–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

In the Matter of Legacy Sweetwater, Inc.'s Request for a Rate Increase	))))))))	**Docket No. 25-2280-03** **Exhibit No. DPU 1.0 DIR** **Corrected Direct Testimony of Kelley O'Connor**

Redacted

FOR THE DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

Direct Testimony of

Kelley O'Connor

September 30, 2026

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Q: PLEASE STATE YOUR NAME, EMPLOYER, POSITION, AND BUSINESS ADDRESS.

A: My name is Kelley O'Connor. I am employed by the Division of Public Utilities (Division) as a Utility Analyst. My business address is Heber Wells Building, 160 East 300 South, Salt Lake City, Utah.

Q: PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A: I have a Bachelor of Science in economics and a J.D. from Baylor University. I have professional experience in accounting and financial analysis. I have been with the Division for over a year.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH?

A: Yes, I have testified before the Public Service Commission of Utah (Commission) in telecommunication and natural gas dockets.

BACKGROUND

Q: CAN YOU DESCRIBE THE BACKGROUND AND ISSUES OF THIS CASE?

A: On July 30, 2025, Legacy Sweetwater, Inc. (LSI or Company) filed with the Commission its notice of intent to file a request for a culinary rate increase. On March 26, 2026, the Company filed its application for a general rate increase (Application). The Division received an action request from the Commission on March 26, 2026, to review the Application and make recommendations by April 9, 2026, regarding the Application's completeness. The Division reviewed the comprehensive Application and supporting exhibits and found it to be incomplete and submitted a response to the Commission on April 8, 2026, explaining its findings. The Commission issued an order finding that the Application contained material deficiencies on April 15, 2026, and charged the Division with reviewing the Company's provided supplemental information and filing a recommendation by April

20, 2026.[1] The Division submitted a recommendation on April 20, 2026, concluding that the Company's supplemented Application constituted a complete filing.[2]

The Company requested interim rates in its Application.[3] On May 7, 2026, the Division filed comments recommending the Commission approve the requested interim rates and fees.[4] The hearing on interim rates was held on May 27, 2026, and the Commission issued an order approving interim rates in part on June 12, 2026.[5]

Q: PLEASE EXPLAIN THE HISTORY OF THE WATER COMPANY.

A: LSI is a for-profit regulated utility providing culinary water service to 75 connected customers and 153 standby customers in the Legacy Mountain development of cabins and second homes located near Fairview, Utah.[6] The Commission issued Certificate of Public Convenience and Necessity (CPCN) No. 2280 to LSI on July 21, 1999.[7] The Company was acquired by its current owners in 2006, and the Commission approved the Company's tariff, including revised rates, that same year.[8]

Effective September 26, 2006, LSI's rates were $25.00 per month minimum charge for the first 5,000 gallons, $5.00 per 1,000 gallons for the next 2,500 gallons and usage above 7,501 gallons was $7.00 per 1,000 gallons.[9]

Fees included a standby fee of $25.00 per month, a connection fee of $3,000 for service to the property line, and a turn-on fee of $100. Additionally, the tariff included

[1] Order Determining Application for Rate Increase is Incomplete (Apr. 15, 2026).
[2] Comments from the Division (Apr. 20, 2026).
[3] Application at 2.
[4] Comments from the Division (May 7, 2026).
[5] Order Approving Interim Rates in Part (June 12, 2026) (Interim Rate Order).
[6] DPU Exhibits 1.11 and 1.12.
[7] *Application of Legacy Sweetwater, Inc. for a Certificate of Public Convenience and Necessity to Operate as a Public Utility Rendering Water Service,* Docket No. 99-2280-01.
[8] *Legacy Sweetwater, Inc's Request for Rates, Rules, and Regulations for Water Service*, Docket No. 06-2280-T01, Order (Sept. 26, 2006).
[9] *Id*.

an impact fee of $12,450 for the Willow Glen 5 through 9 and North Ridge 2, 5, and 7 to 14 lots to connect to the system.

On June 12, 2026, the Commission approved interim rates in part, which included a $251 monthly base rate for connected customers and $75.50 for standby customers and five water usage tiers.[10]

Q: HOW DID THE DIVISION EVALUATE THE COMPANY'S APPLICATION IN THIS CASE?

A: The Division conducted a thorough review of the Application and its exhibits, including the Company's rate calculation workbook,[11] income statements for 2024 and 2025, the 2026 pro-forma income statement, the January 2026 balance sheet, the 2024 general ledger, and the direct testimonies of Shane Berry and Mark Long.

The Division issued four sets of data requests covering payroll allocations, expense support, fixed assets and depreciation, customer counts, the proposed infrastructure loan, and the capital reserve account. The Division also held meetings with the Company on numerous occasions to gain clarity and understanding concerning a plethora of topics. Additionally, the Division reviewed all customer comments submitted to the Commission in this docket.

The Division's complete analysis and recommended rates are presented in Confidential DPU Exhibits 1.1 through 1.9, which compare the Company's requested revenue requirement with the Division's recommendation.

PROPOSED RATE MODIFICATION

Q: PLEASE EXPLAIN THE COMPANY'S PROPOSED RATE CHANGES AND ANY ISSUES THE DIVISION IDENTIFIED.

[10] Interim Rate Order. See Table 1 on page 5 for rate and fee comparison.
[11] Legacy Sweetwater Confidential Ex. 15 – Rate calculation

A: In its Application, the Company requested a base rate of $345.50 per month for connected customers, a standby fee of $104.00 per month, and a new five-tier water usage schedule with new volumetric rates.[12] The Company also proposed new or increased fees, including raising the connection hook-up fee from $3,000 to $3,900.[13]

On June 16, 2026, the Company filed revised Exhibits 15 and 18, to reflect the Commission-approved interim rates of $251.00 per month for connected customers and $75.50 per month for standby customers.[14] The proposed five usage tiers and other fees were unchanged, and these interim rates are the rates now in effect.

The Division identified three key issues with the Company's request:

1. Customer Counts: In its Application, the Company calculated rates using 242 total customers (63 connected and 179 standby). However, a customer audit completed during discovery revealed an updated 228 actual billing accounts (75 connected and 153 standby). [15] The Division recalculated rates using this revised customer count.

2. Tier 1 Consumption Assumptions: The Tier 1 usage rate was set assuming an estimated 420,000 gallons of monthly consumption (5,040,000 gallons per year) taken from 2025 well meter readings. Actual metered usage averaged [redacted] gallons per month through August 4, 2026, which is approximately [redacted] lower than projected.[16]

[12] Application at 1.
[13] *Id.*
[14] Legacy Sweetwater Ex. 15 – Revised Rate Calculation, Ex. 18 – Revised Tariff No. 2 Per PSC June 12, 2026, Order.
[15] Confidential DPU Ex. 1.14 – Legacy Sweetwater Response to DPU Data Request Sets 1 and 2 - Attachment 1, at Tab 1.14-15.
[16] Confidential DPU Ex.1.15 – Legacy Sweetwater Response to DPU Data Request Set 3, 3.2

3. Test Year Expense Adjustments: Several test year expenses required adjustment after obtaining additional information through discovery. These adjustments are detailed in the Adjustments section below.

The Division's full adjustments are presented in Confidential DPU Exhibit 1.2. The Division recommends a base rate of $277.00 per month for connected customers, a standby fee of $83.50 per month, and the same five usage tiers, as calculated in Confidential DPU Exhibit 1.1. Table 1, below, compares the rates of the 2006 tariff, the Commission approved interim rates, and the Division's recommended rates. The recommended base rate is an increase of 1008% over the previous $25.00 base rate, and the recommended standby fee is an increase of 234% over the previous $25.00 standby fee.

Table 1: Comparison of Rates

Monthly Water Rates	**2006 Rates**	**Approved Interim Rates**	**Division Recommended Rates**
	Monthly	Monthly	Monthly
Base Rate per month	**$25.00**	**$251.00**	**$277.00**
Usage per 1,000 gallons per month:			
Tier I (1 to 5,000 gals)	Included in base		
Tier II (5,001 to 7,500 gals)	$5.00		
Tier III (> 7,500 gals)	$7.00		
Tier 1 (1 to 5,000 gals)		$2.00	$2.00
Tier 2 (5,001 to 10,000 gals)		$4.00	$4.00
Tier 3 (10,001 to 15,000 gals)		$8.00	$8.00
Tier 4 (15,001 to 20,000 gals)		$16.00	$16.00
Tier 5 (> 20,001 gals)		$32.00	$32.00
Standby Fees per month	**$25.00**	**$75.50**	**$83.50**
Fees and Other Charges			
	Per Occurrence	Per Occurrence	Per Occurrence
First time service connection hook-up fee	$3,000	$3,900	$3,900
Service Turn-Off/Disconnect Charge *(Includes Voluntary and Involuntary)*	$0	$120	$120
Service Turn-On/Re-connect Charge	$100	$120	$120
Ownership change fee	$0	$50	$50
Shut off notice fee	$0	$150	$150
Late fee on bills 30 or more days past due	$0	$50 (plus interest)	$50 (plus interest)
Interest rate on bills past due by 30 days or more (per month)	0.00%	1.50%	1.50%
Returned check fees	$0	$50	$50
Filing and releasing liens, per occurrence	$0	$150	$150
Unwarranted service call	$0	$50	$50
Charge for service call to repair Customer-owned Infrastructure	$0	Actual cost	Actual cost
Theft of service charge	$0	$1,000	$1,000

Q: ARE THE 2006 RATES SUSTAINABLE AND DO THEY SUPPORT THE COMPANY'S FINANCIAL STABILITY?

A: The 2006 rates are not sustainable. The Company reported a net loss of [redacted] in 2024 and a net loss of [redacted] in 2025. In 2025, revenue under existing rates totaled [redacted] against reported operating expenses of [redacted]—meaning revenue covered only about 23% of reported operating expenses. LSI's parent company, iMoneyTools LLC, has subsidized operations with over $800,000 to date. However, the parent company ceased subsidizing operations and agreed to forgive the contributed amounts.[17]

While the Company's revised request of connected $251.00 and standby $75.50 rate per month recovers its own revised expense estimate of $351,282 per year,[18] it fails to fund necessary operating expenses identified by the Division, including corrected payroll allocations, insurance, and accounting support.

The Division's recommended rates of connected $277.00 and standby $83.50 rate per month generate approximately [redacted] per year in total revenue after taxes against a recommended revenue requirement of [redacted] per year[19]. This recommended revenue requirement fully funds operation and maintenance expenses, capital reserve funding equal to annual depreciation expense, projected income taxes, and a fair return on the Company's investment. Designed around updated customer counts, the recommended rates will provide the Company the opportunity to be self-supporting and help establish its long-term financial stability.

Q: WHAT BASE YEAR DID THE COMPANY USE IN ITS APPLICATION?

A: The Company used 2025 as the base year. The Company's expenses were taken largely from its 2025 income statement and adjusted for known and measurable

[17] May 27, 2026, Hr'g Tr. Page 6, 5-8.
[18] Legacy Sweetwater Ex. 15 – Revised Rate Calculation
[19] Confidential DPU Exhibit 1.3 – Total Expenses.

changes, with select adjustments derived from its 2026 pro-forma income statement. The Division used the same 2025 base year in its audit and analysis.

Q: HOW DOES THE COMPANY FINANCE ITS CAPITAL IMPROVEMENTS AND SYSTEM MAINTENANCE?

A: To date, the Company's capital improvements and major maintenance have been financed directly by its parent company, iMoneyTools LLC. Specifically, the Company's response to Confidential DPU Data Request 1.17 indicates that between 2022 and 2025, contributions covered approximately [redacted] in water system repairs and improvements alongside [redacted] in equipment repairs.[20]

Q: WAS THE COMPANY ABLE TO SECURE AN INFRASTRUCTURE IMPROVEMENT LOAN?

A: No, the Company was not able to secure an infrastructure loan. [redacted][21] The Company informed the Division that it plans to build its capital reserve and demonstrate viable income over the next 12 to 18 months, then reapply for financing and file a new general rate case to cover the associated debt service.[22]

Q: DOES THE COMPANY HAVE A CAPITAL RESERVE ACCOUNT?

A: Yes. In August 2026, the Company reported that it is opening a second bank account as its capital reserve account, where funds will be deposited quarterly.[23] The Division recommended, and the Company agreed, to make monthly deposits. Establishing and funding a capital reserve account is critical to developing and maintaining financial stability. It allows the utility to respond quickly to emergencies, minimizes the need for special assessments or expedited rate cases in the event of

[20] Confidential DPU Ex. 1.16 – Legacy Sweetwater Response to DPU Data Request 1.17 Attachment
[21] Confidential DPU Ex. 1.10 – Legacy Sweetwater Loan Letter.
[22] Confidential DPU Ex. 1.15 – Legacy Sweetwater Response to DPU Data Request Set 3, 3.11.
[23] Confidential DPU Ex. 1.15 – Legacy Sweetwater Response to DPU Data Request Set 3, 3.10.

infrastructure failure, and reduces the need for excessive borrowing to repair and replace infrastructure.

Under proposed Tariff No. 2, Rule 16, the capital reserve account will be funded from two sources:

1. Base Rates: An amount equal to annual depreciation expense.
2. Usage Revenue: Collected in the conservation tiers above the $2.00 per 1,000-gallon variable cost of production. [24]

The targeted minimum amount to be set aside annually for capital reserves is equal to the Company's annual depreciation expense before making any adjustments for Contributions in Aid of Construction (CIAC) which consists of developer-donated original infrastructure. The Division recommends setting reserve funding based on original costs rather than replacement costs to maintain verifiable, objective accounting standards through documented transactions. The Division calculated an annual depreciation expense of [redacted], compared with [redacted] in the Company's filing.[25] The Division recommends that the Company should closely monitor its reserve balance to ensure it has adequate funds to meet its ongoing needs.

Q: DOES THE COMPANY HAVE A WATER CONSERVATION PLAN AND HOW DO THE PROPOSED RATE CHANGES SUPPORT THE PLAN?

A: Yes, the Company does have a water conservation plan that incorporates strategies and goals to conserve water and reduce consumption. The volumetric tiers serve as one mechanism to curb culinary water consumption. To encourage conservation, the Company proposed five new tiered rates covering 1 to 5,000 gallons, 5,001 to 10,000 gallons, 10,001 to 15,000 gallons, 15,001 to 20,000 gallons, and 20,001

[24] DPU Exhibit 1.13 - Legacy Sweetwater Tariff No. 2.
[25] Confidential DPU Exhibits 1.4 and 1.5

gallons and above.[26] These tiers escalate prices significantly at higher levels of use, with each tier's rate doubling the rate of the tier below it.[27]

Proposed Tariff No. 2 authorizes the Company to restrict or prohibit outdoor use during a supply emergency. [28] However, the Division recommends retaining the language from the Company's 2006 Tariff,[29] below, which prohibits outdoor water use.

> "Water is for indoor use only, any use of water outdoors shall be cause for termination. Water use outdoors shall be permitted for fire suppression only. Watering of lawns, plants, trees, etc. is strictly prohibited."

Additionally, the Company's CPCN states, "Water use is, by restrictive covenant, limited to indoor culinary use only."[30] The Division's recommended language is consistent with the language in the CPCN.

REVENUE REQUIREMENT

Q: CAN YOU EXPLAIN THE REVENUE REQUIREMENT MODEL USED IN THIS RATE CASE?

A: The revenue requirement model shown in Confidential DPU Exhibit 1.3 compiles information from the Company's 2025 Annual Report and evaluates the Company's proposed revenue requirement. The model considers revenues and expenses, plus any applicable taxes, and calculates the net operating income or loss. It also calculates return on the rate base and projects the estimated revenue needed based on a reasonable return. The model incorporates upcoming known and measurable changes and necessary adjustments. A revenue requirement is calculated based on

[26] Application at 1.
[27] *Id.*
[28] DPU Exhibit 1.13 - Legacy Sweetwater Tariff No. 2. Page 6, item 10.
[29] Page 5, item 7.
[30] *Application of Legacy Sweetwater, Inc. for a Certificate of Public Convenience and Necessity to Operate as a Public Utility Rendering Water Service,* Docket No. 99-2280-01.

the Company's requested rate increase, and a recommended revenue requirement is calculated based on the Division's analysis of what is just and reasonable.

Monthly rates in the model are rounded up to the nearest $0.50, so revenue at the recommended rates slightly exceeds the calculated revenue requirement and the overage is not material. The Division's adjustments to individual expense categories are detailed in Confidential DPU Exhibit 1.2.

RATE OF RETURN

Q: PLEASE EXPLAIN THE RATE OF RETURN USED IN THE MODEL.

A: The return on rate base is a key metric for determining the justness and reasonableness of a requested rate increase. This is calculated by taking the rate base and applying a reasonable rate of return on investment.

The rate base consists of:

- Net Utility Plant in Service: [redacted]
- Less: Net CIAC: [redacted]
- Plus: Cash Working Capital ([redacted], calculated as 45/365 of the [redacted] cash balance reported in Application Exhibit 6)

Legacy Sweetwater, Inc. requests a 10% rate of return on equity. The requested rate of return is within the range that is standard for a water company of this size[31]. Unexpected infrastructure failures or collections shortfalls for a company of this size are magnified in contrast with larger water utilities benefiting from economies of scale. As such, opportunities to obtain debt financing as a remedy can be limited. In consideration of the small size of the water company and its elevated operational and financial risks, the Division recommends adopting the 10% rate of return requested by the Company.

[31] *See, e.g.*, Cal. Pub. Util. Comm'n Mem. Re: Rates of Return and Rates of Margin for Class C, Class D Water and Sewer Utilities, https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/water-division/reports/wd-memorandum/rorandrom-classcd2024.pdf

ADJUSTMENTS

Q: DID THE DIVISION MAKE ANY ADJUSTMENTS TO REVENUES OR EXPENSES SET FORTH IN THE APPLICATION AND ITS ACCOMPANYING TESTIMONY?

A: The Order Approving Interim Rates in Part highlighted several expenses that had substantially changed since 2024 and asked the Division to investigate.[32] These include:

1. Legal Fees, NARUC Acct. No. 633: Legal Expenses were reviewed to establish a baseline for LSI. The Company projected an additional $20,000 related to the rate case. Legal Expenses can be difficult to project for LSI since it does not have much historical data, and it has not done a rate case in twenty years. Legal Expenses were adjusted to [redacted] to allow for rate case expenses and anticipated litigation in response to increased rates.
2. Transportation Expenses, NARUC Acct. No. 650: LSI has dedicated use of two truck leases for [redacted] per truck per month. Including 7.25% tax, this totals [redacted] annually, which is comparable to utility industry-wide transportation costs.
3. Office Rent, NARUC Acct. No. 641: LSI's parent company, iMoneyTools, LLC moved to a different office space in 2025. LSI has dedicated use of an office and shared use of meeting rooms and common areas. LSI's portion of monthly rent equates to roughly 1.27% of the total monthly office rent or [redacted]. Based upon the square footage dedicated to LSI, this appears to be a reasonable amount.
4. Dues and Subscriptions: Homeowner Association dues of $6,600 were improperly included and have been excluded. Subscription Expenses contained inadvertently miscategorized expenses and have been excluded or recategorized.

[32] *Order Approving Interim Rates in Part* at 13-14.

5. Office Expenses, NARUC Acct. No. 675: One expense included in Office Expenses was miscategorized and one-time expenses have been normalized to [redacted].
6. Salaries and Wages, NARUC Acct. No. 601: LSI states it will have four employees, two full-time and two part-time.
    a. Full-time Operator: [redacted].
    b. Full-time Manager: [redacted]. Based on workforce labor data, this salary is commensurate with salaries paid by other small water utilities. [33]
    c. Part-time Billing Specialist: [redacted]. The Company provided job posting and anticipates hiring on or before October 1, 2026.
    d. Part-time Assistant Manager: [redacted]. Based on workforce labor data, this salary is commensurate with salaries paid by other small water utilities.[34]

Several other expense categories were reviewed and adjusted including accounting, billing, and insurance. The Division submitted four data requests, which were answered by the Company. The Division also had several meetings and phone calls with the Company to ensure all adjustments were properly substantiated and just and reasonable. Table 2, on the following page, lists all the Division's recommended adjustments totaling [redacted].

[33] Water and Wastewater Treatment Plant and System Operators Occupation Details, Utah Dep't of Workforce Servs. (last visited Sept. 3, 2026), https://jobs.utah.gov/utwid/occupation-information/518031/overview.
[34] *Id.*

DIVISION'S POSITION

Q: WHAT IS THE DIVISION'S POSITION AFTER REVIEW OF THE COMPANY'S APPLICATION AND OPERATIONS?

A: As filed, the Company's request would increase base rates by 904% for each connected customer. Standby rates were proposed to increase by 202%. The tier rates were proposed to increase from three to five tiers with each rate increasing by up to 357% for the highest tier usage. The Division recommends a base rate of $277.00 per month for connected customers and $83.50 per month for standby customers. This equates to an increase of 1008% and 234% increase respectively to meet the revenue requirement.

Q: WHAT IS THE DIVISION'S POSITION ON THE LANGUAGE CHANGES IN THE COMPANY'S TARIFF CLARIFICATION REQUEST?

A: The Division supports the language changes in the Company's "Tariff Clarification Request".[35] The revised language will better inform customers of their obligations and status regarding connection and use of the water system. Most customers are not full-time residents and thus do not use the water system year-round; therefore, the Division believes this "Tariff Clarification Request" is necessary to clarify terms to establish what a system connection means and how the fees are assessed.

Q: HOW WILL THIS PROPOSED RATE IMPACT CUSTOMERS' WATER BILLS?

A: Median household indoor water use in America is 83,000 gallons per year or about 7,000 gallons per month.[36] Most of the Company's connected water customers are part-time residents. For a full-time resident, its monthly use would be 7,000 gallons while a part-time resident would use 3,500 gallons.

Table 3: Water Rates

Input number of gallons	3,500 gal			
Tier 1 (Per 1,000 Gallons)	$ 2.00	1 gal	5,000 gals	7.00
Tier 2 (Per 1,000 Gallons)	$ 4.00	5,001 gals	10,000 gals	
Tier 3 (Per 1,000 Gallons)	$ 8.00	10,001 gals	15,000 gals	
Tier 4 (Per 1,000 Gallons)	$ 16.00	15,001 gals	20,000 gals	
Tier 5 (Per 1,000 Gallons)	$ 32.00	> 20,001 gals		
			Total Tier	$ 7.00
			Fixed Rate	$ 277.00
			Total Amount Due	$ 284.00

Q: DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS?

A: The Division recommends the Company file another general rate case no more than 24 months after the effective date of the rates established in the Commission's final order in this case. This will help ensure the Company categorizes expenses based on Division recommendations, tracks customer changes and payment rates, and pursues infrastructure improvement funding.

[35] LSI's Request to Change the Wording in Tariff No. 2 to Clarify Definitions (July 22, 2026).
[36] Residential End Uses of Water, Version 2: Executive Report. (last visited Sept. 3, 2026), https://www.circleofblue.org/wp-content/uploads/2016/04/WRF_REU2016.pdf.

SUMMARY

Q: WHAT ARE THE DIVISION'S RECOMMENDATIONS?

A: The Division recommends the Commission approve a fixed connection rate of $277.00 per month for connected customers and $83.50 per month for standby customers. The Division recommends the Commission approve the volumetric usage rates and fees in proposed Tariff No. 2. The Division recommends the Commission approve the recommended rates with an effective date of January 1, 2027. This would result in rates that are just and reasonable and in the public interest and help sustain the operating integrity of LSI.

Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A: Yes, this concludes my testimony.