

Exhibit No.:	_____
Issue:	Financial Information Rate Analysis
Witness:	William A. Hughes
Sponsoring Party:	Big Island Water & Sewer Company, Inc.
Case No.:	Case No. WA-2006-0480

BIG ISLAND WATER & SEWER COMPANY, INC.

Case No. WA-2006-0480

SURREBUTTAL TESTIMONY

OF

WILLIAM A. HUGHES

Denver, Colorado  
January, 2007

1 **SURREBUTTAL TESTIMONY**  
2 **WILLIAM A. HUGHES**

3 **Q. Please state your name and business address for the Commission.**

4 A. My name is William A. Hughes and my business address is Hughes, Wedgwood &  
5 Company, LLC, 789 Sherman, #575, Denver, CO 80203.

6  
7 **Q. Are you the same William A. Hughes who filed written direct testimony in this**  
8 **matter?**

9 A. Yes, I am.  
10

11 **Q. Do you agree with the Staff's current recommended revenue requirement for Big**  
12 **Island as presented in Mr. Paul R. Harrison's Testimony?**

13 A. No. Although the rates are extremely similar, I do not agree with the adjustments that  
14 were completed to the original rate case.

15  
16 The Staff removed the dollar amounts associated with the construction of the second  
17 trench of the water line. The original case included the original construction of the sewer  
18 and waterline and the amount for the digging of the second trench for the waterline. The  
19 pipe, labor, and valves of the second installation were excluded from original rate base  
20 calculation. The company would have been required to construct a second trench due to  
21 the requirement of DNR and the site soils. The cost included in the original rate case was  
22 only the cost of trenching the relocated water line. The cost of the additional pipe and  
23 laying the pipe was excluded from the request.

1

2       The cost of the delivery system included in the rate base included the cost of the first  
3       phase of the construction. I measured the length of pipeline that the phase required which  
4       was 25,442 feet of pipeline (a combination of sewer and water) which cost the company  
5       \$534,279 to install or \$21 a linear foot. With my knowledge of the site and the cost of  
6       the pipeline, it is my opinion that the request for reimbursement of the \$21 a foot would  
7       be reasonable. As a result the facts and the analysis, it is my opinion that the cost of  
8       digging the second trench should be included in the rate base.

9

10       Additionally, the Staff made a capacity adjustment to 320 customers for water and 230  
11       for sewer, based on the capacity of the plant. The original study included a capacity  
12       adjustment by utilizing 210 customers to determine the rate. The consideration of 210  
13       customers was used because of the expectation of the developer for the amount of units  
14       that will utilize the plant. The capacity of the plant does not have a per unit effect on the  
15       cost of the plant. It is my opinion that the capacity adjustment should be for 210  
16       customers as in the original study.

17

18       Furthermore, the Staff removed the developer and customer contribution in aid of  
19       construction. The original study included the amount of \$306,800 of customer  
20       contributions and \$371,445 of developer contribution as a reduction of the rate base in  
21       the inclusion of the facilities and systems contributed. The developer and customer  
22       contribution was for the construction and set up of the systems. It is my opinion that the  
23       contribution should go towards the reduction of the cost of systems to be reimbursed in

1 the rate base. In the study, it was determined that the contribution by the developer and  
2 customer was not adequate to cover all of the cost of the plant and systems. As a result,  
3 the original rate study included a reimbursement for the rate base.

4  
5 Another issue is that the Staff removed the water meters from the developer's proposed  
6 water improvements and stated that the meter costs were recovered under the Company's  
7 connection fee request. I examined the connection fee analysis completed by Martin L.  
8 Hummel, but the fees charged for the meters were absent.

9  
10 Finally, the Staff adjusted numerous budgetary issues that, in my opinion, were not  
11 correct. Labor was adjusted from \$5,520 to \$4,392 for each service. The original \$5,520  
12 was developed by requesting a quote by Mr. McDuffey on maintaining the expanded  
13 facility. Materials were eliminated. Materials included in the original study were in the  
14 nature of a supply and therefore an operating expense and not capital in nature. The cost  
15 of sludge removal and disposal was eliminated. The septic tanks for the system would be  
16 the responsibility of the applicant. It is my opinion that the sludge removal cost would be  
17 prudent. Maintenance and Repairs were reduced from a combined amount of \$9,500 to  
18 \$726. I believe the Staff utilized previous repair activities, excluding a pump  
19 replacement. Because of the expanded facilities and aging of the system, it is my opinion  
20 that \$726 would be insufficient.

21

1    **Q.    Do you agree with the Staff's current recommendation for the appropriate level of**  
2           **contribution-in-aid-of-construction (CIAC) as presented in Mr. Martin L.**  
3           **Hummel's Testimony?**

4    A.    No. I believe the original rate study should be utilized in determining the application for  
5           the application and amount of CIAC. In the original rate study, the historic cost for the  
6           construction and development of the sewer plant, water plant, and delivery systems for  
7           the first phase of the project was compiled. The first phase was designed to provide  
8           water and sewer plant for 80 customers and the delivery system provided for 111  
9           customers. Those costs were than prorated to the proportional fees collected from the  
10          customers and developer. The excess of cost over the fees was considered to be the rate  
11          base of the system. In developing the model, it was determined that the fees collected  
12          were insufficient to cover the cost of the initial phase of the project which created the rate  
13          base. As a result no refunds are due the existing customers.

14  
15        In the Staff's opinion, the only costs utilized was the cost of the pipeline provided by  
16        Paul R. Harrison's testimony. It is my opinion that it is proper to include the cost of  
17        trenching the second required trench. It is my understanding the original fees were  
18        collected to install the pipelines and plants for the system. As a result, I would expect the  
19        CIAC should include the cost of all the system.

20  
21        In addition, the staff computed the contribution based off of 278 lots when the cost  
22        included in the original rate study was the construction of the waterline in phase 1 which  
23        resulted in only 111 available units. The 111 units were derived by examining the plats,

1           deeds, and aerial photographs detailing the existing and planned building sites that could  
2           be provided service by the phase 1 construction of the sewer and water delivery system.

3  
4           As stated in the previous inquiry, I was unable to determine that the cost of the meters  
5           were included in the fees computed for the CIAC. If the Staff expects the fees to provide  
6           for the meters, I would expect a higher fee to cover the costs.

7  
8    **Q.    Could you explain the differences between the schedule that was submitted as**  
9           **attachment B of Mr. Krehbiel's study and the schedule provided to the Staff in**  
10          **response to Data Request #1.**

11   A.    The schedule that was submitted in data request #1 was the schedule which I originally  
12          created to recap the historic costs of the project. I submitted the historic costs and  
13          information. This information was utilized by Mr. Krehbiel in building the study with  
14          alterations where Mr. Krehbiel deemed necessary. Mr. Krehbiel's study is the final  
15          analysis of the cost of the project.

16  
17   **Q.    Does this conclude your surrebuttal testimony?**

18   A.    Yes.