

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

DIRECT TESTIMONY

OF

WILLIAM A. HUGHES

Denver, Colorado
October, 2006

1 **DIRECT 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. What is your education and professional background?**

8 A. I graduated Summa Cum Laude with a Bachelor of Science Degree with an Accounting
9 Emphasis from Black Hills State University, Spearfish, South Dakota. I obtained my
10 certification as a Certified Public Accountant in the State of Colorado on April 24th,
11 1991. I currently have an active license as a Certified Public Accountant in the State of
12 Colorado and California. After graduation from Black Hills State in 1989, I joined the
13 firm of Bauerle & Company, Inc. a certified public accounting firm. In 1997, I became
14 the Chief Financial Officer for Kimmel Mechanical Inc, Denver Colorado where I
15 remained until 1999 when LouAnn Wedgwood and I formed our present partnership.
16

17 **Q. Have you been retained by Big Island Water and Sewer Company, Inc. in**
18 **connection with its application and supporting documents in this case.**

19 A. Yes, specifically I was retained to provide a historic pricing of the construction for the
20 water and sewer systems on the Island, and assisting Mr. Dave Krehbiel in producing the
21 Feasibility Study and Rate Structure for the application filed in this case.
22

23 **Q. Do you also act as the outside CPA for Folsom Ridge LLC?**

1 A. Yes.

2

3 **Q. Please explain the extent of your participation in the preparation of the Feasibility**
4 **Study.**

5 A. I provided a historic recap of the developer's cost of constructing the water and sewer
6 systems on the Island. I examined the invoices for the construction to determine the
7 proper classification of the expenditure. I also examined the current operating cost of the
8 existing system and researched the future cost of the expanded system. I provided Mr.
9 Krehbiel feedback with regards to the rates required to provide for the operating cost of
10 the expanded system.

11

12 **Q. Regarding the global analysis involved in the study, could you tell the Commission**
13 **why all of the system costs, including the costs of replacing the waterline that was**
14 **abandoned in place, were accounted for.**

15 A. Management determined that to comply with the state's environmental regulatory body
16 the water and sewer lines required two trenches. In my analysis, I included the cost of
17 two trenches in the historic recap of cost. From the historic cost, I excluded the cost of
18 the additional pipe and installation required to replace the waterline because management
19 did not deem those costs reasonable to include in the capital of the system. The pipe and
20 installation of pipe in the second trench was not included as a result of that determination

21

22 **Q. Have the rates in this proposal been structured to recover the costs of that**
23 **replacement line? Please explain.**

1 A. Let me emphasize that the rates do not recover the costs of the line, only the cost of the
2 second trench required by the regulatory body.

3
4 **Q. Regarding the proposed rates and charges set out in the feasibility, study, do you**
5 **have an opinion, based upon your education, experience and a reasonable certainty**
6 **within your profession of accountancy, as to whether the proposed rates and**
7 **charges are adequate to recover the company's costs of service and provide a**
8 **reasonable return on its equity investment. What is that opinion?**

9 A. Mr. Krehbiel developed the rates and charges with significant input from myself and
10 management. It is my opinion based off of the historic cost recap and the projections of
11 operating costs that the rates and charges are adequate to recover the company's costs of
12 service and provide a reasonable return on its equity investment excluding the effects of
13 any adverse or material events that were not included in the projections.

14
15 **Q: Mr. Hughes, do you have an opinion on whether the applicant in this case has the**
16 **financial ability to provide the service.**

17 A. Yes. It is my opinion that it does. I base that opinion not only on the rate structure
18 proposed in the Feasibility Study but also on the basis that the applicant is in the process
19 of obtaining a letter of credit in the amount of \$50,000 from Central Bank, Lake of the
20 Ozarks (CBLO). The availability of credit in this amount on an as needed basis, in
21 addition to the revenue stream obtained from the customer base provides the company
22 with a firm financial footing. Approval of the loan commitment appears to be imminent.
23 I will supplement my direct testimony at the time the letter of credit has issued.

1

2 **Q. Is the applicant's proposal for water and sewer service economically feasible?**

3 A. Yes, it is.

4

5 **Q. Does this conclude your testimony?**

6 A. Yes, it does.