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

Attornesy 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 RANDY CRANE**

Hi-Country Estates Homeowners Association ("Hi-Country") hereby submits the Testimony of Randy Crane 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

RANDY CRANE

FOR

HI-COUNTRY ESTATES

HOMEOWNERS

ASSOCIATION

October 17, 2013

Docket No. 13-2195-02

SECTION I - INTRODUCTION

Please state your name and address.

Randy Crane. I live at 13682 S. Mount Shaggy Drive, Herriman, Utah.

Please state your position with Hi-Country Estates Phase I Homeowners Association ("Hi-Country").

To start, I am a member board of directors of the Hi-Country Estates Phase I Homeowners Association and have been for over five years. I am also obviously a property owner within Hi-Country Estates and likewise a Hi-Country water customer.

Please give a brief overview of your experience and history with Hi-Country.

As noted, I am a board member and have been for over five years. In that time I have been very involved with the water company—everything from maintenance issues, to billing, to operations, to setting rates.

And do you feel your experience qualifies you to provide testimony on behalf of Hi-Country?

Absolutely. I have been asked by the other board members to provide testimony on behalf of Hi-Country and I have experience with and knowledge of the water company sufficient to provide testimony.

Please state the purpose of your testimony.

At a very high level, I will be providing testimony about the history, operations, finances, and future of Hi-Country. Among other topics, I will provide testimony on changes we have proposed to the tariff, changes we have proposed to the rate and fees, capital improvements that are necessary, and the operational arrangement with Herriman City. My testimony will be broken down into following areas:

Section II – Background and Overview

Section III – Proposed Tariff Changes

Section IV – Proposed Rate Changes

Section V – Capital Improvements

Section VI – Herriman Contract

Section VII – Proposed Service Area Changes

Section VIII – Well Lease Agreement

Section IX – Conclusion

SECTION II – BACKGROUND AND OVERVIEW

Please briefly describe the history of the Hi-Country Estates subdivision and the Hi-Country water system.

Up until 1994, the Foothills Water Company ("Foothills") served water to the Hi-Country Homeowners Association (the "Association" or "HOA") members in the Hi-Country Estates Subdivision under Certificate of Convenience and Necessity ("CCN") No. 2151. In 1994, as a result of a ruling in a lawsuit among the Hi-Country Estate Homeowners Association, Foothills

Water Company, and the family of J. Rodney Dansie that quieted title to the water system in the Association, the Commission canceled Foothill's CCN No. 2151 and issued CCN No. 2737 to the Association.

Please describe the initial involvement of the Public Service Commission with Hi-Country in 1994.

Hi-Country was granted CCN No. 2737 on March 23, 1994. On May 14, 1996, based on an order of the Commission in Docket No. 95-2195-03, the Commission issued Letter of Exemption No. 0057 to the Company, thus freeing Hi-Country from PSC oversight as long as that letter was in effect.

And after receiving the exemption from the PSC, how was the water system operated and managed?

From May 14, 1996, until July 12, 2012, Hi-Country operated as an exempt water corporation and water rates and rules and regulations were set by the Association's Water Board and approved by the Board of Directors. As the Letter of Exemption had been granted and was in effect, the PSC was not involved with the water company.

Please describe the circumstances that led Hi-Country to return to PSC jurisdiction.

Hi-Country began serving some customers that were outside of the subdivision and who were likewise not members of the Association, and thus were not entitled to the voting rights and inherent protections that the homeowners within the subdivision have. Accordingly, Hi-Country felt that the exemption granted by the PSC was no longer appropriate and notified the PSC of such. On July 12, 2012, in Docket No. 11-2195-01, the Commission entered a Report and Order revoking the letter of exemption. Mr. Dansie, throughout this period, continued his demand for free water to serve the areas specified in the well lease agreement. Doing as Mr. Dansie demanded would have meant serving additional areas outside our service area and outside the HOA, which would make it necessary for the PSC to revoke Hi-Country's then-effective letter of exemption and require Hi-Country to submit to PSC oversight.

How many water customers does Hi-Country have?

Hi-Country currently has 90 active residential customers, 35 standby residential customers, and one governmental customer, the U.S. Bureau of Land Management.

Does Hi-Country expect the number of customers to change?

No, we do not expect the number of customers to change in the near future. As noted, we have 35 standby customers and we expect many of those who do not have their own wells to eventually develop their properties and become active customers; however, we are not aware of any standby customers that intend to develop their lots within the next few years. It is possible that any of the lots currently for sale could be purchased and developed immediately by new owners, but I am not aware of any firm plans to do so.

Please describe the arrangement with the Bureau of Land Management.

Hi-Country supplies water to the federal Bureau of Land Management. The BLM uses this water to supply their wild horse area near the subdivision. In 2012, we supplied the BLM with approximately 1.8 million gallons of water. The fees currently charged to the BLM are as follows:

BLM RATE SCHEDULE (existing)	
Annual Fee	$1,755
Base Rate (0 to 100,000 gallons)	$177
Overage Rate (100,000 gal plus)	$1.99 per 1,000 gal

Do you expect the BLM's water usage to remain at that level in the future?

No, we understand that the BLM will be using less water in the future and do not expect the BLM to go over the 100,000 gallons per month included in the base rate.

SECTION III – PROPOSED TARIFF CHANGES

Can you provide an overview of the current tariff?

The current tariff, which we call Tariff No. 1, was established prior to Hi-Country coming back under PSC jurisdiction. Thus, when Hi-Country's letter of exemption was revoked by the Commission, Tariff No. 1 was considered the effective tariff and remains the effective tariff until the updated tariff is approved as part of these rate case proceedings. The tariff generally sets forth the terms that govern the relationships between Hi-Country and the water customers, including rates, fees, conditions of water service, billing procedures, and other rules for various situations that may arise. Hi-Country has submitted an updated tariff, referred to as Tariff No. 2, as part of the rate case proceedings. The updated tariff was filed as an exhibit to the initial rate case filing submitted on July 10, 2013 in Docket No. 13-2195-02.

Can you describe the changes included in Tariff No. 2?

Tariff No. 2 includes a variety of changes from the original tariff and is presented as an entirely new tariff, rather than just replacing certain pages containing changes. Note also that we expect certain changes to be made to the submitted Tariff No. 2 as part of these proceedings, including updating the rate sections to match the rates determined to be appropriate through the rate case process. Also, Tariff No. 2 includes a number of immaterial changes, such as correcting typos or minor changes to word choice that do not have any effect of the substance of the tariff.

More specifically, Tariff No. 2 includes the following changes:

- Added language to address the amounts to be charged under the Well Lease Agreement
- Added an 18 percent interest charge on late payments
- Added an Active Meter Replacement Fee and corresponding language. The fee is set at actual cost in order to account for differing connection sizes and meter specifications among water customers.
- Added a Nonstandard Connection Review Fee of $10,000 and accompanying language.
- Deleted the $250 reconnection fee from Tariff No. 1, meaning that all connections—including reconnections after being disconnected from the system for whatever reason—will be charged the same connection fee.

- Added language to provide for use of water from Herriman for fire suppression as needed.
- Added language to describe conditions of service for standard and nonstandard connections.
- Deleted the requirements that two thirds of current residents approve connections to customers outside of Hi-Country's service area.
- Added reconnection language stating that reconnections are treated the same as new connections.
- Added language to limit water supply for fire suppression to areas within Hi-Country's service area and to customers outside of the service area with special contracts for such service.
- Added language stating that Hi-Country may place a lien on the property of nonpaying customers.

Can you describe the reasons for making changes to the existing tariff?

The rates and fees in the tariff are obviously changing based on this rate case process. As noted previously, we expect the rate tables in Tariff No. 2 to be updated according to the recommendations of the Division of Public Utilities and the PSC. Many of the other changes were made based on recommendations of Hi-Country's attorneys. There are also changes that were made based on experience and after having additional time to review the original tariff.

SECTION IV – PROPOSED RATE CHANGES

Can you describe the proposed rate and fee changes?

The new proposed rates and fees and the current rates and fees are summarized in the tables below:

NEW RATE SCHEDULE	
Water Charges	
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
Second Source Water from Herriman Water System Due to Lack of Domestic Supply	Charged at cost proportionally to all customers using more than the 10,000 gallons included in the base rate
Second Source Water from Herriman Water System Due to Fire Control or Other Common Use	Charged at cost equally to all customers
Miscellaneous Charges	
Service Connection Fee	$750.00
Temporary Service Suspension Fee	$50.00
Account Transfer Fee	$25.00
Meter Test Fee	$10.00
Customer Late Fee (plus 18% interest)	$10.00 per month
Security Deposit	$150.00
Returned Check Fee	$25.00
Active Meter Replacement Fee	Company cost of meter and labor for replacement
Nonstandard Service Connection Review Fee	$10,000.00

OLD RATE SCHEDULE	
Base Rate (0 to 10,000 gallons)	$42.19
Overage Rate (10,000 gal to 20,000 gal) 20,001 gal to 30,000 gal 30,001 gal to 40,000 gal 40,001 gal plus	$2.30 per 1,000 gal $2.67 per 1,000 gal $3.10 per 1,000 gal $3.60 per 1000 gal
Monthly Standby Fee	$12.41
Service Connection Fee	$750.00
Temporary Service Suspension Fee	$50.00
Reconnection Fee (after disconnection)	$250.00
Account Transfer Fee	$25.00
Meter Test Fee	$10.00
Customer Late Fee	$10.00 per month
Security Deposit	$150.00
Returned Check Fee	$25.00

SECTION V – CAPITAL IMPROVEMENTS

Can you describe Hi-Country's water system infrastructure?

The distribution system consists of transite pipe (commonly known as asbestos cement) constructed in the 1970's. Pipe sizes vary from 6" to 12" and pipe class varies as well. The pipes are aging, but in good condition.

The water system consists of four water storage tanks: a 300,000 gallon tank called the Well House Tank, a 9,000 gallon reserve tank and two 50,000 gallon tanks called the Franklin Tanks. All tanks are constructed of steel and have a concrete foundation. The Hi-Country water system does not use any reservoirs.

All connections are metered. All meters are functional, but Hi-Country intends to begin replacing meters in 2013.

Hi-Country obtains water from well #29482 under Utah water right number 59-1608. The well is eight inches in diameter and approximately 480 feet deep. The well is located at S 1000 ft E 2150 ft from W4 cor, Section 04, Township 4S, Range 2W, Salt Lake Base and Meridian.

Does Hi-Country plan on making any major capital improvements in the near future?

Hi-Country has several capital improvement projects planned for the near future. Hi-Country has contracted with Herriman City to supply extra water, as needed, to the Hi-Country water system. This second source covers periods of abnormally high use where the main Hi-Country water supply is insufficient or emergency situations where additional water is necessary such as fire suppression or contamination of Hi-Country's water. The current second source connection to Herriman's water systems runs through the water system of Hi Country Estates Phase II, which is susceptible to power loss and is a limited water supply. In 2008 Herriman City approached Hi Country Estates I with a proposal for Hi Country Estates I to allow access to Herriman's new 3,000,000 gallon tank located north of the HOAs boundaries in return for a connection into the new water main from that tank. The installation of the connection was the payment for the access. To facilitate the use of this new connection, Hi-Country intends to install a new pump station capable of supplying 500 gallons per minute to Hi-Country's lower tanks. Hi-Country anticipates financing the cost of approximately $125,000 for this project.

Hi-Country also intends to upgrade its SCADA (supervisory control and data acquisition) telemetry system. This upgrade will allow the system to operate more efficiently and the system operator will have more and better-quality information about the current state of the system.

Hi-Country also intends to replace the meters throughout the subdivision. The current meters are generally nearing the end of their service lives and will eventually need replaced. Also, the existing meters require manual reading, which does not happen during the winter months when snow accumulation makes access to each meter impossible or impractical. New meters would allow readings to be taken remotely, thus providing accurate readings even during the winter months, and would also ensure that water usage is being billed accurately. In the rate case filing, the cost of installing new meters is included in the rate base and intended to be paid by Hi-Country. However, Hi-Country is open to the alternative approach of having each customer pay for their new meter through the Active Meter Replacement Fee, and therefore excluding the cost of the new meters from the rate base.

Does Hi-Country expect to make any other large capital expenditures in the near future?

No, Hi-Country only anticipates the three major projects outlined previously. As noted, much of the Hi-Country infrastructure is older, but it is generally in good, serviceable condition. Hi-County doesn't expect to make major repairs or improvements to the pipe or tanks in the near future. That said, much of the infrastructure will eventually need to be replaced and an additional well is a possibility to utilize the full water right the HOA owns and to provide an HOA-owned second source of water. This will require capital reserves sufficient to do so without resorting to unexpected special assessments on the water customers.

SECTION VI – HERRIMAN CONTRACT

Can you describe the arrangement between Hi-Country and Herriman City?

Initially, Herriman City served only as a second source for the water company. However, after Jordan Valley Water Conservancy stopped servicing the water system, the Board of Directors decided to transfer those services to Herriman. The water department of Herriman City now operates the Hi-Country water system and handles repairs, maintenance, and billing for the HOA.

How did Hi-Country handle billing and operations prior to the arrangement with Herriman?

At those times when it was not done by Jordan Valley WCD the billings were done by volunteer members of the HOA. That was simply not reasonable and sustainable.

SECTION VII – PROPOSED SERVICE AREA CHANGES

Are all of the Hi-Country customers within the certificated service area?

No, Hi-Country serves several customers that are outside of its certificated service area.

Is Hi-Country seeking to change its certificated service area?

Yes, as noted in the initial rate case filing, Hi-Country is seeking to add to its service area in order to include several current water customers not residing in the subdivision. Also, Hi-Country is seeking to remove one parcel at the southwest corner of the service area to which Hi-

County does not provide water service and on which Hi-Country has no water distribution infrastructure.

SECTION VIII – WELL LEASE AGREEMENT

Can you describe the development of the Association's Property?

Yes. The property that is now subject to the CC&Rs of the Homeowners' Association was purchased in 1970 by Gerald H. Bagley ("Bagley") from Tony and Bette Lou Nicoletti. Also in 1970, Bagley, Charles E. Lewton, and others formed Hi-Country Estates, Inc., a Utah corporation. This corporation, which was involuntarily dissolved in 1976, was the general partner for Hi-Country Estates II, a limited partnership, in which Bagley was one of the partners. Later in 1970, the Hi-Country Estates II partnership, along with Zions First National Bank Trust Department and the Nicolettis, entered into an agreement under which the bank would take title to the property, remit payment on the contract to the Nicolettis, and thereafter deed the property to purchasers or lots within the subdivision. The partnership subdivided the property into the Hi-Country Estates Subdivision. On June 15, 1970, the Protective Covenants for Hi-Country Estates were signed by D. Keith Spencer. In 1971, Bagley and the other partners in Hi-Country Estates II sold their interests to Lewton. Keith Spencer then joined Lewton as an owner and manager of the project. On January 30, 1972, Charles Lewton signed the Certificate of Incorporation of Hi-Country Estates Homeowners Association.

On March 22, 1974, the Protective Covenants for Hi-Country Estates were recorded in Salt Lake County, Utah. Exhibit 1 is a copy of the Protective Covenants for Hi-Country Estates, which are incorporated herein by reference. In May 1974 Bagley personally repurchased the development from the developer partnership**.**

Can you describe the history of the water system now operated by the Association?

Yes. In 1970, near the time the subdivision was subdivided, Hi-Country Estates II installed a water system to supply water to the subdivision, and then commenced to sell lots to the public. In 1973 and 1974, Lewton and Spencer sold the water system, along with all unsold lots in the subdivision, back to Bagley, who then resumed operation of the water system.

On April 1, 1974, Hi-Country Estates, Inc. entered into a lease with Roy Glazier for the lease of an existing deep well (the "Glazier Well") which would provide water for the subdivision. The Glazier well was approved for 72 residential connections. In 1974, as part of Bagley's purchase of the development in his individual capacity, Bagley acquired the rights in the Glazier Well lease.

In 1977, Bagley connected the system to a well leased from Jesse J. Dansie ("Dansie Well No. 1"). More particularly, on April 7, 1977, Jesse J. Dansie and Bagley entered into a "Well Lease and Water Line Extension Agreement" (the "1977 Well Lease"), which is discussed later in my testimony. The 1977 Well Lease covered the lease of Dansie Well No. 1. The well covered by the lease has not provided water to the water system for nearly 20 years and is not connected to the Association's water system.

From 1973 to October 1985, Bagley operated and maintained the water system in the capacity of (1) an individual, (2) a general partner of Bagley and Company, or (3) a limited partner of Foothills Water Company. During this time, water from the Glazier Well was used to supply the water system. In 1980, Bagley transferred his interest in the water system to Jordan Acres, a limited partnership of which Bagley was a general partner. In June 1985, Bagley created Foothills Water Company and began to manage the water system through this entity. On June 7, 1985, the interest Bagley had transferred to Jordan Acres was transferred from Jordan Acres to Foothills Water Company in exchange for all of Foothills Water Company's outstanding shares. At the time, Foothills Water Company was operated by J. Rodney Dansie, Jessie J. Dansie's son. On October 31, 1985, Bagley transferred ownership of the water system to J. Rodney Dansie in lieu of an obligation Bagley owed to J. Rodney Dansie. J. Rodney Dansie, who had been watermaster of the water system for a number of years, took control of Foothills Water Company in partial satisfaction of $80,447.43 he claimed from Bagley for unpaid bills for labor and materials furnished to the water system. The transfer was completed via an assignment of all outstanding stock of Foothills Water Company to J. Rodney Dansie. As a result of this transfer, all of Bagley's claims, rights, title and interest in the water system and water right merged with those of J. Rodney Dansie and Foothills Water Company. In January 1986, Bagley assigned to Foothills Water Company all of his rights related to the water system. At this time, water was being supplied to Foothills Water Company by Dansie Well No. 1.

In March 1985, the Association brought an action to quiet title to the water system, water rights, and lots. At the time the action was brought, Foothills Water Company was receiving water from Dansie Well No. 1. The court eventually quieted title to the water right, water system, and lots in the Association. In initially quieting title in the Association, the trial court relied upon two 1975 quitclaim deeds from Hi-Country Estates, Inc., and Hi-Country Estates II to the Association conveying common areas to the Association; a 1984 tax deed from Salt Lake

County to the Association conveying all water tank lots to the Association; a 1985 deed from Hi-Country Estates, Inc. to the Association, conveying the water tank lots to the Association; a 1985 deed from Hi-Country Estates II to the Association conveying the water tank lots to the Association; two 1985 recorded quitclaim deeds from Zions Bank and Trust, trustee for the property in the subdivision, to the Association, conveying the water tank lots to the Association; an assignment from Hi-Country Estates, Inc., to the Association, of the disputed water rights; and an acknowledgement by the State Engineer's Division of Water Rights that the Association is owner of the water rights (referred to as the Glazier Well Water Right). In 1993 the Court of Appeals ruled that the district court did not err in concluding that the Association held legal title to the water right, lots, and system. At the time of the Court of Appeals' ruling confirming the Association's title to the water right, lots, and system, the water system was being supplied with water from the newly-established Homeowner’s well ("Association’s Well No. 1").

The Association's members directly funded the construction of the Association's Well No. 1. Before 1991, the water system was served by Dansie Well No. 1 and the Glazier Well. The Association’s Well No. 1 was established to comply with PSC requirements to provide fire protection. The Association offered to lease the well to Foothills Water Company for substantially less expense than would be associated with obtaining water under the 1977 Well Lease, namely for a $12 annual fee.

In 1994, someone vandalized a portion of the water system by opening valves and filing the valve boxes with sand. The board believed that the vandalism was done by J. Rodney Dansie or someone acting at his direction. As a result of this vandalism and because of J. Rodney Dansie's refusal to pay fees related to the transport of water to his property, as ordered by the

PSC in its 1986 Report and Order, in July 1994 the Association disconnected the water system from Dansie Well No. 1 and disconnected property owned, controlled or used by members of J. Rodney Dansie's family (the "Dansies"), including J. Rodney Dansie's property within the Association, from the Association's water system. The Dansies thereafter built a separate water system to serve their property. After the disconnections, the Association received water from the Association's Well No. 1.

On January 7, 1997, the Association filed another claim seeking to quiet title to the equipment and property necessary to operate the water system. On July 8, 1997, the Association received a second ruling quieting title to the equipment and property necessary to operate the water system in the Association. At this time, the Association was receiving water from the Association's Well No. 1.

In 2008, the Association connected to the water system two lots owned by J. Rodney Dansie that were located within the Association. J. Rodney Dansie did not pay for any of the water he received from the Association and did not pay the standby fees that were due; the Association disconnected the lots in July 2009 for nonpayment. At the time the lots were disconnected, the Association was receiving water from the Association's Well No. 1.

Since 2008, the Association has received water from the Association's Well No. 1. The Association currently receives water from the Association's Well No. 1. As mentioned elsewhere in my testimony, the Association also, as needed, receives water from Herriman as a second source.

Can you describe the history of the water system's certification as a Public Utility?

From about 1972 until August 1985, when Foothills Water Company was granted its Certificate of Convenience and Necessity, the water system was illegally operated as an uncertificated public utility.

In June 1985, Foothills Water Company applied to the PSC to operate the water system as a public utility. On August 18, 1985, the PSC granted to Foothills Water Company CCN No. 2151.

On March 23, 1994, the PSC canceled and annulled CCN No. 2151, which had been issued to Foothills Water Company. J. Rodney Dansie, who was the Foothills Water Company manager at the time, was ordered to immediately cease and desist from acting in any manner to operate the system or to interfere with the operation of the system by the Association. Also on March 23, 1994, CCN No. 2737 was issued to the Association.

On February 5, 1996, the PSC canceled the Association's CCN because the PSC concluded that the water system was outside the PSC's jurisdiction since it served a limited number of nonmembers pursuant to specific contracts, but did not offer its service to the public generally. On May 14, 1996, the PSC issued Letter of Exemption No. 0057 to the Association, which is attached as Exhibit 2 and incorporated by reference.

On July 12, 2012, the PSC canceled the Association's exemption from public utility status and reinstated the Association's CCN because the Association was serving members and non-members and the Association agreed it is subject to PSC jurisdiction since it is serving the public generally.

Can you describe the 1977 Well Lease?

Yes. In 1977 Bagley, in his individual capacity, entered into a well lease agreement with Jesse J. Dansie to supply water from Dansie Well No. 1 to the water system. The 1977 Well Lease is a poorly written document that is difficult to interpret. Trying to describe the well lease agreement is incredibly hard; in thirty years of ligation the courts have failed, in my opinion, to provide an adequate and definitive interpretation of the contract and its purported amendment.

Under the 1977 Well Lease, Jesse J. Dansie agreed to supply water from Dansie Well No. 1 to the water system for ten years. In return, Bagley agreed, among other things, to provide Dansie and his immediate family with five free residential hook-ups to the water system and reasonable amounts of water through these hook-ups at no cost. Bagley also agreed that Dansie would be allowed to use any excess water not being used by Bagley or customers of the Hi-Country Estates Water Company for only the costs of pumping. A purported amendment to the 1977 Well Lease Agreement, made on July 3, 1985, and executed by Bagley, defined the "reasonable" amount of water to be provided at no cost under the lease to be twelve million gallons of water per year. At the time the amendment was signed, however, Bagley had no interest in the water system, having transferred it to Jordan Acres and then to Foothills Water Company. The terms of the lease are set forth fully in the 1977 Well Lease Agreement, Exhibit 3, and its purported amendment, Amendment to Well Lease and Water Line Extension Agreement (the "1977 Well Lease Amendment"), Exhibit 4, and are incorporated herein by reference. The PSC also summarized the respective rights and obligations of the parties to the 1977 Well Lease Agreement in its March 17, 1986 Report and Order, Exhibit 5, which is also incorporated by reference.

Can you describe the assignments made under the 1977 Well Lease?

Jesse J. Dansie and Bagley entered into the 1977 Well Lease. Jesse J. Dansie died in 1987. The 1977 Well Lease was never assigned to the Association, nor has the Association otherwise succeeded Foothills Water Company as a party to the 1977 Well Lease.

What has the PSC previously ruled with respect to the 1977 Well Lease?

On March 17, 1986, the PSC addressed the 1977 Well Lease in connection with rate proceedings under Foothills Water Company's CCN. The PSC's order, which is Exhibit 5 and is incorporated by reference herein, set forth the PSC's findings of fact and conclusions of law containing several statements regarding the 1977 Well Lease. The PSC found that it is unreasonable to expect Foothills Water Company to support the entire burden of the 1977 Well Lease. The PSC found that the 1977 Well Lease is grossly unreasonable, requiring not only substantial monthly payments, but also showering virtually limitless benefits on Jesse J. Dansie and the members of his immediate family. The PSC concluded that the actual value of the 1977 Well Lease was approximately $4,416 per year. The PSC also concluded that the July 3, 1985 amendment to the 1977 Well Lease lacked meaningful consideration and is, to the extent relevant to the PSC's inquiry, invalid. According to the PSC, it would be unjust and unreasonable to expect Foothills Water Company's 63 active customers (at that time) to support the entire burden of the 1977 Well Lease, but that payment of the $600 monthly lease payment by Foothills Water Company would adequately cover the value of the benefit Foothills Water Company was receiving under the 1977 Well Lease. The PSC stated that the remaining burdens of the lease should be Bagley's personal obligation. The PSC did not object to the Dansies obtaining water from the well that was the subject of the 1977 Well Lease, provided that the actual pro-rata (not incremental) costs for power, chlorination, and water testing involved in delivering that water were paid for by someone other than the customers in the Foothills Water Company's service area. As such, it was reasonable for Foothills Water Company to bill Jesse J. Dansie for the actual cost of any water provided to him, his family or his other connections, and for Jessie J. Dansie to seek reimbursement of the same from Bagley. The PSC also ruled that the 1977 Well Lease was not proposed in good faith for the economic benefit of Foothills Water Company.

The PSC addressed the 1977 Well Lease again in an April 9, 1992 Report and Order, which is Exhibit 6 and is incorporated by reference herein. In that Report and Order, the PSC determined that it had authority to reform the 1977 Well Lease and to value the utility's rate base for rate-making purposes. The PSC concluded that the Dansie Family Trust (the "Dansie Trust") was the successor in interest to Jesse J. Dansie under the 1977 Well Lease and that Foothills Water Company was the successor in interest to Bagley's interest under the lease. J. Rodney Dansie owned a 20% beneficial interest in the Dansie Trust.

At the time the April 1992 Report and Order was entered, Dansie Well No. 1 was the sole source of water for the water system, although the Association was in the process of drilling the well now referred to as Association’s Well No. 1. At the time of the Report and Order, the Association had offered to lease its new well to Foothills Water Company for $12 per year. The PSC stated that the 1977 Well Lease is a major financial burden on the ratepayers and restated its prior conclusion that Foothills Water Company's liability under the 1977 Well Lease should be limited to payment of $600 per month, and that any costs associated with providing surplus water to the Dansie Trust be the obligation of the Dansie Trust or the original lessee, Bagley. Moreover, the PSC concluded that, for rate-making purposes, it may disallow the pumping costs associated with the lease as valid utility expenses and that it most emphatically should do so.

At the time of the order, J. Rodney Dansie was Foothills Water Company's sole shareholder, president, and watermaster. The PSC stated that J. Rodney Dansie, in dealing with the Dansie Trust, has an irreconcilable conflict of interest. To obviate this conflict of interest, the PSC ordered that Foothills Water Company should join in the point of diversion change application for the Association's well and enter into a well lease with the Association for an annual rental of $12 as soon as the Association's well received necessary approvals and was operating. In the mean time, the PSC limited any payments to the Dansie Trust to $600 per month, and ordered that pumping costs for any water transported for the Dansie Trust should be billed to the Dansie Trust.

On November 30, 1992, the PSC issued an Order on Rehearing addressing its April 9, 1992 Report and Order. Exhibit 7 is the November 30, 1992 Order on Rehearing and is incorporated by reference herein. In the Order on Rehearing, the PSC stated that the terms of the 1977 Well Lease are unjust and unreasonable. Given that an alternative water source existed with a proposed annual lease cost of $12.00, the PSC concluded that all costs of the 1977 Well Lease that exceed the costs of the alternative water source are unreasonable and must be carried by Foothills Water Company if Foothills Water Company decided to continue the 1977 Well Lease. The PSC ruled that, although the 1977 Well Lease may be binding on Foothills Water Company's water system, the financial burden of the 1977 Well Lease may not be passed along to the ratepayers. In addition, the PSC described the conflicts of interest in Foothills Water Company's management and remarked that the company's business relationships are beset with conflicts of interest including the 1977 Well Lease; employment of relatives or affiliate employees; rental of a storage tank, office space, and earthmoving equipment from relatives or an affiliate; and the absence of any competitive bidding process or seeking of market alternatives. The PSC, moreover, was never requested to, nor did it, grant approval of the 1977 Well Lease and concluded that the obligation to provide, transport, or store water for the Dansie Trust remains solely that of Foothills Water Company and not that of its customers. The PSC noted that economic benefits to Foothills Water Company are benefits to J. Rodney Dansie.

Does the 1977 Well Lease impact the rates paid by the Association?

Yes. The 1977 Well Lease, if enforced as demanded by J. Rodney Dansie, will significantly impact the rates paid by the Association. In particular, the rates that the Association has proposed in its tariff do not account for the additional costs and expenses that would be required to provide water under the 1977 Well Lease. If the Association was required to provide 12,000,000 or more gallons of water per year under the 1977 Well Lease, the Association's rate base would be much higher. Before the Association's water system can be connected with the Dansie water system, the connection must conform to applicable laws, regulations, court orders, and judgments.

In addition to the basic costs of pumping, processing, transporting, and delivering the water are costs related to compliance with the Utah Department of Environmental Quality ("DEQ") requirements. In particular, a connection plan would need to be prepared by a professional engineer and approved by the DEQ's Division of Drinking Water. The most recent district court decision, which was affirmed by the Utah Court of Appeals, is the Final Judgment. Exhibit 8 is a copy of the Final Judgment, which is incorporated by reference. The Final Judgment places the costs for developing, gaining approval for, and implementing the connection plan on the Dansies. In addition, the Final Judgment provides that the Dansies may connect lines from their wells to the Association's water system only if the Dansies' wells have valid certifications from the DEQ's Division of Drinking Water of acceptable water quality for each well. The Association and the Dansies, moreover, must submit detailed plans prepared and approved by a registered professional engineer for any connection of the systems.

The Division of Drinking Water, however, will not approve any connection that would result in a combined system that does not meet the minimum drinking water standards for quality and quantity. The Association's water system already operates at full capacity during portions of the summer. Any engineering study of the systems, therefore, would need to assess the benefit of connecting the systems given this reality. The plans must show that the combined system is adequate to supply sufficient water and pressure to the present customers of the water system and any new customers that line extensions would serve. Likewise, any source connected to the system would need to comply with source protection provisions of the DEQ's Division of Water Quality rules. Letters discussing the need to comply with DEQ rules and regulations are attached as Exhibit 9, and are incorporated by reference.

If the systems were to be connected, the Association would also be required to obtain additional storage capacity to comply with applicable DEQ requirements and would have to upgrade other components of its infrastructure to provide the water, especially given that the system is now operating at capacity for a portion of the high water usage months. These changes and upgrades would result in expenses to the Association, which would impact the rates and require them to be significantly higher than the rates proposed by the Association in its rate case filing.

Have you considered the effects of enforcing the Well Lease Agreement as J. Rodney Dansie interprets it on the water service rates for the Association's customers?

Yes. However, there is no language in the Well Lease Agreement to support Mr. Dansie's interpretation that he is to receive 12 million gallons of water per year from Hi-Country at no cost regardless of the source. The amount of water he is demanding is in excess of what the Association can deliver without buying water from another source. It would increase the total water delivered by more than half of the amount of water delivered to all current customers in a year. Given those facts, the rates to water customers would have to increase substantially to supply water under the terms demanded by J. Rodney Dansie.

There are two significant consequences to the Association if the 1977 Well Lease is enforced as demanded by J. Rodney Dansie. The first is financial in that the Association's customers would have to bear the cost of supplying the Dansies with up to 12,000,000 gallons of water per year. As the cost to deliver this additional amount of water would have to be paid for by the current customers, the rates would have to be increased significantly. The additional wear and tear on the system would add additional costs to operating the system and likely increase the magnitude and frequency of necessary capital expenditures.

The second consequence of enforcing the 1977 Well Lease as demanded by J. Rodney Dansie is a likely diminishment in the quality of the water that would be served from the combined systems. With occasional exceptions during the high-usage summer months, the Association has enough water to serve its customers; during certain months, the Association receives water from Herriman's water system. If the Association is required to provide the additional twelve million gallons of water J. Rodney Dansie has demanded, the Association will absolutely need to obtain additional water from another source, such as the Dansies' wells. In addition, it is the Association's position that the twelve million gallons of water referenced in the lease are to be produced from Dansie Well No. 1, not the Association's well or water rights. The Dansies' wells, moreover, produce water that is not of culinary quality and is unlikely to meet DEQ requirements. Documents discussing deficiencies with the Dansie water system are Exhibits 10 - 14, which are incorporated by reference.

Based upon my research into the proposed developments that J. Rodney Dansie intends to serve using the water from the 1977 Well Lease, it appears that the intent of enforcing the 1977 Well Lease is to supply an estimated 800 to 1200 residential connections. J. Rodney Dansie and his family have established a special improvement district, "SouthWest Water improvement District," which I believe is intended to handle the provision of water and billing to customers. This improvement district may allow J. Rodney Dansie and his family to avoid PSC oversight.

In order to supply the approximately 800 to 1200 estimated connections, the Dansies would need to connect their multiple wells and transport and commingle the water from these wells through the Association's water system. Connecting the Dansie water system to the

Association's water system would not only tax the Association's water system, but also negatively impact the water quality of the Association's system.

J. Rodney Dansie has previously represented that the water from his wells would need to be commingled with another source before the water from his wells could meet DEQ standards. In particular, attached as Exhibit 10 is a letter referencing the water quality from one of the Dansies' wells, Dansie Well No. 15, and which shows that total dissolved solids and sulfate levels increased to unacceptable levels. When the well is used, these levels increase as a result of the increased consumption. In addition, a 2009 letter from the DEQ to the Dansie Water Co. reports a need for increased radionuclide testing and that the gross alpha results exceed the maximum contamination level. *See* Exhibit 14. The test result was reported several years after the Dansie water system was disconnected from the Association's water system.

In addition, with the heavy rains that occur in the Association's boundaries, like those that took place last month, flooding along Butterfield Canyon is typical and breaches of nearby mining retention ponds may occur. Silt in the water near the Association's property contains heavy metal and other hazardous materials from the nearby mining operations, which are deposited along the banks of the creek. Butterfield Creek deadheads into Dansie Well No. 15. J. Rodney Dansie has previously expressed concern that heavy rain events cause heavy metals to come onto property of community landowners and cause health hazards. A copy of the article in which J. Rodney Dansie expressed this concern is attached as Exhibit 15, which is incorporated by reference. Another member of the Dansie family has expressed similar concerns in an editorial published in the Deseret News dated January 18, 2011, which is attached as Exhibit 13. Cleaning the water to remove these contaminants, assuming they can be removed at all, will result in additional expense and costs to the ratepayers. The rates proposed by the Association will need upward adjustment to account for these expenses, as they are not reflected in the rates proposed by the Association in this rate case.

Finally, providing water to the Dansies as demanded by J. Rodney Dansie would result in rates that are high, and likely unreasonable, and will cause the Association to provide J. Rodney Dansie and his family with preferential treatment for the delivery of water. Moreover, the 1977 Well Lease, as interpreted by J. Rodney Dansie, may prohibit the Association from selling the water system to a governmental entity because the 1977 Well Lease contains a right of first refusal in favor of Jessie J. Dansie.

If the 1977 Well Lease were enforced in a manner that required the Association to provide water to the Dansies at no cost, what would be the effect on the water rates for the Association's customers?

The rates could be expected to increase significantly and the water quality would be significantly reduced. Note that a significant portion of Hi-Country's costs are variable with the amount of water pumped and delivered; thus, I would expect costs to go up in nearly direct relationship to the increase in water delivered through the system.

What would be the effect on rates if the 1977 Well Lease was enforced in a manner that obligated the Association to transport water from Dansie Well No. 1 through the Association's system to the Dansies' property?

If the water was to be delivered and pumped by the Association it would likely have a large effect on rates. The Association would have to recoup the costs through rates that would likely apply to all customers. I estimate that could exceed $300 per year per customer, including standby customers.

What would be the effect on rates if the Dansies were to pay a set fee for water transported through the Association's water system, as the Association has proposed in its tariff submitted as part of this rate case proceeding?

The proposed tariff was intended to make the delivery of water to J. Rodney Dansie and his family under the well lease a break-even proposition. The Association would stand to make no profit on the delivery of water to the Dansies, so the effect on the rates of other customers would be negligible. That is, however, assuming that any additional water matches or exceeds the quality of the water currently delivered to Hi-Country customers.

What is the Association seeking to accomplish regarding the 1977 Well Lease as part of these proceedings before the Commission?

The Association expects the PSC to adhere to the statements made in its prior orders addressing the 1977 Well Lease. The Association is willing to perform the obligations, if any, the Association may have under the lease. The demands the Association has received from J.

Rodney Dansie, however, are outside the scope of the 1977 Well Lease and do not account for the PSC's exercise of jurisdiction over the Association's water system. Demands that the Association received from J. Rodney Dansie on April 16, 2010, May 2, 2010, and November 13, 2010 are attached as Exhibits 16, 17, and 18, and are incorporated by reference. The Association has received several other demands, including an additional 50 hook-ups Dansie wants outside of the Association's boundaries and demands for free water to the two lots Dansie owns within the Association's. The Association expects to receive from the PSC an order that specifies the Association's obligations, if any, under the 1977 Well Lease now that the PSC has again exercised jurisdiction over the Association, and approval of a final tariff that provides definitive instruction regarding whether, how and at what cost water is to be provided, if at all, to the Dansies under the 1977 Well Lease.

SECTION IX – 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. Finally, the well lease agreement must be settled. After 30 years of costly and time-consuming litigation, the Dansies and Hi Country are still at odds as to the true meaning of the agreement and whether it is enforceable (1) after not being renewed on April 10, 1987 and (2) even though it does not comply with PSC rules.

Representing the HOA Board of Directors in this matter I want to say that the Board felt it was their responsibility to get a rate case filed. That has been done. We did not have the time or capability to do it ourselves. The Board accepted a recommendation from counsel and other experts as to the rates we would propose and the Board supports the rate filing. The Board members do not agree that it was necessarily the best possible rate structure, and maybe other arrangements would be fairer given that under the proposed rate structure, overall costs for the highest water users will go down somewhat while costs for the lowest users will rise dramatically. However, the Board anticipates that a recommendation will be made by the DPU and a decision and order will come from the PSC based on all information presented to them, which will allow the water company to remain reliable and financially stable at a reasonable cost to the water customers. The information considered will include some protest over various aspects of the rates. The Board expects that some aspects of the rate structure may be changed in the process, but does not want to advocate any specific alternative. Alternatives have been offered by individual homeowners on their own behalf through various comments submitted relating to these proceedings. The Board is prepared to accept the final decision of the PSC.

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 Randy Crane** 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