



The Company's current water delivery system is insufficient and leaves Company customers at risk for poor and unreliable service. The prior owners and users of the system neglected to make necessary repairs and left the system chronically underfunded for decades. Today the Parties are actively and constructively working together to address this intergenerational inequity. The Company, the Division, Intervenors, and Commission share a common goal of quickly obtaining sustained and safe water service for the Company's customers.

To reach that goal, the Division is seeking a Petition for a Rate Increase. The recommended rate is limited to establishing revenue to sustain maintenance and operations of the current system. Rates to fund the Company's significant infrastructure replacement and repair costs are to be determined another day based on clearly identified improvement plans and costs. The Company understands the Division's purpose and role in the case and supports the Petition as any increase in rates will improve the Company's wellbeing

To best support its customers, the Company is simultaneously negotiating a transfer of the Company to Summit Water Distribution Company ("Summit"). Summit has a professionally maintained delivery system and administrative resources that will provide Company customers with a superior water service. Both Summit and the Company are operating on a good faith belief that negotiations will be successful and Summit will annex the Company in the foreseeable future. The Company sees a transfer as an optimal solution to many of the Company's longstanding problems and in the best interest of its customers.

Negotiations with Summit and dialogue with the other Parties in this rate case have been invaluable in identifying longstanding Company problems, critically assessing Company operations, and prioritizing needed improvements. From this basis, the Company and Summit

have negotiated a draft set of terms to effectuate the transfer of the Company. In general, there is a large overlap between the improvements Summit requested and what the Company needs to do to execute a new rate and improve system safety and reliability. The Direct Testimony and Exhibit A identify these improvements.

This Response is to further explain what those improvements are, why they are relevant, and how they relate the present rate case and transfer negotiations. The majority of the improvements speak to increasing system safety or improving internal company operations. For example, Summit requested several minor capital improvements, like interconnects and pipes, to facilitate linking the Summit and Company systems. At some point, regardless of the transfer, it will be necessary for the Company to implement these improvements to address a lack of system redundancy and existing safety concerns like low fire flows. Other improvements, primarily meters, meet a variety of operational needs like leak detection, greater accuracy to implement the 1000 gallon tiered rate structure, and increasing revenue through better billing. In sum, the improvements are general upgrades that ultimately need to be made to the Company system but are being prioritized in order to facilitate transfer of the Company.

How to incorporate these improvements into the current rate structure requires harking back to the ultimate goal of this process: quickly establishing safe water service for Company customers. The Company believes transfer of the Company to Summit best achieves this goal and the Parties, while preserving their respective duties, should work towards effectuating that transfer. With a transfer customers receive water from a secure and reliable system far sooner than it will take to upgrade the Company system. Similarly, a transfer saves money as moving customers to Summit's system negates the need to pay for improvements like a new water treatment plant. Moreover, if the transfer does not come to fruition, the Company has raised

revenue for or implemented improvements it ultimately needed, is still protected with the current rate aimed at revenue for maintenance and operations, and will have a future rate case or special assessment process to identify the remaining outstanding infrastructure repair and replacement needs and costs.

To effectuate the transfer, the Company and Summit have negotiated the priority improvements identified on Exhibit A to the Direct Testimony. To actualize the transfer the Company requests a rate designed to fund those improvements by increasing revenue to its capital reserve account. The Company acknowledges the unfortunate byproduct of concurrent and ongoing negotiations is that the specificity desirable for a rate calculation is evolving, unknown, or conditional. Moreover, some improvements are installation of hard infrastructure that may go beyond the traditional scope of an operations and maintenance rate. In the time provided, the Company has made good faith efforts to constructively work with the Division, the other Parties, and Summit to promptly identify needed Company improvements to include as costs in this rate case. The Company has attempted to quickly obtain information about known specifics and promptly provided it to the Division. Where lacking bids, estimates based on the experience Company operations staff are included. The Company will continue to work with Division and provide any information it has available or can reasonably obtain.

The goal here is to quickly establish safe and reliable water service for Company customers. The priority improvements do this. They physically improve the Company's system and expedite transfer of the Company's customers to Summit for long term service. Rates are to just and reasonable considering the circumstances of each case. Just and reasonable in this case may call for a rate designed to fund the priority improvements and allow for transfer of the Company as an immediate solution to longstanding problems. As such, the Company

respectfully requests the Division review Exhibit A to the Direct Testimony, as further discussed below, and recommend a final rate structure that emphasizes increased contributions to Company's capital reserve account to fund the identified priority improvements.

## **COMPANY'S RESPONSE TO DATA REQUEST**

### **QUESTION 1:**

**FOR EACH OF THE REPAIR OR REPLACEMENT ITEMS REQUESTED TO BE INCLUDED IN THE BASE RATES ON PAGE 6 OF YOUR EXHIBIT, PLEASE PROVIDE AN EXPLANATION REGARDING THE NECESSITY AND URGENCY AS IT RELATES TO THE SAFE AND RELIABLE OPERATION OF THE WATER COMPANY.**

#### **4.1 A: Willow Draw WTP**

The existing Company water treatment plant is in very poor condition and needs substantial rehabilitation, replacement, or abandonment and a reallocation of the Company's culinary grade groundwater sources and non-potable surface sources.

In terms of prioritizing the improvements identified on Direct Testimony Exhibit A, refurbishing the water treatment plant is a very low priority for both the Company and Summit at this time considering the potential transfer. If Summit annexes the Company the treatment plant will most likely be abandoned and its customers will receive treated culinary grade water through Summit's system. This is reflected by Summit's inclusion of a \$0 line item on Exhibit A.

If the Company is not transferred and continues to be a regulated utility, the Company will need to seek additional rate making or a special assessment for replacement funds for the plant as the current rate is not structured to include infrastructure replacement. The condition and specific needs to repair or replace the plant would be better discussed at that time.

#### **4.1 B: Meters**

A large portion of Company's meters either do not work or under register use. Accurate meters will better monitor and more efficiently manage the system. Currently, the Company

produces significantly more water than customer meters register. With new meters the Company will be able to determine if losses stem from inaccurate/nonworking meters or from leaks within the system. Detecting and repairing leaks is important to conserving water and providing reliable service.

Accurate meters will also become more important with the new rate increase with customers now paying for water based per 1000 gallon usage opposed to the current block allocations. The rate at which the meters are replaced will have a direct effect on the revenue available.

#### **4.1 C: Service Valves**

Approximately 140 homes/condos do not have service valves. Service valves help regulate the flow of water to connected customers. These valves are used to discontinue service for nonpayment. They also serve as emergency shutoffs in the event of a leak within the home. Many of the dwellings are older and the shutoff valves do not work. Currently, entire streets, multiple streets, partial or all subdivisions/condominium complexes are turned off until a repair is made in a home.

Installing or replacing needed service valves will help with emergencies, administrative control of Company water, and maintain consistent customer service.

#### **4.1 D: Pipes**

Historically the Company has had significantly more leaks than normal from the pipes below Grand Summit in Phase 1 of Park West Village and with the saddle in Phase 2 of Park West Village. These pipes currently function but represent large liabilities in terms of repair and maintenance costs as well as lost water for which cannot charge for. As the pipes and saddles age, repairs will become more frequent and create additional expense for the Company. For

Summit to accept transfer of the Company it has requested these pipes and saddles either be replaced or the Company establish some kind of bond or contingency reserve for their continued repair prior to joining the Summit system.

The Thorton/Astle line is a 2” galvanized pipe in very poor condition. It is most likely leaking. There is no real way of flushing the line to clear it of settled sediment. Accordingly, customers experience about a week of very rusty water after a system shut down.

The Company would prefer to replace these pipes with funding from its capital reserve account prior to joining the Summit system if possible. Customers will receive better service and will recoup costs for all water losses attributed to these pipes.

#### **4.1 E: Fire Flow**

Currently it is assumed Company fire hydrants do not provide minimum fire flow requirements. Additional testing of hydrants is needed verify, but pressure readings indicate the system is unable to provide the required pressures. Insignificant fire flows present a significant safety issue. If the Company is annexed into Summit sufficient fire flow could be achieved through multiple connections to Summit’s existing lines in key areas. Currently, Company operations staff estimates these costs will be at a minimum \$40,000 but actual costs will depend on a future engineering study to be conducted when Summit agrees to accept the Company.

In the alternative if Company stays a standalone company achieving adequate fire flow would require installation of new pipes to loop the existing system and upsize the lines. The current rate is not structured to include infrastructure replacement. The specific costs to loop and install lines are more appropriately discussed in a separate rate case or special infrastructure assessment.

Ensuring adequate fire flow is one reason the Company is advocating to transfer the Company to Summit and quickly bring its customers onto a more established and adequate water system. Understanding the actual costs for fire flow are not currently available, the Company requests the Division include the estimated cost for fire flow connections in its calculation for the capital reserve fund to at least begin to fund the necessary engineering work to determine an actual cost for the system. Capital reserve funds will then be used to implement the recommendations.

#### **4.1 F: Interconnection**

The current interconnect with Summit should be moved and upsized. The current location is approximately 2,500 feet from the connection to the Company which leaves a large quantity of stagnate water in the pipe without any means of flushing it when the Company is in need of emergency water. The current interconnect is only capable of providing 170 gallons per minute and could not provide enough water in the event of a treatment plant failure during the irrigation season. Given the condition of the treatment plant this is a very real possibility. Moreover, there is also a possibility the stagnant water could affect water quality. The Summit interconnect also provides needed redundancy to the Company water system. A larger and more efficient interconnect would assist greatly with any plant failures or other Company system failures.

#### **QUESTION 4.2:**

**PLEASE PROVIDE A BRIEF NARRATIVE OF YOUR EXPERT OPINION, REGARDING THE LIKELY OR POSSIBLE SHORT-TERM CONSEQUENCES OF NOT REPLACING THE REQUESTED ITEMS ON PAGE 6 OF YOUR EXHIBIT IMMEDIATELY.**

#### **4.2 A: Water Treatment Plant**



The possible short term consequences of not repairing or replacing the plant, or finding another source of culinary water are significant. If any one of the derelict systems was to fail the Company could not provide sufficient water to its customers. Many of the possible failures could require 4-8 weeks to be repaired. This would require purchasing emergency water from Summit, which is very costly and may not be available depending on Summit water availability. If water could not be purchased all irrigation would need to be discontinued until the plant was repaired. Maintenance cost would be very high.

As costs for plant replacement are not calculated into the current rate structure, the short term solution for a plant failure is purchasing water as discussed or reallocating the Company's sources. Presently, the Company's preferred solution to the very real consequences of a plant failure is to find funding for the requested improvements and expedite transfer of the Company to Summit so its customers can be served by a reliable and safe water system.

#### **4.2 B: Meters**

The possible short term consequences of not replacing meter are a significant loss of much needed revenue and the possibility of system leaks going unrepaired because water loss could not be pinpointed.

#### **4.2 C: Service Valves**

The possible short term consequences of not installing service valve are not being able to discontinue service for nonpayment, slower response times in the event of a leak inside a home, and ceasing service to other customers while repairs are made.

#### **4.2 D: Pipes**

The main short term consequence of not providing means to fund future repairs would be the Company could not be annexed into Summit. Otherwise repairs would be made as needed.

The short term consequences of not replacing the Thorton/Astle line are continued poor water quality, inconveniences to our customers, and unrecouped revenue through water loss.

#### **4.2 E: Fire Flow**

Fire flow is the most immediate safety need to be addressed. If fire flows are not increased the fire department may not have sufficient flow to adequately fight a fire. The fastest and least expensive solution for this problem is to expedite transfer of the Company to Summit or secure funding to pay for Summit interconnects.

#### **4.2 F: Summit Interconnect**

Short term consequences of not moving and upsizing the interconnect are possible water quality issues caused by stagnant water and water restriction if demand was greater than could be delivered. The system is also left without adequate redundancy.

### **QUESTION 4.3**

**PLEASE PROVIDE A BRIEF NARRATIVE OF YOUR EXPERT OPINION, REGARDING THE LIKELY OR POSSIBLE LONG-TERM CONSEQUENCES OF NOT REPLACING THE REQUESTED ITEMS ON PAGE 6 OF YOUR EXHIBIT IMMEDIATELY.**

#### **4.3 A: Water Treatment Plant**

Continued long term use of the treatment plant is most likely not possible. With the plant already well past its expected life and the majority of its components close to failure it will need to be replaced. There are also possible future regulations that will force discontinued use.

#### **4.3 B: Meters**

Long term consequences of not replacing meters are insufficient revenue to fund the priority improvements needed to generally upgrade the system or transfer the Company to Summit. Additionally, not having meters will frustrate the Company's ability to determine and

pinpoint leaks and repair them losing revenue on leaked water and allowing the system to deteriorate.

#### **4.3 C: Service Valves**

If service valves are not installed the Company cannot shut off water in an emergency. Customer outages will become more frequent as the homes age and repairs are needed more frequently. The Company will not be able to shut off customers for nonpayment.

#### **4.3 D: Pipes**

Long term consequences of not funding repairs to the pipes are the same as the short term consequences but will most likely become worse as the system ages.

The Thorton/Astle line will most likely not last more than a few years and will need to be replaced. If the pipe were to fail Community would need to find a way to serve its customers while the pipe was being replaced.

#### **4.3 E: Fire Flow**

The same consequence exists in the long term for not providing the required fire flows.

#### **4.3 F: Summit Interconnect**

The same consequence exists in the long term for not moving and upsizing the interconnect.

### **QUESTION 4.4**

**PLEASE PROVIDE A TIMELINE OR SCHEDULE TO COMPLETE THE REQUESTED REPAIRS AND REPLACEMENTS ON PAGE 6 OF YOUR EXHIBIT.**

#### **4.4 A: Water Treatment Plant**

The timeline of replacing the treatment plant is unclear considering the possible transfer to Summit/necessity to repair/replace the plant and need for additional rate making or a special assessment to fund replacement costs. If it is not possible to replace the plant or provide a

replacement source in the near future, the effluent pumps, valve actuating system, PLC, and monitoring equipment should be replaced before next summer.

#### **4.4 B: Meters**

Replacing meters should be one of our higher priorities as it will provide increased revenue. Under the presently recommended rate structure, the Company should be able to replace all of its meters within 12 months. If funding is insufficient the Company can replace all meters within 24 months.

#### **4.4 C: Service Valves**

This project would be subcontracted and timing would be dictated by funding and the timing of any annexation.

#### **4.4 D: Pipes**

Funding for future pipe repairs priority is dictated by the timing of possible annexation into Summit.

The Thorton/Astle line is a high priority and should be replaced within 1 year.

#### **4.4 E: Fire Flow**

As the Company begins to see increased revenue from this rate case, the Company will prioritize getting the proper engineering work to determine costs to add interconnects to the Summit system. Fire flow solutions should be examined and any extremely low flow areas should be corrected as soon as possible. These improvements will also expedite the transfer of the Company to Summit.

#### **4.4 F: Summit Interconnect**

The interconnect is midlevel priority. Its movement and upsizing could be postponed if certain other repairs were made.

#### **QUESTION 4.5**

**PLEASE PROVIDE AN ANNUAL TOTAL OF REPAIRS, REPLACEMENTS AND ASSOCIATED COSTS FOR EACH OF THE NEXT FIVE YEARS.**

It is difficult to quantify annual repair and replacement costs for the priority improvements as several components are dependent on whether the Company is transferred. For example, interconnecting with Summit for fire flows has a much lower overall repair and replacement cost than looping and upsizing the current system

If the Company is not transferred to Summit, the Company does not have enough funds to make the necessary capital upgrades to its system and continue sustained service to its customers. Raising these additional funds will need to occur through a separate rate case or special assessment based on substantive documentation of the actual costs for planned Company improvements. At this time the Division can more definitely define ongoing repair and replacement costs.

#### **QUESTION 4.6**

**PLEASE SHOW HOW THE 2015 PRICE LIST FOR METRON-FARNIER METERS ON PAGE ONE OF YOUR EXHIBIT IS USED TO CALCULATE COSTS ON PAGE 6 OF YOUR EXHIBIT?**

The draft was an estimate based on the smaller meters

- 1 – 6” meter @ \$3924 + \$600 installation = \$4,524
- 12 – 2” meters @ \$905 + \$150 installation = \$12,660
- 14 – 1.5” meters @ \$714 + \$150 installation = \$12,096
- 20 – 1” meters @ \$535 + \$150 installation = \$13,700
- 130 – ¾” meters @ \$395 + \$150 installation = \$70,850
- Colby School meter pit = \$20,000
- Total = \$133,850

#### **QUESTION 4.7**

**PLEASE STATE IF THIS IS THE ONLY METER BID YOU OBTAINED AND DISCUSS ANY OTHER BIDS YOU OBTAINED?**

Yes, Community Water also received a bid from Hydro Specialties (Badger Meter). It was only a startup bid for 40 standard meters and cellular endpoints, software (\$5500) and training. It did not include monthly cellular fees or oversized meters.

#### **QUESTION 4.8**

##### **PLEASE EXPLAIN WHY YOU ARE RECOMMENDING METRON-FARNIER METERS OVER OTHER TYPES OF METERS?**

If the Company is to be annexed into Summit, Summit uses Metron and would like consistency with their meters. Metron also does not charge for the software. Prices were very similar when 10 years of data service plan fees are added to the hydro specialties bid.

#### **QUESTION 4.9**

##### **PLEASE STATE THE REASON(S) WHY IT IS COMMUNITY WATER'S OBLIGATION TO REPLACE THE COLBY SCHOOL WATER METER VAULT AND IS NOT THE OBLIGATION OF COLBY SCHOOL?**

The Company has an agreement with the owners of the Colby school to split the cost of meters. The owner would pay for the meter and the Company would provide for its installation. Currently the main building is metered but an out building is not. The Company is also concerned that there may be other unmetered connections. This meter pit would service the entire project as a whole. There is a possibility that this will not be needed in the future as the owner is in the process of trying to change the use of the property and add more structures. If this is to happen the Company would not provide the water and Summit would take over the project.

#### **QUESTION 4.10**

##### **PLEASE STATE THE REASON(S) WHY IT IS COMMUNITY WATER'S OBLIGATION TO REPLACE 68 VALVES IN PARK WEST VILLAGE, 25 VALVES IN THE CHALET BUILDINGS, 40 VALVES FOR THE RED PINE TOWNHOMES AND THE RED PINE IRRIGATION METER AND NOT THE OBLIGATION OF EACH INDIVIDUAL OR HOMEOWNERS ASSOCIATION.**

Whether the repair or installation of a service valve is a customer or Company responsibility is dependent on the kind and where the valve for each connection is located. For purposes of moving system repairs forward, the Company proposes to request customers who are responsible for valves to arrange for installation of the valves themselves within a set time frame. If customers do not do so, the Company proposes to assume the cost of repair, replacement, and installation of the valves from its capital reserve account and to bill individual customers for those costs.

### CONCLUSION

As discussed, considering the dilapidated state and insecurity of the Company's current water system, the ultimate goal of this rate proceeding is to quickly provide the Company's customers with reliable and safe water service. The Company believes transfer of the Company to Summit best achieves this goal. The improvements necessary to actualize this transfer are the same improvements the Company will eventually need to make to ensure redundant water service, increased safety measures, and better operations. The Company requests a rate that contributes enough revenue into the Company's capital reserve account to fund these priority improvements. Moreover, in the unlikely scenario that the transfer does not occur, the Company is not harmed by such a rate as it still goes to fund needed Company improvements, the rate accounts for maintenance and operations, and the remaining capital improvements will be determined and funded in a subsequent proceeding.

DATED this 6<sup>th</sup> day of October, 2016.

/s/ Emily E Lewis

Emily E. Lewis

*Attorney for Community Water Company*

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **COMMUNITY WATER COMPANY'S RESPONSE TO THE UTAH DIVISION OF PUBLIC UTILITIES' FOURTH DATA REQUEST** in Docket No. 16-098-01 was emailed on the   6   day of October 2016 to the following:

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