

Docket No. 16-098-01
DPU Exhibit 2.0
Mark A. Long
June 13, 2016

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In The Matter of Community Water)	DOCKET NO. 16-098-01
Company, LLC.)	
)	DPU Exhibit No. 2.0
)	
)	

REDACTED DIRECT TESTIMONY

OF

MARK A LONG

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

June 13, 2016

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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 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 since
13 December of 2008. I am a member of the Association of Government
14 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. 13-2025-01, 10-2529-01, 11-097-01, 11-097-02, 11-097-03, 12-
23 2443-01 and 13-2506-01.

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

27 A. I have been involved with and participated in the review and investigation of
28 Community Water's operations, revenues and expenses. I reviewed and analyzed
29 all the documentation and data gathered in this rate case as well as the two prior
30 rate cases. I have issued two data requests and have received additional
31 information through other informal requests from the Company. I also reviewed
32 Utah Division of Drinking Water and Utah Division of Water Rights reports to
33 assess compliance with these state agencies for the current service area.
34 Additionally, I assisted the lead analyst in the 15-098-01 rate case that was
35 ultimately withdrawn by the Company.

36 **III. PURPOSE OF TESTIMONY**

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

38 A. The Division was ordered by the Commission on March 15, 2016 to file a rate
39 case on behalf of Community Water Company, LLC (Community Water or
40 Company). The purpose of my testimony is to explain the proposed rates and
41 structure used in determining a fair, just and reasonable rate for both Community
42 Water and its customers, and why they are in the public interest.

43 **Q. DO YOU KNOW HOW LONG IT HAS BEEN SINCE THE COMPANY**
44 **LAST HAD A RATE INCREASE?**

45 A. Yes, it has been approximately 14 years. The Company filed for and was granted,
46 its last rate increase on January 29, 2002, under Docket No. 01-098-01. The
47 Company has filed for two other rate increases since then, November 06, 2014
48 and July 21, 2015, but has withdrawn both of them for various reasons.

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

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

- 52 • Exhibit 2.1, Index (*The Excel Index has hyperlinks to each spreadsheet*)
- 53 • Exhibit 2.2, Rate Schedule
- 54 • Exhibit 2.2.a, Rate Schedule (Comments and Notes)
- 55 • Exhibit 2.3, Allocation of Expenses
- 56 • Exhibit 2.3.a, Allocation of Expenses (Comments and Notes)
- 57 • Exhibit 2.4, Adjustments to Expenses

- 58 • Exhibit 2.4.a, Adjustment to Expenses (Comments and Notes)
- 59 • Exhibit 2.5, Summary of Revenues and Expenses (Revenue Requirement)
- 60 • Exhibit 2.6, Capital Reserves
- 61 • Exhibit 2.7, Depreciation Expense & Accumulated Depreciation Reconciliation
- 62 • Exhibit 2.7.a, Depreciation Expense & Accumulated Depreciation Reconciliation
- 63 (Comments and Notes)
- 64 • Exhibit 2.8, Contribution in Aid of Construction (CIAC)
- 65 • Exhibit 2.9, Rate Base
- 66 • Exhibit 2.10, Return on Investment
- 67 • Exhibit 2.11, Taxes
- 68 These exhibits are discussed in detail below.

69 **IV. GENERAL RATEMAKING COMMENTS**

70 **Q. FOR THE BENEFIT OF THE COMPANY AND ITS CUSTOMERS,**
71 **PLEASE BRIEFLY DESCRIBE THE RATE CASE PROCESS.**

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

76 Since public utility ratemaking is prospective, rates are calculated in advance of
77 the consumer using the services and are designed to allow the public utility the

78 opportunity to recover fully all costs prudently incurred by the Company in
79 providing service now and in the future. Thus, an estimate is made of the future
80 cost of service based on a prior or forecast “test year,” which includes operations
81 and maintenance expenses, reserves or savings, return on investment and taxes.
82 Test year costs can be adjusted to include known and measurable¹ changes that
83 the Company will incur. Test year costs are also normalized to provide an
84 accurate estimate of future costs. Consumers have an obligation to reimburse the
85 Company at rates that will cover its costs, fund a capital reserve account and
86 provide an opportunity to earn a return on its investment in infrastructure.

87 **Q. WHAT IS FULL-COST PRICING AND WHY IS IT IMPERATIVE THAT**
88 **COMMUNITY WATER IMPLEMENT FULL-COST PRICING?**

89 A. Full-cost pricing refers to the practice of ensuring that the rates provide a revenue
90 stream that adequately covers the Company’s ongoing operations and
91 maintenance expenses, reserves or savings, return on investment and taxes. The
92 most obvious benefit of full-cost pricing is the ability of the Company to
93 consistently meet all on-going operational, maintenance and capital costs to
94 provide a high level of service. It is also important that utilities do not operate at

¹ Prepared by NARUC Staff Subcommittee, Rate Case and Audit Manual on Accounting and Finance, (Summer 2003) 35. “known and measurable, it is widely accepted that adjustments should have a strong degree of certainty associated with them, and that there should be a reasonable ability to measure the item underlying the adjustment.”

95 a loss, depend on subsidies or continually deplete cash reserves. Operating with
96 less than full-cost pricing often results in a degraded system, thereby
97 compromising the quality of service provided.

98 **Q. PLEASE EXPLAIN WHY FULL COST PRICING, WHICH INCLUDES A**
99 **CAPITAL RESERVE ACCOUNT, IS RECOMMENDED BY THE**
100 **DIVISION NOW, BUT WAS NOT RECOMMENDED WHEN**
101 **COMMUNITY WATER'S RATES WERE LAST APPROVED IN**
102 **JANUARY 2002.**

103 A. In the past, when a water company applied for a rate increase, the Division
104 reviewed other water companies of similar size, the number of customers and
105 general geographical location to verify that the rates and fees of the applicant
106 were comparable. If the applicant company met this criterion, the Division gave a
107 favorable recommendation to the Commission for approval. In recent years, after
108 seeing several cases of under-funding and neglect, involving regulated water
109 companies that were no longer able to recover the costs of providing services, the
110 Division developed a full-cost pricing model. This model develops rates that
111 cover the full cost of service, which include a capital reserve account. Details of
112 the capital reserve account will be discussed later in this testimony. Now, new
113 applicants, as well as established water companies seeking a rate increase, must
114 have rates that cover the full cost of service to receive a favorable

115 recommendation from the Division. The same model was used for the direct
116 testimony in the last docket, 15-098-01, filed by Community Water.

117 **Q. ARE COMMUNITY WATER'S CURRENT RATES AND FEES**
118 **INDICATIVE OF THE FULL COST OF PROVIDING WATER TO ITS**
119 **CUSTOMERS? PLEASE EXPLAIN.**

120 A. No. Community Water's parent company, TCFC Finance Company, LLC
121 (TCFC), has been financially subsidizing the daily operation and basic
122 maintenance expenses of Community Water.

123 **Q. WHAT IS THE FINANCIAL IMPACT ON COMMUNITY WATER AS A**
124 **RESULT OF TCFC'S SUBSIDIES OVER THE YEARS?**

125 A. This is a perfect example of setting rates too low to cover prudent repairs and
126 replacement of Company assets and infrastructure as needed. The Company's
127 engineering firm, Bowen and Collin Engineering, estimates that in the next ten
128 years it will cost [REDACTED] to bring Community Water's aging and largely
129 neglected infrastructure up to acceptable standards. With Community Water's
130 ailing infrastructure, even a small repair could not be paid for by Community
131 Water without outside assistance or a request for another rate increase, which the
132 Commission may or may not grant. If there comes a point that TCFC no longer
133 subsidizes Community Water, the Company could face even more dire financial
134 consequences than it finds itself in now. Unlike government-owned and operated

135 utility companies, there are no tax coffers to tap to make up financial shortfalls.

136 Despite a utility's resources available from a parent company, the utility should

137 be viable as a standalone entity.

138 The net effect of Community Water's reliance on subsidies is a water company

139 that has little savings, aging infrastructure and artificially low rates and that must

140 rely on third-party funding. This is not sustainable in the long run. The Division

141 has been trying to eliminate such shortcomings because of the many failures of

142 several similar subsidized water companies in recent years. This model has

143 proven imprudent and unsustainable for a public water utility. In the several past

144 cases where the water company was being subsidized, the Division has

145 consistently recommended that the water company implement full-cost pricing

146 and eliminate subsidies.

147 The Division has come to realize that rate structures that are subsidized are not

148 consistent with many of the Division's objectives, listed in Utah Code

149 §54-4a-6(4)(a), which requires recommendations that "maintain the financial

150 integrity of public utilities by assuring a fair and sufficient rate of return." Also,

151 Utah Code §54-4a-6(e) prescribes promoting "stability in rate levels for customers

152 and revenue requirements for utilities from year to year."

153 V. **DIVISION'S ANALYSIS OF COMPANY'S CURRENT RATES AND**
 154 **RATE STRUCTURE**

155 Q. **WHAT IS THE CURRENT RATE STRUCTURE PRESENTLY IN PLACE**
 156 **AT COMMUNITY WATER?**

157 A. The Division has included in its testimony the rates and fees page of the tariff that
 158 was approved in Docket No. 01-098-01

COMMUNITY WATER COMPANY, Utah P.S.C
 1840 Sunpeak Drive
 Park City, UT 84098

Second Rev. Sheet No. 5

**COMMUNITY WATER COMPANY, INC.
 WATER SERVICE RATE SCHEDULE**

Applicable in the entire service area, for water service for culinary and irrigation
 purposes at each service connection.
 Rates as herein set forth shall apply to each consumer user**

SERVICE		CHARGES	
		Irrigation Connections	Culinary Users
	MONTHLY MINIMUM BILL	\$ 5.00	\$ 12.00
	MONTHLY MINIMUM USAGE ALLOWED FOR CULINARY	0	5,000
	MONTHLY CHARGE FOR NON-STANDARD METER (Standard meter is 1 1/2" or smaller)	\$ 150	\$ 150
TIER 1	CHARGE PER 1,000 GALLONS ABOVE MINIMUM UP TO 5,000 GALLONS	\$ 1.25	\$ 1.25
TIER 2	CHARGE PER 1,000 GALLONS ON GALLONS OVER TIER 1	\$ 5.12	\$ 5.12
	MONTHLY STANDBY CHARGE TO ALL UNCONNECTED LOTS IN SERVICE AREA	\$ 5.00	\$ 5.00
	YEARLY STANDBY CHARGE TO THE CANYONS RESORT FOR SNOWMAKING DUE OCTOBER 1 OF EACH YEAR.	\$ 1,400.00	
	GULCH WELL WATER PUMPED INTO WILLOW CREEK FOR SNOWMAKING	\$ 0.20	per 1,000 G.
	TURN-ON SERVICE, TURN-OFF SERVICE	\$ 50.00	
	CONNECTION FEE FOR INITIAL SERVICE--ONE INCH SERVICE LARGER SERVICE LINE ADJUSTED ACCORDINGLY	\$ 3,750.00	

** Users are defined in the attached explanation

Docket 01-098-01
 Tariff 02-098-T01

Date Approved: 1/22/02
 Order Issued: 1/29/02
 Date Filed: 2/27/02
 Date Re-Filed: 3/11/02
 Effective Date: 2/1/02

160 **Q. WHAT DID THE DIVISION CONCLUDE ABOUT THE CURRENT**
161 **RATES AND RATE STRUCTURE?**

162 A. The Division's analysis shows that the current rates and rate structure do not
163 cover fixed costs and do not result in just and reasonable rates and are not in the
164 public interest.

165 **VI. EXPLANATION OF RATE MODEL USED BY THE DIVISION IN**
166 **MAKING ITS RECOMMENDATION**

167 **Q. CAN YOU GIVE A DETAILED DESCRIPTION OF THE DIVISION'S**
168 **RATE MODEL?**

169 A. Yes, the Division has developed this model over a period of several years and rate
170 case studies to produce a just and reasonable pricing structure that works within
171 the guidelines set forth by the Public Service Commission Rules and that is in the
172 public interest. It is adapted to individual cases to take account for each
173 company's unique business.

174 In starting a rate case, the Division uses the latest financial information, usually
175 the Company's last Annual Report or information submitted in the Company's
176 request for a rate increase, to obtain a baseline of its reported revenues and
177 expenses as well as number of water users, standby customers, total gallons
178 delivered, etc. The Division researches and analyzes the information by
179 reviewing past year's financial information, issuance of data requests and working

180 closely with the Company. Based on these findings, the Division recommends
181 making appropriate adjustments to the information provided. These adjustments
182 can reduce or increase the amounts submitted by the Company.

183 The resulting adjusted expenses are classified as either a fixed or variable
184 expense. Rates are calculated to cover all fixed costs through base rates charged
185 equally to all customers. This model ensures that if even a drop of water is not
186 delivered, the company will have the opportunity to recover all fixed expenses.
187 Since no water is included in the base rate, the customer pays only for the water it
188 used at the rate set to cover the variable expenses used to pump, treat and deliver
189 the water to the consumer. The rate of the first 12,000 gallons used each month is
190 based on the actual costs to provide the water, which is minimal. To encourage
191 conservation, which is a statewide mandate, the Division increases the rate of the
192 next 12,000 gallons used that month and continues to do so until the final tier
193 quantity of water is reached, at which time the rate remains constant. Using this
194 model, when consumers use more than 12,000 gallons in a month the water
195 company is potentially earning more than the amount allowed by the
196 Commission. To overcome this potential “over-earning” scenario, the company is
197 required to deposit any excess earnings from usage in excess of 12,000 gallons
198 per month into its restricted capital reserve account.

199 **VII. DIVISION'S PROPOSED RATES AND SUPPORTING EXHIBITS**

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

202 A. The Division used the test year of 2015, which is the last complete year the
203 Company's accounting records are available. The test year amounts used as a
204 starting point are from the Company's 2015 Annual Report.

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

206 A. Exhibit 2.2 shows what elements make up the rates and lists the rates
207 recommended by the Division. For additional information regarding Exhibit 2.2,
208 please refer to Exhibit 2.2.a Notes.

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

211 A.

[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]

212

213 **Q. PLEASE SHOW A RATE COMPARISON OF THE RATES**
214 **RECOMMENDED BY THE DIVISION, THE RATES RECOMMENDED**
215 **BY THE DIVISION IN DOCKET NO. 15-098-01 AND THE RATES THAT**
216 **ARE CURRENTLY IN PLACE.**

	Recommended		Recommended 15-098-01		Current Rates	
	Amount	Usage Amounts	Amount	Usage Amounts	Amount	Usage Amounts
Standby					\$ 5.00	
Base		With Base 0		With Base 0	\$12.00	With Base 5,000
Tier 1		Initial 12,000		Initial 12,000	1.25	Next 5,000
Tier 2		Next 12,000		Next 12,000	5.12	Over 10,000+
Tier 3		Next 12,000		Next 12,000		
Tier 4		Next 12,000		Over 36,000+		
Tier 5		Over 48,000+				

217
218 **Q. HOW DID THE DIVISION DETERMINE WHAT RATES WERE JUST**
219 **AND REASONABLE AND IN THE PUBLIC INTEREST?**

220 A. The Division evaluated the available facts against the Division’s statutory
221 ratemaking objectives and experience. Detailed descriptions of pertinent
222 components are described in the Division exhibits discussed below.

223 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 2.3, ALLOCATION**
224 **OF EXPENSES.**

225 A. The purpose of this schedule is to allocate Company expenses as either fixed or
226 variable. Fixed expenses are further broken down to fixed system expenses and
227 fixed usage expenses. Part of the Division’s ratemaking process for water

228 companies is to ensure that all fixed costs are covered by the base rates regardless
229 of how much water is sold.

230 Additionally, this schedule also uses the allocated expenses to determine the
231 annual rates paid by each water company customer for each type of expense. This
232 is obtained by dividing the total expense for each category by the number of
233 customers for each type of expense.

234 For additional information regarding Exhibit 2.3, please refer to Exhibit 2.3.a
235 Notes.

236 **Q. PLEASE EXPLAIN EXHIBIT 2.4, ADJUSTMENTS TO EXPENSES.**

237 A. In Exhibit 2.4, the Division listed each expense from the 2015 Annual Report.
238 The Division then scrutinized each expense. Part of the comprehensive review
239 included issuing two Data Requests, dated March 29, 2016 and April 29, 2016,
240 and numerous phone and email conversations. All material expenditures, as well
241 as a majority of smaller expenditures, were verified through invoices and
242 contracts. Additionally, I reviewed and considered Annual Reports and financial
243 statements for the years 2013 and 2014 in making the recommended adjustments.
244 Based on its review of all available information, the Division made numerous
245 adjustments by reducing, deleting, increasing, adding additional expenses, re-
246 classifying expenses and also making no adjustment on some line items to the

247 amounts on the 2015 Annual Report in making its recommendation to the
248 Commission.

249 To make these adjustments easier to follow, the Division is providing the
250 narrative below that supports Exhibit 2.4. The line number in the explanation
251 refers to the line numbers in Exhibit 2.4.

252 **Line: 1. Salary & Wages – Employees & Officers.**

253 Community Water’s 2015 Annual Report shows no expenses for Salaries &
254 Wages. The Division added [REDACTED] to this line item to account for the actual
255 labor costs, and this addition is discussed below.

256 Per TCFC’s response to the Division’s March 29, 2016 Data Request, “One
257 TCFC employee spends approximately [REDACTED] per month working on
258 Community Water. The hourly rate for this employee is [REDACTED].” For office
259 personnel, the Division used [REDACTED] 12 months).

260 “Certain other accounting, legal and finance personnel dedicate approximately [REDACTED]
261 [REDACTED] (combined) per month with a combined hourly rate of [REDACTED].” For accounting
262 and legal, the Division used [REDACTED] 12 months).

263 **The combined salaries for office personnel and accounting are [REDACTED]**
264 **[REDACTED]**. The Division accepted this estimate from the Company as
265 being reasonable.

266 **Line 2. Payroll Taxes, including Worker's Comp.**

267 Community Water's 2015 Annual Report shows no expenses for payroll and
268 related taxes. **The Division added** [REDACTED] of the total salaries and wages
269 as an estimate.

270 **Line 3. Purchased Water.**

271 Community Water's 2015 Annual Report shows [REDACTED] for purchased water.

272 On or about April 29, 2016 the Division issued a data request to Community
273 Water regarding its purchased water. A response was filed by the Company on or
274 about May 11, 2016.

275 In its response, the Company indicated that it is under contract to pay Weber
276 Basin Water Conservancy District annual rental payments for the use of the water
277 it controls. The contract provides for the release of water from storage to replace
278 water to the river system in exchange for which the contracting party is allowed,
279 subject to State Engineer approval of an exchange application, to divert water
280 from a well higher in the drainage.

281 The [REDACTED] claimed on its 2015 Annual Report represents an exchange of 275-
282 acre feet of water. The Company's engineering firm of Bowen, Collins &
283 Associates stated that historically Community Water Company annually uses
284 about 213-acre feet of water. The Division agrees with the Company's 2015
285 Annual Report and recommends **using the** [REDACTED] **as its cost.**

286 **Line 4. Purchased Power (Electrical for Treatment Plant).**

287 Community Water's 2015 Annual Report shows [REDACTED] for purchased power. The
288 Division informally requested the invoices for purchased power for 2014 and
289 2015 from Community Water. The Company complied with our informal request
290 by sending all the Rocky Mountain Power invoices for 2014 and 2015. These
291 invoices were labeled by Rocky Mountain Power as "Community
292 Water/Treatment Plant." The invoices for 2014 totaled [REDACTED] and the
293 invoices for 2015 totaled [REDACTED]. The Division is recommending using
294 [REDACTED] for the Company's electricity costs.

295 **Line 5. Chemicals.**

296 Chemical expenses claimed by the Company in its 2013, 2014 and 2015 Annual
297 Reports were [REDACTED], respectively. Since the [REDACTED]
298 claimed in the 2013 Annual Report is much larger than the 2014 and 2015
299 amounts, the Division is recommending using the average of the 2014 and 2015
300 Annual Report amounts of ([REDACTED] ÷ 2) for this item.
301 This resulted in a recommended [REDACTED] increase over the 2015 Annual Report
302 amount.

303 **Line 7. Contractual Services – Engineering.**

304 The amount of [REDACTED] was originally included in the Company's 2015 Annual
305 Report under Contractual Services, Accounting. Since the Company does its

306 accounting functions in-house and is already included in Salaries & Wages, the
307 Company indicated that the [REDACTED] should be re-classified as Contractual
308 Services – Engineering.

309 Per TCFC’s response to the Division’s March 29, 2016 Data Request, in regards
310 to the [REDACTED] “This amount is what CWC paid to Bowen Collins & Associates, a
311 civil engineering firm engaged to assist with the rate case and other related
312 matters. CWC does not anticipate the total ongoing expense to approach the total
313 amount paid in 2015, but we do anticipate a reasonable portion of ongoing
314 expenses to assist with enhancing, maintaining and improving the system.”

315 Since the Company indicated that this total expenses amount is higher than usual,
316 the Division has calculated that an **annual amount of** [REDACTED] ÷ 3
317 years) is a reasonable annual amount to recover through rates for engineering
318 expenses. (Invoices were provided and reviewed by the Division and allow a
319 reasonable estimate of the amount of such fees).

320 **Line 8. Contractual Services - Accounting.**

321 Accounting expenses were erroneously labeled as engineering expenses in the
322 Company’s 2015 Annual Report. Consequently, the [REDACTED] was re-classified as
323 Contractual Services – Engineering.

324 Since the Company does its accounting functions in-house and is included in
325 Salaries & Wages, the **Division deleted all expenses from this line item.**

326 **Line 9. Contractual Services – Legal.**

327 Community Water’s 2015 Annual Report shows ██████ for its annual legal fees.
328 To verify this amount the Division issued a data request on March 29, 2015. Per
329 TCFC’s response to the Division’s March 29, 2016 Data Request, “The legal
330 services in 2015 relate primarily to the exploration of options available to TCFC
331 in the sale or divestiture of CWC. The legal services were rendered by Clyde
332 Snow. CWC does not anticipate the total ongoing expense to approach the total
333 amount paid in 2015, but we do anticipate a reasonable portion of ongoing
334 expenses to assist with legal matters as they arise.” (Invoices were provided and
335 reviewed by the Division).

336 Since the Company’s total legal expense amount claimed in its 2015 Annual
337 Report is much more than is typical or anticipated as needed in the future, the
338 Division has calculated that an annual amount of ██████ ÷ 3 years) is
339 a reasonable measure of the annual services likely to be required based on past
340 legal rates.

341 This results in a net reduction in legal fees of ██████ for a total **recommended**
342 **amount of ██████.**

343 **Line 10. Contractual Services – Management Fees.**

344 Community Water’s 2015 Annual Report shows ██████ for its annual
345 management fees. To verify this amount the Division issued a data request on

346 March 29, 2015. Per TCFC’s response to the Division’s March 29, 2016 Data
347 Request, “Contractual Fees – Management Fees relate primarily to the monthly
348 management fees paid to Summit Water. Summit Water reads meters monthly and
349 manages the maintenance of the water system. CWC and Summit Water have a
350 management agreement whereby CWC pays Summit [REDACTED] per month.”
351 The Company provided invoices from Summit Water totaling [REDACTED]. The
352 Division added [REDACTED] to the [REDACTED] to bring the total amount to match its invoice
353 total of [REDACTED].

354 **Line 11. Contractual Services - Testing & Lab Fees.**

355 Although Testing and Lab Fee expenses claimed by the Company in its 2013 and
356 2014 Annual Reports averaged over [REDACTED], it likely includes some amount for
357 the Contractual Services: Water Sampling. The Division believes that the 2015
358 Annual Report amount of [REDACTED] is reasonable.

359 **Line 14. Contractual Services – Water System Repairs.**

360 Community Water’s 2015 Annual Report claims [REDACTED] for its annual water
361 system repairs. To verify this amount the Division issued a data request on
362 March 29, 2016. Per TCFC’s response to the Division’s March 29, 2016 Data
363 Request, “CWC undertook several maintenance projects in 2015 TCFC
364 management deemed to be necessary. Such projects weren’t an option in previous
365 years due to lack of funds. Given the age of CWC’s infrastructure, CWC

366 anticipates significant expenditures for the maintenance and repairs on and
367 ongoing basis.” Invoices were provided totaling [REDACTED].

368 The Division agrees that the infrastructure is suffering from past neglect and will
369 require significant amounts to be spent on repairs and maintenance in future
370 years. The Division believes that [REDACTED] **annual expenditures** are a
371 conservative amount to include in rates to cover some of the necessary repairs in
372 the future.

373 If repairs in any given year are less than [REDACTED], then they should accrue in
374 this account and be used only for water system repairs.

375 The Division emphasizes that this line item, Water System Repairs, is minimal
376 and is not funded with the expectation of repairing or replacing any significant
377 infrastructure.

378 *Note: This line item appears to be included, in part, in the 15-098-01 rate case as*
379 *Water System Maintenance rather than Water System Repairs.*

380 **Line 19. Insurance – General Liability.**

381 Community Water’s 2015 Annual Report shows no expenses for Insurance –
382 General Liability. The Division added [REDACTED] to this line item as an estimate of
383 insurance for liability.

384 Per TCFC's response to the Division's March 29, 2016 Data Request, the
385 Company verified that it is insured by providing a Certificate of Liability
386 Insurance naming Community Water Company. There is not a separate insurance
387 policy for Community Water because it is combined with TCFC's policy. TCFC
388 consulted with its insurance carrier to estimate the premium allocable to
389 Community Water. The estimated annual premium is [REDACTED].

390 **The Division believes \$[REDACTED] is a reasonable amount to include for general**
391 **liability insurance.**

392 **Line 22. Regulatory Commission Expense – Other.**

393 Although the Company's 2015 Annual Report did not include any amount for this
394 line item, the Division added [REDACTED], which is an estimate of the Annual Revenue
395 Fee that the Company will incur based on estimated revenues.

396 **Line 26. Office Supplies.**

397 2013, 2014 and 2015 Annual Reports average about [REDACTED] for Office Supplies.
398 The Division believes that it is reasonable to include **office supplies at [REDACTED]**,
399 which results in a [REDACTED] increase in Office Supplies.

400 **Line 27. Miscellaneous Expenses (Repairs).**

401 The Company included [REDACTED] for Miscellaneous Expenses in its 2015 Annual
402 Report. The Division deducted [REDACTED] for a **total recommended amount of [REDACTED]**

403 because it appears to be a partial duplicate of line 15, Contractual Services –
404 Water System Repairs and no additional support was provided for this line item.

405 **Line 28. Telephone.**

406 Community Water's 2015 Annual Report shows no expenses for Telephone. The
407 Division added ██████ to this line item and is discussed below.

408 Invoices for telephone expenses for 2014 were reviewed during the 15-098-01
409 rate case. They totaled approximately ██████. **The Division believes ██████
410 reasonably represents the costs for telephone service for the Company.**

411 **Line 30. Association/Membership Dues – Fees**

412 Although Association/Membership Dues – Fees expenses claimed by the
413 Company on its 2014 Annual Report and requested in its 15-098-01 rate case
414 averaged over \$█████, the Division feels that the 2015 Annual Report **amount of
415 ██████ is reasonable.**

416 **Line 31. Administrative Expenses.**

417 The Company included ██████ for Administrative Expenses in its 2015 Annual
418 Report. The Division deducted this entire amount in this rate case because it
419 appears to be a partial duplicate of line 1, Salaries & Wages and no additional
420 support was provided by the Company to justify this expense.

421 **Line 32. Postage**

422 The Company included [REDACTED] for Postage expenses in its 2015 Annual Report.

423 During the 15-098-01 rate case, the Company was asked to determine the
424 approximate of postage expenses that are attributable to Community Water. It
425 estimated that **amount at** [REDACTED] and reported this amount in its 2015 Annual
426 Report. The Division believes this amount to be reasonable and makes no
427 adjustments to this line item in this rate case.

428 **Line 44. Property Taxes.**

429 Community Water's 2015 Annual Report shows no expenses for Property Taxes.

430 The Division added [REDACTED] to this line item and is discussed below.

431 In the Data Request dated March 29, 2016, the Division asked the Company to
432 estimate its property taxes for just the water company. In its response, TCFC
433 indicated that Community Water does not pay real estate property taxes, as it does
434 not own any land. However, Community Water recently completed an analysis of
435 the land where infrastructure is located and learned there are several areas where
436 easements are not in place. It is possible Community Water will be required to
437 expend funds to acquire easements. These expenditures could be either one-time
438 or ongoing.

439 The Division believes that an estimated **annual amount of** [REDACTED] is reasonable.

440 **Q. PLEASE EXPLAIN EXHIBIT 2.5, SUMMARY OF REVENUES AND**
441 **EXPENSES (REVENUE REQUIREMENT).**

442 A. Exhibit 2.5 summarizes the revenues based on the rates recommended by the
443 Division. It also summarizes the expenses per Exhibits 2.3 and 2.4. In this
444 analysis, the variable expenses are subtracted from the total expenses because this
445 rate structure seeks to recover fixed expenses. Variable expenses will be covered
446 based on the amount of water consumed by the customers.

447 Exhibit 2.5 demonstrates that the revenues generated from the Division's
448 recommended user rates are sufficient to meet the fair and reasonable expenses of
449 the Company.

450 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 2.6, CAPITAL**
451 **RESERVES.**

452 A. The Division is concerned about Community Water's lack of any financial
453 reserves. Reserves are a necessary part of a sound financial management plan for
454 an on-going and effective system. Setting aside reserves is critical to developing
455 and maintaining financial stability and can mean the difference between a system
456 that is self-sustaining and one that may fall victim to disrepair or become
457 financially unstable during even a relatively small emergency. Capital reserves
458 are funded through rates, paid equally by all connected and standby customers,
459 and should be maintained in an escrow or other protected account and allowed to

460 accumulate or used for capital replacement, improvements and major restorations
461 as the need arises.

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

465 In the past, the Division has recommended that companies fund the Capital
466 Reserve Account annually at an amount equal to the company's annual
467 depreciation expense, which is based on the original costs of the infrastructure.
468 The Company acknowledged that the asset list in its 2015 Annual Report was
469 incomplete and inaccurate due to record retention issues from the Company's
470 ownership changes.

471 A study completed by Bowen Collin Engineering was used to estimate the
472 original purchase price from which to calculate an annual depreciation expense.
473 Additional detailed information regarding the study by Bowen Collin Engineering
474 is discussed in detail under 2.7 Depreciation Expense.

475 Ideally, the Capital Reserve Account funding would be based on the projected
476 replacement value of the infrastructure, which would be more reflective of the
477 actual costs of replacing the infrastructure. Due to costs consideration resulting in
478 higher rates, the Division has set the reserve funding at original costs rather than

479 replacement costs. This avoids too-dramatic increases in rates. The amount
480 recommended as an annual capital reserve amount is \$[REDACTED].

481 See Exhibit 2.6 for further details.

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

484 A. Over the past several years, the Division has received positive feedback from
485 water companies, other regulators and water customers regarding its
486 recommendation to establish a reserve account for water companies. Some of the
487 benefits include:

- 488 • Better and timelier operational decisions and actions.
- 489 • Improved emergency response.
- 490 • More efficient operations.
- 491 • Greater ability to plan and pay for future repairs and replacements.
- 492 • Capital improvement projects that meet the true needs of the system.
- 493 • Enhanced ability to obtain financing, and at more favorable rates.
- 494 • Special assessments are no longer required to pay for emergency repairs or
495 replacements.

496 **Q. PLEASE EXPLAIN EXHIBIT 2.7, DEPRECIATION EXPENSE &**
497 **ACCUMULATED DEPRECIATION RECONCILIATION.**

498 A. Exhibit 2.7 captures the total Utility Plant in Service account, from which
499 depreciation expense and accumulated depreciation are calculated. This amount
500 is also forwarded to Exhibit 2.6 and used to set the Capital Reserve amount.
501 Community Water's list of assets and accompanying depreciation schedules
502 provided in its 2015 Rate Case Application, Docket No. 15-098-01 matched the
503 asset and depreciation information contained in its 2014 and 2015 Annual Report.
504 The Company acknowledged that the asset list was incomplete and inaccurate due
505 to record retention issues from the latest, and previous changes of ownership, of
506 the water company.
507 Also in its 2015 Rate Case Application, Docket No. 15-098-01, Community
508 Water provided the Division a report prepared by Bowen and Collin Engineering
509 with a detailed and complete asset list based on the existing property, plant and
510 equipment. This report also included the approximate installation year and an
511 estimate of the current (2015 prices) replacement value of each line item. This
512 list is labeled as D-8, Table 4-1, Existing CWC Facilities and Replacement Value
513 in Docket No. 15-098-01.
514 The Division combined the asset and depreciation information from Community
515 Water's 2014 and 2015 Annual Report with the detailed asset list based on the
516 current existing property, plant and equipment to create a more realistic asset list
517 and depreciation schedule. The combination of the two reports gives a more

518 accurate view of the company's assets. Along with the adjustment to the assets,
519 the Division found that some items listed as fully depreciated still had balances;
520 the depreciation schedule now reflects these changes. The Division recognized
521 that using values established in 2015 for equipment purchased as far back as 1970
522 would produce a depreciation expense that is not in line with equipment
523 purchased from that era. With that in mind, the Division used a Consumer Price
524 Index ("CPI") calculator to produce dollars values approximately equal to the
525 time period the equipment was purchased.

526 This asset list and corresponding annual depreciation expense (██████████)
527 calculations as described above are used ONLY for the purpose of calculating a
528 reasonable amount to fund the Capital Reserves, Exhibit 2.6. As is often the case,
529 amounts used in ratemaking are often different than amounts used for income tax
530 or financial accounting purposes.

531 The depreciation expense (██████████) claimed in Community Water's 2015
532 Annual Report was used in calculating the projected State and Federal Taxes,
533 Exhibit 2.11.

534 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 2.8,**
535 **CONTRIBUTION IN AID OF CONSTRUCTION (CIAC) &**
536 **AMORTIZATION OF CIAC RECONCILIATION.**

537 A. Assets (infrastructure) contributed (donated) to the water company are referred to
538 as “Contribution in Aid of Construction (CIAC).” Most water companies have
539 all, or a majority, of their assets contributed by the developer.

540 The original cost of the plant or equipment is used to determine the value for
541 computing rate base. Under the original cost concept, the cost of the item at the
542 time that it was first put into utility service is the cost that remains with that item
543 throughout its life. If the asset is purchased during its life from another utility, the
544 original cost carries with it. In other words, if the plant or equipment was
545 originally donated to the utility company, then it retains its donated status.

546 Usually, a real estate developer initially donates the infrastructure to the water
547 company.

548 In this case, with the absence of documentation regarding the property, plant and
549 equipment accounts, the Division takes the position that the original water
550 company infrastructure was purchased and contributed to the water company by
551 the original developer(s), or prior owners, as is typical for developer owned and
552 operated water companies. The Division included all property, plant and
553 equipment in this CIAC schedule except those purchases with invoices verifying
554 their purchase and non-contributory status, which includes new lighting, roof
555 repairs and supply mains. The annual CIAC expense recommended for the year
556 is \$ [REDACTED].

557 **Q. PLEASE EXPLAIN THE INCLUSION OF EXHIBIT 2.9, RATE BASE.**

558 A. Exhibit 2.9 calculates the rate base, which is the value of the property or
559 infrastructure on which a public utility is permitted to earn a specified rate of
560 return. The rate base is essentially the utility's original investment at the time the
561 assets were placed in service less the accumulated depreciation and assets
562 contributed (CIAC) to the company if applicable. As mentioned above, the only
563 infrastructure included in the rate base is new lighting, roof repairs and supply
564 mains. Rate Base also includes a working capital allowance with reasonable
565 prepayments for operating expenses and an allowance up to 1/8 of operational and
566 maintenance expenses. The rate base in this case is [REDACTED], which is made
567 up of [REDACTED] in Utility Plant in Service (infrastructure) and [REDACTED] in Net
568 Working Capital.

569 **Q. PLEASE EXPLAIN EXHIBIT 2.10, RETURN ON INVESTMENT.**

570 A. Exhibit 2.10 calculates the return on investment, which is the amount a public
571 utility is entitled an opportunity to earn on its investment in plant and equipment
572 over and above the allowable deductions from gross income. This return amount
573 is considered profit. For this item, the Division used a 10% return. The reasons
574 the Division is recommending a 10% rate of return is discussed below.

575 In calculating the rate of return of some regulated utility companies, detailed and
576 sophisticated models are often used. These cases typically involve large dollar

577 investments in infrastructure and a small difference in the rate of return can often
578 mean the difference of hundreds of thousands dollars to the company and can
579 have a material impact on customer's rates. Since the property, plant and
580 equipment of regulated water utilities are typically donated to the water company
581 by the developer, there is typically little or no investment in infrastructure in
582 which to apply a rate of return.

583 Additionally, Utah Code §54-4a-6(3) states that one of the objectives of the
584 Division is to provide the Commission with recommendations that "make the
585 regulatory process as simple and understandable as possible so that it is
586 acceptable to the public; feasible, expeditious, and efficient to apply ..." With
587 this objective in mind, the Division has typically recommended rates of return
588 consistent with past cases.

589 With the minimal investment in infrastructure and in the interest of keeping the
590 rate process and as simple and understandable as possible, the Division is
591 recommending using a 10% rate of return which is consistent with past regulated
592 water utility cases.

593 Applying the 10% rate of return to the rate base of [REDACTED], the return on
594 investment is \$ [REDACTED].

595 **Q. PLEASE EXPLAIN EXHIBIT 2.11, TAXES.**

596 A. Exhibit 2.11 calculates an estimated amount of federal and state income taxes the
597 Company may be subject to. Estimated income taxes are determined by applying
598 a tax gross-up factor to the Projected Net Taxable Income. NARUC's "Rate Case
599 and Audit Manual" recommends using a tax gross-up factor because it recognizes
600 that a utility would need to collect from the customers more than one dollar in
601 gross revenue for each dollar of net operating income it keeps for itself, due to the
602 imposition of taxes on those earnings. Estimated federal and state income taxes
603 are [REDACTED].

604 **VIII. CONSERVATION MEASURES**

605 **Q. DO THE RATES RECOMMENDED BY THE DIVISION ENCOURAGE**
606 **CONSERVATION?**

607 A. Yes. The Division's rates are structured such that all customers pay a base rate
608 that covers fixed expenses and is paid for equally by all customers of Community
609 Water. Each customer then only pays for the water they consume. For example,
610 if a customer wishes to conserve and have a lower water bill and only use 6,000
611 gallons they will pay for only the 6,000 gallons. On the other hand, if a customer
612 uses 20,000 gallons of water, they will pay increasing amounts within the tiered
613 rate schedule, which will send an effective and direct price signal to the customer
614 that they can save money by using less water.

615 **IX. RATE RECOMMENDATION**

616 **Q. DOES THE DIVISION HAVE A RECOMMENDATION FOR**
617 **COMMUNITY WATER’S RATES AND RATE STRUCTURE?**

618 A. The rates and fees set forth proposed by the Division, and outlined in Exhibit 2.2,
619 should be approved as being just and reasonable and in the public interest. These
620 rates are listed below for your convenience.

The table is a grid with approximately 8 rows and 4 columns. The top row has a large blacked-out cell in the first column and a smaller one in the second. The second row has a large blacked-out cell in the first column and a smaller one in the second. The third row has a large blacked-out cell in the first column and a smaller one in the second. The fourth row has a large blacked-out cell in the first column and a smaller one in the second. The fifth row has a large blacked-out cell in the first column and a smaller one in the second. The sixth row has a large blacked-out cell in the first column and a smaller one in the second. The seventh row has a large blacked-out cell in the first column and a smaller one in the second. The eighth row has a large blacked-out cell in the first column and a smaller one in the second.

621

622 **X. TARIFF RECOMMENDATION**

623 **Q. IS THE DIVISION RECOMMENDING AND PROVIDING A REVISED**
624 **TARIFF THAT INCLUDES THE NEW WATER RATES?**

625 A. Yes. The Division is providing a new tariff that includes the new rates that it is
626 recommending to be adopted by the Company. The revised recommended tariff
627 is provided in **EXHIBIT 3** of this Direct Testimony.

628 **Q. IS THE DIVISION PROPOSING ANY ADDITIONAL FEES, OTHER**
629 **THAN THE NEW WATER RATES, BE ADDED TO THE NEW TARIFF?**

630 A. Yes. To protect the financial interests of the Company as well as the customers
631 who pay their water bills on time, the Division is recommending that a \$10 late
632 fee plus 18% of the balance owed to the Company be added monthly to unpaid
633 bills. This is a standard charge included in most of the tariffs of other regulated
634 water companies.

635 **Q. OTHER THAN UPDATING THE NEW RATES, ARE THERE ANY**
636 **OTHER CHANGES TO THE REVISED RECOMMENDED TARIFF?**

637 A. Yes, the recommended tariff includes updated rules and regulations that apply to
638 all regulated water utilities. The updated rules and regulations are a ready and
639 handy source for both the Company and its customers regarding their obligations
640 as a utility company and as a customer.

641 **XI. CONCLUSION**

642 The Division believes that its recommended rates are just and reasonable and in
643 the public interest. Therefore, the Division recommends the Commission approve
644 these new rates and fees.

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

646 A. Yes, it does. Thank you.