

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

IN THE MATTER OF THE)	DOCKET NO. 15-2025-01
APPLICATION OF DAMMERON)	
VALLEY WATER WORKS, LLC FOR A)	DPU Exhibit No. 1.0
CULINARY WATER RATE CASE AND)	
AN EXPANSION OF SERVICE AREA)	

DIRECT TESTIMONY

OF

MARK A LONG

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

June 19, 2015

TABLE OF CONTENTS

<u>Subject</u>	<u>Page Number</u>
I. INTRODUCTION	<u>3</u>
II. IDENTIFICATION OF WITNESS	<u>3</u>
III. PURPOSE OF TESTIMONY	<u>4</u>
IV. SUMMARY OF RECOMMENDATIONS	<u>6</u>
V. BACKGROUND OF COMPANY	<u>7</u>
VI. FINANCIAL COMMENTS	<u>8</u>
VII. DIVISION'S ANALYSIS OF COMPANY'S CURRENT AND PROPOSED RATES AND RATE STRUCTURES	<u>12</u>
VIII. DIVISION'S PROPOSED RATES AND RATE STRUCTURE	<u>14</u>
IX. IRRIGATION RATE CLASS AND RATES	<u>26</u>
X. CONSERVATION RATE	<u>34</u>
XI. TEST PERIOD	<u>38</u>
XII. EXPANSION OF SERVICE	<u>39</u>
XIII. RECOMMENDATION	<u>40</u>
XIV. CONCLUSION	<u>41</u>

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 by the
6 Department of Commerce, Division of Public Utilities (Division) for the State of
7 Utah as a Utility Analyst in the Telecommunications & Water Section.

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 of Public
13 Utilities since December of 2008. I am a member of the Association of
14 Government Accountants and the Association of Certified Fraud Examiners.

15 **II. IDENTIFICATION OF WITNESS**

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

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

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

21 A. Yes. I have testified before the Commission as an expert witness, most recently
22 in Docket Nos. 10-2529-01, 11-097-01, 11-097-02, 11-097-03, 12-2443-01 and
23 13-2506-01.

24 **Q. PLEASE DESCRIBE YOUR PARTICIPATION IN THE DIVISION'S**
25 **REVIEW OF DAMMEROM VALLEY WATER WORKS, LLC**
26 **(DAMMERON WATER OR COMPANY) IN THIS DOCKET.**

27 A. I have been involved with and participated in the review and investigation of
28 Dammeron Water's operations, revenues and expenses. I reviewed and analyzed
29 all the documentation and data submitted with the rate case and three data
30 requests, including, tax returns, check registers, budgets, loan documents and
31 other financial reports. I also reviewed Utah Division of Drinking Water and Utah
32 Division of Water Rights reports to assess compliance with these state agencies
33 for the current service area.

34 **III. PURPOSE OF TESTIMONY**

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

36 A. The purpose of my testimony is to present my analysis regarding the financial
37 aspects of the Company. I will also make a recommendation regarding the new
38 rates and fees as requested by Dammeron Water in its rate increase request,
39 propose alternatives, and make a recommendation about Dammeron Water's
40 request to expand its service area.

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

43 A. The exhibits referred to in this testimony are identified below.

- 44 • Exhibit 1.1, Index (The Excel Index has hyperlinks to each spreadsheet)
- 45 • Exhibit 1.2a, Rate Schedule
- 46 • Exhibit 1.2, Allocation of Expenses
- 47 • Exhibit 1.3, Adjustments to Expenses
- 48 • Exhibit 1.3a, Requested Expenses Submitted by Dammeron Water
- 49 • Exhibit 1.4, Summary of Revenues and Expenses (Revenue Requirement)
- 50 • Exhibit 1.5, Capital Reserves
- 51 • Exhibit 1.6, Depreciation Expense & Accumulated Depreciation Reconciliation
- 52 • Exhibit 1.7, Rate Base
- 53 • Exhibit 1.8, Return on Investment
- 54 • Exhibit 2, Capital Reserve Accounting Requirements verbiage to be added to
55 Dammeron Water's tariff.
- 56 • Exhibit 3.1, Rate Comparison of Current, Rates Requested by Dammeron Water
57 and Rates Recommended by the Division.
- 58 • Exhibit 3.2, Comparisons of Billing Amounts of the Different Rate Structures.
- 59 • Exhibit 3.3a, Graph of the Various Billing Amounts from 12,000 gallons to
60 100,000 gallons with One Irrigation Share.

- 61 • Exhibit 3.3a, Graph of the Various Billing Amounts from 12,000 gallons to
- 62 48,000 gallons with no Irrigation Shares.
- 63 • Exhibit 4, Stipulation Establishing the Irrigation Rate in Docket No. 87-2025-01.
- 64 • Exhibit 5, Order Establishing the Irrigation Rate in Docket No. 87-2025-01.
- 65 • Exhibit 6, Order Establishing the Conservation Rates in Docket No. 07-2025-01.
- 66 • Exhibit 7, Dammeron Water's Current Tariff Rates and Fees.
- 67 • Exhibit 8, Dammeron Water's Proposed Tariff Rates and Fees.
- 68 • Exhibit 9, Expansion of Service Area.

69 These exhibits are discussed in detail below.

70 **IV. SUMMARY OF RECOMMENDATIONS**

71 **Q. DUE TO THE RELATIVE LENGTH AND COMPLEXITY OF YOUR**
72 **TESTIMONY, DO YOU WISH TO SUMMARIZE THE DIVISION'S**
73 **RECOMMENDATION HERE?**

74 A. Yes, thank you. The Division is recommending the following:

- 75 1. The rates and rate structure proposed by Dammeron Valley should be rejected by
- 76 the Commission because they will not result in just and reasonable rates, and are
- 77 not in the public interest.
- 78 2. The rates and fees set forth proposed by the Division, and outlined in Exhibit
- 79 1.2a, should be approved as being just and reasonable and in the public interest.

80 3. The Service Connection Fee should be increased from \$1,500 to \$2,000.

81 4. That Dammeron Water should be allowed to expand its service area per its
82 request.

83 **V. BACKGROUND OF COMPANY**

84 **Q. PLEASE GIVE US A BRIEF HISTORY OF THE COMPANY.**

85 A. Dammeron Water was created to serve the rural Dammeron Valley community
86 located 14 miles north of St. George on state road U-18. According to the
87 Division of Corporations, Dammeron Corporation, the parent company of
88 Dammeron Valley Water Works, was incorporated in 1976 and Dammeron
89 Valley Water Works, LLC was incorporated in 2010. Dammeron Water is listed
90 as a “for-profit,” active corporation and in good standing. Dammeron Water was
91 granted a Certificate of Public Convenience and Necessity (CPCN), Certificate
92 Number 1940, to operate as a water corporation providing water to the Dammeron
93 Valley in 1977.

94 **Q. HOW LONG HAS IT BEEN SINCE DAMMERON WATER HAD A RATE
95 INCREASE?**

96 A. Dammeron Water’s last general rate increase was in 2004. Additionally, the
97 Commission adding a conservation rate to the company’s tariff in 2008, although
98 other rates remained the same.

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

101 A. Yes. The Division would like to acknowledge Brooks Pace's and Lisa Chauvin's
102 hard work, cooperation and willingness to provide information timely during the
103 Division's investigation.

104 **VI. FINANCIAL COMMENTS**

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

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

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

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

116 Consumers have an obligation to reimburse the Company at rates that will provide
117 such an opportunity.

118 **Q. WHAT IS FULL-COST PRICING AND WHY IS IT IMPERATIVE THAT**
119 **DAMMERON WATER IMPLEMENT FULL-COST PRICING?**

120 A. Full-cost pricing refers to the practice of ensuring that the rates provide a revenue
121 stream that adequately covers the Company's ongoing operations and
122 maintenance expenses, reserves or savings, return on investment and taxes. The
123 most obvious benefit of full-cost pricing is the ability of the Company to
124 consistently meet all on-going operational, maintenance and capital costs to
125 provide a high level of service. It is also important that utilities do not operate at
126 a loss, depend on subsidies or continually deplete cash reserves. Operating with
127 less than full-cost pricing often results in a degraded system, thereby
128 compromising the quality of service provided.

129 **Q. ARE DAMMERON WATER'S CURRENT RATES AND FEES**
130 **INDICATIVE OF THE FULL COST OF PROVIDING WATER TO ITS**
131 **CUSTOMERS? PLEASE EXPLAIN.**

132 A. No. The developer, Mr. Pace, has been financially subsidizing the daily operation
133 and maintenance expenses of Dammeron Water with personal or Dammeron
134 Corporation funds since its CPCN was approved in 1977. The extent of the
135 subsidies is difficult to ascertain because of all the inter-company transactions and
136 lack of arm's-length transactions. Also, as a result of the current rate structure
137 some rate classes have been subsidizing other rate classes

138 **Q. MR. PACE INDICATED IN HIS TESTIMONY IN THIS DOCKET THAT**
139 **HE WANTS RATES THAT WILL ALLOW DAMMERON WATER TO**
140 **BREAK EVEN, BUT THAT HE OR DAMMERON CORPORATION IS**
141 **WILLING TO CONTINUE TO SUBSIDIZE DAMMERON WATER.**
142 **WHAT IS THE DIVISION'S OPINION AND RECOMMENDATION**
143 **REGARDING THE OFFER BY MR. PACE?**

144 A. The Division acknowledges the good intentions of Mr. Pace's willingness to
145 continue subsidizing the Company. At first blush, this sounds like a good
146 solution to keep rates low, albeit artificially. Basing rates on the assumption that
147 a third party will continue to subsidize the water company depends too heavily on
148 magnanimity and satisfactory general economic conditions and is simply not
149 prudent rate-making policy. Unfortunately, a sustainable public utility cannot set
150 rates based on the goodwill of a third party benefactor. Mr. Pace may not always
151 be in a position to subsidize Dammeron Water, and his successors may not be in a
152 position where they are willing or able to continue subsidizing Dammeron Water.

153 **Q. WHAT IS THE FINANCIAL IMPACT ON DAMMERON WATER AS A**
154 **RESULT OF MR. PACE'S SUBSIDIES OVER THE YEARS?**

155 A. Mr. Pace has been a good steward of water company operations and has repaired
156 and replaced company assets and infrastructure as needed, often with his own, or
157 Dammeron Corporation, money. Although the water company appears to have
158 always been well maintained and cared for, the financial future of Dammeron

159 Water is not as certain. As of the date Dammeron Water filed its rate case, the
160 Company's financial documents show that it has less than \$200 in the bank.
161 Dammeron Water has an aging infrastructure, and even a small repair could not
162 be paid for by Dammeron Water without outside assistance or a request for a rate
163 increase, which the Commission may or may not grant. As discussed previously,
164 if there comes a point in time that Mr. Pace or Dammeron Corporation or their
165 successors are no longer subsidizing Dammeron Water, it could face dire financial
166 consequences.

167 **Q. DOES THE DIVISION WISH TO MAKE ANY COMMENTS OR**
168 **RECOMMENDATIONS ABOUT DAMMERON WATER'S**
169 **ACCOUNTING RECORDS OR PRACTICES?**

170 A. Yes. Mr. Pace, Dammeron Corporation and Dammeron Water have not properly
171 recorded numerous transactions in the correct set of books and records. Although
172 Dammeron Corporation has likely subsidized Dammeron Water it is difficult to
173 determine to what extent. Many of the expenses subsidized for Dammeron Water
174 by Dammeron Corporation were for expenses that should have been properly
175 attributed to Dammeron Corporation in the first place. For example, loans for
176 infrastructure for new subdivisions are included in Dammeron Water's books.
177 Although Dammeron Corporation routinely pays the loan payments, infrastructure
178 for new and expanding water service areas should be paid for entirely by the
179 developer. These expenses should not become an obligation of Dammeron Water

180 nor should it be recorded in Dammeron Water's books and records. The Division
181 recommends that Dammeron Water and Dammeron Corporation keep transactions
182 at arm's length and properly account for its transactions under the appropriate
183 business entity.

184 Another example involves the funds from the initial sale of irrigation shares,
185 obligating Dammeron Water to provide irrigation water to its irrigation
186 customers, which were never recorded on the books of Dammeron Water. The
187 sale and donation of irrigation shares were valued at \$120,000.

188 **VII. DIVISION'S ANALYSIS OF COMPANY'S CURRENT AND PROPOSED**
189 **RATES AND RATE STRUCTURE**

190 **Q. WHAT IS THE CURRENT RATE STRUCTURE PRESENTLY IN PLACE**
191 **AT DAMMERON WATER?**

192 A. Please refer to the Division's Exhibit 7 for Dammeron Water's current rate
193 structure

194 **Q. DID THE DIVISION ANALYZE THE COMPANY'S CURRENT RATES**
195 **AND RATE STRUCTURE?**

196 A. Yes. Concerning the current rates, I analyzed the revenues generated based on
197 several usage amounts and produced different charts and models. The Division
198 also spoke with Dammeron Water personnel several times and issued data

199 requests to assist the Division in understanding its inner workings and the theories
200 behind the rate structure.

201 **Q. WHAT DID THE DIVISION CONCLUDE ABOUT THE CURRENT**
202 **RATES AND RATE STRUCTURE?**

203 A. The Division's analysis show that the current rates and rate structure do not cover
204 fixed costs, discriminate between rate classes, have a subsidized conservation rate
205 and a subsidized irrigation rate and no longer result in just and reasonable rates
206 and are not in the public interest.

207 **Q. WHAT IS THE COMPANY'S PROPOSED RATES AND RATE**
208 **STRUCTURE?**

209 A. Please refer to the Division's Exhibit 8 for Dammeron Water's proposed rates and
210 rate structure.

211 **Q. DID THE DIVISION ANALYZE THE COMPANY'S PROPOSED RATES**
212 **AND RATE STRUCTURE?**

213 A. Yes. Concerning the proposed rates, the Division analyzed the revenues
214 generated based on several usage amounts and produced different charts and
215 models. The Division also spoke with Dammeron Water personnel several times
216 and issued data requests to assist the Division in understanding its inner workings
217 and the theories behind the rate structure. I organized several Division meetings
218 with various Division personnel regarding possible alternative rate structures that

219 would be closer to the rate structures proposed by Dammeron Water and still meet
220 the objectives of full-cost pricing and conform with the relevant laws and rules.

221 **Q. WHAT DID THE DIVISION CONCLUDE ABOUT THE COMPANY'S**
222 **PROPOSED RATES AND RATE STRUCTURE?**

223 A. The Division concludes that the current rates and rate structure do not cover fixed
224 costs, discriminate between rate classes, have a subsidized conservation rate and a
225 subsidized irrigation rate and do not result in just and reasonable rates, and are not
226 in the public interest.

227 **VIII. DIVISION PROPOSED RATES AND RATE STRUCTURE**

228 **Q. DOES THE DIVISION HAVE A PROPOSAL FOR DAMMARON**
229 **VALLEY'S RATES AND RATE STRUCTURE?**

230 A. Yes.

231 **Q. PLEASE SHOW THE DIVISION'S PROPOSED RATES AND RATE**
232 **SCHEDULE.**

233 A.

Rate Schedule

Monthly Rates		Monthly Water Usage Amounts	
Standby Rate	\$13.90		
Base Rate for Connected Customers	\$37.90	0 gals	0 gals
Tier 1 (Per 1,000 Gallons)	\$ 0.30	0 gals	12,000 gals
Tier 2 (Per 1,000 Gallons)	\$0.60	12,001 gals	24,000 gals
Tier 3 (Per 1,000 Gallons)	\$1.20	24,001 gals	36,000 gals
Tier 4 (Per 1,000 Gallons)	\$1.80	36,001 gals	48,000 gals
Tier 5 (Per 1,000 Gallons)	\$2.70	48,001 gals	Plus
Irrigation Rate (Per 1,000 Gallons)	\$0.45	40,000 gals	

234

235 **Q. PLEASE DESCRIBE HOW THE COMPANY’S AND THE DIVISON’S**
 236 **PROPOSALS DIFFER REGARDING RATE CLASSES AND RATES.**

237 A. Certainly. You may note that Dammeron Water currently has and proposed to
 238 continue four separate and distinct rates. One is the conservation rate, which is
 239 discussed in detail, later in my testimony. The other three rates are delineated by
 240 the gallons that form the base amount allowed: 800 gpd, 1200 gbd and 1600 gbd
 241 (‘gpd’ refers to gallons per day). The larger ‘gpd’ designation, the larger the lot it
 242 was assigned to. For example, in Exhibits 7 and 8 you will see that the largest
 243 gpd rate class receives a larger base amount the smallest gpd rate class. Mr. Pace
 244 wanted to encourage the larger lot owners to water their land for the greenery
 245 effect so he provided additional gallons of water at reduced prices, within the base

246 rates and tiered rates. This means that someone on a smaller lot using the same
247 amount of water as someone on a larger lot will pay more. This type of rate
248 structure, in essence, results in the smaller lot owners subsidizing the larger lot
249 owners because the smaller lot owners are paying more money for the same
250 amount of water.

251 Also, please note that the Division's recommendation for the base amount is a
252 fixed rate component to ensure that all fixed costs are paid for regardless of how
253 much water is delivered.

254 Additionally, the Division's base amount comes with no water allotment, which
255 allows customers to pay for only the water they use, rather than paying for a set
256 amount. This structure is used to send a price signal for conservation.

257 And finally, Utah Law 54-4a-6(3) states that one of the objectives of the Division
258 is to provide the Commission with recommendations that “make the regulatory
259 process as simple and understandable as possible so that it is acceptable to the
260 public; feasible, expeditious, and efficient to apply; and designed to minimize
261 controversies over interpretation and application.” The Company’s proposed
262 rates are complex and hard to understand. For customers to obtain their rates,
263 they must first decide if they want to be on a conservation rate, then they have to
264 determine what size of lot they own and then they have to figure out if they or
265 their lot’s prior owner purchased irrigation shares and if so, how many. Division

266 personnel, who work with rates all the time, spent an inordinate amount of time
267 trying to implement the Company's proposed rates in its sample billing
268 comparisons.

269 **Q. PLEASE SHOW A RATE COMPARISON OF THE RATES THAT ARE**
270 **CURRENTLY IN PLACE, THOSE RATES REQUESTED BY**
271 **DAMMERON WATER AND THE RATES RECOMMENDED BY THE**
272 **DIVISION.**

273 A. Please see Exhibit 3.1 for a detailed comparison.

274 **Q. PLEASE SHOW A COMPARISON OF TYPICAL MONTHLY WATER**
275 **BILLS BASED ON THE RATES THAT ARE CURRENTLY IN PLACE,**
276 **THOSE RATES REQUESTED BY DAMMERON WATER AND THE**
277 **RATES RECOMMENDED BY THE DIVISION.**

278 A. Please see Exhibit 3.2 for the requested information.

279 **Q. DOES THE DIVISION WISH COMMENT ON EXHIBIT 3.2?**

280 A. Yes. The Division wishes to point out, that in this example, if a smaller lot owner
281 uses the average projected monthly amount of water, 36,054 gallons, under the
282 Company's proposal, they will pay \$75.14 and a large lot owner, using the same
283 amount of water, will pay only \$66.09. In the Division's proposal all customers,
284 regardless of lot size, will pay \$63.20.

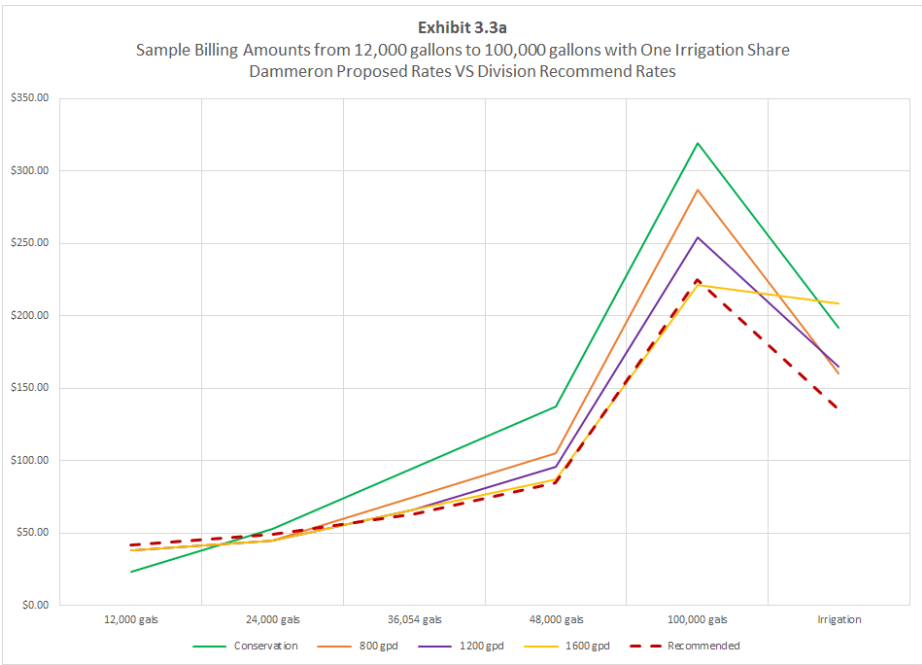
285 **Q. IN THE EXAMPLE IN EXHIBIT 3.2, WHY IS THE DIVISION'S**
286 **MONTHLY DOLLAR AMOUNT OF \$63.20, BASED ON AN AVERAGE**
287 **USAGE AMOUNT, LESS THAN THE DOLLAR AMOUNTS PROPOSED**
288 **BY DAMMERON WATER?**

289 A. If this sample billing in Exhibit 3.2 were projected to an annual amount, the
290 Division's amount covers all costs of the water system, reserves, taxes, variable
291 expenses, return on investment and has a possible additional \$72,000 that will be
292 deposited in the Capital Reserve Account as 'accelerated capital reserve fees.' On
293 the other hand, the rates proposed by Dammeron included amounts earmarked for
294 a loan to pay for the infrastructure for future expansion. The Division disallowed
295 this amount in Exhibits 1.3 and 1.6 because the loan is no longer an obligation of
296 Dammeron Water.

297 **Q. PLEASE EXPLAIN THE GRAPH YOU HAVE PROVIDED IN**
298 **EXHIBIT 3.3.**

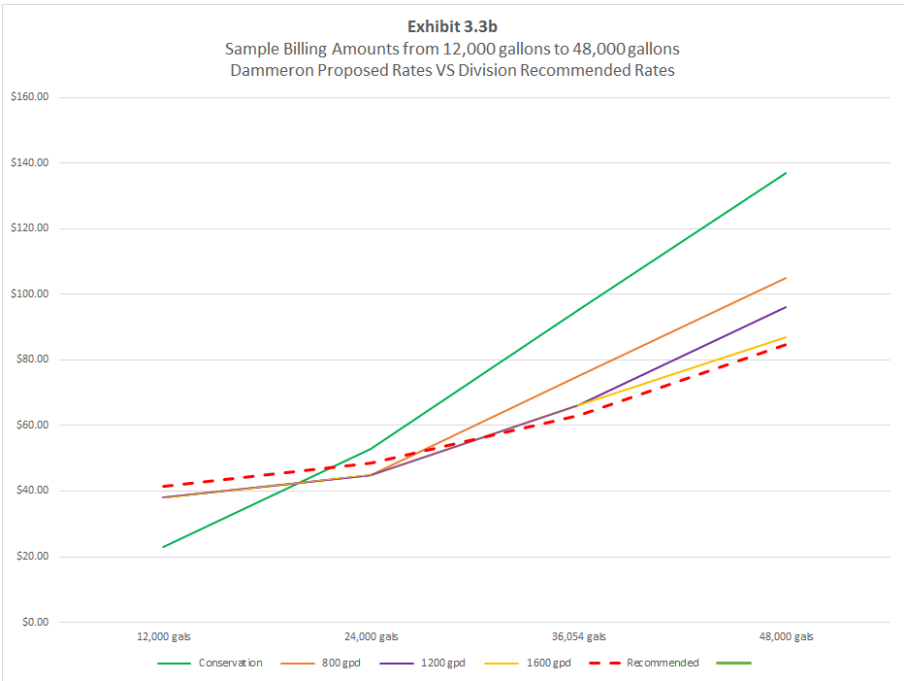
299 A. This graph is based on Exhibit 3.2, which shows billing amounts based on various
300 water usage amounts. Please see the attached Exhibits 3.3a and 3.3b for a larger
301 versions of the graphs represented below.

302 This first graph, Exhibit 3.3a, shows sample billing amounts from 12,000 gallons
303 to 100,000 gallons with one Irrigation Share.



304

305 This second graph, Exhibit 3.3b, shows a close-up for billing amounts from
 306 12,000 gallons to 48,000 gallons.



307

308 The Division wishes to point out the two striking trends these graphs brings to
309 light.

310 1. The first graph, Exhibit 3.3a clearly illustrates that using only one irrigation
311 share significantly lowers the billing amount, even though more water is used.

312 2. The billing amounts based on the Division's recommended rates collect more
313 money up-front to cover fixed expenses than the billing amounts based on the
314 rates recommended by Dammeron Water. The Division's rates are not dependent
315 on any water usage fees to pay for Dammeron Water's fixed expenses. As you
316 can see in Exhibit 3.3b, there is a relatively large gap between the amounts based
317 on Dammeron Water's conservation rates and the Division's rate, which shows
318 the potentially significant underfunding implications if a number of customers
319 opt-in to the proposed conservation rate.

320 3. According to the graph, after about 20,000 to 24,000 gallons of water used per
321 month, depending on the rate class, the sample billing amounts based on the
322 Division rates are actually less than the sample billing amounts based on the rates
323 proposed by Dammeron Water. The Division has earmarked any of its excess
324 earnings above the prudent expenses as 'accelerated capital reserve fees.'

325 **Q. PLEASE DESCRIBE THE DIVISION'S PROPOSAL.**

326 A. Exhibit 1.2a shows what elements make up the rates and lists the rates
327 recommended by the Division.

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

330 A.

Rate Schedule

Monthly Rates		Monthly Water Usage Amounts	
Standby Rate	\$13.90		
Base Rate for Connected Customers	\$37.90	0 gals	0 gals
Tier 1 (Per 1,000 Gallons)	\$ 0.30	0 gals	12,000 gals
Tier 2 (Per 1,000 Gallons)	\$0.60	12,001 gals	24,000 gals
Tier 3 (Per 1,000 Gallons)	\$1.20	24,001 gals	36,000 gals
Tier 4 (Per 1,000 Gallons)	\$1.80	36,001 gals	48,000 gals
Tier 5 (Per 1,000 Gallons)	\$2.70	48,001 gals	Plus
Irrigation Rate (Per 1,000 Gallons)	\$0.45	40,000 gals	

331

332 **Q. HOW DID THE DIVISION DETERMINE WHAT RATE CLASSES AND**
333 **RATES WERE JUST AND REASONABLE AND IN THE PUBLIC**
334 **INTEREST?**

335 A. The Division prepared a variety of exhibits, which I discuss below.

336 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.2, ALLOCATION**
337 **OF EXPENSES.**

338 A. The purpose of this schedule is to allocate Company expenses as fixed expenses
339 or variable expenses. Fixed expenses are further broken down to fixed system
340 expenses and fixed usage expenses. Part of the rate-making process is to ensure

341 that all fixed costs are covered by the base rates regardless of how much water is
342 sold.

343 **Q. PLEASE EXPLAIN EXHIBIT 1.3, ADJUSTMENTS TO EXPENSES.**

344 A. Exhibit 1.3 lists the expenses requested by the Company in its rate case
345 application and the adjustments, which include additions, adjustments and
346 disallowed expenses made by the Division to these requested expenses. Please
347 refer to Exhibit 1.3 for specific and detailed explanations.

348 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.3A, REQUESTED**
349 **EXPENSES SUBMITTED BY DAMMERON WATER?**

350 A. This exhibit shows the expenses submitted by Dammeron Water in its rate case
351 application, that it is seeking to recover through rates. The Division relied on
352 these amounts in its analysis. Any adjustments to these amounts are discussed in
353 the Division's Exhibit 1.3.

354 **Q. PLEASE EXPLAIN EXHIBIT 1.4, SUMMARY OF REVENUES AND**
355 **EXPENSES (REVENUE REQUIREMENT).**

356 A. Exhibit 1.4 summarizes the revenues based on the rates recommended by the
357 Division. It also summarizes the expenses per Exhibits 1.2 and 1.3. In this
358 analysis, the variable expenses are subtracted from the total expenses because this
359 rate structure seeks to recover fixed expenses. Variable expenses will be covered
360 based on the amount of water consumed by the customers.

361 Exhibit 1.4 demonstrates that the revenues generated from the Division's
362 recommended user rates are sufficient to meet the fair and reasonable expenses of
363 the Company.

364 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.5, CAPITAL**
365 **RESERVES.**

366 A. The Division is concerned about Dammeron Water's lack of cash and any
367 financial reserves. Reserves are a necessary part of a sound financial management
368 plan for an on-going and effective system. Setting aside reserves is critical to
369 developing and maintaining financial stability and can mean the difference
370 between a system that is self-sustaining and one that may fall victim to disrepair
371 or become financially unstable during even a relatively small emergency. Capital
372 reserves are funded through rates, paid equally by all connected and standby
373 customers, and should be maintained in an escrow or other protected account and
374 allowed to accumulate or used for capital replacement, improvements and major
375 restorations as the need arises.

376 The targeted minimum amount to be set aside annually for capital reserves is
377 equal to the company's annual depreciation expense prior to making any
378 adjustments for Contributions in Aid of Construction (CIAC).

379 Since capital reserves are calculated based on the historical replacement costs for
380 an aging infrastructure they will likely not cover all future capital asset repair and

381 replacement, but will go a long way in creating and maintaining Dammeron
382 Water's financial integrity and quality of service in the years to come. Dammeron
383 Water has minimal cash on hand as of this rate case (about \$200) and is
384 essentially 30 years behind in funding its Capital Reserve Account.

385 See Exhibit 1.5 for further details.

386 Please see Exhibit 2 for the verbiage that Dammeron Water needs to add to its
387 tariff to support its inclusion of a capital reserve account.

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

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

- 392 • Better and more timely operational decisions and actions.
- 393 • Improved emergency response.
- 394 • More efficient operations.
- 395 • Greater ability to plan and pay for future repairs and replacements.
- 396 • Capital improvement projects that meet the true needs of the system.
- 397 • Enhanced ability to obtain financing, and at more favorable rates.
- 398 • Special assessments are no longer required to pay for emergency repairs or
399 replacements.

400 **Q. PLEASE EXPLAIN EXHIBIT 1.6, DEPRECIATION EXPENSE &**
401 **ACCUMULATED DEPRECIATION RECONCILIATION.**

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

405 In its analysis, the Division found that Dammeron Water is not using the correct
406 depreciation rates as prescribed by Utah Administrative Rules, which can be
407 found in R746-332-1. The correct depreciation rates can also be found in the
408 Water Annual Report on the Division's website.

409 The Division also noted that several assets for future expansion were included in
410 its list of assets. These assets should not be funded by the current ratepayers. The
411 developer(s) of future expansions to benefit, or primarily benefit, new customers
412 should fund the infrastructure, contribute it to the water company and apply its
413 related expenses to the future customers only.

414 Please refer to Exhibit 1.6 for further details and a discussion of which assets
415 were not allowed to be included in Dammeron Water's rate base.

416 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 1.7, RATE BASE.**

417 A. Exhibit 1.7 calculates the rate base, which is the value of the property, or
418 infrastructure, on which a public utility is permitted to earn a specified rate of
419 return. The rate base is essentially the utility's original investment at the time the
420 assets were placed in service less the accumulated depreciation and assets
421 contributed (CIAC) to the company if applicable. It also includes a working

422 capital allowance with reasonable prepayments for operating expenses and an
423 allowance up to 1/8 of operational and maintenance expenses.

424 **Q. PLEASE EXPLAIN EXHIBIT 1.9, RETURN ON INVESTMENT.**

425 A. Exhibit 1.9 calculates the return on investment, which is the amount a public
426 utility is entitled an opportunity to earn on its investment in plant and equipment
427 over and above the allowable deductions from gross income. This return amount
428 is considered profit.

429 **IX. IRRIGATION RATE CLASS AND RATES**

430 **Q. DOES DAMMERON VALLEY CURRENTLY HAVE AN IRRIGATION**
431 **RATE CLASS, AND IF SO, DID DAMMERON VALLEY PROPOSE TO**
432 **CONTINUE THE IRRIGATION RATE CLASS?**

433 A. Yes. Dammeron Valley currently has an irrigation rate class and proposes to
434 retain that rate class.

435 **Q. DID DAMMERON VALLEY PROPOSE A NEW IRRIGATION RATE?**

436 A. Yes.

437 **Q. THE DIVISION USUALLY DOES NOT MAKE RECOMMENDATIONS**
438 **INVOLVING IRRIGATION WATER, WHY IS THIS AN EXCEPTION?**

439 A. The irrigation water provided by Dammeron Valley comes from the same source,
440 through the same infrastructure, and through the same tap of the customer as the
441 culinary water. The water designated as irrigation water is not distinguishable

442 from the culinary water. For these reasons, the irrigation rate class falls under
443 Commission jurisdiction.

444 **Q. WHEN DID DAMMERON WATER INITIATE ITS IRRIGATION RATE?**

445 A. In Docket No. 87-2025-01, with the Order issued May 8, 1987.

446 **Q. WHAT SOURCES ARE YOU REFERRING TO BELOW REGARDING**
447 **THE STIPULATION AND ORDER?**

448 A. Both the Stipulation and Order are in reference to Docket No. 87-2025-01. The
449 Stipulation referred to is provided in Exhibit 4 and is dated on or about February
450 1986. The Order is found in Exhibit 5 and was issued on May 1987

451 **Q. PLEASE GIVE SOME OF THE BACKGROUND OF THE STIPULATION**
452 **AND COMMISSION'S ORDERS REGARDING ITS APPROVAL OF THE**
453 **IRRIGATION RATE IN DOCKET NO. 87-2025-01.**

454 A. Some of the highlights include:

455 • The irrigation rates apply to customers who choose to purchase water rights in
456 single acre/foot (325,480 gallons) units from Dammeron Corporation. *(Note that*
457 *this is the parent company of Dammeron Water, and the funds were improperly*
458 *recorded on the books and records of Dammeron Corporation, not Dammeron*
459 *Water).*

460 • Each irrigation customer would be allowed to use 40,000 gallons of water per
461 month for each irrigation unit purchased until they have used up 325,480 gallons
462 for the year.

463 • Irrigation customers must use their total culinary allotment at the standard
464 culinary rates before utilizing the irrigation water.

465 • In addition, the Commission approved Stipulation states:

466 The parties stipulate and recognize that the irrigation rate does not
467 cover its own fixed costs, and that Brooks Pace's irrigation water
468 requirement is approximately 80% of the total system water
469 requirement. It is recognized that the culinary water rate design
470 adopted in this case is subsidizing the irrigation rate, and that in
471 future years, if a full cost of service analysis is requested from the
472 Commission, the irrigation rate could increase substantially. Mr.
473 Pace's *[sic]* agrees that the utility will receive \$8400 per year for
474 the next two years either through his irrigation usage or payment
475 from him.

476 • The Stipulation also states,

477 The parties stipulate and agree that the Dammeron Valley Water
478 Company will advise all present and future ratepayers that the
479 culinary ratepayers are subsidizing the irrigation rate and that
480 sometime in the future the culinary water rates and the irrigation
481 water rates could be higher. Future rates would depend on the
482 number of customers that are utilizing water service, the extent to
483 which Mr. Pace contributes to the system costs, and the extent to
484 which culinary users subsidize the irrigation users. The Applicant
485 hereby agrees to issue a disclosure statement to prospective
486 landowners and to prospective water right owners stating that the
487 transportation or irrigation rates could be affected by Mr. Paces
488 *[sic]* contribution to system costs and/or by subsidization from
489 culinary rates, and that these irrigation rates may not vary
490 significantly from culinary rates if a cost of service is performed.

491 • The Commission also ordered Dammeron Water to seek approval from the
492 Commission before constructing additions to the plant in service for the purpose
493 of providing water to existing lots. For the Stipulation and Order involving the
494 establishment of the irrigation rate, please refer to Exhibits 4 and 5.

495 **Q. DO YOU HAVE COMMENTS REGARDING THE COMPANY'S**
496 **COMPLIANCE WITH CERTAIN PARTS OF THE 1987 ORDER**
497 **ADDRESSING IRRIGATION RATES?**

498 Yes. In the current docket when asked to produce the disclosure statement
499 concerning rate subsidies, Mr. Pace indicated that he verbally informed customers
500 about the irrigation rate as ordered in Docket 87-2025-01, and was not able to
501 provide a written statement as requested by the Division.

502 **Q. HOW MANY IRRIGATION SHARES HAVE BEEN ISSUED TO**
503 **DAMMERON WATER CUSTOMERS?**

504 A. There have been 271 shares issued in total. A total of 63 shares were sold for
505 approximately \$40,000. An additional 208 shares were donated at an estimated
506 value of \$80,000. In the Third Data Request, Mr. Pace indicated that the shares
507 were sold primarily by the Dammeron Corporation or Stoddard Land Company,
508 LLC.

509 **Q. WAS THE DIVISION ABLE TO DETERMINE WHO STODDARD LAND**
510 **COMPANY, LLC. IS?**

511 A. Yes. According to the Division of Corporations and Commercial Code, Stoddard
512 Land Company, LLC.'s registered agent is Brooks Pace, and its status description
513 shows it is in "Good Standing" with the Division of Corporations.

514 **Q. WHAT RATES AND RATE STRUCTURE DID THE COMPANY**
515 **PROPOSE FOR IRRIGATION RATES?**

516 A. Dammeron Water's proposed Irrigation Rate allows all customers who own
517 irrigation rights in the Company to use 40,000 gallons per acre foot of water right,
518 per month, to a maximum of one acre-foot/year at \$0.32/1,000 gallons. Irrigation
519 customers must first use their total culinary allotment at the applicable water rates
520 before the irrigation rate applies. Once the culinary and irrigation allotments are
521 used, the applicable overage rates listed in the tariff will apply.

522 **Q. WHAT DID THE DIVISION CONCLUDE WHEN IT ANALYZED THE**
523 **IRRIGATION RATE PROPOSED BY DAMMERON WATER?**

524 A. The Division concluded that the proposed irrigation rate covers the incremental
525 costs of the water used, but does not cover any amounts for the extra wear and
526 tear on equipment that the irrigation users are imposing due to their large water
527 use. Without subsidization by a third party or culinary water users, the irrigation
528 rates are not sustainable and do not result in just and reasonable rates, and are not
529 in the public interest.

530 **Q. DOES THE DIVISION HAVE A PROPOSAL FOR THE IRRIGATION**
531 **CLASS AND ITS RATES?**

532 A. Yes.

533 **Q. PLEASE DESCRIBE THE DIVISION'S RECOMMENDATION.**

534 A. The Division's recommended Irrigation Rate allows all customers who own
535 irrigation rights in the Company to use 40,000 gallons per acre foot of water right,
536 per month, to a maximum of one acre-foot/year at \$0.45/1,000 gallons. Irrigation
537 customers must first use their total culinary allotment at the applicable water rates
538 before the irrigation rate applies. Once the culinary and irrigation allotments are
539 used, the applicable overage rates listed in the tariff will apply.

540 The only difference between the two rates is that the Division is recommending
541 \$0.45, and Dammeron Water is proposing \$0.32.

542 **Q. WHY IS THE DIVISION RECOMMENDING THE APPROVAL OF THE**
543 **IRRIGATION RATES IN THE TARIFF AT A COST LOWER THAN ITS**
544 **RECOMMENDED COST FOR CULINARY WATER?**

545 A. The irrigation users paid for the right to use excess water at irrigation rates, and
546 the Commission approved these rates in Docket No. 87-2025-01. The Division is
547 recommending that the irrigation rate remain, but at a rate of \$0.45 per 1,000
548 gallons instead of the \$0.32 per 1,000 gallons requested by Dammeron Water.

549 The \$0.45 per 1,000 gallons rate covers all variable expenses of \$0.30 per 1,000

550 gallons plus an additional amount of \$0.15 per 1,000 gallons. This rate structure
551 is consistent with full-cost pricing spoken of earlier, as it will help pay for the
552 extra wear and tear on equipment that the irrigation users are imposing due to
553 their large water use. The Division is using \$0.15 based on 50% increase of the
554 incremental variable costs to transport the water. Without an extensive
555 asset/infrastructure study to determine the exact cost of the wear and tear on the
556 equipment and infrastructure, the Division believes that \$0.15 is a conservative
557 estimate.

558 Consistent with past Division recommendations, regarding overage rates, any fees
559 collected after deducting for any variable expenses shall be deposited in the
560 Capital Reserve Account. These deposits into the Capital Reserve Account are
561 best described as ‘accelerated capital reserve fees.’ Having these irrigation
562 overage charges, after associated variable expenses have been deducted, set aside
563 in the Capital Reserve Account will ensure that the largest water users will
564 contribute some portion of the cost to help pay for repair and replacement of
565 infrastructure and assets that are impacted by the large quantities of water used by
566 the irrigation users. This is consistent with the warning in the Stipulation in
567 Docket 87-2025-01 that if a cost of service analysis is performed the irrigation
568 rates could increase substantially. Although the recommended irrigation rates
569 have increased, they have not increased substantially. Not even taking into

570 consideration the droughts looming in Utah and the rest of the Western United
571 States, \$0.45 per 1,000 gallons of water appears to be a very reasonable rate.

572 **Q. IN THE IRRIGATION RATE RECOMMENDED BY THE DIVISION,**
573 **ARE THE IRRIGATION USERS PAYING FOR ANY OF THE FIXED**
574 **EXPENSES ASSOCIATED WITH THE IRRIGATION SHARES?**

575 A. Yes, they are in two ways.

576 First, because all irrigation users must first use their total allotment of culinary
577 water at the culinary rates before using irrigation water, they are paying for an
578 equal share of the overall water system's fixed costs for those culinary gallons
579 used, just as is done by customers without irrigation.

580 Second, the irrigation users are paying 50% over the projected variable costs to
581 produce the water. This irrigation overage amount is added to the Capital Reserve
582 Account to recover costs of repair and replacement of the infrastructure caused by
583 the increased usage of the irrigation customers.

584 **Q. DOES THE DIVISION HAVE ANY ADDITIONAL COMMENTS**
585 **REGARDING THE IRRIGATION RATES?**

586 A. Yes. During this rate case, Mr. Pace has made several comments to the Division
587 regarding the need for cheap irrigation water to maintain a greenbelt of foliage
588 along the freeway so that the subdivision will look good to the cars driving by.
589 He also refers to keeping the irrigation rates cheap enough so people will water to

590 “enhance the beauty of the valley.” Additionally, Mr. Pace has indicated that the
591 additional greenery may be useful for fire suppression or fire control. While
592 maintaining greenery for looks and potential fire control are important, they are
593 not part of the allowable expenses of a regulated public water system. Individual
594 customers or homeowners association are responsible to pay for their own fire
595 suppression or control and other methods for creating a buffer from wildfires.
596 While some methods may involve using water from Dammeron Water, it should
597 be paid for only by the individuals or groups who benefit from that specific
598 application of the water.

599 **X. CONSERVATION RATES**

600 **Q. WHEN DID DAMMERON WATER INITIATE ITS CONSERVATION**
601 **RATE?**

602 A. In August 2007, Dammeron Water filed a request for the approval of a
603 conservation rate. In June 2008, the Commission issued an Order, in Docket No.
604 07-2025-01, approving the conservation rate.

605 **Q. WHAT IS THE DIVISION REFERENCING WHEN DESCRIBING THE**
606 **CONSERVATION RATE?**

607 A. The Division is referencing the 07-2025-01 Commission Order dated June 2007.
608 It can be reviewed in Exhibit 6 of this testimony.

609 **Q. PLEASE GIVE SOME BACKGROUND REGARDING THE**
610 **CONSERVATION RATE REQUESTED BY DAMMERON WATER TO**
611 **REMAIN IN ITS TARIFF.**

612 A. The conservation rate applies to all current Dammeron Water customers wishing
613 to voluntarily opt-in to the conservation rate and is mandatory for all new
614 customers. The conservation base rate amount is 40% lower and allows 40% less
615 water than the regular culinary base amounts. Additionally, the conservation
616 overage rates are steeper than the standard water overage rates. Presently, there
617 are 14 customers who have opted-in, or had imposed, the conservation rate.

618 Please see Exhibit 3.1 for a breakdown of Dammeron Water's conservation rate.

619 **Q. PLEASE BRIEFLY DESCRIBE THE COMMISSION'S RULING IN**
620 **DOCKET NO. 07-2025-01.**

621 A.

- 622 • The conservation rate was approved by the Commission on the condition that
623 Dammeron Corporation subsidizes any net losses incurred as a result of the
624 implementation of the conservation rate and any such losses would not be
625 included in the revenue requirement in future rate proceedings.
- 626 • Once a customer opts into the conservation rate they cannot opt out. Dammeron
627 Water states that this is necessary to better predict water usage demand.
- 628 • All new customers will be required to be on the conservation rates.

629 • According to the Division's analysis of the Company's 2006 water utilization
630 schedule, the Division anticipated that 90 customers may convert to the
631 conservation rate, if approved. The Division also concludes that the proposed
632 conservation rate would result in a revenue requirement shortfall of \$30,056 per
633 year.

634 **Q. WHAT DID DAMMERON VALLEY PROPOSE IN THIS CASE**
635 **REGARDING A CONSERVATION RATE?**

636 A. Dammeron Water is proposing a conservation rate, making it mandatory for all
637 new customers and allowing current to opt in if they so choose. Once the current
638 customer opts-in, they cannot go back. The proposed monthly conservation rate
639 charges \$23.00 for the use of 12,000 gallons its base rate, \$2.50/1,000 gallons for
640 the next 12,000 gallons and \$3.50/1,000 gallons for all amounts over 24,000
641 gallons.

642 **Q. IS THE DIVISION RECOMMENDING THAT THE COMPANY'S**
643 **CONSERVATION RATE, IN ITS PRESENT FORM, CONTINUE AND**
644 **WHY?**

645 A. No, for the following four reasons:

646 1. Of Dammeron Water's current 380 customers only 14 customers have opted
647 into the conservation rate. That is only about 3.7% of the total customers and
648 15.5% of the 90 customers projected in 2006 to take advantage of the
649 conservation rates. The Division does not believe the conservation rate, in its

650 present form, has been successful since only 3.7% of the total number of
651 customers have opted to adopt the conservation rate and 96.3% of the customers
652 not opted-in to this rate structure as a means to conserve. During the course of the
653 investigation, Mr. Pace indicated that most of the customers opting-in to the
654 conservation rate are primarily couples with no children, living on fixed-incomes
655 and he wants to continue allowing them to have lower water bills through the
656 conservation rates.

657 2. The present conservation rate structure does not pay for its share of fixed costs
658 and must rely on subsidies from either the standard culinary ratepayers, Mr. Pace
659 or Dammeron Corporation. Regardless of whether the conservation rate is
660 subsidized by the standard culinary ratepayers, Mr. Pace or Dammeron
661 Corporation, each rate class should pay its fair share.

662 3. The conservation rate structure requested by Dammeron Water allows each
663 customer to use 12,000 gallons of water per month in its base rate. Having a base
664 of 12,000 gallons does not encourage customers to use anything less than the
665 12,000 gallons they receive in their base rate.

666 4. The conservation rate proposed is voluntary for the present customers. It does
667 nothing to encourage the remaining 366 customers, or 96.3%, of the customers to
668 conserve.

669 **Q. DOES THE DIVISION BELIEVE THAT THE CONSERVATION RATE**
670 **STRUCTURE, AND RATE PROPOSED BY THE COMPANY RESULT IN**
671 **JUST AND REASONABLE RATES AND IS IN THE PUBLIC INTEREST?**

672 A. No.

673 **Q. IS THE DIVISION RECOMMENDING A CONSERVATION RATE**
674 **STRUCTURE?**

675 A. Yes, but in a different form than proposed by the Company. The Division's
676 general rate structure, for all rate cases, promotes conservation, so there is no
677 conservation rate class as such. The Division is recommending a tiered rate
678 structure that encourages conservation on a system-wide basis and applies to
679 100% of its customers. The Division's rates are structured such that all customers
680 pay a base rate that covers fixed expenses and is paid for equally by all customers
681 of Dammeron Water. All customers then only pay for the water they consume,
682 and no one is tied to a base amount. For example, if a customer wishes to
683 conserve and have a lower water bill and only use 6,000 gallons they will pay for
684 only the 6,000 gallons. On the other hand, if a customer uses 20,000 gallons of
685 water, they will pay increasing amounts, which will send an effective and direct
686 price signal to the customer that they can save money by using less water. Most
687 importantly, regardless of the amount of consumed by Dammeron Water's
688 customers, all fixed costs will be covered.

689 **XI. TEST PERIOD**

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

692 A. The Division reviewed years 2013 and 2014. The Division also used the
693 2015/2016 budget as a basis to ensure that the rates would be reflective of the
694 immediate future obligations and revenues.

695 **Q. IS THE DIVISION RECOMMENDING ANY OTHER RATE OR FEE**
696 **CHANGES BE APPROVED IN THIS DOCKET?**

697 A. Yes. The Division recommends that the Service Connection Fee be increased
698 from \$1,500 to \$2,000 to account for the increased expenses required to perform a
699 connection.

700 **XII. EXPANSION OF SERVICE AREA**

701 **Q. WHAT HAS THE DIVISION DONE REGARDING DAMMERON**
702 **WATER'S REQUEST TO EXPAND ITS SERVICE AREA?**

703 A. I reviewed information Dammeron Water provided from the Utah Division of
704 Water Rights concerning the Company's water rights. I also spoke to Mr. Paul
705 Wright, an engineer with the Utah Department of Environmental Quality. Mr.
706 Wright is charged with overseeing the water systems in Southern Utah. I verified
707 with Mr. Wright that Dammeron Water had adequate water rights to allow
708 Dammeron Water to expand its service area. I also asked him if he was familiar

709 with Dammeron Water's status regarding compliance with the Utah Division of
710 Drinking Water's rules and regulations. He indicated that he was and verified the
711 information provided to the Division by Dammeron Water showing its
712 compliance with Drinking Water.

713 **Q. WHAT CONCLUSION HAVE YOU REACHED ABOUT DAMMERON**
714 **WATER'S REQUEST TO EXPAND ITS SERVICE AREA?**

715 A. Dammeron Water has more than adequate water rights to expand its service area
716 and is in compliance with the Division of Drinking Water. Accordingly, the
717 Division recommends that Dammeron Water be allowed to expand its service area
718 as requested in this docket.

719 **Q. FOR THE RECORD, PLEASE PROVIDE A COPY OF THE REQUESTED**
720 **SERVICE AREA EXPANSION AND DESCRIPTION.**

721 A. Please see Exhibit 9 of this testimony.

722 **XIII. RECOMMENDATION**

723 **Q. BASED ON YOUR INVESTIGATION, PLEASE STATE YOUR**
724 **RECOMMENDATION REGARDING THE RATES, FEES AND THE**
725 **EXPANSION OF SERVICE AREA OF DAMMERON WATER?**

726 A. The Division recommends the following:

727 1. The rates and rate structure proposed by Dammeron Valley be rejected because
728 they will not result in just and reasonable rates, and are not in the public interest.

729 2. The rates and fees set forth proposed by the Division, and outlined in Exhibit
 730 1.2a, be approved as being just and reasonable and in the public interest. These
 731 rates are listed below for your convenience.

Rate Schedule

Monthly Rates		Monthly Water Usage Amounts	
Standby Rate	\$13.90		
Base Rate for Connected Customers	\$37.90	0 gals	0 gals
Tier 1 (Per 1,000 Gallons)	\$ 0.30	0 gals	12,000 gals
Tier 2 (Per 1,000 Gallons)	\$0.60	12,001 gals	24,000 gals
Tier 3 (Per 1,000 Gallons)	\$1.20	24,001 gals	36,000 gals
Tier 4 (Per 1,000 Gallons)	\$1.80	36,001 gals	48,000 gals
Tier 5 (Per 1,000 Gallons)	\$2.70	48,001 gals	Plus
Irrigation Rate (Per 1,000 Gallons)	\$0.45	40,000 gals	

732
 733 3. That the Service Connection Fee be increased from \$1,500 to \$2,000.
 734 4. That Dammeron Water be allowed to expand its service area.

XIV. CONCLUSION

Q. DO YOU HAVE ANY ADDITIONAL REMARKS?

737 A. Yes. Mr. Pace’s rate structure relies heavily on subsidies on many different
 738 levels. At present, the larger lot owners are being subsidized by the smaller lot
 739 owners. The irrigation users are being subsidized by the standard culinary users
 740 or Dammeron Corporation and the conservation ratepayers are being subsidized
 741 by either the standard culinary ratepayers or Dammeron Corporation. The

742 Division believes that these subsidies result in discrimination among rate classes.
743 Utah law 54-4a-6(4)(d) clarifies that “just, reasonable, and adequate”
744 encompasses providing “for fair and apportionment of total cost or service among
745 customer categories and individual customers and prevent undue discrimination in
746 rate relationships.” The Division is charged with furnishing the Commission with
747 recommendations that “provide for just, reasonable, and adequate rates, charges,
748 classifications, rules regulations, practices, and services of public utilities,” and,
749 in the Division’s opinion, the rates and rate structure proposed by Dammeron
750 Water do not meet those criteria.

751 **Q. WHAT IS THE EFFECT OF DAMMERON WATER’S RELIANCE ON**
752 **SUBSIDIES THROUGHOUT THE YEARS?**

753 A. The net effect of Dammeron Water’s reliance on subsidies has resulted in a water
754 company that has no savings, artificially low rates and must rely on third-party
755 funding. This is not sustainable in the long run. In fact, regulated water utilities
756 relying on subsidies is precisely the business model that that the Division has
757 been trying to eliminate because of the many failures of several similar developer-
758 subsidized water companies in recent years. This model has proven imprudent
759 and unsustainable for a public water utility. While the Division does recommend
760 developer subsidized rates for brand new water companies with only a few
761 connections, it does not recommend developer subsidized rates for mature water
762 companies that have a significant number of connections. In the past several cases

763 where the water company was being subsidized, the Division has consistently
764 recommended that the water company implement full-cost pricing and eliminate
765 developer subsidies.

766 **Q. PLEASE PROVIDE ANY OTHER COMMENTS YOU FEEL ARE**
767 **IMPORTANT.**

768 A. In the past, the Division has agreed to rate structures that contain developer
769 subsidies. However, the Division no longer believes that subsidies produce rates
770 that are just, reasonable and in the public interest. Utility rate structures are not
771 intended to be static and may need to change to remain effective and relevant.
772 Utility rate structures and have changed and evolved over the past 30 years since
773 Dammeron Water put most of its rate structure in place. Just as importantly,
774 Dammeron Water has also changed significantly in the past 30 years by adding
775 many more customers, updated infrastructure and automated equipment.
776 The Division has come to realize that rate structures that are subsidized are not
777 consistent with many of the objectives of the Division to provide the Commission
778 with recommendations, such as Utah Law 54-4a-6(4)(a) which requires
779 recommendations that “maintain the financial integrity of public utilities by
780 assuring a fair and sufficient rate of return.” Also, Utah Law 54-4a-6(e)
781 prescribes promoting “stability in rate levels for customers and revenue
782 requirements for utilities from year to year.”

783 The Division cannot emphasize enough that allowing the rate structure requested
784 by Dammeron Water increases the likelihood of failure in the event of even minor
785 emergencies, which is not in the public interest. I also ask the Commission to
786 consider that Mr. Pace or his successors may not always be able or willing to
787 subsidize the Company. Unlike government owned and operated utility
788 companies, there are no tax coffers to tap to make up financial shortfalls.

789 The Division believes that its recommended rates are just and reasonable and
790 consistent with the public interest and, therefore, the Division recommends the
791 Commission approve these new rates and fees.

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

793 A. Yes, it does. Thank you.