

Before the Public Service Commission of Utah

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| IN THE MATTER OF THE APPLICATION OF MOUNTAIN SEWER COMPANY FOR APPROVAL OF A GENERAL RATE INCREASE | DOCKET NO. 22-097-01 Mountain Sewer EXHIBIT NO. 2.0 D |
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DIRECT TESTIMONY OF WILLIAM DUNCAN

For Mountain Sewer

January 30,2023

CONFIDENTIAL SUBJECT TO UTAH PUBLIC SERVICE COMMISSION RULES R746-1-602 AND 603

1 **Identification of Witness**

2 Q. Please state your name, occupation and for whom you will provide testimony.

3 A. My name is William Duncan. I am an independent consultant. I have been retained by Mountain
4 Sewer (MS) to provide expert guidance in the current docket.

5 Q. Do you have previous experience in sewer company regulation? Please describe.

6 A. Yes, I was employed by the Utah Division of Public Utilities (DPU) for over 12 years, from 2007 –
7 2019. I was manager of the Telecom and Water Section for over 11 years. During that time, I
8 directly managed several general rate cases for water companies regulated by the Public Service
9 Commission of Utah (PSC). Mountain Sewer was the only regulated sewer company regulated by
10 the PSC.

11 **Purpose of Testimony**

12 Q. What is your specific role for MS in this docket?

13 A. My role in this docket is to utilize the information submitted to PSC by MS in its annual reports
14 and develop rates that are just and reasonable. I will also present exhibits and testimony to
15 support the rate recommendations.

16 Q. Have you audited the source documents or records of MS?

17 A. No, I have not audited the source documents. I have used the PSC reports as a basis for my
18 recommendations.

19 Q. Describe the goals and objectives of the proposed rates.

20 A. In developing the proposed rates, I have two major objectives:

21 1. Provide for the financial security and sustainability of MS. This will be accomplished by
22 ensuring full cost recovery for all reasonable expenses.

23 2. Provide a means for MS to establish a reserve fund. This will be accomplished by calculating
24 depreciation and amortization of fixed assets and identify the use of that portion of the rates for
25 a reserve fund.

26 Q. Are you familiar with the rate design used by the Division of Public Utilities (DPU). Do these
27 objectives match those used by the DPU?

28 A. Yes. The DPU rate model has similar objectives and uses similar methodology.

29 Q. Does the current MS rate structure accomplish these goals?

30 A. No, it does not. While reviewing the costs and revenue sources of MS, it became apparent that
31 even though MS reported a net profit in 2020 and 2021, and only modest losses in 2019, it was
32 largely the product of revenue from connection charges. The connection rates were apparently
33 priced above cost, and revenues generated were inflated by the fact that MS experienced a
34 substantially higher number of new connections in these years than normal. There were several

35 multi-unit housing projects completed and connected between 2019 and 2021. MS believes this
36 is not sustainable as the number of new connections in any year is not predictable.

37 Q. How does the current rate proposal address these problems?

38 A. MS proposes that the rates and charges be re-aligned so that monthly billed revenue recovers
39 all the operations and maintenance expenses, depreciation and return on investment. Proposed
40 connection charges have been reduced to match the actual cost of completing the connection
41 more closely.

42

43 Exhibits

44 Q. Please describe the exhibits:

45 A. Exhibit 2.1 Revenue Requirement: This exhibit utilizes the last three years of PSC reports to
46 develop a normalized income statement for MS (Column F) that shows a revenue deficiency of
47 \$[REDACTED]. Column G identifies known and measurable changes that increase costs of \$[REDACTED].
48 Column H demonstrates a future revenue deficiency of \$128,396. The pro-forma revenue
49 requirement of \$[REDACTED] is calculated on column H, line 63.

50 Exhibit 2.2 Rate Base: This exhibit calculates a rate base of \$[REDACTED]. It also calculates a return
51 on investment of \$[REDACTED]. This amount is used in Exhibit 2.1 in calculating revenue requirement.

52 Exhibit 2.3 Cash Working Capital: This exhibit calculates cash working capital, which is a
53 component of rate base.

54 Exhibit 2.4 Cost Separation: This exhibit takes the pro forma costs developed in exhibit 2.1 and
55 separates each into three categories: Fixed costs shared by all customers and Fixed costs shared
56 by connected customers.

57 Exhibit 2.5 Rate Comparison: This exhibit shows a comparison of the proposed rates to the
58 current approved rates.

59 Exhibit 2.6 Calculation of CIAC Amortization: Soon, MS will begin to serve an additional
60 subdivision, Legacy Mountain Estates (LME), located contingent to MS. The infrastructure for
61 this development is complete and undergoing final inspection. When inspections are complete
62 the developer of LME will deed the water infrastructure to MS. The original cost of this
63 infrastructure will be recorded as Contribution in Aid of Construction (CIAC). As such, the assets
64 will not be added to rate base. However, the company will amortize those assets (similar to
65 depreciation). This exhibit calculates the amortization expense of \$[REDACTED] annually.

66 Exhibit 2.7 Depreciation Schedule: This exhibit calculates depreciation expenses. It incorporates
67 depreciation expense for two additional items. Line 6 has an additional investment of \$[REDACTED]
68 that increases depreciation expenses by \$81 annually. Line 17 shows an investment of \$[REDACTED]
69 and associated annual depreciation expense of \$[REDACTED] for new pumping equipment. Line 30
70 shows an investment of \$[REDACTED] for upgrades to SCADA equipment with an associated annual
71 depreciation expense of \$[REDACTED].

72 Exhibit 2.8 Housing units: This exhibit presents the number of housing units in both the original
73 MS service area and the LME subdivision. This expansion of MS service area was approved in
74 docket 21-097-01. This inventory of housing units was recently completed by the water/sewer
75 operator.

76 Exhibit 2.9 Connection cost estimate. This exhibit estimates the cost of a connection based on
77 the knowledge of company employees. This estimate recognizes that approximately 2/3 of the
78 connections are relatively standard connections, with little or no problems, while 1/3 of the
79 connections are much more difficult. The weighted average of these two scenarios calculates a
80 reasonable connection cost of \$1,642.

81 Exhibit 2.10 Schedule of Known and Measurable changes: This exhibit summarizes all of the
82 additional expenses that have been added to the normalized income statement in Exhibit 2.1.

83 **Known and Measurable Changes**

84 Q. Please describe the known and measurable changes presented in Exhibit 2.1

85 Line 13 Salaries and Wages Office Employees - This increase is needed to bring employee wages
86 up to appropriate levels.

87 Line 15 Full-time Water Operator Recently, MS needed to hire a new full-time operator. To
88 compete with other offers for his service, MS had to match an offer from a nearby municipality.
89 This cost is split between Lakeview Water and MS.

90 Line 16 Part-time Water Operator MS has identified a qualified local operator who will assist and
91 provide back-up to the full-time operator on an as-needed basis. This cost is split between
92 Lakeview Water and MS.

93 Line 26 Contractual Services – Management fees: In the past, the duties of the system operator
94 were contracted to a management company. The person performing the duties had to retire
95 due to health issues. This cost has been replaced by the hiring of a full-time operator.

96 Line 42 Regulatory Expense – Rate Case This cost is identified to recover the additional cost of
97 processing this docket. The total estimated cost will be amortized over three years.

98 Line 50 Depreciation Expense: This additional cost is calculated on Exhibit 2.7. This is the
99 depreciation expense for new pumping equipment and new and upgraded SCADA equipment.

100 Line 51 Amortization of CIAC expense: This amount is calculated in Exhibit 2.7.

101 Line 58 Return on Investment: This amount is calculated on Exhibit 2.2 using a rate base of
102 \$██████ and a modest 3% rate of return.

103 Line 59 Pro-Forma Income Tax: This is the potential income tax calculated on the return from
104 line 58. MS was formed as a sub chapter S corporation at its inception. As such it does not pay
105 tax based on corporate tax rates. Instead, any income is passed to the company owner and
106 taxed at his nominal rate of 5% state and 35% federal.

107 Q. Please describe the known and measurable changes presented in Exhibit 2.7.

108 There are three asset additions that are proposed in column D:

109 Line 6 Structures and improvements: MS does not have an office. Office employees work from
110 their homes. Mountain Sewer (MS) owns a building located on property owned by the sewer
111 company. Lakeview Water (LW) and MS propose remodeling the building to serve as an office
112 for both companies. The estimated cost for the remodel is \$[REDACTED]. The cost will be split between
113 the two companies. The \$[REDACTED] cost to MS is in addition to the \$[REDACTED] reported on the PSC
114 annual report.

115 Line 17 Pumping Equipment: MS needs to replace some pumping equipment. The cost to MS is
116 \$[REDACTED].

117 Line 30 Communications Equipment: MS management has decided to upgrade the existing
118 SCADA equipment. SCADA equipment for LW will cost \$[REDACTED].

119 Interim Rates

120 Q. Does the information presented in Exhibit 2.1 support the necessity of an interim rate increase?

121 A. Yes, For the last three years MS has experienced losses averaging \$[REDACTED] per year. Known and
122 measurable changes may add approximately \$[REDACTED] annually. Increasing base rates to
123 \$46/month for standby customers and \$86/month for connected customers will generate
124 approximately \$[REDACTED] annually. See Exhibit 2.5, Lines 7-11.

125 Financial Sustainability

126 Q. Based on these recommendations, how do these rates help ensure the financial sustainability of
127 MS?

128 A. There is one primary reason. All fixed costs are recovered through fixed or flat rate charges.

129 Reserve Fund

130 Q. Based on these recommendations, how would the Capital Reserve fund be funded?

131 A. From Exhibit 2.1, the depreciation amounts of \$[REDACTED] and CIAC amortization amounts of
132 \$[REDACTED] or \$[REDACTED] annually would be set aside in Capital Reserves.

133 Conclusion

134 Q. Do you believe that the proposed rates are just, reasonable and in the public interest?

135 A. Yes.

136 Q. Does this conclude your testimony?

137 A. Yes.