

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UW 120

In the Matter of)	
)	
CROOKED RIVER RANCH WATER)	CRRWC OPENING BRIEF
COMPANY)	
)	
)	

COMES NOW The Crooked River Ranch Water Company, and submits it's opening brief.

INTRODUCTION

CRRWC has asserted the position that the rates as proposed by the PUC staff will not allow CRRWC to provide adequate domestic irrigation water services and fire protection supply to it's customers. The following brief includes a comparison of the rates recommended by PUC staff vs. the rates requested by CRRWC. This brief addresses the rates and budget as a whole as well as specific comparisons in different categories. For each comparison CRRWC has offered either written testimony or testimony from the evidentiary hearing to support it's position. In addition to comparisons of rates recommended to rates requested CRRWC examines the basis for the rates and the process of arriving at those rates in this proceeding.

ARGUMENT

The rates proposed by PUC staff will not allow CRRWC to function properly. The cash paid operating expenses for CRRWC averaged over the last four years amount to \$558,395.

(Wes Price: Page 2, Last Paragraph) The PUC proposes total rate revenues of \$525, 295 (less than average costs), and expects that the utility operate with an anticipated cash paid operating cost level of \$457,408 (\$499,901 minus \$42,363 in depreciation). It stands to reason that any company regardless of it's form will suffer from having their budget cut by this amount and ultimately it is the customers of the water company that will suffer for it.

The lack of logic in this rate case is no more apparent than in the testimony of PUC staff Program Manager, Michael Dougherty's attempt to explain that the PUC is not responsible for the budget of CRRWC, "Another way of putting it would be to say that a rate case does not establish a budget for a regulated utility. The utility may incur expenses at any level different from those used in a rate case, but it cannot raise rates to do so. What I established is a recommendation for rates, and that recommendation for rates is based on actual financial data that the company provides to staff." (E.H. Page 190, 7-16).

The logic of Mr. Dougherty's statement continues to confound CRRWC. The only source of revenue for operating expenses (with the exception of several thousand dollars a year for a rental) is the rates paid by CRRWC customers. This fact is well established and is undisputed by Staff. The attempt to distinguish rates from the budget by PUC staff is disingenuous as rates = budget. As this is only a "recommendation" we trust that the Public Utility Commission will adopt a rate that will allow CRRWC to function properly and continue to provide clean potable water and fire protection supply to the citizens of Crooked River Ranch.

At the evidentiary hearing in this case Mr. Michael Dougherty gave testimony that, "I have the numbers that show the comparison between staff's recommendation and the company's test year, which shows about approximately \$223,000 less than the test year." (E.H. Page 166-

167, 23-25, 1-2.) Mr. Dougherty was subsequently questioned as to the expertise and criteria used to make the determination that the utility could operate and provide service to its customers without the requested operating revenues. The response was that “The amount of expenses that I calculated were calculated based on the demonstratable costs by the company.” (E.H. Page 167, 23-25.)

This was not the only time the issue came up on how CRRWC would be able to operate on a lower budget than requested. Mr. Dougherty’s answers remained consistent if not misguided. “Again, I emphasize that the expenses that I recommend are based on factual data – factual data that was given to me by the company, and based on that factual data. That is where the expenses fall.” (E.H. 183, 14-18.) This brings us to the justification by the PUC staff for not recommending rates that are adequate for the company to operate. PUC staff would have the commission believe that CRRWC has failed to provide information to the PUC necessary for the PUC to make rate recommendations in the form of “factual data” or “demonstratable costs”. This is not the case and requires some explanation of CRRWC’s operational history.

“CRRWC has operated as a mutual benefit entity with members since its formation on April 27, 1977.” (Wes Price: Page 1, First Paragraph). Short of the reformation with the Secretary of State Corporation Division that is in dispute and some changes to the Company Bylaws over the years CRRWC has not had any dramatic change in its fundamental operations. Until the assertion of jurisdiction by the PUC and the attendant regulation there was no need for record keeping by CRRWC at the “micro” review level, audit review level or invoice review level as those terms have been used by PUC staff. For CRRWC to have done so would have been an unjustified expense passed along to the rate payers.

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Until regulation by the PUC, CRRWC operated on a modified cash basis of accounting. As explained by CRRWC accountant, Wes Price “Cash basis is expenses are listed in the financial statements when they are paid and revenues when they are received.” (E.H. 120, 5-7). This was the most practical and cost efficient basis for CRRWC record keeping and operation. Mr. Price went on to explain that another method is available using, “Generally accepted accounting principles, full application is accrual basis, and that means the expenses are – basically become listed in the financial statements when incurred and revenues earned.” (E.H. 119-120, 25, 1-4.) Intervenor, Steve Cook, questioned Mr. Price about the other 12 water company rate cases that he had been involved in and whether reports used in those proceedings were modified cash accounting reports. Mr. Price testified, “No. Those other utilities that I’ve worked with have been under PUC regulation and have been involved in the rate setting process for many, many years. And over the course of time, they went from being cash basis to going to full accrual to be able to catch up with the PUC rate setting process.” (E.H. 120, 13-19.) The same should hold true for CRRWC in this rate making proceeding.

On April 17, 2007 CRRWC filed the required tariffs asking for total revenues in the amount of \$868,453.00 and designating 2007 as the test year. No objection was made by PUC staff to the test year being 2007. Not previously being regulated the General Manager, Board of Directors and Staff of CRRWC had no expectation that the previous method of record keeping on the modified cash basis would need to be discarded in favor of an accrual basis that would work with the PUC analysis at the “micro” level. The realization of what the PUC would require did not come about until May 4, 2007 when CRRWC was served with Data Requests (“DR”) 1-58. When it became clear that the requested information could not be provided within 15 days as

requested CRRWC asked for additional time to produce the information. This request was denied. CRRWC subsequently filed a Motion for Protective Order which was denied as well as request for reconsideration of that order. Without providing a recitation of the record in this brief as the record stands on it's own, CRRWC asserts that it made good faith efforts to comply with the data requests from the PUC staff. The PUC staff consistently refused to cooperate or acknowledge the explanations for the difficulties encountered by CRRWC.

The alleged failure by CRRWC to produce information pursuant to data requests is not a justification to slash the companies budget for expenses in fact that opposite is true when viewed from a common sense perspective. It is an uncontroverted fact that CRRWC is new to regulation by the PUC. CRRWC is working to adapt it's operations to be consistent with PUC regulations. This transition period has resulted in extra-ordinary expenses that justify the total revenue requested by CRRWC if not more. Staff's recommendations regarding normal legal and accounting expenses may be legitimate during a normal operating year but not during a rate case! Besides the increase in the need and cost of professional services the CRRWC is now being forced to learn a completely different method of operation. Even after the rate case has been concluded there will be countless new OAR's which staff will need to become familiar with and adhere to. The PUC's rate model and process of requesting information is designed for large public utilities such as Qwest, PacifiCorp or Cascade Natural Gas. The expectation that CRRWC could respond at the same level and on the same timeline is unrealistic.

According to Mr. Dougherty "Staff will normally perform both a "macro" review (examining expenses over 3 to 4 years) and a "micro" review (reviewing all test year expenses for used and usefulness in utility operations.)" (Staff/100 Dougherty/12 7-10). Mr. Dougherty

was provided with compiled financial statements for the preceding four years of CRRWC operations. These financials included a GAAP (“Generally Accepted Accounting Principles”) basis balance sheet and statement of operations and were prepared on an accounting basis that was consistent for all years. Apparently, Mr. Dougherty in the case of CRRWC chose to disregard normal staff practices and perform a “micro” review down to the invoice level for the last four years instead of just the test year.

Mr. Dougherty readily admits that he disregarded the information in the compiled financial statements prepared by CRRWC’s accountant. “Did you consider the actual cash paid operation costs? No.” (E.H. 165, 9-11). “I did not receive support documentation for those financial statements, so I did not used those financial reports because, as I mentioned yesterday, I’m unable to verify the costs in those reports.” (E.H. 164, 22-25). Mr. Dougherty seems to suggest that the information provided in those reports somehow lacks validity. This is both an insult to the professional services provided by CRRWC accountants and an unreasonable position. All Form 990's filed by CRRWC have been accepted by the Internal Revenue Service and a 2 year investigation by the DOJ has not produced any impropriety in CRRWC operational records. Consequently, the assertion by Michael Dougherty that he can’t use the compilation report data because it has not been verified is not reasonable.

CRRWC accountant, Wes Price explained that in recent years CRRWC has had their accountants prepare compilation reports. “It is the way we do many, many businesses that choose not to put footnotes into their financial statements, but they want a balance sheet, a profit and loss statement and a cash flow statement that are prepared under generally accepted accounting principles.” (E.H. 117, 17-24). Mr. Price went on to explain that “there were a

couple of years where we did do full disclosure statements. And as a cost-saving measure, we went to doing the limited disclosure ones.” (E.H. 121, 12-15). The bottom line is that CRRWC cannot provide information which does not exist. The information simply was not maintained in a format conducive to PUC regulation. For Michael Dougherty to disregard four years of professional accounting records as invalid in making a determination of actual operating expenses amounts to negligence in establishing accurate rates.

Under the circumstances it would be reasonable to have a one year transition period in which information was provided as it became available. CRRWC believed that this would be the year 2007. Instead, PUC staff requested records from prior years that in many cases did not exist. CRRWC has been put in an untenable situation through the assertion of jurisdiction over a well established company and the lack of flexibility by the PUC staff in the rate making process.

The dispute over operating expenses is not limited to whether or not CRRWC justified those operating expenses but also how the operating expenses are to be produced. The PUC has conceded that CRRWC is entitled to a rate of return on the rate base. However, there is disagreement over the content and amount of the rate base. As explained by Company accountant Wes Price:

“Mr. Dougherty adds and removes assets based on criteria that shows he has never seen a depreciation schedule outside the utility rate setting arena. As is the case with most small companies, assets that are self-constructed or are financed with construction debt often span more than one accounting period. Costs are captured as they are incurred and placed in assets, then when the asset is completed all elements are triggered for depreciation. Vary rarely, are the components ‘embedded’ into a single asset as there are sometimes reasons to be able to track how costs were accumulated into the completed project. As a result CRRWC has a number of ‘components’ on the depreciation schedule that are still very real assets and a part of the utility operations. I asked for the opportunity to meet with Mr. Dougherty one-on-one to sort out the clerical inaccuracies in his schedule and was not allowed to do so. He missed a number of items and I now once again request the opportunity to set the proper utility plant

schedule for CRRWC.” (Wes Price: Page 2, Third Paragraph).

The fact of the matter is that neither CRRWC nor PUC staff knows exactly what the rate base is because the historic records are not available. PUC staff has asserted the position that CRRWC is not entitled to certain portions of a rate base because there are no records while ignoring the fact that there is pipe in the ground! Everybody knows that the system is there however how much it cost has yet to be determined and hopefully will be the subject of a future rate case.

The improper exclusions from rate base were addressed by Mr. Wes Price in his written testimony, “CRRWC agrees with the removal of original costs of the utility under the CIAC (Contribution In Aid of Construction) provisions. However, a number of system line extensions that were only partially paid for by users were excluded at 100%. In addition, all meter sets were excluded as CIAC assets, this is only partially true.” This is verified by Staff’s own testimony “If the equipment is paid through customer rates, we do not consider it CIAC.” (E.H. 159, 15-16.) There are thousands of feet of line extensions that were paid for through customer rates. Likewise, many of the meter installations made use of revenue from the General Fund, not from individual customer contribution.

Mr. Price goes on to explain the historical basis for CIAC removal and his experience in other rate setting cases:

“When CIAC removal from rate base was discussed with the constituent water utilities there was an understanding that an appropriate and adequate rate of return on remaining utility plant was necessary to sustain healthy utility operations. I was a party to those discussions and agreed with staff conclusions to remove CIAC plant. I have seen the model work when there is an appropriate rate of return. If staff is unwilling to allow a reasonable rate or return then staff must allow depreciation on the CIAC plant to create replacement cash flows. To take both sides of the equation down puts an unhealthy squeeze on utility operations. As requested above, I believe this issue can be resolved with a PUC staff meeting on the whole utility plant matter.” (Wes Price: Page 2, Fifth Paragraph).

The unfortunate reality is that the meeting requested by Mr. Price with PUC staff never took place. PUC staff was unwilling to adjust their schedule to work with Mr. Price and CRRWC was never afforded the opportunity described by Mr. Price to discuss what would and would not be considered CIAC and the appropriate rate of return on the remaining utility plant. The PUC staff's refusal to adjust their schedule to work with Mr. Price is curious in light of the testimony given by staff at the evidentiary hearing, "The company can always talk to staff about what is needed, the company can say that we need this stuff, we have to have this stuff, we have to have this equipment, and we will work with the company." (E.H. 181, 15-19). This statement seems disingenuous particularly in light of the testimony of Mr. Price in his efforts to work with PUC staff and the Staff's opposition to CRRWC's requests for additional time to compile information, to say nothing of the repeated offers which were extended to PUC staff to visit the CRRWC and inspect not only the water system itself but all information available at Company offices.

It is no secret that there is a group of residents on Crooked River Ranch who call themselves the "Water Watch Dogs" and are openly hostile towards CRRWC and its manager James Rooks. Mr. Dougherty of the PUC staff apparently shares this hostility as he testified at the evidentiary hearing that he made a recommendation that Mr. Rooks should be designated as a senior/lead water treatment plant employee instead of a water operations manager with a corresponding reduction in salary. Mr. Dougherty first tried to justify this on two separate grounds. The first was an allegation that Data Requests were not handled properly and the second was an allegation of customer complaints.

"Because these requests should have been properly handled and administered by the general manager, coupled with the high number of customer complaints, I propose a

recommended account 601 employee salaries and wage adjustment that would reset the general manager's pay to the AWWA weighted average pay range of a senior/lead water treatment plant (less 25 employees of \$44,322. This pay range is a lower pay range and results in a \$9.239 reduction in the general manager's wage." (E.H. 171, 11-22).

Upon further examination Mr. Dougherty admitted that he would designate Mr. Rooks as water operations manager but for the way he managed the company through the rate case. (E.H. 174, 21-24.)

As for the alleged customer complaints the only information that Staff was able to furnish is that 42 calls were made accounting for 53 separate issues. Mr. Dougherty had no information on the actual number of customers with complaints or the amount of complaints that were deemed valid with fault being attributed to CRRWC. As such the testimony of Mr. Dougherty with regards to alleged customer complaints is both misleading and irrelevant.

One of the tragedies of this case is that many of the important decisions in this case come down to the subjective discretion of one individual, Mr. Michael Dougherty. The record is replete with examples of how his opinion will ultimately affect both the well being of CRRWC and it's customers. A prime is example is that Mr. Dougherty allowed only 1/3 of the cost for land purchased by CRRWC to be included in Plant. CRRWC admits that the land was purchased for future development however in the interim the land is used to store rock and fill dirt for use in company projects. In interpreting what is "used and useful" apparently Mr. Dougherty does not believe storage of rock and dirt is necessary for a water company that consistently engages in construction and repair projects that involve digging and trenching. Mr. Dougherty said, "I came to a compromise. I could have been hot, I could have been cold, lukewarm here, but I came to a compromise to allow some of that land into rate base." (E.H. 146, 1-4). Can there be any question that Mr. Dougherty is making discretionary decisions based on his own subjective

opinion? The following testimony from the evidentiary hearing is relevant to Mr. Dougherty's subjective opinion, "Mr. Dougherty, have you ever been to Crooked River Ranch? No, I haven't." (E.H. 186, 21-23). At what point does discretion cross the line into negligence in the context of rate making?

CRRWC has already addressed the subjective opinion of Mr. Dougherty with regards to Mr. Rooks job classification and corresponding pay scale. Another important example of subjective opinion gone wrong is the rate of return recommended for CRRWC. As stated by Company accountant, Wes Price, "A rate of return at 4.13% is too low. It does not reflect the utility cost of capital. Mr Dougherty does not even state the interest rates on the two notes. (referring to Notes on a Building and 2006 Chevy Pick-up) His model allows for the recovery of payments only and zero return on member capital." (Wes Price: Page 2-3, Last Paragraph).

Throughout the evidentiary hearing CRRWC sought to establish and did establish for the record that not only is PUC regulation new to CRRWC but regulation of not for profit water companies is new to the PUC. The lack of a clear standard and process for ratemaking has further caused CRRWC to be subject to the whims of the PUC staff. Michael Dougherty testified "So you know, we use a standard basically for water companies, and we will set it at approximately 10 percent for investor owned utilities for return on equity. And that doesn't always – it varies sometimes, but 10 percent is a kind of a benchmark we use." (E.H. 150, 20-25). Obviously, the 10 percent benchmark was not used in this rate setting case. Instead, Mr. Dougherty chose to analogize this case to a case where there was a recent commission order that had to do with pole attachments and clubs and municipalities? The only explanation for why this was an appropriate model was "it was a very good analogy, from my mind, to use because I tried

to find more – and I tried to research more academic articles on this type of case, and I really couldn't find any..."(E.H. 151, 5-9). This explanation for determining the appropriate rate of return is far from sufficient.

Looking backwards, in order to establish rate of return you have to establish rate base. In order to establish rate base you have to determine what is in utility plant and what is CIAC. This makes the following testimony of Wes Price highly relevant in understanding this dispute, "All the other rate cases – and I've been involved in over 12 – we've been able to use an informal process to be able to go back and forth and make a determination what was in the utility plant, what was not, you know, and for what reasons." (E.H. 86-87, 23-25, 1-2). "You've got to keep in mind that Crooked River Ranch prior to this had just a standard depreciation schedule. There wasn't the same – there wasn't PUC classifications. What we attempted to do, when the initial writing of the rate case came up, was to try to categorize into the PUC's standard depreciation and utility model, and that's not an exact science because there's a lot of stuff that's pretty old that's sitting on the books for Crooked River Ranch , so we took our best shot." (E.H. 100, 4-14). It's safe to say that if the discourse required and requested by CRRWC had been allowed by staff there may be considerably less in dispute.

Considering the substantial difficulty in adjusting to PUC regulation and record keeping requirements combined with the inflexibility of PUC staff, CRRWC should be granted substantial latitude by the Commission in the designation of an appropriate rate. Any arguments by PUC staff that their rate recommendations are based on alleged non-compliance with requests for information are not credible in light of staff's failure to cooperate with both the Company accountant and company personnel to acquire information.

A substantial portion of this brief so far has been devoted to the rates requested vs. the rates recommended and the proper methodology for arriving at those numbers. It is equally important to consider the practical effect on CRRWC if PUC staff recommendations are adopted. One of the biggest problems with the proposed PUC rates is fire protection. The testimony of James Rooks conclusively demonstrates that fire protection service will suffer under staff's proposed rates. The stated purpose of CRRWC in the Articles of Incorporation going back to 1977 is domestic water irrigation. However, as CRRWC has explained to PUC staff over and over again CRRWC is responsible for fire protection water service on Crooked River Ranch. The cross examination of James Rooks by ALJ Power was illustrative of CRRWC's role, "I'm talking about the fire department now. The fire department is responsible for fire safety for the ranch? That's its function? Yes, they are. But they own no water. They own no fire hydrants. They do not have anything to do with the water they use. That is strictly the water company's responsibility, and we work very close in relationship with the fire department." (E.H. 79-80, 25, 1-8).

Mr. Rooks discourse with Intervenor, Charles Nichols was also particularly instructive when Mr. Rooks was asked what role the water company played in emergency planning in the community providing for fighting fires. Mr. Rooks responded, "In emergency planning, whenever I put a fire hydrant in, I confer with the fire chief, I confer with the fire department, I install it according to their specs and where they want it, if they want it on a certain corner, if they want it faced in a certain direction. Depending on the size of the pipe I put in, what pumps I run in case of a fire. (E.H. 75, 6-13).

Under the staff proposed rates Mr. Rooks will not be able to provide the same level of

service to the local fire district. The recommended rates by PUC staff thwart adequate fire protection in several different regards. The first is the recommended expenses for wages which do not include overtime. Without the ability to work overtime hours CRRWC employees cannot assist firefighting personnel. As testified to by Mr. Rooks, “During a recent wild land fire at the ranch, I had all pumps running. At one point, the 700,000 gallon tower was down to 1' of water. Not only would the firefighters have been without water, so would the customers of the company.” Fires don't get fought only from 9-5 Monday through Friday. In order maintain the safety of person's and property water company personnel need to be available 24 hours a day, 7 days a week when needed.

Another way that the recommended budget thwarts fire protection is by not allowing CRRWC to maintain an adequate supply. Mr. Rooks stated in his written testimony that there is insufficient fire flow to meet fire protection needs. During the cross-examination of James Rooks counsel for PUC staff introduced into the record the minimum fire flow standards for residential and commercial structures as set out by the state fire marshal. Counsel for PUC staff implied that Mr. Rooks was incorrect based on the state fire marshal's minimum standards. In response Mr. Rooks explained that his opinion was based on “Experience with the system, firefighting. I have a background in firefighting. I took two years of fire science in college. I was on a fire and rescue team for two and a half years. I fought fires at sea.” (E.H. 23, 10-14)

This opinion is shared by the local fire chief whose letter to CRRWC was read into the record by Mr. Rooks, “Because there are few other water sources, either natural or man made, adequate storage is of vital importance to the ranch. We need 1.5 million gallons of storage, which we do not have at this time – would meet the objectives. Pumping capacity will also need

to be increased. Hydrant flow tests in July of '06 showed that the hydrants would be barely adequate to handle the flows.” (E.H. 26, 12-21). With all due respect to the state fire marshal the local fire chief and water operations manager are in the best position to judge the amount of fire flow capacity that is appropriate and necessary. Failure to heed this information by PUC staff and adjust rates accordingly is nothing short of reckless endangerment of the persons and property on Crooked River Ranch.

Prior to regulation by the PUC, CRRWC had a plan to provide increased fire protection by drilling a new well. With the advent of PUC regulation a monthly assessment will no longer be available to provide the funds for this necessary project. Debt financing for such a project is a risky and unduly expensive proposition under for the ratepayers of the company but necessary nonetheless.

The need for the new well (to be called Well No.3) was explained in the written testimony of James Rooks and again during his cross-examination. When asked directly why it was needed Mr. Rooks responded:

“You would have to understand the entire system and how it works. You have to understand how the company operates the system. You have to understand the financial end of it. There’s a lot of facets that factor into this well. Our cistern is divided into two different sections, and upper and lower section. Before I can rebuild the cistern and increase the capacity for better fire protection, and before I can rebuild the pumping station we have to have another well on top because, during that whole process of rebuilding the pumping station and the cistern, were going to depend strictly on the wells on top to gravity feed the entire system for water supply and fire protection. Okay. I can’t tear the cistern out. I can’t tear the pumping station out. I can’t rebuild those until that second pump is in. We only have one well, and that well is 1,000 feet deep with 500 feet of rubber bearings in it. Okay. You cannot maintain one well. I cannot shout that well down. I cannot pull it like it should be pulled every three to five years, replace the bearings, and maintain it for preventative maintenance. I cannot do that when I only have one well. One prime – it’s called a prime mover. It’s the one we get most of our water from. When we get the second well in, then I can run – I can get – if one well goes down on me I can kick in the second well and the system will stay operating while I’m

rebuilding the cistern and the pumping station. But that second well has to be in. It also has to be in so we can prove up on our water rights – our five-cubic-feet-per-second water rights. With two wells I cannot pump enough water for the water resources to prove up on that well. Okay. Its maintenance. It's a logistic problem that people who are not involved in, and who do not understand how the system works, have no idea what they're talking about. They have no idea what's involved in doing this.” (E.H. 39-40, 4-25, 1-21).

CRRWC is compelled to point out that PUC staff is not allowing rates sufficient for the new well project because it has not been deemed “used and useful.” However, as previously mentioned PUC staff has not visited CRRWC and declined to do so and receive an explanation of how the water system physically operates.

Despite the lengthy explanation by Mr. Rooks that the new well would provide necessary backup and emergency capacity, counsel for PUC staff implied that the new well would simply provide excess capacity. In response Mr. Rooks explained that having the backup well would allow him to perform regular maintenance and save the company and ratepayers thousands of dollars “When those bearings go out, it takes out the shaft. It takes out the pump. It takes out the bearing in the motor. The whole thing has to be rebuilt.....Every year I could pull a well and replace those bearings at a cost of about \$1500 vs. \$35,000 to \$65,000 worth of repairs.” (E.H. 42, 9-17). The decision to drill Well No. 3 represents a sound decision by the General Manager and Board of Directors for the sustainability of operations at CRRWC. The assertions by staff that the well is not necessary have been made without complete information, education and perspective. Consequently, staff’s assertions with regards to Well No. 3 are grossly misguided.

Having good water service doesn’t mean much if your house and all your belongings burn to the ground but staff recommendations do not even allow for consistency in irrigation water service let alone fire protection. Staff’s recommended rates detract from the quality of

water service that customer's receive on a daily basis. Besides not allowing for the new well so the existing wells can be serviced, staff's proposed rates do not allow for service on the existing lines that feed customers homes or system expansion for new customers. The need for routine maintenance was explained by James Rooks ,“CRRWC is over 30 years old. In 2006 \$82,000 was spent on repairs to the system. The PUC has reduced this to \$30,633.” (Rooks Testimony Page 8-9). “We are dealing with 30 year old pipes with millions of juniper tree roots invading them. When they leak and break they have to be replaced in order to continue providing potable water to our customers...” (Rooks, Page 8).

Not only will the proposed rates not allow for needed repairs but other projects related to customer service will be destroyed. “In the last 10 years under the existing management, the company has strived to bring this company in line with all county, state and federal requirements. This is a very expensive transformation. These efforts will be completely discontinued if Michael Dougherty's budget recommendations are followed.” (Rooks Testimony: Page 15).

The Radio Read Meter project approved by the board of director's met the same fate as the new well project at the hands of PUC staff. Mr. Dougherty's subjective determination of the value on that project fails to include a number of factors worth considering as explained by company accountant, Wes Price, “First is a safety and worker's compensation insurance issue. A number of meter sets are in steep and difficult to access locations exposing the company to loss of time insurance issues. Second, a number of complaints with the PUC relate to innacurate meter reads. The Company desires to reduce complaints and promote accurate billings to customers. Third, the estimated payroll savings could be substantially higher than the original

estimates given by Company staff.” (Wes Price: Page 2, Third Paragraph).

Other examples of budget items slashed with sufficient explanation or justification include the communication expenses, legal expenses, accounting expenses, small tools, and general liability insurance. It should be noted that \$6,720 which was slashed from the communications budget was substantiated by CRRWC through the monthly service charges on the SCADA lines and annual repair costs to the system. Mr. Dougherty was provided with a copy of the SCADA servicing contract but ignored it as a potential communications expense further demonstrating the level of cooperation received by CRRWC as they struggled to provide information in line with PUC regulation.

CONCLUSION

Regulation by the PUC is new to CRRWC. Regulation of a not for profit water company is new to the PUC. With each side struggling to exchange and process information the result was a rate proposal that is grossly inadequate to sustain operating expenses. Ultimately, in future rate cases there will be adjustments on both sides. In the meantime and in light of the consequences to the customers, their property and safety deference must be given by the Commission to CRRWC.

Dated this _____day of November, 2007.

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