year that Hi-Country was back under PSC jurisdiction and for which Hi-Country filed an annual report with the PSC. I believe that 2012 represents a justifiable basis for making future financial projections for the Company. Some changes occurred during 2012 that will affect future periods, such as the arrangement outsourcing billing and most operations to Herriman City, but adjustments can be made to account for such differences.

Please describe the major adjustments you made to the 2012 financial results in coming to the test year predictions.

The test year predictions, as well as most of the other information that I will testify about, are contained in Exhibit G of the initial rate case filing. The test year calculations specifically are on tab G6a and the corresponding notes are on tab G6b of Exhibit G. The major adjustments are summarized in the following list (line numbers refer to the lines on tab G6a):

- Line 4 – the standby fee amount collected in 2012 was adjusted to equal the predicted standby amount based on the existing 35 standby customers paying the proposed standby fee of $27.60 per month.
- Line 6 – the 2012 annual report listed customer revenue as a single line item; the test year spreadsheet eliminates this single line item and instead reports revenue at a more granular level on lines 7 through 14.
- Line 7 – the base rate revenue is calculated based on 90 active residential customers paying the proposed base rate of $69.00 per month, which includes up to 10,000 gallons of water usage.
- Line 8 – this line is an estimate of the revenue from customers who use more than the 10,000 gallons included in the monthly base rate. This is an estimate based on past usage as there is no guarantee that a particular customer will use a consistent amount of water in a given month. However, I believe that this is a reasonable estimate for the company as a whole for the year. I reached this estimate by first looking at the total gallons used in each overage tier (10,000 – 20,000 gallons, 20,000 – 30,000 gallons, 30,000 – 40,000 gallons, and 40,000+ gallons) for both 2011 and 2012. In order to eliminate some

unpredictability, I took an average of the two years to come up with an estimate of gallons used in each overage tier. I then took that number and applied the rate for the particular tier to come up with an expected revenue number for each overage tier. These calculations are contained on tab G2 of Exhibit G. I then added the totals for each tier together to get an expected overage revenue number of $23,413.94 and adjusted the 2012 data accordingly.

- Line 9 – this line is an estimate of revenue received from customers when water from the second source (Herriman City) is used and the customers are billed accordingly. As with the overage revenue on line 8, this is also an estimate based on historical usage. In 2012, Hi-Country billed customers for second source usage two times—in October for lack of supply and in August for contamination. I added an additional, hypothetical, second source usage incident to provide a better estimate of second source costs going forward. I then used that total revenue of $1,454.94, minus the second source billing to the BLM, to come to the estimate of second source revenue for the test year adjustments of $1,433.97. Note that the second source revenue is very small compared to the normal revenues; second source revenue accounts for less than two percent of adjusted test year revenues.
- Lines 11-14 – these lines estimate revenues from the BLM by taking the proposed annual charge of $2,225 plus the proposed monthly charges of $225 per month. The only estimate is on line 11, regarding the second source usage. Note that Hi-Country does not expect the BLM to use more than the 100,000 gallons per month included in the base rate, thus no overage charges are included in the predictions.

- Lines 23-104 – many of these expenses are adjusted assuming a five percent annual increase in order to account for routine inflation.
- Line 26 – this line represents the cost of water purchased from Herriman, plus a $300 allowance.
- Line 27 – Rocky Mountain Power announced a six percent price increase, so the purchased power cost here is likewise estimated to increase by six percent.
- Line 29 – Herriman City installed a chlorination device in November 2012; the amount in 2012 for chemicals represents only 1.5 months; the amount therefore was adjusted to reflect a full year.
- Line 33 – the Company expects to spend significantly less on legal fees going forward, in expectation that certain ongoing disputes will be resolved through the proceedings before the PSC. Note that this line is for water company legal fees not associated with this rate case.
- Lines 34, 37 and 38 – Hi-Country changed service contractors during 2012 to Herriman City. In addition, Hi-Country held back on plant repairs (upgrading meter replacement and other planned repairs) due to the PSC's determination to reinstate Hi-Country's Certificate of Convenience and Necessity and assert jurisdiction over Hi-Country's rates (thus requiring this rate case). The expenditures were booked in different accounts during 2011 and 2012 so the three accounts must be looked at in total when comparing the two years. The costs incurred in 2011 are more consistent with annual expenditures for maintenance and repairs therefore the amounts here represent 2011 costs increased by

five percent for two years annually. More explanation can be found in the corresponding note in Exhibit G.

- Lines 35 and 36 – these adjustments represent estimated costs associated with testing and monitoring the water quality.
- Line 40 – this is the expense to outsource billing to Herriman City.
- Line 50 – this line is the estimated expenses involved with the rate case, based on services rendered by Smith Hartvigsen and by me to the date of the initial filing and estimated costs to complete.
- Line 51 – estimated costs of regulatory compliance now that Hi-Country is under PSC jurisdiction.
- Line 53 – this bad debt estimate is based on Herriman's experience with the city water customers.
- Line 69 – the depreciation expense was adjusted based on expected capital expenditures as detailed on tab G4 of Exhibit G.
- Line 70 – the amortization expense was adjusted based on expected capital expenditures as detailed on tab G5 of Exhibit G.

The test year projections leave Hi-Country with total revenue of $117,008.40 and total expenses of $109,820.16, leaving net income of $7,188.23. By adding back in the depreciation expense net of CIAC amortization, and subtracting the allowable return on the Company's rate base (as calculated on tab G1 of Exhibit G), Hi-Country is expected to earn within approximately $30 of its targeted amount.

Also, it is important to note that the capital reserve fees of $20.09 per customer, per month, are not accounted for in this test year analysis. By subtracting out depreciation expense net of CIAC amortization as described in the previous paragraph, the test year earnings analysis leaves capital reserve amounts out of the analysis.

SECTION IV – CALCULATION OF NEW RATES

Were you involved in the calculation of the rates proposed in this rate case?

Yes, I worked with the Hi-Country Board of Directors to prepare the necessary financial information and worked with them to set rates that would provide the amount of revenue necessary to allow Hi-Country to operate now and in the future. The residential water use and standby rates proposed in the initial rate case filing are as follows:

Base Rate (0 to 10,000 gallons)	$69.00
Overage Rate: 10,000 gal to 20,000 gal	$1.45 per 1,000 gal
20,001 gal to 30,000 gal	$1.69 per 1,000 gal
30,001 gal to 40,000 gal	$1.96 per 1,000 gal
40,001 gal plus	$2.27 per 1,000 gal
Monthly Standby Fee	$27.60
Reserve Fund Monthly Customer Charge (applicable to all customers)	$20.09

Note that the table above contains only the recurring charges to residential customers; however, these are the fees that account for approximately 95 percent of Hi-Country's revenue, with the remainder coming from water sold to the BLM. Hi-Country also charges various other fees, but those fees are infrequent and generally for very small amounts.

Can you explain the calculations of the base rate and the overage rates?

The revenue requirement calculations are shown on tab G1 of Exhibit G, included with the initial rate case filing. The revenue requirements are broken out among system expenses, usage expenses, and capital reserve amounts; the allocations of particular items between these categories are shown on tab G6a. The system expenses are intended to be those expenses (or portions of expenses) that are inherent in operating the water system and are required to supply and have available the amount of water included in the base rate. For example, regulatory expenses (NARUC account 667) are allocated 100 percent to system expenses as those expenses would be incurred even if the Company sold little or no water. Usage expenses are intended to reflect those expenses (or portions of expenses) that would not necessarily be incurred with supplying the amount of water included in the base rate, but relate to additional water produced and sold, which will be recovered through the tiered (overage) rates. For the estimated test year expenses of $98,144.08, system expenses account for $73,276.39 (or 74.7 percent) and usage expenses account for $24,867.69 (or 25.3 percent).

The base and standby rates were set to cover all the system expenses, as shown in tabs G1 and G2 of Exhibit G, plus a portion of the allowable return on the rate base. The overage rates were set to cover the usage expenses plus a portion of the allowed return on rate base.

Can you explain the calculations of the standby rate?

The standby rate of $27.60 is intended to cover a portion of the system expenses and is lower than the base rate, reflecting the reality that the base rate customers are, in fact, receiving active water service. Note that all customers, including standby customers, will be required to pay the monthly capital reserve fee.

SECTION V – CALCULATION OF CAPITAL RESERVE FEES

Can you explain the calculation of the monthly capital reserve fee?

To begin with, Hi-Country has never charged a capital reserve fee and has never explicitly set aside funds for future capital expenditures. The capital reserve fee is designed to do just that, which will allow Hi-Country to pay for future capital expenditures without resorting to special assessments or risking insolvency.

The proposed rates include a capital reserve fee of $20.09 per month for each customer. This fee is calculated based on the total depreciation, without netting the amortization of CIAC. By using this method to calculate the capital reserve fund contribution amount, the Company is able to capture the decreased usefulness of assets that were donated initially (or pre-existing at the time Hi-Country took over operation of the water system) as well as that of assets that the Company has purchased. Note that this calculation also includes expected capital expenditures as detailed on tab G4 of Exhibit G.

The monthly fee of $20.09 equates to an annual capital reserve contribution of approximately $30,375.

Describe Hi-Country's capital reserves—both current and predicted.

Hi-Country's capital reserves are currently zero. Hi-Country does have some cash on hand, as reported in the 2012 annual report, but has no funds segregated as capital reserves. Based on the proposed capital reserve fee, Hi-Country will be accumulate $30,375 in capital

reserves (minus any capital expenditures appropriately paid from the accumulated funds) each year.

What amount should Hi-Country have as capital reserves?

Hi-Country commissioned a reserve study in 2012. That study estimated that capital expenditures totaling approximately $1.68 million would be required within the next 20 years. Funding a $1.68 million capital reserve account at the proposed level of capital reserve fees would take approximately 53 years. Additionally, Hi-Country notes that the remaining useful lives of the various pipes in the water system, which make up a large portion of Hi-Country's capital assets, are difficult to determine as the pipes are buried and inaccessible. Hi-Country believes that the proposed capital reserve charge is sufficient to build up adequate capital reserves.

SECTION VI – OTHER TOPICS

Are you aware of the Well Lease Agreement between Hi-Country and Rodney Dansie and others?

Yes, I am aware that the agreement is an issue in these proceedings in addition to the normal rate case questions.

What do you know about the well lease agreement?

From what I understand, it is an old agreement that Mr. Dansie, to some extent, interprets to mean that Hi-Country is obligated to provide him with a significant amount of free water, or at

least free transportation through the Hi-Country system of water from a well that Mr. Dansie owns. I am not, however, familiar with the agreement on a more detailed level.

Did you consider the effect of the well lease agreement in setting the water service rates for Hi-Country customers?

No, I did not. My understanding is that Hi-Country believes the agreement is not valid and/or not enforceable. Therefore, I did not account for any potential costs associated with providing water to Mr. Dansie in calculating revenue requirements, making projections, or calculating rates.

Hypothetically, if the well lease agreement were enforced in a manner that required Hi-Country to provide water to Mr. Dansie at no cost, what would be the effect on the water rates for Hi-Country customers?

Without knowing the specifics, I can only make generalizations about the rates. That said, if Hi-Country was obligated to provide water at no cost to Mr. Dansie, then the rates for Hi-Country customers would necessarily need to be increased. Producing water involves a variety of costs, including power costs for the well pumps, treatment of the water to meet the relevant standards, system maintenance and repair, and so on. Many of those costs would increase if the system was used to produce more water. If the system was used to produce or transport a significant amount more water, many of the costs would increase significantly as well. Since the water company has no source of revenue other than fees charged to ratepayers, those fees would

have to go up to cover the difference. Also, I do not have the expertise to give an opinion on just how much capacity the system and the pumps have to move additional water.

Again, hypothetically, what would be the effect on rates if the well lease agreement was enforced in a manner that obligated Hi-Country to transport water from Mr. Dansie's well, through the Hi-Country system, and to Mr. Dansie's property?

Similar to my answer to the previous question, transporting more water would necessarily mean additional costs and Hi-Country would have no other option but to charge higher fees to its water customers in order to cover the increased costs.

And what would be the effect on rates if Mr. Dansie were to pay a set fee for water transported through the Hi-Country system, as Hi-Country has proposed in its tariff submitted as part of this rate case proceeding?

Without knowing hard and fast numbers about the amount of the fees, the quantity of water, or the incremental costs associated with transporting more water through the Hi-Country system, I really cannot give a good answer to that question. As I understand it, Mr. Dansie is of the opinion that the agreement obligates Hi-Country to provide a very large amount of water to him—millions of gallons per year. The costs associated with such a large increase in flow through the system would be difficult to estimate. The system itself may need improvements to handle that much more volume and the lifespan of the pumps and other infrastructure may be shortened as a result. Without some sort of historical data on which to base an estimate, it is

very difficult to give any sort of predictions. In any case, it is likely that existing ratepayers would end up bearing at least a portion of the increased costs.

SECTION VII – CONCLUSION

Do you have any concluding remarks and/or recommendations to the Commission?

Hi-Country is a small water system with a relatively small number of customers. The monthly usage among customers also varies greatly. As a result, Hi-Country's costs and rates are higher than those of larger water systems. Hi-Country does need to increase rates and begin building up a capital reserve fund in order to ensure continued viability. I believe that the proposed rates and fees will be sufficient to keep Hi-Country operating and viable for the long term.

Does this complete your testimony?

Yes, it does. Thank you.

CERTIFICATE OF SERVICE

I hereby certify that on the 17th day of October, 2013, I served a true and correct copy of the foregoing **Testimony of Krystal Fishlock-McCauley** by causing the same to be delivered to the following:

Via hand delivery and email to:

UTAH PUBLIC SERVICE COMMISSION
c/o Gary Widerburg, Commission Secretary
160 East 300 South, Fourth Floor
Salt Lake City, Utah 84111
psc@utah.gov

Via U.S. mail to:

John S. Flitton
Lara A. Swensen
FLITTON & SWENSEN
1840 Sun Peak Drive, Suite B-102
Park City, UT 84098

William B. and Donna J. Coon
7876 W Canyon Rd
Herriman, UT 84096

/s/ J. Craig Smith