

**-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-**

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IN THE MATTER OF REQUEST OF LAKEVIEW  
WATER CORPORATION FOR A RATE CASE  
INCREASE

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DOCKET No. 22-540-01  
Exhibit No. DPU 1.0 DIR  
Mark Long

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**Redacted**

FOR THE DIVISION OF PUBLIC UTILITIES  
DEPARTMENT OF COMMERCE  
STATE OF UTAH

Direct Testimony of

Mark Long

June 29, 2023

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH**  
3 **THE DIVISION OF PUBLIC UTILITIES.**

4 A. My name is Mark A. Long. My business address is Heber M. Wells Building, 160  
5 East 300 South, 4th Floor, Salt Lake City, Utah. I am employed by the Department of  
6 Commerce, Division of Public Utilities (Division or DPU), as a Utility Technical  
7 Consultant for the State of Utah.

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 Utah. I  
11 was employed as a tax auditor and criminal investigator for 22 years with the Utah  
12 Tax Commission. I have been employed by the Division since December 2008. I am  
13 a member of the Association of Government Accountants and the Association of  
14 Certified Fraud Examiners.

15 **IDENTIFICATION OF WITNESS**

16 **Q. FOR WHICH PARTY WILL YOU BE OFFERING TESTIMONY IN THIS CASE?**

17 A. I will be testifying on behalf of the Division.

18 **Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**  
19 **(COMMISSION) REGARDING WATER RATE CASES ON PRIOR OCCASIONS?**

20 A. Yes. I have testified before the Commission as an expert witness, most recently in  
21 Docket Nos. 21-001-01, 19-2438-01, 13-2506-01, 12-2443.01, 11-097-01,  
22 11-097-02, 11-097-03, and 10-2529-01.

23 **Q. PLEASE DESCRIBE YOUR PARTICIPATION IN THE DIVISION'S REVIEW OF**  
24 **LAKEVIEW WATER CORPORATION (LAKEVIEW OR COMPANY) IN THIS**  
25 **DOCKET.**

26 A. I am the lead investigative auditor assigned to this case. I have participated in the  
27 review, investigation, and analysis of Lakeview's operations, revenues, and  
28 expenses. I reviewed and analyzed all the documentation and data submitted with  
29 the rate case. In addition, I have communicated with the Company through data  
30 requests, email correspondence, virtual meetings, and multiple phone discussions.  
31 Also, I have directed Division analysts in gathering, reviewing, and analyzing  
32 information in this case.

33 **PURPOSE OF TESTIMONY**

34 **Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.**

35 A. My testimony will first describe general ratemaking principles and the rate case  
36 process related to water utilities regulated by the Commission.

37 Second, my testimony will describe the Division's policies and guiding principles in  
38 advocating a rate structure for regulated water companies. My testimony will also  
39 address how the rate model used by the Division achieves the Division's policy  
40 objectives.

41 Third, my testimony and exhibits will provide background on Lakeview and present  
42 my analysis regarding the Company's financial aspects. I will also recommend new  
43 rates and fees and related tariff changes.

44 **THE DIVISION'S WATER POLICY OBJECTIVES**

45 **Q. FOR THE COMPANY'S BENEFIT AND ITS CUSTOMERS, WILL YOU PLEASE**  
46 **BRIEFLY DESCRIBE THE RATE CASE PROCESS FOR REGULATED WATER**  
47 **COMPANIES?**

48 A. Yes. First, let me remind interested parties that customers are not only paying for  
49 water but also the infrastructure and range of services required to receive a clean  
50 and reliable water supply. Fresh, pure water is expensive to pump, store, treat, and  
51 transport to the tap.

52 Since public utility ratemaking is generally prospective, rates are calculated before  
53 the consumer uses the services. The rates are designed to allow the public utility the  
54 opportunity to fully recover all costs prudently incurred by the Company in providing  
55 service now and in the future. Thus, an estimate is made of the future cost of service  
56 based on a historical or forecast "test year," which includes operations and  
57 maintenance expenses, reserves or savings, return on investment, and taxes. Test  
58 year costs can be adjusted to include known and measurable changes the Company  
59 will incur. Test year costs are also normalized to estimate future expenses  
60 accurately. The Company's customers have an obligation to reimburse the Company  
61 at rates that will cover its costs, fund a capital reserve account, and provide an  
62 opportunity to earn a return on its investment in infrastructure.

63 **Q. WHAT ARE THE DIVISION'S MAIN POLICY OBJECTIVES?**

64 A. The DPU has several policy objectives defined in Utah Code Section 54-4a-6,  
65 including:

- 66 (1) Promote the safe, healthy, economic, efficient, and reliable operation  
67 of all public utilities and their services, instrumentalities, equipment,  
68 and facilities;
- 69 (2) provide for just, reasonable, and adequate rates, charges,  
70 classifications, rules, regulations, practices, and services of public  
71 utilities;
- 72 (3) Make the regulatory process as simple and understandable as  
73 possible so that it is acceptable to the public; feasible, expeditious, and  
74 efficient to apply; and designed to minimize controversies over  
75 interpretation and application;
- 76 (4) For purposes of guiding the activities of the Division of Public Utilities,  
77 the phrase "just, reasonable, and adequate" encompasses, but is not  
78 limited to the following criteria:
- 79 (a) Maintain the financial integrity of public utilities by assuring a  
80 sufficient and fair rate of return;
- 81 (b) Promote efficient management and operation of public utilities;
- 82 (c) Protect the long-range interest of consumers in obtaining  
83 continued quality and adequate levels of service at the lowest  
84 cost consistent with the other provisions of Subsection (4).

- 85 (d) Provide for fair apportionment of the total cost of service
- 86 among customer categories and individual customers and
- 87 prevent undue discrimination in rate relationships;
- 88 (e) Promote stability in rate levels for customers and revenue
- 89 requirements for utilities from year to year; and
- 90 (f) Protect against wasteful use of public utility services.

91 **Q. IN SATISFYING THE POLICY OBJECTIVES SET FORTH ABOVE, HAS THE DPU**  
92 **SET CERTAIN POLICY GOALS RELATED TO WATER COMPANIES?**

93 A. Yes. The DPU has two primary objectives or goals for water companies to achieve  
94 through the rate-setting process. The first objective is promoting financial  
95 sustainability for the water company, which will help ensure reliable service at just  
96 and reasonable rates. The second objective of the DPU is to encourage water  
97 conservation.<sup>1</sup> The DPU achieves these goals by adopting an increasing block rate  
98 structure (tiered rates) for water usage and separating the recovery of fixed, system-  
99 related costs from volumetric charges related to water.

100 **FINANCIAL SUSTAINABILITY**

101 **Q. PLEASE DESCRIBE HOW THE DIVISION'S RATE MODEL PROMOTES THE**  
102 **GOAL OF FINANCIAL SUSTAINABILITY.**

103 A. The DPU rate model promotes this goal through the following four principles:

- 104 1. Customer rates should generally be set to allow the water company the
- 105 opportunity to recover all reasonable and prudent costs that it incurs in
- 106 providing the service. Full-cost pricing refers to ensuring that the rates
- 107 provide a revenue stream that provides the company the opportunity to
- 108 adequately cover the Company's ongoing operations and maintenance
- 109 expenses, reserves or savings, return on investment, and taxes. The most
- 110 apparent benefit of full-cost pricing is the ability of the Company to
- 111 consistently meet all ongoing operational, maintenance, and capital costs to
- 112 provide a high level of service. It is also vital that utilities do not operate at a

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<sup>1</sup> This goal is consistent with the state's water policy, as articulated in Utah Code Section 73-1-21(1)(vii).

113 loss, depend on subsidies, or continually deplete cash reserves. Operating  
114 with less than full-cost pricing often results in a degraded system,  
115 compromising service quality.

116 The Division generally discourages the practice of relying on developer  
117 subsidies to recover costs. One possible deviation from this would be for a  
118 new company that may need a developer subsidy in the initial years of  
119 providing service until enough residents support the Company.

120 2. Fixed costs are generally recovered through fixed rates. Generally, water  
121 companies should limit recovering fixed costs through volumetric rates.  
122 Historically, fixed costs have been split at about 70% for connected  
123 customers and about 30% for standby customers.

124 3. Variable costs are recovered through consumption or volumetric rates. The  
125 basic consumption rate is set at the incremental cost of producing and  
126 delivering water.

127 4. The establishment and continued funding of a capital reserve account.

128 **CAPITAL RESERVE ACCOUNT**

129 **Q. PLEASE EXPLAIN WHAT THE CAPITAL RESERVE ACCOUNT IS AND HOW IT**  
130 **IS FUNDED.**

131 A. The capital reserve account is a fund primarily used to repair and replace  
132 infrastructure. It is funded from two sources.

133 The first source of funding for the capital reserve account is base rates, which fund  
134 the account at an amount equal to the depreciation expense. The capital reserve  
135 account is included in the rate base as a fixed cost and, therefore, is funded from  
136 both the rates of standby and connected customers. These funds should be  
137 deposited in a reserve account after each billing period.

138 The second funding source is from amounts billed in conservation tiers over and  
139 above the incremental variable cost of providing service. Conservation rates will be  
140 discussed later in this testimony.

141 **Q. HOW DOES THE CAPITAL RESERVE ACCOUNT CONTRIBUTE TO THE WATER**  
142 **COMPANY'S FINANCIAL SUSTAINABILITY?**

143 A. Establishing and funding a capital reserve account helps allow the water company to  
144 respond quickly to emergencies and reduces the need for special assessments or  
145 expedited rate cases in the event of infrastructure failure. The account also reduces  
146 the need for excessive borrowing of money to repair and replace infrastructure.  
147 Setting aside reserves is critical to developing and maintaining financial stability. In  
148 the case of even a relatively minor emergency, it can mean the difference between a  
149 self-sustaining company and a company that may become financially unstable or  
150 have its system fall into disrepair.

151 The targeted minimum amount to be set aside annually for capital reserves is equal  
152 to the Company's annual depreciation expense before making any adjustments for  
153 Contributions in Aid of Construction (CIAC). Ideally, the capital reserve account  
154 funding would be based on the projected replacement value of the infrastructure,  
155 which would better reflect the actual costs of replacing the infrastructure. However,  
156 due to cost considerations resulting in higher rates, the Division recommends setting  
157 the reserve funding at original costs rather than replacement costs. The Company  
158 should closely monitor its reserve balance to ensure it has adequate funds to meet  
159 its needs. The Commission has the authority to require any public utility to establish  
160 such an account under Utah Code Section 54-4-24.<sup>2</sup>

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<sup>2</sup> Utah Code Ann. § 54-4-24 (“The commission shall have power to require any or all public utilities to carry a proper and adequate depreciation account in accordance with such rules, regulations and forms of account as the commission may prescribe.”).



161 **WATER CONSERVATION**

162 **Q. HOW DOES THE DPU PROMOTE ITS SECOND MAJOR POLICY OBJECTIVE OF**  
163 **ENCOURAGING WATER CONSERVATION?**

164 A. The DPU rate model promotes water conservation by using an increasing tiered rate  
165 for usage over a fixed number of gallons per month. In this Lakeview case, the first  
166 tier of 8,000 gallons is priced at the Company's cost. Additional water usage is  
167 subject to an increasing rate structure established in increasing block units or tiers.  
168 These tiers, known as conservation rates or conservation tiers, are typically priced at  
169 1.5 to 2 times higher than the previous level.

170 **Q. EARLIER IN YOUR TESTIMONY, YOU MENTIONED USING THESE**  
171 **CONSERVATION RATES AS PART OF THE FUNDING SOURCE FOR THE**  
172 **CAPITAL RESERVE ACCOUNT. PLEASE ELABORATE.**

173 A. Since all variable service costs are recovered in the consumption rate, amounts  
174 billed over that rate would be above cost. The Division's analysis shows it is  
175 appropriate to transfer these incremental funds to the capital reserve account since  
176 customers using larger quantities of water are causing more wear and tear to the  
177 water system and should contribute more funding to repair and replace that  
178 infrastructure.

179 **Q. IF THE WATER COMPANY IS COLLECTING REVENUE ABOVE COST, DOES**  
180 **THAT CONSTITUTE OVEREARNING?**

181 A. If the excess revenue were going to benefit the owners or shareholders of a  
182 company, it might be considered overearning. However, the DPU recommends that  
183 this revenue remain in the Company's capital reserve account to benefit all  
184 customers in maintaining a financially sound utility by providing adequate funds to  
185 meet future contingencies.

186 **THE RATE MODEL USED BY THE DIVISION IN MAKING ITS RECOMMENDATION**

187 **Q. CAN YOU GIVE A MORE DETAILED DESCRIPTION OF THE DIVISION'S RATE**  
188 **MODEL USED FOR LAKEVIEW?**

189 A. Yes. The Division has developed this model over several years and rate case  
190 studies to produce a just and reasonable pricing structure that works within the  
191 guidelines set forth by the Public Service Commission Rules and is in the public  
192 interest. It is adapted to individual cases considering each Company's unique  
193 business.

194 In this case, the Division used the Company's latest financial information, including  
195 the 2020 and 2021 Water Annual Reports and information submitted in the  
196 Company's request for a rate increase. This information was used to obtain a  
197 baseline of its reported revenues and expenses and the number of customers,  
198 standby customers, total gallons delivered, and other data. The Division also  
199 gathered information from the Company in virtual meetings, emails, and phone calls.  
200 The Division researched and analyzed the information and recommended  
201 appropriate adjustments.

202 The resulting adjusted expenses are then classified as fixed or variable. Rates are  
203 calculated to cover all fixed costs through base rates charged to all customers. This  
204 model ensures that if even a drop of water is not delivered, the Company will have  
205 the opportunity to recover all fixed expenses.

206 **Q. WHY ARE LAKEVIEW'S WATER COSTS CONSIDERED A FIXED COST AND**  
207 **NOT A VARIABLE COST?**

208 A. Typically, water purchased or produced by the Company is a variable cost that  
209 increases as more water is consumed. In this case, Lakeview explains that its  
210 contract with Weber Basin Water allows Lakeview to use a set amount of acre-feet

211 of water annually and pay an annual fixed amount regardless of the amount of water  
212 it uses, unless a special arrangement is made with Weber Basin.<sup>3</sup>

213 Although the Division's rate model, in this case, does not include water as a variable  
214 cost, it includes as variable costs purchased power and a portion of the water  
215 system maintenance, which are both dependent on the amount of water consumed.

216 **Q. WHAT USAGE AMOUNTS DOES THE DIVISION TYPICALLY RECOMMEND IN**  
217 **ITS RATE MODEL?**

218 A. Although it varies somewhat based on the company, the Division usually  
219 recommends 6,000 to 8,000 gallons per tier. For example, the Division's most recent  
220 rate increases approved by the Commission included incrementally increasing tiered  
221 rates of 8,000 gallons per tier for Pineview West Water Company<sup>4</sup> and 6,000 gallons  
222 per tier for Bridgerland Water Company.<sup>5</sup> In conservation rates, the first tier is sold at  
223 the actual cost to provide water, which is minimal. To encourage conservation, the  
224 Division increases the rates for water use above the first-tier quantity by setting  
225 higher rates for each tier of increasing water use. Using this model, the water  
226 company is potentially earning more than the amount allowed by the Commission, or  
227 "over-earning," when customers consume more than the quantity of water set in the  
228 first tier, which is priced to cover only the variable costs and would not constitute  
229 over-earning. To overcome this potential over-earning scenario, the company must  
230 deposit any excess net earnings from usage above the first tier into its capital  
231 reserve account, as discussed earlier.

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<sup>3</sup> Lakeview's responses to DPU Data Request 1.12 through 1.14, dated May 5, 2023.

<sup>4</sup> *Request of Pineview West Water Company for Approval of a Conservation Rate Increase*, Docket No. 19-2438-01, Order issued Jan. 25, 2021.

<sup>5</sup> *Application of Bridgerland Water Company Application for a Culinary Water Rate Increase*, Docket No. 21-001-0, Report and Order issued Feb. 28, 2011.

233 **COMPANY BACKGROUND**

234 **Q. PLEASE PROVIDE A BRIEF HISTORICAL BACKGROUND OF LAKEVIEW.**

235 A. The Lakeview water system is located just south of Pineview Reservoir along State  
236 Road 39 and Snow Basin Road in the Huntsville, Utah area. Lakeview's system was  
237 constructed in the 1960s and has been upgraded several times. On April 28, 1982,  
238 Lakeview was issued CPCN No. 2080 in Docket No. 82-0540-01. Lakeview's CPCN  
239 initially allowed it to serve 347.25 equivalent residential connections (including  
240 individual family homes and townhouses). On March 3, 2022, the Commission  
241 granted Lakeview's petition to expand its service area in Docket No. 21-540-01<sup>6</sup>  
242 under its existing CPCN to provide water in the expanded service area and an  
243 additional 60 connections.

244 **Q. PLEASE STATE THE DATE OF LAKEVIEW'S LAST RATE INCREASE.**

245 A. Lakeview's last rate increase became effective in 2010 following a three-year base  
246 rate phase-in in Docket No. 06-054-T01.<sup>7</sup>

247 **LAKEVIEW'S CURRENT RATES AND FEES**

248 **Q. WHAT ARE THE CURRENT RATE STRUCTURE AND FEES ORDERED IN**  
249 **DOCKET NO. 06-054-T01, PRESENTLY IN PLACE AT LAKEVIEW?**

250 A. Please refer to Table 1 on the next page.

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<sup>6</sup> *Lakeview Water Corporation's Application for Approval to Expand its Service Area*, Docket No. 21-540-10, Order issued Mar. 3, 2022.

<sup>7</sup> *Application of Lakeview Water Corporation for Approval of its Proposed Water Rate Schedules and Water Service Regulations*, Docket No. 06-540-T01, Report and Order issued Nov. 29, 2007.

Table 1  
 Current Rates and Fees

<b>Water Rates</b>	
<b>Water Usage Amounts</b>	<b>Current Rates</b>
<b>Base Rate</b> (Minimum Fee)	<b>\$35.00</b>
≤ 12,000 gallons	Included
<b>Tier 1</b> 12,001 to 15,000 gallons	\$3.25 per 1,000 gallons
<b>Tier 2</b> 15,001 to 40,000 gallons	\$3.75 per 1,000 gallons
<b>Tier 3</b> 40,001 to 60,000 gallons	\$4.25 per 1,000 gallons
<b>Tier 4</b> 60,001 to 80,000 gallons	\$5.50 per 1,000 gallons
<b>Tier 5</b> ≥ 80,000 gallons	\$7.00 per 1,000 gallons
<b>Fees and other Charges</b>	
<b>Connection Fees</b>	<b>Current Charges</b>
Single Family Dwelling Unit (Developments) - ¾ inch	\$3,500
Other Single Family Dwelling Unit - ¾ inch	\$4,000
Multiple Family Dwellings (on single connection)	\$3,000
<b>Standby Fee</b>	
Single Connection	<b>\$10.00</b>

251

252 **Q. WHAT DOES THE DIVISION CONCLUDE ABOUT THE CURRENT RATES AND**  
 253 **RATE STRUCTURE?**

254 A. The Division's analysis shows that the current rates and rate structure no longer  
 255 cover fixed costs and do not have an effective conservation rate. The rates and rate  
 256 structure no longer result in just and reasonable rates and are no longer in the public  
 257 interest.

258

259 **LAKEVIEW'S REQUESTED RATES AND FEES**

260 **Q. WHAT IS LAKEVIEW'S REQUESTED FINAL RATE STRUCTURE? PLEASE**  
 261 **INCLUDE THE INTERIM RATES APPROVED BY THE COMMISSION IN ITS**  
 262 **ORDER DATED MARCH 16, 2023,<sup>8</sup> AND LAKEVIEW'S REQUESTED FINAL**  
 263 **RATES.**

264 **A.** Please refer to Table 2 below.

Table 2  
 Interim and Requested Final Rates and Fees

<b>Water Rates</b>		
<b>Water Usage Amounts</b>	<b>Commission Approved Interim Rates</b>	<b>Final Rates Requested by Lakeview</b>
<b>Base Rate (Minimum Fee)</b>	<b>\$60.00</b>	<b>\$73.57</b>
≤ 12,000 gallons	\$2.00 per 1,000 gallons	\$3.00 per 1,000 gallons
<b>Tier 1</b> 12,001 to 20,000 gallons	\$3.00 per 1,000 gallons	\$4.49 per 1,000 gallons
<b>Tier 2</b> 20,001 to 40,000 gallons	\$4.50 per 1,000 gallons	\$6.74 per 1,000 gallons
<b>Tier 3</b> 40,001 to 60,000 gallons	\$6.75 per 1,000 gallons	\$10.11 per 1,000 gallons
<b>Tier 4</b> 60,001 to 80,000 gallons	\$10.13 per 1,000 gallons	\$15.17 per 1,000 gallons
<b>Tier 5</b> ≥ 80,000 gallons	\$15.19 per 1,000 gallons	\$22.75 per 1,000 gallons
<b>Fees and other Charges</b>		
<b>Connection Fees</b>	<b>Commission Approved Interim Rates</b>	<b>Final Rates Requested by Lakeview</b>
Single Family Dwelling Unit (Developments) - ¾ inch	\$1,495	\$1,495
Other Single Family Dwelling Unit - ¾ inch	\$1,495	\$1,495
Multiple Family Dwellings (on single connection)	\$1,495	\$1,495
<b>Standby Fee</b>		
Single Connection	<b>\$30.00</b>	<b>\$41.33</b>

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<sup>8</sup> Application of Lakeview Water Corporation for Interim Rate Increase and General Rate Increase, Docket No. 22-540-01, Order issued Mar. 16, 2023.

267 **Q. DOES THE DIVISION WISH TO COMMENT ON LAKEVIEW'S REQUESTED RATE**  
 268 **STRUCTURE?**

269 A. Yes. Lakeview's requested rate model tiers include larger quantities of water than  
 270 are typically used in conservation rate models. The Division believes these tier  
 271 quantities are too large and recommends smaller ones.

272 **RECOMMENDED RATES AND FEES**

273 **Q. WHAT RATES ARE THE DIVISION RECOMMENDING IN THIS DOCKET?**

274 A. The rates, as detailed in Exhibit 2.2 and explained in Exhibit 2.2.a, are located in  
 275 Table 3 below.

Table 3  
 Rates and Fees Recommended by the Division

<b>Water Rates</b>	
<b>Water Usage Amounts</b>	<b>Division Recommended Rates</b>
<b>Base Rate (Minimum Fee)</b>	<b>\$78.50</b>
<b>Tier 1</b> 1 to 8,000 gallons	\$3.50 per 1,000 gallons
<b>Tier 2</b> 8,001 to 16,000 gallons	\$5.50 per 1,000 gallons
<b>Tier 3</b> 16,001 to 24,000 gallons	\$11.00 per 1,000 gallons
<b>Tier 4</b> 24,001 to 32,000 gallons	\$16.50 per 1,000 gallons
<b>Tier 5</b> ≥ 32,001 gallons	\$25.00 per 1,000 gallons
<b>Fees and other Charges</b>	
<b>Connection Fees</b>	<b>Division Recommended Rates</b>
Single Family Dwelling Unit (Developments) - ¾ inch	\$1,495
Other Single Family Dwelling Unit - ¾ inch	\$1,495
Multiple Family Dwellings (on single connection)	\$1,495
<b>Standby Fee</b>	
Single Connection	<b>\$23.50</b>

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277

278 **Q. PLEASE EXPLAIN HOW THIS RATE STRUCTURE AND RATE AND FEE**  
279 **INCREASE ARE JUST AND REASONABLE AND IN THE PUBLIC INTEREST.**

280 A. The Division is sensitive to steep rate increases, as in this rate case. Here, the large  
281 increase is due to several reasons.

282 1. Lakeview has not had a rate increase since 2010. The Division encourages  
283 regulated water utilities to review their expenses and revenues regularly and  
284 request a rate increase as needed.

285 2. Mr. Ray Bowden heavily subsidized Lakeview. The Division strongly  
286 discourages developer subsidies, apart from a new utility in the initial years of  
287 providing service.

288 3. Private water companies are funded solely by their customers. The Salt Lake  
289 Tribune states that most Utahns pay low water rates because property taxes  
290 heavily subsidize most Utah water districts.<sup>9</sup> Absent subsidization, private  
291 water companies are funded solely through customer rates and fees.

292 **Q. PLEASE PROVIDE A COMMENTARY ON THE EXTENT OF MR. BOWDEN'S**  
293 **SUBSIDIZATION OF LAKEVIEW AND ANY CORRESPONDING DEBT**  
294 **INCURRED BY LAKEVIEW.**

295 A. In Mr. Bowden's confidential direct testimony, he stated,

296 *Soon after I acquired the Company, I became aware that the*  
297 *Company was in default to several suppliers. As an example, LW*  
298 *[Lakeview Water] was in default to Weber Basin Water. Weber*  
299 *Basin Water is the major water supplier to LW and LW was in*  
300 *jeopardy of losing the long-standing water contracts with Weber*

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<sup>9</sup> Zak Podmore, *Utah residents use the most water of any Western state. They also pay some of the lowest water rates*, SALT LAKE TRIB. (Sept. 9, 2021), <https://www.sltrib.com/news/2021/09/20/utah-residents-use-most/>



301 *Basin Water. To maintain the contracts, I personally paid the*  
302 *amount due.*

303 *The company balance sheet shows long-term notes payable of*  
304 *██████████ I personally hold all these notes.<sup>10</sup>*

305 Additionally, the 2021 Water Annual Report on page 18, line 83, also shows "Notes  
306 payable (Long-term) ██████████." Lakeview witness Mr. Bill Duncan's confidential  
307 direct testimony does not mention any company debt, and his confidential exhibits  
308 do not include any debt requested to be recovered in rates. Although this loan  
309 amount was not included in the rates, it showed as a Company liability. Through  
310 responses to the Division's first data request issued to Lakeview, Mr. Bowden  
311 acknowledges that the ██████████ is best characterized as a subsidy, and Lakeview is  
312 not responsible for this loan or any repayment.<sup>11</sup>

313 Although the Division does not recommend that developer subsidies fund public  
314 utilities, the Division wishes to commend Mr. Bowden's financial support of  
315 Lakeview, which kept the company solvent until a rate increase could be filed.  
316 Without the financial backing, rates would have likely increased more than  
317 recommended by the Division and at an earlier date to avoid potential financial ruin.

318 **Q. HOW DO THE DIVISION'S RECOMMENDED RATES COMPARE TO RATES FOR**  
319 **OTHER WATER COMPANIES?**

320 A. Yes. The Division's recommended rate structure is similar to rate structures that the  
321 Commission has recently approved for two other water companies, Pineview West  
322 Water Company,<sup>12</sup> located near Pineview Reservoir, and Bridgerland Water  
323 Company,<sup>13</sup> in Northern Utah.

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<sup>10</sup> Ray Bowden, Confidential Direct Testimony, dated January 13, 2023, lines 16 through 28.

<sup>11</sup> Lakeview's responses to DPU Data Request 1.2 through 1.8, dated April 21, 2023.

<sup>12</sup> *Request of Pineview West Water Company for Approval of a Conservation Rate Increase*, Docket No. 19-2438-01, Order issued Jan. 25, 2021.

<sup>13</sup> *Application of Bridgerland Water Company Application for a Culinary Water Rate Increase*, Docket No. 21-001-0, Report and Order issued Feb. 28, 2011.

324 **Q. BESIDES THE INCREASE IN WATER RATES, IS THE DIVISION**  
325 **RECOMMENDING CHANGES TO ANY OF THE FEES AND OTHER CHARGES,**  
326 **AS SHOWN IN TABLES 1, 2, 3, AND 4?**

327 A. Yes. The Division recommends that the connection fees be reduced from \$3,500 or  
328 \$4,000 to \$1,642.40 to reflect actual costs. Mr. Duncan's confidential direct  
329 testimony provides a comprehensive analysis calculating the actual connection  
330 costs.<sup>14</sup> Mr. Duncan's confidential written direct testimony states:

331 *The connection rates were apparently priced above cost, and revenues*  
332 *generated were inflated by the fact that LW [Lakeview] experienced a*  
333 *substantially higher number of new connections in these years than*  
334 *normal. There were several multi-unit housing projects completed and*  
335 *connected between 2019 and 2021. LW [Lakeview] believes this is not*  
336 *sustainable as the number of new connections in any year is not*  
337 *predictable.*<sup>15</sup>

338 The Division concurs with Mr. Duncan's assessment that inflated connection costs  
339 are not a reliable funding source because the number of new connections in any  
340 year is unpredictable. The Division's rates are designed to cover all fixed costs with a  
341 monthly base rate. Any inflated tariff fees would likely result in Lakeview over-  
342 earning.

343 **RATE COMPARISON**

344 **Q. PLEASE SHOW A SIDE-BY-SIDE COMPARISON OF THE MONTHLY RATES**  
345 **AND FEES TO INCLUDE THE CURRENT RATES, INTERIM RATES APPROVED**  
346 **BY THE COMMISSION, LAKEVIEW'S REQUESTED FINAL RATES, AND THE**  
347 **RATES RECOMMENDED BY THE DIVISION.**

348 A. Please refer to Table 4 on the next page.

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<sup>14</sup> Bill Duncan, Confidential Exhibits 2.1 to 2.10 – Direct Testimony, dated January 31, 2023, Tab 2.9.

<sup>15</sup> Bill Duncan, Confidential Direct Testimony, dated January 31, 2023, Lines 34 – 38.

Table 4  
Current, Interim, Requested Final, and Recommended Rates and Fees

<b>Water Rates</b>				
<b>Water Usage Amounts</b>	<b>Current Rates</b>	<b>Commission Approved Interim Rates</b>	<b>Final Rates Requested by Lakeview</b>	<b>Division Recommended Rates</b>
<b>Base Rate</b> (Minimum Fee)	<b>\$35.00</b>	<b>\$60.00</b>	<b>\$73.57</b>	<b>\$78.50</b>
≤ 12,000 gallons	Included	\$2.00 per 1,000 gallons	\$3.00 per 1,000 gallons	No gallons included in Base Rate
<b>Tier 1</b> 12,001 to 15,000 gallons	\$3.25 per 1,000 gallons			
12,001 to 20,000 gallons		\$3.00 per 1,000 gallons	\$4.49 per 1,000 gallons	
0 to 8,000 gallons				\$3.50 per 1,000 gallons
<b>Tier 2</b> 15,001 to 40,000 gallons	\$3.75 per 1,000 gallons			
20,001 to 40,000 gallons		\$4.50 per 1,000 gallons	\$6.74 per 1,000 gallons	
8,001 to 16,000 gallons				\$5.50 per 1,000 gallons
<b>Tier 3</b> 40,001 to 60,000 gallons	\$4.25 per 1,000 gallons	\$6.75 per 1,000 gallons	\$10.11 per 1,000 gallons	
16,001 to 24,000 gallons				\$11.00 per 1,000 gallons
<b>Tier 4</b> 60,001 to 80,000 gallons	\$5.50 per 1,000 gallons	\$10.13 per 1,000 gallons	\$15.17 per 1,000 gallons	
24,001 to 32,000 gallons				\$16.50 per 1,000 gallons
<b>Tier 5</b> ≥ 80,000 gallons	\$7.00 per 1,000 gallons	\$15.19 per 1,000 gallons	\$22.75 per 1,000 gallons	
≥ 32,001 gallons				\$25.00 per 1,000 gallons
<b>Fees and other Charges</b>				
<b>Connection Fees</b>	<b>Current Rates</b>	<b>Commission Approved Interim Rates</b>	<b>Final Rates Requested by Lakeview</b>	<b>Division Recommended Rates</b>
Single Family Dwelling Unit (Developments) - ¾ inch	\$3,500	\$1,495	\$1,495	\$1,495
Other Single Family Dwelling Unit - ¾ inch	\$4,000	\$1,495	\$1,495	\$1,495
Multiple Family Dwellings (on single connection)	\$3,000	\$1,495	\$1,495	\$1,495
<b>Standby Fee</b>				
Single Connection	<b>\$10.00</b>	<b>\$30.00</b>	<b>\$41.33</b>	<b>\$23.50</b>

349

350 **Q. DOES THE DIVISION WISH TO COMMENT ON THIS SIDE-BY-SIDE**  
351 **COMPARISON?**

352 A. The Division wishes to point out that the standby base rate recommended by the  
353 Division is lower than the standby base rate requested by Lakeview and the interim  
354 standby base rate approved by the Commission. If the Commission approves as  
355 final rates the Division's recommended rates, the Division recommends that

356 Lakeview refund its standby customers the difference between the interim<sup>16</sup> and the  
 357 final standby rates. Additionally, the Division points out that the recommended base  
 358 rates are higher than the Company’s requested base rates and the interim base  
 359 rates approved by the Commission. To that end, the Division also recommends that  
 360 the customers pay the difference between the interim base rate<sup>17</sup> and the  
 361 recommended final base rate.

362 Additionally, the Commission-set effective date for interim rates was March 17, 2023.  
 363 The Company recently notified the Division that it had inadvertently started billing the  
 364 interim rates approved by the Commission on its March 1, 2023,<sup>18</sup> billing. This  
 365 resulted in an overbilling for the first 16 days of March. Lines 1 and 10 of Table 5  
 366 show the recommended refund due to the overbilling.

Table 5  
 Analysis of Surcharge, (Refund), and Billing Error

	Original Tariff Amount	Commission Approved Interim Rates	Division Recommended Rates	Surcharge / (Refund)
1 <b>Connected Customers</b>	\$35.00 monthly	\$60.00 monthly	\$78.50 monthly	Monthly Totals
2 March 1 to March 16 *	\$18.06	\$30.97		(\$12.90)
3 March 17 to March 31 *		\$29.03	\$37.98	\$8.95
4 April		\$60.00	\$78.50	\$18.50
5 May		\$60.00	\$78.50	\$18.50
6 June		\$60.00	\$78.50	\$18.50
7 July		\$60.00	\$78.50	\$18.50
8 August		\$60.00	\$78.50	\$18.50
9 September		\$60.00	\$78.50	\$18.50
10 <b>Total</b>	<b>\$18.06</b>	<b>\$420.00</b>	<b>508.98</b>	<b>\$107.05</b>
11 <b>Standby Customers</b>	\$10.00 monthly	\$30.00 monthly	\$23.50 monthly	Monthly Totals
12 March 1 to March 16 *	\$4.85	\$15.48		(\$10.64)
13 March 17 to March 31 *		\$14.52	\$11.37	(\$3.15)
14 April		\$30.00	\$23.50	(\$6.50)
15 May		\$30.00	\$23.50	(\$6.50)
16 June		\$30.00	\$23.50	(\$6.50)
17 July		\$30.00	\$23.50	(\$6.50)
18 August		\$30.00	\$23.50	(\$6.50)
19 September		\$30.00	\$23.50	(\$6.50)
20 <b>Total</b>	<b>\$4.85</b>	<b>\$210.00</b>	<b>152.37</b>	<b>(\$52.78)</b>

367

<sup>16</sup> Application of Mountain Sewer Corporation for Interim Rate Increase and General Rate Increase, Docket No. 22-097-01, Order issued Mar. 14, 2023.

<sup>17</sup> Id.

<sup>18</sup> Id.

368 The Division recommends that Lakeview refund its standby customers \$52.78 as a  
369 credit in the first billing cycle following the effective date of the Commission’s order  
370 and bill its connected customers \$107.05, payable over three months if requested by  
371 the customer, through the standard billing mechanism. This payment or refund  
372 includes the refund or surcharge and the billing error amounts. Please note that this  
373 assumes that the Commission's order will have an effective date of October 1, 2023.  
374 If the effective date is different, then the Company should adjust its total surcharge  
375 or total refund accordingly. Please refer to Table 5 for the surcharge, refund, and  
376 overbilling analysis.

377 In addition, the Division recommends that Lakeview refund any customer that was  
378 over-billed due to the billing error, or the timing of the interim rates based on the  
379 usage amounts through the water tiers.

380 **Q. PLEASE PROVIDE A CHART SHOWING SAMPLE BILLING AMOUNTS**  
381 **COMPARING THE CURRENT TO RECOMMENDED BILLINGS AND THE**  
382 **PERCENT INCREASES.**

383 A. Please refer to Table 6 below.

Table 6  
Sample Billing Amounts Comparing Current to Division Recommended Billings

Description	Gallons	Current Billing	Division Recommended Billing	Percent Increase
Maximum Gallons in Recommended Tier 1	8,000 gals	\$35.00	\$106.50	204%
Average number of gallons used (per customer) in 2020/2021	8,027 gals	\$35.00	\$106.65	205%
Mean number of gallons used (per customer) in 2021	10,589 gals	\$35.00	\$120.74	245%
Maximum Gallons in Recommended Tier 2	16,000 gals	\$48.00	\$150.50	214%
Maximum Gallons in Recommended Tier 3	24,000 gals	\$76.00	\$238.50	214%
Maximum Gallons in Recommended Tier 4	32,000 gals	\$106.00	\$370.50	250%

384

385 **Q. WHAT DOES THE DIVISION'S ANALYSIS CONCLUDE ABOUT THE**  
386 **RECOMMENDED RATES, FEES, AND RATE STRUCTURE?**

387 A. The Division's analysis shows that the recommended rates and rate structure  
388 provide the Company the opportunity to cover all fixed costs, fund the reserve

389 account, and have an effective conservation rate structure with reasonably  
390 increasing tiered rates. The Division concludes that its recommended rates are just,  
391 reasonable, and in the public interest.

392 **THE DIVISION'S SUPPORTING EXHIBITS**

393 **Q. WHAT EXHIBITS DID THE DIVISION PREPARE IN SUPPORT OF THE RATES**  
394 **AND FEES RECOMMENDED IN THIS CASE?**

395 A. The exhibits referred to in this testimony are listed in index Exhibit 2.1.

396 **Q. DOES YOUR DIRECT TESTIMONY REFERENCE AND DISCUSS EACH OF**  
397 **THESE EXHIBITS?**

398 A. No. My direct testimony only refers to exhibits that require additional explanation or  
399 to indicate significant adjustments or issues. Each exhibit contains notes, comments,  
400 and supporting references and can be reviewed independently.

401 **Q. DOES THE DIVISION WISH TO COMMENT ON LAKEVIEW'S INCREASE IN**  
402 **SALARIES IN THE DIVISION'S EXHIBIT 2.3?**

403 A. The Division issued a data request asking for salaries and duties of Lakeview  
404 personnel. Lakeview's response listed the salaries and a summary of the duties of its  
405 personnel. The Division analysis shows that the salaries and duties are reasonable,  
406 especially since they are divided equally between Lakeview and Mountain Sewer, an  
407 affiliated company.<sup>19</sup>

408 **Q. WHY DID THE DIVISION MAKE AN ADJUSTMENT ON EXHIBIT 2.3 TO THE**  
409 **LEGAL FEES REQUESTED BY LAKEVIEW?**

410 A. In Mr. Duncan's confidential direct testimony,<sup>20</sup> the test year included legal fees  
411 incurred by Lakeview. The first data request response indicates, in part,

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<sup>19</sup> Lakeview's responses to DPU Data Request 1.1, dated May 5, 2023.

<sup>20</sup> Bill Duncan, Confidential Exhibits 2.1 to 2.10 – Direct Testimony, dated January 31, 2023, Tab 2.1.

412                    *Legal costs have averaged [REDACTED] over the last three years*  
413                    *(2019 – 2021). The legal team has performed several services*  
414                    *over the last three years for Lakeview. Many of these services*  
415                    *revolved around the expansion of Lakeview's service area which*  
416                    *included filing and defending an application for approval to*  
417                    *expand the service area with the Public Service Commission in*  
418                    *2021.<sup>21</sup>*

419                    The expansion referred to the addition of Legacy Mountain Estates (LME)  
420                    approved by the Commission in Docket No. 21-540-10. The Commission  
421                    Order in that docket states, in part,

422                    *... we find and conclude that the public interest will be served*  
423                    *since the expansion will be funded by LME, existing Lakeview*  
424                    *customers will not experience any reduction in service quantity*  
425                    *or quality or an increase in rates...<sup>22</sup>*

426                    Expansions should be paid by the developer of LME or LME's customers, not the  
427                    current customers of Lakeview. The Division issued a third data request asking for  
428                    clarification of its requested legal fees and if Lakeview wished to adjust the amount  
429                    of requested legal fees that do not include the one-time legal fees for expansion in  
430                    its test period. In its response to Amended Confidential Data Request, 3.1 Lakeview  
431                    has adjusted its requested annual fees from [REDACTED]<sup>23</sup>, a reduction of  
432                    [REDACTED], which the Division considers reasonable.

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<sup>21</sup> Lakeview's responses to DPU Data Request 1.2 through 1.10, dated April 21, 2023.

<sup>22</sup> *Lakeview Water Corporation's Application for Approval to Expand its Service Area*, Docket No. 21-540-10, Order issued Mar. 3, 2022, at 5.

<sup>23</sup> Lakeview's Amended responses to DPU Data Request 3.1, end of page 2, dated April 21, 2023. Lakeview's response states, "A five-year average could possibly give a closer estimation of what to expect going forward however, the numbers are not as solid as those for the three-year average. With that said, the average annual legal expenses for the years 2017 to 2021 is [REDACTED]."

433 **RATE RECOMMENDATION**

434 **Q. DOES THE DIVISION HAVE A RECOMMENDATION FOR LAKEVIEW WATER'S**  
435 **RATES AND FEES?**

436 A. The Division requests that the Commission approve the rates and fees  
437 recommended by the Division, outlined in Exhibit 2.2 and presented in Table 3, as  
438 just and reasonable and in the public interest. The Division requests that Lakeview  
439 refund its standby customers \$52.78, which includes the mentioned billing error and  
440 the difference between the approved interim standby rate and recommended final  
441 standby rate. Additionally, the Division requests that customers pay the difference  
442 between the higher recommended base rate and the interim base rate for connected  
443 customers, including the billing error of \$107.05, with the option to pay in three  
444 monthly payments through the normal billing process. Rates should become  
445 effective on October 1, 2023.

446 **TARIFF RECOMMENDATION**

447 **Q. OTHER THAN UPDATING THE NEW RATES AND FEES, HAS LAKEVIEW**  
448 **REQUESTED ANY ADDITIONAL FEES OR CHARGES IN TARIFF NO. 3?**

449 A. No. The requested tariff shows the same rates and fees as the tariff it is replacing  
450 with updated amounts.

451 **Q. HAS LAKEVIEW MADE ANY OTHER CHANGES IN ITS REQUESTED TARIFF**  
452 **NO. 3?**

453 A. Yes, many housekeeping items are included in the requested tariff. The requested  
454 tariff is more thorough in its definitions and standards and is more consistent with the  
455 tariffs recently approved by the Commission in the last several water rate cases.

456



457 **Q. DID LAKEVIEW PROVIDE A COPY OF ITS CURRENT TARIFF, A RED-LINED**  
458 **VERSION, AND A FINAL VERSION OF ITS REQUESTED TARIFF?**

459 A. Yes, in its application, Lakeview provided Exhibit C, Exhibit D1, and Exhibit D2,  
460 respectively.

461 **Q. DOES THE DIVISION HAVE A RECOMMENDATION FOR LAKEVIEW'S FINAL**  
462 **REQUESTED TARIFF NO. 3 (EXHIBIT D2)?**

463 A. Yes. The Division recommends that the Commission find Lakeview's updated rates  
464 and fees, as now reflected in its updated Tariff No. 3, as just and reasonable and in  
465 the public interest. The Division also requests that the Commission select October 1,  
466 2023, as Tariff No. 3's effective date.

467 **FINAL COMMENTS**

468 **Q. DOES THE DIVISION WISH TO COMMENT ON ITS WORKING RELATIONSHIP**  
469 **WITH LAKEVIEW PERSONNEL AND ITS REPRESENTATIVES?**

470 A. The Division appreciates the work and effort put into this rate case request before  
471 filing. The Company was forthright in its expenses, and the Division made minimal  
472 adjustments. The Division's interaction with Mr. Duncan and Lakeview's attorney,  
473 Ms. Jennifer Bowen-Crockett, made this process go as smoothly as possible. The  
474 Division's interaction with Mr. Duncan and Ms. Bowen-Crockett included a  
475 combination of Zoom meetings, phone calls, and emails, and they were readily  
476 available and knowledgeable.

477 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

478 A. Yes.