Docket No. 15-2025-01
DPU Exhibit 2.0
William Duncan
June 19, 2015

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

IN THE MATTER OF THE APPLICATION OF DAMMERON VALLEY WATER WORKS, LLC FOR A CULINARY WATER RATE CASE AND AN EXPANSION OF SERVICE AREA	)))))	**DOCKET NO. 15-2025-01** **DPU Exhibit No. 2.0**

DIRECT TESTIMONY

OF

WILLIAM DUNCAN

DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

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Q. Please state your name, address and by whom you are employed.

A. My name is William Duncan. I am Manager of the Telecommunications and Water Section for the Utah Division of Public Utilities (DPU). My business address is 160 E. 300 South, Salt Lake City, Utah, 84111.

Q. What is the purpose of your testimony?

A. My testimony will describe the policies and guiding principles of the DPU in advocating a rate structure for water companies regulated by the Public Service Commission of Utah (Commission). My testimony will also address how the rate model utilized by the DPU achieves the DPU's policy objectives.

Q. What are the DPU's main policy objectives?

A. The DPU has several policy objectives defined in Utah Code section 54- 4a-6 including:

(1) Promote the safe, healthy, economic, efficient, and reliable operation of all public utilities and their services, instrumentalities, equipment, and facilities;

(2) provide for just, reasonable, and adequate rates, charges, classifications, rules, regulations, practices, and services of public utilities;

(3) Make the regulatory process as simple and understandable as possible so that it is acceptable to the public; feasible, expeditious, and efficient to apply; and designed to minimize controversies over interpretation and application;

(4) For purposes of guiding the activities of the Division of Public Utilities, the phrase ‘‘just, reasonable, and adequate’’ encompasses, but is not limited to the following criteria:

(a) Maintain the financial integrity of public utilities by assuring a sufficient and fair rate of return;

b) Promote efficient management and operation of public utilities;

(c) Protect the long-range interest of consumers in obtaining continued quality and adequate levels of service at the lowest cost consistent with the other provisions of Subsection (4).

(d) Provide for fair apportionment of the total cost of service among customer categories and individual customers and prevent undue discrimination in rate relationships;

(e) Promote stability in rate levels for customers and revenue requirements for utilities from year to year; and

(f) Protect against wasteful use of public utility services.

Q. In satisfying the policy objectives set forth above, has the DPU set certain policy goals related to water companies?

A. The DPU has two primary objectives or goals it hopes to achieve through the rate setting process for water companies. The first objective is promoting financial sustainability for the water company which will help ensure reliable service at just and reasonable rates.

The second objective of the DPU is to encourage water conservation. The DPU attempts to achieve these goals by adopting an increasing block rate structure for water usage, and separating recovery of fixed, system related costs from volumetric charges related to water usage.

Q. Please describe how the DPU rate model promotes the goal of financial sustainability?

A. The DPU rate model promotes this goal through these four principles:

1 – Customer rates generally should be set to recover all of the reasonable and prudent costs that the water company incurs in providing service. We discourage the practice of relying on developer subsidies to recover costs. The only deviation from this would be for a start-up company in the initial years of providing service that may need a developer subsidy until there are enough residents to support the company.

2 – Fixed costs are generally recovered through fixed rates. Water companies should not attempt to recover fixed costs through volumetric rates. These fixed costs should be divided between fixed standby costs and fixed user costs. Standby customer rates would include only the fixed system costs, and connected customer rates would include the fixed standby and the fixed user costs.

3 – Variable costs should be recovered through consumption rates. The basic consumption rate is set at the incremental cost of producing and delivering water.

4 – The establishment and continual funding of a capital reserve account.

Q. Please explain what the capital reserve account is and how it is funded?

A. The capital reserve account is a fund dedicated to the repair and replacement of infrastructure. It is funded from two sources. First, depreciation expense is one of the fixed costs that is recovered through standby rates. This expense is collected every month (or every other month in some cases) from both standby and connected customers. The DPU believes that these funds should be deposited monthly into the capital reserve account. The second funding source is from amounts billed in conservation rates that are over and above the incremental variable cost of providing service. Conservation rates will be discussed later in this testimony.

Q. How does the capital reserve account contribute to the water company's financial sustainability?

Establishment of a capital reserve account allows the water company to respond quickly to emergencies and reduces the need for special assessments and expedited rate cases in the event of infrastructure failure. If started early in the life of a company, it would reduce the need for borrowing to repair and replace infrastructure. The Commission has authority to require any public utility to establish such an account, see the Utah Code at Section 54-4-24.

Q. How does the DPU promote its second major policy objective related to water companies of encouraging water conservation?

A. The DPU rate model promotes water conservation in two ways:

First, the DPU proposes a base rate that does not include a minimum usage amount. For example, many water company rate schedules in the past have included a certain number of gallons included in the base rate – normally around 6,000 to 12,000 gallons per month. This gives the consumer no incentive to use less than that minimum. The current DPU model proposes that a consumer pay the consumption rate for every 1000 gallons used per month up to the first 12,000 per month at the cost of producing that water. With this model a consumer using only 3,000 gallons pays for only 3,000 gallons.

Second, the DPU proposes an increasing tier rate for usage over 12,000 gallons per month. These tiers would normally be priced as a 50% - 100% increase above the previous tier. These would be known as conservation rates or conservation tiers. For example, a normal progression may look like this, where $1.00/1000 gallons represents the variable cost of production:

0 – 12,000 gallons/month	$1.00 per 1000 gallons
12 – 24,000 gallons/month	$1.50 per 1000 gallons
24 – 36,000 gallons/month	$2.25 per 1000 gallons
36 – 48,000 gallons/month	$3.38 per 1000 gallons
Above 48,000 gallons/month	$5.06 per 1000 gallons

The DPU believes that a rate structure similar to this would encourage water conservation. Individual circumstances may cause the DPU to advocate a different rate progression.

Q. Why does the DPU allow 12,000 gallons per month at cost for the first tier?

A. The Division of Drinking Water estimates that .45 acre feet of water per year is needed for indoor use. Since an acre foot of water contains approximately 325,000 gallons, then 325,000 X .45 = 146,250 gallons annually. 146,250/12 = 12,187 gallons/month is needed for a typical residential use. The DPU simply rounded that amount down to 12,000 gallons/month and uses multiples of that amount for the tiers.

Q. Earlier in your testimony, you mentioned using these conservation rates as a funding source for the capital reserve account. Please elaborate.

A. Since all variable costs of providing service are recovered in the consumption rate, amounts billed over that rate would be above cost. The DPU believes it is appropriate to transfer these incremental funds to the capital reserve account, since consumers using larger amounts of water are causing more wear and tear to the water system, and should contribute more funding for the repair and replacement of that infrastructure.

Q. If the water company is collecting revenue above cost, does that constitute overearning?

A. If the excess revenue were going to benefit the owners or shareholders of a company it would be considered overearning. However the DPU recommends that this revenue remain in the company, in the capital reserve account to benefit all customers.

Q. Has the DPU used this rate model in this proceeding?

A. Yes. The testimony of Mark Long will show the application of these polices and rate model in this proceeding.

Q. Does that conclude your testimony?

A. Yes.