

**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 KAROL BREWER

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

2 A: My name is Karol Brewer. My business address is Vista West Water Company, 1115
3 Maple Way, Suite B, Jackson, Wyoming 83001.

4 **Q: Please briefly describe your involvement with Vista West.**

5 A: I have been employed by Vista West Water Company (“Vista West”) on a part-time basis
6 since 2012 to assist Mr. Lowham. My job duties include developing the budget, research
7 and clerical work.

8 **Q: What is your training in regard to water company budgeting?**

9 A: I have attended two National Association of Regulatory Utility Commissioners
10 (“NARUC”) affiliated Study Programs, NARUC Utility Rate School and the Institute of
11 Public Utilities Advanced Regulatory Studies Program.

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

1 A: My testimony will explain how the budget, the revenue requirement, and proposed rate
2 schedule were prepared. My testimony will also outline the assumptions used in
3 preparation of these documents.

4 **Q: Did you develop all the assumptions you used in preparation of the above referenced**
5 **documents?**

6 A: No, a number of the assumptions were provided to me by Paul Lowham, Marlon
7 Holmquist, and Brad Holwegner of WLC Engineering for this rate case, as will be
8 outlined below.

9 **Q: Can you briefly describe what assumptions you relied upon from Mr. Lowham, Mr.**
10 **Holmquist and WLC Engineering.**

11 A: The information provided to me included the items for the rate case and the costs
12 associated with those items. Mr. Lowham interacted with Mr. Holmquist and Mr.
13 Holwegner in determining the need for system replacement in Vista West II, III and IV.
14 Mr. Holwegner provided the cost estimate for the system replacements. Mr. Holmquist
15 prioritized the component replacements in our capital asset plan and provided estimates
16 for the Smartpoint Module and other smaller items. Mr. Lowham also provided the loan
17 information and return on investment needs.

18 **Q: Did you develop pro forma financial information for this case?**

19 A: Yes, the proforma income statement that I prepared is attached to this testimony as
20 Attachment A.

21 **Q: How did you develop the pro forma income statement?**

1 A: The pro forma income statement sets forth 2016 revenues and expenses adjusted for
2 known and measurable changes. Specifically, I adjusted the gross income by using the
3 revenue based on Vista West's Tariff # 6 and the Pass-on and CBA increase approved by
4 the Wyoming Public Service Commission effective September 1, 2017. I adjusted
5 expenses based on prior year income statements and included our bookkeeper's
6 expectation of the accounting contractual expense of \$15,000. Most of the expenses are
7 known and reflect actual expenses for 2016. The rate case expenses are estimated and
8 pro-rated over three years. The pro forma shows a net loss of \$33,061.37 prior to an
9 increase.

10 **Q: How did you develop the revenue requirement for Vista West?**

11 A: The company's revenue requirement starts with the base year, in this case, 2016. I then
12 calculated the loan and interest needed to cover the cost of system repairs and
13 replacements based on the recommendation of Mr. Holmquist, the company's Chief
14 Operator who holds a Level II Classification with DEQ, and Mr. Holwegner, the WLC
15 Engineer, and the capital improvement costs associated with continued system
16 replacement in Vista West II, III and IV on the recommendation of WLC Engineering.
17 The revenue requirement reflects one year of the principal (amortization) and interest on
18 the loan required to complete the upgrades on Vista West II, III, and IV. The loan
19 information was provided by Mr. Lowham. Finally, I included the required return on
20 investment of 14% in the revenue requirement, which was provided by Mr. Lowham.
21 The revenue requirement of \$650,380.10 is found in Attachment A under the column
22 titled "VWWC Proforma + Increase".

23 **Q: Can Vista West operate sustainably going forward based on its existing rates?**

1 A: No. Mr. Holmquist has reviewed the system and it is not a sustainable system in the
2 condition it is in today. His opinion, as well as that of the company engineer, Mr.
3 Holwegner, is that there is a high likelihood that some of our priority five equipment will
4 fail if not replaced. And, if the priority five equipment fails, it most likely will result in a
5 water outage for our customers that will take several days to repair. The total cost to
6 replace priority five components is \$5,063,999.13. This figure is derived from the
7 Capital Asset Plan work papers. Mr. Holmquist established the priority, and the costs
8 and component information was updated based on actual expenses.

9 **Q: What is your priority five equipment?**

10 A: Vista reviewed its inventory of assets and ranked each item from 1 to 5, with 5 being the
11 most critical to the continuous delivery of water and 1 the least critical.

12 **Q: Why is it important that your assets were ranked in this manner?**

13 A: Going through this exercise helped inform the capital replacement plan for Vista West II,
14 III, and IV capital improvements. The EPA Handbook, Asset Management: A
15 Handbook for Small Water Systems was used as the foundation for our Capital Asset
16 Plan and the guideline for component life expectancy. The priority guidelines
17 recommended in this handbook include potential public health, safety or environmental
18 concerns, internal safety concern or public nuisance and improved system operations and
19 maintenance efficiency and were used to determine priority need for component
20 replacement. It is important for Vista West to identify the facility components that must
21 be repaired the soonest in order to avoid a system failure.

1 **Q: Why is the cost of replacing all of Priority Five equipment greater than the revenue**
2 **request being made by Vista West?**

3 A: This was a management decision made by Mr. Lowham. In his opinion, asking for a rate
4 increase sufficient to cover the total amount of all priority five equipment would place an
5 undue burden on the customers. This is addressed in Mr. Lowham’s testimony where he
6 refers to the need for future rate increases. However, this plan replaces the major portion
7 of our priority 5 residential customer equipment and will provide Vista West with much
8 greater operating stability.

9 **Q: You stated that you received capital improvement costs from WLC Engineering.**
10 **What are those costs that you included?**

11 A: I used the cost of capital improvements provided to me by WLC Engineering which are
12 summarized in the table below. These are numbers that have been reviewed and verified
13 by WLC engineers.

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Vista West II	\$322,097.88
Vista West III	\$458,675.30
Vista West IV	\$971,205.24
Total	\$1,751,978.42

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1 **Q: What are the costs related to the field office repairs you received from Mr.**
2 **Holmquist?**

3 A: The following tables summarize the repair and replacement costs for the field office I
4 used in calculating the increase in income needed.

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Table 2 Repair/Replacement Costs For The Field Office (Provided Verbally By Mr. Holmquist)	
Locate Device	\$ 900.00
Heavy Duty Field Computer	\$ 2,785.00
Roof for Field Office	\$4,000.00
Bathroom for Field Office	\$20,000.00
Total	\$27,685.00

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Table 3 Smart Point Module Equipment Estimate (Received From Mr. Holmquist)	
VGB package	\$20,000.00
Mapping Software	\$ 4,955.60
457 Meters	\$61,145.14
457 SmartPoint Modules	\$57,810.50
Tax	\$ 7,195.56
Total	\$151,106.80

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1 **Q: You stated that you received the financing costs assumptions from Mr. Lowham.**

2 **What are those costs that you included?**

3 A: Mr. Lowham provided me with the rate of 14% for the required rate of return for the
4 investors, or \$112,843, based upon research and subsequent recommendation provided by
5 the Wyoming Small Business Development Center..

6 **Q: How did you determine the loan amount needed for the projects?**

7 A: I totaled the capital system repair costs set forth in Tables 1, 2 and 3 above, resulting in a
8 total expenditure of \$1,930,770.22. In addition, the outstanding balance of the current
9 loan in the approximate amount of \$372,138.10 will be included in the new loan. I
10 assumed that 65%, criteria set by bank, of the costs will be funded by a loan
11 (\$1,496,890.41) and 35% will be funded by investors (\$806,017.91). The loan terms
12 were provided by Mr. Lowham. I prepared an amortization schedule based on a 5.62%
13 interest rate over a 20 year loan. I assumed that there would be 12 months of interest
14 only for the new loan based upon information provided by Mr. Lowham and that the
15 current outstanding loan balance would be included into the new loan.

16 **Q: Were you given any other conditions for the loan?**

17 A: Yes. The proposed loan covenants include the following:

18 The Borrower will maintain a minimum annual debt service coverage ratio of 1.25x or a
19 minimum annual debt service coverage ratio of 2.00x if depreciation is included in the
20 calculation.

1 **Q: With the assumptions and cost adjustments outlined above, what is the resulting**
 2 **revenue requirement?**

3 A: The adjusted pro forma including capital improvements results in a total revenue
 4 requirement of \$650,380.18.

5 **Q: How did you apply the revenue requirement to the company’s rate components?**

6 A: After discussion with Mr. Lowham, I applied the SmartPoint Module that is only used by
 7 Demand Customers (\$151,106.80 or 7.83%) to the demand fee customers only, and I
 8 applied the replacement of system components (\$1,779,663.42 or 92.17%) benefits to all
 9 customers. For the resulting demand and dry fee customers, the rate increase would be
 10 \$488.61 per dry fee customer per year and \$538.45 for demand customer per year. The
 11 resulting monthly increase will be \$40.72 per dry fee customer and \$44.87 for demand
 12 customer per month. The current and proposed rates are shown on the following Table 5.

Table 5		
RATE STRUCTURE COMPARISON		
Monthly Basis Average Monthly Water used = 5.18 thousand gallons		
	Proposed Rate	Existing Rate
Dry Meter Charge	\$67.46	\$26.74
Demand Charge	\$78.30	\$33.43
Non-Commodity Charge per thousand gallons	\$1.17	\$1.17
Commodity Charge	\$2.15	\$2.15
Deferred Purchased Water Cost	\$0.07	\$0.07
Average Monthly Bill - Demand	\$95.86	\$50.98
Average Monthly Bill - Dry Meter	\$67.46	\$26.74

1 **Q: Why did you apply all the capital costs onto the Demand/Dry Fee for all customers?**

2 A: The capital improvements are necessary to deliver the water and represent a fixed cost
3 that should be shared by all customers. This is both fair and equitable.

4 **Q: How many customers does Vista West Water Company have?**

5 A: Currently, there are 483 customers using water: - 299 are residential and 184 are
6 commercial. There are also 113 customers who have meters but are not using water.

7 **Q: How much water is used annually?**

8 A: From May 2016 through April 2017, 29,545,000 gallons of water were used. This usage
9 is approximately 800,000 gallons less than the prior 12 month period. In my calculations I used
10 30,000,000 gallons as the basis for calculating annual revenue based on water usage. I used the
11 same number to calculate the Purchased Water Cost.

12 **Q: Did you calculate an operating ratio for the current rates and the requested rates?**

13 A: Yes. The operating ratio $(\text{Expenses} - (\text{Depreciation} + \text{Amortization}) / \text{Total Revenue})$ is
14 shown on Attachment A and is 94.79% for 2016. If the requested rates are approved, the

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

16 A: Yes.