

102005.11.163

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Utility Solutions, LLC
PO Box 10098
Bozeman, MT 59719

2007 AUG 14 A 10:18

PUBLIC SERVICE
COMMISSION

August 12, 2007

Kate Whitney
Montana Public Service Commission
1701 Prospect Avenue
Helena, MT 59620

RE: Docket Nos. D2005.11.163 and D2005.11.164 – Utility Solutions

Please consider this letter request an application for final approval of Utility Solutions interim rates and charges filed in Docket Nos. D2005.11.163 and D2005.11.164. Pursuant to Commission order in those Dockets Utility Solutions was to file an application no later than July 1, 2007 requesting final approval. Pursuant to a request from Utility Solutions for an extension of time to file its application the Commission authorized an extension until August 15, 2007.

Enclosed you will find 10 copies of supplemental direct testimony and exhibits filed by Ronald Woods in support of Utility Solutions request for final approval of rates. In addition to filing this application with the Commission, Utility Solutions has also provided three copies to the Montana Consumer Counsel's office. The Company has designated Ronald Woods, 355 Montana Avenue, Missoula, Montana 59802, telephone (406) 543-7806, as the person responsible for answering questions or for referring inquiries to the appropriate person. The testimony and exhibits indicate that Utility Solutions' rates and charges as proposed in the original filing and given interim approval by the Commission are just and reasonable.

Utility Solutions requests final approval of its interim rates at the Commission's earliest possible convenience.

Sincerely,
Barb Campbell/uyRRW

Barbara Campbell

Cc: Montana Consumer Counsel
PO Box 201703
Helena, MT 59620-1703

**BEFORE THE
MONTANA PUBLIC SERVICE COMMISSION**

**SUPPLEMENTAL PREFILED DIRECT TESTIMONY
RONALD R. WOODS**

Q. Please state your name, business address and affiliation with Utility Solutions, LLC sewer utility.

A. My name is Ronald R. Woods. My business address is 355 Montana Avenue, Missoula, Montana. I am a consultant retained by Utility Solutions to provide regulatory consulting services to its sewer utility in connection with the filing of initial sewer rates with the Montana Public Service Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present financial exhibits and data supporting Utility Solutions' application for implementation of initial rates. In the Commission's Interim Order No. 6708 in Docket No. D2005.11.164 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. Utility Solutions has completed one year of operation under the interim rates and is now making its financial showing regarding the reasonableness of its proposed rates and charges.

Q. Are you sponsoring any exhibits or work papers as part of your supplemental testimony?

A. Yes. I am sponsoring three work papers. Workpaper-1 replicates the projected operating statement presented with the original filing, which for reference is Schedule 38.5.156 of that filing. This work paper is being presented for the purpose of easy comparison between the actual operating results achieved by Utility Solutions under the rates and charges approved by the Commission and those projected in the original filing.

Workpaper-2 is the total company operating statement reflecting the overall operating results achieved by Utility Solutions from both its regulated and unregulated utility operations. As stated in my original testimony, Utility Solutions is providing service in its Elk Grove service area on a monthly fee basis under rates and charges approved

and regulated by the Montana Public Service Commission. In its remaining service territory it is providing service on a contract basis to subscribers of the Four Corners County Water and Sewer District (District). Because of the existence of a contract between Utility Solutions and the District, the rates and charges presently being assessed within the District boundaries are not being regulated by the Commission

Workpaper-3 is the regulated income statement for Utility Solutions Elk Grove service area. This operating statement reflects the actual revenues earned during the period and the allocated expense associated with the provision of service to customers in the Elk Grove service territory.

- Q. Would you describe the contents of each of your work papers?
- A. As I stated previously, this Workpaper-1 replicates the operating statement presented by me in the original filing with the Commission requesting interim approval of initial rates. The contents of this work paper are fully described in my original testimony and exhibits I, therefore, will not burden this filing by reiterating that testimony.

Workpaper-2 consists of 3 pages and I believe it is self-explanatory it is the total company operating statement as reflected on the books and records of Utility Solutions.

Workpaper-3 is the regulated income statement of Utility Solutions for its Elk Grove service area as presented in the Annual Report filed with the Commission and an adjusted income statement reflecting the fact that full occupancy has not been achieved within Utility Solutions service area. For purposes of filing the annual report with the Commission Utility Solutions allocated its common expenses to its various operating divisions based on actual employee time devoted to each division. While this is a reasonably fair representation of actual operating results for financial reporting purposes it ignores that full occupancy has not been achieved and that employee time will shift between operating divisions as that occupancy pattern changes. Column A of Workpaper-3 provides the account descriptions as shown in

the annual report to the Commission and as represented on the total company operating statement. Column B reflects the entries, by account, as shown on the annual report to the Commission. Column D shows the operating statement information in a format consistent with that used by Utility Solutions on its internally generated financials, as adjusted, to reflect that full subscription of service has not occurred. I have chosen to present the information in the format shown in Column D because it is more detailed than the information contained in the annual report.

If you refer to Workpaper-2 the total company operating statement for Utility Solutions you will see under the heading "Sewer Service - Elk Grove" a detailed listing of its direct charges to the utility operation. These direct charges to the utility operation are listed on lines 13 through 23 in Column D. For annual reporting Utility Solutions has included a portion of these direct expenses in "Other Expense" and "Contractual Services." For clarity in this filing I believe it appropriate to detail this information. This change in presentation results in the removal of \$5,702 from the "Other Expense" category and totally eliminates "Contractual Services" as they are included in the direct expense category. The \$6,498 "Contractual Services" amount shown on the annual report consists of the of following direct expense categories "Regulatory Consulting", "Testing" and "Operator."

I have made two other adjustments to the operating results of Utility Solutions as presented to the Commission in the annual report. The first is the allocation percentage used to assign "Management Fee" to the regulated operation. As stated earlier, for annual reporting purposes, Utility Solutions assigned this cost based on actual employee time devoted to each division I have modified that allocation. I chose to allocate this expense using the same percentage used in the original application as it is more representative of management costs at full build out in the service area. In the original application 71% of the management fee was charged to the sewer utility operation ($\$221,520/\$312,000 = .71$) for purposes of this filing I have continued that percentage relationship. Using the 71% to develop a total management fee chargeable to regulated an unregulated sewer operations produces a

charge of \$230,510 ($\$324,663 \times .71 = \$230,510$). I then applied the 25.9% allocation factor from the original filing to calculate a management fee for regulated sewer services of \$59,702 ($\$230,510 \times .259 = \$59,702$). This adjustment to the management fee calculation decreases this expense by \$17,157. Secondly I adjusted "Professional Fees" charged to the utility operation. In discussions with utility personnel it was determined that \$134,114 of legal fees, a portion of which was allocated to the utility operation, did not benefit subscribers in the service area. I therefore eliminated these costs from consideration before allocating professional fees to the utility. The elimination of these costs reduced utility expenses by \$31,806.

Column D of Workpaper-3, in my opinion, provides a fairly reasonable representation of the current operating position of Utility Solutions regulated enterprise at its present level of build out.

Q. Does that conclude your supplemental testimony?

A. Yes.

	A	B	C	D
1	38.5.156 Proforma Income Statement Page 1 of 1			Workpaper -1
2		<u>Utility Solutions</u>	<u>Allocated Elk Grove</u>	
3		<u>Pro forma</u>		
4	<u>Description</u>			
5				
6	<u>Revenue</u>			
7	Elk Gove	\$199,187	\$199,187	
8	Water District	\$343,145		
9				
10	Total	\$542,332	\$199,187	
11				
12	<u>Pumping-Waterwater Treatment</u>			
13	Purchased Power	\$189,786	\$39,786	
14	Chemicals	\$18,000	\$4,662	
15	Miscellaneous Testing	\$17,000	\$4,403	
16	Materials and Supplies	\$15,000	\$5,000	
17	Contracted Services Sludge Disposal	\$30,000	\$7,770	
18	Contracted Services Sewer Cleaning	\$9,000	\$3,000	
19				
20	Total	\$278,786	\$64,621	
21				
22	<u>Customer Accounts & Service</u>			
23				
24	Management Contract	\$221,520	\$57,374	
25	Office Expense	\$12,000	\$3,108	
26	Legal Fees/Accounting	\$10,000	\$2,590	
27	Insurance	\$18,000	\$6,000	
28				
29	Total	\$261,520	\$69,072	
30				
31	<u>Taxes Other than Income</u>			
32	Property Taxes	\$8,288	\$4,318	
33	PSC Tax	\$1,627	\$598	
34	MCC Tax	\$597	\$219	
35	DEQ PWSP	\$563	\$563	
36				
37	Total	\$11,075	\$5,698	
38				
39	Depreciation	\$109,336	\$26,078	
40				
41	State Income Taxes	\$0	\$0	
42	Federal Income Tax	\$0	\$0	
43				
44		\$0	\$0	
45				
46	Total Expenses	\$660,717	\$165,468	
47				
48	Net Operating Income	-\$118,385	\$33,719	
49				
50				
51				

	A	B	C	D	E	F	G
1	Utility Solutions Total Company Income Statement Year Ended December 31, 2006						
2						Page 1 of 3	
3	<u>Description</u>						
4							
5	<u>Operating Revenues</u>						
6	Construction (CIAC)	\$1,289,398					
7	District Contract	\$303,483					
8	Late Fees	\$48					
9	Elk Grove Sewer	\$132,991					
10	Elk Grove Water	\$95,681					
11	Service Expansion	\$409,559					
12							
13	Total Revenues	\$2,231,160					
14							
15	<u>Operating Expenses</u>						
16							
17	<u>Unassigned Common Expenses</u>						
18	Amortization Expense	\$124					
19	Automobile Expense	\$48					
20	Bank Service Charges	\$182					
21	Computer/Billing Supplies	\$2,818					
22	Dues and Subscriptions	\$74					
23	Education	\$293					
24	Employee Reimbursement	\$300					
25	Equipment Rental	\$12,000					
26	Fuel	\$477					
27	Insurance Liability	\$9,280					
28	Insurance Property	\$19,734					
29	Interest Expense	\$206,745					
30	Licenses and Permits	\$1,423					
31	Management Fee	\$324,663					
32	Mileage Reimbursement	\$167					
33	Office Expense	\$803					
34	Office Supplies	\$343					
35	Postage and Delivery	\$1,220					
36	Accounting Fees	\$775					
37	Legal Fees	\$153,353					
38	Rent	\$7,700					
39	Equipment Repairs	\$1,170					
40							
41	Sub Total Unassigned Expenses	\$743,692					
42							

	A	B	C	D	E	F	G
43	<u>Direct Expenses Assigned</u>						Page 2 of 3
44							
45	<u>Service Expansion</u>						
46	Black Bull	\$50,250					
47	Buckland	\$400					
48	Cameron Bridge	\$263					
49	Circle F	-\$6,567					
50	Gallatin Heights	\$6,748					
51	Hughes Morton	\$44					
52	Permits and Fees	\$3,400					
53							
54	Total Service Expansion	\$54,538					
55							
56	<u>Sewer Service - District</u>						
57	Legal	\$5,885					
58	Maintenance	\$5,682					
59	Permits	\$2,400					
60	Property Tax	\$2,651					
61	Testing	\$188					
62	Utilities	\$9,994					
63							
64	Total Sewer Service - District	\$26,800					
65							
66	<u>Sewer Service - Elk Grove</u>						
67	Chemicals	\$2,435					
68	Fuel	\$3,678					
69	Licenses and Permits	\$1,270					
70	Maintenance	\$20,069					
71	Operator	\$2,990					
72	Permits	\$1,126					
73	Property Tax	\$3,306					
74	Rate Consulting	\$1,250					
75	Supplies	\$979					
76	Testing	\$2,258					
77	Utilities	\$7,980					
78							
79	Total Sewer Service - Elk Grove	\$47,341					

	A	B	C	D	E	F	G
80						Page 3 of 3	
81	<u>Water Service - District</u>						
82	Property Taxes	\$4,622					
83	Telephone	\$1,880					
84	Chemicals	\$215					
85	Fees	\$175					
86	Generator Fuel	\$1,100					
87	Legal	\$24,412					
88	Maintenance	\$3,500					
89	Operations	\$5,066					
90	Permits	\$4,060					
91	Supplies	\$3,658					
92	Testing	\$4,356					
93	Utilities	\$12,671					
94							
95	Total Water Service - District	\$65,715					
96							
97	<u>Water Service - Elk Grove</u>						
98	Fuel	\$160					
99	Legal	\$44					
100	Maintenance - Supplies	\$695					
101	Operator	\$5,076					
102	Permits	\$450					
103	Property Tax	\$1,153					
104	Rate Consulting	\$1,250					
105	Repairs and Maintenance	\$872					
106	Testing	\$1,841					
107	Travel	\$238					
108	Utilities	\$8,482					
109							
110	Total Water Service - Elk Grove	\$20,261					
111							
112	Total O&M Expense	\$958,347					

	A	B	C	D	E	F
1	Elk Grove Allocated Income Statement Year Ended December 31, 2006					
2						
3	<u>Operating Revenues</u>		Per Annual Report		Compliance Filing	
4						
5	Elk Grove Sewer		\$132,991		\$132,991	
6	Late Fees		\$24		\$24	
7	Total Operating Revenues		\$133,015		\$133,015	
8						
9	<u>Operating Expenses</u>					
10						
11	<u>Direct Expenses Assigned</u>					
12						
13	Chemicals		\$2,435		\$2,435	
14	Fuel		\$3,678		\$3,678	
15	Licenses and Permits				\$1,270	
16	Maintenance		\$20,069		\$20,069	
17	Operator				\$2,990	
18	Permits				\$1,126	
19	Property Tax				\$3,306	
20	Rate Consulting				\$1,250	
21	Supplies		\$979		\$979	
22	Testing				\$2,258	
23	Utilities		\$7,980		\$7,980	
24						
25	Total Direct Expenses		\$35,141		\$47,341	
26						
27	<u>Allocated Common Expenses</u>					
28						
29	Management Fee		\$76,859		\$59,702	
30	Professional Fees		\$36,990		\$5,184	
31	Equipment Rental		\$2,880		\$2,880	
32	Insurance Expense		\$6,964		\$6,964	
33	Contractual Services		\$6,498			
34	Other Expenses		\$11,377		\$5,675	
35						
36	Total Allocated Expenses		\$141,568		\$80,405	
37						
38	Depreciation Expense		\$39,899		\$39,899	
39						
40	Total Operating Expenses		\$216,608		\$167,645	
41						
42	Net Income		-\$83,593		-\$34,630	