Before the Public Service Commission of Utah

IN THE MATTER OF THE APPLICATION OF LAKEVIEW WATER COMPANY FOR APPROVAL OF A GENERAL RATE INCREASE	DOCKET NO. 22-540-01 Lakeview Water EXHIBIT NO. 2.0 D

DIRECT TESTIMONY OF WILLIAM DUNCAN

For Lakeview Water

January 30, 2023

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

Identification of Witness

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

A. My name is William Duncan. I am an independent consultant. I have been retained by Lakeview Water (LW) to provide expert guidance in the current docket.

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

A. Yes, I was employed by the Utah Division of Public Utilities (DPU) for over 12 years, from 2007 – 2019. I was manager of the Water Section for over 11 years. During that time, I directly managed several general rate cases for water companies regulated by the Public Service Commission of Utah (PSC).

Purpose of Testimony

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

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

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

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

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

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

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

2. Provide a means for LW to establish a reserve fund. This will be accomplished by calculating depreciation and amortization of fixed assets and identify the use of those costs for a reserve fund.

3. Establishing rates that incentivize conservation. This will be accomplished using increasing tiers for usage rates.

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

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

Q. Does the current LW rate structure accomplish these goals?

A. No, it does not. While reviewing the costs and revenue sources of LW, it became apparent that even though LW reported a substantial gross profit in 2020, and only modest losses in 2019 and 2021, it was largely the product of revenue from connection charges subsidizing a shortfall of revenue from monthly rates. The connection rates were apparently priced above cost, and

revenues generated were inflated by the fact that LW experienced a substantially higher number of new connections in these years than normal. There were several multi-unit housing projects completed and connected between 2019 and 2021. LW believes this is not sustainable as the number of new connections in any year is not predictable.

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

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

Exhibits

Q. Please describe the exhibits:

A. Exhibit 2.1 Revenue Requirement: This exhibit utilizes the last three years of PSC reports to develop a normalized income statement for LW (Column F) that shows a revenue deficiency of $[redacted]. Column G identifies known and measurable changes that total additional costs of $[redacted]. Column H calculates a future revenue deficiency of $[redacted]. The total revenue requirement is calculated as $[redacted] (column H, row 77).

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

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

Exhibit 2.4 Cost Separation: This exhibit utilizes the pro forma costs developed in exhibit 2.1 and separates each into three categories: Fixed shared by all customers; Fixed costs shared by connected customers; and variable costs recovered through usage rates.

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

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

Exhibit 2.7 Depreciation Schedule: This schedule calculates depreciation expense and includes additional depreciation expense of $[redacted] for new and upgraded SCADA equipment, building improvements and meter replacements.

Exhibit 2.8 Housing units: This exhibit presents the number of housing units in both the original LW service area and the LME subdivision. This expansion of LW service area was approved in

docket 21-540-01. This inventory of housing units was recently completed by the newly hired water manager.

Exhibit 2.9 Connection cost estimate. This exhibit estimates the cost of a connection based on the knowledge of company employees. This estimate recognizes that approximately 2/3 of the connections are relatively standard connections, with little or no problems, while 1/3 of the connections are much more difficult. The weighted average of these two scenarios develops a proposed connection fee of $[redacted].

Exhibit 2.10 Schedule of Known and Measurable changes: This schedule identifies all of the additional costs that have been added to the normalized cost schedule in Exhibit 2.1.

Known and Measurable Changes

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

Line 16 Salaries and Wages Office Employees - This is needed to increase office employee salaries to appropriate levels.

Line 18 Full-time Water Operator Recently, LW needed to hire a new full-time operator. To compete with other offers for his service, LW had to match an offer from a nearby municipality. This cost is split between LW and Mountain Sewer.

Line 19 Part-time Water Operator LW has identified a qualified local operator who will assist and provide back-up to the full-time operator on an as-needed basis. This cost is split between LW and Mountain Sewer.

Line 22 Purchased Power: To fill the new reservoir associated with LME, the company will need to pump water from the wells to the reservoir. This will require two lift stations. This will essentially double the power costs as both reservoirs are close to the same elevation.

Line 29 Contractual Services – Management fees: In the past, the duties of the system operator were contracted to a management company. The person performing the duties had to retire due to health issues. This cost has been replaced by the hiring of a full-time operator.

Line 45 Regulatory Expense – Rate Case This cost is identified to recover the additional cost of processing this docket. The total estimated cost will be amortized over three years.

Line 53 Depreciation Expense: This is calculated on Exhibit 2.7 and includes additional depreciation expense for SCADA upgrades, building improvements and updating and upgrading meters.

Line 54 Amortization of CIAC expense: This amount is calculated in Exhibit 2.6.

Line 72 Return on Investment: This amount is calculated on Exhibit 2.2 using a rate base of $286,546 and a modest 3% rate of return.

Line 73 Pro-Forma Income Tax: This is the potential income tax calculated on the return from line 72. LW was formed as a sub chapter S corporation at its inception. As such it does not pay tax based on corporate tax rates. Instead, any income is passed to the company owner and taxed at his nominal rate of 5% state and 35% federal.

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

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

Line 8 Structures and improvements: LW does not have an office. Office employees work from their homes. Mountain Sewer (MS) owns a building located on property owned by the sewer company. LW and MS propose remodeling the building to serve as an office for both companies. The building will also serve as the base station for the SCADA monitoring equipment. The estimated cost for the remodel is $[redacted]. The cost will be split between the two companies.

Line 20 Meter and Meter Installations: The original meters used in the LW system are old. LW management believes that these meters should be upgraded to provide easier and more accurate meter reads. There are 52 meters left that need to be replaced at a cost of $475/meter. This will be accomplished over 1-2 years.

Line 30 Communications Equipment: LW management has decided to upgrade the existing SCADA equipment. SCADA equipment for LW will cost $[redacted].

Interim Rates

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

A. Yes, For the last three years. LW has experienced losses averaging over $[redacted] per year, including depreciation. Known and measurable cost additions may add over $[redacted] annually. Increasing base rates to $30/month for standby customers and $60/month for connected customers will produce approximately $[redacted] annually. See Exhibit 2.5, Lines 16-20.

Financial Sustainability

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

A. There are two primary reasons. First, all fixed costs are recovered through fixed or flat rate charges. These costs are not recovered through usage revenues, which may vary with usage. Second, variable costs are recovered through usage revenues, but are always priced at cost or above.

Reserve Fund

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

A. From Exhibit 2.1, the depreciation amounts of $[redacted] and CIAC amortization amounts of $[redacted], or $[redacted] annually would be set aside in Capital Reserves. In addition, any revenue from water sold above $3.00/thousand should also be added to Capital Reserves.

Water Conservation

Q. How do these proposed rates incentivize water conservation?

A. In two ways. First, there is no usage included in the base rate, giving each connection an incentive to conserve rather than use the minimum amount. Second, the escalating tier rates increase more rapidly than the previous rate schedule, further incentivizing conservation.

Conclusion

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

A. Yes.

Q. Does this conclude your testimony?

A. Yes.