WRITTEN TESTIMONY OF JOSHUA BEAN

2022 Water Rate Increase Application (Docket #21-2443-01)

Q. **Please state your name and contact information.**

A. My name is Joshua Bean. My business address is 154 E. 14075 S., Draper, Utah 84020. My phone number is 801-495-2224. My email address is jbean@bowencollins.com.

Q. **Briefly describe your educational and professional background relating to this rate increase.**

A. I am employed by Bowen, Collins and Associates, Inc. (BC&A), which provides consulting engineering services to WaterPro Inc., (the Company), a wholly-owned subsidiary of Draper Irrigation Company. I am a licensed professional engineer in Utah. I have a bachelor's degree in civil and environmental engineering. I have been working in the civil engineering field for approximately 10 years and have worked on multiple public utility rate increase projects.

Q. **Who else worked on the water rate model with you?**

A. Keith Larson, a principal of BC&A and a licensed professional engineer in Utah also worked on the rate model. Keith has been working in the civil engineering field for over 20 years and has assisted in implementing utility rate increases with over 30 different public utility entities.

Q. **What services does Bowen Collins and Associates, Inc. perform on behalf of the Company?**

A. BC&A has assisted the Company with various civil engineering services, including, but not limited to: the development of the Company's water right master plan, culinary water master plan, and pressure irrigation master plan, design of various waterline projects, new development plan reviews, a water rate study, etc.

Q. What is the purpose of your testimony?

A. My testimony is intended to explain the water rate model (that was included in Appendix H of the rate increase application filed with the Utah Public Services Commission on March 31, 2021 (the Application)). That rate model was used as a basis for determination of the needed rate increase requested by the Company.

Q. Are impact fees addressed in this rate case application?

A. No. This rate case application is based upon BC&A's review of the Company's culinary water rates and proposed system improvements. That review was completed in order to determine when rate increases are necessary to maintain the existing level of service in the Company's culinary water system and ensure adequate funds are available to complete system improvements necessary to continue providing service to the Company's existing customers. That is distinct from the imposition of impact fees, which are intended to apportion the cost of constructing facilities required by new development. Impact fees are designed to prevent existing customers from subsidizing the construction of new facilities or infrastructure needed to serve new development.

Q. Can you briefly summarize Appendix H of the Application?

A. Appendix H of the Application contains the rate model used to determine the necessary rate increase. The first page is a summary of historic and projected expenses and income determined by the rate model. The bottom of that page shows the total cash flow comparisons of a scenario where the Company maintains its existing rates and a scenario where the Company has its income increased by the requested 5%. As shown, the

Company is expected to have an approximately $400,00 deficit in 2022 and an approximately $470,000 deficit in 2023 at the existing rates. The Company is projected to have an approximately $74,000 deficit in 2022 and a $205,000 surplus in 2023 if the 5% rate increases are implemented as shown. However, if no rate increase is obtained until 2023, there will be a deficit in 2023 of approximately $140,000. The next three pages of the rate model show the historic and projected non-rate income sources, operational and maintenance expenses, debt service, and capital improvements. The last page shows a figure summarizing the preceding 3 years and projected 3 years of revenue and expenditures at both the existing and proposed rates.

Q. Can you explain the source of the historic data included in the rate model?

A. The PSC requires the Company to annually submit financial data to the PSC in a certain format using certain budget item categories. The rate model was set up in a similar format as those annual PSC financial submissions for continuity and ease of review. The Company provided BC&A the last three years of data (2019-2021) that was submitted to the PSC. The rate model includes that PSC historic financial data.

Q. Can you explain the first page of the rate model (the model summary page)?

A. The summary lists the historic number of accounts and their actual growth rates along with the estimated number of future accounts from the Company's master plan. It should be noted that starting in 2019, the future number of accounts was based on the 0.10% growth rate estimated in the Company's Culinary and PI Water Master Plan. The expenditures and income categories shown are copied from subsequent pages of the rate model. To determine the projected 2022 value of the 'Sales – Existing Rates' category, the 2021 sales amount was grown at the projected system growth rate of 0.10%. Later years were increased in a similar fashion by growing the previous year by the projected system growth rate of that year.

Q. Can you explain the second page of the rate model (the non-rate revenue page)?

A. The 'Non-Utility Income' category was also grown by increasing the previous year's revenue by the projected system growth rate with the exception of the 2022 revenue. Based on discussions with the Company, the 2021 income was significantly higher than usual. The 2019 and 2020 values were much more in-line with historic expectations. To avoid overestimating income, the 2022 projection was determined by averaging the 2019 and 2020 values and then was grown at the system growth rate. The 'Fire Protection Customers', 'Miscellaneous Service Revenue', and 'Other Miscellaneous Water Revenues' categories were grown by increasing the previous year's revenue by the projected system growth rate and including an assumed inflation rate of 4.0%.

Q. Can you explain the third page of the rate model (the operation and maintenance expenditure page)?

A. With the exception of six categories, each operations and maintenance category was grown from the prior year's cost at the assumed 4.0% inflation rate plus half of the system growth rate. Since operational and maintenance costs do not generally directly increase at the same rate as system growth, the system growth rate was halved for these categories. The following six categories were treated differently (by how their base costs were grown): 'Chemicals', 'Materials and Supplies', 'Contractual Services – Legal', 'Contractual Services – Water System Maintenance', 'Rental of Equipment', and 'Water Resource Conservation Expense'. Upon discussion with WaterPro, these six categories had abnormalities in the values from 2021 that, if used for projecting income, could lead to less accurate projections of future income. ‘Materials and Supplies’, ‘Contractual Services – Legal’, ‘Contractual Services – Water System Maintenance’, and ‘Rental of Equipment’ all had 2021 values that were either excessively low or high based on the Company’s past experience. Those four categories were calculated based on averaging the values of 2019, 2020, and 2021 before projecting the 2022 value with inflation and half the system growth rate as previously discussed. The ‘Chemicals’ category only used the average of 2019 and 2020 as the basis to project the 2022 value with inflation and half the system growth rate. This was because equipment malfunctions in 2021 caused the Company to have to purchase additional outside chemicals rather than generate their own. Therefore, that whole year was excluded in the future projections. The ‘Water Resource Conservation Expense’ category was grown based only on the 2019 value since the COVID pandemic halted the Company’s usual activities in this category for 2020 and 2021.

Q. Can you explain the fourth page of the rate model (the debt service and capital improvement projections page)?

A. The Company has an existing loan it obtained in 2013 to pay for pressure irrigation and culinary projects. The total loan amount, as shown in Appendix L of the Application, was $8,552,878. The Company has indicated that $4,000,000 of that loan amount was to pay for projects relating to installation of a new culinary water well and a pipeline from that well to the Water Treatment Plant. Therefore, 47% of the loan repayment schedule should be paid by the culinary system. That 47% amount is reflected in the loan payments that are projected into the culinary rate model. That page also shows the system replacements and improvement projects that are projected to be required between now and 2024. The replacements include mostly old and under capacity water pipelines that will need to be replaced, well maintenance and replacement, and water meter upgrades. The listed projects also include construction of the reuse water projects. These improvements are needed to continue providing cost-effective and efficient service to the Company's existing customers. Also included in Appendix L is documentation for a future loan through the Utah Division of Water Resources to help pay for the reuse water projects. The loan has not been issued, just authorized based on WaterPro's prior application. The loan will not be issued until the projects are fully designed. The rate model shows the anticipated loan payments for the loan. As the reuse projects will benefit both the culinary and irrigation systems per the Company's 2018 Water Rights Water Master Plan, the reuse loan payments and capital projects have been allocated based on the same 80/20 split between the culinary and PI systems described in the Application.

Q. The capital improvement projects are shown to occur in particular years. Are those expenses certain to occur in those years?

A. All of those replacements and improvement projects are things the Company knows will need to be done within this three-year time period, but there is typically some flexibility. For many of the water pipe replacement projects, for instance, the Company will try to time those replacements so that they are done in concurrence with other projects by the city or state that require the road the pipelines occupy to be excavated for other reasons. That allows the Company to do the work at a lower cost and minimizes the disruption to traffic and the public. Also, if revenues are less than expected or operational costs are higher than expected, the Company may have to postpone some projects.

Q. Can you summarize the test period used in the rate model?

A. Except for a few categories, all income and expense categories were grown based on the 2021 financial data provided to BC&A. The following is a list of categories with test periods that instead averaged the historical amounts from some or all of 2019, 2020, and 2021 to use a basis for projecting future values (as previously described):

Non-Utility Income

Chemicals

Materials and Supplies

Contractual Services – Legal

Contractual Services – Water System Maintenance

Rental of Equipment

Water Resource Conservation Expense

Again, these modifications to the general 2021 test period were to account for some fluctuation historical amounts that may not be as accurate in projecting future values.

Q. What do these projections show would be the result of the 5% increase in rates?

A. As shown in the summary page of the rate model, without any changes to existing rates the Company would be expected to have a deficit of approximately $400,000 in 2022 and approximately $470,000 in 2023. Assuming the proposed 5% rate increase is implemented in 2022, there would be a deficit of approximately $74,000 in 2022 and a surplus of $205,000 in 2023. However, if a rate increase isn't implemented until 2023, then the Company would have a deficit of approximately $140,000 in 2023. Although the Company could ask for a larger rate increase to eliminate all deficit, at this time it has been decided that the Company will slightly adjust the timing of some capital projects and/or dip into its reserve fund to offset the deficit in an attempt to lessen the burden of a larger rate increase on its customers.

Q. Does this conclude your direct testimony?

A. Yes.