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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. D2005.11.164

- Q. Please state your name, business address and affiliation with Utility Solutions, LLC wastewater 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 wastewater rates by Utility Solutions, LLC (Utility Solutions). 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. 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 water 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 wastewater 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 wastewater 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 wastewater 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 wastewater utility is \$557,517.11.
- 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 wastewater utility plant balance by \$275,710.09. 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 \$356,304.55 producing operating income of \$74,796.75, 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 \$451,423.26 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 \$22,226.97 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 wastewater 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 \$356,304.55 are in Column 4.
- Q. What are the increases under the proposed rates?
- A. The overall increase shown in Column 5 is \$183,646.53, or 106.36%.

DEPRECIATION AND AMORTIZATION

- Q. Please describe the statement on depreciation and amortization expense.
- A. Total wastewater 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 \$1,110.83. The adjustment reflects annualizing depreciation expense for 2008 additions and including depreciation expense for 2009 wastewater treatment plant improvements. 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 \$110.89 in the Montana Consumer Counsel Tax.

Adjustment b) reflects a decrease of \$102.50 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, day care and commercial customer classes. 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 the Monthly Customer Charges for wastewater service.

The Monthly Customer Charge for Residential customers is calculated by dividing the total cost of service for this class by the annual number of billings in the customer class. The resulting Monthly Customer Charge is \$113.76.

Utility Solutions does not currently have any day care or commercial wastewater subscribers. However, Utility Solutions proposes to have a tariff in

place for these classes of subscribers. I have used an equivalent domestic usage (EDU) factor to derive the rates. The Monthly Customer Charges for day care and commercial are calculated by multiplying the residential rate by the respective EDU factors shown in Section 38.5.176. The resulting Monthly Customer Charge for day care and commercial is \$398.17 per month.

- 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.

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) 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 utilities. See Mountain Water Tariff.

- (2) Customers who wish to have their wastewater 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.

- (3) In situations where more than one user is being provided with wastewater from a single service line, with a single shut-off device controlling the water flow, and if any one or more of the wastewater users either will not sign up for service or will not pay for that service, then the responsibility for payment of future wastewater charges must be assumed by the property owner in order to prevent the service from being disconnected for non-signup or non-payment.

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

- (4) 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 utilities. See Mountain Water Tariff.

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

Comment: Standard tariff language for 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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Rate Base Calculation

Description	Amount	Reference
Utility Plant	\$1,259,711.68	Sec. 38.5.123
Less Capital reduction	<u>\$ 275,710.09</u>	Work paper 1
Net Utility Plant	\$984,001.59	
Materials and Supplies	\$2,711.81	Sec. 38.5.122
Working Cash	<u>\$22,226.97</u>	Sec. 38.5.141
Subtotal	\$1,008,940.36	
Less:		
Accumulated Depreciation	<u>\$ 451,423.26</u>	Sec. 38.5.133
Net Rate Base	\$557,517.11	
Allowed Rate of Return	8.11%	Sec 38.5.146
Allowed Return	\$45,214.64	

Description	At Present Rates Column 1	At Proposed Rates (Column 2)	(Column 3)
Operating Revenues	\$ 172,658.02	\$356,304.55	Sec 38.5.164
Operating Expenses	\$ 169,038.51	\$169,038.51	Sec 38.5.156
Depreciation and Amort.	\$ 107,220.16	\$107,220.16	Sec 38.5.165
Taxes Other Than Income	<u>\$4,624.73</u>	<u>\$5,249.13</u>	Sec 38.5.173
Net Taxable Income	-\$108,225.38	\$74,796.75	
Income Taxes	\$0.00	\$29,582.11	Sec 38.5.169
Net Operating Income	-\$108,225.38	\$45,214.64	
Rate Base	<u>\$557,517.11</u>	<u>\$557,517.11</u>	SB - 1; Section 1
Allowed Return on Rate Base	-19.41%	8.11%	Sec 38.5.146
Revenue Increase		\$ 183,646.53	
Current Revenue		\$ 172,658.02	
Overall Percent Increase		106.36%	

Utility Solutions, LLC - Sewer
 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				
Residential	\$53.79	\$113.76	\$59.97	111.49%
Daycare (1)	\$80.10	\$398.17	\$318.07	397.09%
Commercial (1)	\$108.76	\$398.17	\$289.41	266.10%

(1) Currently no subscribers.

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

Line No.	Description	December 31 2007 (Column 1)	December 31 2008 (Column 2)
Current Assets			
	Cash	\$ 113,688.90	\$ 118,140.46
	Accounts Receivable	\$ 5,364.29	\$ 7,379.02
	Total Current Assets	<u>\$ 119,053.19</u>	<u>\$ 125,519.48</u>
Property & Equipment			
	Land & Land Rights	\$ 23,744.17	\$23,744.17
	Property Improvements	\$ 15,492.10	\$15,492.10
	Sewer Treatment Plant	\$398,831.88	\$398,831.88
	Transmission and Distribution Mains	\$ 437,409.17	\$ 437,409.17
	Office Furniture & Equipment	\$7,956.56	\$7,956.56
	Transportation Equipment	\$7,654.41	\$7,654.41
	Disposal Beds	\$173,596.32	\$173,596.32
	Accumulated Depreciation	\$ (422,453.74)	\$ (517,229.03)
	Total Property & Equip. less Depreciation	<u>\$ 642,230.87</u>	<u>\$547,455.58</u>
Other Assets			
	Permits/Fees/Licenses	\$ 168,026.49	\$ 171,987.64
	Accumulated Amortization	\$ (49,475.50)	\$ (60,809.54)
	Total Other Assets	<u>\$ 118,550.99</u>	<u>\$ 111,178.10</u>
	TOTAL ASSETS	<u>\$ 879,835.05</u>	<u>\$ 784,153.15</u>
Current and Short Term Liabilities			
	Notes Payable	\$ 138,580.42	\$ 284,444.51
	Accrued Interest	\$ -	\$ 54,857.08
	Accounts Payable - vendors	\$ -	\$ 7,584.61
	Total Current Liabilities	<u>\$ 138,580.42</u>	<u>\$ 346,886.20</u>
Long Term Liabilities			
	Long Term Debt - Graves	\$ 1,350,702.00	\$ 1,350,702.00
	Total Long Term Liabilities	<u>\$ 1,350,702.00</u>	<u>\$ 1,350,702.00</u>
	TOTAL LIABILITIES	<u>\$ 1,489,282.42</u>	<u>\$ 1,697,588.20</u>
Stockholder's Equity			
	Members Equity	\$ (609,447.37)	\$ (913,435.05)
	Total Stockholder's Equity	<u>\$ (609,447.37)</u>	<u>\$ (913,435.05)</u>
	TOTAL LIABILITIES & STOCKHOLDER'S EQUITY	<u>\$ 879,835.05</u>	<u>\$ 784,153.15</u>

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

		<u>Year Ended</u> <u>December 31, 2008</u>
Line No.	Revenues	
	Residential - Metered	\$ 171,939.86
	Miscellaneous	718.16
	Total Revenues	\$ 172,658.02
	Operating Expenses	
	Materials/Supplies	\$ 2,711.81
	Chemicals	\$ 738.69
	Purchased Power	\$ 8,415.81
	Fuel for Production	\$ 118.45
	Contracted/Other Services	\$ 24,475.11
	Management Contract	\$ 84,289.93
	Rental Equipment/Property	\$ 315.16
	Auto Transportation	\$ 3,281.13
	Other Equipment Expense	\$ 29.74
	Laboratory/Testing	\$ 2,543.34
	Insurance	\$ 12,218.78
	Regulatory Commission	\$ 3,056.31
	Permits/Fees/Licenses	\$ 82.50
	Advertising	\$ 130.36
	Postage/Printing	\$ 1,440.19
	Miscellaneous Expense	\$ 738.22
	Office	\$ 12,921.68
	Bad Debt Expense	\$ 118.92
	Accounting	\$ 6,262.80
	Petty Cash	\$ 1,614.28
	Loan Fees	\$ 1,704.05
	Total Operating Expenses	\$ 167,207.26
	Depreciation	
	Depreciation	\$ 94,775.29
	Amortization	\$ 11,334.04
	Total Depreciation Expense	106,109.33
	Income/(Loss) Before Taxes	\$ (100,658.57)
	Provision for Taxes other than Income	
	Property Tax	\$ 4,037.69
	MCC and PSC Tax	800.43
	Total Provision for Taxes other than Income	4,838.12
	Provision For Income Taxes	
	Federal Income Tax	\$ -
	Montana Income Tax	-
	Total Provision For Income Taxes	\$ -
	NET INCOME / (LOSS)	\$ (105,496.69)

Utility Solutions, LLC - Sewer
 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	\$ 168,026.49	\$ 171,987.64	\$ 170,007.07		\$ 170,007.07
303 Land & Land Rights	\$ 23,744.17	\$ 23,744.17	\$ 23,744.17		\$ 23,744.17
304 Property Improvements	\$ 15,492.10	\$ 15,492.10	\$ 15,492.10		\$ 15,492.10
320 Sewer Treatment Plant	\$ 398,831.88	\$ 398,831.88	\$ 398,831.88	\$25,020.00 (1)	\$ 423,851.88
331 Transmission and Distribution Mains	\$ 437,409.17	\$ 437,409.17	\$ 437,409.17		\$ 437,409.17
340 Office Furniture & Equipment	\$ 7,956.56	\$ 7,956.56	\$ 7,956.56		\$ 7,956.56
341 Transportation Equipment	\$ 7,654.41	\$ 7,654.41	\$ 7,654.41		\$ 7,654.41
349 Disposal Beds	\$ 173,596.32	\$ 173,596.32	\$ 173,596.32		\$ 173,596.32
Total Water Plant Accounts	\$ 1,232,711.10	\$ 1,236,672.25	\$ 1,234,691.68	\$25,020.00	\$ 1,259,711.68
Average Plant in Service		\$ 1,259,711.68			
Less reduction due to agreement at time of purchase		<u>\$ 275,710.09</u>	See work paper 1.		
Plant in Service used for Rate Base Calculation		\$ 984,001.59			

(1) 2009 Sewer treatment plant improvements.

Utility Solutions, LLC - Sewer
 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	\$ 11,334.04	\$ 60,809.54	\$ 55,142.52	\$ 110.03 (1)	\$ 55,252.55
303 Land & Land Rights	-		-	-		-
304 Property Improvements	\$ 1,845.17	\$ 1,386.67	\$ 3,231.83	\$ 2,538.50		\$ 2,538.50
320 Sewer Treatment Plant	\$ 309,255.30	\$ 65,389.50	\$ 374,644.80	\$ 341,950.05	\$ 1,000.80 (2)	\$ 342,950.85
331 Transmission and Distribution Mains	\$ 83,486.30	\$ 17,496.44	\$ 100,982.74	\$ 92,234.52		\$ 92,234.52
340 Office Furniture & Equipment	\$ 2,657.75	\$ 1,262.50	\$ 3,920.25	\$ 3,289.00		\$ 3,289.00
341 Transportation Equipment	\$ 5,016.25	\$ 2,296.00	\$ 7,312.25	\$ 6,164.25		\$ 6,164.25
349 Disposal Beds	\$ 20,192.97	\$ 6,944.18	\$ 27,137.16	\$ 23,665.06		\$ 23,665.06
Total Accumulated Depreciation	\$ 471,929.24	\$ 106,109.33	\$ 578,038.57	\$ 524,983.91	\$ 1,110.83	\$ 526,094.74
Average Accumulated Depreciation						\$ 526,094.74

Adjusted Average 2007/2008 Accumulated Depreciation	\$526,094.74	
Accum. Dep. removed due to agreement at time of purchase	\$74,671.48	See work paper 1.
Adjusted Average Accumulated Depreciation after removal	\$451,423.26	

(1) Annualize depreciation and amortization for 2008 License and Permit additions
 (2) Include depreciation for 2009 Sewer treatment plant improvements.

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

Operation and Maintenance Expense	\$ 169,038.51	Section 38.5.156
Materials and Supplies	\$ 2,711.81	Section 38.5.156
Other Taxes	5,249.13	Section 38.5.173
Property Taxes	\$ 4,037.69	Section 38.5.173
Total	<u>\$ 181,037.14</u>	
	12.50%	
Gross Working Cash	\$ 22,629.64	
Less Property Tax Lag		
1st Half 12.5% of \$2,448.90 x 8 mo / 12	\$ 204.08	
2nd Half 12.5% of \$1,588.79 x 12 mo / 12	<u>\$ 198.60</u>	
Total	\$ 402.67	
Net Working Cash	\$ 22,226.97	

Utility Solutions, LLC - Sewer
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%
Overall Rate of Return			8.11%

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

	Through 12/31/2008 Column 1	Adjustments Column 2	Adjusted Total 2008 Column 3
Operating Expenses			
Operating Expenses			
Materials/Supplies	\$ 2,711.81		\$ 2,711.81
Chemicals	\$ 738.69		\$ 738.69
Purchased Power	\$ 8,415.81		\$ 8,415.81
Fuel for Production	\$ 118.45		\$ 118.45
Contracted/Other Services	\$ 24,475.11		\$ 24,475.11
Management Contract	\$ 84,289.93		\$ 84,289.93
Rental Equipment/Property	\$ 315.16		\$ 315.16
Auto Transportation	\$ 3,281.13		\$ 3,281.13
Other Equipment Expense	\$ 29.74		\$ 29.74
Laboratory/Testing	\$ 2,543.34		\$ 2,543.34
Insurance	\$ 12,218.78		\$ 12,218.78
Regulatory Commission	\$ 3,056.31	\$ 1,831.25	\$ 4,887.56
Permits/Fees/Licenses	\$ 82.50		\$ 82.50
Advertising	\$ 130.36		\$ 130.36
Postage/Printing	\$ 1,440.19		\$ 1,440.19
Miscellaneous Expense	\$ 738.22		\$ 738.22
Office	\$ 12,921.68		\$ 12,921.68
Bad Debt Expense	\$ 118.92		\$ 118.92
Accounting	\$ 6,262.80		\$ 6,262.80
Petty Cash	\$ 1,614.28		\$ 1,614.28
Loan Fees	\$ 1,704.05		\$ 1,704.05
Total Operating Expenses	\$ 167,207.26		\$ 169,038.51

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

	Revenues Through 31-Dec-08 (Column 1)	Pro Forma Adjustments (Column 2)	Adjusted Revenues 31-Dec-08 (Column 3)	Proposed Revenues (Column 4)	Overall Increase (Column 5)
Revenues					
Residential - Metered	\$ 171,939.86		\$ 171,939.86	\$ 356,304.55	
Miscellaneous	\$ 718.16		\$ 718.16	\$ -	
Total Revenues	\$ 172,658.02	\$ -	\$ 172,658.02	\$ 356,304.55	\$ 183,646.53
				Percent Increase	106.36%

Utility Solutions, LLC - Sewer

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	\$ 11,334.04	\$ 110.03 (1)	\$ 11,444.07
303 Land & Land Rights	\$ -		\$ -
304 Property Improvements	\$ 1,386.67		\$ 1,386.67
320 Sewer Treatment Plant	\$ 65,389.50	\$ 1,000.80 (2)	\$ 66,390.30
331 Transmission and Distribution Mains	\$ 17,496.44		\$ 17,496.44
340 Office Furniture & Equipment	\$ 1,262.50		\$ 1,262.50
341 Transportation Equipment	\$ 2,296.00		\$ 2,296.00
349 Disposal Beds	\$ 6,944.18		\$ 6,944.18
Total Depreciation and Amortization Expense	\$ 106,109.33	\$ 1,110.83	\$ 107,220.16

(1) Annualize Depreciation and Amortization for 2008 additions.

(2) Include Depreciation and Amortization for 2009 Sewer treatment plant improvements.

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

Income Taxes			
Description		<u>Current Rates</u>	<u>Proposed Rates</u>
Operating Revenues		\$172,658.02	\$356,304.55
Less:			
Operating Expenses		\$169,038.51	\$169,038.51
Taxes Other Than Income		\$4,624.73	\$5,249.13
Depreciation and Amort. Expense		\$107,220.16	\$107,220.16
Interest Expense		\$0.00	\$0.00
Total		<u>-\$108,225.38</u>	<u>\$74,796.75</u>
Taxable Income State		-\$108,225.38	\$74,796.75
State Tax Expense @	7.00%	\$0.00	\$5,235.77
Taxable Income Federal		-\$108,225.38	\$69,560.98
Federal Tax Expense @	35.00%	\$0.00	\$24,346.34
Total Income Tax expense		<u>\$0.00</u>	<u>\$29,582.11</u>

Utility Solutions, LLC - Sewer
 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	\$249.02	-\$110.89 a	\$138.13	\$285.04
PSC Tax	\$551.41	-\$102.50 b	\$448.91	\$926.39
Property Tax	\$4,037.69	\$0.00	\$4,037.69	\$4,037.69
Total	\$4,838.12	-\$213.39	\$4,624.73	\$5,249.13

Notes:

a) MCC tax Computed at .08%				
Present Rates	0.08% X	\$ 172,658.02 =		\$138.13
Recorded Amount				<u>\$249.02</u>
Adjustment				-\$110.89
b) PSC tax Computed at .26%				
Present Rates	0.26% X	\$ 172,658.02 =		\$448.91
Recorded Amount				<u>\$551.41</u>
Adjustment				-\$102.50

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

Description	Present Rates <u>(Column 1)</u>	Proposed Rates <u>(Column 2)</u>
Operating Revenues	\$172,658.02	\$356,304.55
Deductions:		
Operating Expenses	\$169,038.51	\$169,038.51
Depreciation and Amortization	\$107,220.16	\$107,220.16
Taxes Other Than Income	\$4,624.73	\$5,249.13
Income Taxes	<u>\$0.00</u>	<u>\$29,582.11</u>
Net Operating Income	(\$108,225.38)	\$45,214.64
Rate Base	\$557,517.11	\$557,517.11
Rate of Return, Percent	-19.41%	8.11%

Customer Description (Column 1)	Service Connections (Column 2)	Number of Billings (Column 3)	Equivalent Domestic Unit (Column 3)	Total EDU (Column 4)
Residential	261	3,132	1.0	261
Day Care	0	0	3.5	0
Commercial	0	0	3.5	0
Total	261	3,132		261

Customer Description (Column 1)	Service Proportion (Column 2)	Billing Proportion (Column 3)
Residential	100.00%	100.00%
Day Care		
Commercial		
Total	100.00%	100.00%

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	\$15,219.01	\$39,003.21	\$114,816.29	\$169,038.51	\$107,220.16	\$29,582.11	\$5,249.13	\$45,214.64	\$356,304.55
Day Care	\$0.00	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Commercial	\$0.00	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	\$15,219.01	\$39,003.21	\$114,816.29	100.00%	\$107,220.16	\$29,582.11	\$5,249.13	\$45,214.64	\$356,304.55

Allocation Method	Billing Proportion	Service Proportion	Service Proportion	Percent Variable	Percent Variable	Percent Variable	Percent Variable
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Residential/Small Commercial

Variable Costs

Pumping/Water Treatment Costs \$39,003.21

Fixed Cost

Customer Service \$15,219.01

Other Fixed Costs \$302,082.33

Total Cost \$356,304.55

Computation of Service Charge

Allocate Total Cost in proportion to bills

\$356,304.55
Number of Annual Bills 3,132 = \$113.76 per month

Daycare

Residential rate times EDU factor
 \$113.76 x 3.5 = \$398.17 per month

Commercial

Residential rate times EDU factor
 \$113.76 x 3.5 \$398.17 per month

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

Utility Solutions, LLC wastewater utility serves approximately 261 customers in the Four Corners area of Gallatin County. The Utility Solutions, LLC wastewater treatment facility that serves the Elk Grove Subdivision is an Oxidation Ditch activated sludge treatment system. The facility consists of an extended aeration process with aerobic sludge digesters and secondary clarification. The effluent generated by secondary clarification is disposed of using Rapid Infiltration (RI) cells in subsurface chambers. Waste sludge is treated by aerobic digestion and disposed of by land application. The combined treatment and discharge process is controlled by an operator licensed with the State of Montana. Regular test results are required to ensure compliance with permit conditions. Sewage collection mains are located in street rights of way and utility easements.

Utility Solutions, LLC discharges treated effluent under a groundwater discharge permit issued by the Montana Department of Environmental Quality (permit - MTX000110). The permit requires monthly effluent monitoring for 10 different parameters...flow rate, total suspended solids, biological oxygen demand, fecal coliform bacteria, chloride, total phosphorus, nitrate + nitrite, ammonia, total kjeldahl nitrogen, and total nitrogen. The treatment system used by Utility Solutions provides additional treatment for nitrogen and phosphorus. The Utility Solutions' permit requires monitoring of two down gradient groundwater monitoring wells for three of its four outfalls (discharge sites). The wells are monitored for static water level, fecal coliform bacteria, nitrate, and chloride on a quarterly basis.

Elk Grove Purchase - Sewer	\$1,025,710.09
Capital agreement	<u>\$750,000.00</u>
Reduction due to agreement at time of purchase	\$275,710.09
Average life of plant at purchase	20 years
Accumulated Depreciation August 2003 - 2008	\$74,671.48