

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF WYOMING**

APPLICATION OF VISTA WEST WATER)	
COMPANY FOR AUTHORITY TO INCREASE)	DOCKET NO. 80007-XX-WP-XX
RATES BY \$40.72 PER MONTH FOR DRY FEE)	RECORD NO. _____)
CUSTOMERS AND \$44.87 PER MONTH FOR)	
DEMAND CUSTOMERS (\$315,282.84 PER YEAR))	

DIRECT TESTIMONY OF PAUL LOWHAM

1 **Q. Please state your name and business address.**

2 **A:** My name is Paul Lowham. My business address is Vista West Water Company, 1115
3 Maple Way Suite B, P.O. Box 14760, Jackson, Wyoming 83002. Vista West also
4 maintains a billing office at 1801 West Yellowstone Highway, Casper, WY 82604 and a
5 field office at 8246 West 6WN Road, Casper, WY 82604,

6 **Q. On whose behalf are you testifying?**

7 **A:** I am testifying on behalf of Vista West Water Company referred to as "Vista West" in
8 this testimony.

9 **Q: What is the purpose of your testimony in this proceeding?**

10 **A:** My testimony will describe why a rate increase is necessary to allow Vista West to
11 replace a portion of the system components that are approaching and/or exceed their
12 estimated useful life in order to continue to be able to provide safe, reliable and
13 sustainable water service to the customers of Vista West. I will explain the nature and
14 reasons for the request. I will cover the goal of Vista West's management to operate on a
15 sustainable basis and why doing so is in the interest of Vista West's customers. This
16 means enabling Vista West to operate using a traditional utility operating model in the

1 future.

2 **Q: Can you please summarize the reasons for Vista West's requested rate increase?**

3 **A:** The rate increase is necessary for Vista West to be able to secure bank financing and
4 attract the equity necessary for the company to replace aged infrastructure in Vista West
5 II, Vista West III and Vista West IV. Additionally, it is in our customers' best interest for
6 Vista West to operate as a traditional utility, in lieu of relying on the personal loan
7 guarantee(s) of its sole stockholder.

8 **Q: Please briefly describe Vista West.**

9 **A:** Vista West is a Wyoming sub-chapter S corporation and is engaged in providing water
10 utility service in Natrona County, Wyoming. If the commission approves this rate
11 increase and Vista West is able to operate as a traditional utility, Vista West will change
12 from a sub-chapter S corporation to a regular corporation. This would allow Vista West
13 to issue preferred stock to investors in order to raise the necessary amount of capital
14 required by its bank. Vista West's service territory is located west of the City of Casper,
15 Wyoming and is contiguous to the southeast portion of the Natrona County International
16 Airport. As of December 31, 2016, Vista West has 299 active residential meters, 184
17 active commercial meters and 113 inactive or "dry" meters for a total of 596 customers,
18 using an average annual amount of approximately 30,000 thousand gallons of water. I
19 have attached a map of Vista West's certificated area as Attachment A.

20 **Q. What is your education and business background?**

21 **A.** I graduated from the University of Wyoming in 1962 with a Bachelor of Science in
22 Animal Science and in 1963 I graduated with a Bachelor of Science in Business
23 Administration. Upon graduation, I was employed by several banks as a commercial loan

1 officer. I have been self-employed since 1968 and involved in real estate, ranching,
2 minerals and investments in various securities. I previously served on the Board of
3 Directors of Wyoming National Bank of Casper, Wyoming, which is now owned by
4 Wells Fargo Bank. I was a partner in the development entities that developed the Vista
5 West and Westgate Park residential and light industrial areas which are provided water
6 service by Vista West. I am the President of Lowham Associates, a real estate sub-
7 chapter S Corporation which purchased a portion of the Wyoming Hereford Ranch in
8 1978 and has developed HR Ranch, JL Ranch and several light industrial areas in
9 Laramie County, Wyoming, a portion of which is within the City of Cheyenne,
10 Wyoming.

11 **Q. Please briefly describe your involvement with Vista West.**

12 A. I am the president of Vista West and have been associated with Vista West since the
13 company was formed in 1973. I am the President and Manager of Vista West and its sole
14 shareholder.

15 **Q: Please describe your responsibilities as President and Manager of the Company.**

16 A: I have responsibility for overall management of the Company and for ensuring that the
17 Company can provide safe and reliable water service. I monitor the budget to ensure that
18 the Company can meet its financial obligations. I review the monthly financial
19 statements. I work with the Chief Operator, Mr. Holmquist, to determine what
20 independent contractors Vista West uses. I consult with Mr. Holmquist to determine who
21 is hired in order that the operation is adequately staffed. I work closely with Mr.
22 Holmquist to approve purchases of supplies and equipment by the Company. I work with
23 Ms. Brewer, secretary-treasurer, in developing the budget and information for rate cases.

1 I negotiate and approve all financial transactions in which the Company is involved.
2 Because of Vista West's financial condition, it has been necessary to provide my personal
3 guarantee for the company's debt financing.

4 **Q: How many employees does Vista West have and what are their responsibilities?**

5 A: There are seven Vista West employees, including 2-part time back-up system operators
6 and a part time special projects person. I am employed by Vista West as president and
7 manager of the Company. I work with Mr. Holmquist who, as the Chief Operator, is
8 responsible for vetting the independent contractors Vista West uses, and recommends
9 staffing requirements to insure the operation is adequately staffed. Also, Mr. Holmquist is
10 responsible for purchases of supplies and equipment for Vista West.

11 As the secretary-treasurer of Vista West, one of Ms. Brewer's functions is to
12 prepare information required for a rate case. Vista West has two operators: Mr.
13 Holmquist, who is a Level II Water Distribution Systems Operator, a Level I Water
14 Treatment Plant Operator and a Level I Waste Water Treatment Plant Operator, and is
15 also a Master Mechanic; and Mr. Heinrich, who is a Level I Water Distribution System
16 Operator and a Master Plumber. These two individuals are responsible for day-to-day
17 operation of the utility along with conducting monthly meter readings necessary for Vista
18 West's bookkeeping department to prepare monthly bills. Although they are part- time,
19 in that they do not work full-time hours, they are on call 24 hours per day, 7 days per
20 week to respond to Vista West's needs as necessary. Additionally, Vista West also
21 employees two back-up operators who are available as needed should Mr. Holmquist
22 and/or Mr. Heinrich not be available. Finally, Vista West has a part-time employee who
23 works as needed on specific projects and has worked to develop a component inventory

1 following information and guidelines provided by the EPA. While I am not a proponent
2 of federal regulation, I believe the EPA provides a great service to both water companies
3 and their customers by establishing standards and guidelines which if properly
4 implemented will ensure that water utilities will be sustainable and will be able to provide
5 a safe and adequate water supply for its customers. Spending money to replace aged
6 infra-structure is a big challenge for small water companies and the guidelines provided
7 by the EPA are of great help. Vista West is very fortunate to have David Eberle,
8 formerly of Boise State University as a member of its board of directors. Dr. Eberle's
9 resume is attached as Attachment B to my testimony.

10 **Q: What amount is Vista West requesting for salary increases?**

11 A: Vista West is proposing a wage increase for Ms. Brewer because her responsibilities have
12 increased. Additionally, Ms. Brewer has attended two National Association of
13 Regulatory Utility Commissioners regulatory studies programs whereby she has gained
14 substantial knowledge of utility rate making. Therefore, I propose to increase her annual
15 salary from \$7,000 to \$10,000 annually. I am also requesting a monthly increase of \$100
16 per month for Vista West's Chief Operator, Marlon Holmquist, and Vista West's Backup
17 Operator, Michael Heinrich. In addition to doing an excellent job of carrying out their
18 day-to-day duties, both of them have been very helpful in developing a component
19 (equipment) inventory system as recommended by the EPA. They are working with
20 Kathy Wiseheart, our special projects technician, so that Vista West can utilize the GIS
21 Program. In order for this to be properly implemented, additional time and effort will be
22 required by both our Chief Operator and Back-up Operator.

23 **Q: Please describe Vista West's recent investment in its new facilities and equipment?**

1 A: Vista West replaced 4 fire hydrants, 43 water services and 8 six-inch gate valves
2 following Vista West's approved rate increase request in 2014 (WY PSC Docket 80007-
3 36-WR-14, Record Number 13909). The cost of these improvements was \$283,130.00.

4 Q: **What did Vista West do to ensure that it was purchasing the new system equipment**
5 **at a competitive price?**

6 A: Vista West advertised the project in the *Casper Star Tribune* and provided a bid package
7 containing the plans and specifications. Vista West also held a pre-bid meeting in the
8 offices of WLC Engineers in Casper during which questions from potential bidders were
9 answered by WLC Engineers and the Chief Operator and Back-up Operator of Vista
10 West. Vista West plans to implement a similar approach to purchasing equipment in
11 connection with the improvements to be undertaken for Vista West II, III and IV.

12 Q: **Why is Vista West seeking a rate increase now?**

13 A: The recent system replacement done in Vista West I validated the company's use of the
14 EPA useful life component guidelines. Vista West inspected and evaluated all
15 components as they were removed from the ground in Vista West I and this revealed
16 significant aging of the components. Extensive corrosion contained on some of the
17 components revealed that if Vista West had not replaced these components as set forth in
18 the EPA guidelines, Vista West I was at risk of significant service interruptions. Copies
19 of photographs of the Vista West I components are attached as Attachment B. The water
20 system in Vista West II, III and IV is approximately the same age as the Vista West I
21 system and can be expected to be in the same condition. I believe that it is important to
22 remain a reliable supplier of water to Vista West customers. In order to do that, the
23 company will need a rate increase to fund the replacements of Vista West II, III, and IV

1 water system components.

2 **Q: What will the total annual revenue requirement be used for that Vista West is**
3 **asking the Commission to approve in this case?**

4 A: Vista West is requesting approval of rates that will provide funds to contribute (along
5 with debt financing and equity contributions) to the replacement of system components in
6 Vista West II, III and IV. The rate increase will allow a rate of return of 14% that is
7 necessary to attract investors to fund the 35% equity requirement.

8 **Q: What does the budget show as the Vista West Water Company's additional revenue**
9 **requirement?**

10 A. The 2017 estimated income-expense projection, based on replacing system components
11 in Vista West II, III and IV and servicing the debt shows that Vista West will need an
12 additional \$315,282.84 of revenue.

13 **Q: In order for Vista West to operate using the traditional utility model, what do you**
14 **believe is required?**

15 A: Vista West needs to operate on a solid financial footing, where the company has
16 sufficient internal capital to obtain financing at competitive borrowing rates and the
17 ability to earn an adequate rate of return on internal capital. Vista West's lenders require
18 that its capital structure be 35% equity and 65% debt. Once there is sufficient internal
19 capital the company will be able to install system upgrades and then apply to the
20 Wyoming PSC for a rate adjustment that will be adequate to earn a return on the new rate
21 base as a traditional utility would.

22 **Q. How do you propose that Vista West raise the 35% equity to satisfy potential**
23 **lenders?**

1 A. Based upon discussions with potential investors and my family's financial advisors a
2 return of 14% is necessary to attract additional equity.

3 **Q: How did your financial advisors arrive at a return of 14%?**

4 A: This was straight forward; potential investors simply state the interest rate they expect for
5 investing in Vista West, considering the risk and alternative investments available,
6 among other investment factors. The 14% is actually a conservative rate of return for a
7 small company. Small companies have a much higher risk than publicly traded
8 companies. If not for my relationships with my investors, the rate of return they would
9 expect for investing in a small privately held company would be closer to 20 to 25
10 percent annually. Additionally, I asked the Wyoming Market Research Center, which
11 operates in conjunction with the Small Business Development Center ("SBDC") at the
12 University of Wyoming, to conduct an analysis of other equity deals, including the rate of
13 return, done with Water Companies. The only available information was for publicly held
14 water companies. The business advisor assigned to this project analyzed four companies
15 and estimated that the rate of return on the equity required ranged from a low of 8 percent
16 to a high of 19 percent for the publically traded companies they analyzed. The business
17 advisor looked at the valuation of large and small water companies. The full report is
18 attached as Attachment C to my testimony. Also, Kathy Weinsaft, of the Wyoming
19 Association of Rural Water Systems, concurs with this analysis and in her recent article
20 which is attached as Attachment D, states this is a chronic problem of most small water
21 companies in Wyoming.

22 **Q: What considerations would be necessary for you to disclose to an investor?**

23 A: An investor would need to accept the fact that the only way they could get their

1 investment back would be for Vista West to find another investor willing to make an
2 equity investment in Vista West so that funds would be available to fund their equity
3 repayment.

4 **Q: What alternative financing is available to Vista West in addition to commercial**
5 **banking sector?**

6 A: There are few options other than banks. The company is too small for a traditional bond
7 offering, the underwriting costs would be prohibitive if there were even any investors
8 willing to purchase an unrated company bond. And, if such an investor were to be found,
9 it would likely be through a private placement with a bank to an individual who already
10 knows me or the company. They would require the same rate of return as other investors
11 with an adjustment for priority consideration in case of a bankruptcy.

12 **Q: What plans are being made in order to ensure the sustainability of Vista West**
13 **Water Company so that its customers can be assured they will have adequate water service**
14 **in the future?**

15 A: Discussions have taken place with First Western Trust which has its headquarters in
16 Denver, Colorado and has Wyoming branch offices in Jackson and Laramie, Wyoming.
17 If this rate increase can be approved, I plan to change Vista West from a sub chapter S
18 corporation to a regular C corporation so that Vista West can then issue preferred stock
19 necessary to raise the required 35% capital required by our bank in order to obtain non-
20 recourse financing. With this transfer in ownership in Vista West Water Company to a
21 Revocable Trust, I will serve as the sole trustee during my lifetime. And following my
22 death or inability to properly manage Vista West, then First Western Trust will become
23 the corporate trustee. The proposed life of the trust is 1,000 years, the maximum currently

1 allowed by Wyoming law.

2 **Q: Why is it in the best interest of the customers to have financing without your**
3 **personal guarantee?**

4 A: I am now 70+ years old, having built and run Vista West for the past 44 years. It is
5 important that the Company have a succession plan for my eventual demise to ensure that
6 the Company can continue to serve its customers with a clean, safe, adequate and reliable
7 supply of water. This requirement is a prime reason that Vista West believes it would be
8 in the best interest of its customers if it was able to operate as a traditional utility whereby
9 financing could be obtained without the personal guarantee of Paul Lowham.

10 **Q: Are you proposing a traditional rate case approach to determine Vista West's**
11 **revenue requirement?**

12 A: No, I have requested Ms. Brewer to calculate our revenue requirement based on a
13 traditional small business model.

14 **Q: How do the two approaches differ in their methodology?**

15 A: The basic difference is in how the companies determine their cash flow requirement. In
16 the business model, the cash flow is determined by estimating future costs and
17 determining the amount of revenue required to cover the company's expenses (future
18 expected costs plus an adequate return on equity). In the utility model, the required cash
19 flow is separated from the "actual" cash needs of the company. Instead, the model
20 assumes a "fair" return on net assets, plus current costs will provide sufficient revenue to
21 earn its investors a reasonable return. I freely admit that until recently I did not fully
22 grasp the implications of the two models. The issue today is how does one change the
23 approach to rate setting when the major portion of a company's assets are fully

1 depreciated leaving little residual value for calculating a “fair” return on assets? Both
2 models have the potential to provide adequate returns to attract investors.

3 **Q: When are you proposing to successfully make the move from a business model to a**
4 **utility model of rate making?**

5 A: Vista West is one or two additional rate cases away from making a full transition to the
6 utility model. I am asking the Commission to allow Vista West to reinvest and
7 modernize its infrastructure which will require a larger rate increase than if calculated on
8 net assets. If we are allowed sufficient revenue enhancement, I believe that Vista West
9 will be sustainable going into the future.

10 **Q: Were you criticized for taking this approach in the last Rate Case WY PSC Rate**
11 **Case 80007-36-WR-14 (Record Number 13909)?**

12 A: Yes, the OCA made several objections to this approach. The biggest concern was that if
13 this approach is allowed, it would open the customers to financial exposure in that I
14 would be able to siphon the new revenues from the rates to myself or procure a loan and
15 not install the infrastructure and abscond with the money. I understand that there are “bad
16 actors” in the world. However, I have proven I am not this kind of person with how I
17 have operated the company over the years. I demonstrated responsible implementation of
18 the revenues from prior rate cases and there is the fact that I have been willing to put up
19 my personal guarantee to secure financing for Vista West. Therefore, I believe this risk
20 is negligible.

21 **Q. How do you expect to fund the revenue requirement?**

22 A. The rate increase being requested in this case will fund the loan payments. Since the loan
23 is to replace parts of the water system, it will benefit the dry meter customers as well as

1 customers currently using water.

2 Q: **Will this bring the Vista West Water system up to date?**

3 A: No. With the system being near the end of its useful life we still have to replace
4 components in the Westgate Park subdivisions and other portions of the certificated
5 service area, the major portion which are commercial or light industrial companies. This
6 may require several future applications for rate increases.

7 Q: **Does this conclude your testimony?**

8 A: Yes.