

BEFORE THE  
MONTANA PUBLIC SERVICE COMMISSION

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Supplemental Prefiled Direct Testimony of Sandra Barrows  
On behalf of Utility Solutions, LLC  
Docket No. D2005.11.163

- Q. Please state your name, business address and affiliation with Utility Solutions, LLC water utility operation.
- A. My name is Sandra Barrows. My business address is 6171 Lazy Man Gulch, Helena Montana, 59601. I am a consultant retained by Utility Solutions, LLC to provide regulatory consulting services relative to the filings made with the Montana Public Service Commission.
- Q. Please give your educational background and job experience.
- A. I graduated from Rocky Mountain College with degrees in Mathematics and Business Administration/Economics. I worked as a technical associate in an actuarial consulting firm and was also the manager of finance for a major teaching hospital. In 1991 I started my employment with the Montana Public Service Commission as a Rate Analyst in the Utility Division. During my tenure at the Commission I advised the Commission on ratemaking issues. I have attended several NARUC Utility Conferences including the NARUC Regulatory Studies Program, co-sponsored by Michigan State University. I left the Commission in 1994. For the past 6 years I have been employed as an adjunct mathematics instructor at the University of Montana – Helena College of Technology and have worked as an independent contractor providing utility regulatory services to the Evilsizer Law Office. I also provide regulatory consulting services for Cut Bank Gas Company, Big Mountain Water Company, Miller Oil Company, and Salish Shores, Inc.

Q. Have you previously filed testimony in this Docket?

A. No. Prefiled direct and supplemental testimony was previously filed by Mr. Ronald R. Woods. Unfortunately, Mr. Woods became seriously ill and died in 2008.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present financial exhibits and data supporting the amended application for a final order and permanent water rates by Utility Solutions, LLC (Utility Solutions). In the Commission's Interim Order No. 6707 in Docket No. D2005.11.163 the Commission ordered that Utility Solutions file an application for final order and permanent rates based on a test year of income and expenses ending not later than January 9, 2007. On August 12, 2007 Utility Solutions filed such an application. On December 17, 2008 the Commission issued a Notice of Commission Action granting Utility Solutions' motion to vacate the Procedural Schedule and directing Utility Solutions to file amended applications for permanent water and sewer rates no later than June 30, 2009. The application for permanent sewer rates is being filed under separate cover.

Q. Please explain, in general terms, the reasons for this filing.

A. The primary reason for this filing is to reflect in the rates the Company is authorized to charge its customers a more current cost of service which more closely resembles the actual costs it incurs in providing water service to its customers.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring a number of tables and statements that comply with the Commission's rules, entitled "Data Furnished in Compliance with PSC Minimum Rate Case Filing Requirements". However, I have not prepared all of the tables and statements required under the Commission's minimum filing requirements. I did not prepare all of the required schedules because the information was either not available or did not pertain to the filing of this rate

application. Also, I have prepared and will sponsor Exhibit No. \_\_\_ (SB-1) as well as work papers in connection with my testimony.

Q. Please identify the tables and statements that you prepared in compliance with "Data Furnished in Compliance with PSC Minimum Rate Case Filing Requirements".

A. The following is a list of those tables and statements:

38.5.104 Comparison of Rates	38.5.164 Statement H
38.5.121 Statement A	38.5.165 Statement I
38.5.122 Statement B	38.5.169 Statement J
38.5.123 Statement C	38.5.173 Statement K
38.5.133 Statement D	38.5.175 Overall Cost of Service
38.5.141 Statement E	38.5.176 Statement L
38.5.146 Statement F	38.5.178 Derivation of Increased Rates
38.5.156 Statement G	
38.5.157 Adjustment to O & M	38.5.179 Statement N

Q. Please identify the exhibit you are sponsoring.

A. Exhibit No. \_\_\_(SB-1) consists of two pages. Page 1 is the computation of rate base for the test period. Page 2 is the computation of operating income and rate of return for the test period.

Q. Were these statements and exhibits prepared by you or under your supervision?

A. Yes.

Q. What is the test period used by Utility Solutions for the application to increase water rates?

A. The test period is the 12-month period ended December 31, 2008 adjusted for known and measurable changes that will occur within 12 months after December 31, 2008.

Q. Please describe the regulated operations of Utility Solutions.

- A. The regulated operations of Utility Solutions is a combination water and sewer utility that provides service to the Elk Grove subdivision in Bozeman, Montana under rates and charges approved by the Montana Public Service Commission. It also provides under contract a water supply to the Four Corners County Water and Sewer District.

#### REVENUE REQUIREMENT

Q. Please describe the first page in Exhibit No. \_\_ (SB-1)

A. Page 1 is a computation of the test period rate base for Utility Solutions water utility. The rate base is calculated by adding a two-year average of utility plant to materials and supplies and cash working capital. This total is reduced by a two-year average of reserve for depreciation. Total rate base for Utility Solutions water utility is \$885,908.43.

Q. Please explain your adjustment to utility plant.

A. Utility Solutions purchased the water and sewer utilities in 2003. At that time the capital investments were \$1,081,229.61 and \$1,025,710.09 respectively. When it purchased the systems it agreed that for ratemaking purposes, the Seller's capital investment in the regulated portion of the systems would be treated as being \$1.5 million dollars. To implement that agreement in this filing, I have reduced the water utility plant balance by \$331,229.61. See work paper 1. I have also adjusted the reserve for depreciation balance. The details are discussed below. Consistent with the Commission's treatment of similar acquisition adjustments, I have included in depreciation expense the depreciation associated with the excluded amount.

Q. Please describe the second page of Exhibit No. \_\_ (SB-1)

A. Page 2 is a summary of operating results. Column 1 shows the operating results under current rates. Column 2 shows the operating results under proposed rates. Under proposed rates revenues would be \$327,498.82 producing operating income of \$71,847.17, equal to a rate of return of 8.11%. Column C shows the reference for each item of data furnished in the rate case filing requirements.

## PLANT AND ACCUMULATED DEPRECIATION

Q. Please describe your computation of utility plant.

A. This is shown in filing requirement Section 38.5.123, Statement C. Columns 1 and 2 show the balances by plant group per books as of December 31, 2007 and 2008, and Column 3 averages the year-end balances. Column 4 shows the pro forma adjustments, which are explained in the footnotes. Column 5 shows the adjusted year-end average balances. The average plant balance as of December 31, 2008, less the adjustment discussed above, was used for calculating the rate base on Page 1 of Exhibit No. \_\_ (SB-1)

Q. Please describe your computation of accumulated depreciation.

A. This is shown in filing requirement Section 38.5.133, Statement D. Columns 1 and 2 show the accumulated depreciation balances per books at December 31, 2007 and 2008. The 2007/2008 average and the pro forma adjustments are shown in Columns 3 and 4 respectively. Column 5 shows the adjusted average accumulated book depreciation balance as of December 31, 2008.

As discussed above, since I adjusted the initial amount of capital investment to be used for ratemaking purposes, I also adjusted the reserve for depreciation. The adjusted average accumulated depreciation of \$213,861.79 is used in calculating the rate base on page 1 of Exhibit No \_\_ (SB-1). Details of the calculation are provided in this statement and in work paper 1.

## WORKING CASH

Q. Please describe your calculation of working cash.

A. This calculation is shown in filing requirement Section 38.5.141, Statement E. Working cash is the cash required for operation as a result of billing for services at the end of the month in which the services are provided. Traditionally, utilities that bill after the fact are allowed a cash allowance of 12.5% of the cash expenses. To calculate the working cash allowance operation and maintenance expenses, materials and supplies, and taxes other than income are added

together. The total is then multiplied by 12.5% to arrive at total working cash. Working cash is reduced to reflect a credit for use of funds representing the accrual of property taxes prior to payment of the tax. The calculated net working cash allowance of \$17,361.91 is used in the calculation of rate base on Page 1 of Exhibit No.\_\_\_\_(SB-1).

### RATE OF RETURN

Q. Please describe your calculation of rate of return.

A. This is shown in data filing requirement Section 38.5.146, Statement F. This statement reflects a hypothetical capital structure and proposed cost of capital for Utility Solutions. In instances where a utility's capital structure does not contain a reasonable mix of debt and equity, which is the case with Utility Solutions, the Commission, for ratemaking purposes, has typically imputed a debt or equity component to arrive at what it perceives to be a reasonable capital structure. From the Commission's perspective a utility capital structure should contain a reasonable mix of debt and equity. Traditionally the Commission has accepted a hypothetical capital structure of 55% equity and 45% debt, this is the capital structure proposed for Utility Solutions in this filing.

The cost of equity proposed in this filing of 10.00% recognizes the equity costs stipulated to in Mountain Water Company's most recent rate application and is a reasonable estimate for the cost of equity. Given that Utility Solutions serves a smaller customer base, it can be reasonably assumed that the Utility Solutions equity cost is the same or greater than Mountain Water Company's equity cost. The cost of debt of 5.8% proposed in this statement is the estimated cost that Utility Solutions will incur. A review of Utility Solutions outstanding long term debt instruments indicates that all are tied to the "Prime Rate" as described in the *Wall Street Journal*. A review of the prime rate indicates that 5.8% is a reasonable estimate of that cost.

The weighted overall cost of capital, as calculated in this statement, is 8.11%.

### OPERATION AND MAINTENANCE EXPENSES

- Q. Please describe the statement on operation and maintenance expenses.
- A. Operation and maintenance expenses are shown in the filing requirement Section 38.5.156, Statement G. The recorded expenses for the water utility operation during the test year are shown in Column 1. Adjustments to these expenses appear in Column 2, with the adjusted totals in Column 3.

### PRO FORMA ADJUSTMENTS

- Q. Please describe the statement on adjustments to operation and maintenance expenses.
- A. Section 38.5.157, page 1, contains a summary of the pro forma adjustments to test period operation and maintenance expenses. Supporting detail and assumptions underlying the adjustments are detailed in this section.
- Q. Please explain the pro forma adjustments.
- A. Adjustment No. 1 reflects an annual increase in regulatory commission expense of \$1,831.25. It is projected that outside services for regulatory consulting services will cost Utility Solutions \$6,000.00 during FY2009. The test year currently includes \$168.75 for regulatory consulting. This expense is being amortized over a three year period.

### OPERATING REVENUES

- Q. Please describe the statement on operating revenues.
- A. The operating revenues for the test year are shown in Section 38.5.164, Statement H. The operating revenues through December 21, 2008 are shown in Column 1. The pro forma adjustments and total adjusted revenues are shown in Columns 2 and 3 respectively. The proposed revenues of \$327,498.82 are in Column 4.
- Q. What are the increases under the proposed rates?
- A. The overall increase shown in Column 5 is \$206,776.91, or 171.28%.

## DEPRECIATION AND AMORTIZATION

- Q. Please describe the statement on depreciation and amortization expense.
- A. Total water utility depreciation and amortization expense for the test year is shown in Section 38.5.165, Statement I. The statement includes pro forma adjustments increasing total expenses by \$12,702.00. The adjustment to depreciation expense reflects both the finishing of the 3<sup>rd</sup> well that was put into service in 2009 and water system improvements in 2009. The Utility Solutions adjusted total depreciation and amortization expense is in Column 3.

As discussed above, I excluded some of the initial capital investment for ratemaking purposes. But, the depreciation expense associated with the excluded amount was left in as an expense item. In other words, there is a return of, but not a return on the excluded capital investment. Details of the calculation are provided in work paper 1.

## INCOME TAXES

- Q. Please describe the statement on income taxes.
- A. Income tax expenses are shown in the filing requirement Section 38.5.169, Statement J. I used the standard methodology for computing a pro forma income tax expense.

## OTHER TAXES

- Q. Please describe the statement on Other Taxes, Section 38.5.173, Statement K.
- A. Section 38.5.173 is a schedule of taxes other than income taxes. Column 1 lists the balance per books for each line. Column 2 contains the pro forma adjustments to the book balances. Column 3 lists the adjusted balances, under present rates. The balances under proposed rates are in Column 4. The pro forma adjustment are as follows:
- Adjustment a) reflects a decrease of \$65.22 in the Montana Consumer Counsel Tax.

Adjustment b) reflects a decrease of \$44.37 in the Public Service Commission Tax.

### COST OF SERVICE

- Q. Please describe the calculation of cost of service in Section 38.5.175 and 38.5.176
- A. Section 38.5.175 is a summary of the cost of service, listed by cost category, and revenues at current rates and proposed rates.

Section 38.5.176 is the schedule showing the allocation of the cost of service to the residential/commercial customer class. This schedule consists of 2 sections; the first section contains 2 charts the first chart shows the numbers used to develop the allocation percentages shown in the second. The allocation percentages in chart 2, in conjunction with the allocation percentage developed in Column 4 on section 2, are used to develop the allocated customer class cost of service for each expense item, with the total class cost of service being shown in Column 9. The allocation method for each of the expense categories in Columns 1 through 8 is shown on the last line.

### DERIVATION OF PROPOSED METERED RATES

- Q. Please describe the calculation of proposed metered rates, in Section 38.5.178.
- A. Section 38.5.178 shows the calculation of both the Residential/Small Commercial Monthly Customer Charge and the Usage Charge.

The Monthly Customer Charge for Residential/Small Commercial is calculated by adding the allocated customer service expense on Schedule 38.5.176 of \$15,008.03 to 1/3 of the "Other Fixed Costs" of \$91,827.84 and dividing the total by the annual number of billings in the customer class. The resulting Monthly Customer Charge is \$33.22.

The usage charge for Residential/Small Commercial is calculated by adding the remaining 2/3 of the "Other Fixed Costs" of \$183,674.06 to the allocated pumping/water treatment expense of \$36,979.70 and dividing by annual usage. The Usage Rate per 1,000 Gallons is \$5.327.

- Q. Have you prepared a comparison of billings under present and proposed rates?  
A. Yes. A comparison of billings and the percentage increases is shown in statement Section 38.5.104.

### WORK PAPERS

- Q. Please describe your work papers.  
A. Work Paper 1. As discussed in the testimony, Utility Solutions purchased the water and sewer utilities in 2003. At that time the capital investments were \$1,081,229.61 and \$1,025,710.09 respectively. When it purchased the systems it agreed that for ratemaking purposes, the Seller's capital investment in the regulated portion of the systems would be treated as being \$1.5 million dollars. Work Paper 1 shows the derivation of the amounts used to implement this agreement.

Work Paper 2. Utility Solutions has 11 irrigation customers that use water service during the months of July through October. These customers are not included in the year-end number of service connections. Work Paper 2 shows the adjustment necessary to account for mid-year irrigation service.

### TARIFFS

- Q. Is Utility Solutions proposing to reflect additional terms and conditions in its Tariffs?  
A. Yes. Utility Solutions is proposing to add several terms and conditions to its tariffs. Each of these terms and conditions are standard conditions that have traditionally been included in utility tariffs approved by the Commission.

A list of additional the conditions include:

- (1) Company will specify the hours and days during which sprinkling will be permitted and will publish notice thereof in newspapers at the start of the sprinkling season or whenever conditions require a change and will permanently post such notice in its local office.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

- (2) If service has been temporarily discontinued at the customer's request, a reconnection charge of \$100.00 per meter will be paid before service is reconnected.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

- (3) If service has been disconnected for non-payment, a reconnection charge of \$100.00 per meter will be paid before service is reconnected.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

- (4) In situations where more than one user is being provided with water from a single service line, with a single shut-off device controlling the water flow, and if any one or more of the water users either will not sign up for service or will not pay for that service, then the responsibility for payment of future water charges must be assumed by the property owner until such time as the piping configuration has been modified to provide an individual shut-off valve for each water user in order to prevent the service from being disconnected for non-signup or non-payment.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

- (5) Customers who wish to have their water service permanently discontinued, will be responsible for any and all costs associated with the physical disconnection of the service line from the utility's system.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

- (6) Failure to provide payment or satisfactory arrangements for payment may result in total discontinuance of service even though one or more users may not be in arrears with their account.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

(7) A fee of \$15.00 will be charged to any customer who presents a check that is returned unpaid by the depository financial institution for any reason.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

(8) Customer bills or refunds that total \$1.00 or less will not be issued.

Comment: Standard tariff language for water utilities. See Mountain Water Tariff.

Q. Does this conclude your testimony?

A. Yes.

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### Minimum Rate Case Filing Standards

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Utility Plant	38.5.123	Statement C - Utility Plant Accounts
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Working Cash	38.5.141	Statement E - Working Cash
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Revenues	38.5.164	Statement H - Operating Revenues
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Rates	38.5.178	Derivation of Increased Rate
Operations	38.5.179	Statement N - Description of Utility Operations

**Rate Base Calculation**

Description	Amount	Reference
Utility Plant	\$1,412,083.87	Sec. 38.5.123
Less Capital reduction	<u>\$331,229.61</u>	Work paper 1
Net Utility Plant	\$1,080,854.26	
Materials and Supplies	\$1,554.05	Sec. 38.5.122
Working Cash	<u>\$17,361.91</u>	Sec. 38.5.141
Subtotal	\$1,099,770.22	
Less:		
Accumulated Depreciation	<u>\$213,861.79</u>	Sec. 38.5.133
<b>Net Rate Base</b>	<b>\$885,908.43</b>	
Allowed Rate of Return	8.11%	Sec 38.5.146
<b>Allowed Return</b>	<b>\$71,847.17</b>	

Description	At Present Rates Column 1	At Proposed Rates (Column 2)	(Column 3)
Operating Revenues	\$ 120,721.91	\$327,498.82	Sec 38.5.175
Operating Expenses	\$ 133,219.37	\$133,219.37	Sec 38.5.156
Depreciation and Amort.	\$ 71,716.29	\$71,716.29	Sec 38.5.165
Taxes Other Than Income	<u>\$3,006.23</u>	<u>\$3,709.28</u>	Sec 38.5.173
Net Taxable Income	-\$87,219.98	\$118,853.88	
Income Taxes	\$0.00	\$47,006.71	Sec 38.5.169
Net Operating Income	-\$87,219.98	\$71,847.17	
Rate Base	<u>\$885,908.43</u>	<u>\$885,908.43</u>	SB - 1; Section 1
Allowed Return on Rate Base	-9.85%	8.11%	Sec 38.5.146
Revenue Increase		\$ 206,776.91	
Current Revenue		\$ 120,721.91	
Overall Percent Increase		171.28%	

Utility Solutions, LLC - Water  
38.5.104 Comparison of Rates

	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
Monthly Customer Charge	\$14.68	\$33.22	\$18.54	126%
Quantity Charge Usage per 1000 gallons	\$1.644	\$5.327	\$3.68	224%

Utility Solutions, LLC - Water  
38.5.121 Statement A - Balance Sheet

Line No.	Description	December 31 2007 (Column 1)	December 31 2008 (Column 2)
	<b>Current Assets</b>		
	Cash	\$ 58,567.01	\$ 87,363.27
	Accounts Receivable	\$ 2,545.88	\$ 2,460.15
	<b>Total Current Assets</b>	<u>\$ 61,112.89</u>	<u>\$ 89,823.42</u>
	<b>Property &amp; Equipment</b>		
	Land & Land Rights	\$ 23,744.18	\$23,744.18
	Property Improvements	\$ 15,492.10	\$15,492.10
	Transmission and Distribution Mains	\$ 582,351.42	\$582,351.42
	Meters and Meter Installations	\$ 50,928.64	\$50,928.64
	Office Furniture & Equipment	\$ 4,541.56	\$4,541.56
	Transportation Equipment	\$ 7,654.41	\$7,654.41
	Water Distribution Facility & Wells	\$ 328,251.25	\$501,270.55
	Accumulated Depreciation	\$ (193,943.57)	\$ (241,749.94)
	<b>Total Property &amp; Equip. less Depreciation</b>	<u>\$ 819,019.99</u>	<u>\$944,232.92</u>
	<b>Other Assets</b>		
	Permits/Fees/Licenses	\$ 168,026.50	\$ 168,132.82
	Accumulated Amortization	\$ (49,475.50)	\$ (60,683.41)
	<b>Total Other Assets</b>	<u>\$ 118,551.00</u>	<u>\$ 107,449.41</u>
	<b>TOTAL ASSETS</b>	<u>\$ 998,683.88</u>	<u>\$ 1,141,505.74</u>
	<b>Current and Short Term Liabilities</b>		
	Notes Payable	\$ 85,639.95	\$ 366,523.77
	Accrued Interest	\$ -	\$ 59,428.50
	Accounts Payable - vendors	\$ -	\$ 13,738.61
	<b>Total Current Liabilities</b>	<u>\$ 85,639.95</u>	<u>\$ 439,690.88</u>
	<b>Long Term Liabilities</b>		
	Long Term Debt - Graves	\$ 1,491,435.40	\$ 1,491,435.40
	<b>Total Long Term Liabilities</b>	<u>\$ 1,491,435.40</u>	<u>\$ 1,491,435.40</u>
	<b>TOTAL LIABILITIES</b>	<u>\$ 1,577,075.35</u>	<u>\$ 1,931,126.28</u>
	<b>Stockholder's Equity</b>		
	Members Equity	\$ (596,270.47)	\$ (807,499.54)
	<b>Total Stockholder's Equity</b>	<u>\$ (596,270.47)</u>	<u>\$ (807,499.54)</u>
	<b>TOTAL LIABILITIES &amp; STOCKHOLDER'S EQUITY</b>	<u>\$ 980,804.88</u>	<u>\$ 1,123,626.74</u>

Utility Solutions, LLC - Water  
 38.5.122 Statement A - Income Statement

	Year Ended December 31, 2008
<b>Revenues</b>	
Residential - Metered	\$ 120,218.52
Restart Deposit	600.00
Miscellaneous	589.12
Other - net accounts receivable 2007 2008	(85.73)
<b>Total Revenues</b>	<b>\$ 121,321.91</b>
<b>Operating Expenses</b>	
Materials/Supplies	\$ 1,554.05
Purchased Power	\$ 10,150.53
Contracted/Other Services	\$ 20,398.71
Engineering Expense	\$ 2,665.00
Management Contract	\$ 61,114.92
Auto Transportation	\$ 3,327.98
Laboratory/Testing	\$ 947.61
Insurance	\$ 2,269.07
Regulatory Commission	\$ 3,056.32
Permits/Fees/Licenses	\$ 588.50
Advertising	\$ 182.39
Postage/Printing	\$ 1,465.07
Miscellaneous Expense	\$ 585.55
Office	\$ 12,921.68
Bad Debt Expense	\$ 35.73
Accounting	\$ 6,293.65
Petty Cash	\$ 1,618.07
Meters	\$ 1,263.80
Loan Fees	\$ 949.49
<b>Total Operating Expenses</b>	<b>\$ 131,388.12</b>
<b>Depreciation</b>	
Depreciation	\$ 47,806.39
Amortization	\$ 11,207.90
<b>Total Depreciation Expense</b>	<b>59,014.29</b>
<b>Income/(Loss) Before Taxes</b>	<b>\$ (69,080.49)</b>
<b>Provision for Taxes other than Income</b>	
Property Tax	\$ 2,595.78
MCC and PSC Tax	520.05
<b>Total Provision for Taxes other than Income</b>	<b>3,115.83</b>
<b>Provision For Income Taxes</b>	
Federal Income Tax	\$ -
Montana Income Tax	-
<b>Total Provision For Income Taxes</b>	<b>\$ -</b>
<b>NET INCOME / (LOSS)</b>	<b>\$ (72,196.32)</b>

Utility Solutions, LLC - Water  
 38.5.123 Statement C - Utility Plant Accounts

	Balance 12/31/2007 (Column 1)	Balance 12/31/2008 (Column 2)	Average 2007/2008 (Column 3)	Pro Form Adjustments (Column 4)	Adjusted Average 2007/2008 (Column 5)
302 Licenses & Permits capitalized	\$ 168,026.50	\$ 168,132.82	\$ 168,079.66		\$ 168,079.66
303 Land & Land Rights	\$ 23,744.18	\$ 23,744.18	\$ 23,744.18		\$ 23,744.18
304 Property Improvements	\$ 15,492.10	\$ 15,492.10	\$ 15,492.10		\$ 15,492.10
331 Transmission and Distribution Mains	\$ 582,351.42	\$ 582,351.42	\$ 582,351.42		\$ 582,351.42
334 Meters and Meter Installations	\$ 50,928.64	\$ 50,928.64	\$ 50,928.64		\$ 50,928.64
340 Office Furniture & Equipment	\$ 4,541.56	\$ 4,541.56	\$ 4,541.56		\$ 4,541.56
341 Transportation Equipment	\$ 7,654.41	\$ 7,654.41	\$ 7,654.41		\$ 7,654.41
349 Water Distribution Facility & Wells	<u>\$ 328,251.25</u>	<u>\$ 501,270.55</u>	<u>\$ 414,760.90</u>	<u>\$ 144,531.00</u> (1)	<u>\$ 559,291.90</u>
Total Water Plant Accounts	\$ 1,180,990.06	\$ 1,354,115.68	\$ 1,267,552.87	\$ 144,531.00	\$ 1,412,083.87
<b>Average Plant in Service</b>		<b>\$ 1,412,083.87</b>			
Less reduction due to agreement at time of purchase		<u>\$ 331,229.61</u>	See work paper 1.		
<b>Plant in Service used for Rate Base Calculation</b>		<b>\$ 1,080,854.26</b>			

(1) January 2009 - Finishing of 3rd Well; 2009 water system improvements

Utility Solutions, LLC - Water

38.5.133 Statement D - Accumulated Depreciation and Amortization

	Balance 12/31/2007 (Column 1)	Current Year	Balance 12/31/2008 (Column 2)	Average 2007/2008 (Column 3)	Pro Forma Adjustments (Column 4)	Adjusted Average 2007/2008 (Column 5)
302 Licenses & Permits capitalized	\$ 49,475.50	\$ 11,207.90	\$ 60,683.40	\$ 55,079.45		\$ 55,079.45
303 Land & Land Rights	-		-	-		-
304 Property Improvements	\$ 1,845.17	\$ 1,386.67	\$ 3,231.83	\$ 2,538.50		\$ 2,538.50
331 Transmission and Distribution Mains	\$ 109,846.84	\$ 23,294.00	\$ 133,140.84	\$121,493.84		\$ 121,493.84
334 Meters and Meter Installations	\$ 6,933.00	\$ 6,933.00	\$ 13,866.00	\$ 10,399.50		\$ 10,399.50
340 Office Furniture & Equipment	\$ 2,078.75	\$ 766.00	\$ 2,844.75	\$ 2,461.75		\$ 2,461.75
341 Transportation Equipment	\$ 5,016.25	\$ 2,297.00	\$ 7,313.25	\$ 6,164.75		\$ 6,164.75
349 Water Distribution Facility & Wells	\$ 68,223.56	(1) \$ 13,129.72	\$ 81,353.28	\$ 74,788.42	\$ 12,702.00 (2)	\$ 87,490.42
<b>Total Accumulated Depreciation</b>	<b>\$ 243,419.07</b>	<b>\$ 59,014.29</b>	<b>\$ 302,433.35</b>	<b>\$272,926.21</b>	<b>\$ 12,702.00</b>	<b>\$ 285,628.21</b>
<b>Average Accumulated Depreciation</b>						<b>\$ 285,628.21</b>

Adjusted Average 2007/2008 Accumulated Depreciation \$285,628.21

Accum. Dep. removed due to agreement at time of purchase \$71,766.42 See work paper 1.

**Adjusted Average Accumulated Depreciation after removal \$ 213,861.79**

(1) Finishing of the 3rd well at the end of 2008 was incorrectly coded as being added June 2005. The incorrect accumulated depreciation from 2005 - 2007 of \$17,879 has been removed from the balance. No depreciation for this asset was included in 2008.

(2) Include depreciation for January 2009 - finishing of 3rd Well (25 year life); 2009 water system improvements; plus annual depreciation for asset discussed in footnote 1.

Utility Solutions, LLC - Water  
38.5.141 Statement E - Working Cash

Operation and Maintenance Expense	\$ 133,219.37	Section 38.5.156
Materials and Supplies	\$ 1,554.05	Section 38.5.156
Other Taxes	3,709.28	Section 38.5.173
Property Taxes	\$ 2,595.78	Section 38.5.173
Total	<u>\$ 141,078.47</u>	
	12.50%	
Gross Working Cash	\$ 17,634.81	
Less Property Tax Lag		
1st Half 12.5% of \$1,237.79 x 8 mo / 12	\$ 103.15	
2nd Half 12.5% of \$1,357.99 x 12 mo / 12	\$ 169.75	
Total	<u>\$ 272.90</u>	
<b>Net Working Cash</b>	<b>\$ 17,361.91</b>	

Utility Solutions, LLC - Water  
38.5.146 Statement F - Rate of Return

Hypothetical Capital Structure

<u>Description</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Equity	55%	10.00%	5.50%
Debt	45%	5.80%	2.61%
<b>Overall Rate of Return</b>			<b>8.11%</b>

Utility Solutions, LLC - Water  
 38.5.156 Statement G - Operating & Maintenance Expenses

<b>Operating Expenses</b>	Through 12/31/2008 <u>Column 1</u>	Adjustments <u>Column 2</u>	Adjusted Total 2008 <u>Column 3</u>
<b>Operating Expenses</b>			
Materials/Supplies	\$ 1,554.05		\$ 1,554.05
Purchased Power	\$ 10,150.53		\$ 10,150.53
Contracted/Other Services	\$ 20,398.71		\$ 20,398.71
Engineering Expense	\$ 2,665.00		\$ 2,665.00
Management Contract	\$ 61,114.92		\$ 61,114.92
Auto Transportation	\$ 3,327.98		\$ 3,327.98
Laboratory/Testing	\$ 947.61		\$ 947.61
Insurance	\$ 2,269.07		\$ 2,269.07
Regulatory Commission	\$ 3,056.32	\$ 1,831.25	\$ 4,887.57
Permits/Fees/Licenses	\$ 588.50		\$ 588.50
Advertising	\$ 182.39		\$ 182.39
Postage/Printing	\$ 1,465.07		\$ 1,465.07
Miscellaneous Expense	\$ 585.55		\$ 585.55
Office	\$ 12,921.68		\$ 12,921.68
Bad Debt Expense	\$ 35.73		\$ 35.73
Accounting	\$ 6,293.65		\$ 6,293.65
Petty Cash	\$ 1,618.07		\$ 1,618.07
Meters	\$ 1,263.80		\$ 1,263.80
Loan Fees	\$ 949.49		\$ 949.49
<b>Total Operating Expenses</b>	<u>\$ 131,388.12</u>		<u>\$ 133,219.37</u>

Utility Solutions, LLC - Water  
38.5.157 Working Papers - Adjustments to Operating and Maint. Expenses

<u>Adjustment Number</u>	<u>Proforma Adjustment</u>
1	\$1,831.25

No. 1      It is projected that outside services for regulatory consulting services will cost Utility Solutions, LLC \$6,000. The test year currently includes \$168.75. This expense is being amortized over a three year period resulting in an annual increase of \$1,831.25.

Utility Solutions, LLC - Water  
 38.5.164 Statement H -Operating Revenues

	<u>Revenues Through 31-Dec-08 (Column 1)</u>	<u>Pro Forma Adjustments (Column 2)</u>	<u>Adjusted Revenues 31-Dec-08 (Column 3)</u>	<u>Proposed Revenues (Column 4)</u>	<u>Overall Increase (Column 5)</u>
<b>Revenues</b>					
Residential - Metered	\$ 120,218.52		\$ 120,218.52	\$ 327,498.82	
Restart Deposit	\$ 600.00	\$ (600.00) (1)	\$ -	\$ -	
Miscellaneous	\$ 589.12		\$ 589.12	\$ -	
Other - net accounts receivable 2007 2008	<u>\$ (85.73)</u>		<u>\$ (85.73)</u>	<u>\$ -</u>	
<b>Total Revenues</b>	<b>\$ 121,321.91</b>	<b>\$ (600.00)</b>	<b>\$ 120,721.91</b>	<b>\$ 327,498.82</b>	<b>\$ 206,776.91</b>

Percent Increase                      171.28%

(1) Per tariff, restart deposits are to be returned to the customer when requirements are met or service is terminated. These are not funds that will be kept by the utility.

Utility Solutions, LLC - Water  
 38.5.165 Statement I - Depreciation and Amortization Expense

	Dep. and Amort. Expense Through 31-Dec-08 (Column 1)	Pro Forma Adjustments (Column 2)	Adjusted Dep. and Amort. Expense (Column 3)
302 Licenses & Permits capitalized	\$ 11,207.90		\$ 11,207.90
303 Land & Land Rights	\$ -		\$ -
304 Property Improvements	\$ 1,386.67		\$ 1,386.67
331 Transmission and Distribution Mains	\$ 23,294.00		\$ 23,294.00
334 Meters and Meter Installations	\$ 6,933.00		\$ 6,933.00
340 Office Furniture & Equipment	\$ 766.00		\$ 766.00
341 Transportation Equipment	\$ 2,297.00		\$ 2,297.00
349 Water Distribution Facility & Wells	\$ 13,129.72	\$ 12,702.00 (1)	\$ 25,831.72
<b>Total Depreciation and Amortization Expense</b>	<b>\$ 59,014.29</b>	<b>\$ 12,702.00</b>	<b>\$ 71,716.29</b>

(1) Include depreciation for January 2009 - finishing of 3rd Well and water system improvements and December 2008 - finishing of 3rd well.

Utility Solutions, LLC - Water  
 38.5.169 Statement J - Income Taxes

Income Taxes

Description	Current Rates	Proposed Rates
Operating Revenues	\$120,721.91	\$327,498.82
Less:		
Operating Expenses	\$133,219.37	\$133,219.37
Taxes Other Than Income	\$3,006.23	\$3,709.28
Depreciation and Amort. Expense	\$71,716.29	\$71,716.29
Interest Expense	\$0.00	\$0.00
Total	<u>-\$87,219.98</u>	<u>\$118,853.89</u>
Taxable Income State	-\$87,219.98	\$118,853.89
State Tax Expense @ 7.00%	\$0.00	\$8,319.77
Taxable Income Federal	-\$87,219.98	\$110,534.12
Federal Tax Expense @ 35.00%	\$0.00	\$38,686.94
Total Income Tax expense	<u>\$0.00</u>	<u>\$47,006.71</u>

Utility Solutions, LLC - Water  
 38.5.173 Statement K - Other Taxes

<u>Description</u>	<u>Recorded 2008 (Column 1)</u>	<u>Adjustments (Column 2)</u>	<u>Tax at Present Rates (Column 3)</u>	<u>Tax at Proposed Rates (Column 4)</u>
MCC Tax	\$161.80	-\$65.22 a	\$96.58	\$262.00
PSC Tax	\$358.25	-\$44.37 b	\$313.88	\$851.50
Property Tax	\$2,595.78	\$0.00	\$2,595.78	\$2,595.78
Total	\$3,115.83	-\$109.60	\$3,006.23	\$3,709.28

Notes:

a) MCC tax Computed at .08%				
Present Rates	0.08% X	\$ 120,721.91 =		\$96.58
Recorded Amount				<u>\$161.80</u>
Adjustment				-\$65.22
b) PSC tax Computed at .26%				
Present Rates	0.26% X	\$ 120,721.91 =		\$313.88
Recorded Amount				<u>\$358.25</u>
Adjustment				-\$44.37

Utility Solutions, LLC - Water  
 38.5.175 - Overall Cost of Service

Description	Present Rates (Column 1)	Proposed Rates (Column 2)
Operating Revenues	\$120,721.91	\$327,498.82
Deductions:		
Operating Expenses	\$133,219.37	\$133,219.37
Depreciation and Amortization	\$71,716.29	\$71,716.29
Taxes Other Than Income	\$3,006.23	\$3,709.28
Income Taxes	\$0.00	\$47,006.71
Net Operating Income	-\$87,219.98	\$71,847.17
Rate Base	\$885,908.43	\$885,908.43
Rate of Return, Percent	-9.85%	8.11%

Customer Description (Column 1)	Service Connections ** (Column 2)	Number of Billings (Column 3)	Annual Consumption in Gallons (Column 4)
Residential/Commercial	268	3216	41,419,000
<b>Total</b>	<b>268</b>	<b>3216</b>	<b>41,419,000</b>

\*\* Number of Service Connections were adjusted to include an annual equivalent for irrigation customers. See Workpaper 2.

Customer Description (Column 1)	Service Proportion (Column 2)	Billing Proportion (Column 3)	Consumption Proportion (Column 4)
Residential/Commercial	100.00%	100.00%	100.00%
<b>SubTotal</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Customer Class	Customer Service (Column 1)	Pumping (Column 2)	Admin & General (Column 3)	Percent Variable Expense (Column 4)	Depreciation (Column 5)	Income Taxes (Column 6)	Taxes Other Than Income (Column 7)	Return (Column 8)	Total Class Cost-of-Service (Column 9)
Residential/Commercial	\$15,008.03	\$36,979.70	\$81,231.64	\$133,219.37	\$71,716.29	\$47,006.71	\$3,709.28	\$71,847.17	\$327,498.82
<b>Total</b>	<b>\$15,008.03</b>	<b>\$36,979.70</b>	<b>\$81,231.64</b>	<b>100.00%</b>	<b>\$71,716.29</b>	<b>\$47,006.71</b>	<b>\$3,709.28</b>	<b>\$71,847.17</b>	<b>\$327,498.82</b>

Allocation Method	Billing Proportion	Consumption Proportion	Service Proportion	Percent Variable	Percent Variable	Percent Variable	Percent Variable
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Utility Solutions, LLC - Water  
38.5.178 Derivation of Increased Rates

**Residential/Small Commercial**

Variable Costs

Pumping/Water Treatment Costs \$36,979.70

Fixed Cost

Customer Service \$15,008.03  
Other Fixed Costs \$275,511.09

Total Cost \$327,498.82

**Computation of Monthly Service Charge**

Customer Service \$15,008.03  
Allocate 1/3 Other \$275,511.09  
Fixed Cost X 0.3333 \$91,827.84

Total Cost allocated to Monthly Service Charge \$106,835.87  
Number of Annual Bills 3,216 = \$33.22

**Monthly Customer Charge Residential/Small Commercial \$33.22**

**Computation of Usage Charge**

Allocate remaining 2/3 of Other Fixed Costs and Pumping Expense in proportion to usage.

Total Other Costs \$275,511.09  
X 0.6667  
\$183,674.06

Pumping Expense \$36,979.70

Total Cost Recovered through Usage Charge \$220,653.76  
Divided by Metered M gals 41419

**Usage Rate per 1,000 Gallons \$5.327**

Utility Solutions, LLC - Water  
38.5.179 - Description of Utility Operations

Utility Solutions, LLC water utility serves approximately 268 customers in the Four Corners area of Gallatin County. The Utility Solutions, LLC water system that serves the Elk Grove Subdivision is operated under MDEQ approval as a public water supply, PWSID # MT004248. Water is provided from three groundwater wells under water right number 41H-110168-00. Water storage to meet domestic demands and fire flows is provided by a 246,000 gallon above grade bolted steel reservoir. Computerized systems monitoring and management data is provided by a SCADA system control. The Elk Grove Water System has a sodium hypochlorite disinfection system.

Water distribution mains are located in street rights of way and utility easements. Fire hydrants are connected to the water mains for fire protection. Services to lots is in accordance with MDEQ regulations. Design pressure range is 52 psi to 71 psi. Emergency backup power is provided.

All water users have meters. Meters are read monthly. Billing is through a Black Mountain Software program. The system is operated by Licensed Water Operators.

Utility Solutions, LLC - Water

Work paper 1

Elk Grove Purchase - Water	\$1,081,229.61
Capital agreement	<u>\$750,000.00</u>
Reduction due to agreement at time of purchase	\$331,229.61
Average life of plant at purchase	25 years
Accumulated Depreciation August 2003 - 2008	\$71,766.42

**Number of Service Connections**

Year End Service Connections		261
Irrigation Customers	11	
Months Irrigation Customers Active (July through October)	4	
Total Irrigation Months	<u>44</u>	
	X <u>2 (1)</u>	
	88	
Annual Equivalent (Total Months / 12)		<u>7.33</u>
Total Service Connections		268.33
<b>Rounded Total Service Connections</b>		<b>268</b>

(1) Each of the 11 irrigation customers have a "mirror" lot that is not metered. Each monthly bill is adjusted to reflect additional usage on the second lot.