

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of Hi-Country Estates)	Docket No. 13-2195-02
Homeowners Association for an)	DPU Exhibit 1.0 DIRECT
Approval of its Proposed Water Rate)	
Schedules and Water Service)	
Regulations)	
)	

DIRECT TESTIMONY

OF

SHAUNA BENVEGNU-SPRINGER

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

JANUARY 30, 2014

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1 **I. IDENTIFICATION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME, EMPLOYER, TITLE, AND BUSINESS**
3 **ADDRESS FOR THE RECORD.**

4 **A.** My name is Shauna Benvegna-Springer. I am employed by the Department
5 of Commerce, Division of Public Utilities (Division) for the State of Utah as
6 a Utility Analyst. My business address is Heber M. Wells Building, 4th
7 Floor, and 160 East 300 South, Salt Lake City, UT 84114-6751.

8 **Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.**

9 **A.** I have been employed by the State of Utah for over 36 years in a number of
10 capacities with various agencies. Prior to working for the Division, I served
11 as the Deputy Director of Finance for the Utah Department of Corrections
12 and the Director of Finance for the Utah Olympic Public Safety Command
13 during the 2002 Salt Lake Olympic Winter Games.

14 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

15 **A.** I graduated from Westminster College of Salt Lake with a Bachelor of Science
16 Degree in Accounting and Management. I am a member of the Association of
17 Government Accountants and the Association of Certified Fraud Examiners. I

18 am certificated as a Certified Government Financial Manager (CGFM), and am
19 working toward my certification as a Certified Fraud Examiner (CFE).

20 **Q. PLEASE DESCRIBE YOUR DUTIES WITH THE DIVISION.**

21 **A.** As a Utility Analyst for the Division, I perform assignments as an auditor
22 and analyst on issues concerning the terms, conditions and prices of utility
23 service; study industry and utility trends and issues; review regulatory and
24 public policy; and review utility companies compliance, practices and
25 requests relating to public utilities rules, regulation and policy. I
26 examine public utility financial data for determination of rates; review
27 applications for rate increases; conduct research; examine, analyze,
28 organize, document and develop regulatory positions on a variety of
29 regulatory matters; review operational reports and evaluate compliance with
30 laws and regulations; analyze and prepare testimony on various dockets
31 before the Public Service Commission; and participate in settlement
32 conferences. I investigate and audit water, telephone and energy companies.
33 My extensive knowledge of accounting and financial reporting allows me to
34 prepare reliable and justifiable reports and exhibits, fair and compliant
35 recommendations, along with testifying as an expert witness before the
36 Public Service Commission of Utah (Commission).

37

38 **Q. FOR WHICH PARTY WILL YOU BE OFFERING TESTIMONY IN**
39 **THIS CASE?**

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

41 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE UTAH PUBLIC**
42 **SERVICE COMMISSION?**

43 **A.** Yes. I have testified before the Commission as an expert witness in many
44 prior dockets, including Docket No. 11-2195-01 for Hi-Country Estates
45 Homeowners Association's (Hi-Country) Certificate of Public Convenience
46 and Necessity (CPCN) which was reinstated on July 12, 2012.

47 **II. SUMMARY**

48 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

49 **A.** The purpose of my testimony is to present the Division's recommendation
50 for Hi-Country's general rate case with regard to its request for:

- 51 1) expansion of the service area
52 2) an increase in the residential rates;
53 3) a reserve fund monthly customer charge;
54 4) an emergency water source fee due to lack of domestic supply;
55 5) an emergency water source fee due to fire control or other use;

- 56 6) an active meter replacement fee;
- 57 7) a non-standard service connection review fee;
- 58 8) an increase in the BLM rates;
- 59 9) a well lease customer rate; and
- 60 10) interest of 18% APR added to a delinquent balance in
- 61 addition to the late fee of \$10.00 per month.

62 **III. DIVISION'S RECOMMENDATION (DPU EXHIBIT 1.1)**

63 **Q. PLEASE EXPLAIN THE DIVISION'S RECOMMENDATION AS SET**

64 **FORTH IN DPU EXHIBIT 1.1 DIR-REV REQ.**

65 **A.** The Division completed its review and analysis of the revenues and expenses

66 for the test year of 2012 and other supporting documentation submitted by

67 Hi-Country. The Division did a site visit on November 25, 2013. Discussions

68 were conducted with Hi-Country officers; Justun Edwards, Herriman City;

69 Krystal McCauley, consultant; Bob Hart, Division of Drinking Water; and

70 Adam Long, Smith-Hartvigsen. Data request responses and additional

71 information were provided by all to the Division in a very cooperative and

72 expedient fashion. Hi-Country has 126 customers of which 91 are water

73 users and 35 are standby customers. The Division is recommending the

74 proposed rates and charges in Table 1 as listed below:

TABLE 1 - RATE SUMMARY

	Division		
	Current Tariff	Company Proposed	Recommendation
RESIDENTIAL RATE SCHEDULE			
System Standby Fee	\$ 12.41	\$ 27.60	\$ 31.75
Monthly User Fee (base rate)	\$ 42.19	\$ 69.00	\$ 78.00
Water Consumption Rate p/1,000 gal up to 10K	\$ 0.00	\$ 0.00	\$ 0.540
Conservation Tier Rate 1 p/1000 gal above 10K to 20K	\$ 2.30	\$ 1.45	\$ 0.81
Conservation Tier Rate 2 p/1000 gal above 20K to 30K	\$ 2.67	\$ 1.69	\$ 1.22
Conservation Tier Rate 3 p/1000 gal above 30K to 40K	\$ 3.10	\$ 1.96	\$ 1.82
Conservation Tier Rate 4 p/1000 gal above 40K to 50K	\$ 3.60	\$ 2.27	\$ 2.73
Conservation Tier Rate 5 p/1000 gal above 50K	\$ 0.00	\$ 0.00	\$ 4.10
Reserve Fund Charge	\$ 0.00	\$ 20.09	\$ 0.00 *
Service Connection Fee	\$ 750	no change	no change
Temporary Service Suspension Fee	\$ 50	no change	no change
Reconnection Fee (after disconnect)	\$ 250	\$ 0.00	\$ 250
Account Transfer Fee	\$ 25	no change	no change
Meter Test Fee	\$ 10	no change	no change
Customer Late Fee p/mo	\$ 10	\$10 Plus 18% interest	\$10 or 18% APR >
Security Deposit	\$ 150	no change	no change
Insufficient Funds Fee	\$ 25	no change	no change
Active Meter Replacement each incident	\$ 0	Cost	\$ 300
Emergency Backup Water Rate p/1,000 gal	Proration of Cost	Proration of Cost	\$ 2.33
Outside Service Connection Review Fee	\$ 0	\$ 10,000	\$ 10,000
Well Lease Fee p/1000 gal	\$ 0	\$ 3.85	\$ 0.00 **
BLM RATE SCHEDULE			
Annual Fee	\$ 1,755	\$ 1,950	\$ 558
Monthly Use Fee	\$ 177	\$ 225	\$ 78.00
Water Consumption Rate up to 10K	\$ 1.99	\$ 1.99	\$ 0.540
Conservation Tier Rate 1 p/1000 gal above 10K to 20K			\$ 0.81
Conservation Tier Rate 2 p/1000 gal above 20K to 30K			\$ 1.22
Conservation Tier Rate 3 p/1000 gal above 30K to 40K			\$ 1.82
Conservation Tier Rate 4 p/1000 gal above 40K to 50K			\$ 2.73
Conservation Tier Rate 5 p/1000 gal above 50K			\$ 4.10
Effective Date	7/12/2012	4/1/2014	4/1/2014
* See discussion on Capital Reserve Fund			
** See discussion on Well Lease Fee			

75 The Division's recommendation uses fixed revenue to cover fixed costs, and
 76 variable revenue to cover variable costs.

77 The impact to connected customers is a monthly user fee \$78.00 per month,
 78 which is an increase of \$35.81 from the current rate of \$42.19, plus a water

79 consumption rate of \$.54 per 1,000 gallons for water used up to 10,000
80 gallons. For standby customers the impact is an increase of \$19.34 to \$31.75
81 from the current fee of \$12.41 per month.

82 The Division recommends Hi-Country implement conservation tier rates for
83 the water consumption above 10,000 gallons, with the increment about the
84 water consumption rate of \$.54 per 1,000 gallons going to fund the capital
85 reserve fund.

86 The Division recommends Hi-Country decrease the fees and rate for the BLM
87 to \$558.00 annually from \$1,755, decrease the monthly use fee to \$31.50 per
88 month from \$177.00 per month and decrease the water consumption rate to
89 \$.54 per 1,000 gallons for all water used from \$1.99 per 1,000 gallons over
90 100,000 gallons.

91 **Q. WHAT IS THE WATER USAGE HISTORY FOR HI-COUNTRY?**

92 **A.** Hi-Country has excellent historical data on customer water usage, except
93 during the winter months when the meters cannot be read. During 2012 the
94 total water used for the system was 23,012,000 gallons for the year for 91
95 customers using water. Removing the BLM's usage from the total, the 90
96 residential water users consumed 21,216,000 gallons for the year or a yearly
97 average of 233,142 gallons per customer. During June 2012, the highest

98 month of water usage on record, the water use for residential use ranged
99 from a low of 1,000 gallons to a high of 361,000 gallons for the month, with a
100 monthly total of 4,000,500 gallons, the average being 44,000 gallons per
101 customer. Emergency backup water from Herriman City was 654,000
102 gallons.

103 In 2013 Hi-Country produced 29,634,179 gallons of water from its well, in
104 addition to using 1,798,800 gallon of emergency backup water purchased
105 from Herriman City. During 2013 the BLM usage dropped from 1,796,000
106 gallons to 37,000 gallons. The BLM suffered public criticism in recent years
107 with allegations of animal cruelty. Congress has been asked to reform the
108 wild horse and burro program thus removing the funds for the summer
109 roundups.

110 **IV. SYSTEM STANDY FEE (DPU EXHIBIT 1.7)**

111 **Q. PLEASE EXPLAIN THE SYSTEM STANDY FEE AS SET FORTH IN**
112 **DPU EXHIBIT 1.7 DIR-REV REQ?**

113 **A.** The system standby fee (standby fee) is charged to all residential customers
114 and vacant lot owners eligible for service connections in the service area.
115 The current standby fee is \$12.41 per month per customer. The Division
116 recommends the standby fee be changed to a system standby fee of \$31.75

117 per month per customer. The fee is calculated using the fixed water
118 system costs for having the system in place regardless if it is used by a
119 customer or not. The system fee includes the Herriman administrative
120 costs to manage the system, billing cost, amortized rate case expenses,
121 insurance, regulatory fee, depreciation and property taxes.

122 **V. MONTHLY USER FEE**

123 **Q. PLEASE EXPLAIN THE ADDITIONAL MONTHLY USER FEE AS**
124 **SET FORTH IN DPU EXHIBIT 1.7 DIR-REV REQ.**

125 **A.** The monthly user fee (known as the base rate) is charged to all customers
126 receiving water from the water system in the service area. The current
127 base rate is \$42.19 per month per customer and includes a 10,000
128 gallon minimum amount of water a user can use each month without an
129 additional cost. The Division recommends the base rate be changed to a
130 monthly user fee of \$78.00 per month per customer. The monthly user fee is
131 calculated by using the fixed costs to deliver water to customers and the
132 system standby fee costs. The Division recommends removing the 10,000
133 gallon minimum from the monthly use fee as this portion of the fee is a
134 function of the variable costs for the amount of water used.

135 The monthly user fee includes the costs of regular water sampling and
136 testing, engineering report costs, water system maintenance, repairs,
137 transportation cost, maintenance materials, and miscellaneous supplies
138 and expenses related to the usage of delivering water and the costs included
139 in the system standby fee.

140 **VI. WATER CONSUMPTION RATE**

141 **Q. PLEASE EXPLAIN THE WATER CONSUMPTION RATE AS SET**
142 **FORTH IN DPU EXHIBIT 1.7 DIR-REV REQ.**

143 **A.** Water Consumption Rate – The water consumption rate (known as the
144 water usage rate) is charged for any and all water consumed by a customer to
145 up 10,000 gallons. The Division is recommending the base rate be changed
146 to remove the minimum 10,000 gallons in the fee and replace it with the
147 water consumption rate. The Division recommends a water consumption
148 rate of \$.54 per 1,000 gallons for any water used or fraction thereof up to
149 10,000 gallons of water. This is the minimum variable cost for delivering
150 water and the customer pays for what water they consume. The water
151 consumption rate includes only the variable costs of service to deliver water
152 to customers. The anticipated costs for produced the 2013 calendar year
153 volume of water of 29,800,000 gallons of water annually are \$16,001.00 or
154 \$.54 per 1,000 gallons of water. The costs include the chemicals and

155 purchased electric costs to pump the water to storage tanks and through the
156 system.

157 **VII. WATER CONSERVATION RATE TIERS (DPU 1.8)**

158 Conservation Tier Rates - The Division agrees with the conservation tier
159 concept Hi-Country is proposing for the volume of water consumed above
160 10,000 gallons per 1,000 gallons, but instead of increasing the rate by 16%
161 between each tier such as \$1.47, \$1.69, \$1.96 and \$2.27 respectively, the
162 Division recommends increasing each tier by 50% over the cost of service rate
163 which is \$.54 per 1,000 gallons. Conservation Tier Rate 1 is recommended to
164 be \$.81 per 1,000 gallons used or any fraction thereof above 10,000 gallons up
165 to 20,000 gallons. Conservation Tier Rate 2 is recommended to be \$1.22 per
166 1,000 gallons used or any fraction thereof above 20,000 gallons up to 30,000
167 gallons. Conservation Tier Rate 3 is recommended to be \$1.82 per 1,000
168 gallons used or any fraction thereof above 30,000 gallons up to 40,000
169 gallons. Conservation Tier Rate 4 is recommended to be \$2.73 per 1,000
170 gallons used or any fraction thereof above 40,000 gallons up to 50,000
171 gallons. Conservation Tier Rate 5 is recommended to be \$4.10 per 1,000
172 gallons used or any fraction thereof above 50,000 gallons.

173 **Q. WOULD CHARGING RATES ABOVE THE COST OF SERVICE**
174 **CAUSE HIGH COUNTRY TO OVER EARN REVENUE?**

175 A. Yes. Hi-Country would over earn approximately \$52,263 of revenue if
176 consumption does not change. The Division agrees with the escalating tier
177 approach Hi-Country proposes in developing conservation rates., but instead
178 of increasing the rate by 16% between each tier the Division recommends a
179 50% inclining increase in the water conservation tier rate and adding a 5th
180 tier for water consumed above 50,000 gallons per month. The Division
181 recommends that revenue collected from the conservation rate tiers above the
182 variable cost of providing water service be transferred to the capital reserve
183 fund each month. That is, the revenue above \$.54 per 1,000 gallons will be
184 transferred to the capital reserve fund, with the water consumption rate
185 revenue of \$.54 per 1,000 remaining in the operating account to cover the
186 regular operating costs. The Division believes that this is appropriate since
187 high volume users will cause more wear and tear on system infrastructure
188 and should contribute a greater proportion towards system replacement.

189 **Q. WILL DEDICATING THESE REVENUES TO CAPITAL RESERVE**
190 **FUND PUT HIGH-COUNTRY IN JEOPARDY OF NOT HAVING**
191 **REVENUE SUFFICIENT TO MEET THEIR COSTS?**

192 A. No. All of the company's fixed costs are covered through the standby rates,
193 the monthly user fee and the BLM annual and monthly user fee. The
194 variable costs are covered through the water consumption rate of \$.54 per
195 1,000 gallons. Revenues billed and collected from the conservation tier rates

196 (less the amount for water consumption rate of \$.54 per 1,000 gallons) will
197 promote conservation and help build the capital reserve fund.

198 **Q. HOW DO THE DIVISION'S CONSERVATION TIER RATE**
199 **RECOMMENDATIONS PROMOTE WATER CONSERVATION?**

200 **A.** The Division's recommendation promotes conservation in two ways. First,
201 there is no minimum monthly usage in the monthly user fee, such as a 10,000
202 gallon quantity embedded in the current base rate. A customer only pays for
203 what is actually consumed. Second, the Division's conservation tier rates
204 proposed are developed on an increasing tier system, so water becomes
205 relatively more expensive as consumption increases. Those customers using
206 above 50,000 gallons per month will experience a 14% increase for water
207 per 1,000 gallons per month.

208 Currently, 34% of the water used at High-Country is billed in excess of
209 50,000 gallons per month. Adding a 5th conservation tier rate with an
210 increased rate above \$3.60 per 1,000 gallons to \$4.10 should impact overall
211 consumption and mitigate the need for expensive emergency backup water
212 purchases from Herriman City.

213 **Q. WHY DOES THE DIVISION RECOMMEND A 50% INCLINING**
214 **INCREASE AND ADDING A 5TH TIER?**

215 A. Customers are currently paying \$2.30, \$2.67, \$3.10 and \$3.60 per 1,000
216 gallons respectively, for over 10,000, 20,000 and 30,000 and above 40,000
217 gallons. A 5th tier priced above current tiers, at \$4.10 per 1,000 gallons used
218 over 50,000 gallons results in an increase of 14%. This tiered structure
219 should be a consumer pricing concern and alter behavior.

220 The water consumption rate is \$.54 per 1,000 gallons because it based on
221 variable costs only. In the past, fixed expenses were a factor in calculating
222 the water consumption rates. In order to increase the conservation tier rates
223 to reasonable levels, considering the monthly user fee is \$78 month, and
224 looking at various scenarios, adding 50% of the previous cost to the next
225 conservation tier rate maximizes the amount at \$4.10 per 1,000 gallons for
226 consumption above 50,000 gallons a month. If all the fixed and variable costs
227 (\$114,600) are divided by the water usage (29,800,000) the maximum amount
228 of cost is \$3.84 per 1,000 gallons. Increasing the rate for this tier should
229 impact overall consumption. The Division recommends implementing
230 conservation rate tiers of:

231 1) \$.81 per 1,000 gallons used or any fraction thereof above 10,000 gallons
232 up to 20,000 gallons;

233 2) \$1.22 per 1,000 gallons used or any fraction thereof above 20,000 gallons
234 up to 30,000 gallons;

235 3) \$1.82 per 1,000 gallons used or any fraction thereof above 30,000 gallons
236 up to 40,000 gallons;

237 4) \$2.73 per 1,000 gallons used or any fraction thereof above 40,000 gallons
238 up to 50,000 gallons; and

239 5) \$4.10 per 1,000 gallons used or any fraction thereof above 50,000 gallons.

240 **VIII. BUREAU OF LAND MANAGEMENT FEES AND RATE**

241 **Q WHAT DOES IT COST HI-COUNTRY TO PROVIDE WATER TO THE**
242 **BUREAU OF LAND MANAGEMENT (BLM)?**

243 **A.** The Bureau of Land Management (BLM) maintains a burro ranch at the
244 mouth of Butterfield Canyon. It is adjacent to the Hi-Country service area to
245 the west. The BLM consumed 1,769,000 gallons of water in 2012. In 2013
246 their consumption dropped to 37,000 gallons for the year. This is not
247 anomaly. The BLM has closed the facility for the wild horse program. It still
248 uses the facility as a holding or resting place for transferring horses very
249 infrequently. The BLM will be maintaining the property for minimal use
250 over the remaining 12 year lease with Kennecott.

251 The rate structure currently for the BLM is an annual fee of \$1,755, plus a
252 monthly user fee of \$177 with a minimum of 100,000 gallons. Water

253 consumption over 100,000 gallons is \$1.99 per 1,000 gallons. Using the 2013
254 water consumption, the BLM's cost of service is the same as a residential
255 service, because the larger volume for water is not present.

256 **Q. WHAT DOES THE DIVISION RECOMMEND SHOULD BE USED FOR**
257 **FEEES AND RATES FOR THE BLM?**

258 **A.** Hi-Country proposed an increase in the rates for the BLM based on an
259 average of water consumption for calendar year 2011 and 2012 of 420,000
260 gallons annually. The Division computes the BLM cost of service as \$1,514
261 using the 2013 water consumption of 37,000 gallons and the forecast 2013
262 costs. The Division recommends an annual fee of \$558, a monthly user fee of
263 \$78 per month, plus water consumption rate of \$.54 per 1,000 gallons for
264 any water used or fraction thereof up to 10,000 gallons of water and following
265 the conservation tier rate for water use above 10,000 gallons. Should the
266 BLMS's usage greatly increase, further Commission review may be
267 necessary.

268 **IX. HERRIMAN SERVICE CONTRACT**

269 **Q. PLEASE EXPLAIN THE HERRIMAN SERVICE CONTRACT AS SET**
270 **FORTH IN DPU EXHIBIT 1.8 DIR-REV REQ.**

271 **A.** On June 14, 2012, the Herriman City (City) and Hi-Country entered into a

272 water infrastructure and service agreement. The City began full
273 management of the water system on January 1, 2013. The City bills and
274 collects all customer water revenues and manages the operating costs of
275 the system through a trust account in the Herriman City accounting system.
276 An annual operating budget is submitted by the City to Hi-Country for
277 Hi-Country's authorization. The City uses the budget amounts to manage the
278 operating expenses. Should the annual operating budget exceed the revenues
279 that the City collects from customers, Hi-Country HOA would subsidize
280 the difference until Hi-Country gains approval from the Commission to
281 increase customer rates. To avoid a cost overrun, the Hi-Country treasurer
282 meets monthly and reviews the expenses with the City. If the City spends
283 less than the budget to operate the Hi-Country system at the end of the fiscal
284 year, Hi-Country can decide where the budget savings will be used.

285 Exhibit 1.8 compares the costs of Herriman City managing the water system
286 for 2013 compared to Hi-Country managing the water system in 2012.

287 **X. CAPITAL RESERVE FUND**

288 **Q. PLEASE EXPLAIN THE DIVISION'S RECOMMENDATION FOR**
289 **A CAPITAL RESERVE FUND IN DPU EXHIBIT 1.9.**

290 **A.** Hi-Country contracted with two consultants, Bush & Gudgell, Inc (B&G) and

291 Criterium – Bernhisel Engineers (CBE) to evaluate the system and to
292 prepare a reserve fund study dated April 6, 2012. Based upon the
293 recommendation of CBE, Hi-Country will need \$1,678,347.00 over 20 years to
294 replace the almost fully depreciated infrastructure. Hi-Country does not
295 have a reserve fund and proposes establishing a reserve fund fee of \$20.09
296 per month to all customers. This will generate \$151,653.60 over five years
297 plus interest income at a rate of less than 2%.

298 The Division recommends using the depreciation amount embedded in the
299 system standby fee of \$13.55 per customer per month to generate \$20,488,
300 plus all conservation tier rate revenue billed and collected above the variable
301 cost of service rate of \$.54 per 1,000 gallons. Because it is not known how the
302 increase in the 5th conservation tier rate will impact customer behavior, thus
303 impacting water consumption and water sales income, this revenue should
304 not be used to fund any fixed or variable costs. By applying the 2013 water
305 consumption above 10,000 gallons for the conservation tier rates the income
306 could generate \$33,970 to \$52,262 annually above the cost of service rate of
307 \$.54 per 1,000 gallons over 10,000 gallons in excess tier rate revenue.

308 The Division recommends the excess tier rate revenue be transferred to the
309 capital reserve fund at the end of each month.

310 In total \$54,458 to \$72,750 could potentially be placed in the capital reserve

311 fund. Over 20 years with interest the capital reserve fund could finance
312 \$1,100,000 to \$1,455,000 of capital expenditures for the water system.

313 **Q. HOW WOULD THE CAPITAL RESERVE FUND OPERATE?**

314 **A.** The Division is concerned about Hi-Country's lack of financial reserves.
315 Reserves are a necessary part of a sound financial management plan for an
316 on-going and effective water system. Setting aside reserves is critical to
317 developing and maintaining financial stability and can mean the difference
318 between a system that is self-sustaining and one that may fall victim to
319 disrepair or become financially unstable during even a relatively small
320 emergency. Capital reserves are funded through rates and should be
321 maintained in a restricted account and allowed to accumulate or be used for
322 qualifying expenses as the need arises.

323
324 In past cases, the reserve amount informally consisted of the amounts
325 accumulated in an accumulated depreciation account with no oversight as to
326 its use. In the past several rate case orders, the Commission has approved
327 funding a reserve account at an amount equal to the annual depreciation
328 expense plus the annual amortized CIAC using the same service life years as
329 if it had been depreciated.

330

331 For example, many of the regulated water companies commonly have several
332 hundred thousand dollars in accumulated depreciation and should therefore
333 have a like amount in reserves to replace or improve capital assets. If not,
334 there should be an accounting of the capital assets for which the funds were
335 used to replace or improve. Inspection of the records of the aforementioned
336 companies show that many of these same companies have negative retained
337 earnings, meaning that the depreciation expense amounts paid by ratepayers
338 through rates were likely used for day-to-day expenses and not properly
339 saved to replace capital assets. To safeguard the ratepayers' funding of the
340 Capital Reserve Account via the annual depreciation expense and the
341 amortized CIAC the Division recommends the following:

342 1. Capital reserve amounts generated from rates are to be deposited
343 into a restricted account, such as a separate escrow account within 30
344 days from the receipt of rate payments equal to \$13.55 per month per
345 customer who paid their bill for the depreciation expense embedded in
346 the system standby fee or monthly user fee, and the excess revenue
347 above the water consumption rate of \$.54 per 1,000 collected on the
348 conservation tier rates.

349 2. Withdrawals are to be made from the Capital Reserve Account for
350 capital replacements and improvements only.

351 3. In accordance with Utah Administrative Rule R746-401-3A,
352 expenditures in excess of five percent of total Utility Plant in Service
353 require the water company to file a report with the Commission, at
354 least 30 days before the purchase or acquisition of the asset or project,
355 and to obtain written Commission approval before transacting such
356 acquisitions. Now, in this case, expenditures over 5% would require
357 submission of a written report and Commission approval.

358 4. Hi-Country shall provide an 'annual accounting' of the Capital
359 Reserve Account with its Annual Report and at any such other time as
360 the Commission requests. The 'annual accounting' shall be in the form
361 of bank statement encompassing the entire calendar year showing a
362 series of deposits made within 30 days from the receipt of rate
363 payments for each billing cycle and withdrawals that meet
364 requirements 1, 2 and 3 above.

365 5. The balance in the reserve account must be clearly identifiable in
366 the audited financial statements as a restricted account.

367 To further clarify what should be considered qualifying expenditures
368 for replacement or improvements that may be made from the Capital
369 Reserve Account, the following guidelines are provided:

370 a). "Capital improvements" are typically high cost items with
371 long service lives including the distribution pipe mainlines,

372 storage reservoirs, wells and surface water intakes, etc.
373 Expenditures that qualify as capital expenditures are those
374 that extend the life of an asset and/or enhance its original
375 value with better quality materials or system upgrades.

376 b). Capital improvements do not include such minor expenses as
377 repair clamps, inventory parts and fittings, spare pieces of pipe
378 kept to facilitate repairs, small tools, maintenance supplies such
379 as paint or grease, service contracts and other such day to day
380 supplies. Expenses for these items are properly classified as
381 “operating and maintenance” expenses.

382 c). Additionally, it is not appropriate to use capital replacement
383 funds received from existing customers for system expansion,
384 that is, to extend main lines to serve new areas or customers or
385 to install new services. Funds for the expansion of the system
386 should come from new development, connection fees,
387 assessments or other sources so that those benefiting from the
388 improvement contribute the funds for its construction.

389 XI. CAPITAL IMPROVEMENTS TO SYSTEM

390 **Q. WHAT WATER SYSTEM ADDITIONS ARE PLANNED FOR THE**
391 **WATER SYSTEM?**

392 **A.** Hi-Country anticipates adding plant additions in the amount of \$161,090.73
393 over the next five years. This includes a lower pump station which will
394 be financed for \$124,815, a SCADA upgrade to the telemetry equipment
395 for \$12,000, and a meter replacement project for \$24,276.

396 Adequate contracts, bids or estimates were not provided to support the
397 capital improvement addition amounts. The Division requested the
398 documentation, but to date the supporting documents have not been received.
399 The Division has not included the capital improvement addition into the
400 rates because they are not known and measurable.

401 **XII. DIVISION ADJUSTMENTS**

402 **Q. PLEASE EXPLAIN THE DIVISION'S RECOMMENDED**
403 **ADJUSTMENTS TO HI-COUNTRY'S PROPOSED EXPENDITURES**
404 **FOR 2013 TEST YEAR.**

405 **A.** The Division made a number of adjustment to Hi-Country's Projected 2013
406 Test Year total expense amount of \$109,820.16 to bring the amount to
407 \$117,694.32 for the Division Recommended Amount. These adjustments are
408 illustrated in Exhibit 1.8 and are summarized below:

409 1) Inflation Adjustment - Hi-Country added 5% to the expenses from 2012
410 across the board for inflation in the amount of \$1,382.23. The Division

411 reversed this adjustment because the Commission does not approve an
412 across the board inflationary increase.

413 2) Purchased Water – The Division adjusted the expense and revenue
414 amounts to the actual rate charged by Herriman City of \$2.33 per
415 1,000 gallons effective April 1, 2014, rather than using an allowance
416 and proration as an expense. The revenue rate will offset the
417 purchased water expense when used for emergency backup water
418 when the well cannot produce enough water during high demand
419 summer months, the water becomes contaminated, or water is needed
420 for fire suppression.

421 3) Electricity – The Division agrees the adjustment of \$697.97 of 6%
422 increase for Rocky Mountain Power based on the settlement made for
423 2012 and 2013.

424 4) Chemicals - The Division accepts the amount provided by Herriman
425 City budget for chemicals used in 2013 as appropriate amount of
426 \$1,560.00.

427 5) Legal Expenses – After reviewing the invoices for the legal expenses
428 for 2011, 2012 and 2013, which totaled \$53,536 through December
429 3, 2013, the Division determined the rate case amount was \$22,956,

430 the HOA activity or one-time costs of negotiating and drafting
431 the Herriman agreement was \$28,720 and \$1,860 was for handling
432 water complaints. The Division recommends \$2,000 instead of \$5,000
433 annually as Hi-Country estimated for on-going legal expenses.

434 6) Management Fees - The amount of \$19,379.79 for management fees is
435 being reversed since it is being adjusted under other adjustments to
436 chemicals, chlorination, repairs, maintenance, billings, payroll,
437 transportation expenses, bad debt and postage.

438 7) Rate Case Expense – The Division reviewed all legal bills in 2011, 2012
439 and 2013 and determined the rate case legal expenses totaled
440 \$22,958 through Dec 3, 2013. Additional legal costs to March, 2014 are
441 estimated at \$11,250 ($\$30,000 / 8 \text{ months} * 3 \text{ month remaining}$). Costs
442 for Krystal McCauley are \$3,825 plus \$1,200 to total \$5,025. Total
443 Rate Case Expense equals \$39,233 amortized over 5 years is \$7,847
444 without interest expense at 6%. The Division deducts \$9,717.02 from
445 \$17,564.02 as projected.

446 8) Rate Base Recovery - The Division did not calculate a rate of recovery
447 on rate base because Hi-Country is a not-for profit organization.

448 9) Income Taxes - The Division did not calculate income taxes because

449 Hi-Country only pays a small amount on the interest earned by the
450 Homeowner's Association. Income tax is not attributed to water
451 operations.

452 **XIII. MODIFICATION OF SERVICE AREA**

453 **Q. WHY DID HI-COUNTRY REQUEST TO MODIFY ITS SERVICE**
454 **AREA?**

455 **A.** Hi-Country states it “desires to remove one parcel located at the far
456 southwest corner of the original service area because it does not provide
457 water to this parcel, has no water infrastructure located on or adjacent to the
458 parcel and has no plans to provide service to the parcel in the future.” Hi-
459 Country further states it desires to expand its service area to include all
460 existing current water customers located outside of the boundaries of the
461 original service area and outside the Hi-Country Estates Homeowners
462 Association.

463 Hi-Country has been providing service to 91 connections and capacity for 35
464 more for a total of 126 connections since 1994. Hi-Country has the water
465 rights for 126 connections recorded with the Division of Water Rights. The
466 Division of Drinking Water (DDW) shows the capacity of the well and system
467 infrastructure to service 126 connections. If more connections or distribution

468 of water is requested additional engineering for wells and infrastructure will
469 be required. Hi-Country currently is purchasing water from the City when
470 the well cannot produce or meet the demand. This occurred three times in
471 2012. In 2013 Hi-Country purchased 1,798,800 gallons of emergency backup
472 water. The Division recommends the Commission approve the service area
473 as indicated on the map in the application to include the current 126
474 connections and the remove the one parcel.

475 **XIV. ADDITIONAL FEES:**

476 **Q. PLEASE EXPLAIN THE DIVISION'S RECOMMENDATION FOR THE**
477 **ADDITIONAL FEES?**

478 **A.** The Division recommends the Commission approve the Second Source Water
479 fee as an Emergency Water Source Fee at the rate Herriman City bills Hi-
480 Country which is \$2.33.per 1,000 gallons for residential customers. The
481 Commission should not approve open-ended or "at cost" rates in a tariff.

482 The Division recommends the Commission maintain the Reconnection Fee
483 (after disconnection) of \$250.00 per incident. This is the charge Herriman
484 City will charge a customer to reconnect after disconnecting per the service
485 agreement with Hi-Country.

486 The Division recommends the Commission approve the Customer Late Fee of

487 \$10.00 for each month late or 18% APR on the delinquent balance whichever
488 is greater. The Commission has not approved both a late fee and interest on
489 a delinquent account.

490 The Division recommends the Commission approve the Active Meter
491 Replacement Fee at \$300 which is the cost of a meter and the labor to replace
492 the meter by Herriman City.

493 The Division recommends the Commission approve the Outside Service
494 Connection Review Fee of \$10,000 per request. The fee, proposed by Hi-
495 County is an estimate of what Hi-Country believes it would need to pay
496 consultants, engineers, accountants, lawyers, and others to review a request
497 to expand the service area, water system infrastructure beyond the 126
498 connections, obtain the necessary water rights, comply with any state,
499 federal, or local laws, ordinances, and prepare a report for Hi-Country board
500 members.

501 The Division recommends the Commission deny the well lease customer fee
502 of \$3.85 per 1,000 gallons used. The Division does not have information as to
503 where the water will be transported or delivered, or the cost to transport the
504 water, the necessary infrastructure or where the water rights would be
505 obtained.

506

XV. CONCLUSION:

507 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

508 **A.** Yes, it does.