

Docket No. 13-2506-01
DPU Exhibit 1.0
Mark A. Long
June 14, 2013

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

IN THE MATTER OF THE)	DOCKET NO. 13-2506-01
APPLICATION OF WILLOW CREEK)	
WATER COMPANY FOR A CULINARY)	DPU Exhibit No. 1.0
WATER RATE CASE		

DIRECT TESTIMONY

OF

MARK A LONG

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

June 14, 2013

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1 **I. INTRODUCTION**

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

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

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

10 A. I received a Bachelor of Science degree in Accounting from the University of
11 Utah. I was employed for 22 years with the Utah Tax Commission as a tax
12 auditor and criminal investigator. I have been employed by the Division since
13 December of 2008.

14 **II. IDENTIFICATION OF WITNESS**

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

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

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

20 A. Yes. I have testified before the Commission as an expert witness, most recently
21 in Docket Nos. 10-2529-01, 11-097-01, 11-097-02, 11-097-03 and 12-2443-01.

22 **Q. PLEASE DESCRIBE YOUR PARTICIPATION IN THE DIVISION'S**
23 **REVIEW OF WILLOW CREEK WATER COMPANY (WILLOW CREEK**
24 **OR COMPANY) IN THIS DOCKET.**

25 A. I have been involved with and participated in the review and investigation of
26 Willow Creek's operations, revenues and expenses. I reviewed and analyzed all
27 the documentation and data submitted with the rate case and several informal data
28 requests, including, but not limited to, tax returns, check registers, budgets,
29 Division of Drinking Water reports, loan documents and other financial reports.

30 **III. PURPOSE OF TESTIMONY**

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

32 A. The purpose of my testimony is to present my analysis regarding the financial
33 aspects of the Company. I will also make a recommendation regarding the new
34 rates and fees as requested by Willow Creek in its rate increase request.

35 **IV. BACKGROUND OF COMPANY**

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

37 A. Willow Creek was incorporated under the laws of the State of Utah as a non-profit
38 water company on March 2, 1998. Willow Creek is an active corporation in good
39 standing with the Division of Corporations. Willow Creek provides culinary

40 water solely within the High Country Estates and Spring Ridge Subdivisions,
41 located in Box Elder County, Utah. On July 2, 2009, Willow Creek was granted a
42 Certificate of Public Convenience and Necessity (CPCN), Certificate Number
43 2506, to operate as a water corporation providing culinary water solely within the
44 High Country Estates and Spring Ridge Subdivisions, Box Elder County, Utah.

45 **Q. HOW LONG HAS IT BEEN SINCE WILLOW CREEK HAD A RATE**
46 **INCREASE?**

47 A. Willow Creek has not had a rate increase since its CPCN was approved in 2009.

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

50 A. Yes. The Division would like to acknowledge Mr. Alton Veibell's and
51 Mr. Steven Taylor's hard work, cooperation and willingness to provide
52 information timely during the Division's investigation.

53 The Division commends Willow Creek's efforts in limiting and reducing its
54 expenses to keep rates as low as possible. For example, Willow Creek is running
55 its pumps during off-peak hours to reduce its electricity bill. Another example is
56 Willow Creek's interest-free loan from the State of Utah to meet the Division of
57 Drinking Water's standards in regards to lower arsenic levels recently mandated
58 by the EPA.

59 **Q. FOR THE BENEFIT OF THE COMPANY AND ITS CUSTOMERS CAN**
60 **THE DIVISION BRIEFLY DESCRIBE THE RATE CASE PROCESS?**

61 A. Yes. Let me first remind interested parties that customers are not simply paying
62 for water; they are paying for the infrastructure and range of services required to
63 receive a clean and reliable water supply. Fresh, pure water is expensive to pump,
64 store, treat and transport to the tap.

65 Since public utility rate making is prospective, rates are calculated in advance of
66 the consumer using the services and are designed to fully recover all costs
67 prudently incurred by the Company in providing service now and in the future.

68 Thus, an estimate is made of the future cost of service, which includes operations
69 and maintenance expenses, reserves or savings, return on investment and taxes.

70 Consumers have an obligation to reimburse the Company at rates that will provide
71 such an opportunity. In this case, since Willow Creek is a non-profit company, it
72 does not earn a return on its investment (profit) and has no Federal or State
73 income tax liabilities.

74 **Q. WHAT IS FULL-COST PRICING AND WHY IS IT IMPERATIVE THAT**
75 **WILLOW CREEK IMPLEMENT FULL-COST PRICING?**

76 A. Full-cost pricing refers to the practice of ensuring that the developed rates provide
77 a revenue stream that adequately covers the Company's ongoing operations and
78 maintenance expenses, reserves or savings, return on investment and taxes. The
79 most obvious benefit of full-cost pricing is the ability of the Company to

80 consistently meet all on-going operational, maintenance and capital costs to
81 provide a high level of service. It is also important that utilities do not operate at
82 a loss or depend on subsidizes or continually deplete cash reserves so that
83 degradation of the system does not result, thereby compromising the quality of
84 service provided.

85 **Q. ARE WILLOW CREEK'S CURRENT RATES AND FEES INDICATIVE**
86 **OF THE FULL COST OF PROVIDING WATER TO ITS CUSTOMERS?**
87 **PLEASE EXPLAIN.**

88 A. No. The developer, Mr. Veibell, has been financially subsidizing the daily
89 operation and maintenance expenses of the Company with personal funds since its
90 CPCN was approved in 2009. In addition, Mr. Veibell has performed many
91 services for the Company as well as for individual customers with countless
92 donated hours, utilizing his personal equipment with no charge to the Company or
93 customer. There are no reserves set aside due to the lack of rates fully funding the
94 expenses of the Company.

95 If the Company had employed full-cost funding since its inception, the customers
96 would have been paying much higher rates, similar to those recommended in this
97 rate case. Because Mr. Veibell has subsidized the Company to the extent and
98 length of time he has, customers have enjoyed artificially low rates for many
99 years now.

100 Subsidizing the Company is simply not a sustainable practice.

101 **Q. MR. VEIBELL HAS INDICATED THAT HE WILL VOLUNTARILY**
102 **DONATE \$5,000 OF HIS OWN FUNDS TO WILLOW CREEK EACH**
103 **TIME A LOT IS SOLD. MR. VEIBELL WANTS TO USE THIS MONEY**
104 **TO HELP FUND THE CAPITAL RESERVE ACCOUNT AND,**
105 **THEREFORE, LOWER RATES. WHAT IS THE DIVISION'S OPINION**
106 **AND RECOMMENDATION REGARDING THIS POTENTIAL OFFER**
107 **BY MR. VEIBELL?**

108 A. The Division acknowledges the good intentions of Mr. Veibell wanting to
109 continue subsidizing the Company if he sells lots. At first blush, this sounds like
110 a good solution to keep rates low, albeit artificially low. Basing rates on funds
111 deposited in the Company's account on the speculation that a lot is sold and on
112 the goodwill of a donor is a very slippery slope and is simply not prudent rate
113 making policy. Unfortunately, a sustainable public utility company cannot set
114 rates based on the assumption that lots may be sold and that the donor, or the
115 donor's successor, will always be willing or in a position to voluntarily contribute
116 proceeds to the company. If the Company started funding its Capital Reserve
117 account when its CPCN was approved in 2009, it would have approximately
118 \$100,000 (less any capital repairs or replacements) in reserves. With its reserves
119 already behind by \$100,000, the Division believes that Mr. Veibell's offer to

120 subsidize the Company with a donation if he sells a lot is not a sustainable
121 practice and recommends that this not to be considered in rates.

122 **Q. PLEASE EXPLAIN WHY FULL COST PRICING, WHICH INCLUDES A**
123 **CAPITAL RESERVE ACCOUNT, IS REQUIRED NOW, BUT WAS NOT**
124 **REQUIRED WHEN WILLOW CREEK'S CPCN AND TARIFF WERE**
125 **APPROVED IN JULY 2009.**

126 A. In 2009, when a water company applied for a CPCN number and sought approval
127 of its tariff, the Division reviewed other water companies of similar size, number
128 of customers and general geographical location to verify that the rates and fees of
129 the applicant were comparable. If the applicant company met this criterion, the
130 Division gave a favorable recommendation to the Commission for approval.
131 Unfortunately, when the economy went down-hill, developers were no longer
132 selling lots and were financially unable to continue subsidizing the water
133 companies. After a couple of years of under-funding and neglect, many regulated
134 water companies were no longer able to pay their bills and faced closure or
135 serious degradation of water quality and services. After several rate cases were
136 completed by the Division on an emergency basis and special assessments of
137 hundreds of dollars charged to customers just to keep water flowing, the Division
138 changed its criteria in assessing the sustainability of applicant water companies
139 and now requires rates that cover the full cost of service, which includes a capital
140 reserve account. Now, new applicants, as well as established water companies

141 seeking a rate increase, must have rates that cover the full cost of service to
142 receive a favorable recommendation from the Division.

143 **Q. FOR THIS CASE, ON WHICH YEARS DID THE DIVISION BASE ITS**
144 **RECOMMENDATION?**

145 A. The Division reviewed the entire year of 2012, which is the last complete year
146 accounting records are available. The Division also reviewed prior years'
147 financial statements as well as available 2013 financial information. The Division
148 also used the 2014 budget as a basis to ensure that the rates would be reflective of
149 future obligations and revenues.

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

152 A. Yes. Mr. Veibell prides himself on having complete and accurate records. He
153 keeps a set of hand-written paper ledgers and meticulously reproduces them in
154 QuickBooks. The Division appreciates Mr. Veibell's efforts in keeping such
155 complete and accurate records and making them readily available for this rate
156 case.

157

V. SUMMARY OF EXHIBITS

158

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

160

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

162

- Exhibit 1.1, Index (The Excel Index has hyperlinks to each spreadsheet)

163

- Exhibit 1.2, Costs of Providing Water and Rate Calculations

164

- Exhibit 1.3, Adjustments to Expenses

165

- Exhibit 1.4, Summary of Revenues Before and After Taxes, and Expenses

166

- Exhibit 1.5, Capital Reserves

167

- Exhibit 1.6, Depreciation Expense & Accumulated Depreciation Reconciliation

168

- Exhibit 1.7, Contribution in Aid of Construction (CIAC) & Amortization of CIAC

169

Reconciliation

170

- Exhibit 1.8, Rate Base

171

- Exhibit 1.9, Return on Investment

172

- Exhibit 1.10, Projected Federal & State Income Taxes

173

- Exhibit 2.0, Tariff No. 2, Rates and Fees Schedule and Rules and Regulations,

174

with the recommended rates and fees

175 **Q. PLEASE EXPLAIN WHY THE DIVISION PREPARED EXHIBIT 1.2,**
176 **“COSTS OF PROVIDING WATER AND RATE CALCULATIONS.”**

177 A. Exhibit 1.2 lists the rates recommended by the Division. Immediately below the
178 recommended rates, the Division lists the expenses that must be paid through the
179 recommended rates. The Division prepared this exhibit to show the direct
180 relationship between reasonable and prudent expenses and the rates needed to
181 cover these expenses. The Division also wants this process to be as transparent as
182 possible so customers and others can see and understand that the rates are a direct
183 result of the allowable expenses.

184 **Q. WHAT RATES ARE SHOWN IN THIS EXHIBIT AS BEING**
185 **RECOMMENDED BY THE DIVISION?**

186 A.

Description	Explanation	Rate
Monthly Standby Rates	Applies to lots where service mains are in place and water is available, but no water service has been connected. <i>(This is only a summary; refer to Tariff No. 2 for specific details.)</i>	\$51.30
Monthly Usage Rates	This rate included up to a Maximum of 12,000 gallons water use per month.	\$106.30
Overage Rate per 1,000 gallons	Fees per 1,000 gallons when water use exceeds 12,000 gallons per month.	\$5.50

187 In its recommendation, the Division will provide a comparison of the prior rates
188 and fees, interim rates and fees and the recommended rates and fees.

189 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.3, ADJUSTMENTS**
190 **TO EXPENSES.**

191 A. Exhibit 1.3 lists the expenses requested by the Company and the adjustments
192 made by the Division to these requested expenses. Please refer to Exhibit 1.3 for
193 detailed explanations.

194 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.4, SUMMARY OF**
195 **REVENUES BEFORE AND AFTER TAXES, AND EXPENSES.**

196 A. Exhibit 1.4 summarizes the revenues based on the recommended rates, both
197 before and after taxes. It also summarizes the expenses per Exhibits 1.2 and 1.3.
198 Exhibit 1.4 demonstrates that the revenues generated from the Division's
199 recommended user rates are sufficient to meet the fair and reasonable expenses of
200 the Company. The over earning amount of \$59.80 is a result of rounding on
201 Exhibit 1.2 to the nearest 5 cents.

202 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.5, CAPITAL**
203 **RESERVES.**

204 A. The Division is concerned about Willow Creek's lack of financial reserves.
205 Reserves are a necessary part of a sound financial management plan for an on-
206 going and effective system. Setting aside reserves is critical to developing and
207 maintaining financial stability and can mean the difference between a system that
208 is self-sustaining and one that may fall victim to disrepair or become financially

209 unstable during even a relatively small emergency. Capital reserves are funded
210 through rates, paid equally by all connected and standby customers, and should be
211 maintained in an escrow or other protected account and allowed to accumulate or
212 used for capital replacement, improvements and major restorations as the need
213 arises.

214 The targeted minimum amount to be set aside annually for capital reserves is
215 equal to the company's annual depreciation expense prior to making any
216 adjustments for Contributions in Aid of Construction (CIAC). Even though assets
217 are contributed (CIAC) to the Company at no cost or obligation to repay on the
218 part of the Company, they must be maintained and replaced by the Company at
219 the Company's expense.

220 Since capital reserves are calculated based on the historical replacement costs for
221 an aging infrastructure they will likely not cover all future capital asset repair and
222 replacement, but will go a long way in creating and maintaining Willow Creek's
223 financial integrity and quality of service in the years to come.

224 Willow Creek's Tariff lists the proper uses, required audit trail and necessary
225 disclosures of its Capital Reserve Account.

226 See Exhibit 1.5 for further details.

227 **Q. WHAT ARE SOME OF THE BENEFITS OF REGULATED PUBLIC**
228 **UTILITY COMPANIES HAVING CAPITAL RESERVE ACCOUNTS?**

229 A. The Division has received many positive comments regarding its recommendation
230 to establish a reserve account for water companies. Some of the benefits include:

- 231 • Better and more timely operational decisions and actions.
- 232 • Improved emergency response.
- 233 • More efficient operations.
- 234 • Greater ability to plan and pay for future repairs and replacements.
- 235 • Capital Improvement projects that meet the true needs of the system.
- 236 • Enhanced ability to obtain financing, and at more favorable rates.
- 237 • Special assessments are no longer required to pay for emergency repairs or
238 replacements.

239 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.6, DEPRECIATION**
240 **EXPENSE & ACCUMULATED DEPRECIATION RECONCILIATION.**

241 A. Exhibit 1.6 captures the total Utility Plant in Service account, from which
242 depreciation expense and accumulated depreciation are calculated. This amount
243 is also forwarded to Exhibit 1.5 and used to set the Capital Reserve amount.

244 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.7,**
245 **CONTRIBUTION IN AID OF CONSTRUCTION (CIAC) &**
246 **AMORTIZATION OF CIAC RECONCILIATION.**

247 A. Exhibit 1.7 includes the Utility Plant in Service items that were contributed by
248 either the developer or the customers through their connection fees. Even though
249 these assets are contributed to the Company, at no cost or obligation to repay on
250 the part of the Company, they must be maintained and replaced by the Company
251 at the Company's expense. Instead of depreciating these items, an amortization of
252 CIAC is calculated for each item, equal to its depreciation expense. Since
253 contributed assets are not an investment by the Company it is subtracted from rate
254 base.

255 In this case, the entire infrastructure was contributed by the developer and,
256 therefore, the company has no investment in its infrastructure.

257 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.8, RATE BASE.**

258 A. Exhibit 1.8 calculates the rate base, which is the value of property, or
259 infrastructure, on which a public utility is permitted to earn a specified rate of
260 return on. The rate base is essentially the utility's original investment at the time
261 the assets were placed in service less the accumulated depreciation and assets
262 contributed (CIAC) to the company. It also includes a working capital allowance
263 with reasonable prepayments for operating expenses and an allowance up to 1/8
264 of operational and maintenance expenses. In this case, the Company's entire
265 infrastructure was contributed by the developer, therefore, leaving very little to be
266 included in the rate base on which to earn a return.

267 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.9, RETURN ON**
268 **INVESTMENT.**

269 A. Exhibit 1.9 calculates the return on investment, which is the amount a public
270 utility is entitled an opportunity to earn on its investment in plant and equipment
271 over and above the allowable deductions from gross income. This return amount
272 is considered profit. In this case, the Willow Creek Company is registered as
273 Non-Profit, and, therefore, earns no return or profit.

274 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.10, PROJECTED**
275 **FEDERAL AND STATE INCOME TAXES**

276 A. Willow Creek is non-profit and therefore has no income tax liability.

277 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 2.0, TARIFF NO. 2,**
278 **RATES AND FEES SCHEDULE AND RULES AND REGULATIONS,**
279 **WITH THE RECOMMENDED RATES AND FEES.**

280 A. The Division has prepared Tariff No. 2 for Willow Creek with the recommended
281 rates and fees. The Division will adjust it later for Willow Creek to include the
282 Effective Date and any other changes in the rates and fees as ordered by the
283 Commission. The Division recommends that with the aforementioned changes
284 notwithstanding, Tariff No. 2 be approved by the Commission.

285

VI. RECOMMENDATION

286

Q. BASED ON YOUR INVESTIGATION, DO YOU HAVE A

287

RECOMMENDATION REGARDING THE RATES AND FEES OF

288

WILLOW CREEK?

289

A. Yes.

290

Q. IN THE DIVISION'S RECOMMENDATION, PLEASE SHOW A

291

COMPARISON OF THE RATES AND FEES IN THE COMPANY'S

292

CURRENT TARIFF, THE INTERIM RATES AND FEES REQUESTED

293

BY THE COMPANY AND GRANTED BY THE COMMISSION ON

294

APRIL 1, 2013 AND THE RATES AND FEES RECOMMENDED BY THE

295

DIVISION.

296 A.

Current Tariff Rates		Approved Interim Rates		Final Recommended Rates	
Standby Fee	"No Charge"	Standby Fee	\$24.40	Standby Fee	\$51.30
Fixed System Fees, Maximum of 293,274 gallons per YEAR	\$38.00	Residential: Fixed System Fees: Includes 12,000 gallons per MONTH	\$49.00	Monthly Fees for Residential & Commercial Customers Connected to the Water System	\$106.30
		Commercial: Fixed System Fees: Includes 12,000 gallons per MONTH	\$49.00		
Usage per 1,000 gallons over 293,274 gallons per YEAR	\$1.00	Residential: Usage per 1,000 gallons over 12,000 gallons per MONTH	\$1.50	Overage Fees per 1,000 gallons Used Over 12,000 gallons per MONTH for Residential & Commercial Customers	\$5.50
		Commercial: Usage per 1,000 gallons over 12,000 gallons per MONTH	\$1.50		
Connection Fee (1")	\$5,000.00	Connection Fee (1")	\$5,000.00	Connection Fee (1")	\$5,000.00
Connection Fee (2")	None	Connection Fee (2")	\$5,000.00	Connection Fee (2")	\$5,000.00
Turn On Fee (with Meter in place)	\$150.00	Turn On Fee (with Meter in place)	\$900.00	Turn On Fee (with Meter in place)	\$900.00
Turn Off Fee	None	Turn Off Fee	\$150.00	Turn Off Fee	\$150.00
Transfer of Ownership	None	Transfer of Ownership	\$300.00	Transfer of Ownership	\$300.00
Unwarranted Service Call	None	Unwarranted Service Call	\$60.00	Unwarranted Service Call	\$60.00
Fire Hydrant (deposit)	None	Fire Hydrant (deposit)	\$100.00	Fire Hydrant (deposit)	\$100.00
Late Fee	None	Late Fee	\$15.00	Late Fee	\$15.00

297

298

VII. CUSTOMER IMPACT

299 **Q. HAVE YOU PREPARED A CHART SHOWING DIFFERENT USAGE**
300 **SCENARIOS TO COMPARE AND CONTRAST THE PRIOR RATES,**
301 **INTERIM RATES AND THE RECOMMENDED RATES?**

302 **A.** Yes. It is presented immediately below.

	Standby	Connected Customers Monthly Minimum	Overage for Connected Customers	Totals for Connected Customers
Annual expenses if use 12,000 gallons, or less, per month:				
Original Tariff Rates	\$0.00	\$456.00	\$0.00	\$456.00
Requested & Interim Rates	\$292.80	\$588.00	\$0.00	\$588.00
Recommended Rates	\$615.60	\$1,275.60	\$0.00	\$1,275.60

Annual Expenses if use 36,879 gallons per month for 6 months and 12,000 gallons per month for 6 months:				
Original Tariff Rates	\$0.00	\$456.00	\$0.00	\$456.00
Requested & Interim Rates	\$292.80	\$588.00	\$223.91	\$811.91
Recommended Rates	\$615.60	\$1,275.60	\$821.01	\$2,096.61

Annual Expenses if use 48,000 gallons per month for 6 months and 12,000 gallons per month for 6 months:				
Original Tariff Rates	\$0.00	\$456.00	\$216.00	\$672.00
Requested & Interim Rates	\$292.80	\$588.00	\$324.00	\$912.00
Recommended Rates	\$615.60	\$1,275.60	\$1,188.00	\$2,463.60

303

304 **Q. THIS IS A LARGE INCREASE IN RATES AND FEES. WHY IS THE**
305 **DIVISION RECOMMENDING SUCH A LARGE INCREASE?**

306 A. The Division prefers to recommend that an increase of this scale to be phased in
307 over a period of time. Unfortunately, with relatively few customers, the reserve
308 account funding already \$100,000 in arrears, and operational expenses needing to
309 be met, Willow Creek does not have the option of phasing in the rate increase
310 over a period of time. In small public utility companies, such as this, there are
311 few customers among whom to spread the costs, thus creating higher than
312 desirable rates.

313 To some extent, customers can control their water bills by conserving water and
314 not using over 12,000 gallons per month, which will require them to pay overage
315 fees. Nevertheless, the Division realizes the magnitude of its suggested rates and
316 the customer impacts.

317 The Division and Willow Creek personnel spent a great deal of time reviewing
318 and adjusting numbers to obtain the lowest reasonable rates possible. The figures
319 used to compute rates are transparent and straight-forward, and clearly show that
320 the recommended rates are needed and justified. While the Division is sensitive
321 to recommending such a large increase, the increase is necessary to pay for the
322 costs of operations and to establish capital reserves through rates.

323

VIII. CONCLUSION

324 **Q. DO YOU HAVE ANY ADDITIONAL REMARKS?**

325 A. Yes. Throughout the audit and investigation of Willow Creek, Mr. Veibell was
326 averse to raising the rates, especially to the extent that the Division is
327 recommending. The Division believes his hesitancy is based more on his concern
328 of Willow Creek's customer's reluctance to pay higher rates rather than on their
329 actual inability to pay higher rates. I reminded Mr. Veibell that he or his
330 successors may not always be in the position, or be willing, to subsidize the
331 Company. Unlike government owned and operated utility companies, there are
332 no tax coffers to tap to make up financial shortfalls.

333 The Division believes that its recommended rates are just and reasonable and
334 consistent with the public interest and, therefore, the Division recommends the
335 Commission approve these new rates and fees and Tariff No. 2, which contains
336 the new rates and fees.

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

338 A. Yes it does. Thank you.