



5391 Running Y Rd.  
Klamath Falls, OR 97601  
[www.swwc.com](http://www.swwc.com)

September 30, 2020

Public Utility Commission of Oregon  
Attn: Filing Center  
201 High Street, S.E.  
P.O. Box 1088  
Salem, OR 97308-1088

**RE: Advice Filing No. 20-3 – Application to Change Rates**

In compliance with Oregon Revised Statutes 757.205 and 757.220 and Oregon Administrative Rules 860-036-2010 and 860-036-2020, and in compliance with Condition No. 6 of Order No. 20-104, Oregon Water Utilities – Mountain Lakes, Inc. (“OWU-ML”) submits for filing revised tariffs and accompanying support, including a summary brief, a completed application, and expert witness testimony. The requested effective date of the proposed tariffs is October 30, 2020.

OWU-ML’s last rate increase was implemented in 2009 based on a test year ending December 31, 2007. Since that time, OWU-ML has come under new ownership twice, acquired another regulated utility, made improvements to infrastructure, and improved service to its customers. With this request, OWU-ML seeks to set rates that will produce revenues that will allow for the recovery of its operating expenses and a reasonable return on its invested capital.

Please direct all correspondence regarding this filing to the following persons:

Brian Bahr	Irion Sanger
Director, Regulatory Affairs	Sanger Law PC
SouthWest Water Company	1117 SE 53 <sup>rd</sup> Ave
1325 N. Grand Ave, Ste 100	Portland, OR 97215
Covina, CA 91724	(503) 919-3779
(626) 543-2552	irion@sanger-law.com
bbahr@swwc.com	

Sincerely,

**/s/ Craig Gott**

Craig Gott  
President, Oregon Water Utilities – Mountain Lakes, Inc.

**Oregon Water Utilities – Mountain Lakes, Inc.**  
**UW 183**  
**Test Year Ending Dec 31, 2019**  
**Rate Case Filing Index**

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**EXHIBIT 100**

**DIRECT TESTIMONY**

**OF**

**BRIAN D. BAHR**

**ON BEHALF OF**

**OREGON WATER UTILITIES – MOUNTAIN LAKES, INC.**

**SEPTEMBER 30, 2020**

**DIRECT TESTIMONY OF  
BRIAN D. BAHR**

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**ATTACHMENTS:**

Exhibit OWU/101	Revenue Requirement Model
Exhibit OWU/102	Baseline Power Costs
Exhibit OWU/103	Proposed Tariff
Exhibit OWU/104	Commission-Requested Information
CONFIDENTIAL Exhibit OWU/105	Employee Information
Exhibit OWU/106	Water Permits and Well Logs
Exhibit OWU/107	Pinecrest Welcome Letter

**DIRECT TESTIMONY OF  
BRIAN D. BAHR**

1

**I. INTRODUCTION**

2

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3

A. My name is Brian D. Bahr. My business address is 1325 N. Grand Avenue, Suite

4

100, Covina, California 91724.

5

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6

A. I am employed by SouthWest Water Company (“SouthWest”) as Director of

7

Regulatory Affairs.

8

**Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.**

9

A. My present responsibilities consist of preparing and managing compliance and rate

10

filings for utilities owned by SouthWest located in Oregon, Texas, and South

11

Carolina.

12

**Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**

13

**BACKGROUND.**

14

A. My professional and educational experience encompasses functions including

15

accountancy, audit, analysis, regulation, and management. I graduated from Brigham

16

Young University with a BA in Accountancy and earned the Certificate of Public

17

Management from Willamette University. I received a Master of Business

18

Administration from the University of La Verne with an emphasis in Finance. I also

19

hold Grade II certifications as a Water Distribution Operator and Water Treatment

20

Operator in the State of California. Prior to joining SouthWest, I was employed by

21

the Oregon Public Utility Commission (“Commission”) as a Senior Utility Analyst. I

1 also gained experience earlier in my career working in the audit and assurance  
2 practice of PricewaterhouseCoopers LLP in the field of alternative investments.

3 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
4 **COMMISSION?**

5 A. Yes. In my capacity as a staff analyst for the Commission between 2011 and 2016, I  
6 provided testimony in various energy and water utility proceedings; however, I have  
7 not previously filed testimony on behalf of a utility before the Commission.

8 **Q. AS A STAFF ANALYST FOR THE COMMISSION, DID YOU WORK ON**  
9 **ANY PROCEEDINGS INVOLVING THIS UTILITY OR ANY OF ITS**  
10 **AFFILIATES?**

11 A. No.

12 **II. PURPOSE OF DIRECT TESTIMONY**

13 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

14 A. I am testifying on behalf of Oregon Water Utilities – Mountain Lakes, Inc. (“OWU-  
15 ML”).

16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
17 **PROCEEDING?**

18 A. The purpose of my direct testimony in this proceeding is to support OWU-ML’s  
19 requested revenues in the instant general rate case application.

20 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**  
21 **SUPERVISION?**

22 A. Yes, it was.

1 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**  
2 **BELIEVE IT TO BE CORRECT?**

3 A. Yes, I do.

4 **Q. INsofar AS THIS MATERIAL IS IN THE NATURE OF OPINION OR**  
5 **JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?**

6 A. Yes, it does.

7 **III. REVENUE REQUIREMENT**

8 **Q. WHAT TEST YEAR DID OWU-ML USE FOR THIS FILING, AND IS THIS**  
9 **TEST YEAR APPROPRIATE?**

10 A. OWU-ML has elected to use a historic test year consisting of the 12-month-period  
11 ending December 31, 2019. This test year is appropriate as it is the most recent full  
12 calendar year for which records are available, and OWU-ML is not requesting a  
13 forward-looking test year.

14 **Q. WHAT IS OWU-ML'S REQUESTED REVENUE REQUIREMENT?**

15 A. OWU-ML's requested revenue requirement is \$766,449, which is a 32.10 percent  
16 increase over OWU-ML's adjusted test year revenues of \$580,211. However, as  
17 described in the Rate Spread and Rate Design section of this testimony, OWU-ML  
18 proposes to implement the requested increase over three annual phases, as shown  
19 below:

1

	<b>Test Year</b>	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>
Op Rev	\$560,222	\$616,638	\$678,540	\$746,460
Misc Rev	\$19,989	\$19,989	\$19,989	\$19,989
Total Rev	\$580,211	\$636,627	\$698,529	\$766,449
\$ Increase		\$56,416	\$61,902	\$67,920
% Increase		9.72%	9.72%	9.72%
Overall \$ Increase				\$186,238
Overall % Increase				32.10%

2           The components of OWU-ML’s requested revenue requirement are detailed in  
3 the Revenue Requirement Model attached to this testimony as Exhibit OWU/101.  
4 Consistent with standard ratemaking protocol, OWU-ML’s requested revenues are  
5 based on its historical 2019 test year cost of service after normalization and proforma  
6 adjustments. The general components of cost of service include operating expenses,  
7 allocated corporate overhead, depreciation on infrastructure, taxes, and a reasonable  
8 return on rate base. Details of each of these are found in the Revenue Requirement  
9 Model, schedules, supporting workpapers, and discussed generally in this direct  
10 testimony and that of Mujeeb Hafeez and Jeff Farney.

11 **Q. IS OWU-ML REQUESTING AT THIS TIME RECOVERY OF COSTS**  
12 **RELATED TO ITS RESPONSE TO THE COVID-19 PANDEMIC,**  
13 **INCLUDING FORGONE LATE FEES, INCREASES TO BAD DEBT**  
14 **EXPENSE, AND FORGONE DISCONNECTION/RECONNECTION FEES?**

15 A. No. On March 23, 2020, OWU-ML filed with the Commission a request to defer  
16 costs related to OWU-ML’s response to the COVID-19 pandemic. OWU-ML has  
17 since been tracking these costs and recording them on its books as a regulatory asset.  
18 OWU-ML is currently participating in a Commission proceeding to determine how to



1 address certain issues precipitated by the pandemic, including the disposition of  
2 associated regulatory assets. OWU-ML anticipates requesting recovery of the  
3 regulatory asset at a later time, whether through a general rate case or as otherwise  
4 prescribed by the Commission.

5 **IV. NORMALIZATION AND PROFORMA ADJUSTMENTS**

6 **Q. WHAT ARE “NORMALIZING” ADJUSTMENTS?**

7 A. Generally, a utility’s recorded test year costs represent its cost of service used to set  
8 rates. However, adjustments must be made to “normalize” that test year, including to  
9 remove certain expenses that are nonrecurring or not allowed by statute to be  
10 recovered in rates, to add expenses that were not included in the recorded test year but  
11 should be recovered in rates (e.g., testing costs which are incurred every second year  
12 and were not incurred in the test year), or to adjust revenues as appropriate.

13 **Q. PLEASE IDENTIFY AND DESCRIBE THE NORMALIZING**  
14 **ADJUSTMENTS TO OWU-ML’S RECORDED 2019 TEST YEAR**  
15 **BALANCES.**

16 A. A list of test year normalization adjustments is provided below:

- 17 • Reduce allocated costs for affiliated management services consistent with  
18 Term 6 of Order No. 17-168;
- 19 • To increase expenses to incorporate revenue-sensitive costs such as the  
20 Commission’s annual gross revenues fee and bad debt expense;
- 21 • To normalize 2019 property taxes paid on assets of the Southview system;
- 22 • To flow through the correct tax rates of 21 percent federal income tax and 6.6  
23 percent state income tax on OWU-ML’s requested revenue;

- 1           • To net out the accumulated deferred tax asset arising as a result of the plant  
2           deemed “excess capacity”; and
- 3           • To increase working cash to be 1/12 of OWU-ML’s calculated operating  
4           expenses.

5   **Q. PLEASE PROVIDE ADDITIONAL EXPLANATION REGARDING THE**  
6   **ADJUSTMENT TO AFFILIATE MANAGEMENT SERVICES.**

7   A.   OWU-ML receives certain administrative services from Suburban Water Services  
8       (“Suburban”). These costs are recorded to NARUC Account No. 634 Contract  
9       Services – Management Fees. Also, OWU-ML receives indirect services from  
10      SouthWest, the costs of which are also recorded in NARUC Account No. 634  
11      Contract Services – Management Fees. Per Order No. 17-168, OWU-ML may not  
12      request recovery in this next general rate case of more than \$53,397 in affiliate  
13      management fees from SouthWest and Suburban. Therefore, OWU-ML has reduced  
14      its test year management fees cost of \$93,409 by \$40,012. Please see the direct  
15      testimonies of Mujeeb Hafeez and Jeff Farney for the SouthWest cost amounts and  
16      allocations included in the \$93,409 test year costs.

17   **Q. PLEASE PROVIDE ADDITIONAL EXPLANATION OF THE ADJUSTMENT**  
18   **TO ACCUMULATED DEFERRED TAXES.**

19   A.   Accumulated deferred taxes may arise from differences between depreciation  
20      methods, treatment of contributions in aid of construction, and other differences  
21      between tax accounting and regulatory accounting. In the case of OWU-ML, its  
22      accumulated deferred tax asset is Pro forma adjustments are also commonly referred  
23      to as “Known and Measurable” adjustments and are explained on page

1 **Q. WHAT ARE “PRO FORMA” ADJUSTMENTS?**

2 A. Pro forma adjustments are also commonly referred to as “Known and Measurable”  
3 adjustments and are explained on page 15 of the 2003 Rate Case and Audit Manual  
4 prepared by the NARUC Staff Subcommittee on Accounting and Finance:

5 *In general, the pro forma adjustments can be viewed as a ratemaking*  
6 *attempt to transform the relationship that exists between the elements*  
7 *of cost of service (revenues, expenses, taxes, and investment) during*  
8 *the test year to one that would take place during the period that the*  
9 *rates resulting from the rate proceeding take effect.*

10 **Q. PLEASE IDENTIFY AND DESCRIBE THE PRO FORMA ADJUSTMENTS**  
11 **TO OWU-ML’S RECORDED 2019 TEST YEAR BALANCES.**

12 A. A list of test year pro forma adjustments is provided below:

- 13 • To incorporate additional revenues and discrete costs associated with two  
14 systems, Southview and Pinecrest, that were merged with OWU-ML  
15 subsequent to the test year but prior to the filing of this rate application; and  
16 • To increase expenses by \$3,500, which is a placeholder for rate case costs  
17 OWU-ML anticipates incurring and will be updated later with actual amounts  
18 incurred.

1 **Q. IS OWU-ML REQUESTING INCLUSION IN RATE BASE OF CAPITAL**  
2 **PROJECTS ALREADY COMPLETED, OR EXPECTED TO BE**  
3 **COMPLETED, IN 2020?**

4 A. No. OWU-ML has elected not request inclusion in rate base of capital costs incurred  
5 beyond the end of the historical test year, but observes that it is statutorily authorized  
6 to do so and may elect to request such treatment in subsequent rate case applications.<sup>1</sup>

7 **V. SHARED SERVICES**

8 **Q. PLEASE DESCRIBE OWU-ML'S SHARED SERVICES MODEL.**

9 A. OWU-ML obtains goods and services through a shared services model wherein  
10 OWU-ML receives goods and services from its parent company, Northwest Utility  
11 Systems, Inc. ("NWUS"), and is apportioned the appropriate costs thereof either  
12 directly or via allocation. This model benefits customers in that OWU-ML is able to  
13 "share" certain costs with other utilities, thereby keeping costs lower than they would  
14 be otherwise. The Commission approved OWU-ML's management services  
15 agreement, under which OWU-ML receives goods and services from affiliates, in  
16 Order No. 19-429.

17 **Q. WHAT ALLOCATION METHODS DOES OWU-ML USE TO ALLOCATE**  
18 **COMMON COSTS FROM ITS AFFILIATES?**

19 A. SouthWest generally uses a three-factor allocation methodology to allocate its  
20 corporate overhead amongst its operating subsidiaries, including OWU-ML. Please

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<sup>1</sup> OAR 860-036-2390

1 see the Direct Testimony of Mujeeb Hafeez for a detailed description of SouthWest's  
2 overhead costs and the allocation thereof to OWU-ML.

3 For common costs allocated from Suburban or NWUS, connections adjusted  
4 by meter equivalent factors are used. Consistent with SouthWest's Cost Allocation  
5 Manual, provided as Exhibit OWU/201 to the direct testimony of Mujeeb Hafeez, for  
6 the test year, common costs from Suburban and NWUS were allocated using meter  
7 equivalents as of December 31, 2018. The test year allocation factor for OWU-ML  
8 based on meter equivalents is 15.0 percent. Southview, which was incorporated into  
9 OWU-ML subsequent to the test year but included in OWU-ML's requested revenue  
10 requirement, has a test year allocation factor based on meter equivalents of 1.7  
11 percent. Please see Exhibit OWU/101 for the calculation of OWU-ML's allocation  
12 percentage based on meter equivalents.

13 **Q. WHAT NWUS POSITIONS PROVIDED SERVICES TO OWU-ML DURING**  
14 **THE 2019 TEST YEAR?**

15 A. In 2019, OWU-ML received services from three NWUS positions:

- 16 • a local Field Superintendent;
- 17 • a local Assistant Utility Operator; and
- 18 • an Accounts Receivable Clerk/Field Services Administrator located in  
19 Redmond, Oregon.

20 Due to the shared services model, OWU-ML only paid a portion of the costs of these  
21 employees, thereby helping to keep customer rates low.

**VI. RATE BASE SUMMARY & EXCESS CAPACITY**

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**Q. WHAT AMOUNT OF RATE BASE IS OWU-ML REQUESTING IN ITS APPLICATION?**

A. OWU-ML is requesting rate base as of December 31, 2019 be established at \$3,156,213, based on gross plant of \$13,453,870, accumulated depreciation of \$2,778,220, net CIAC of \$58,597, “excess capacity” of \$7,488,440, and \$27,600 for working capital and materials and supplies.

**Q. WHAT AMOUNT OF RATE BASE WAS APPROVED BY THE COMMISSION IN OWU-ML’S LAST GENERAL RATE CASE?**

A. In Order No. 09-094 of Docket No. UW 132, the Commission approved a rate base for OWU-ML of \$4,067,337. This rate base amount was calculated as \$12,386,383 gross plant less \$846,491 accumulated depreciation, less \$7,488,440 plant deemed “excess capacity,” plus \$15,885 working cash.

**Q. WHAT IS “EXCESS CAPACITY?”**

A. Staff’s direct testimony in support of the stipulation in Docket No. UW 132 explains excess capacity as follows, “Typically, if a water system is completely built but serves only a portion of the potential customers, the unused portion of the investment in the system may be considered to be not used and useful. That is the case with [OWU-ML]; therefore, Staff made an excess capacity adjustment to utility plant...”

**Q. HOW DID STAFF DETERMINE THE PERCENTAGE OF PLANT TO DEEM “EXCESS CAPACITY” IN OWU-ML’S PREVIOUS GENERAL RATE CASE?**

A. Using OWU-ML’s Residential Construction Update, Staff divided “the number of lots completed by the number of lots platted for each phase shown in the report.

1 Where possible, Staff applied a specific percentage to each phase based on the  
2 number of lots completed in each phase.”<sup>2</sup>

3 **Q. PLEASE SPECIFY WHAT AMOUNT OF PLANT PREVIOUSLY DEEMED**  
4 **“EXCESS CAPACITY” IS INCLUDED IN OWU-ML’S RATE BASE.**

5 A. In OWU-ML’s last rate case, \$7,488,440 was deemed “excess capacity.” At the time  
6 of that case, OWU-ML served approximately 600 customer connections<sup>3</sup> and now  
7 serves approximately 630 customer connections (excluding Southview and Pinecrest).  
8 Although OWU-ML disagrees with the methodology used to determine the amount  
9 deemed “excess capacity” in the previous rate case, given the insubstantial customer  
10 growth, OWU-ML has elected in the present case to not request recovery of any of  
11 the amount previously deemed “excess capacity.” OWU-ML’s election to not request  
12 recovery of the “excess capacity” not only benefits customers through a decrease to  
13 rate base, but also through the avoidance of rate case costs in litigating the issue  
14 before the Commission.

15 **Q. WHAT AMOUNT OF GROSS PLANT HAS OWU-ML ADDED TO RATE**  
16 **BASE SINCE THE COMMISSION’S RATE BASE DETERMINATION IN**  
17 **OWU-ML’S PREVIOUS GENERAL RATE CASE?**

18 A. Below is a rollforward from the amount of gross plant approved by the Commission  
19 in Docket No. UW 132 to the amount as of the end of the 2019 test year:

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<sup>2</sup> See Staff/100, Sloan/7 of Staff’s Direct Testimony in Support of the Stipulation in Docket No. UW 132.

<sup>3</sup> Order No. 09-094 at 1

1

Gross Plant as of Dec 31, 2007	\$12,386,383
Additions	\$413,274
Acquired Assets (Southview)	\$318,507
Acquired Assets (Pinecrest)	\$335,706
Gross Plant as of Dec 31, 2019	\$13,453,870

2            Approximately half of the \$413,274 in non-acquisition capital additions have  
3 occurred subsequent to the acquisition of OWU-ML by NWUS. In other words,  
4 OWU-ML has spent almost the same amount on capital projects in the last two-and-a-  
5 half years as were spent in the entire 10 years previous. These additions are primarily  
6 for repairs and replacements necessary over the normal course of business.

7            **VII. ACQUISITIONS - SOUTHVIEW AND PINECREST**

8 **Q. HAS OWU-ML ACQUIRED ADDITIONAL SYSTEMS SINCE ITS LAST**  
9 **GENERAL RATE CASE?**

10 A. Yes. In its last general rate case, OWU-ML consisted of two systems, Running Y and  
11 Ridgewater. In 2020, OWU-ML acquired two additional systems, Southview and  
12 Pinecrest. These four 'systems' comprise a single utility, OWU-ML, and all follow  
13 the same OWU-ML tariff.

14            Southview

15 **Q. PLEASE DESCRIBE THE SOUTHVIEW SYSTEM.**

16 A. Prior to being acquired by OWU-ML, Southview was a non-regulated public utility in  
17 Klamath County serving approximately 102 residential customers. It is located  
18 geographically adjacent to OWU-ML's Ridgewater system, and OWU-ML intends  
19 to construct a pipeline between the two systems in order to improve the resiliency and  
20 reliability of both systems, as well as the Running Y system. Southview was initially



1 acquired on June 21, 2018, by NWUS, the parent company of OWU-ML, and  
2 subsequently transferred to OWU-ML in 2020. Since 2019, and at the time it was  
3 transferred to OWU-ML, Southview customers have been charged OWU-ML's  
4 tariffed rates, and have continued to be billed at the tariffs rates following the  
5 incorporation of Southview into OWU-ML.

6 **Q. ARE ANY TARIFF CHANGES REQUESTED IN THIS RATE CASE**  
7 **RELATED SPECIFICALLY TO SOUTHVIEW?**

8 A. Yes. In addition to 102 residential customers, Southview also has two three-inch-  
9 metered connections used for irrigation. OWU-ML's current non-golf irrigation tariff  
10 (Schedule No. 3) does not include a base rate for a three-inch meter size. Because  
11 OWU-ML does not have a three-inch rate in its irrigation tariff, OWU-ML has  
12 continued to charge the two Southview irrigation meters the same rates they were  
13 charged by the previous owner, which is the same as OWU-ML's residential 5/8-inch  
14 rate. As part of this rate case, OWU-ML proposes to add a three-inch meter size to its  
15 irrigation tariff and bill the two Southview irrigation meters at this rate.

16 **Q. PLEASE DESCRIBE HOW SOUTHVIEW'S GROSS PLANT AND**  
17 **ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019 WERE**  
18 **DETERMINED.**

19 A. OWU-ML has included in its requested rate base \$318,507 of gross plant and  
20 \$125,507 of accumulated depreciation, for a net plant amount \$192,980 related to  
21 Southview assets. At the time of acquisition of Southview by NWUS, because  
22 reliable asset records has not been kept, an engineering study was performed by a  
23 third party to determine the replacement cost of the assets of the Southview system,

1 and these amounts were trended using the Handy-Whitman Index to yield a  
2 Replacement Cost New Less Depreciation (“RCNLD”) of \$886,825. However, at the  
3 time of acquisition, NWUS recorded the value of the Southview assets at the purchase  
4 price of \$182,781. When the Southview system was transferred to OWU-ML, OWU-  
5 ML maintained the lower asset values; it is these lower asset values that are included  
6 in OWU-ML’s requested rate base in this case. In other words, OWU-ML has  
7 voluntarily taken a negative acquisition adjustment, thereby substantially lowering its  
8 requested rate base to the benefit of all its customers.

9 Pinecrest

10 **Q. PLEASE DESCRIBE THE PINECREST SYSTEM.**

11 A. Pinecrest is a system located in Bly, Oregon that serves approximately 48 residential  
12 customers. Its acquisition by OWU-ML in April 2020 was approved by the  
13 Commission in Order No. 20-104. At the time of acquisition, its customers began to  
14 be billed under OWU-ML rates, which are substantially similar to Pinecrest’s  
15 previous rates.

16 **Q. PLEASE DESCRIBE THE AMOUNT OF PINECREST ASSETS INCLUDED**  
17 **IN OWU-ML’S REQUESTED RATE BASE.**

18 A. Because reliable asset records had not been kept, at the time of acquisition an  
19 RCNLD study was performed. Using the same unit costs that were established in the  
20 engineering study of Southview, the Director of Engineering for OWU-ML’s affiliate  
21 Suburban determined the RCNLD amount for Pinecrest to be \$49,628, with gross  
22 plant of \$335,706 and accumulated depreciation of \$286,438. Although OWU-ML is  
23 using a historic test year ending December 31, 2019, it has included in its requested

1 rate base the Pinecrest RCNLD amount as of April 2020. The inclusion in rate base  
2 of Pinecrest's net plant is a fair and reasonable approach as the transaction has  
3 already occurred, the amount is identifiable and specific, and it more accurately  
4 reflects the utility's actual costs.

5 **Q. PLEASE DESCRIBE HOW PINECREST'S CUSTOMER COUNT AND**  
6 **USAGE WERE INCORPORATED BY OWU-ML WHEN CALCULATING**  
7 **REVENUE REQUIREMENT AND REQUESTED RATES.**

8 A. OWU-ML does not have reliable revenue records for Pinecrest for 2019 but does  
9 have revenue records for the first six months of 2020; therefore, OWU-ML calculated  
10 Pinecrest's test year revenues by multiplying the revenues from January through June  
11 2020 by two, thereby approximating revenues over a full year. These were added to  
12 the residential revenues of Running Y, Ridgewater, and Southview to determine  
13 OWU-ML's total test year residential revenues.

14 Rates are set using two billing determinants, connections and usage. While  
15 Pinecrest's customer count has been stable for many years, its usage has not recently  
16 been reliably recorded. To calculate Pinecrest's usage for rate design, OWU-ML  
17 used the combined average residential usage per customer of Running Y, Ridgewater,  
18 and Southview and multiplied this sum by the number of Pinecrest connections. This  
19 combined usage amount was then used to calculate requested rates.

**VIII. COST OF CAPITAL**

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**Q. WHAT IS OWU-ML'S REQUESTED COST OF CAPITAL IN THIS APPLICATION?**

A. OWU-ML is requesting a capital structure of 50:50 debt-to-equity ratio, a cost of equity of 10 percent, and a cost of debt of 4.57 percent; this results in an overall requested return of 7.29 percent.

**Q. IS OWU-ML'S REQUESTED CAPITAL STRUCTURE REASONABLE?**

A. Yes. The Commission has historically deemed a 50:50 debt-to-equity ratio hypothetical capital structure appropriate for water utilities with corporate parents. For example, see Docket No. UW 169, in which Sunriver Water LLC requested, and was granted, a 50:50 hypothetical capital structure.

**Q. WHAT RETURN ON EQUITY WAS APPROVED BY THE COMMISSION IN OWU-ML'S PREVIOUS GENERAL RATE CASE?**

A. In Docket No. UW 132, the Commission approved a stipulation amongst the parties identifying an overall rate of return of 3.736 but without specifying a return on equity. However, Staff's direct testimony in support of the stipulation explains that the overall return was artificially depressed in order to not increase rates above that requested by OWU-ML. Staff's calculations yielded a 6.80 percent overall rate of return using a 10 percent return on equity.

**Q. IS OWU-ML'S REQUESTED COST OF EQUITY REASONABLE?**

A. Yes. As noted above, Staff recommended a 10 percent return on equity in OWU-ML's previous general rate case. Since that time, OWU-ML has improved the experience of its customers in many ways. In addition to providing a dedicated

1 customer service call center, OWU-ML also offers customers online access to their  
2 accounts and the ability to pay with credit cards. Additionally, OWU-ML has  
3 increased system reliability through replacing a main well pump and installing remote  
4 monitoring hardware on all pumping stations. Given these enhancements to the  
5 customer experience, it would be inappropriate to award OWU-ML a lower cost of  
6 equity than granted in the previous rate case.

7 **Q. IS OWU-ML'S REQUESTED COST OF DEBT REASONABLE?**

8 A. Yes. The 4.57 percent cost of debt used by OWU-ML represents the consolidated  
9 debt rate for OWU-ML's parent, SouthWest, and is a reasonable proxy for debt at the  
10 OWU-ML level. SouthWest is able to take advantage of its strong credit quality and  
11 larger scale to obtain debt at competitive rates and terms that would be difficult for  
12 OWU-ML to obtain on its own. Therefore, the use of SouthWest's consolidated debt  
13 rate of 4.57 percent is reasonable to use for OWU-ML's cost of debt.

14 **IX. RATE SPREAD AND RATE DESIGN**

15 **Q. PLEASE DESCRIBE OWU-ML'S REQUESTED RATE SPREAD AND RATE**  
16 **DESIGN.**

17 A. "Rate spread" refers to the allocation of requested revenues amongst customer  
18 classes. OWU-ML's requested revenue increase is allocated amongst customer  
19 classes based on test year ratios of revenues. For example, revenues from residential  
20 customers during the adjusted test year was \$360,509, which is 64.35 percent of total  
21 2019 operating revenues of \$560,222. Therefore, OWU-ML proposes to recover that  
22 same 64.35 percent of its requested revenue increase from residential customers.  
23 Likewise, commercial customers are allocated 13.12 percent, irrigation customers

1 10.12 percent, and golf course customers 12.40 percent. Using this rate spread  
2 methodology ensures that each customer class appropriately bears its portion of the  
3 overall requested revenue increase.

4 Rate design describes the process of allocating revenues for each class  
5 between fixed (i.e., service) and variable (i.e., gallonage) charges. OWU-ML’s  
6 proposed rate design uses the same allocation between revenues from fixed and  
7 variable charges that it would recover under current rates. For example, using  
8 connections as of December 31, 2019 and 2019 annual usage, under current rates,  
9 OWU-ML would expect to recover 72.18 percent of residential revenues from its  
10 fixed charge and 27.82 percent from gallonage charges. This same allocation  
11 percentage was used for OWU-ML’s requested revenue increase. Similar  
12 calculations were made to determine and apply allocation percentages for fixed and  
13 variable revenues from each customer class.

14 **Q. PLEASE DESCRIBE OWU-ML’S PROPOSED PHASE-IN OF ITS**  
15 **REQUESTED RATES.**

16 A. To mitigate rate shock on customers, OWU-ML is requesting to implement its  
17 requested rate increase over three phases, with each phase being a 9.72 percent  
18 revenue increase above the previous. The second and third phases will go into effect  
19 on the anniversary of the implementation of the first phase. Third-phase rates will be  
20 set at levels to recover OWU-ML’s calculated revenue requirement. OWU-ML’s  
21 proposed residential rates are shown below:

	<u>Test Year</u>	<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase 3</u>
base	\$33.00	\$35.13	\$38.66	\$42.53
tier 1 usage	\$1.542	\$1.640	\$1.810	\$1.990
tier 2 usage	\$1.992	\$2.120	\$2.330	\$2.570

1 Rates for all customer classes and meter sizes are shown in the Revenue Requirement  
 2 Model attached as Exhibit OWU/101.

3 **Q. WHAT IS THE EFFECT OF OWU-ML’S REQUESTED REVENUE**  
 4 **INCREASE ON CUSTOMER BILLS?**

5 A. If OWU-ML’s requested rates are allowed to go into effect, the bill for a residential  
 6 customer using 8,000 gallons per month will have increased since 2003 by only 0.9  
 7 percent annually at the implementation of the first phase, 1.4 percent annually at the  
 8 implementation of the second phase, and 1.8% annually at the implementation of the  
 9 third phase. These compound annual growth rates (“CAGR”) are shown in the tables  
 10 below:

	UW 87	UW 112	UW 132	Phase 1	Phase 2	Phase 3
	4/21/2003	7/1/2006	4/20/2009	10/30/2020	10/30/2021	10/30/2022
<b>Base Rate</b>	\$33.00	\$33.00	\$33.00	\$35.13	\$38.66	\$42.53
New vs. Previous		0.0%	0.0%	6.5%	10.0%	10.0%
CAGR Increase		0.0%	0.0%	0.4%	0.9%	1.3%

	4/21/2003	7/1/2006	4/20/2009	10/30/2020	10/30/2021	10/30/2022
<b>Usage Rate</b>	\$0.99	\$1.35	\$1.54	\$1.64	\$1.81	\$1.99
New vs. Previous		36.7%	14.0%	6.4%	10.4%	9.9%
CAGR Increase		10.3%	7.7%	2.9%	3.3%	3.6%

	4/21/2003	7/1/2006	4/20/2009	10/30/2020	10/30/2021	10/30/2022
<b>Total Bill @ 5 kgal</b>	\$37.95	\$39.77	\$40.71	\$48.25	\$53.14	\$58.45
New vs. Previous		4.8%	2.4%	6.4%	10.1%	10.0%
CAGR Increase		1.5%	1.2%	0.9%	1.4%	1.8%

11 **Q. IS THIS REQUEST REASONABLE?**

12 A. Yes. For a residential customer using 8,000 gallons monthly, OWU-ML’s requested  
 13 increase would result in only a 1.8 percent compound annual increase over the  
 14 approximate 20-year period between 2003 and 2022, when the proposed third phase

1 would become effective. This increase is reasonable given its relationship to cost  
2 inflation rates during that same time period as well as service improvements made.

3 **Q. IS OWU-ML REQUESTING CHANGES TO THE MISCELLANEOUS FEES**  
4 **AND CHARGES LISTED IN ITS CURRENT TARIFFS?**

5 A. No. OWU-ML is requesting increases only to its base and gallonage rates, as well as  
6 the adoption of a power cost automatic adjustment clause, in this rate application.

7 **X. POWER COST AUTOMATIC ADJUSTMENT CLAUSE**

8 **Q. PLEASE DESCRIBE OWU-ML'S REQUESTED POWER COST**  
9 **AUTOMATIC ADJUSTMENT CLAUSE ("AAC").**

10 A. OWU-ML's requested AAC will allow OWU-ML to increase its tariffed gallonage  
11 rates to customers in the future, without a filing a general rate case, when its power  
12 supplier, Pacific Power, increases its power cost rates. Establishing an AAC to  
13 periodically increase gallonage rates as power costs increase is beneficial to  
14 customers, the utility, and the Commission as it potentially reduces the frequency of  
15 general rate case filings and their associated costs, as well as to reduce the severity of  
16 rate increases requested in those general rate cases.

17 **Q. DOES OWU-ML'S REQUESTED AAC HAVE ANY EFFECT ON RATES IN**  
18 **THE CURRENT FILING?**

19 A. No. OWU-ML requests that an AAC be included in its tariffs that will allow OWU-  
20 ML to increase its gallonage rates via the AAC in future filings, but rates in the  
21 current filing are not affected by the request.

22 **Q. IS OWU-ML'S REQUESTED POWER COST AAC JUSTIFIED?**

23 A. Yes. AACs are authorized by ORS 757.210(1), which provides that:



1 [AAC] means a provision of a rate schedule that provides for rate  
2 increases or decreases or both, without prior hearing, reflecting  
3 increases or decreases or both in costs incurred, [...] and that is subject  
4 to review by the commission at least once every two years.

5 An AAC is appropriate for OWU-ML’s power costs because the annual power cost  
6 amount represents a substantial portion of OWU-ML’s operating expenses and rates  
7 charged by Pacific Power are outside of OWU-ML’s control. Similar AACs have  
8 been authorized by the Commission for other water utilities in Oregon.

9 **Q. WHAT IS THE CURRENT POWER COST PER 1,000 GALLONS, AND HOW**  
10 **WAS IT CALCULATED?**

11 A. OWU-ML’s current power cost per 1,000 gallons produced is \$0.3023. This amount  
12 should be used as the baseline for the power cost adjustment mechanism in the future.  
13 The current amount was calculated as the total gallons produced in 2019 (in  
14 thousands) divided by the total cost of energy charges from Pacific Power during  
15 2019, per Pacific Power’s invoices. Please see Exhibit OWU/102 of this direct  
16 testimony for a detailed spreadsheet with the calculations.

17 **XI. TARIFF METER SIZES**

18 **Q. IS OWU-ML INCLUDING IN ITS TARIFFS RATES FOR ANY METER**  
19 **SIZES NOT CURRENTLY LISTED IN THE TARIFFS?**

20 A. Yes. In 2020, OWU-ML began serving two three-inch irrigation meters, but does not  
21 currently have that size in its tariffs. Historically, those two meters were each  
22 charged a five-eighths-inch meter size base rate. As part of this rate case, OWU-ML  
23 is requesting a new three-inch base rate to its irrigation rate schedule so that the two

1 three-inch meters may be charged an appropriate rate. The requested three-inch  
2 irrigation base rate is \$211.91 per month, which is based on the difference between  
3 the two-inch and three-inch meter equivalent factors published by the American  
4 Water Works Association.

5 **XII. RATE CASE COSTS**

6 **Q. WHAT AMOUNT OF RATE CASE COSTS HAS OWU-ML INCURRED IN**  
7 **PREPARING THIS RATE CASE APPLICATION?**

8 A. As of August 31, 2020, OWU-ML has incurred \$6,616 in rate case costs related to  
9 this filing. These costs consist primarily of third-party legal review of the filing and  
10 specific work on the rate case from Suburban employees.

11 **Q. IS IT YOUR PROFESSIONAL OPINION THAT THE COSTS INCURRED TO**  
12 **DATE ARE PRUDENT AND REASONABLE?**

13 A. Yes. OWU-ML has prepared this rate application using internal resources as much as  
14 possible and limited third-party costs to legal counsel only. Additionally, OWU-ML  
15 has limited its internal costs, due in part to COVID restrictions on travel.

16 **Q. WHAT AMOUNT OF RATE CASE COSTS HAS OWU-ML INCLUDED IN**  
17 **ITS REQUESTED REVENUE REQUIREMENT?**

18 A. OWU-ML has included \$3,500 in its revenue requirement. This amount is a  
19 placeholder and will be updated periodically with actual costs as the case progresses.

20 **Q. WHAT AMORTIZATION PERIOD SHOULD BE USED FOR OWU-ML'S**  
21 **RATE CASE COSTS?**

22 A. Contrasting with the twelve years that have passed since OWU-ML's last general rate  
23 case, going forward, OWU-ML anticipates filing rate cases every couple of years in

1 order to avoid rate shock to customers caused by excessive stay outs. In  
2 consideration of this, OWU-ML proposes to amortize its authorized rate case costs  
3 over a two-year period, which is reasonable given OWU-ML's plans going forward.

4 **XIII. COMPLIANCE WITH ACQUISITION COMMITMENTS**

5 **Q. WHAT COMMITMENTS WERE MADE BY OWU-ML AS PART OF THE**  
6 **COMMISSION'S APPROVAL OF THE ACQUISITION OF ITS ASSETS IN**  
7 **2017 BY SOUTHWEST?**

8 A. On May 16, 2017, the Commission issued Order No. 17-168 approving the asset  
9 acquisition of OWU-ML by SouthWest from Oregon Resorts, LLC. Staff's report,  
10 attached to the order as Appendix A, recommended the approval of the acquisition  
11 subject to certain conditions. Among the conditions were the following:

- 12 • OWU-ML would not file a general rate case until at least 23 months after  
13 closing;
- 14 • OWU-ML would not request an acquisition adjustment;
- 15 • OWU-ML would file applications for its affiliated interest agreements within  
16 90 days of closing;
- 17 • In its first general rate case application, OWU-ML would not seek recovery of  
18 more than \$53,397 in affiliate interest costs from SouthWest and Suburban, a  
19 subsidiary of SouthWest in California through which certain products and  
20 services are provided to OWU-ML;
- 21 • OWU-ML would not seek a higher cost of capital than would have prevailed  
22 absent ownership by SouthWest;
- 23 • OWU-ML would exclude transaction costs from rates; and

- 1           • OWU-ML customers would have access to online bill payment options and a  
2           customer service call center within one year of closing.

3   **Q. HAS OWU-ML FULLY COMPLIED WITH ALL CONDITIONS AND**  
4   **COMMITMENTS MADE IN ORDER NO. 17-168?**

5   A. Yes. The above conditions, in addition to all others included in Order No. 17-168,  
6   have been met by OWU-ML. It has been over 23 months since the transaction was  
7   closed, and OWU-ML is not requesting recovery of any acquisition adjustment,  
8   transaction costs, or affiliate costs in excess of \$53,397. OWU-ML's affiliate interest  
9   agreement with SouthWest, including SouthWest's subsidiaries, was approved by the  
10   Commission on December 6, 2019 by Order No. 19-429. OWU-ML customers were  
11   granted access to online bill payment options and the customer service call center  
12   within a year of closing. OWU-ML's requested cost of capital is not higher due to  
13   SouthWest's ownership of OWU-ML.

14   **Q. WHAT COMMITMENTS WERE MADE BY OWU-ML AS PART OF THE**  
15   **COMMISSION'S APPROVAL OF THE ACQUISITION OF PINECREST**  
16   **WATER COMPANY'S ("PINECREST") ASSETS IN 2020 BY OWU-ML?**

17   A. Commission Order No. 20-104 of Docket No. UP 408 approved the asset acquisition  
18   of Pinecrest by OWU-ML and transfer of service territory. Staff's memo, attached to  
19   the Order as Appendix A, includes certain conditions to the approval. Among the  
20   conditions, OWU-ML agreed to file a general rate case within six months, not to  
21   request recovery of any acquisition adjustment, to provide Pinecrest customers with  
22   access to online bill payment and call center customer support within 90 days, and to

1 track Pinecrest and OWU-ML revenues and expenses separately until rates are set in  
2 a general rate case.

3 **Q. HAS OWU-ML FULLY COMPLIED WITH ITS COMMITMENTS?**

4 A. Yes. The above conditions, in addition to all others included in Order No. 20-104,  
5 have been met by OWU-ML. This rate case has been filed within six months of April  
6 2, 2020, the date Order No. 20-104 was issued, and OWU-ML has not requested any  
7 acquisition adjustments in its revenue requirement. The transaction between  
8 Pinecrest and OWU-ML closed on April 22, 2020, and on April 27, 2020 customers  
9 were sent a welcome letter with information on accessing their online accounts and  
10 the customer service call center. This letter is attached to my direct testimony as  
11 Exhibit OWU/107. Finally, OWU-ML is tracking separately the revenues and direct  
12 expenses associated with Pinecrest, but anticipates consolidating records following  
13 this general rate case.

14 **XIV. CONCLUSION**

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes, it does.

Exhibit OWU/101  
Revenue Requirement Model

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Revenue Requirement

Acct.	Acct. Desc.	Recorded Test Year		PC	Adjustments	Adjusted Test Year	Requested Revenue Increase		Phase 1	Phase 2	Phase 3
		RY & RW	SV				32.10%	Requested			
<b>OPERATING REVENUES</b>											
461.1	Residential Revenues	298,543	51,056	10,910		360,509	119,846	480,355	396,813	436,647	480,355
461.2	Commercial Revenues	68,246	5,275			73,521	24,441	97,962	80,924	89,048	97,962
465	Irrigation Revenues	56,706				56,706	18,851	75,557	62,416	68,682	75,557
462	Irrigation - Golf Course	69,487				69,487	23,100	92,587	76,485	84,163	92,587
468	Special Contract Revenues					-		-			
	<b>Total Operating Revenues</b>	<b>492,982</b>	<b>56,331</b>	<b>10,910</b>	<b>-</b>	<b>560,222</b>	<b>186,238</b>	<b>746,460</b>	<b>616,638</b>	<b>678,540</b>	<b>746,460</b>
<b>OTHER REVENUES</b>											
471	Miscellaneous Service Revenues	205	84			290		290	290	290	290
474	Other	(1,073)	57			(1,016)		(1,016)	(1,016)	(1,016)	(1,016)
475	Cross Connection Control Revenues	18,880	1,835			20,715		20,715	20,715	20,715	20,715
	<b>Total Other Revenues</b>	<b>18,012</b>	<b>1,977</b>	<b>-</b>	<b>-</b>	<b>19,989</b>	<b>-</b>	<b>19,989</b>	<b>19,989</b>	<b>19,989</b>	<b>19,989</b>
	<b>Total Revenues</b>	<b>510,994</b>	<b>58,307</b>	<b>10,910</b>	<b>-</b>	<b>580,211</b>	<b>186,238</b>	<b>766,449</b>	<b>636,627</b>	<b>698,529</b>	<b>766,449</b>
									9.72%	9.72%	9.72%
<b>OPERATING EXPENSES</b>											
601	Salaries and Wages - Employees	74,699	7,944			82,643		82,643			
601.1	Capitalized Overhead	(12,980)	(431)	(3,555)		(16,966)		(16,966)			
603	Salaries and Wages - Officers					-		-			
604	Employee Pension & Benefits	26,936	3,115			30,051		30,051			
610	Purchased Water					-		-			
611	Telephone/Communications	909	461			1,370		1,370			
615	Purchased Power	60,754	7,571	1,696		70,022		70,022			
616	Fuel for Power Production					-		-			
617	Other Utilities					-		-			
618	Chemical / Treatment Expense					-		-			
619	Office Supplies	1,662	189			1,851		1,851			
619.1	Postage	3,081	350	48		3,478		3,478			
620	O&M Materials/Supplies	784	62			846		846			
621	Repairs to Water Plant	2,789	1,536	550		4,876		4,876			
631	Contract Svcs - Engineering					-		-			
632	Contract Svcs - Accounting	1,800	204			2,004		2,004			
633	Contract Svcs - Legal	543	62			605		605			
a 634	Contract Svcs - Management Fees	83,432	9,976		(40,012)	53,397		53,397			
635	Contract Svcs - Testing	2,465	2,170	500		5,135		5,135			
636	Contract Svcs - Labor					-		-			
637	Contract Svcs - Billing/Collection					-		-			
638	Contract Svcs - Meter Reading					-		-			
639	Contract Svcs - Other	1,366	2,302			3,668		3,668			
641	Rental of Building/Real Property	2,490	286			2,776		2,776			
642	Rental of Equipment					-		-			
643	Small Tools	132	23			155		155			
648	Computer/Electronic Expenses	1,170	133			1,303		1,303			
650	Transportation	7,253	770			8,023		8,023			
656	Vehicle Insurance	1,668				1,668		1,668			
657	General Liability Insurance	966	109			1,075		1,075			
658	Workers' Comp Insurance	197	22			218		218			
659	Insurance - Other	3,995	453			4,448		4,448			
660	Advertising Expense	15	2			17		17			
b 666	Amortz. of Rate Case				3,500	3,500		3,500			
c 667	Gross Revenue Fee (PUC)	1,592			439	2,031	652	2,683			
d 670	Bad Debt Expense	1,479	359			1,838	381	2,219			
671	Cross Connection Control Program					-		-			
673	Training and Certification	872	94			966		966			
674	Consumer Confidence Report					-		-			
675	Miscellaneous Expense	6,561	483			7,044		7,044			
	<b>Total Operating Expenses</b>	<b>276,632</b>	<b>38,245</b>	<b>(761)</b>	<b>(36,073)</b>	<b>278,043</b>	<b>1,033</b>	<b>279,076</b>			
<b>OTHER REVENUE DEDUCTIONS</b>											
403	Depreciation Expense	162,871	17,860	10,300		191,031		191,031			
e 408.11	Property Tax	724	(1,343)	1,332	2,607	3,320		3,320			
408.12	Payroll Tax	6,580	289			6,869		6,869			
408.13	Other					-		-			
f 409.1	Federal Income Tax	13,479	684	8	7,028	21,199	23,715	44,914			
g 409.11	Oregon Income Tax	3,854	196	2	2,009	6,061	5,091	11,152			
	<b>Total Revenue Deductions</b>	<b>187,508</b>	<b>17,685</b>	<b>11,642</b>	<b>11,644</b>	<b>228,479</b>	<b>28,805</b>	<b>257,285</b>			
	<b>Net Operating Income</b>	<b>46,854</b>	<b>2,377</b>	<b>28</b>	<b>24,429</b>	<b>73,688</b>	<b>156,400</b>	<b>230,088</b>			
<b>RATE BASE</b>											
101	Utility Plant in Service	12,799,657	318,507	335,706		13,453,870		13,453,870			
105	Construction Work in Progress					-		-			
108	Accumulated Depreciation of Plant	(2,366,255)	(125,527)	(286,438)		(2,778,220)		(2,778,220)			
271	Contributions in Aid of Construction	(65,357)				(65,357)		(65,357)			
272	Accumulated Amortization of CIAC	6,760				6,760		6,760			
h 281	Accumulated Deferred Income Tax Excess Capacity	(7,488,440)			(280,049)	(7,488,440)		(7,488,440)			
	<b>Net Rate Base</b>	<b>3,166,415</b>	<b>192,980</b>	<b>49,268</b>	<b>(280,049)</b>	<b>3,128,613</b>	<b>-</b>	<b>3,128,613</b>			
<b>WORKING CAPITAL</b>											
i 151	Materials and Supplies Inventory	4,344				4,344		4,344			
	Working Cash (Total Op Exp /12)	23,053	3,187	(63.38)	(3,006)	23,170	86	23,256			
	<b>Total Rate Base</b>	<b>3,193,811</b>	<b>196,167</b>	<b>49,204</b>	<b>(283,055)</b>	<b>3,156,127</b>	<b>86</b>	<b>3,156,213</b>			
	Rate of Return	1.47%	1.21%	0.06%		2.33%		7.29%			

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Adjustments to Recorded Test Year

<u>Adj #</u>	<u>Account</u>	<u>Rev/OpEx/CapEx</u>	<u>Test Year Adjustment</u>	<u>Revenue Sensitive Adjustments</u>	<u>Explanation</u>
a	Contract Services - Mgmt	OpEx	(\$40,012)		to cap allocated management costs to \$53,397 per acquisition order
b	Rate Case Expense	OpEx	\$3,500		placeholder for rate case expenses
c	OPUC annual fee	OpEx	\$439	\$652	to flow through .35% of gross revenue
d	Bad Debt Expense	OpEx	\$0	\$381	to apply bad debt % rate to requested revenues
e	Property Tax	Taxes	\$2,607		to normalize Southview 2019/2020 tax year property taxes
f	FIT	Taxes	\$7,028	\$23,715	flow through of federal taxes @ 21%
g	SIT	Taxes	\$2,009	\$5,091	flow through of state taxes @ 6.6%
h	ADFIT	Rate Base	(\$280,049)		adjust out ADFIT asset because associated with excess capacity
i	cash working capital	Rate Base	(\$3,006)	\$86	cash working capital @ 1/12 opex



**Oregon Water Utilities - Mountain Lakes, Inc.**  
**Test Year Ended 12/31/2019**  
**Net-to-Gross Calculation**

Uncollectibles	0.2895%	0.2895%
1 minus line 1	=	99.7105%
PUC Fee (x line 2)	0.35%	0.3490%
Other (x line 2)	0.00%	0.0000%
SUBTOTAL (line 1+ line 3 + line 4)		<u>0.6385%</u>
Remaining Amount (1 - line 5)		99.3615%
<u>Line 6 Subject to OR Tax and FIT</u>		
OR Tax (x line 6)	6.60%	6.5579%
Fed. Taxable Income (line 6 - line 7)		92.8036%
FIT (x line 8)	21.00%	19.4888%
Total Taxes Paid (line 5+ line 7+ line 9)		<u>26.6852%</u>
Net Income (1- line 10)		73.3148%
Net To Gross Multiplier (1 / line 11)		<u><u>1.3640</u></u>

**Oregon Water Utilities - Mountain Lakes, Inc.**

**Test Year Ended 12/31/2019**

**Cost of Capital**

**Previous GRC\***

	CoD / ROE	Weight	Wtd CoD/ROE
debt	4.25%	55.60%	2.36%
equity	10%	44.40%	4.44%
Requested Return			6.80%

**Proposed**

	CoD / ROE	Weight**	Wtd CoD/ROE
debt	4.57%	50%	2.29%
equity	10.00%	50%	5.00%
Requested Return			7.29%

\*The rate of return in OWU-ML's last GRC was set at 3.736% rather than 6.80% in order to not increase rates above that requested by OWU-ML

\*\*Because OWU-ML doesn't have its own debt and is owned 100% by SouthWest Water Company, OWU-ML calculates its cost of capital using a 50/50 hypothetical capital structure and SouthWest's actual cost of debt of 4.57%. Please refer to direct testimony filed with the application for additional details.

**Oregon Water Utilities - Mountain Lakes, Inc.**

**Test Year Ended 12/31/2019**

**Rate Spread**

	<b><u>Current Rate Spread</u></b>		<b><u>Proposed Rate Spread</u></b>	
<u>Operating Revenues</u>				
Residential	\$360,509	64.35%	\$480,355	64.35%
Commercial	\$73,521	13.12%	\$97,962	13.12%
Irrigation	\$56,706	10.12%	\$75,557	10.12%
Golf Course	\$69,487	12.40%	\$92,588	12.40%
	\$560,222 Operating Revenues		\$746,460 Revenues for Rate Design	
<u>Other Revenues</u>				
Miscellaneous Services	\$290		\$290	
Other	-\$1,016		-\$1,016	
Cross Connection Control	\$20,715		\$20,715	
	\$19,989 Other Revenues		\$19,989 Other Revenues	
Total Revenues	\$580,211		\$766,449	

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Rate Design

Current Rate Design

Operating Revenues			
	Base	Usage	Total
Residential	\$279,180	\$107,584	\$386,764
Commercial	\$45,738	\$17,366	\$63,104
Irrigation (non-golf)	\$35,394	\$24,474	\$59,868
Irrigation (golf)	\$47,419	\$22,069	\$69,487
<b>Total</b>	<b>\$407,731</b>	<b>\$171,492</b>	<b>\$579,223</b>
	70%	30%	Revenues from Rate Design

<u>Residential</u>					
Base Rates	RY & RW	SV	PC		
meter size	# meters			base rate	annual revenue
5/8"	554	102	48	\$33.00	\$278,784
3/4"	1	-	-	\$33.00	\$396
total annual revenue from base rate					\$279,180 72%

<u>Usage Rates</u>					
meter size	RY & RW	SV	PC		
meter size	Annual Usage			Rate/CCF	annual revenue
tier 1 (<25kgal)	53,608	11,411	4,750	\$1.542	\$107,584
tier 2 (>25kgal)	-	-	-	\$1.992	\$0
total annual revenue from usage rate					\$107,584 28%

<u>Commercial</u>					
Base Rates	RY & RW	SV	PC		
meter size	# meters			base rate	annual revenue
5/8"	9	-	-	\$33.00	\$3,564
3/4"	-	-	-	\$33.00	\$0
1"	1	-	-	\$82.50	\$990
1.5"	5	-	-	\$165.00	\$9,900
2"	8	-	-	\$264.00	\$25,344
3"	1	-	-	\$495.00	\$5,940
total annual revenue from base rate					\$45,738 72%

<u>Usage Rates</u>					
meter size	RY & RW	SV	PC		
meter size	Annual Usage			Rate/CCF	annual revenue
tier 1 (<25kgal)	11,262	-	-	\$1.542	\$17,366
tier 2 (>25kgal)	-	-	-	\$1.992	\$0
total annual revenue from usage rate					\$17,366 28%

<u>Irrigation (non-golf)</u>					
Base Rates	RY & RW	SV	PC		
meter size	# meters			base rate	annual revenue
5/8"	15	2	-	\$19.80	\$4,039
3/4"	-	-	-	\$19.80	\$0
1"	6	-	-	\$37.95	\$2,732
1.5"	4	-	-	\$43.56	\$2,091
2"	25	-	-	\$85.80	\$25,740
3"	-	2	-	\$33.00	\$792
total annual revenue from base rate					\$35,394 59%

Proposed Rate Design

Proposed Operating Revenues			
	Base	Usage	Total
Residential	\$297,200	\$114,421	\$411,621
Commercial	\$48,692	\$18,470	\$67,162
Irrigation (non-golf)	\$40,125	\$23,543	\$63,668
Irrigation (golf)	\$50,482	\$23,698	\$74,180
<b>Total</b>	<b>\$436,499</b>	<b>\$180,132</b>	<b>\$616,631</b>
	71%	29%	Revenues from proposed rate design
			Revenues for Proposed Rate Design
			\$8 rounding difference

<u>Residential</u>					
Base Rates					
meter size	# meters	base rate	annual revenue		
5/8"	704	\$35.13	\$296,778		
3/4"	1	\$35.13	\$422		
total annual revenue from base rate					\$297,200 72%

<u>Usage Rates</u>					
meter size	Annual Usage	Rate/CCF	annual revenue		
tier 1 (<25kgal)	69,769	\$1.64	\$114,421		
tier 2 (>25kgal)	-	\$2.12	\$0		
total annual revenue from usage rate					\$114,421 28%

<u>Commercial</u>					
Base Rates					
meter size	# meters	base rate	annual revenue		
5/8"	9	\$35.13	\$3,794		
3/4"	-	\$35.13	\$0		
1"	1	\$87.83	\$1,054		
1.5"	5	\$175.66	\$10,540		
2"	8	\$281.05	\$26,981		
3"	1	\$526.97	\$6,324		
total annual revenue from base rate					\$48,692 72%

<u>Usage Rates</u>					
meter size	Annual Usage	Rate/CCF	annual revenue		
tier 1 (<25kgal)	11,262	\$1.64	\$18,470		
tier 2 (>25kgal)	-	\$2.12	\$0		
total annual revenue from usage rate					\$18,470 28%

<u>Irrigation (non-golf)</u>					
Base Rates					
meter size	# meters	base rate	annual revenue		
5/8"	17	\$21.08	\$4,300		
3/4"	-	\$21.08	\$0		
1"	6	\$40.40	\$2,909		
1.5"	4	\$46.37	\$2,226		
2"	25	\$91.34	\$27,402		
3"	2	\$137.01	\$3,288		
total annual revenue from base rate					\$40,125 63%

<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all sizes except 3"	34,309	-	-	\$0.602	\$20,654
3" - all usage		2,477		\$1.542	\$3,820
total annual revenue from usage rate				\$24,474	41%
<b>Irrigation (golf)</b>					
<b>Base Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	# meters		base rate	annual revenue	
12"	1	-	-	\$3,951.55	\$47,419
total annual revenue from base rate				\$47,419	68%
<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all	98,742	-	-	\$0.224	\$22,069
total annual revenue from usage rate				\$22,069	32%

<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
all	36,786	\$0.64	\$23,543	
total annual revenue from usage rate			\$23,543	37%
<b>Irrigation (golf)</b>				
<b>Base Rates</b>				
	<b># meters</b>	<b>base rate</b>	<b>annual revenue</b>	
meter size				
12"	1	\$4,206.80	\$50,482	
total annual revenue from base rate			\$50,482	68%
<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
n/a	98,742	\$0.24	\$23,698	
total annual revenue from usage rate			\$23,698	32%

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Rate Design

Current Rate Design

Operating Revenues			
	Base	Usage	Total
Residential	\$279,180	\$107,584	\$386,764
Commercial	\$45,738	\$17,366	\$63,104
Irrigation (non-golf)	\$35,394	\$24,474	\$59,868
Irrigation (golf)	\$47,419	\$22,069	\$69,487
<b>Total</b>	<b>\$407,731</b>	<b>\$171,492</b>	<b>\$579,223</b>
	70%	30%	Revenues from Rate Design

<u>Residential</u>				
Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	554	102	48	\$33.00
3/4"	1	-	-	\$33.00
				annual revenue
				\$278,784
				\$396
				total annual revenue from base rate
				\$279,180 72%

<u>Usage Rates</u>				
meter size	RY & RW	SV	PC	
	Annual Usage			Rate/CCF
tier 1 (<25kgal)	53,608	11,411	4,750	\$1.542
tier 2 (>25kgal)				\$1.992
				annual revenue
				\$107,584
				\$0
				total annual revenue from usage rate
				\$107,584 28%

<u>Commercial</u>				
Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	9	-	-	\$33.00
3/4"	-	-	-	\$33.00
1"	1	-	-	\$82.50
1.5"	5	-	-	\$165.00
2"	8	-	-	\$264.00
3"	1	-	-	\$495.00
				annual revenue
				\$3,564
				\$0
				\$990
				\$9,900
				\$25,344
				\$5,940
				total annual revenue from base rate
				\$45,738 72%

<u>Usage Rates</u>				
meter size	RY & RW	SV	PC	
	Annual Usage			Rate/CCF
tier 1 (<25kgal)	11,262	-	-	\$1.542
tier 2 (>25kgal)	-	-	-	\$1.992
				annual revenue
				\$17,366
				\$0
				total annual revenue from usage rate
				\$17,366 28%

<u>Irrigation (non-golf)</u>				
Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	15	2	-	\$19.80
3/4"	-	-	-	\$19.80
1"	6	-	-	\$37.95
1.5"	4	-	-	\$43.56
2"	25	-	-	\$85.80
3"	-	2	-	\$33.00
				annual revenue
				\$4,039
				\$0
				\$2,732
				\$2,091
				\$25,740
				\$792
				total annual revenue from base rate
				\$35,394 59%

Proposed Rate Design

Proposed Operating Revenues			
	Base	Usage	Total
Residential	\$327,064	\$126,282	\$453,345
Commercial	\$53,581	\$20,384	\$73,965
Irrigation (non-golf)	\$44,155	\$26,118	\$70,273
Irrigation (golf)	\$55,549	\$25,673	\$81,222
<b>Total</b>	<b>\$480,349</b>	<b>\$198,457</b>	<b>\$678,806</b>
	71%	29%	Revenues from proposed rate design
			\$678,540
			Revenues for Proposed Rate Design
			-\$265 rounding difference

<u>Residential</u>			
Base Rates			
meter size	# meters	base rate	annual revenue
5/8"	704	\$38.66	\$326,600
3/4"	1	\$38.66	\$464
			total annual revenue from base rate
			\$327,064 72%

<u>Usage Rates</u>			
meter size	Annual Usage	Rate/CCF	annual revenue
tier 1 (<25kgal)	69,769	\$1.81	\$126,282
tier 2 (>25kgal)	-	\$2.33	\$0
			total annual revenue from usage rate
			\$126,282 28%

<u>Commercial</u>			
Base Rates			
meter size	# meters	base rate	annual revenue
5/8"	9	\$38.66	\$4,175
3/4"	-	\$38.66	\$0
1"	1	\$96.65	\$1,160
1.5"	5	\$193.29	\$11,597
2"	8	\$309.27	\$29,690
3"	1	\$579.88	\$6,959
			total annual revenue from base rate
			\$53,581 72%

<u>Usage Rates</u>			
meter size	Annual Usage	Rate/CCF	annual revenue
tier 1 (<25kgal)	11,262	\$1.81	\$20,384
tier 2 (>25kgal)	-	\$2.33	\$0
			total annual revenue from usage rate
			\$20,384 28%

<u>Irrigation (non-golf)</u>			
Base Rates			
meter size	# meters	base rate	annual revenue
5/8"	17	\$23.20	\$4,733
3/4"	-	\$23.20	\$0
1"	6	\$44.46	\$3,201
1.5"	4	\$51.03	\$2,449
2"	25	\$100.51	\$30,153
3"	2	\$150.77	\$3,618
			total annual revenue from base rate
			\$44,155 63%

<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all sizes except 3"	34,309	-	-	\$0.602	\$20,654
3" - all usage		2,477		\$1.542	\$3,820
total annual revenue from usage rate				\$24,474	41%
<b>Irrigation (golf)</b>					
<b>Base Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	# meters		base rate	annual revenue	
12"	1	-	-	\$3,951.55	\$47,419
total annual revenue from base rate				\$47,419	68%
<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all	98,742	-	-	\$0.224	\$22,069
total annual revenue from usage rate				\$22,069	32%

<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
all	36,786	\$0.71	\$26,118	
total annual revenue from usage rate			\$26,118	37%
<b>Irrigation (golf)</b>				
<b>Base Rates</b>				
	<b># meters</b>	<b>base rate</b>	<b>annual revenue</b>	
meter size				
12"	1	\$4,629.11	\$55,549	
total annual revenue from base rate			\$55,549	68%
<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
n/a	98,742	\$0.26	\$25,673	
total annual revenue from usage rate			\$25,673	32%

**Current Rate Design**

**Operating Revenues**

	Base	Usage	Total	
Residential	\$279,180	\$107,584	\$386,764	
Commercial	\$45,738	\$17,366	\$63,104	
Irrigation (non-golf)	\$35,394	\$24,474	\$59,868	
Irrigation (golf)	\$47,419	\$22,069	\$69,487	
<b>Total</b>	<b>\$407,731</b>	<b>\$171,492</b>	<b>\$579,223</b>	Revenues from Rate Design
	70%	30%		

**Residential**

Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	554	102	48	\$33.00
3/4"	1	-	-	\$33.00
				total annual revenue from base rate
				\$279,180 72%

Usage Rates	RY & RW	SV	PC	
meter size	Annual Usage			Rate/CCF
tier 1 (<25kgal)	53,608	11,411	4,750	\$1.542
tier 2 (>25kgal)				\$1.992
				total annual revenue from usage rate
				\$107,584 28%

**Commercial**

Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	9	-	-	\$33.00
3/4"	-	-	-	\$33.00
1"	1	-	-	\$82.50
1.5"	5	-	-	\$165.00
2"	8	-	-	\$264.00
3"	1	-	-	\$495.00
				total annual revenue from base rate
				\$45,738 72%

Usage Rates	RY & RW	SV	PC	
meter size	Annual Usage			Rate/CCF
tier 1 (<25kgal)	11,262	-	-	\$1.542
tier 2 (>25kgal)	-	-	-	\$1.992
				total annual revenue from usage rate
				\$17,366 28%

**Irrigation (non-golf)**

Base Rates	RY & RW	SV	PC	
meter size	# meters			base rate
5/8"	15	2	-	\$19.80
3/4"	-	-	-	\$19.80
1"	6	-	-	\$37.95
1.5"	4	-	-	\$43.56
2"	25	-	-	\$85.80
3"	-	2	-	\$33.00
				total annual revenue from base rate
				\$35,394 59%

**Proposed Rate Design**

**Proposed Operating Revenues**

	Base	Usage	Total	
Residential	\$359,804	\$138,840	\$498,644	
Commercial	\$58,944	\$22,411	\$81,355	
Irrigation (non-golf)	\$48,574	\$28,693	\$77,267	
Irrigation (golf)	\$61,110	\$28,635	\$89,745	
<b>Total</b>	<b>\$528,431</b>	<b>\$218,580</b>	<b>\$747,011</b>	Revenues from proposed rate design
	71%	29%	\$746,460	Revenues for Proposed Rate Design
				-\$551 rounding difference

**Residential**

Base Rates	# meters	base rate	annual revenue
meter size			
5/8"	704	\$42.53	\$359,293
3/4"	1	\$42.53	\$510
			total annual revenue from base rate
			\$359,804 72%

Usage Rates	Annual Usage	Rate/CCF	annual revenue
meter size			
tier 1 (<25kgal)	69,769	\$1.99	\$138,840
tier 2 (>25kgal)	-	\$2.57	\$0
			total annual revenue from usage rate
			\$138,840 28%

**Commercial**

Base Rates	# meters	base rate	annual revenue
meter size			
5/8"	9	\$42.53	\$4,593
3/4"	-	\$42.53	\$0
1"	1	\$106.32	\$1,276
1.5"	5	\$212.64	\$12,758
2"	8	\$340.22	\$32,661
3"	1	\$637.92	\$7,655
			total annual revenue from base rate
			\$58,944 72%

Usage Rates	Annual Usage	Rate/CCF	annual revenue
meter size			
tier 1 (<25kgal)	11,262	\$1.99	\$22,411
tier 2 (>25kgal)	-	\$2.57	\$0
			total annual revenue from usage rate
			\$22,411 28%

**Irrigation (non-golf)**

Base Rates	# meters	base rate	annual revenue
meter size			
5/8"	17	\$25.52	\$5,206
3/4"	-	\$25.52	\$0
1"	6	\$48.91	\$3,522
1.5"	4	\$56.14	\$2,695
2"	25	\$110.57	\$33,171
3"	2	\$165.86	\$3,981
			total annual revenue from base rate
			\$48,574 63%



<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all sizes except 3"	34,309	-	-	\$0.602	\$20,654
3" - all usage		2,477		\$1.542	\$3,820
total annual revenue from usage rate				\$24,474	41%
<b>Irrigation (golf)</b>					
<b>Base Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	# meters		base rate	annual revenue	
12"	1	-	-	\$3,951.55	\$47,419
total annual revenue from base rate				\$47,419	68%
<b>Usage Rates</b>					
	<b>RY &amp; RW</b>	<b>SV</b>	<b>PC</b>		
meter size	Annual Usage		Rate/CCF	annual revenue	
all	98,742	-	-	\$0.224	\$22,069
total annual revenue from usage rate				\$22,069	32%

<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
all	36,786	\$0.78	\$28,693	
total annual revenue from usage rate			\$28,693	37%
<b>Irrigation (golf)</b>				
<b>Base Rates</b>				
	<b># meters</b>	<b>base rate</b>	<b>annual revenue</b>	
meter size				
12"	1	\$5,092.47	\$61,110	
total annual revenue from base rate			\$61,110	68%
<b>Usage Rates</b>				
	<b>Annual Usage</b>	<b>Rate/CCF</b>	<b>annual revenue</b>	
meter size				
n/a	98,742	\$0.29	\$28,635	
total annual revenue from usage rate			\$28,635	32%

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Bill Comparison at Current Rates versus Requested Rates

usage (kgal)	CURRENT RATES					PROPOSED RATES - PHASE 1					PROPOSED RATES - PHASE 2					PROPOSED RATES - PHASE 3				
	0	5	10	15	20	0	5	10	15	20	0	5	10	15	20	0	5	10	15	20
<b>Residential</b>																				
5/8"	\$33.00	\$40.71	\$48.42	\$56.13	\$63.84	\$35.13	\$43.33	\$51.53	\$59.73	\$67.93	\$38.66	\$47.71	\$56.76	\$65.81	\$74.86	\$42.53	\$52.48	\$62.43	\$72.38	\$82.33
3/4"	\$33.00	\$40.71	\$48.42	\$56.13	\$63.84	\$35.13	\$45.73	\$56.33	\$66.93	\$77.53	\$38.66	\$50.31	\$61.96	\$73.61	\$85.26	\$42.53	\$52.48	\$62.43	\$72.38	\$82.33
<b>Commercial</b>																				
5/8"	\$33.00	\$40.71	\$48.42	\$56.13	\$63.84	\$35.13	\$43.33	\$51.53	\$59.73	\$67.93	\$38.66	\$47.71	\$56.76	\$65.81	\$74.86	\$42.53	\$52.48	\$62.43	\$72.38	\$82.33
3/4"	\$33.00	\$40.71	\$48.42	\$56.13	\$63.84	\$35.13	\$43.33	\$51.53	\$59.73	\$67.93	\$38.66	\$47.71	\$56.76	\$65.81	\$74.86	\$42.53	\$52.48	\$62.43	\$72.38	\$82.33
1"	\$82.50	\$90.21	\$97.92	\$105.63	\$113.34	\$87.83	\$96.03	\$104.23	\$112.43	\$120.63	\$96.65	\$105.70	\$114.75	\$123.80	\$132.85	\$106.32	\$116.27	\$126.22	\$136.17	\$146.12
1.5"	\$165.00	\$172.71	\$180.42	\$188.13	\$195.84	\$175.66	\$183.86	\$192.06	\$200.26	\$208.46	\$193.29	\$202.34	\$211.39	\$220.44	\$229.49	\$212.64	\$222.59	\$232.54	\$242.49	\$252.44
2"	\$264.00	\$271.71	\$279.42	\$287.13	\$294.84	\$281.05	\$289.25	\$297.45	\$305.65	\$313.85	\$309.27	\$318.32	\$327.37	\$336.42	\$345.47	\$340.22	\$350.17	\$360.12	\$370.07	\$380.02
3"	\$495.00	\$502.71	\$510.42	\$518.13	\$525.84	\$526.97	\$535.17	\$543.37	\$551.57	\$559.77	\$579.88	\$588.93	\$597.98	\$607.03	\$616.08	\$637.92	\$647.87	\$657.82	\$667.77	\$677.72
<b>Irrigation (non-golf)</b>																				
5/8"	\$19.80	\$22.81	\$25.82	\$28.83	\$31.84	\$21.08	\$24.28	\$27.48	\$30.68	\$33.88	\$23.20	\$26.75	\$30.30	\$33.85	\$37.40	\$25.52	\$29.42	\$33.32	\$37.22	\$41.12
3/4"	\$19.80	\$22.81	\$25.82	\$28.83	\$31.84	\$21.08	\$24.28	\$27.48	\$30.68	\$33.88	\$23.20	\$26.75	\$30.30	\$33.85	\$37.40	\$25.52	\$29.42	\$33.32	\$37.22	\$41.12
1"	\$37.95	\$40.96	\$43.97	\$46.98	\$49.99	\$40.40	\$43.60	\$46.80	\$50.00	\$53.20	\$44.46	\$48.01	\$51.56	\$55.11	\$58.66	\$48.91	\$52.81	\$56.71	\$60.61	\$64.51
1.5"	\$43.56	\$46.57	\$49.58	\$52.59	\$55.60	\$46.37	\$49.57	\$52.77	\$55.97	\$59.17	\$51.03	\$54.58	\$58.13	\$61.68	\$65.23	\$56.14	\$60.04	\$63.94	\$67.84	\$71.74
2"	\$85.80	\$88.81	\$91.82	\$94.83	\$97.84	\$91.34	\$94.54	\$97.74	\$100.94	\$104.14	\$100.51	\$104.06	\$107.61	\$111.16	\$114.71	\$110.57	\$114.47	\$118.37	\$122.27	\$126.17
3"	\$33.00	\$40.71	\$48.42	\$56.13	\$63.84	\$137.01	\$140.21	\$143.41	\$146.61	\$149.81	\$150.77	\$154.32	\$157.87	\$161.42	\$164.97	\$165.86	\$169.76	\$173.66	\$177.56	\$181.46
<b>Irrigation (golf)</b>																				
12"	\$3,951.55	\$3,952.67	\$3,953.79	\$3,954.90	\$3,956.02	\$4,206.80	\$4,208.00	\$4,209.20	\$4,210.40	\$4,211.60	\$4,629.11	\$4,630.41	\$4,631.71	\$4,633.01	\$4,634.31	\$5,092.47	\$5,093.92	\$5,095.37	\$5,096.82	\$5,098.27

**Oregon Water Utilities - Mountain Lakes, Inc.**

**Test Year Ended 12/31/2019**

**Compound Annual Growth Rates**

	UW 87	UW 112	UW 132	Phase 1	Phase 2	Phase 3
<b>Residential - Base Rate</b>	<b>4/21/2003</b>	<b>7/1/2006</b>	<b>4/20/2009</b>	<b>10/30/2020</b>	<b>10/30/2021</b>	<b>10/30/2022</b>
	\$33.00	\$33.00	\$33.00	\$35.13	\$38.66	\$42.53
New Rate vs. Previous		0.0%	0.0%	6.5%	10.0%	10.0%
Rolling CAGR Increase		0.0%	0.0%	0.4%	0.9%	1.3%

<b>Residential - Usage Rate</b>	<b>4/21/2003</b>	<b>7/1/2006</b>	<b>4/20/2009</b>	<b>10/30/2020</b>	<b>10/30/2021</b>	<b>10/30/2022</b>
	\$0.99	\$1.35	\$1.54	\$1.64	\$1.81	\$1.99
New Rate vs. Previous		36.7%	14.0%	6.4%	10.4%	9.9%
Rolling CAGR Increase		10.3%	7.7%	2.9%	3.3%	3.6%

<b>Residential - Total Bill @ 8 kgal</b>	<b>4/21/2003</b>	<b>7/1/2006</b>	<b>4/20/2009</b>	<b>10/30/2020</b>	<b>10/30/2021</b>	<b>10/30/2022</b>
	\$40.92	\$43.82	\$45.34	\$48.25	\$53.14	\$58.45
New Rate vs. Previous		7.1%	3.5%	6.4%	10.1%	10.0%
Rolling CAGR Increase		2.2%	1.7%	0.9%	1.4%	1.8%

**Oregon Water Utilities - Mountain Lakes, Inc.**  
**Test Year Ended 12/31/2019**  
**Gross Plant as of 12/31/2019 (Pinecrest as of 6/30/2020)**

<u>NARUC Act</u>	<u>Running Y &amp; Ridgewater</u>	<u>Southview</u>	<u>Pinecrest*</u>	<u>Total</u>
303.2	5,000	-	-	5,000
303.5	-	-	-	-
304.2	148,685	5,497	25,313	179,495
304.5	-	-	-	-
307.2	1,017,066	60,863	149,229	1,227,159
309.2	1,193,714	-	-	1,193,714
310.2	-	6,579	-	6,579
311.2	6,275	-	-	6,275
311.4	857,594	14,568	24,215	896,377
330.4	611,823	37,039	26,178	675,040
331.4	7,453,738	146,661	110,771	7,711,170
333.4	866,701	-	-	866,701
334.4	173,159	11,858	-	185,016
335.4	327,220	7,875	-	335,095
336.4	-	-	-	-
340.5	377	-	-	377
340.51	3,668	-	-	3,668
340.52	64,612	24,035	-	88,647
341.5	39,849	3,532	-	43,381
343.5	3,906	-	-	3,906
345.5	-	-	-	-
346.5	20,416	-	-	20,416
347.5	5,853	-	-	5,853
348.5	-	-	-	-
Total	12,799,657	318,507	335,706	13,453,870

\*Pinecrest assets as of 6/30/2020

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Meter Equivalents

**OWU-ML (water)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	6	1	6	
1 1/2"	8	5	40	
1"	6	2.5	15	
12"	1	215	215	
2"	33	8	264	
3"	1	15	15	
5/8"	555	1	555	
			<u>1,110</u>	15.0%

**OWU (ML wastewater)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	5	1	5	
1 1/2"	4	5	20	
1"	1	2.5	3	
2"	7	8	56	
3"	1	15	15	
5/8"	529	1	529	
			<u>628</u>	8.5%

**Southview (water)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	4	1	4	
3"	2	15	30	
5/8"	94	1	94	
			<u>128</u>	1.7%

**Southview (wastewater)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	3	1	3	
5/8"	93	1	93	
			<u>96</u>	1.3%

**OWU-CB (water)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	20	1.5	30	
1 1/2"	9	5	45	
1"	14	2.5	35	
12"	1	215	215	
2"	35	8	280	
3/4"	1535	1.5	2,303	
4"	1	25	25	
5/8"	109	1	109	
6"	1	50	50	
			<u>3,092</u>	41.8%

**OWU (CB wastewater)**

<u>meter size</u>	<u>connections</u>	<u>factor</u>	<u>meter equivalent</u>	
#	14	1.5	21	
1 1/2"	2	5	10	
1"	8	2.5	20	
2"	3	8	24	
3/4"	1504	1.5	2,256	
5/8"	13	1	13	
			<u>2,344</u>	31.7%

<b>Total Meter Equiv</b>	<u><u>7,397</u></u>	<u>100%</u>
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Exhibit OWU/102  
Baseline Power Costs

Oregon Water Utilities - Mountain Lakes, Inc.  
 Test Year Ended 12/31/2019  
 Calculation of Baseline Power Cost per kGal

<b>Production (in Acre Feet)</b>	<b>Jan-19</b>	<b>Feb-19</b>	<b>Mar-19</b>	<b>Apr-19</b>	<b>May-19</b>	<b>Jun-19</b>	<b>Jul-19</b>	<b>Aug-19</b>	<b>Sep-19</b>	<b>Oct-19</b>	<b>Nov-19</b>	<b>Dec-19</b>	<b>Total</b>
Running Y Well 1	-	-	-	-	26.62	39.97	97.09	73.61	47.85	12.77	5.11	-	303.02
Running Y Well 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Running Y Well 3	12.24	9.99	10.46	13.79	34.95	43.46	60.79	55.16	41.79	18.28	11.54	14.54	326.99
Ridgewater Well 1	1.72	1.26	1.11	1.53	2.23	4.39	3.64	3.41	2.80	1.97	0.63	1.28	25.97
Southview Well 1	1.23	0.97	1.06	1.55	2.92	5.83	7.18	6.58	4.80	2.54	0.98	1.02	36.66
Total 2019 AF	15.19	12.22	12.63	16.87	66.72	93.65	168.70	138.76	97.24	35.56	18.26	16.84	692.64
Total 2019 kGals	4,950	3,982	4,116	5,497	21,741	30,516	54,971	45,215	31,686	11,587	5,950	5,487	225,698

<b>Power Costs - Pacific Power</b>	<b>Jan-19</b>	<b>Feb-19</b>	<b>Mar-19</b>	<b>Apr-19</b>	<b>May-19</b>	<b>Jun-19</b>	<b>Jul-19</b>	<b>Aug-19</b>	<b>Sep-19</b>	<b>Oct-19</b>	<b>Nov-19</b>	<b>Dec-19</b>	<b>Total</b>
5115 Running Y Rd - Well #1	209	215	208	209	1,404	3,351	2,609	1,226	1,204	212	849	215	11,911
4651 Coopers Hawk Dr - Well #3	1,221	1,070	-	2,148	1,256	2,417	2,888	3,517	3,191	2,255	1,366	1,295	22,625
4800 Coopers Hawk Dr - Water Boosting Pump	487	365	-	806	516	1,025	1,066	1,277	1,134	978	761	688	9,102
11844 Cross Bill Dr - Booster Pump	21	20	-	50	31	40	43	56	50	38	32	33	415
5115 Running Y Rd - Blue Sky Champion*	27	27	27	27	27	27	27	27	27	27	27	27	328
697 Ridgewater Blvd - Tank Pumps (RW)	1,451	1,377	1,321	1,320	1,531	1,584	1,570	1,379	1,362	1,247	1,037	1,094	16,274
5200 Highway 140 - #2 Well Pump (SV)	457	400	425	444	641	835	1,061	961	807	596	472	474	7,571
2019 Total Pac Costs (per invoices)	3,872	3,475	1,982	5,004	5,406	9,279	9,265	8,444	7,775	5,352	4,545	3,827	68,226

<b>2019 baseline power cost per kGal</b>	<b>Jan-19</b>	<b>Feb-19</b>	<b>Mar-19</b>	<b>Apr-19</b>	<b>May-19</b>	<b>Jun-19</b>	<b>Jul-19</b>	<b>Aug-19</b>	<b>Sep-19</b>	<b>Oct-19</b>	<b>Nov-19</b>	<b>Dec-19</b>	<b>Total</b>
Total	\$0.7823	\$0.8727	\$0.4815	\$0.9102	\$0.2487	\$0.3041	\$0.1685	\$0.1868	\$0.2454	\$0.4619	\$0.7639	\$0.6974	\$0.3023

\*\$27.30 is the portion of the charge applicable to water only

# Exhibit OWU/103

## Proposed Tariff



**Containing Rules and Regulations  
Governing Water Utility Service**

**NAMING RATES FOR**

**OREGON WATER UTILITIES – MOUNTAIN LAKES, INC.**  
**5391 RUNNING Y ROAD**  
**KLAMATH FALLS, OR 97601**

**(541) 850-5566**

Serving water in the vicinity of  
 Klamath County, Oregon

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

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Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 1**  
**RESIDENTIAL METERED RATES**

**Available:** To customers of the Utility in Klamath County, Oregon, and vicinity.

**Applicable:** To residential premises.

**Monthly Base Rate**

SERVICE METER SIZE	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	USAGE ALLOWANCE
5/8 inch or 3/4 inch	\$35.13	\$38.66	\$42.53	None

**Commodity Usage Rate**

TIER	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	PER	TIER CONSUMPTION	
Tier 1	\$1.64	\$1.81	\$1.99	1,000 gal	Up to	25,000 gal
Tier 2	\$2.12	\$2.33	\$2.57	1,000 gal	Above	25,000 gal

**Special Provisions:**

1. These rates are based on continuous service. Discontinuation of service may not be employed to avoid monthly charges for service. See Rule No. 26, Voluntary Discontinuance.
2. Water used during the construction of buildings, etc., shall be metered. Charges shall be made at the rates specified in this schedule. When setting of a meter is impracticable, the amount of water used shall be estimated, and the charges shall be made at specified rates for the amounts so estimated.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

## SCHEDULE NO. 2 COMMERCIAL / INDUSTRIAL METERED RATES

**Available:** To customers of the Utility in Klamath County, Oregon, and vicinity.

**Applicable:** To commercial / industrial customers.

### Monthly Base Rate

SERVICE METER SIZE	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	USAGE ALLOWANCE
5/8 inch or 3/4 inch	\$35.13	\$38.66	\$42.53	None
1 inch	\$87.83	\$96.65	\$106.32	None
1½ inches	\$175.66	\$193.29	\$212.64	None
2 inches	\$281.05	\$309.27	\$340.22	None
3 inches	\$526.97	\$579.88	\$637.92	None

### Commodity Usage Rate

TIER	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	PER	TIER CONSUMPTION	
Tier 1	\$1.64	\$1.81	\$1.99	Per 1,000 gal	Up to	25,000 gal
Tier 2	\$2.12	\$2.33	\$2.57	Per 1,000 gal	Above	25,000 gal

**Special Provisions:**

1. These rates are based on continuous service. Discontinuation of service may not be employed to avoid monthly charges for service. See Rule No. 26, Voluntary Discontinuance.
2. Water used during the construction of buildings, etc., shall be metered. Charges shall be made at the rates specified in this schedule. When setting of a meter is impracticable, the amount of water used shall be estimated, and the charges shall be made at specified rates for the amounts so estimated.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 3**  
**IRRIGATION (NON-GOLF COURSE) METERED RATES**  
(delivered under pressure)

**Available:** To customers of the Utility in Klamath County, Oregon, and vicinity.

**Applicable:** To irrigation (non-golf course) customers.

**Monthly Base Rate**

SERVICE METER SIZE	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	USAGE ALLOWANCE
5/8 inch or 3/4 inch	\$21.08	\$23.20	\$25.52	None
1 inch	\$40.40	\$44.46	\$48.91	None
1½ inches	\$46.37	\$51.03	\$56.14	None
2 inches	\$91.34	\$100.51	\$110.57	None
3 inches	\$137.01	\$150.77	\$165.86	None

**Commodity Usage Rate**

OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	PER
\$0.64	\$0.71	\$0.78	Per 1,000 gal

**Special Provisions:**

1. These rates are based on continuous service. Discontinuation of service may not be employed to avoid monthly charges for service. See Rule No. 26, Voluntary Discontinuance.
2. Water used during the construction of buildings, etc. shall be metered. Charges shall be made at the rates specified in this schedule. When setting of a meter is impracticable, the amount of water used shall be estimated, and the charges shall be made at specified rates for the amounts so estimated.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 4**  
**GOLF COURSE METERED RATES**  
(delivered at atmosphere)

**Available:** To customers of the Utility in Klamath County, Oregon, and vicinity.

**Applicable:** To irrigation (golf course) customers.

**Base Rate**

SERVICE METER SIZE	OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	USAGE ALLOWANCE
12 inches	\$4,206.80	\$4,629.11	\$5,092.47	None

**Commodity Usage Rate**

OCT 30, 2020	OCT 30, 2021	OCT 30, 2022	PER
\$0.24	\$0.26	\$0.29	Per 1,000 gal

**Special Provisions:**

1. These rates are based on continuous service. Discontinuation of service may not be employed to avoid monthly charges for service. See Rule No. 26, Voluntary Discontinuance.
2. Water used during the construction of buildings, etc., shall be metered. Charges shall be made at the rates specified in this schedule. When setting of a meter is impracticable, the amount of water used shall be estimated, and the charges shall be made at specified rates for the amounts so estimated.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

## SCHEDULE NO. 5 COMMODITY POWER COST ADJUSTMENT

Schedule No. 5 is an “Automatic Adjustment Clause” as defined in ORS 757.210. It is subject to review by the Commission at least once every two years.

**PURPOSE:** To define procedures for periodic revision in rates due to changes in the Utility’s purchased commodity power cost, to describe how a rate change for purchased commodity power cost is calculated, and to identify any other requirements.

**APPLICABLE:** The commodity power cost adjustment applies to the following schedules contained in the Utility’s tariffs: Schedules 1, 2, 3, and 4.

### COMMODITY POWER COST ADJUSTMENT

Changes under the applicable schedules are subject to increases or decreases that may be made without prior hearing to reflect the changes in the Utility’s purchased power costs resulting from adjustments in the rate of the Utility’s power suppliers. Such adjustments may be shown in Schedules 1, 2, 3, and 4, or may be incorporated directly in the applicable rate schedules. The Utility may file purchased power cost adjustments periodically to be effective upon the date its power suppliers implement rate changes. If the Utility chooses to file for power cost increases, it is also obligated to file for decreases in power costs.

### DESCRIPTION OF POWER COST ADJUSTMENT CALCULATION

Current power rate per 1,000 gallons of water, multiplied by the power provider’s percentage increase, multiplied by the power provider’s allocation percentage, equals the power cost adjustment per 1,000 gallons. For example, if Pacific Power provides 100 percent of the Utility’s electric power for domestic water and the current rate is \$0.3023 per 1,000 gallons, a 15 percent increase by Pacific Power would result in the following power cost adjustment:

$$\$0.3023 * 15\% * 100\% = \$0.045 \text{ increase per 1,000 gallons (rounded to three decimal places)}$$

### OTHER REQUIREMENTS

The Utility shall, whenever possible, utilize its pumping operations at off-peak times in order to promote energy conservation. The Utility will adopt a time-of-day usage of electric power from power suppliers who offer such a conservation tariff.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 6**

**MISCELLANEOUS SERVICE CHARGES**

This schedule lists the miscellaneous charges included in the Utility’s Rules and Regulations; refer to the appropriate Rules for an explanation of charges and conditions under which they apply.

Connection Charge for New Service (Rule Nos. 8 & 9)

Standard ¾-inch service	At cost
Nonstandard ¾-inch service	At cost
Larger than ¾-inch service	At cost
Irrigation hookup (if provided on separate system)	At cost

Meter Test (Rule Nos. 19 & 20)

First test within 12-month period	N/C
Second test within 12-month period	<u>\$25</u>

Pressure Test (Rule No. 39)

First test within 12-month period	N/C
Second test within 12-month period	<u>\$25</u>

Late-Payment Charge (Rule No. 21)

Pursuant to OAR 860-036-1400

Deposit for Service (Rule No. 5)

Pursuant to OAR 860-036-1220

Returned-Check Charge (Rule No. 22)

\$20 each occurrence

Trouble-Call Charge (Rule No. 35)

During normal office hours	\$25 per hour
After normal office hours on special request	\$50 per hour

Disconnection/Reconnect Charge (Rule Nos. 28 & 29)

During normal office hours	<u>\$25</u>
After normal office hours on special request	<u>\$50</u>

Unauthorized Restoration of Service (Rule No. 30)

Disconnection/Reconnection charge plus costs

Damage/Tampering Charge (Rule No. 28)

At cost

Disconnect Site-Visit Charge (Rule No. 29)

\$25

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		



**SCHEDULE NO. 7**

**CROSS CONNECTION CONTROL PROGRAM  
Backflow Prevention Device Services and Fees**

**PURPOSE:** The Utility offers its customers backflow prevention device/double check valve assembly (DCVA) testing, maintenance, and repair services.

**AVAILABLE:** To customers of the Utility in Klamath County, Oregon, and vicinity.

**APPLICABLE:** To residential, commercial/industrial, and irrigation premises with backflow prevention devices installed at the meter.

**PROGRAM DESCRIPTION**

Service plans include:

1. Testing of newly installed devices prior to hook up to the Company’s water system.
2. The required annual backflow prevention device testing by a state certified tester pursuant to Oregon Administrative Rules 333-061-0070 through OAR 333-061-0072.
3. Maintenance and repairs on the customer-owned backflow prevention device.

The Company offers the following plans and payment options for services provided by the Company:

1. Testing of new devices.
2. Required annual device testing.
3. Payment is due upon completion of services rendered.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 7 (CONTINUED)**

**CROSS CONNECTION CONTROL PROGRAM  
Backflow Prevention Device Services and Fees**

**BILLING RATES**

At the time of testing, customers will be billed (itemized separately on customer water bill):

Double Check Devices

New device 1" and under	\$45
New device over 1"	\$60
New device over 2"	\$85
Commercial property	Additional \$20 per device
Existing device 1" and under	\$35
Existing device over 1"	\$45
Existing device over 2"	\$85
Commercial property	Additional \$10 per device
Additional device(s)* tested during same site visit	Discount <\$10>

\*Excludes RPs

Reduced Pressure Backflow Preventer Device (RP)

1" and under	\$45
Over 1"	\$60

Miscellaneous

Confined space entry	\$100
Labor for maintenance and repair of device (1 hr min)	\$50 per hour
Parts	At cost

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

**SCHEDULE NO. 7 (CONTINUED)**

**CROSS CONNECTION CONTROL PROGRAM  
Backflow Prevention Device Services and Fees**

**OPT OUT CUSTOMERS WHO FAIL TO PROVIDE DCVA TEST RESULTS**

OPT OUT customers who fail to provide the Utility with annual DCVA test results by the customer’s annual deadline will be disconnected from water service pursuant to OAR 860-036-1680.

**SPECIAL PROVISIONS:**

1. The customer is under no obligation to use the Utility's DCVA services.
2. The customer can choose any qualified company or individual to test, maintain, and repair his/her DCVA.
3. Customers who choose not to use the Company’s backflow prevention services must sign the written refusal and return it to the Company. Customers who choose to continue not using the Company’s backflow prevention services must each year notify the Company of the name of the company chosen and date backflow test is scheduled
4. The Company will provide each customer with notification of the backflow prevention service options being offered. The notification shall include (1) an agreement for service that allows the customer to indicate which plan and payment arrangement the customer chooses, and (2) a written refusal of the Company’s services.
5. The Company reserves the right to propose before the OPUC any change in the amount charged for the backflow prevention device testing, maintenance, and repair services.
6. Customers will be given the choice of accepting or rejecting a new agreement in advance of any rate increase.
7. The Company will separately itemize the backflow prevention device service fee on customer bills.

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## RULES AND REGULATIONS

**Rule 1: Jurisdiction of the Commission**

Water systems are subject to regulation as provided under ORS [Chapter 757](#)

**Rule 2: Definitions**

- A. "Applicant" means a person who does not meet the definition of a customer, who applies for service with a water utility.
- B. "Commission" shall mean the Public Utility Commission of Oregon.
- C. "Commercial service" means water service provided by the water utility that the customer uses in the promotion of a business or business product that is a source of revenue or income to the customer or others using the premises.
- D. "Customer" means a person who is currently receiving water service and is entitled to certain rights as a customer under these rules. A residential customer retains customer status for 20 calendar days following voluntary disconnection of service and must be treated as a customer if he or she reapplies for service within that 20 calendar day period.
- E. "Customer's service line" is defined as the facilities used to convey water from the point of connection to the customer's point of usage. The customer owns and maintains the customer service line.
- F. "Residential service" means water service provided for domestic or irrigation purposes in a residential area and is not considered a commercial service.
- G. "Served" for purpose of delivery of any required notice or document, unless otherwise specifically noted, means: delivered in person, by personal contact over the telephone, or in writing delivered to the party's last known address. If delivered by US Mail, the notice is considered served two calendar days after the date postmarked, the date of postage metering, or deposit in the US Mail, excluding Sundays and postal holidays.
- H. "Utility" shall mean: OREGON WATER UTILITIES – CLINE BUTTE, INC.
- I. "Water service connection" is defined as the facilities used to connect a water utility's distribution network to the point of connection at the customer's service line. The water utility owns and maintains the water service connection.

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### APPLICATION FOR SERVICE

**Rule 3: Information for Applicants and Customers (OAR 860-036-1100)**

The Utility shall provide or be able to provide customers or applicants with the following information:

- A. A copy of its approved tariffs or statement of rates;
- B. A copy of the utility’s rules and regulations applicable to the type of service being provided; and
- C. The option to receive electronic copies of all written notices to be issued on the customer’s account.

**Rule 4: Application for Service (OAR 860-036-1200)**

Application for water service must be made for each individual property to be served. The application shall identify the name of the applicant, the service address, the billing address, the contact information where the applicant can be reached, the type of water service requested and its intended use, and the name to be used to identify the account, if different than the applicant’s actual name. The applicant shall, at this time, pay any scheduled fees or deposits. An application is a request for service and shall not be accepted until the applicant establishes credit as set forth in OAR 860-036-1210.

An application for service may be required where:

- A. An applicant, who has not previously been served by the Utility, requests service; or
- B. Service has been involuntarily discontinued in accordance with the Utility and Commission rules, and service is requested; or
- C. Service has been voluntarily discontinued and a request to restore service has not been made within 20 days; or
- D. There is a change in the type of use to which the water is put, or the number of premises served.

**Rule 5: Establishment of Credit, Surety Agreements, Deposits, Interest, and Refunds of Deposits (OAR 860-036-1210, 1220, 1230, 1240, 1250, and 1260)**

The utility may require an applicant or customer to pay a deposit as a guarantee of payment for services provided. Amounts held by a water utility may not exceed one-sixth of the actual or estimated annual billing for the premises. (OAR 860-036-1220)

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The water utility may adjust the deposit amount when a customer moves to a new location within the water utility's service area, and the anticipated bill at the new residence will be at least 20 percent greater than the basis of the existing deposit. (OAR 860-036-1220(5))

The Utility shall pay interest on deposits at the rate established by the Commission. After the customer has paid its water service bills for 12 consecutive months without having had service discontinued for nonpayment, or did not have more than two occasions in which a shut-off notice was issued, and the customer is not then delinquent in the payment of bills, the Utility shall promptly and automatically refund the deposit plus accrued interest by **(check one)** (OAR 860-036-1250 and 1260):

- 1. Issuing the customer a refund check, or
- 2. Crediting the customer's account; however, a customer is entitled to a refund upon request pursuant to OAR 860-036-1260

**Rule 6: Customer Service Line (OAR 860-036-1300(2))**

The customer shall own and maintain the customer service line and promptly repair all breaks and leaks. For non-metered service, the customer service line begins at the property line or utility-owned shut-off valve. For metered service, the customer service line begins on the customer's side of the meter or utility-owned shut-off valve. The Utility shall not be responsible for any damage or poor service due to inadequacy of the customer service line or any portion of the customer's plumbing. All leaks in the customer service line, faucets, and all other parts of the plumbing owned or controlled by the customer shall be promptly repaired so as not to waste water.

**Rule 7: Separate Control of Service**

All premises supplied with water will be served through service lines so placed as to enable the Utility to control the supply to each individual premise using a valve placed within and near the line of the street, the Utility right-of-way, or at the meter.

**Rule 8: Water Service Connections (OAR 860-036-1300)**

The water service connection is defined as the facilities used to connect the Utility's distribution network to the point of connection at the customer's service line, including all trenching, pipe, valves, and fittings. The Utility owns, operates, maintains, and replaces the service connection when necessary and promptly repairs all breaks and leaks. The customer shall not be

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responsible for any damage or poor service due to inadequacy of the Utility’s service lines or any portion of the Utility’s plumbing.

**Rule 9: Service Connection Charge (OAR 860-036-1300(3))**

An applicant requesting permanent water service to a premise not previously supplied with permanent water service by the Utility may be required to pay the cost of the service connection, including or excluding the meter as provided in Rule No. 8 and the Utility’s Miscellaneous Service Charges in this tariff.

**Rule 10: Main Line Extension Policy (OAR 860-036-1310)**

A main line extension is defined as the extension of the Utility's main line necessary to provide service to a customer when the property does not currently have main line frontage.

Main line extension charges, if any, are stated in the Utility's tariff or statement of rates.

The Utility maintains a main line extension policy that lists all applicable charges; and describes the advance and refund provisions, including a description of the mechanisms for collecting and rebating the amount charged equitably among the customers who paid for the cost of the line, and provides the time period during which the advance and rebate provisions apply.

**For a period of five (5) years** after construction of the requested main line extension, the utility shall also collect from any additional applicants whose service connections or service lines shall connect directly to said main line extension an amount per foot equal to the new applicant's proportionate share of the main line extension abutting footage used. The utility will then refund the share differential amount to those customers who previously incurred the cost of said main line extension. Refunds shall not exceed the amount originally advanced.

No part of the distribution system installed prior to the request for a main line extension shall be used to calculate any customer advance or refund.

**Rule 11: Types of Use**

Water service may be supplied for residential, commercial, irrigation, temporary construction, special contracts, fire prevention, and other uses. The Utility shall file separate rate schedules for each type of use and basis of supply.

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**Rule 12: Multiple Residences/Commercial Users**

An apartment building, mobile home park, motel, trailer camp, duplex, townhouse, or any property consisting of more than one residential/commercial unit shall be considered to be equivalent to the number of equivalent dwelling units served when determining the customer count.

**Rule 13: Utility Access to Private Property (OAR 860-036-1370, -1500)**

Customers shall provide regular access to Utility-owned service lines that may extend onto the customer’s premises for the purposes of reading meters, maintenance, inspections, or removal of Utility property at the time service is to be discontinued. Where the customer does not cooperate in providing reasonable access to the meter or to the premises, as required by law or to determine if a health or safety hazard exists, it is grounds for disconnection.

**Rule 14: Restriction on Entering a Customer Residence (OAR 860-036-1330)**

No Utility employee shall enter the residence of its customers without proper authorization except in an emergency when life or property is endangered.

**REFUSAL OF SERVICE**

**Rule 15: Refusal of Service Due to Customer Accounts (OAR 860-036-1270)**

The Utility may refuse to provide service if:

- A. The applicant has amounts owing under a tariff or statement of rates; or
- B. The applicant for residential service has a roommate with amounts owing under a tariff or statement of rates, and the applicant lived with the roommate at the time the amounts owing were incurred.

Exception: If the applicant for residential service was a former residential customer with amounts owing, was involuntarily disconnected for non-payment, and applies for service within 20 calendar days of the disconnection, the Utility must provide service upon receipt of one-half of the amount owed with the remainder due within 30 calendar days. If the former customer fails to pay the remaining amounts within 30 calendar days, the Utility may disconnect service after issuing a 7-calendar day disconnection notice in accordance with OAR 860-036-1510(4).

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If service is disconnected, the Utility may refuse to restore service until it receives full payment of all amounts owing, including reconnection charges allowed under OAR 860-036-1580. Service shall not be refused for matters not related to water service.

Residential service shall not be refused due to obligations connected with nonresidential service. If service is refused under this rule, the Utility shall inform the applicant or customer of the reasons for the refusal and of the Commission’s dispute resolution process.

**Rule 16: Refusal of Service Due to Utility Facilities (OAR 860-036-1270)**

The Utility shall not accept an application for service or materially change service to a customer if the Utility does not have adequate facilities, resources or capacity to render the service applied for, or if the desired service is of a character that is likely to unfavorably affect reasonable service to other customers.

For refusal of service under this rule, the Utility shall provide a written letter of refusal to the applicant within seven calendar days, informing applicant that the details upon which the Utility’s decision was based may be requested.

The details will include, but not be limited to:

- A. Provide the information required by OAR 860-036-1100(2);
- B. Explain the specific reasons for refusing water service;
- C. Inform the applicant of the right to request details upon which the Utility's decision was based; and
- D. Inform the applicant of the right to dispute the refusal by contacting the Consumer Services Section at the contact information provided in OAR 860-001-0020(2).

**Rule 17: Refusal of Service Due to Customer Facilities (OAR 860-036-1270)**

The Utility will refuse service to an applicant whose facilities do not comply with applicable plumbing codes or, if in the best judgment of the Utility, are of such a character that safe and satisfactory service cannot be given.

If service is refused under this rule, the Utility will provide written notification to the applicant within seven calendar days stating the reason(s) for refusal and providing information regarding the Commission’s complaint process.

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## METERS

**Rule 18: Utility Meters (OAR 860-036-1350, 1370(3), and 1590)**

The Utility owns, maintains, and operates all meters. Meters placed in service will be adequate in size and design for the type of service, set at convenient locations, accessible to the Utility, subject to the Utility’s control, and placed in a meter box or vault between the street curb and property line. Each meter box or vault will be provided with a suitable cover.

Where additional meters are installed by the Utility or relocated for the convenience of the customer, the actual cost incurred for any meter relocation requested by the customer will be assessed.

The Utility shall have the right to set meters or other devices for the detection and prevention of fraud or waste without notice to the customer.

Each customer shall provide the Utility with regular access to the meter on the customer’s property. Failure to permit access at reasonable times and after reasonable notice by the Utility requesting access is grounds for disconnection. Should damage result to the meter from molesting, tampering, or willful neglect on the part of the customer, the Utility shall repair or replace the meter and may bill the customer for the reasonable cost.

**Rule 19: Meter Testing (OAR 860-036-1350)**

All meters must be tested before installation or within 30 calendar days thereafter. Meters must be accurate to no more than two percent fast or slow under normal operating conditions. The Utility must prepare a test record and retain the current and immediately prior test records for all meters tested. The test record must include:

- A. Meter identification number and location;
- B. The reason for the test;
- C. The testing method;
- D. The beginning and ending meter readings;
- E. The test results and conclusion; and
- F. All data taken at the time of the test.

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**Rule 20: Customer-Requested Meter Test (OAR 860-036-1360)**

A customer may ask the water utility to test the water meter once every 12 months at no cost. The water utility must test the water meter within seven calendar days of the request, unless the customer fails to provide the water utility reasonable access to the meter. A customer or a designated representative has the right to be present at any on-site meter test. The test must be conducted at a mutually acceptable time. Within seven calendar days of performing the requested meter test, the Utility will provide a meter test report to the customer stating:

- A. The information required by OAR 860-036-1100(2);
- B. The name of the customer requesting the test and the service address where the meter was tested;
- C. The date the meter test was requested and the date the meter test was performed;
- D. The name of the person performing the test;
- E. The meter identification number and location;
- F. The beginning and ending meter readings; and
- G. The actual test results and conclusion.

If a customer requests more than one meter test within any 12-month period and the test results indicate that the meter is registering within the two percent performance standard, the customer may be assessed a reasonable charge for the test if the charge is included in the Utility’s tariff or statement of rates. If the meter registers outside the two percent performance standard, the Utility may not charge the customer for the meter test.

**BILLING**

**Rule 21: Billing Information and Late-Payment Charge (OAR 860-036-1010(8), 1100(2), 1400, and 1430)**

All bills, including closing bills, are due and payable within at least 15 days when rendered by deposit in the mail or other reasonable means of delivery, unless otherwise specified on the bill. A bill is considered served two calendar days after the date postmarked, the date of postage metering, or deposit in the US Mail, excluding Sundays and postal holidays.

As near as practical, meters shall be read **(check one)**  monthly,  bimonthly, or  quarterly on the corresponding day of each meter reading or billing period. The Utility will provide its customers with timely billings every month or as indicated in its tariffs or statement of

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rates. A water utility must prepare bills, including opening and closing bills, from actual meter readings, unless conditions prevent an actual meter reading. If billings are based on estimated readings, the water utility must clearly identify the estimated meter reads and the estimated consumption on the bill. The water utility must verify the actual meter reading at least once every four months and adjust the customer's bill as needed.

All water service bills will show:

- A. Separate line items for past due balance, payments and credits, new charges, late fees, and total account balance;
- B. The date new charges are due;
- C. Calculation of new charges including base or flat rate, usage billing tiers and rates, beginning and ending meter readings, the dates the meter was read, rate schedule, billing period, and number of days in the billing period;
- D. The date any late payment charge was applied and an explanation of the terms of the late payment charge; and
- E. Any other information necessary for the customer to understand and compute the charges being assessed.

A late-payment charge may be assessed against any residential account that has an unpaid balance when the next bill is being prepared. The Utility may assess a late-payment charge against any non-residential account if payment is not received by the bill due date. The charge will be computed at the late-payment rate specified in the Miscellaneous Service Charges Schedule. The late-payment rate is determined annually by the Commission, and the Utility will be notified of the rate.

If an account is permitted to become delinquent, the Utility may disconnect water service by giving proper notice to the customer as provided in Rules 28 & 29, prior to or after the Utility assesses the late-payment charge.

Rule 22: Returned Payment Charge

The Returned Payment Charge listed on the Miscellaneous Service Charges Schedule shall be billed for each occasion a customer submits any type of noncash payment (check, debit, electronic, etc.) that is not honored, for any reason, by a bank or other financial institution.

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**Rule 23: Prorating of Bills**

Initial and final bills will be prorated according to the number of days service was rendered and on the basis of a billing period of not less than 27 days or more than 33 days (required billing period). For metered services, a reasonable effort will be made to read the meter upon opening and closing a customer’s account. Consumption will be charged at scheduled rates. Any minimum monthly charge will be prorated based on the required billing period.

**Rule 24: Adjustment of Bills (OAR 860-036-1440)**

When an overbilling occurs, the Utility will refund or credit amounts incorrectly collected during the 12-month period ending on the date on which the Utility issued the last incorrect bill. However, if the incorrect billing occurred more than three years before the incorrect billing is discovered, no refund or credit is required.

When an underbilling occurs, the Utility may issue a bill to collect amounts owing for the 12-month period ending on the date on the Utility issued the last incorrect bill. When such under collected amounts are billed to customers, the Utility will provide written notice to the customer detailing:

- A. The circumstances and time period of the billing error;
- B. The corrected bill amount and the amount of the necessary adjustment;
- C. The Commission’s consumer complaint process; and
- D. The right for a current or former customer to enter into a time-payment agreement with the Utility.

The Utility will not bill for services provided more than two years before the underbilling was discovered. No billing adjustment will be required if a meter registers less than two percent error under conditions of normal operation. The Utility may waive rebilling or issuing a refund check when the costs make such action uneconomical.

**Rule 25: Transfer Billings (OAR 860-036-1450)**

If the Utility determines that a customer owes an amount from a closed account the customer previously held with the Utility, the Utility may transfer the closed account balance to the customer’s current account.

The Utility will give the customer a separate, written notice of the transfer, including:

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- A. The amount due under the prior account;
- B. The time period when the balance was incurred; and
- C. The service address where the balance owing was incurred.

If the customer has a balance owing on an existing time-payment plan, the customer may enter into a new time-payment plan incorporating all amounts owing. The Utility may not transfer a balance owing on a non-residential account to a residential account.

**Rule 26: Partial Payment (OAR 860-036-1410)**

Partial payments or one payment for more than one service, absent written instructions from the customer, will be applied in the following order:

- A. Past due regulated tariff or statement of rates services;
- B. Currently due regulated tariff or statement of rates services;
- C. Non-regulated services.

## **DISCONNECTION OF WATER SERVICE**

**Rule 27: Voluntary Discontinuance (OAR 860-036-1560)**

A customer requesting disconnection of service must provide the Utility with at least seven calendar days' advance notice. The customer is responsible for all service provided for seven calendar days following the request for disconnection or until service is disconnected, whichever comes first; or if the customer identified a specific date for disconnection in excess of seven calendar days, the customer is responsible for service rendered up to and including the requested date of disconnection.

Rates are based on continuous service. Disconnect and reconnect transactions do not relieve a customer from the obligation to pay the base rate or minimum charge that accumulates during the period of time the service is voluntarily disconnected for up to 12 months. Should the customer wish to recommence service within 12 months at the same premise, the customer will be required to pay the accumulated minimum monthly charge or base rate as if service had been continuous. The reconnection charge listed on the Miscellaneous Service Charges Schedule will be applicable at the time of reconnection.

Nothing in this rule prevents the Utility from temporarily interrupting service to protect the health and safety of its customers or to maintain the integrity of its system.

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**Rule 28: Emergency Disconnection (OAR 860-036-1630)**

The Utility may terminate service in emergencies when life or property is endangered without following the procedures set forth in OAR 860-036-1630. If an unscheduled interruption of service is required, the Utility will make a reasonable effort to notify the customers affected and the Consumer Services Section in advance of the interruption, report the unscheduled interruption to the Consumer Services Section, and restore service as soon as possible after resolving the issue, unless other arrangements are agreed to by the affected customers. When the emergency termination was through no fault of the customer, the Utility shall not charge the customer for disconnection or restoration of service.

**Rule 29: Disconnection of Water Service Charge for Cause (OAR 860-036-1500, -1510, -1520, -1530, and 1550)**

The Utility may disconnect service when:

- A. A customer fails to pay charges due for services rendered under a water utility tariff or statement of rates;
- B. A customer fails to pay a deposit, fails to timely provide a surety under OAR 860 036-1230 or comply with its terms, or fails to comply with the terms of a deposit installment agreement under OAR 860-036-1240;
- C. A customer fails to comply by the terms of a payment agreement under OAR 860 036-1240(3) or 860-036-1420;
- D. A customer provides false identification to establish or to continue service;
- E. A customer has facilities that do not comply with the applicable codes, rules, regulations, or the best practices governing safe and adequate water service, including compliance with the water utility's Cross Connection Control Program;
- F. A customer fails to provide reasonable access to the meter or premises;
- G. A customer tampers with water utility facilities or engages in theft of service or unauthorized use of water;
- H. A customer fails to comply with water restriction requirements under OAR 860-036-1670; or
- I. The Commission approves the disconnection of service.

If the disconnection is due to failure to pay a deposit, secure a surety agreement, abide by a deposit installment agreement, abide by the terms of a payment arrangement, or due to the theft of service, tampering with utility property, diverting water, or unauthorized use of water, the Utility will provide one 7-day written disconnection notice prior to disconnection. For other

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disconnections, the Utility will provide two written notices in advance of disconnection: one 15-day notice and one 7-day notice.

If the disconnection is due to a customer’s failure to comply with a water use restriction imposed under OAR 860-036-1670, the utility may disconnect the customer without issuing either a 15-calendar day or 7 calendar day disconnection notice.

The notices shall:

- A. Include the name, mailing address, telephone number, emergency telephone number, and email address or website of the Utility,
- B. State that the customer’s water service is subject to disconnection on or after a specific date;
- C. Provide the grounds for the proposed disconnection;
- D. State what actions the customer must take in order to avoid disconnection; and
- E. Include a statement that the customer may dispute the disconnection by contacting the Commission’s Consumer Services Section.

If the disconnection notice is for nonpayment, the notice shall also:

- A. State the amount the customer must pay to avoid disconnection;
- B. Provide information about the customer’s eligibility for a time-payment agreement provided in OAR 860-036-1420 for residential customers, unless the customer is being disconnected for failing to comply with an existing time-payment agreement or has engaged in theft of service, tampering with utility property, diverting water, or unauthorized use of water; and
- C. Include a statement that once service is disconnected, the water utility will reconnect service only after the customer reapplies for service and pays all applicable charges.

The 7-calendar day and 15-calendar day advance written notices of disconnection will be hand-delivered in person to the customer or adult at the premises, or sent by the US Mail to the customer’s billing address and designated representative. Mailed notices are considered served two calendar days after deposited in the US Mail, excluding Sundays and postal holidays. If the customer has requested to receive notices electronically, the Utility will provide an electronic notice in addition to the written notices.

Within 48 hours of disconnection, the Utility will make a good-faith effort to contact the customer or an adult at the residence and provide notice of the proposed disconnection. The notice may be provided in person or by telephone. The water utility must keep records to document how

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and when contact was made or attempted. If the Utility is unable to make personal contact, the Utility will leave a notice in a conspicuous place informing the customer that service has been disconnected.

Disconnection of Water Service to Tenants:

- A. If the Utility's records show that a residential billing address is different from the service address, the Utility shall mail a duplicate notice to the service address, unless the Utility has verified that the service address is occupied by the customer.
- B. If the Utility's records show that the service location is a master-metered, multi-dwelling service address, the Utility shall provide a duplicate of the 7-calendar day disconnection notice to each unit at the service address. The disconnection notice must be addressed to "Tenant." The envelope must bear a bold notice stating, "IMPORTANT NOTICE REGARDING DISCONNECTION OF WATER UTILITY SERVICE." Tenant notices may not include the dollar amount owing.
- C. The Utility shall notify the Consumer Services Section at least seven calendar days before disconnecting service to a master-metered, multi-dwelling premise.

Time Payment Agreements (OAR 860-036-1420)

Customers who are notified of pending disconnection, due to reasons other than theft of service, tampering, unauthorized use of water, or failure to abide by the terms of a Time Payment Plan, may choose between two Time Payment Agreement options. The Utility will offer such customers a choice of a levelized-payment plan and an equal-pay arrearage plan. The Utility and the customer may mutually agree to an alternate payment arrangement provided it be in writing and signed by all parties.

Disconnection for Failure to Comply With a Time Payment Agreement (OAR 860-036-1510(4)(b))

A time-payment agreement disconnection occurs when a customer fails to comply with the terms of a written time-payment agreement between the customer and the Utility, or the time-payment agreement charge becomes delinquent. The Utility will give the customer a 7- day written notice before the water service may be disconnected.

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**Rule 30: Disconnection, Reconnection and Field Visit Charge (OAR 860-036-1580)**

**Disconnection and Reconnection Charges**

If service is disconnected pursuant to OAR 860-036-1500, the Utility may assess and require payment of the disconnect fee and reconnect fee stated in its tariff prior to reconnecting service.

**Field Visit Charge**

The Utility may assess a field visit charge whenever the Utility visits a residential service address intending to reconnect or disconnect service, but due to customer action, is unable to complete the reconnection or disconnection at the time of the visit. The field visit charge is listed in the tariff.

**Rule 31: Unauthorized Restoration of Service (OAR 860-036-1590)**

After water service has been disconnected or shut off at the curb stop or at the meter, if any person not authorized by the Utility should turn it on, the water service line may be disconnected without notice as provided by OAR 860-036-1510.

**Rule 32: Unauthorized Use (OAR 860-036-1590)**

No person shall be allowed to make connection to the Utility mains, or to make any alteration to service connections, or to turn a curb stop off or on to any premises without written permission of the Utility. If the Utility discovers that a customer damaged, tampered with, or engaged in unauthorized use of utility property facilities, the Utility shall notify the customer of the violations and may take one or more of the following actions:

- A. Repair or restore the facilities and charge the customer the costs incurred;
- B. Adjust the customer’s prior billing for loss of revenue under applicable tariffs or schedule of rates;
- C. Initiate a service disconnection as provided by OAR 860-036-1510;
- D. Require a new application for service that accurately reflects the customer’s proposed water use; and
- E. Assess a deposit for restored or continued service.

**Rule 33: Interruption of Service (OAR 860-036-1630, -1640)**

The Utility may perform an unscheduled interruption of service as necessary to protect the health and safety of its customers or to maintain the integrity of its system. If an unscheduled interruption of service is required, the water utility must:

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Signature			
Name & title	Craig Gott, President		

- A. Make a reasonable effort to notify the customers affected and the Consumer Services Section in advance of the interruption;
- B. Report the unscheduled interruption to the Consumer Services Section at the contact information provided in OAR 860-001-0020(2), and
- C. Restore service as soon as it is reasonably possible after resolving the issue, unless other arrangements are agreed to by the affected customers.

The Utility may schedule water service interruptions for maintenance and repairs in such a manner that reasonably minimizes customer inconvenience. The Utility will provide advance written notice to all customers affected by any scheduled service interruption, and will post the notice in the utility's office and on its website, if available. The notice will include:

- A. The name, mailing address, telephone number, emergency telephone number, and email address or website of the Utility;
- B. The date, time, and estimated duration of the scheduled interruption;
- C. The purpose of the interruption;
- D. A statement cautioning customers to avoid using water during service interruptions to prevent debris in the customers' service lines; and
- E. The contact information for the Consumer Services Section provided in OAR 860 001-0020(2).

Notices of scheduled interruptions of service must be served by a door hanger or personal delivery to an adult at the affected premises at least five calendar days in advance of the service interruption or by US Mail at least ten calendar days prior to the service interruption. In addition electronic notice must be provided to customers who requested to receive notices electronically.

The Utility will keep a record of all scheduled service interruptions including time, duration, and cause of the scheduled service interruption.

**Rule 34: Water Usage Restrictions (OAR 860-036-1670)**

The Utility shall exercise due diligence to furnish a continuous and adequate supply of water to its customers. During times of water shortage, the Utility will equitably apportion its available water supply among its customers with regard to public health and safety. In times of water shortages, the Utility may restrict water usage after providing written notice to its customers and the Consumer Services Section. Notice will also be posted in the Utility's office and on its website, if available. The notification must state the reason and nature of the restrictions, the

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date restrictions will become effective, the estimated date the restrictions end, and that failure to comply with the restrictions is grounds for disconnection.

If a customer fails to comply with the water restrictions after receiving written notification, the Utility will provide a separate written warning letter to the customer including:

- A. The date;
- B. The name, mailing address, telephone number, emergency telephone number, and email address or website of the Utility;
- C. The customer’s name, account number, mailing address, service address if different;
- D. The water use restrictions and statement of how the customer is violating those restrictions;
- E. A statement that the customer’s water service is subject to disconnection on or after a specific date;
- F. A warning to the customer that failure to immediately comply with the restrictions may result in disconnection of service; and
- G. A statement that the customer may dispute disconnection by contacting the Consumer Services Section. The notice must include the Consumer Services Section’s contact information provided in OAR 860-001-0020(2).

If a customer fails to comply with the water restrictions after receiving written notification and the warning letter, the Utility will consult with the Consumer Services Section to determine if disconnection is appropriate.

### SERVICE QUALITY

**Rule 35: Adequacy of Water Service (OAR 860-036-1600)**

The Utility will maintain its facilities according to industry rules, regulations, and standards and in such condition to provide safe, adequate, and continuous service to its customers.

The Utility will not intentionally diminish the quality of service below the level that can reasonably be provided by its facilities.

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Signature			
Name & title	Craig Gott, President		

**Rule 36: Trouble Call**

The trouble-call charge listed on the Miscellaneous Service Charges Schedule may be billed whenever a customer requests that the Utility visit the customer’s premises to remedy a service problem and the problem is due to the customer’s facilities.

**Rule 37: Water Purity (OAR 860-036-1610)**

The Utility will provide a domestic water supply that is free from bodily injurious physical elements and disease-producing bacteria and reasonably free from elements that cause physical damage to customer property, including but not limited to pipes, valves, appliances, and personal property.

**Rule 38: Water Pressure (OAR 860-036-1650)**

The Utility will maintain adequate water pressure. In general, water pressure measuring between 45 and 80 pounds per square inch in the water mains is considered adequate. However, adequate pressure may vary depending on each individual water system.

The Utility may temporarily reduce or increase water pressure for fire flows, noticed repairs and maintenance, scheduled or emergency flushing, and unscheduled or emergency repairs and outages.

**Rule 39: Pressure Surveys (OAR 860-036-1650)**

The Utility will maintain permanent pressure recording gauges at various locations to measure the system's water pressure, and will have a portable gauge to measure water pressure in any part of the system. The Utility will maintain all pressure gauges in good operating condition, test periodically for accuracy, and recalibrate or replace when necessary.

**Rule 40: Customer-Requested Pressure Test (OAR 860-036-1660)**

Upon customer request, the Utility will perform a water pressure test within seven calendar days of the request. The first pressure test in any 12- month period will be at no charge. If the customer requests an additional pressure test within any 12-month period at the same premises, the Utility will assess the customer a charge in accordance with the Utility’s Miscellaneous Service Charges. The pressure will be measured at a point adjacent to the meter on the customer service line or other reasonable point most likely to reflect the actual service pressure.

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Signature			
Name & title	Craig Gott, President		

A customer or a designated representative has the right to be present at the pressure test and the test must be conducted at a mutually acceptable time.

The Utility will provide a written report to the customer within seven calendar days of the pressure test. The report will include:

- A. The name, mailing address, telephone number, emergency telephone number, and email address or website of the Utility;
- B. The customer’s name and service address where the pressure was tested;
- C. The date the pressure test was requested and the date the pressure test was performed;
- D. The name of the company or employee performing the test;
- E. The place where the pressure was measured;
- F. The actual pressure reading; and
- G. The conclusion based on the test result.

**Rule 41: Utility Line Location (One Call Program)**

The Utility and its customers will comply with the requirements of OAR 952-001-0010 through and including OAR 952-001-0090 (One Call Program) regarding identification and notification of underground facilities.

**Rule 42: Cross Connection/Backflow Prevention Program (OAR 860-036-1680)**

All customers must comply with the Utility’s Cross Connection Control Program to protect the water system from contamination. A customer's failure to comply is grounds for disconnection under OAR 860-036-1500.

The Utility will comply with the rules and regulations for the Cross Connection/Backflow Prevention Program, as provided in ORS Chapter 333 and the Utility’s approved Backflow Prevention tariff or statement of rates.

**Rule 43: Maps and Records (OAR 860-036-1690)**

The Utility will prepare and retain current maps and records of the entire plant showing size, location, character, and date of installation of major plant items, including but not limited to pumps, reservoirs, main lines, distribution lines, and valves.

Issue Date / Filing Date	Sept 30, 2020	Effective for Service on or after	Oct 30, 2020
Issued By Utility	Oregon Water Utilities – Mountain Lakes, Inc.		
Signature			
Name & title	Craig Gott, President		

Exhibit OWU/104  
Commission-Requested Information

**PLEASE RETURN THIS AS PAGE 1 OF THE COMPLETED APPLICATION**

**PLEASE FILL IN ALL BLANKS**

TO: PUBLIC UTILITY COMMISSION OF OREGON  
PO BOX 1088  
SALEM OR 97308-1088

FROM: Oregon Water Utilities – Mountain Lakes, Inc.  
5391 Running Y Road  
Klamath Falls, OR 97601

**BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

In the Matter of Tariffs for Water Service )  
in the State of Oregon filed by ) BRIEF  
Oregon Water Utilities-Mountain Lakes, Inc. )  
(Company name) )  
Northwest Utility Systems, Inc.

(Name of utility owner)

In accordance with Oregon Revised Statutes 757.205 and 757.220, herewith files tariff sheets designated as PUC Oregon No. 5, Original Tariff Sheets No. 1 through 8 to become effective for service rendered on and after October 30, 2020 (at least 30 days after PUC receives the filing). The purpose of this filing is to:

- 1)  Establish rates resulting in total annual revenues of \$\_\_\_\_\_.
- 2) request an  increase or  decrease to the utility’s total annual revenues from \$580,211 to \$766,449, resulting in a net increase/decrease of \$186,238 or 32.10 percent. After deducting for operating expenses, the projected revenues will produce a 7.29 percent return on a rate base of \$3,156,213.

The attached testimony summarizes the utility’s financial operations, the effects of current rates on the individual classes of customers, and the effects of the proposed rates on the individual classes of customers for the 12-month test period ending on December 31, 2018.

/s/ Craig Gott  
(Signature of utility owner or officer)

Sept 30, 2020  
(Date)

Craig Gott  
(Printed name of owner or officer)

President  
(Title or position)

Oregon Water Utilities – Mountain Lakes, Inc.  
(Legal name of Utility)

Attachment



## WATER UTILITY TESTIMONY

**1. Q. PROVIDE THE FOLLOWING INFORMATION REGARDING THE WATER UTILITY:**

A.

Legal Name	Oregon Water Utilities – Mountain Lakes, Inc.		
Business Address	5391 Running Y Rd		
City, State, Zip	Klamath Falls, OR 97601		
Telephone Number	(541) 850-5566	Emergency Number	(541) 850-5566
Fax Number	(626) 331-4848	Email Address	swwc.com

**2. Q. PROVIDE THE FOLLOWING INFORMATION IF DIFFERENT FROM QUESTION #1.**

A. N/A

Name			
Title			
Address			
City, State, Zip			
Telephone Number		Emergency Number	
Fax Number		Email Address	

**3. Q. PROVIDE THE FOLLOWING INFORMATION REGARDING THE SYSTEM OPERATOR.**

A.

Operator Name	C. Mackay Burcher, Field Superintendent		
Address	5391 Running Y Rd		
City, State, Zip	Klamath Falls, OR 97601		
Telephone #	(541) 850-5566	E-Mail Address	<a href="mailto:cburcher@swwc.com">cburcher@swwc.com</a>
Certified Operator <input checked="" type="checkbox"/> yes <input type="checkbox"/> no	Certification Levels: (1) Water Distribution Level 2, (2) Wastewater Collection C/II, (3) Cross Connection Specialist/Backflow Assembly Tester, (4) Contractor’s License		Registration Number: (1) D-8100, (2) 13769, (3) #4643, (4) 215888

**4. Q. PROVIDE THE FOLLOWING INFORMATION REGARDING THE WATER UTILITY ACCOUNTANT OR BOOKKEEPER.**

A. The utility’s  accountant or  bookkeeper is: OWU-ML uses affiliate services for accounting and bookkeeping services according to its authorized management services agreement.

**5. Q. PROVIDE THE NAME, ADDRESS, AND TELEPHONE NUMBERS OF ALL THE UTILITY OWNERS.**

A. The utility owners are: Please see Direct Testimony of Mujeeb Hafeez.

**6. Q. PLEASE LIST ALL UTILITY OFFICERS AND PROVIDE THE FOLLOWING INFORMATION.**

A. The utility officers are: Please see Direct Testimony of Mujeeb Hafeez for information regarding the corporate executive function, associated costs, and allocations.

**7. Q. WHAT IS YOUR AFFILIATION WITH THE WATER UTILITY? DESCRIBE YOUR CURRENT WATER UTILITY RESPONSIBILITIES.**

A. My affiliation with the water utility and current responsibilities are: Please see Direct Testimony of Brian Bahr.

**8. Q. ARE YOU ENGAGED IN OTHER BUSINESS IN ADDITION TO THE WATER UTILITY?**

A.  No, I am not engaged in other business.  
 Yes, I am engaged in other business, they are

**9. Q. DID YOU PREPARE THE EXHIBITS IN THIS TESTIMONY OR WERE THEY PREPARED UNDER YOUR SUPERVISION?**

Yes, the exhibits in this testimony were prepared by me or under my supervision.  
 No, I did not prepare the exhibits in this testimony. The exhibits were prepared by:

Name	Brian Bahr
Address	1325 N. Grand Ave, Ste 100
City, State, Zip	Covina, CA 91724
Telephone Number	(626) 543-2552
E-Mail Address	bbahr@swwc.com

**SUMMARY OF THE UTILITY’S PROPOSED RATE REQUEST**

**10. Q. WHAT CHANGE IN ANNUAL REVENUES IS THE UTILITY SEEKING?**

A. The utility’s most recent calendar year revenues are \$580,211. The utility seeks a rate:  
 An increase of \$211,792 or 36.50 percent in current annual revenues, resulting in total annual revenues of \$792,003.  
 A decrease of \$ \_\_\_\_\_ or \_\_\_\_\_ percent in current annual revenues, resulting in total annual revenues of \$ \_\_\_\_\_.

**11. Q. SUMMARIZE WHY THE UTILITY IS SEEKING THE PROPOSED CHANGE IN RATES.**

A. The utility is seeking this change in rates because of cost increases since rates were last approved based on a 2007 test year, to establish a power cost automatic adjustment clause, to establish a fair and reasonable return on rate base, and because it is required by Commission Order No. 20-104.

**12. Q. WHAT HISTORICAL 12-MONTH PERIOD IS THE UTILITY SELECTING AS ITS TEST YEAR FOR THIS RATE PROCEEDING?**

A. The test period the utility selected is January 1, 2019 to December 31, 2019.

**13. Q. WHAT IS THE UTILITY’S AMOUNT OF RATE BASE? (Rate base is Utility Plant minus accumulated depreciation and other contra plant accounts, plus working cash and materials inventory)**

A. The utility rate base is \$3,436,276.

**14. Q. WHAT IS THE RATE OF RETURN THE UTILITY IS PROPOSING IN THIS RATE PROCEEDING AND WHY?**

- A. The utility is seeking a 7.29 percent rate of return on a rate base. Please see Direct Testimony of Brian Bahr for details.

**GENERAL UTILITY INFORMATION**

**15. Q. IN WHAT YEAR WAS THE UTILITY ORGANIZED AND HOW WAS IT FORMED?**

- A. The water utility was legally organized on May 9, 2017, under the laws of the State of Oregon as a:

Proprietorship    Partnership    Corporation    LLC    Other: \_\_\_\_\_

**16. Q. WHAT YEAR WAS THE WATER SYSTEM ORIGINALLY CONSTRUCTED AND WHEN (MONTH/YEAR) DID IT BEGIN PROVIDING WATER SERVICE.**

- A. The system was originally constructed in 1996 and began providing service in 1998.

**17. Q. HOW AND WHEN WAS THE UTILITY ACQUIRED BY ITS CURRENT OWNER?**

- A. The utility was:  Purchased    Constructed    Inherited    Other on June 2, 2017 (mo./yr.).

**18. Q. DO ORAL OR WRITTEN CONTRACTS EXIST BETWEEN THE UTILITY AND PERSONS AFFILIATED WITH THE COMPANY? IF YES, PLEASE PROVIDE COPIES OF EACH CONTRACT.**

- A.  No, oral or written contracts exist between the utility and its owners and affiliated interests.
- Yes, PUC approved contracts exist between the utility and its owners and affiliated interests. Approval found in PUC Order No. 19-429.
- Yes, oral or written contracts do exist, but have not been approved by PUC

**19. Q. DOES THE UTILITY HAVE A PUC APPROVED SERVICE TERRITORY?**

- A.  No, the utility has not filed an application with PUC for an approved service territory.
- Yes, the utility's service territory is approved by the PUC, per Order No. 02-884 and Order No. 01-302 (transferred to OWU-ML through Order No. 20-104).

**20. Q. IS THE UTILITY AN AFFILIATE OF A PARENT CORPORATION OR HOLDING COMPANY?**

- A.  No, the utility is not a subsidiary of a parent corporation or holding company.
- Yes, the utility is a subsidiary of a parent corporation or holding company.
- Attached are the parent/holding company's balance sheet/income statements for the last calendar year.

**21. Q. HOW MANY FULL OR PART-TIME EMPLOYEES DOES THE UTILITY CURRENTLY EMPLOY?**

- A. The utility currently employs no full-time and no part-time employees but relies on a shared services model.

**22. Q. PROVIDE INFORMATION FOR ALL EMPLOYEES.** (If a position is currently vacant but will be filled within a year, include information for that position.)

A. Please see CONFIDENTIAL Exhibit OWU/105.

**23. Q. IS THE UTILITY PROPOSING TO ADD ANY FULL OR PART TIME EMPLOYEES WITHIN THE CONTEXT OF THIS RATE FILING OR DURING THE NEXT YEAR?**

A.  **No**, the utility does not propose adding any full- or part-time employees.  
 **Yes**, the utility proposes to add \_\_\_\_\_ full-time and/or \_\_\_\_\_ part-time employees as described below:

**24. Q. PLEASE IDENTIFY ANY INDEPENDENT CONTRACTORS THE UTILITY HIRES.**

A.  **No**, the utility does not contract for any services.  
 **Yes**, the utility contracts for the following services: OWU-CB primarily relies on shared services provided by its affiliate Suburban Water Systems for the services listed below.

Name of Independent Contractors	Description of Services	Annual Charges
Engineering		\$
Accounting		\$
Legal		\$
Management		\$
Water Testing /Sampling		\$
Labor		\$
Billing and Collection		\$
Meter Reading		\$
Other (specify)		\$

**25. Q. PLEASE PROVIDE THE UTILITY’S CURRENT CAPITAL STRUCTURE.**

A. OWU-ML’s requested hypothetical capital structure is:

Debt	Original Balance	Outstanding Balance	Capital Structure	Cost	Weighted Cost
TOTAL DEBT	\$	\$	50%	4.57%	2.29%
TOTAL EQUITY	\$	\$	50%	10.00%	5.00%
					7.29%

**OPERATING REVENUES**

**26. Q. IN COLUMN A PROVIDE UTILITY’S HISTORICAL TEST YEAR ACTUAL REVENUE. IN COLUMN B PROVIDE THE PROPOSED ADJUSTMENTS (INCREASE OR DECREASE). IN COLUMN C PROVIDE THE TOTAL OF COLUMN A AND B.**

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**27. Q. PLEASE PROVIDE LINE ITEM REVENUES FOR OTHER THAN WATER SALES.**

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**OPERATING EXPENSES**

**28. Q. IN COLUMN A: ACTUAL ANNUAL EXPENSE FOR TEST YEAR. IN COLUMN B: PROPOSED ADJUSTMENTS (INCREASE OR DECREASE) FOR THE COMING YEAR. IN COLUMN C: PROVIDE THE TOTAL OF COLUMN A PLUS COLUMN B.**

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**29. Q PROVIDE LINE ITEMS COMPONENTS OF MISCELLANEOUS EXPENSE.**

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**UTILITY CURRENT RATES AND SCHEDULES**

**30. Q. PLEASE DESCRIBE THE UTILITY'S CURRENT RATES.**

A. The utility's current rate structure is described below:

**CURRENT RATES FOR RESIDENTIAL SERVICE**

Line or Meter Size	Check One	Monthly Base or Flat Rate	Residential Consumption Included in Base Rate	Current Residential Monthly Commodity/Usage Rate
3/4" or 5/8"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$33.00	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal Up to: 25,000 gal Above: 25,000 gal

**CURRENT RATES FOR COMMERCIAL/INDUSTRIAL SERVICE**

Line or Meter Size	Check One	Monthly Base or Flat Rate	Commercial Consumption Included in Base Rate	Current Commercial Monthly Commodity/Usage Rate
3/4" or 5/8"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$33.00	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal <b>Up to:</b> 25,000 gal <b>Above:</b> 25,000 gal
1"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$82.50	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal <b>Up to:</b> 25,000 gal <b>Above:</b> 25,000 gal
1 1/2"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$165.00	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal <b>Up to:</b> 25,000 gal <b>Above:</b> 25,000 gal
2"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$264.00	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal <b>Up to:</b> 25,000 gal <b>Above:</b> 25,000 gal
3"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$495.00	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	Tier 1 - \$1.542 Per 1000 gal Tier 2 - \$1.992 Per 1000 gal <b>Up to:</b> 25,000 gal <b>Above:</b> 25,000 gal

**CURRENT RATES FOR IRRIGATION (NON-GOLF COURSE) SERVICE**

Line or Meter Size	Check One	Monthly Base or Flat Rate	Irrigation Consumption Included in Base Rate	Current Irrigation Monthly Commodity/Usage Rate
3/4" or 5/8"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$19.80	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	\$0.602 Per 1000 gal
1"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$37.95	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	\$0.602 Per 1000 gal
1 1/2"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$43.56	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	\$0.602 Per 1000 gal
2"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$85.80	none <input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	\$0.602 Per 1000 gal

**CURRENT RATES FOR GOLF COURSE SERVICE**

Line or Meter Size	Check One	Monthly Base or Flat Rate	Irrigation Consumption Included in Base Rate		Current Irrigation Monthly Commodity/Usage Rate
12"	<input checked="" type="checkbox"/> M <input type="checkbox"/> F	\$3,951.55	none	<input type="checkbox"/> CF <input checked="" type="checkbox"/> Gal	\$0.2235 Per 1000 gal

**31. Q. PLEASE PROVIDE THE FOLLOWING FOR EACH CUSTOMER CLASS FOR THE MOST RECENT COMPLETED CALENDAR YEAR OF 2019.**

*(Count each dwelling unit, such as each mobile home, each side of the duplex, each condominium as a customer.)*

- A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**UTILITY PROPOSED RATES AND SCHEDULES**

**32. Q. PLEASE DESCRIBE THE RATE STRUCTURE THE UTILITY IS PROPOSING IN THIS RATE PROCEEDING?**

- A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**33. Q. IF THE UTILITY’S RATE PROPOSAL WERE ADOPTED, PROVIDE THE FOLLOWING FOR EACH CUSTOMER CLASS AT THE SPECIFIED METER OR LINE SIZE.**

- A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**UTILITY PLANT**

**34. Q. HAS THE UTILITY MADE ANY CAPITAL IMPROVEMENTS, ADDITIONS, OR EXTENSIONS TO ITS WATER SYSTEM DURING THE LAST FIVE (5) YEARS OR SINCE ITS LAST RATE CASE?**

- A.  **No**, the utility has made no improvements, additions, or extensions to its water system in the last five (5) years or since its last rate case.
- Yes**, the utility has made the following improvements, additions, or extensions to its water system in the last five (5) years or since its last rate case as detailed below: Please see the direct testimony of Brian Bahr for a description of recent major capital projects.

**35. Q. DOES THE UTILITY PROPOSE ANY CAPITAL IMPROVEMENT, ADDITIONS, OR EXTENSIONS TO ITS WATER SYSTEM WITHIN THE NEXT 12 MONTHS?**

- A.  **No**, the utility does not propose any improvements, additions, or extensions to system plant in the next six months.
- Yes**, the utility proposes the following improvements, additions, or extensions to system plant in the next six months. However, OWU-ML is requesting rate base only as of the end of the test year and not extending beyond the historical test year.

**36. Q. HAS THE UTILITY APPLIED FOR FUNDS FROM THE SAFE DRINKING WATER STATE REVOLVING FUND TO IMPROVE THE WATER SYSTEM? IF YES, DESCRIBE THE IMPROVEMENTS AND AMOUNT REQUESTED.**

- A.  **No**, the utility has not applied for funds from the Safe Drinking Water State Revolving Fund.
- Yes**, the utility has applied for funds from the Safe Drinking Water State Revolving Fund.

**37. Q. PROVIDE THE FOLLOWING INFORMATION ON UTILITY PLANT IN SERVICE.**

You may attach a plan/depreciation schedule if available. In a separate schedule include all plant or cash donated or contributed to the utility by a developer or by customers that is not intended to be repaid.

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**38. Q. IN COLUMN A: PROVIDE ACTUAL PLANT TOTAL FOR TEST YEAR. IN COLUMN B: PROVIDE THE PROPOSED ADJUSTMENTS (INCREASE OR DECREASE) FOR THE COMING YEAR. IN COLUMN C PROVIDE THE TOTAL OF COLUMN A PLUS COLUMN B.**

A. Please see Revenue Requirement Model provided as Exhibit OWU/101.

**39. Q. DOES THE UTILITY HAVE A MASTER METER AT ITS WATER SUPPLY SOURCE? IF SO, PROVIDE THE TOTAL AMOUNT OF WATER PUMPED DURING THE LAST CALENDAR YEAR.**

A.  No, the utility does not have a master meter at its water supply source.

Yes, the utility has a meter at each of its wells. The total amount of water pumped during the last calendar year was 225,700,700  gallons or  cubic feet.

**40. Q. DOES THE UTILITY HAVE WATER RIGHT PERMITS OR CERTIFICATED WATER RIGHTS AS REQUIRED BY THE OREGON WATER RESOURCES DEPARTMENT?**

A. Water Right Information: Please see Attachment OWU/106.

**41. Q. PLEASE DESCRIBE THE UTILITY’S SOURCE OF WATER SUPPLY.**

A. The utility’s source of ground water supply is:

Well logs are attached.

**42. Q. PLEASE DESCRIBE THE UTILITY’S PUMPING SYSTEM FOR DISTRIBUTION, INCLUDING THE RANGE OF PRESSURE AT WHICH THE WATER IS PUMPED INTO THE DISTRIBUTION SYSTEM AND DELIVERED TO THE CUSTOMERS.**

A. Pumping System: \_\_\_\_\_.

Pump Type & Pump HP	Ave Daily Demand	Annual Peak Demand	Max Pumping Capacity	Pressure at Pump	Pressure at Customers’ Property
1-15hp & 3-75hp	191,120	70,000,000	2,200 gpm	82	40-120
1-7.5hp, 3-50hp, & 2-125hp	16,000	6,000,000		132	80

**43. Q. PLEASE PROVIDE THE INFORMATION REGARDING THE UTILITY’S WATER STORAGE CAPACITY BELOW.**

A.

<p><b>STORAGE TANKS/RESERVOIRS</b> IDENTIFY EACH SEPARATELY</p>
---

NAME OR IDENTIFYING NUMBER	DESCRIPTION I.E.: STEEL, CONCRETE PNEUMATIC	TANK CAPACITY	GROUND OR ELEVATED	DATE INSTALLED	PRESENT CONDITION
RUNNING Y RESERVOIR	STEEL BOLTED	425,000	GROUND	1996	POOR
RIDGEWATER RESERVOIR	STEEL BOLTED	450,000	GROUND	2006	FAIR
SOUTHVIEW RESERVOIR	STEEL BOLTED	550,000	GROUND	2002	GOOD
PINECREST RESERVOIR	WOOD	150,000	GROUND	1977	POOR

**44. Q. PLEASE FILL IN THE INFORMATION REGARDING THE UTILITY’S WATER TREATMENT FACILITIES BELOW.**

A.

WATER TREATMENT FACILITIES				
NAME OR IDENTIFYING NO.	TYPE	MAKE	GALLONS PER DAY CAPACITY	METHOD OF MEASUREMENT
NONE				

**45. Q. IS THE UTILITY ESTABLISHING NEW RULES OR PROPOSING CHANGES TO ITS CURRENT RULES?**

- A.  The utility is proposing to establish new rules.  
 The utility is not proposing any rule changes.  
 The Utility is proposing to change the following rules (include rule number and a summary of the proposed changes.

**SERVICE QUALITY**

**46. Q. PLEASE DESCRIBE THE TYPE AND NUMBER OF SERVICE PROBLEMS AND CUSTOMER COMPLAINTS THE UTILITY HAS EXPERIENCED IN THE LAST YEAR. DESCRIBE ANY ACTION TAKEN BY THE UTILITY TO RESOLVE THE PROBLEMS.**

- A.  No, the Utility has not experienced any service problems or customer complaints in the last year.  
 Yes, during the 2019 test year, OWU-ML received two customer complaints, one of which regarded low pressure and the other one regarded no water; both complaints were addressed expeditiously.

**47. Q. DOES THE UTILITY HAVE ANY CURRENT SERVICE PROBLEMS THAT IT PROPOSES TO CORRECT OR IMPROVE IN THE NEXT CALENDAR YEAR?**

- A.  No, the utility does not have any service problems that it proposes to correct/improve during the next calendar year.  
 Yes, the utility has service problems that it proposes to correct or improve during the next calendar year as described below:

**50. Q. DOES THE UTILITY HAVE ANY FIRE HYDRANTS? IF YES, PLEASE LIST HOW MANY, HOW MANY FEET APART ARE THEY, AND THE UTILITY’S HYDRANT**



**MAINTENANCE SCHEDULE (INCLUDING EXERCISING VALVES). WHAT IS THE UTILITY'S FIRE INSURANCE RATING?**

- A.  **No**, the utility does not have any fire hydrants.  
 **Yes**, the utility does have fire hydrants. There are 259 hydrants located 300 feet apart. The utility's fire insurance rating is \_\_\_\_\_.

**51. Q. IS THE UTILITY CURRENT WITH ALL OF THE OREGON DEPARTMENT OF HUMAN SERVICES DRINKING WATER PROGRAM (DWP) REQUIREMENTS? IF NOT, PLEASE DESCRIBE THE REQUIREMENTS THE UTILITY HAS NOT COMPLIED WITH.**

- A.  **Yes**, the utility is current in all its DWP requirements.  
 **No**, the utility is not current all its DWP requirements. It has not complied with \_\_\_\_\_

**52. Q. IF YOU HAVE FEWER THAN 200 TOTAL CUSTOMERS, PLEASE ATTACH A CURRENT AND COMPLETE CUSTOMER MAILING LIST. INCLUDE EACH CUSTOMER'S NAME AND MAILING ADDRESS.**

- A.  I have over 200 customers.  
 I have fewer than 200 customers and have attached a customer mailing list.

**53. Q. WOULD YOU LIKE TO TESTIFY REGARDING OTHER ISSUES?**

- A.  **No**.  
 **Yes**, I would like to testify additionally regarding the following:  
Attach pages with additional testimony.

**54. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

- A. Yes.

CONFIDENTIAL Exhibit OWU/105

Employee Information

CONFIDENTIAL

Exhibit OWU/106  
Water Permits and Well Logs



**Oregon**  
Kate Brown, Governor

OWU/106, Bahr/1

**Water Resources Department**  
725 Summer St NE, Suite A  
Salem, OR 97301  
(503) 986-0900  
Fax (503) 986-0904

**DATE MAILED: DECEMBER 22, 2017**

**NOTICE OF CERTIFICATE ISSUANCE**

The attached certificate confirms the water right established under the terms of a permit issued by this Department. The water right is now appurtenant to the specific place where the use was established as described by the certificate. The water right is limited to a specific amount of water, but not more than can be beneficially used for the purposes stated within the certificate.

The certificate is a final order in other than a contested case. This order is subject to judicial review under ORS 183.484 and ORS 536.075. Any petition for judicial review must be filed within the 60-day time period specified by ORS 183.484(2). Pursuant to ORS 183.484, ORS 536.075 and OAR 137-004-0080, you may petition for judicial review and petition the Director for reconsideration of this order. A petition for reconsideration may be granted or denied by the Director, and if no action is taken within 60 days following the date the petition was filed, the petition shall be deemed denied. In addition, under ORS 537.260 any person with an application, permit or water right certificate subsequent in priority may jointly or severally contest the issuance of the certificate within three months after issuance of the certificate.

Oregon law does not allow the Director to reissue a certificate because of a change in the ownership of the appurtenant place of use. The water must be controlled and not wasted. To change the location of the point of diversion, the character of use, or the location of use requires the advance approval of the Water Resources Director.

If any portion of this water right is not used for five or more consecutive years that portion of the right may be subject to forfeiture according to ORS 540.610. Land enrolled in a Federal Reserve Program is not subject to forfeiture during the period of enrollment. Other exceptions to forfeiture are explained in ORS 540.610.

If you have any questions please contact Kerry Kavanagh at 503-986-0927.

STATE OF OREGON  
 COUNTY OF KLAMATH  
 CERTIFICATE OF WATER RIGHT

THIS CERTIFICATE ISSUED TO

OREGON WATER UTILITIES – MOUNTAIN LAKES INC.  
 5115 RUNNING Y RD  
 KLAMATH FALLS OR 97601

confirms the right to the use of water perfected under the terms of Permit G-12296. The amount of water used to which this right is entitled is limited to the amount used beneficially, and shall not exceed the amount specified, or its equivalent in the case of rotation, measured at the point of diversion from the source. The specific limits and conditions of the use are listed below.

APPLICATION FILE NUMBER: G-13980

SOURCE OF WATER: FOUR WELLS IN KLAMATH RIVER BASIN

PURPOSE OR USE: QUASI-MUNICIPAL

MAXIMUM RATE: 3.0 CUBIC FEET PER SECOND (CFS), FURTHER LIMITED TO 2.01 CFS FROM WELL 1, 0.56 CFS FROM WELL 2, 1.36 CFS FROM WELL 3, AND 1.89 CFS FROM RIDGEWATER WELL 1, MAXIMUM CUMULATIVE TOTAL NOT TO EXCEED 3.0 CFS

PERIOD OF USE: YEAR ROUND

DATE OF PRIORITY: FEBRUARY 9, 1995

The wells are located as follows:

Twp	Rng	Mer	Sec	Q-Q	Measured Distances
38 S	8 E	WM	9	NE SW	WELL 1 (ORIGINAL) - 2050 FEET NORTH AND 1980 FEET EAST FROM SW CORNER, SECTION 9
38 S	8 E	WM	9	SE SW	WELL 2 (ORIGINAL) - 790 FEET NORTH AND 2340 FEET EAST FROM SW CORNER, SECTION 9
38 S	8 E	WM	15	NW NW	WELL 3 (ORIGINAL) - 1279 FEET SOUTH AND 986 FEET EAST FROM NW CORNER, SECTION 15
38 S	8 E	WM	26	SW SE	RIDGEWATER WELL 1 (NEW) - 685 FEET NORTH AND 1475 FEET WEST FROM SE CORNER, SECTION 26

**NOTICE OF RIGHT TO PETITION FOR RECONSIDERATION OR JUDICIAL REVIEW**

This is an order in other than a contested case. This order is subject to judicial review under ORS 183.484 and ORS 536.075. Any petition for judicial review must be filed within the 60-day time period specified by ORS 183.484(2). Pursuant to ORS 183.484, ORS 536.075 and OAR 137-004-0080, you may petition for judicial review and petition the Director for reconsideration of this order. A petition for reconsideration may be granted or denied by the Director, and if no action is taken within 60 days following the date the petition was filed, the petition shall be deemed denied. In addition, under ORS 537.260 any person with an application, permit or water right certificate subsequent in priority may jointly or severally contest the issuance of the certificate within three months after issuance of the certificate.

- B. The water user shall allow the watermaster access to the meter or measuring device; provided however, where the meter or measuring device is located within a private structure, the watermaster shall request access upon reasonable notice.

Use of water under authority of this right may be regulated if analysis of data available after the right is issued discloses that the appropriation will measurably reduce the surface water flows necessary to maintain the free-flowing character of a scenic waterway in quantities necessary for recreation, fish and wildlife in effect as of the priority date of the right or as those quantities may be subsequently reduced.

The water user shall monitor and report the impact of water use under this right in accordance with the approved water level monitoring plan on file with the Department. The reference levels against which any future measurements will be compared are 55.0 feet below ground surface for Well 1, 50.5 feet below ground surface for Well 2, and 295.0 feet below land surface for Well 3.

If any well listed on this right (or replacement well) displays a total static water-level decline of 25 or more feet over any period of years, as compared to the reference level, then the water user shall discontinue use of, or reduce the rate or volume of withdrawal from, the well(s). Such action shall be taken until the water level recovers to above the 25-foot decline level or until the Department determines, based on the water user's and/or the Department's data and analysis, that no action is necessary because the aquifer in question can sustain the observed declines without adversely impacting the resource or senior water rights. The water user shall in no instance allow excessive decline, as defined in Commission rules, to occur within the aquifer as a result of use under this right.

The wells shall be maintained in accordance with the General Standards for the Construction and Maintenance of Water Wells in Oregon. The works shall be equipped with a usable access port, and may also include an air line and pressure gauge adequate to determine the water level elevation in the well at all times.

The quantity of water diverted at the new points of appropriation shall not exceed the quantity of water lawfully available at the original points of appropriation.

Water shall be acquired from the same ground water source as the original points of appropriation.

The Director may require water level or pump test results every ten years.

Failure to comply with any of the provisions of this right may result in action including, but not limited to, restrictions on the use, civil penalties, or cancellation of the right.

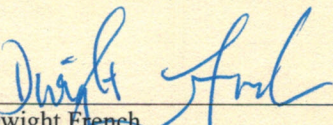
This right is for the beneficial use of water without waste. The water user is advised that new regulations may require the use of best practical technologies or conservation practices to achieve this end.

By law, the land use associated with this water use must be in compliance with statewide land-use goals and any local acknowledged land-use plan.

The use of water shall be limited when it interferes with any prior surface or ground water rights.

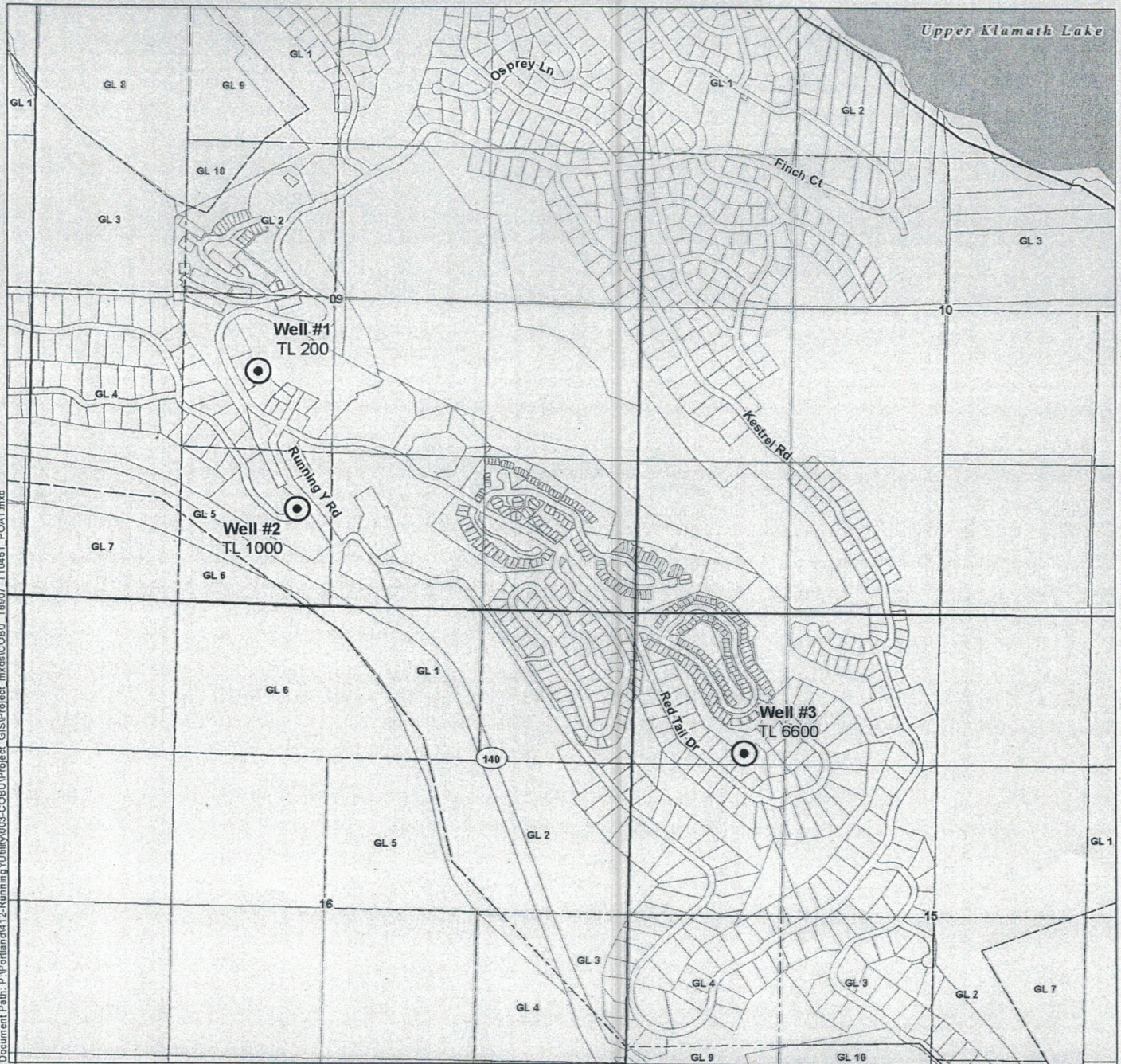
The right to the use of the water for the above purpose is restricted to beneficial use on the lands or place of use described; however, water may be applied to lands which are not specifically described above, provided the holder of this right complies with ORS 540.510(3).

Issued DEC 22 2017

  
 Dwight French  
 Water Right Services Division Administrator, for  
 Thomas M. Byler, Director  
 Oregon Water Resources Department

# Claim of Beneficial Use Map Point of Appropriation Map

Application G-13980, Permit G-12296, Permit Ammendments T-8907 and T-10451,  
Township 38 South, Range 8 East (W.M.)



Document Path: P:\portland\412-Running\Utility\003-COBU\Project\_GIS\Project\_mxd\COBU\_T10451\_POA1.mxd

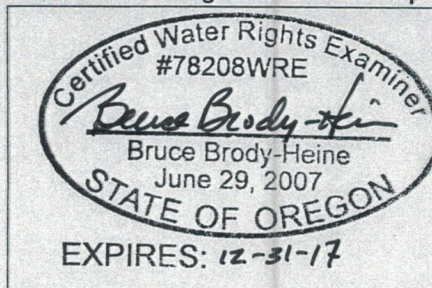
**LEGEND**

- Point of Appropriation (POA)
- Tax Lot
- Government Lot (GL)
- Waterbody

**POA LOCATION DESCRIPTION**

- Well 1**  
Located 2,050 feet North and 1,980 feet East from the SW corner of Section 9, Township 38 South, Range 8 East (W.M.)
- Well 2**  
Located 790 feet North and 2,340 feet East from the SW corner of Section 9, Township 38 South, Range 8 East (W.M.)
- Well 3**  
Located 1,279 feet South and 986 feet East from the NW corner of Section 15, Township 38 South, Range 8 East (W.M.)

**Certified Water Rights Examiner Stamp**



**DISCLAIMER**

This map was prepared for the purpose of identifying the location of a water right only and it is not intended to provide legal dimensions or location of property ownership lines.

**MAP NOTES**

Date: January 12, 2017  
Data Sources: BLM, ESRI, USGS, Klamath Co.



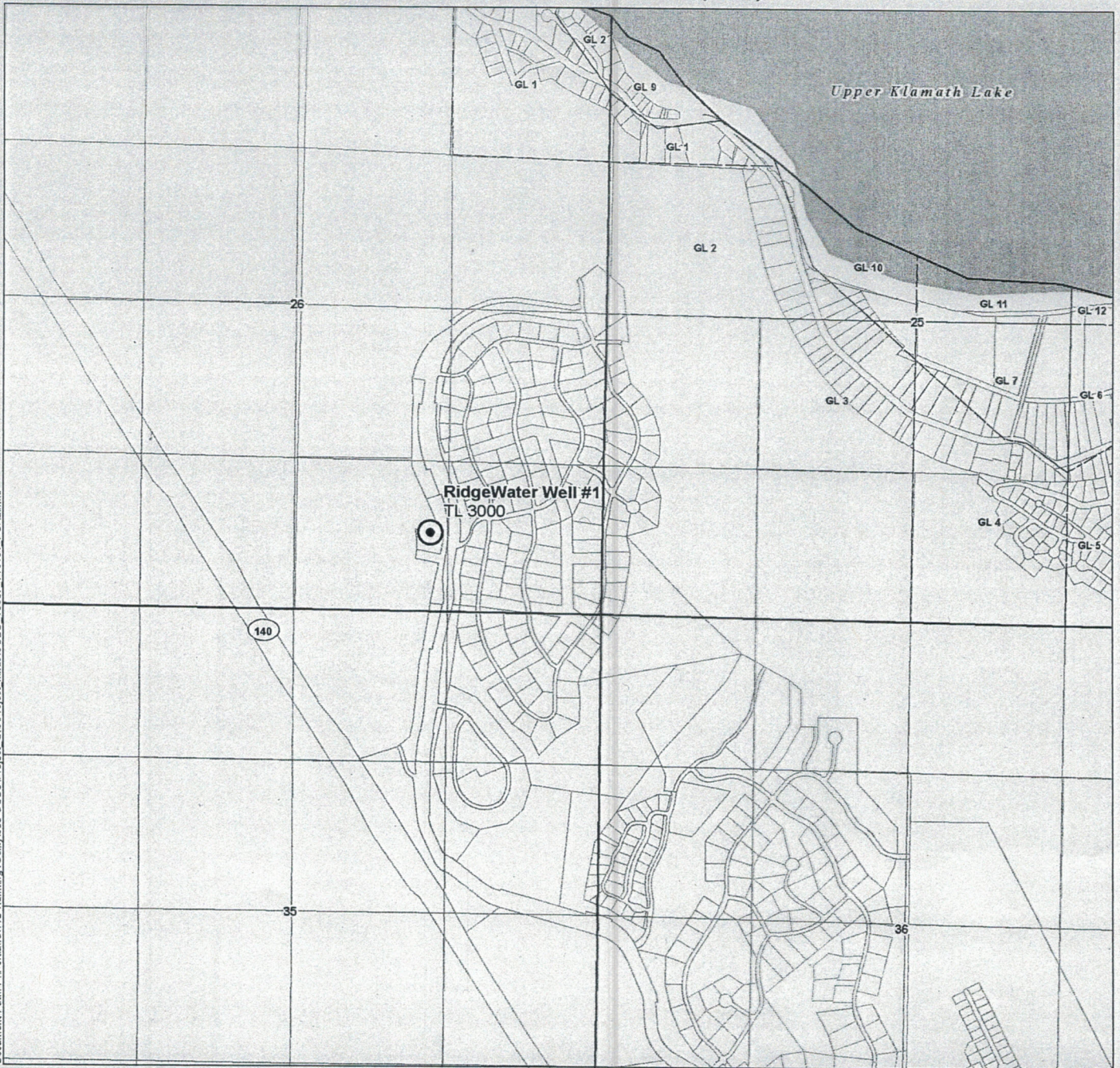
0 660 1,320  
1 inch = 1320 feet





# Claim of Beneficial Use Map Point of Appropriation Map

Application G-13980, Permit G-12296, Permit Ammendments T-8907 and T-10451,  
Township 38 South, Range 8 East (W.M.)



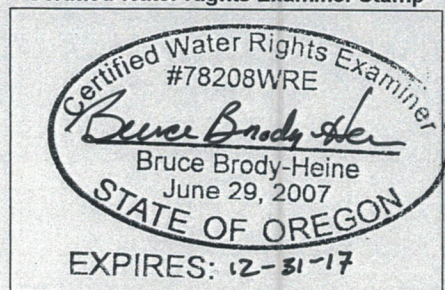
Document Path: P:\Portland\12-Running\Utility\003-COB\U\Project\_GIS\Project\_mxd\COBU\_T8907\_T10451\_POA2.mxd

### LEGEND

- Point of Appropriation (POA)
- Tax Lot
- Government Lot (GL)
- Waterbody

**POA LOCATION DESCRIPTION**  
 Ridgewater Well 1  
 Located 685 feet North and 1475 feet West from the SE corner  
 of Section 26, Township 38 South, Range 8 East (W.M.)

### Certified Water Rights Examiner Stamp



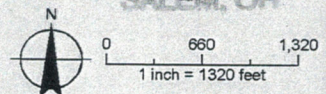
### DISCLAIMER

This map was prepared for the purpose of identifying the location of a water right only and it is not intended to provide legal dimensions or location of property ownership lines.

### MAP NOTES

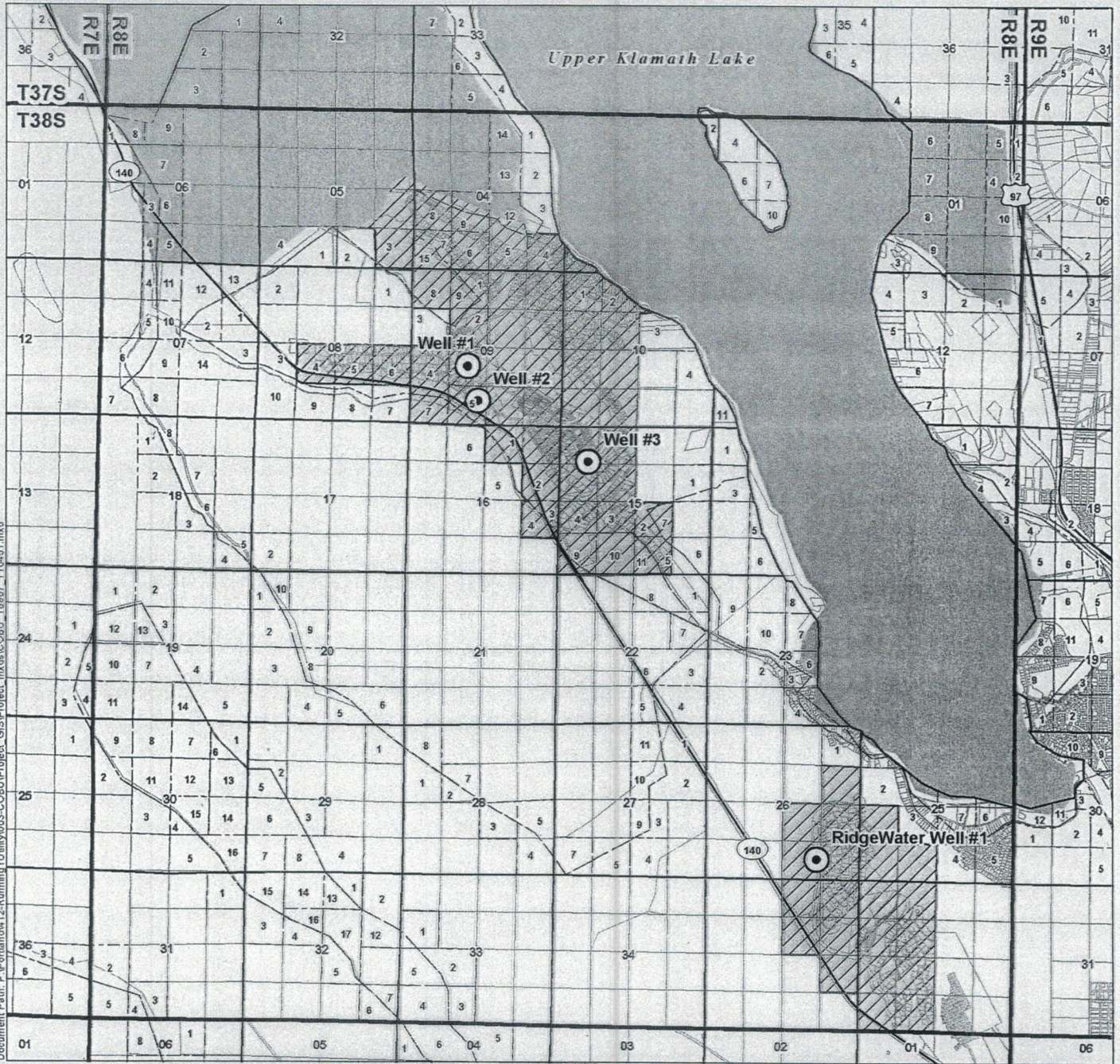
Date: January 12, 2017  
 Data Sources: BLM, ESRI, USGS, Klamath Co.

RECEIVED BY  
 APR 07 2017  
 SALEM, OR



# Claim of Beneficial Use Map Point of Appropriation and Place of Use Map

Application G-13980, Permit G-12296, Permit Ammendments T-8907 and T-10451,  
Township 38 South, Range 8 East (W.M.)



Document Path: P:\portland\12-Running\Utility\003-COB\U\Project\_09\Project\_mxd\COBU\_T8907\_T10451.mxd

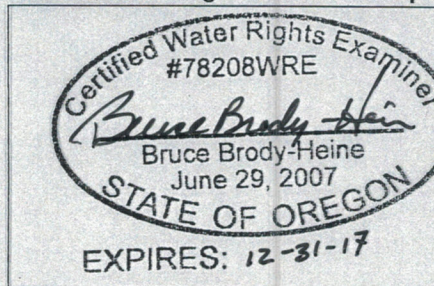
**LEGEND**

- Point of Appropriation (POA)
- Place of Use (POU)
- Tax Lot
- Government Lot (GL)
- Major Road
- Waterbody

**POA LOCATION DESCRIPTION**

- Well 1**  
Located 2,050 feet North and 1,980 feet East from the SW corner of Section 9, Township 38 South, Range 8 East (W.M.)
- Well 2**  
Located 790 feet North and 2,340 feet East from the SW corner of Section 9, Township 38 South, Range 8 East (W.M.)
- Well 3**  
Located 1,279 feet South and 986 feet East from the NW corner of Section 15, Township 38 South, Range 8 East (W.M.)
- Ridgewater Well 1**  
Located 685 feet North and 1475 feet West from the SE corner of Section 26, Township 38 South, Range 8 East (W.M.)

**Certified Water Rights Examiner Stamp**



**DISCLAIMER**

This map was prepared for the purpose of identifying the location of a water right only and it is not intended to provide legal dimensions or location of property ownership lines.

**MAP NOTES**

Date: January 11, 2017  
Data Sources: BLM, ESRI, USGS, Klamath Co.

RECEIVED BY  
APR 07 2017

SALEM, OR



0 2,640 5,280  
1 inch = 5,280 feet



JUL 30 1996

KLPA 50366

OWU/106, Bahr/7

STATE OF OREGON WATER WELL REPORT (as required by ORS 537.765)

WATER RESOURCES DEPT. SALEM, OREGON

(START CARD) # 70984

Instructions for completing this report are on the last page of this form.

(1) OWNER: Well Number #1 Name RUNNING Y RESORT INC. Address Box 1215 City REDMOND State OREGON Zip 97156

(2) TYPE OF WORK: [X] New Well [ ] Deepening [ ] Alteration (repair/recondition) [ ] Abandonment

(3) DRILL METHOD: [ ] Rotary Air [X] Rotary Mud [ ] Cable [ ] Auger [ ] Other

(4) PROPOSED USE: [ ] Domestic [X] Community [ ] Industrial [X] Irrigation [ ] Thermal [ ] Injection [ ] Livestock [ ] Other

(5) BORE HOLE CONSTRUCTION: Special Construction approval [ ] Yes [X] No Depth of Completed Well 473 ft. Explosives used [ ] Yes [X] No Type Amount

Table with columns: HOLE Diameter, From, To, Material, SEAL From, To, Sacks or pounds. Includes entries for cement seal at 0-46 and 46-900 diameters.

How was seal placed: Method [ ] A [ ] B [X] C [ ] D [ ] E Backfill placed from 350 ft. to 512 ft. Material Size of gravel 3/4

(6) CASING/LINER: Table with columns: Diameter, From, To, Gauge, Steel, Plastic, Welded, Threaded. Includes entries for casing and liner with diameters 16, 12 3/4, and 8 3/8.

Final location of shoe(s) 473 FEET

(7) PERFORATIONS/SCREENS: Table with columns: From, To, Slot size, Number, Diameter, Tele/pipe size, Casing, Liner. Includes entry 'SEE ATTACHED SHEET'.

(8) WELL TESTS: Minimum testing time is 1 hour. [X] Pump [ ] Bailer [ ] Air [ ] Artesian. Yield gal/min 750 Drawdown @ 151 1/2 ft Drill stem at Time 24 hr.

Temperature of water 56 F Depth Artesian Flow Found Was a water analysis done? [ ] Yes By whom Did any strata contain water not suitable for intended use? [ ] Too little [ ] Salty [ ] Muddy [ ] Odor [ ] Colored [ ] Other Depth of strata:

(9) LOCATION OF WELL by legal description: County KLAMATH Latitude Longitude Township 38 S N or S Range 8 E E or W. WM. Section 9 NE 1/4 SW 1/4 Tax Lot #100 Lot Block Subdivision Street Address of Well (or nearest address) 10440 HIGHWAY 140 K FALLS

(10) STATIC WATER LEVEL: 82 ft. below land surface. Date 6/17/96. Artesian pressure lb. per square inch. Date

(11) WATER BEARING ZONES: Depth at which water was first found 142 FEET

Table with columns: From, To, Estimated Flow Rate, SWL. Includes entry: From 142 To 512 Estimated Flow Rate 750 GPM

(12) WELL LOG: Ground Elevation

Table with columns: Material, From, To, SWL. Includes entry 'SEE ATTACHED SHEET'.

Date started 4/5/96 Completed 6/17/96

(unbonded) Water Well Constructor Certification: I certify that the work I performed on the construction, alteration, or abandonment of this well is in compliance with Oregon water supply well construction standards. Materials used and information reported above are true to the best of my knowledge and belief. WWC Number Signed Date

(bonded) Water Well Constructor Certification: I accept responsibility for the construction, alteration, or abandonment work performed on this well during the construction dates reported above. All work performed during this time is in compliance with Oregon water supply well construction standards. This report is true to the best of my knowledge and belief. WWC Number #691 Signed Date 7/17/96

JUL 3 0 1996

WATER RESOURCES DEPT.  
SALEM, OREGON

STOREY DRILLING SERVICES



P.O. BOX 98 - MIDLAND, OREGON 97634  
503/884-3990 / (800) 245-8122  
CONTRACTOR'S LICENSES:  
OR #601 / CA #583153 / NV #38199

Running Y Resort, Inc.  
P. O. Box 1215  
Redmond, Oregon 97756

START: April 4, 1996  
FINISH: June 14, 1996

WELL LOCATION: Running Y Resort development site 1/2 mile north of Hwy 140  
about 6 miles west of Klamath Falls, Oregon.  
NE 1/4 SW 1/4 T38S R8E S9

LOG

0	-	1	Brown clay topsoil
1	-	12	Boulders & brown basalt
12	-	40	Broken brown basalt
40	-	50	Grey basalt
50	-	58	Brown basalt
58	-	69	Grey basalt
69	-	80	Broken brown lava
80	-	83	Grey basalt
83	-	86	Broken brown lava
86	-	96	Black basalt
96	-	107	Hard grey basalt
107	-	110	Broken brown lava
110	-	112	Red lava
112	-	126	Bubbly black lava
126	-	137	Hard black basalt
137	-	144	Broken brown lava
144	-	150	Hard broken black basalt
150	-	161	Bubbly brown lava with streaks red lava
161	-	186	Hard black basalt
186	-	198	Red lava
198	-	207	Hard broken black basalt
207	-	224	Hard grey basalt
224	-	236	Brown lava
236	-	247	Hard black basalt
247	-	259	Broken bubbly brown lava
259	-	263	Grey basalt
263	-	293	Broken black lava with streaks brown cinders
293	-	300	Broken black basalt
300	-	304	Grey basalt
304	-	305	Black lava
305	-	316	Hard broken black lava
316	-	329	Black lava
329	-	392	Grey basalt
392	-	425	Hard broken black basalt
425	-	426	Green clay
426	-	427	Coarse black sand
427	-	432	Black lava with streaks brown ash clay
432	-	467	Black coarse sand with streaks pea gravel
467	-	512.	Sandy brown clay

## STOREY DRILLING SERVICES

P.O. BOX 98 - MIDLAND, OREGON 97634  
 503/884-3990 / (800) 245-8122  
 CONTRACTOR'S LICENSES:  
 OR #601 / CA #583153 / NV #38199

**RECEIVED**

JUL 30 1996

WATER RESOURCES DEPT.  
 SALEM, OREGON



Running Y Resort, Inc.  
 P. O. Box 1215  
 Redmond, Oregon 97756

START: April 4, 1996  
 FINISH: June 14, 1996

WELL LOCATION: Running Y Resort development site ½ mile north of Hwy 140  
 about 6 miles west of Klamath Falls, Oregon.  
 NE¼ SW¼ T38S R8E S9

LOG (continued)

47 feet of 16 inch O.D. x .250 wall steel casing set and cemented at 46 feet with rolled 16 inch steel casing drive shoe.

22 inch diameter hole drilled from 0 to 46 feet.

15 inch diameter hole drilled from 40 to 300 feet.

12½ inch diameter hole drilled from 300 to 512 feet.

Static water level 82 feet measured from top of casing.

Test pumped 750 GPM at 146 feet; Specific capacity is 11.7 GPM/foot.

Temperature 56 degrees Fahrenheit; pH 8; 4 grains hardness; 0.8 PPM iron

## CASING AND SCREEN PLACEMENT SEQUENCE

+2 - 140	142 feet of 12 3/4 inch OD solid steel casing
140 - 160	20 feet of 12 3/4 inch OD perforated steel casing
160 - 180	20 feet of 12 3/4 inch OD solid steel casing
180 - 200	20 feet of 12 3/4 inch OD perforated steel casing
200 - 220	20 feet of 12 3/4 inch OD solid steel casing
220 - 290	70 feet of 12 3/4 inch OD perforated steel casing
290 - 293	12 3/4 inch OD to 8 5/8 inch OD casing bell reducer
293 - 343	50 feet of 8 5/8 inch OD perforated steel casing
343 - 433	90 feet of 8 5/8 inch OD solid steel casing
433 - 473	40 feet of 8 5/8 inch OD Johnson mild steel screen
473 - 493	20 feet of 8 5/8 inch OD solid steel casing

GRAVEL ENVELOPE: 3/8 to 1/8 inch minus pea gravel located 350 to 512 feet.

Amendment

Klam 53270

STATE OF OREGON WATER SUPPLY WELL REPORT (as required by ORS 537.765)

WELL ID # L 49304 START CARD # 111265

(1) OWNER: Well Number: 3

Name: Running Y Ranch Address: 5115 Running Y Rd. City: Klamath Falls State: OR Zip: 97601

(2) TYPE OF WORK: (repair/ New Well Deepening Alteration/recondition Abandonment)

(3) DRILL METHOD: Rotary Air Rotary Mud Cable Auger Other

(4) PROPOSED USE: Domestic Community Industrial Irrigation Thermal Injection Livestock Other

(5) BORE HOLE CONSTRUCTION: Special Construction approval Yes No Depth of Completed Well Explosives Used Yes No Type Amount

Table with columns: Diameter, From, To, Material, SEAL, From, To, sacks or pounds

How was seal placed: Method A B C D E Other Backfill placed from to Material Gravel placed from to Size of gravel

(6) CASING/LINER: Table with columns: Diameter, From, To, Gauge, Steel, Plastic, Welded, Threaded

LINER: Table with columns: Diameter, From, To, Gauge, Steel, Plastic, Welded, Threaded

Final location of Shoe(s):

(7) PERFORATIONS/SCREENS: Table with columns: From, To, Slot Size, No., Diameter, Tele/pipe size, Casing, Liner

(8) WELL TESTS: Minimum testing time is 1 hour Pump Bailer Air Flowing Artesian Yield gpm Drawdown Drill Stem at Time

Temperature of water Depth Artesian Flow Found Was a water analysis done? By whom? Did any strata contain water not suitable for intended use? (explain) Depth of Strata:

(9) LOCATION OF WELL by legal description: County: Klamath Latitude: Longitude: Township: 38 s Range: 8 E Section: 15 NW 1/4 NW 1/4 Tax Lot: Lot: Block: Subdivision: Street Address of Well (or nearest address) Running Y Reservoir

(10) STATIC WATER LEVEL: Ft. below land surface Date Artesian pressure lb. per sq. in. Date

(11) WATER BEARING ZONES: Table with columns: From, To, Est. Flow Rate, SWL

(12) WELL LOG: Table with columns: Material, From, To, SWL. Includes RECEIVED stamps and dates.

(unbonded) Water Well Constructor Certification: I certify that the work I performed on the construction, alteration, or abandonment of this well is in compliance with Oregon water supply well construction standards.

Signed: Date: WWC Number: (bonded) Water Well Constructor Certification: I accept responsibility for the construction, alteration, or abandonment work performed on this well during the construction dates reported above.



STATE OF OREGON  
WATER SUPPLY WELL REPORT  
(as required by ORS 537.765)

KLAM 53270  
KLAM 53270 lam  
53270

WELL ID # L 49304  
START CARD # 111265 , Bahr/12

(1) OWNER:

Well Number: #3

Name: Running Y Ranch  
Address: 5115 Running Y Road  
City: Klamath Falls State: OR Zip: 97601

(2) TYPE OF WORK: (repair/  
 New Well  Deepening  Alteration/recondition  Abandonment

(3) DRILL METHOD:  
 Rotary Air  Rotary Mud  Cable  Auger  
 Other:

(4) PROPOSED USE:  
 Domestic  Community  Industrial  Irrigation  
 Thermal  Injection  Livestock  Other

(5) BORE HOLE CONSTRUCTION:  
Special Construction approval  Yes  No  
Depth of Completed Well 545'  
Explosives Used  Yes  No Type --- Amount ---

HOLE			SEAL			sacks or pounds
Diameter	From	To	Material	From	To	
28"	0'	4'	Cement	0'	4'	20 Sacks
23"	-4'	75'	Cement	0'	75'	130 Sacks
19"	-75'	481'	Cement	0'	481'	1600 Sack
15"	-481'	545'	---	---	---	---

How was seal placed: Method  A  B  C  D  E  
 Other  
Backfill placed from --- to --- Material ---  
from --- to --- Material ---  
Gravel placed from --- to --- Size of gravel ---

(6) CASING/LINER:

CASING:

Diameter	From	To	Gauge	Steel	Plastic	Welded	Threaded
24"	0	4	.375	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20"	0	78	.375	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
16"	+1.5	481	.375	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

LINER:

Diameter	From	To	Gauge	Steel	Plastic	Welded	Threaded
---	---	---	---	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Final location of Shoe(s):

(7) PERFORATIONS/SCREENS:

Perforations Method: \_\_\_\_\_  
 Screen Type: \_\_\_\_\_ Material: \_\_\_\_\_

From	To	Slot Size	No.	Diameter	Tele/pipe size	Casing	Liner
---	---	---	---	---	---	<input type="checkbox"/>	<input type="checkbox"/>

(8) WELL TESTS: Minimum testing time is 1 hour

Pump  Bailer  Air  Flowing Artesian

Yield gpm	Drawdown	Drill Stem at	Time
1400	151		1 hr.
			24hr

Temperature of water 57 Depth Artesian Flow Found ---  
Was a water analysis done? --- By whom: ---  
Did any strata contain water not suitable for intended use? (explain)  
---  
Depth of Strata: ---

(9) LOCATION OF WELL by legal description:

County: Klamath Latitude: \_\_\_\_\_ Longitude: \_\_\_\_\_  
Township: 38S Range: 8E  
Section: 15 NW 1/4 NW 1/4  
Tax Lot: N/A Lot: N/A Block: \_\_\_\_\_ Subdivision: \_\_\_\_\_  
Street Address of Well (or nearest address) \_\_\_\_\_  
Running Y Resort Reservoir

(10) STATIC WATER LEVEL:

296 Ft. below land surface Date 04/30/02  
Artesian pressure --- lb. per sq. in. Date ---

(11) WATER BEARING ZONES:

Depth at which water was first found \_\_\_\_\_

From	To	Est. Flow Rate	SWL
130	182	10 GPM	ukn
295	545	1200 GPM	295

(12) WELL LOG:

Ground Elevation: \_\_\_\_\_

Material	From	To	SWL
Fill	0	2	
Basalt Boulders Consolidated Brwn Rock	2	7	
Basalt Gray	7	25	
Basalt Gray with Layers of Brown Rock	25	43	
Clay Brownish Yellw with Some Rock	43	130	
Rock Soft Decomposed Brown Clay	130		
Trace Water		182	
Clay Brownish Yellow with Some Rock	182	265	
Rock Brown with Layer of Clay Brown	265	281	
Basalt Reddish Brown	281	298	
Basalt Gray with Brownish Red	298	379	295
Lava Cinders Soft Med Red - Black	379	386	
Basalt Hard Gray Blk	386	392	
Lava Cinder Med Red - Black	392	394	
Basalt Hard Gray	394	406	
Cinder Broken Black - Red	406	445	
Basalt Gray Broken Caving	445	473	
Basalt Gray Hard	473	483	
Basalt Grayish Red Broken WB	483	545	

Date Started: 02/06/02 Completed: 04/30/02

(unbonded) Water Well Constructor Certification:  
I certify that the work I performed on the construction, alteration, or abandonment of this well is in compliance with Oregon water supply well construction standards. Materials used and information reported above are true to the best of my knowledge and belief.

Signed Dave Denny WWC Number 806 Date 05/10/02

(bonded) Water Well Constructor Certification:  
I accept responsibility for the construction, alteration, or abandonment work performed on this well during the construction dates reported above. All work performed during this time is in compliance with Oregon water supply well construction standards. This report is true to the best of my knowledge and belief.

Signed \_\_\_\_\_ WWC Number 723 Date 05/10/02



STATE OF OREGON WATER SUPPLY WELL REPORT

as required by ORS 537.765)

(1) OWNER:

Name: Ridge H2O Utility Well Number: 1 Address: City: State: Zip:

2) TYPE OF WORK: (repair/ New Well Deepening Alteration/recondition Abandonment)

3) DRILL METHOD: Rotary Air Rotary Mud Cable Auger Other:

4) PROPOSED USE: Domestic Community Industrial Irrigation Thermal Injection Livestock Other:

5) BORE HOLE CONSTRUCTION: Special Construction approval Yes No Depth of Completed Well Explosives Used Yes No Type Amount

Table with columns: Diameter, From, To, Material, SEAL From, SEAL To, sachs or pounds. Rows include cement seals at various depths.

How was seal placed: Method A B C D E Other Backfill placed from to Material Gravel placed from to Size of gravel

Table for CASING/LINER with columns: Diameter, From, To, Gauge, Steel, Plastic, Welded, Threaded. Includes checkboxes for material types.

LINER: Final location of Shoe(s):

Table for PERFORATIONS/SCREENS with columns: From, To, Size, No., Diameter, Tele/pipe size, Casing/Liner. Includes checkboxes for casing/liner.

8) WELL TESTS: Minimum testing time is 1 hour Pump Bailer Air Flowing Artesian Yield gain Drawdown Drill Stem at Time 1 hr.

Temperature of water Depth Artesian Flow Found Was a water analysis done? By whom: AUG 22 2007 Did any strata contain water not suitable for intended use? (explain) Depth of Strata: WATER RESOURCES DEPT SALEM, OREGON

(9) LOCATION OF WELL by legal description: County: Latitude: Longitude: Township: Range: Section: Tax Lot: Lot: Block: Subdivision: Street Address of Well (or nearest address)

(10) STATIC WATER LEVEL: Ft. below land surface Date Artesian pressure lb. per sq. in. Date

Table for (11) WATER BEARING ZONES: From To Est. Flow Rate SWL

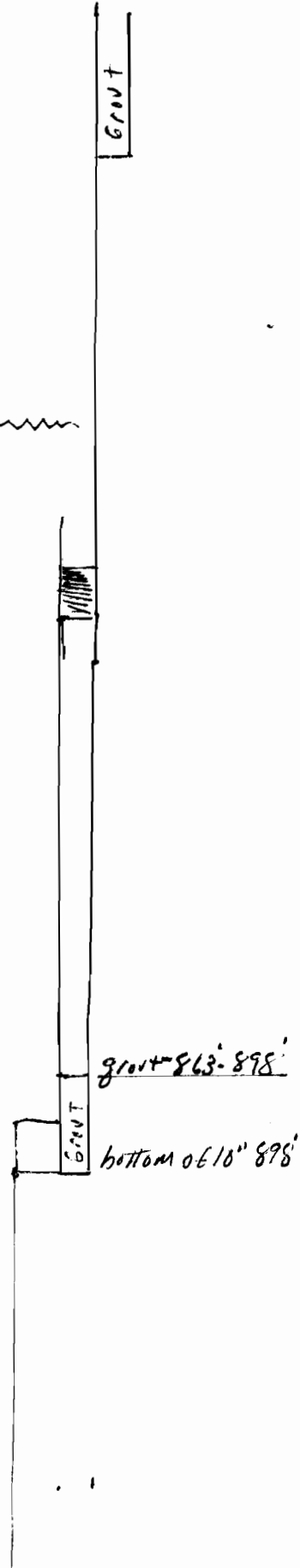
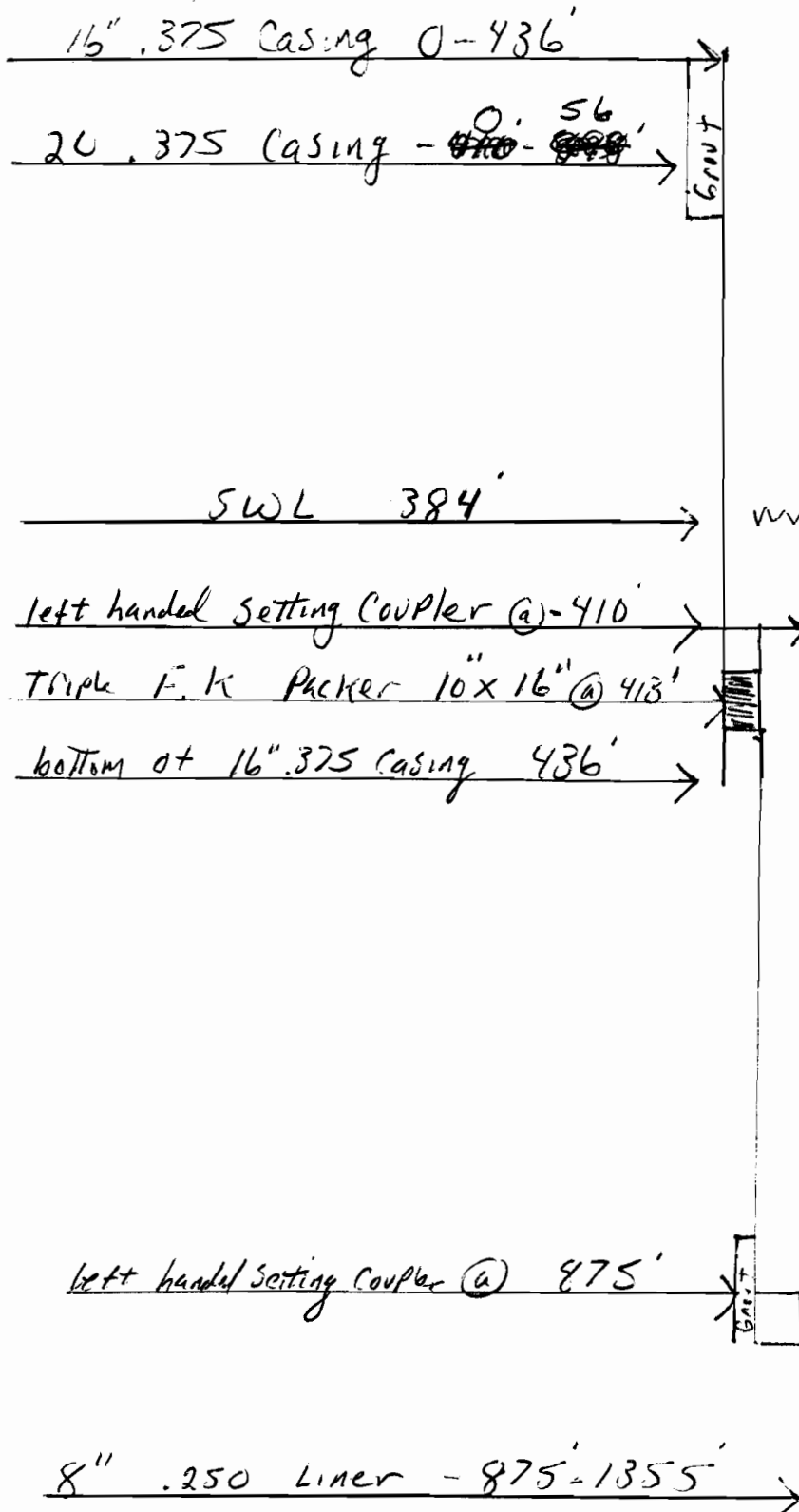
(12) WELL LOG: Ground Elevation: Material From To SWL. Includes handwritten entries: Amended Well log, Item # 5, 20" casing seal method C, 16" casing seal method B, 10" casing seal method B, Amended date 8-20-07.

Date Started: Completed:

(unbonded) Water Well Constructor Certification: I certify that the work I performed on the construction, alteration, or abandonment of this well is in compliance with Oregon water supply well construction standards. Signed: WWC Number: Date:

(bonded) Water Well Constructor Certification: I accept responsibility for the construction, alteration, or abandonment work performed on this well during the construction dates reported above. Signed: WWC Number: 723 Date:

NOT TO SCALE



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STATE OF OREGON  
WATER SUPPLY WELL REPORT  
(as required by ORS 537.765)

(1) OWNER:

Well Number: # 1  
Name: Ridge Water Utility  
Address: 5115 Running Y Road  
City: Klamath Falls State: OR Zip: 97601

(2) TYPE OF WORK:

New Well  Deepening  Alteration/recondition  Abandonment

(3) DRILL METHOD:

Rotary Air  Rotary Mud  Cable  Auger  
 Other:

(4) PROPOSED USE:

Domestic  Community  Industrial  Irrigation  
 Thermal  Injection  Livestock  Other

(5) BORE HOLE CONSTRUCTION:

Special Construction approval  Yes  No  
Depth of Completed Well 1355  
Explosives Used  Yes  No Type Amount

HOLE			SEAL			sacks or pounds
Diameter	From	To	Material	From	To	
23"	0	55	cement	0	55	121 bags
19"	55	436	cement	55	436	350 bags
19"	0	55	cmnt-sand	0	55	50 bags

How was seal placed: Method  A  B  C  D  E  
 Other

Backfill placed from to Material  
from to Material  
Gravel placed from to Size of gravel

(6) CASING/LINER:

CASING:

Diameter	From	To	Gauge	Steel	Plastic	Welded	Threaded
20"	+1	-55	.375	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
16"	+1	-436	.375	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10"	-416	-899	365	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

LINER:

8	-875	-1355	.250	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
---	------	-------	------	-------------------------------------	--------------------------	-------------------------------------	--------------------------

Final location of Shoe(s): none

(7) PERFORATIONS/SCREENS:

Perforations Method: factory slot  
 Screen Type: Material:

From	To	Slot Size	No.	Tele/pipe Diameter	size	Casing	Liner
955	1015	1/8	2304		p	<input type="checkbox"/>	<input checked="" type="checkbox"/>
1135	1155	1/8	576		p	<input type="checkbox"/>	<input checked="" type="checkbox"/>
1215	1255	1/8	1152		p	<input type="checkbox"/>	<input checked="" type="checkbox"/>
1295	1335	1/8	1152		p	<input type="checkbox"/>	<input checked="" type="checkbox"/>

(8) WELL TESTS: Minimum testing time is 1 hour

Pump  Bailer  Air  Flowing Artesian  
Yield gpm Drawdown Drill Stem at Time

Air	1200		1275	1 hr.
PMF	900	16		36

Temperature of water 61 Depth Artesian Flow Found

Was a water analysis done? By whom:  
Did any strata contain water not used for drinking water? (explain)  
too little

Depth of Strata:

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(9) LOCATION OF WELL by legal description:

County: Klamath Latitude: Longitude:  
Township: 38S Range: 8E  
Section: 26 1/4 1/4 SW 1/4  
Tax Lot: 200 Lot: Block: Subdivision:  
Street Address of Well (or nearest address) N/A

(10) STATIC WATER LEVEL:

384 Ft. below land surface Date 6-30-06  
Artesian pressure lb. per sq. in. Date

(11) WATER BEARING ZONES:

Depth at which water was first found  
From To Est. Flow Rate SWL

See attached			
--------------	--	--	--

(12) WELL LOG:

Ground Elevation: Material From To SWL

SEE ATTACHED!!!!			
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Date Started: 5-18-06

Completed: 6-30-06

(unbonded) Water Well Constructor Certification:

I certify that the work I performed on the construction, alteration, or abandonment of this well is in compliance with Oregon water supply well construction standards. Materials used and information reported above are true to the best of my knowledge and belief.

Signed Chuck Stadel WWC Number 723 Date 8-30-06

(bonded) Water Well Constructor Certification:

I accept responsibility for the construction, alteration, or abandonment work performed on this well during the construction dates reported above. All work performed during this time is in compliance with Oregon water supply well construction standards. This report is true to the best of my knowledge and belief.

Signed [Signature] WWC Number 723 Date 7-30-06

11) Water Bearing Zones:

Depth at which water was first found: 399 ft

From	To	Estimated Flow Rate	SWL
399 ft	406	50	291
497	520	50	373
763	779	100	373
816	820	100	373
961	1020	200	386
1131	1145	200-250	386
1191		200	386
1199	1253	200	386
1290		100	386
1316	1339	250	386

Material	From	To
Cobbles loose clay	0	17
Rock med-hard	17	24
Rock-brn-med	24	50
Gry	50	71
Bm	71	96
Gry hard	96	171
Bm Med	171	176
Gry Hard	176	179
Bm loose	179	188
Gry hard	188	366
Cindery brn red	366	375
Ash claystone-gry	375	384
Rock gry red	384	392
Softer	392	399

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Cinduy Ash	399	406
Rock Gry	406	429
Hrd	429	456
Brn Med	450	497
Cindery-red	497	522
Rock brn	522	701
Cindery gry	701	726
Rock gry med	726	741
Hard	741	763
Fract	763	779
Rock brn	779	816
Cinder ash	816	820
Rock med soft	820	891
Rock gry hrd	891	909
Brnk grey	909	961
Fract zone	920	-
Green		1020
Volcanic hard	1020	1086
Hrd tract	1086	1120
Basalt hard	1120	1131
Rubble mlt clr	1131	1145
Hrd	1145	1159
Med hrd	1159	1161
Basalt hrd	1161	1184
Mug	1184	1191
Grey-some green	1191	1252
Fractured rough	1252	1253
Smooth	1253	1290
Semi fract	1290	1316
Volcanic-multi	1316	1339
Basalt- med-hrd fract	1339	1355

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**WATER RESOURCES DEPT  
SALEM OREGON**

Exhibit OWU/107  
Pinecrest Welcome Letter



April 27, 2020

Dear Valued Customer,

Oregon Water Utilities, or "OWU" for short, is excited to announce that we are your new water provider as of April 22, 2020!

OWU is a member of the SouthWest Water Company family, which provides water and wastewater services to homes, businesses, and communities across the nation. Currently, more than 500,000 people across six states depend on SouthWest to bring them safe, high-quality, reliable water and wastewater services. In Oregon, we serve customers in the Central region of Deschutes and Crook Counties and in the Southern region of Klamath County. We take great pride in being responsible stewards of the world's most valuable resource, water.

There are a few changes related to your account that you need to be aware of, including to your account number, rates, billing cycle, and payment options.

Account Number

Please note your new account number and pin below. These can be used to identify your account when calling our Customer Service Department, checking your account online, or paying your bill. To create a self-service account, please go to [www.swwc.com/myaccount](http://www.swwc.com/myaccount) and select "Register."

Old Account Number: xxxxxxxxx

**New Account Number: xxxxxxxxx**

**Pin: xxxx**

Rates

As noted in the notice you received dated February 5<sup>th</sup>, your rates will increase slightly beginning April 22<sup>nd</sup> in order to be in compliance with our tariffs approved by the Oregon Public Utility Commission. The changes are shown below:

	Current Pinecrest Rates	New OWU-ML Rates
Monthly Service Charge	\$30.00	\$33.00
Monthly Usage Rate	\$0.97 per CCF (the equivalent of \$1.30 per 1,000 gallons)	\$1.542 per 1,000 gallons (up to 25,000 gallons)

As you can see, your new usage rate will be designated in gallons rather than cubic feet; this is necessary in order to comply with our approved tariffs. When your meter is read each month, OWU will automatically convert the read from cubic feet to gallons using the standard conversion rate of 1 cubic foot = 7.48 gallons.

## OWU/107, Bahr/2

### Billing Cycle

You should receive a final bill from Pinecrest before the end of April. Please remit any payments for charges on this bill, or previous bills, to Pinecrest.

You will receive your first bill from OWU around May 26<sup>th</sup>, and around the same date in subsequent months. This is a change from your previous billing cycle, in which you received bills around the beginning of each month. This change allows for a more convenient meter reading schedule for our meter readers.

### Payment Options

We think you'll be excited to learn of the various payment options you'll have as a customer of OWU. These include the following:

- Pay online with credit card or electronic check at [www.swwc.com/myaccount](http://www.swwc.com/myaccount);
- Pay by phone with credit card through our automated service at 877-405-1760;
- Sign up for automatic withdrawal from your bank account - to download the form, go to <http://www.swwc.com/oregon>
- By mail with a check or money order: P.O. Box 6150, Covina, CA 91724-5150.

**IMPORTANT:** If you currently use your bank to make online payments, please remember to update the payee and account number.

We are excited to be your new water provider and will strive to provide you with the highest service, quality, and value possible. If you have any questions, please contact one of our Customer Care Specialists at 877-405-1760 or by email at [orcustomercare@swwc.com](mailto:orcustomercare@swwc.com).

Sincerely,



Craig Gott, President  
Oregon Water Utilities



**EXHIBIT 200**

**DIRECT TESTIMONY**

**OF**

**MUJEEB HAFEEZ**

**ON BEHALF OF**

**OREGON WATER UTILITIES – CLINE BUTTE, INC.**

**SEPTEMBER 30, 2020**

**DIRECT TESTIMONY OF  
MUJEEB HAFEEZ**

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**ATTACHMENTS**

Attachment OWU/201	SouthWest Water Company Cost Allocation Manual
Attachment OWU/202	SouthWest Water Company Operational Organizational Structure
Attachment OWU/203	Total Corporate Costs by Corporate Function for the 2019 Test Year
Attachment OWU/204	2019 Test Year 3-Factor Allocation Calculation

**DIRECT TESTIMONY OF  
MUJEEB HAFEEZ**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Mujeeb Hafeez. My business address is 12535 Reed Road, Sugar Land,  
4 TX 77478.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by SouthWest Water Company (“SouthWest”) as Assistant Controller  
7 within Corporate Shared Services.

8 **Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.**

9 A. My present responsibilities consist of the following for SouthWest and its subsidiaries,  
10 including Oregon Water Utilities - Mountain Lakes, Inc. ("OWU-ML"): implementing  
11 and maintaining an appropriate system of internal controls; ensuring financial records  
12 are maintained in compliance with company policies and U.S. Generally Accepted  
13 Accounting Principles (“GAAP”); overseeing the general accounting function;  
14 providing technical accounting GAAP guidance and support; overseeing internal and  
15 external financial reporting; coordinating SouthWest’s annual external audit; and  
16 assisting in regulatory proceedings.

17 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
18 BACKGROUND.**

19 A. My educational background consists of a Bachelor of Science in Accounting and a  
20 Master of Science in Accounting from the University of Houston. I am a Certified  
21 Public Accountant in the State of Texas. I have been employed by SouthWest since  
22 2018. My professional background prior to being employed by SouthWest includes  
23 eight years of public accounting experience with PricewaterhouseCoopers, LLP

1 (“PwC”), a multinational professional services firm and one of the “Big Four” public  
2 accounting firms. While at PwC, I served audit clients with a focus in the regulated  
3 investor owned and private equity-owned utilities industry, including SouthWest.

4 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
5 **COMMISSION?**

6 A. No.

7 **II. PURPOSE OF DIRECT TESTIMONY**

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

9 A. I am testifying on behalf of OWU-ML.

10 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
11 **PROCEEDING?**

12 A. The purpose of my direct testimony in this proceeding is to discuss SouthWest  
13 corporate costs and the allocation methodology of those costs across SouthWest’s  
14 subsidiaries, including OWU-ML.

15 **Q. DOES YOUR DIRECT TESTIMONY DISCUSS AFFILIATE COSTS OTHER**  
16 **THAN SOUTHWEST’S ALLOCATED CORPORATE COSTS?**

17 A. No. Other affiliate costs are discussed in the direct testimony of Brian Bahr.

18 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**  
19 **SUPERVISION?**

20 A. Yes, it was.

21 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**  
22 **BELIEVE IT TO BE CORRECT?**

23 A. Yes, I do.

1 **Q. INsofar AS THIS MATERIAL IS IN THE NATURE OF OPINION OR**  
2 **JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?**

3 A. Yes, it does.

4 **III. OVERVIEW OF SOUTHWEST WATER COMPANY**

5 **Q. BROADLY SPEAKING, HOW ARE SOUTHWEST'S UTILITY OPERATIONS**  
6 **ORGANIZED?**

7 A. The organization of SouthWest's utility operations is described in detail in the  
8 SouthWest Water Company Cost Allocation Manual included in my testimony as  
9 Attachment OWU/201. The Cost Allocation Manual also describes the methodologies  
10 used by SouthWest to allocate costs, which I will address in my testimony.  
11 Additionally, SouthWest's organizational structure depicting its business units and  
12 their subsidiary operations is included as Attachment OWU/202.

13 **Q. DESCRIBE SOUTHWEST'S UTILITY OPERATION IN OREGON.**

14 A. Through water and wastewater facilities located in Oregon, SouthWest serves  
15 customers with water distribution and wastewater collection and treatment services.  
16 These facilities operate collectively as Northwest Utilities.

17 **Q. HOW ARE THE FINANCIAL RESULTS OF SOUTHWEST'S BUSINESS**  
18 **UNITS CURRENTLY REPORTED?**

19 A. As of the end of the 2019 Test Year, the financial results of SouthWest's operations  
20 were reported by six business units. Five business units are attributable to utility  
21 operations: Suburban Water Systems ("Suburban"), Texas Utilities ("TXU"), Kiawah  
22 Island Utility ("KIU"), Northwest Utilities ("NWU"), and Southeast Utilities ("SEU").  
23 The sixth business unit—Corporate Shared Services—is included in the parent,  
24 SouthWest. Corporate Shared Services is comprised largely of indirect costs that

1 benefit SouthWest's five utility business units and are not directly traceable to any of  
2 them. The indirect costs captured in the Corporate Shared Services business unit are  
3 allocated to the five utility business units.

4 **IV. INDIRECT COSTS AND ALLOCATION METHODOLOGY**

5 **Q. PLEASE DESCRIBE SOUTHWEST'S COST ALLOCATION MANUAL.**

6 **A.** SouthWest prepared its Cost Allocation Manual in accordance and conformance with  
7 the National Association of Regulatory Utility Commissioners' *Guidelines for Cost*  
8 *Allocations and Affiliate Transactions* ("NARUC Guidelines"). The foundational  
9 principles of the Cost Allocation Manual are to directly charge as much of the incurred  
10 costs as possible to the entity that procures any specific service; fairly allocate costs  
11 that cannot be directly charged to SouthWest's subsidiaries; and ensure that  
12 unauthorized subsidization of unregulated activities by regulated activities, and vice  
13 versa, does not occur.

14 **Q. WHAT PRINCIPLES GUIDE THE ALLOCATION OF COSTS?**

15 **A.** As the Cost Allocation Manual provides, the principles that guide the allocation of costs  
16 for products or services provided by SouthWest to its affiliates are as follows:

- 17 • To the extent practicable, in consideration of administrative costs, costs should be  
18 collected and classified on a direct basis for each asset, service, or product provided;
- 19 • The general method for charging indirect costs should be on a fully allocated, cost-  
20 causative allocation basis, without any associated margin or mark-up;
- 21 • All direct and allocated costs should be traceable on the books of the applicable  
22 affiliate;
- 23 • Documentation regarding transactions between the regulated utility and its  
24 affiliates should be made available for review by the appropriate Commission or

1 other regulatory authority, upon request, to address their reasonable concerns in the  
 2 exercise of their responsibility to examine any of the costs sought to be recovered  
 3 by the utility in rate proceedings; and

- 4 • The primary cost driver of common costs, or a relevant proxy in the absence of a  
 5 primary cost driver, should be identified and used to allocate the cost to all  
 6 affiliates.

7 **Q. WHAT COSTS ARE CONSIDERED CORPORATE ALLOCABLE INDIRECT**  
 8 **COSTS AND WHAT ALLOCATION METHODOLOGY IS USED?**

9 A. Indirect costs are those corporate costs that benefit all SouthWest business unit  
 10 operations and that are so general in nature as to require prorations based on a  
 11 combination of several pertinent factors. To allocate those costs among the five major  
 12 business units, the Cost Allocation Manual describes the three-factor allocation  
 13 methodology consisting of the following factors weighted equally: 1) gross plant; 2)  
 14 operating expenses including payroll expenses; and 3) payroll.

15 **Q. SPECIFICALLY, IN WHICH AREAS ARE INDIRECT COSTS INCURRED,**  
 16 **FOR WHAT PURPOSE, AND WHAT IS THEIR MAGNITUDE?**

17 A. As noted in SouthWest’s Cost Allocation Manual, indirect costs are attributable to the  
 18 following corporate functions, which are essential in providing effective utility service:  
 19 1) executive; 2) legal; 3) information technology; 4) human resources; 5) facilities; and  
 20 6) finance. The allocable indirect corporate costs for the Test Year total \$11.7 million  
 21 and are shown by corporate function in Attachment OWU/203.

22 **Q. IS THE \$11.7 MILLION IN CORPORATE COSTS REASONABLE?**

23 A. Yes. As described more fully below, these costs are essential to the successful  
 24 operation of OWU-ML, and—due to the shared services model—are more economic

1 for OWU-ML to obtain via its corporate parent than would be possible on the open  
2 market.

3 **Q. PLEASE SUMMARIZE THE BENEFITS THAT CUSTOMERS ACCRUE AS A**  
4 **RESULT OF USING SOUTHWEST'S CORPORATE SHARED SERVICES.**

5 A. Corporate provides shared services more effectively and efficiently than could be  
6 provided to the individual affiliates individually. Customers benefit from economies  
7 of scale from the shared services model. Additionally, the costs of SouthWest's  
8 Corporate Shared Services are allocated to subsidiaries without any associated margin  
9 or mark-up.

10 **Q. PLEASE DESCRIBE THE INDIRECT CORPORATE SHARED SERVICES**  
11 **AND THEIR COSTS THAT SOUTHWEST ALLOCATES TO ITS**  
12 **AFFILIATES.**

13 A. Broad categories of costs being allocated are Executive, Legal, Information  
14 Technology, Finance, Human Resources, and Facilities. A review of Attachment  
15 OWU/203 shows that the Executive function accounts for \$3.171 million (27.1%)  
16 followed by Finance at \$3.511 million (30.1%) and Information Technology at \$3.270  
17 million (28.0%). The combined cost of Legal, Human Resources, and Facilities is  
18 \$1.730 million (14.8%). SouthWest's Corporate Shared Services business unit  
19 includes a total of 42 employees for the Test Year. Information Technology has the  
20 greatest number employees with 19, followed by Finance with 16, and Executive with  
21 five. Human Resources and Facilities each have one employee. A discussion of each  
22 function's responsibilities and indirect costs follows below.



1    **A.    Executive**

2           The executive function is responsible for providing strategic vision and guidance,  
3           business strategy and development, executive management and oversight, and the  
4           overall direction of the company. The executive function consists of the Board of  
5           Directors and a core group of four senior executives; the Chief Executive Officer, Chief  
6           Operating Officer, Chief Financial Officer, and General Counsel. Additionally, the  
7           executive function includes an administrative assistant who is responsible for providing  
8           administrative support to the executive team. These employees are integral and  
9           indispensable members of this group.

10                   The Test Year cost attributable to the Executive function was \$3.171 million.  
11           Approximately \$2.247 million represents payroll and benefits for this function, or  
12           70.9% of the total. Total direct compensation provided to the four senior executives  
13           (which includes total incentive compensation), when viewed against the market for  
14           talent for executives in similar positions, is within the median market competitive  
15           range. Elements of the executive compensation program include base salary,  
16           short-term at-risk compensation, and long-term at-risk compensation. A portion of the  
17           short-term at-risk compensation, and all of the long-term at-risk compensation is based  
18           on financial measures. Although total compensation, including the consideration of all  
19           incentive compensation, is within the median market competitive range, **all executive**  
20           **incentive compensation has been excluded from the Test Year costs.**

21                   Approximately \$670,000 represents the board of director's fees for six paid  
22           board members, or 21.1% of the total. When compared against comparable peer  
23           organizations for which compensation data are available from publicly disclosed  
24           proxies, SouthWest's board of directors are paid below market median. Approximately  
25           \$242,000 consists of the \$100,000 cost of insurance and \$142,000 travel and

1 entertainment, representing approximately 7.6% of the total cost. The cost of insurance  
2 represents the cost for Directors and Officers and Broad Form Side A, Crime, Cyber  
3 Liability, Employment Practices Liability, Property, and broker's fees. Regarding the  
4 Directors and Officers and Broad Form Side A insurance, there is risk in the form of  
5 legal liability inherent in director and officer positions. No one would serve in these  
6 positions unless they were adequately insured against such risk. Therefore, the cost of  
7 such insurance is indispensable as a cost of the executive function. Additionally,  
8 extensive travel is a requirement at the executive level. Therefore, the cost of travel is  
9 indispensable as a cost of the executive function. Together, these indispensable cost  
10 components (payroll and benefits, director fees, insurance, and travel) amount to 99.6%  
11 of the total cost of this function. Therefore, \$3.171 million represents a necessary and  
12 reasonable cost for SouthWest with respect to the executive function.

13 **B. Legal**

14 The Legal function is responsible for corporate governance; transactional,  
15 employment, and real estate law; and litigation, general legal affairs, and management  
16 of outside counsel. The legal resources of SouthWest consist of only the General  
17 Counsel. The cost of this position is included in the Executive function described above  
18 as the General Counsel also serves as an executive of SouthWest. Therefore, this  
19 represents an efficient structure to address the responsibilities of this function.

20 The adjusted recorded cost of ancillary legal support attributable to the legal  
21 function in the Test Year was \$126,000. The legal costs incurred at the corporate level  
22 for general corporate matters totaled \$55,000 in the Test Year.

23 One of the most important functions of the General Counsel is managing and  
24 administering the efforts and costs of outside counsel. On an ongoing basis, SouthWest

1 has a number of legal matters that are assigned to various outside counsel. It would not  
2 be possible for the General Counsel alone to address the volume of litigation, and it  
3 would be financially prohibitive to employ the number of in-house counsel that would  
4 be needed to address all these legal matters. Therefore, reliance on outside counsel is  
5 an efficient way to address many of SouthWest's legal matters.

6 The cost of outside legal fees attributable to legal matters affecting all  
7 SouthWest subsidiaries is subject to wide variation depending upon the number and  
8 magnitude of legal issues that arise and their cost to effectively litigate.

### 9 **C. Information Technology**

10 The information technology ("IT") function is responsible for identifying,  
11 implementing, and maintaining advanced and cost-effective systems solutions in  
12 support of SouthWest business. This function is comprised of four groups as follows:

- 13 • **Administration**—Responsible for working with business units and vendors  
14 to ensure the highest quality of services to support business operations.  
15 Also develops short and long-range technology objectives, provides  
16 contract and project management, evaluates company business goals and  
17 objectives, and supports business units from a technology advisory  
18 standpoint;
- 19 • **Infrastructure, Network, and Computer Desktop Support**—Responsible for  
20 the planning, architecture, implementation, administration, and support of  
21 company data, telecommunications, wide area network infrastructure, and  
22 database servers. Also provides frontline desktop and helpdesk technical  
23 support, procurement and management of IT assets and serve as the primary  
24 point of contact for end users and their computer or system needs;

- 1 • Information and Cyber Security—Responsible for the security  
2 configuration of all enterprise systems, IT governance and controls, and risk  
3 mitigation. Also develops and configures security roles in all enterprise  
4 systems, creates and terminates users, performs password resets, and  
5 configures permissions on Outlook public folders and servers. This  
6 function monitors automated and manual malicious attacks of company,  
7 employee, and customer information assets and identifies, analyzes, and  
8 mitigates associated risks; and
- 9 • Business Applications—Responsible for managing the ongoing  
10 systems-related business processes, administration, development and  
11 project management for company System Applications and Products in  
12 Data Processing (“SAP”) enterprise system to include: 1) the core functions  
13 of financials, material management, sales and distribution, human  
14 resources, payroll and benefits; 2) the industry specific solutions for utilities  
15 functions for accounts, meters and meter reading, bill and bill print, and  
16 customer relationship management; and 3) business reporting tools. Also  
17 responsible for the configuration and maintenance of customer-facing  
18 billing and payment applications to ensure the ease-of-use process for  
19 customers to view and provide payment for their bills.

20 The total headcount for the Information Technology function is 19. These 19  
21 employees are responsible for the IT function and reside at the corporate level. This  
22 headcount is assigned to the various IT functions noted above as follows:

- 23 • Administration (1)—Consisting of the Vice President of IT who is  
24 responsible for the total IT function;

- 1           • Infrastructure (5)—Consisting of a Manager of Telecommunications, one  
2           SAP DBA and Basis Administrator, one Desktop Support Analyst, one  
3           Telecommunications Analyst, and one Webmaster;
- 4           • Cyber Security (2)—Consisting of a manager of Infrastructure and a  
5           Security Analyst; and
- 6           • Business Applications (11)—Consisting of a Project Director, IT Project  
7           Manager, Manager SAP Solution Architect, two Functional Team Leads,  
8           one SAP ABAP ISU/CCS Programmer, and five SAP Functional Analysts  
9           responsible for various functions within the SAP system.

10           SouthWest maintains minimal headcount for these IT functional areas while  
11           still addressing the responsibilities of the various IT functions. Therefore, a headcount  
12           of 19 represents an efficient manner to accomplish the responsibilities within the  
13           various IT functions. No IT resources are directly employed by OWU-ML.  
14           Responsibility for overall IT systems and related IT functions in support of these  
15           systems (including desktop and computer hardware and server support) are totally  
16           centralized and accounted for as allocable indirect costs. The importance of the IT  
17           function and ultimate benefit to customers cannot be overemphasized in that essentially  
18           every aspect of SouthWest, its subsidiary utilities, and ultimately rate payers rely on IT  
19           systems and telecommunications. SouthWest realizes that IT is critically important to  
20           customers and manages these costs closely. The computer and telecommunications  
21           infrastructure and support provided by the IT function is right for SouthWest for the  
22           following reasons:

- 23           • To conduct business and address customer requirements, SouthWest  
24           requires a skilled and dependable IT function in the areas of

1 Infrastructure/Telecommunications/Desktop Support, Applications, and  
2 Cyber Security;

- 3 • Southwest has made a commitment to leveraging a modern applications  
4 infrastructure in SAP and also to employing skilled internal resources to  
5 efficiently support customer needs and as a result requires fewer resources  
6 to execute manual processes;
- 7 • SouthWest is sensitive to the modern reality of manual and automated  
8 threats affecting Cyber Security associated with its business applications  
9 like SAP and Email, as well as its operational technologies such as  
10 supervisory control and data acquisition (“SCADA”); and
- 11 • The SouthWest IT platform for Telecommunications and Infrastructure,  
12 Cyber Security, and Applications that exists is a stable, reliable and state of  
13 the art computing platform that supports business and customer  
14 requirements not only for current needs, but also provides a platform for  
15 growth in the future.

16 The adjusted recorded cost attributable to the IT function in the Test Year was  
17 \$3.270 million. Approximately \$2.055 million (62.9%) represents payroll and benefits  
18 (net of capitalized direct labor). 75 percent of performance-based and 50 percent of  
19 merit-based incentive compensation have been excluded from Test Year costs.

20 In addition to payroll and benefits, significant core non-payroll costs are  
21 associated with IT functions. These core ongoing costs are attributable to facilities, data  
22 circuitry and connectivity, voice and data network lines, hardware and software  
23 licensing and maintenance costs, laptops, copiers, printers, and mobile communication  
24 devices. The remaining \$1.214 million of costs in the IT function relate to these

1 activities. The \$3.270 million represents a necessary and reasonable cost for  
2 SouthWest regarding the IT function.

3 **D. Finance**

4 The Finance function is responsible for the accurate and timely accounting for  
5 corporate transactions, the accurate and timely preparation of financial statements,  
6 preparation of budgets and forecasts, accounts payable, treasury, capital structure, risk  
7 management, audit, tax, and providing management with the financial information  
8 necessary for informed operating and financial decision making.

9 For the Test Year, a total of 16 employees were devoted to the various efforts  
10 within the Finance function. This headcount consists of the following:

- 11 • Accounting (6)—Controller, Assistant Controller, Manager, Senior  
12 Accountant, Senior Accountant, Clerk;
- 13 • Payroll (2)—Manager, Clerk;
- 14 • Accounts Payable (2)—Manager, Clerk;
- 15 • Financial Planning & Treasury (3)—Director, Analyst, Analyst;
- 16 • Risk Management (1)—Manager;
- 17 • Tax (1)—Manager; and
- 18 • Internal Audit (1)—Director.

19 There are no consolidated functions at any of the subsidiary levels; i.e.  
20 accounting, payroll, accounts payable, treasury, risk management, tax or audit function.  
21 All of these consolidated functions are indispensable and are performed appropriately  
22 at the corporate level. The 16 employees within the Finance function are a reasonable  
23 number for the activities for which they are responsible and represent an efficient  
24 headcount to address the various responsibilities.

1           The adjusted recorded cost attributable to the Finance function in the Test Year  
2 was \$3.511 million. Approximately \$2.687 million (76.5%) represents payroll and  
3 benefits. 75 percent of performance-based and 50 percent of merit-based incentive  
4 compensation have been excluded from Test Year costs. The cost of SouthWest's  
5 annual audit performed by PwC and tax work performed by RSM US LLP and Delta  
6 Property Tax Advisors is \$475,000 (13.5%). Annual audits are mandatory under  
7 SouthWest credit agreements. Bank charges and rating agency charges were \$124,000  
8 (3.5%). SouthWest's banks provide an indispensable service at competitive fees for  
9 processing cash receipts and payments and providing computer access for monitoring,  
10 managing, and facilitating the movement of cash. Additionally, the cost of an annual  
11 rating on SouthWest's debt is required by SouthWest's credit agreements. Together,  
12 the cost of finance staff, mandatory annual audits and tax filings, bank charges, and  
13 credit rating agency charges represent 93.6% of the cost of this function. SouthWest  
14 seeks to acquire and retain an efficient and talented finance staff at competitive  
15 compensation. SouthWest negotiates reasonable pricing for mandatory annual audits,  
16 tax work, and indispensable banking and credit rating agency services. Therefore, the  
17 total cost of \$3.511 million represents a reasonable and necessary cost for the finance  
18 function.

19 **E. Human Resources**

20 The Human Resources function is responsible for effective policies and procedures in  
21 support of the workplace and SouthWest in operation of the business, talent acquisition  
22 and retention, management of employee benefit programs, employee and  
23 organizational development, compensation administration, succession planning, and



1 rewards and recognition programs that drive performance. The Human Resources  
2 function consists of one Vice President, which is an efficient staffing level.

3 The adjusted recorded cost attributable to the Human Resources function in the  
4 Test Year was \$0.993 million. Approximately \$467,000 (47.0%) represents payroll  
5 and benefits. This level of payroll and benefits is appropriate. 75 percent of  
6 performance-based and 50 percent of merit-based incentive compensation have been  
7 excluded from Test Year costs. Additionally, approximately \$403,000 (40.6%)  
8 represents the cost attributable for outside services. These outside services consist of  
9 professional fees attributable to various consultants and vendors who provide  
10 professional advisory, administration, training, and financial services and are  
11 indispensable in support of the human resources functions. Together, these two cost  
12 components amount to 87.6% of the total cost of this function. The remaining 12.4%  
13 of costs relate to employee education and other general and administrative costs.  
14 Therefore, the \$0.993 million cost for Human Resources and the indispensable outside  
15 services on which this function relies is a reasonable and necessary cost for SouthWest  
16 regarding the Human Resources function.

17 **F. Facilities**

18 The Facilities function is responsible for maintenance and operation of a  
19 two-story 32,000 sq. ft. corporate office located in Sugar Land, Texas (the Reed Road  
20 Facility) and an 8,400 sq. ft. consolidated records retention facility located nearby (the  
21 Eldridge Road Facility). A discussion of these facilities follows:

22 **1. Reed Road Facility**

23 In March of 2001, the corporate office facility on Reed Road was leased for a  
24 25-year period ending in February 2026. The base rent portion of the lease makes

1 provision for periodic increases in monthly rental payments over the term of the lease.  
2 The lease expense for the Reed Road facility for the Test Year is approximately  
3 \$408,000.

4 SouthWest subleases a portion of its corporate office space to its Texas Utilities  
5 business unit at a Test Year cost of approximately \$230,000 (inclusive of utilities,  
6 maintenance and repairs, property tax, property insurance). Net of the lease payments  
7 associated with this sublease, SouthWest's lease expense subject to indirect cost  
8 allocation for the Test year is approximately \$178,000.

9 Repair and maintenance for the Test Year was \$121,000. SouthWest's property  
10 tax for the facilities function totaled \$64,000. Utilities for the corporate office was  
11 \$61,000.

## 12 **2. Eldridge Road Facility**

13 In February 2013, SouthWest entered into lease agreements for warehouse  
14 space on Eldridge Road for records retention. The initial leases have been extended  
15 through August 31, 2021, and SouthWest expects to renew the leases. Lease expenses  
16 for the Test Year totaled approximately \$58,000. Utilities and repair and maintenance  
17 for the Test Year totaled approximately \$4,000.

18 Net annual costs for both the Reed Road and Eldridge Road facilities for the  
19 Test Year totaled \$486,000 (\$424,000 for Reed Road and \$62,000 for Eldridge Road).

20 The Facilities function consists of one person at the senior maintenance  
21 technician level who is responsible for the daily maintenance and operation of these  
22 facilities. One senior facilities and maintenance technician is the minimum and  
23 therefore is an efficient headcount for the facilities function to address the  
24 responsibilities of this function.

1           The adjusted recorded cost attributable to the Facilities function for the Test  
2 Year was approximately \$610,000. Approximately \$94,000 represents payroll and  
3 benefits for one person, or 15.4% of the total cost. This level of payroll and benefits is  
4 appropriate for a senior maintenance technician. As noted above, approximately  
5 \$486,000, or 79.7%, represents the net cost of rent, utilities, maintenance and repair,  
6 and property taxes for the Reed Road and Eldridge Road facilities. Together, these  
7 cost components amount to 95.1% of the total cost of this function. Therefore, the  
8 \$610,000 cost represents a reasonable and necessary cost for SouthWest with respect  
9 to the facilities function.

#### 10           **V. ALLOCATION OF ALLOWABLE INDIRECT COSTS**

#### 11   **Q. WHAT METHOD DID SOUTHWEST USE TO ALLOCATE THE INDIRECT** 12   **COSTS DISCUSSED ABOVE?**

13   A. SouthWest incurs two types of costs that are passed on to its affiliates: 1) SouthWest's  
14 costs that directly benefit a particular affiliate, which are directly identifiable with that  
15 affiliate (direct costs); and 2) SouthWest's costs that are not identifiable with particular  
16 affiliates and that benefit all or multiple affiliates (indirect costs). Indirect costs are  
17 generally allocated by the three-factor methodology or to a much lesser extent, a  
18 specific methodology.

19           The three-factor methodology is used to allocate the vast majority of Corporate  
20 Shared Services costs that are either not directly assigned to an affiliate or are not  
21 subject to any of the specific allocation methodologies. SouthWest uses the following  
22 factors, equally weighted:

- 23           • Gross Plant;
- 24           • Operating Expenses Including Payroll Expenses; and

- Payroll Expenses.

The application of the three-factor methodology for the Test Year is shown in Attachment OWU/204. The three-factor method for allocating corporate indirect costs results in an allocation of approximately \$74,000 to OWU-ML for the adjusted Test Year based on an allocation factor of 0.6% (see Attachment OWU/204).

As noted above, to a much lesser extent, some of SouthWest's indirect costs are allocated using specific allocation methods in the alternative to the three-factor allocation method. Indirect costs allocated using a specific allocation method are limited to premiums for consolidated insurance coverages, bank earnings allowances, employee medical insurance administrative charges, employee dental insurance, and IT maintenance costs. The specific allocation methods for these indirect costs are fully described in the SouthWest Cost Allocation Manual.

## **VI. INSURANCE COSTS**

### **Q. WHAT KINDS OF INSURANCE DOES SOUTHWEST RETAIN?**

A. SouthWest has identified risks to its assets, income, employees, information systems, and management, as well as the environment and third parties. To mitigate the potential financial loss associated with these risks, SouthWest has chosen to transfer a portion of these risks to the insurance marketplace. SouthWest pays premiums to carriers in the marketplace in return for their acceptance of these transferred risks.

SouthWest retains various types of consolidated insurance coverages to ensure business sustainability including workers' compensation, auto, primary, umbrella, premises pollution, property, employment practices, cyber technology, crime, directors and officers, and broad form Side A. SouthWest's subsidiaries, including OWU-ML, benefit from the economies of scale achieved by obtaining consolidated coverages,

1 rather than each of its affiliates obtaining separate policies. The consolidated insurance  
2 premiums and related broker fees are indirect costs that are allocated using a specific  
3 methodology.

4 **Q. WHAT METHODOLOGIES ARE USED TO ALLOCATE INSURANCE**  
5 **COSTS?**

6 A. As detailed in SouthWest's Cost Allocation Manual, costs of insurance coverages are  
7 allocated to affiliates based on the cost driver that determines the pricing of that  
8 particular policy. For example, property insurance costs are allocated based on the  
9 affiliate's proportion of property value relative to the whole. Certain coverages (e.g.,  
10 directors and officers, crime, and broad form Side A) function primarily at the corporate  
11 level; therefore, the premiums for these policies are allocated entirely to SouthWest  
12 corporate for further reallocation to SouthWest subsidiaries using the three-factor  
13 method.

14 **VII. APPROPRIATENESS OF ALLOCATION METHODS**

15 **Q. PLEASE EXPLAIN WHY SOUTHWEST'S ALLOCATION**  
16 **METHODOLOGIES ARE AN APPROPRIATE METHOD FOR**  
17 **ALLOCATING THE INDIRECT COSTS DISCUSSED ABOVE.**

18 A. Based on its combination of regulated and non-regulated affiliates, an allocator  
19 comprised of the three factors and the specific allocation methods described above best  
20 reflect the underlying cost drivers associated with the circumstances and business  
21 model of SouthWest and its subsidiaries.

22 **Q. ARE SOUTHWEST'S ALLOCATION METHODOLOGIES USED**  
23 **CONSISTENTLY AMONGST ALL OF ITS SUBSIDIARIES INSIDE AND**  
24 **OUTSIDE OF OREGON?**

1 A. SouthWest employs the same allocation methodologies for allocating indirect  
2 corporate costs in all of its operating jurisdictions. Therefore, corporate costs allocated  
3 to OWU-ML are no higher than prices charged by SouthWest to its other affiliates for  
4 the same item or items.

5 **Q. DOES SOUTHWEST PROVIDE SERVICES TO ANY UNAFFILIATED**  
6 **PERSONS OR CORPORATIONS?**

7 A. No. SouthWest serves solely as a corporate parent to its subsidiaries and provides no  
8 services to any third parties.

9 **Q. IN ADDITION TO THE COSTS NOTED ABOVE, ARE THERE ANY OTHER**  
10 **SHARED EXPENSES ALLOCATED TO SOUTHWEST'S AFFILIATES?**

11 A. Yes. SouthWest makes certain capital investments such as corporate headquarters, IT  
12 systems, etc. that benefit all the various operating affiliates. The net rate base and  
13 depreciation expense of these investments is allocated to SouthWest's affiliates using  
14 the Three-Factor Methodology. The net allocated rate base and depreciation expense  
15 allocated to OWU-ML for the adjusted Test Year is approximately \$41,000 and  
16 \$11,000, respectively (based on an allocation factor of 0.6% (see Attachment  
17 OWU/204). These capital investments are discussed in detail in the direct testimony of  
18 Jeff Farney.

19 **VIII. CONCLUSION**

20 **Q. DOES THIS CONCLUDE YOUR PREPARED TESTIMONY?**

21 A. Yes.

# Exhibit OWU/201

## SouthWest Water Company Cost Allocation Manual



# **Cost Allocation Manual**

**Effective Date: August 26, 2019**



# Cost Allocation Manual

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## 1. INTRODUCTION

The purpose of this Cost Allocation Manual ("CAM") is to provide a detailed explanation of services provided by SouthWest Water Company ("SWWC" or "Company") and its affiliates to other entities within the SWWC organization and to describe the direct charge and indirect charge methodologies used for allocating those costs.

This CAM has been completed in accordance and conformance with the National Association of Regulatory Utility Commissioners *Guidelines for Cost Allocations and Affiliate Transactions* ("NARUC Guidelines"). More specifically, the founding principles of this CAM are to a) directly charge as much of the incurred costs as possible to the entity that procures any specific service, b) fairly allocate costs that cannot be directly charged to the Company's subsidiaries and c) ensure that unauthorized subsidization of unregulated activities by regulated activities, and vice versa, does not occur.

SWWC will periodically evaluate its cost allocation methodologies to determine if changes to such processes are appropriate, and revise those methodologies as necessary.

## 2. RESPONSIBILITY OF MAINTAINING THE CAM

The overall responsibility for SWWC's cost allocation policies and procedures will be with the SWWC Chief Financial Officer. The day-to-day responsibility for maintaining the CAM and ensuring that accounting records reflect the policies and procedures described in the CAM will be that of the SWWC Corporate Controller.

## 3. DEFINITIONS

- a. Affiliates - any entity whose outstanding voting securities are more than 10 percent owned or controlled, directly or indirectly, by SWWC. "Affiliate" does not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which the Company directly or indirectly participates or in which the Company is directly or indirectly a member or shareholder. For purposes of this CAM, "affiliate" does not refer to ownership levels above SWWC or other entities owned or controlled by such.
- b. Commission – Appropriate State Regulatory Commission (e.g. California Public Utilities Commission).
- c. Cost Allocation Manual/CAM - an indexed compilation and documentation of the Company's cost allocation policies and related procedures.
- d. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- e. Cost Center – a function or service where costs are accumulated.
- f. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

- g. Department/Function – a function or service for which costs are accumulated.
- h. Direct Costs - costs incurred by one entity for the exclusive benefit of, or specifically identified with, one or more entities, and which are directly charged (or assigned) to the entity or entities that specifically benefit. Under the NARUC Guidelines, “Direct Costs” are defined as “costs which can be specifically identified with a specific service or product.”
- i. Fully Allocated Costs – the sum of the direct, indirect, and other economic costs of all equipment, vehicles, labor, related fringe benefits and overheads, real estate, furniture, fixtures, computer hardware and software, and other administrative resources utilized, and other assets utilized and costs incurred, directly or indirectly in the providing of services from the Company to an affiliate.
- j. Common Costs/Indirect Costs - costs incurred by one entity that benefit all or multiple SWWC affiliates and which are charged to the benefiting affiliates using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery. Under the NARUC Guidelines, “Indirect Costs” are defined as “costs that cannot be identified with a particular service or product. This includes but is not limited to overhead costs, administrative, general, and taxes.”
- k. Non-Regulated – those non-tariffed entities, products, and services which are not subject to rate and service regulation by state regulatory authorities.
- l. Regulated - that which is subject to rate and service regulation by state regulatory authorities.
- m. Shared Services – Corporate oversight, support, and services common to SWWC operations as a whole provided by the corporate functions of management, legal, information technology, finance, human resources, and facilities.
- n. Corporate Capital – assets utilized by Shared Services and/or utilized in common among affiliates.
- o. Subsidization - the recovery of costs from one class of customers or business unit, which are more properly attributable to another.

#### **4. GENERAL PRINCIPLES**

The following principles guide the allocation of costs for products or services provided by SWWC to its affiliates.

- To the extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service, or product provided;
- The general method for charging indirect costs should be on a fully allocated, cost-causative allocation basis;
- All direct and allocated costs should be traceable on the books of the applicable affiliate;
- Documentation regarding transactions between the regulated utility and its affiliates should be made available for review by the appropriate Commission or other regulatory authority upon request to address their reasonable concerns in their exercise of their responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings;

- The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost to all affiliates.

## 5. SWWC ORGANIZATIONAL STRUCTURE

SWWC is a private, investor-owned company currently providing water and wastewater utility services to customers in Alabama, California, Oklahoma, Oregon, South Carolina, and Texas. The Company is comprised of the following business units:

- Through water distribution facilities located in Los Angeles and Orange Counties, SWWC provides high-quality drinking water to customers located in California. These facilities operate as Suburban Water Systems (“SWS”).
- Through water and wastewater facilities located throughout Texas, SWWC serves customers with water distribution and wastewater collection and treatment services to populations primarily in and around the cities of Austin, Ft. Worth, Houston, San Antonio, and several other parts of Texas. These facilities operate collectively as Texas Utilities (“TXU”).
- Through wastewater collection facilities near the Birmingham and Huntsville areas in Alabama and through operations and maintenance contracts (to a much smaller extent), SWWC provides wastewater collection and treatment services to customers located in Alabama. These facilities operate collectively as Southeast Utilities (“SEU”).
- Through water and wastewater facilities located in Oregon, SWWC serves customers with water distribution and wastewater collection and treatment services. These facilities operate collectively as Northwest Utilities (“NWU”).
- Through water and wastewater facilities located on Kiawah Island, SWWC serves customers in South Carolina with water distribution and wastewater collection and treatment services. These facilities operate as Kiawah Island Utility (“KIU”).

## 6. SCOPE OF SERVICES PROVIDED BY SWWC

Shared Services are provided by the SWWC corporate functions of management, legal, information technology, finance, human resources, and facilities. Costs associated with these Shared Services are allocated to cost centers within SWS, TXU, SEU, NWU, and KIU. These services are described below:

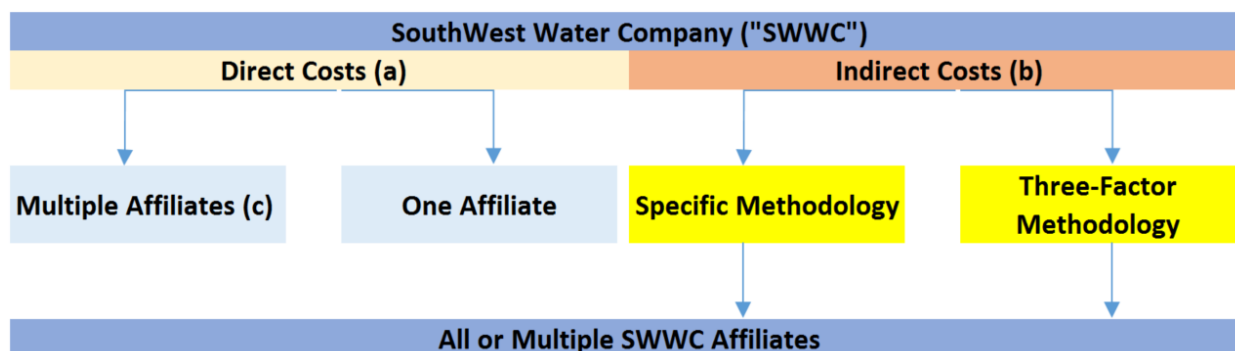
Service Provided	Description of Services Provided
Executive	The executive function is responsible for providing strategic vision and guidance, business strategy and development, executive management and oversight, and the overall direction of the company. The executive function consists of the Board of Directors and a core group of four senior executives; the CEO, COO, CFO, and General Counsel.
Legal	The legal function is responsible for corporate governance; transactional, employment, and real estate law; litigation, general legal affairs, and management of outside counsel.
Human Resources	The human resource function is responsible for effective policies and procedures in support of the workplace and the company in operation of the business, talent acquisition and retention, management of employee benefit and workers compensation

<b>Service Provided</b>	<b>Description of Services Provided</b>
	programs, employee and organizational development, compensation administration, succession planning, and rewards and recognition programs that drive performance.
Facilities	The facilities function is responsible for maintenance and operation of a corporate office located in Sugar Land, Texas and a consolidated records retention facility located nearby.
Finance	The finance function is responsible for the accurate and timely accounting for corporate transactions, the accurate and timely preparation of financial statements, preparation of budgets and forecasts, accounts payable, treasury, capital structure, risk management, audit, tax, and providing management with the financial information necessary for informed operating and financial decision making.
Information Technology	<p>The information technology function is responsible for identifying, implementing, and maintaining advanced and cost-effective systems solutions in support of Company business. This function is comprised of four groups as follows:</p> <p><u>Administration</u> – responsible for working with business units and vendors to ensure the highest quality of services to support business operations. Also develops short and long-range technology objectives, provides contract and project management, evaluates company business goals and objectives, and supports business units from a technology advisory standpoint.</p> <p><u>Infrastructure, Network, and Computer Desktop Support</u> – responsible for the planning, architecture, implementation, administration, and support of Company data, telecommunications, wide area network infrastructure, and database servers. Also provides frontline desktop and helpdesk technical support, procurement and management of IT assets and serve as the primary point of contact for end users and their computer or system needs.</p> <p><u>Information and Cyber Security</u> – responsible for the security configuration of all enterprise systems, IT governance and controls, and risk mitigation. Also develops and configures security roles in all enterprise systems, creates and terminates users, performs password resets, and configures permissions on Outlook public folders and servers. This function monitors automated and manual malicious attacks of company, employee and customer information assets and identifies, analyzes, and mitigates associated risks.</p> <p><u>Business Applications</u> – responsible for managing the ongoing systems-related business processes, administration, development and project management for company SAP enterprise system to include (1) the core functions of financials, material management, sales and distribution, human resources, payroll and benefits, (2) the industry specific solutions for utilities functions for accounts, meters and meter reading, bill and bill print, and customer</p>

Service Provided	Description of Services Provided
	relationship management, and (3) business reporting tools. Also responsible for the configuration and maintenance of customer-facing billing and payment applications to ensure the ease-of-use process for customers to view and provide payment for their bills.

## 7. COST ALLOCATION METHODOLOGY

As illustrated in the figure below, SWWC incurs two types of costs that are passed on to its affiliates: (1) SWWC’s costs that directly benefit a particular affiliate, which are directly identifiable with that affiliate (direct costs); and (2) SWWC’s costs that are not identifiable with particular affiliates and which benefit all or multiple affiliates (indirect costs).



- (a) Costs that are directly assignable to an SWWC Affiliate
- (b) Costs that benefit all SWWC Affiliates. Certain indirect costs are subject to specific allocation methodologies, while all other indirect costs are allocated using the Three-Factor Methodology.
- (c) Costs that are directly assignable to two or more affiliates, but not all of the affiliates. These costs are directly assigned to affiliates as per the vendor invoice or equally if not specified on invoice.

On occasion there may be costs which are incurred for the benefit of two or more affiliates, but not all of the affiliates. These costs are directly assigned to affiliates as per the vendor invoice, or, if the invoice doesn’t specify a share for each affiliate, the costs are generally assigned equally to the affiliates that benefited from the service.

Certain types of direct costs are allocated based on the methodologies in the table below:

Type of Cost	Allocation Methodology
Consolidated insurance coverages	The cost of certain of the Company’s consolidated insurance coverages are allocated to affiliates based on the cost driver that determined the pricing of the policy. For example, the cost of property insurance is allocated to affiliates based on their respective property values as a proportion of the total property value of the Company.
Earnings allowances (bank)	Certain earnings allowances from the Company’s primary banking relationship are allocated to affiliates based on their

<b>Type of Cost</b>	<b>Allocation Methodology</b>
	respective bank fees as a proportion of total bank fees of the Company.
Employee medical insurance administrative charges and other ancillary employee benefits	Administrative charges related to the employee medical insurance plans and the cost of other ancillary employee benefits are allocated to affiliates based on their respective headcounts as a proportion of the total headcount of the Company.
Employee dental insurance	The cost of employee dental insurance is allocated to affiliates based on their number of employees participating in the dental plan as a proportion of the total number of employees participating in the Company's dental plan.
IT Maintenance Costs	The cost of on-going maintenance of the Company's Enterprise Resource Planning ("ERP") System and Microsoft applications is allocated to affiliates based on their number of software licenses as a proportion of the total number of software licenses of the Company.

**Indirect Cost Allocation**

Three-Factor Methodology

The Three-Factor Methodology is used to allocate costs which are either not directly assigned to an affiliate or are not subject to any of the specific allocation methodologies noted above. Based on its combination of regulated and non-regulated affiliates, an allocator comprised of the three components listed below best reflects the underlying cost drivers associated with the circumstances and business model of SWWC. The Company utilizes the following factors, equally weighted:

- Gross Plant;
- Operating Expenses Including Payroll Expenses; and
- Payroll Expenses

The three-factor formula used to allocate the SWWC Shared Services costs is determined using the process shown below. Note: the information below provides a simplified hypothetical example to demonstrate how the Three-Factor Methodology would be calculated based on allocation to only two hypothetical affiliates.

Three-Factor Methodology Example

Factor	Affiliate 1	Affiliate 2	Affiliates Total	Affiliate 1 % of Total	Factor Weight	Affiliate 1 Allocation
Gross Plant (\$)	700	550	1,250	56.0%	33.3%	18.7%
Operating Expenses Including Payroll Expenses(\$)	102	48	150	68.0%	33.3%	22.7%
Payroll Expenses (\$)	45	30	75	60.0%	33.3%	20.0%
<b>Total Allocation</b>						<b>61.4%</b>

As can be seen from these hypothetical numbers in the table above, Affiliate 1 would be allocated 61.4% of the total indirect costs incurred by SWWC, based on application of the Three-Factor Methodology. Affiliate 2 would be allocated the remaining 38.6%.

## 8. CORPORATE CAPITAL

SWWC makes certain capital investments such as corporate headquarters, IT systems, etc. that benefit the various operating affiliates. The costs of these investments are distributed monthly in the form of an intercompany operating expense charge which captures the depreciation expense and cost of capital associated with the particular assets, or an alternative method of capital allocation based on the particular needs of the project. All costs to service the investment, including the cost of capital, depreciation, and all other associated costs, are allocated to SWWC’s affiliates using the Three-Factor Methodology. From time to time, the distribution of costs associated with a particular corporate capital investment may use an alternate method.

## 9. AUDIT, RECORD KEEPING & AFFILIATE TRANSACTION RULES

Records of each affiliate will be maintained such that all affiliate transactions are auditable. The records will document the cost of transactions, the methods used to distribute the costs, and descriptions of the services provided. The regulator will have access to records, consistent with applicable laws, regarding transactions between SWWC and its affiliates. All affiliates subject to affiliate transaction rules, whether state or federal, will comply with such requirements.

## 10. UPDATING ALLOCATIONS

The Three-Factor Methodology allocation percentages are updated annually. The updated percentages come into effect each January 1st and are valid through December 31st. The factors and weightings are expected to remain constant; it is the underlying information used to calculate the allocation percentages that is updated annually, such as the most recent gross plant figures, or the most recent operating expenses, for example. With respect to the Company’s internal accounting records, these annual updates to the allocation percentages are based on the most recent actual information (for gross plant) and budgeted information (for operating expenses and payroll expenses). However, with respect



to rate case proceedings for the Company’s regulated affiliates, the underlying information for the factors will be based on the applicable recorded year or historical test year.

An entity/affiliate acquired or sold by SWWC is not added to or deducted from the Three-Factor Methodology until the year following such acquisition or disposition.

## **11. REGIONAL BUSINESS UNIT ALLOCATIONS**

Certain shared goods and services may be provided by business units to the business unit’s operating facilities or to those of another business unit. The costs of these services may be categorized as direct or indirect.

Direct costs are assigned directly to the cost center of the specific benefitting facility incurring the services. Indirect costs are allocated to cost centers based on a reasonable allocation methodology, such as Equivalent Dwelling Units (“EDUs”) or Meter Equivalents. An EDU is the estimated average sanitary flow from a single-family dwelling. Meter equivalents are calculated by multiplying prior year end “active” connections by the meter equivalent factors published by the American Water Works Association (“AWWA”), as shown in the following table.

<b>Meter Size</b>	<b>Meter Equivalent factor based on 5/8”</b>
<b>5/8 inch</b>	1.00
<b>3/4 inch</b>	1.50
<b>1 inch</b>	2.50
<b>1-1/2 inch</b>	5.00
<b>2 inch</b>	8.00
<b>3 inch</b>	15.00
<b>4 inch</b>	25.00
<b>6 inch</b>	50.00
<b>8 inch</b>	80.00
<b>10 inch</b>	115.00

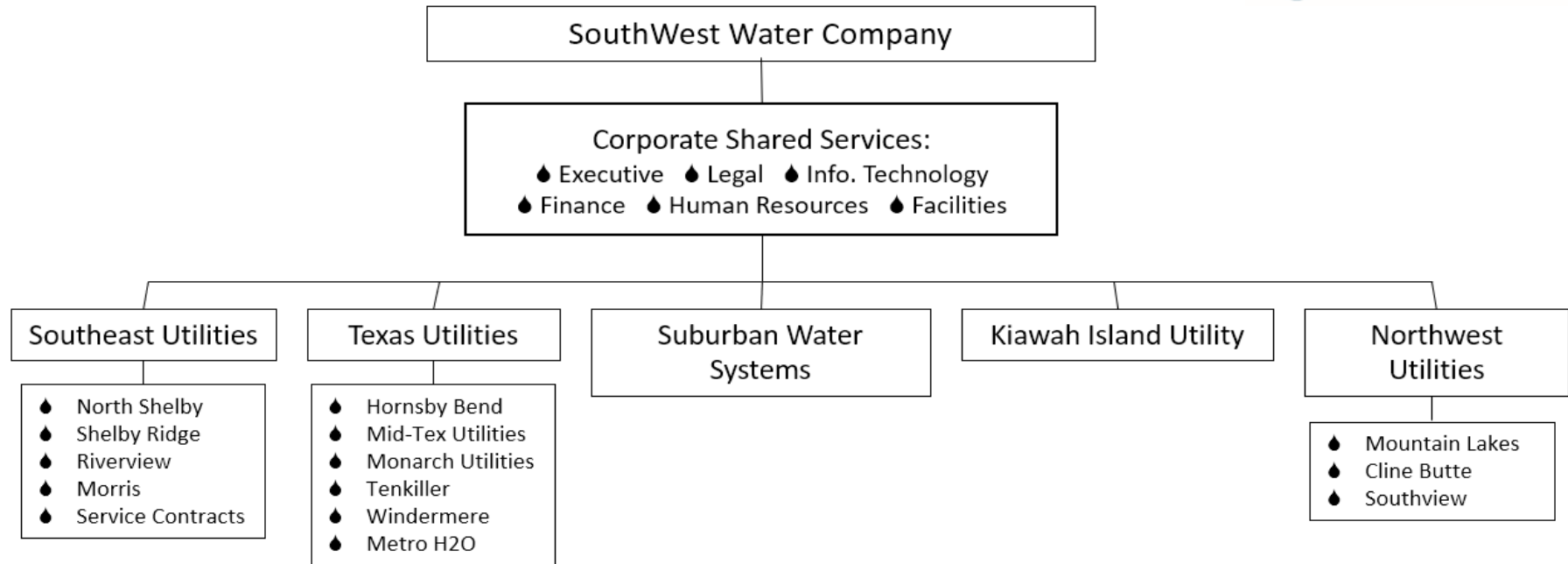
Source: AWWA Costs

## Exhibit OWU/202

# SouthWest Water Company Operational Structure



### Operational Organization Structure



As of December 31, 2019

## Exhibit OWU/203

### SouthWest Water Company Corporate Costs

## ATTACHMENT MSH-3

**TOTAL CORPORATE COSTS BY CORPORATE FUNCTION**

<b>Function</b>	<b>2019 - Adjusted Test</b>	
<b>Function</b>	<b>Year</b>	<b>% of Total</b>
Executive	\$ 3,171,026	27.1%
Facilities	609,734	5.2%
Finance	3,510,885	30.1%
Human Resources	993,320	8.5%
Information Technology	3,269,547	28.0%
Legal	126,457	1.1%
<b>Total</b>	<b>\$ 11,680,968</b>	<b>100.0%</b>

Exhibit OWU/204  
Cost Allocation Factors

ATTACHMENT MSH-4  
 3-Factor Calculation  
 2019 Test Year

Business Unit	Factor 1: Direct Operating Expense 2019 Actuals		Factor 2: Payroll Expense 2019 Actuals		Factor 3: End of Year Gross Plant Recorded YE 2019		3 Factors %	
	Amount \$	%	Amount \$	%	Amount \$	%	Total	Average
<b>Total Suburban Water Systems</b>	44,223,581	45.9%	10,799,837	41.0%	326,739,907	41.5%	128.4%	42.8%
<b>Northwest Utilities</b>								
Cline Butte Water	406,917	0.4%	229,191	0.9%	9,143,435	1.2%	2.5%	0.8%
Mountain Lakes Water	148,866	0.2%	29,657	0.1%	12,799,045	1.6%	1.9%	0.6%
Non-regulated Ops	1,207,758	1.3%	199,305	0.8%	2,823,040	0.4%	2.4%	0.8%
<b>Total Northwest Utilities</b>	1,763,541	1.8%	458,153	1.7%	24,765,521	3.1%	6.6%	2.2%
<b>Total Texas Utilities</b>	31,846,310	33.1%	10,256,482	38.9%	284,557,645	36.1%	108.1%	36.0%
<b>Total Southeast Utilities</b>	11,385,538	11.8%	3,958,162	15.0%	101,389,770	12.9%	39.7%	13.2%
<b>Total Kiawah Island Utility</b>	7,120,536	7.4%	884,755	3.4%	50,209,159	6.4%	17.2%	5.7%
<b>TOTAL</b>	<b>96,339,506</b>	<b>100.0%</b>	<b>26,357,388</b>	<b>100.0%</b>	<b>787,662,002</b>	<b>100.0%</b>	<b>300%</b>	<b>100.0%</b>

**EXHIBIT 300**

**DIRECT TESTIMONY**

**OF**

**JEFF FARNEY**

**ON BEHALF OF**

**OREGON WATER UTILITIES – MOUNTAIN LAKES, INC.**

**SEPTEMBER 30, 2020**



**DIRECT TESTIMONY OF  
JEFF FARNEY**

**TABLE OF CONTENTS**

**I.** INTRODUCTION .....1  
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**IV.** ALLOCATIONS AND BENEFITS .....12  
**V.** CONCLUSION.....13

**ATTACHMENTS:**

Attachment OWU/301	smartShift Technologies Letter
CONFIDENTIAL Attachment OWU/302	Protiviti Cybersecurity Memo

**DIRECT TESTIMONY OF  
JEFF FARNEY**

1

**I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jeff Farney. My business address is 12535 Reed Rd., Sugar Land, Texas  
4 77478.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by SouthWest Water Company (“SouthWest”) as Vice President of  
7 Information Technology (“IT”).

8 **Q. BRIEFLY DESCRIBE YOUR PRESENT EMPLOYMENT.**

9 A. In my current position, I am responsible for defining, implementing and maintaining  
10 efficient, effective, and secure technology solutions that support SouthWest business  
11 operations.

12 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
13 BACKGROUND.**

14 A. I earned a Mechanical Engineering Degree from the University of Texas at Austin in  
15 1988 and a Masters in Business Administration from Texas Tech University in 1990.

16 I am also a graduate of the Federal Bureau of Investigation (FBI) Chief Information  
17 Security Officer (CISO) Academy in 2017 which focused on cyber security briefings  
18 and threat intelligence associated with the water industry. I have been with SouthWest

19 since October 2012 and am responsible for IT Strategy and Operations for  
20 Applications, Infrastructure, Telecommunications, and Cyber Security. Prior to joining

21 SouthWest, I worked primarily in the IT Consulting field, including 12 years with

1 Accenture, with my last role as Associate Partner in the Energy & Utilities Practice. I  
2 also spent eight years at LyondellBasell Chemical as Global Head of Information  
3 Services supporting the Human Resources and Finance function applications.

4 I have a total of 30 years in IT including approximately 25 years in project and  
5 organization management responsible for planning and executing small, medium- and  
6 large-scale programs plus managing IT departments responsible for internal customer  
7 service.

8 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THIS**  
9 **COMMISSION?**

10 A. No.

11 **II. PURPOSE OF DIRECT TESTIMONY**

12 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

13 A. I am testifying on behalf of Oregon Water Utilities – Mountain Lakes, Inc. (“OWU-  
14 ML”).

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
16 **PROCEEDING?**

17 A. The purpose of my direct testimony in this proceeding is to discuss SouthWest’s capital  
18 program as it relates to IT infrastructure investment.

19 **Q. WAS THIS MATERIAL PREPARED BY YOU OR UNDER YOUR**  
20 **SUPERVISION?**

21 A. Yes, it was.

1 **Q. INsofar AS THIS MATERIAL IS FACTUAL IN NATURE, DO YOU**  
 2 **BELIEVE IT TO BE CORRECT?**

3 A. Yes, I do.

4 **Q. INsofar AS THIS MATERIAL IS IN THE NATURE OF OPINION OR**  
 5 **JUDGMENT, DOES IT REPRESENT YOUR BEST JUDGMENT?**

6 A. Yes, it does.

7 **III. CAPITAL PROGRAM**

8 **Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST’S 2019 CAPITAL**  
 9 **PROGRAM.**

10 A. The table below shows a summary of the IT elements of SouthWest’s 2019 capital  
 11 program:

<u>IT Element</u>	<u>Amount</u>
Cyber Security	\$257,619.87
Facilities	\$13,131.06
Hardware	\$890,628.32
Software / Website	\$371,196.93
Telecommunications	\$846,416.48
SAP Upgrades	\$2,905,452.30

12 **Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST’S 2019 CAPITAL**  
 13 **PROGRAM.**

14 A. IT components of SouthWest’s 2019 capital program include the following:

- 15 • **CYBER SECURITY** - The scope of the cyber security implementation was  
 16 primarily the implementation of appliances that identify, protect, detect, and  
 17 respond to cyber security threats. The scope of these efforts included malware anti-  
 18 virus that uses advanced technology to identify and mitigate threats plus  
 19 configuration of SouthWest’s firewall appliances that protect the corporate

1 network. As part of each of these components, SouthWest leverages its  
2 relationships with government law enforcement organizations including the FBI,  
3 Infragard, and Water Information Sharing and Analysis Center (ISAC). Through  
4 my involvement with these groups, I have relationships with the Houston FBI field  
5 office that has been very beneficial in bolstering our readiness and cyber posture to  
6 work to prevent and mitigate attacks.

- 7 • FACILITIES - The scope of this spend included upgrading the building security  
8 system at SouthWest's corporate headquarters in Sugar Land, Texas where some  
9 of the IT, accounting and other support groups work.
- 10 • HARDWARE - The scope of this work included implementing computing  
11 hardware in both the Houston and the Dallas disaster recovery data centers. Also  
12 included was an important hardware item called an uninterruptable power supply  
13 (UPS) plus the procurement and deployment of computers and monitors for  
14 employees. Items also included hardware in the data center that supports a Wifi  
15 upgrade and an important switch and router upgrade for the Sugar Land Texas  
16 office.

17 The computing hardware in both the Houston and Dallas data centers  
18 supported key operations for the primary and backup computing resources. Among  
19 the applications supported by this hardware are Geographical Information System  
20 (GIS) technology and associated servers for storage plus cyber security. The UPS  
21 installed in SouthWest's corporate headquarters in Sugar Land, Texas where the  
22 IT, accounting and other support teams work helps ensure that electrical power to  
23 the building remains online even during power outages of short and long in

1 duration. The computer equipment that connects to the SouthWest network is for  
2 employees to support business operations and customer service whether at the  
3 office or working remote. The Wifi upgrade is necessary to sustain current  
4 technology and the associated cyber security protocols to protect data access and  
5 information transfers.

- 6 • SOFTWARE/WEBSITE - The scope of this work was a combination of upgrading  
7 SouthWest's website, that also includes OWU-ML's website hosting, installing  
8 software that backs up a critical virtual computing platform called VM Ware, and  
9 the implementation of the upgraded SouthWest email and collaboration platform  
10 called Office 365. The new website features the presentation of useful information  
11 for customers, including OWU-ML customers, that allowed them to work in a self-  
12 service manner. For example, OWU-ML customers were able to sign up for text  
13 alerts for billing and outage notifications. When complete, the upgraded website  
14 will be fully ADA compliant and also provide content in Spanish. Many of the  
15 computing resources run on what are known as virtual machines which are  
16 extremely efficient and flexible vs. traditional hardware servers. There is unique  
17 technology that performs backups for this type of computing and this was the scope.  
18 The Office 365 implementation was a strategic upgrade of both the email  
19 processing platform and an associated collaboration suite. With the email servers  
20 managed by Microsoft, SouthWest was able to reduce risk associated with both  
21 email security and reliability. The collaboration suite that included Teams, One  
22 Drive, and SharePoint has been instrumental to support employees and business

1 processes during the remote workforce model during the 2020 COVID-19  
2 pandemic.

- 3 • TELECOMMUNICATIONS - This project included the software, hardware and  
4 labor to implement the call center standard platform Cisco Collaboration Enterprise  
5 Solution and a product called Unified Contact Center Express. Scope included  
6 voice instant messaging audio and video conferencing. It offers provided an  
7 integrated customer support technology platform with the market leader in  
8 customer call center automation and provides excellent service for customers. In  
9 addition, it offers a fully integrated suite of products as opposed to a disjointed  
10 architecture requiring resources to manage multiple vendors to run the Call Center  
11 adjunct applications. With the Cisco platform there are various features geared  
12 toward improving efficiency customer service such as: Courtesy Customer  
13 Callback if they choose to not sit on hold, Customer web-based chat,  
14 teleconferencing, video conferencing and unified communications that integrates  
15 with Office 365. This platform also enabled our call center agents to work remote  
16 during the COVID-19 pandemic and continue to take customer calls via the Cisco  
17 platform. In addition, employees were able to utilize some of the collaboration  
18 tools available including the video conferencing application called Cisco WebEx.

19 Another important need met by this upgrade is that the hardware that was to  
20 be replaced would have been approximately ten years old and thus increasingly  
21 unstable and vulnerable to cyber threats that were neither known nor understood  
22 when the platform was designed.

- 1           • SAP UPGRADES - The coordinated effort of upgrading SAP to its most recent  
2           proven commercialized version (referred to as the “SAP Upgrade”) plus  
3           implementing SAP’s in memory data base platform Business Suite on Hana  
4           (referred to as “Hana”) provided numerous benefits to SouthWest and OWU-ML  
5           customers as well as business operations and information technology support. The  
6           SAP Upgrade scope involved technically moving from the prior version of SAP  
7           being used by SouthWest, called ERP Central Component (ECC) and Customer  
8           Relationship Management & Billing (CRM&B) Enhancement Pack 4 (EP4), to  
9           ECC CRM&B EP8 for Hana. To provide context on how critical these applications  
10          are to the business, ECC and CRM&B run applications that include modules within  
11          the SAP Industry Solution Utilities package (ISU), Financial / General Ledger /  
12          Controlling (FICO), Customer Accounting (FICA), Metering and Meter Read  
13          Interfaces, Billing and Collections, Inventory Management, Procurement, Service  
14          Order Management, Customer Information System (CIS), Human Resources (HR)  
15          and Benefits, Payroll. SouthWest had been using EP4 since the original  
16          implementation in 2011. Without this upgrade the system would have become  
17          increasingly unstable and the likelihood of application failures and security  
18          breaches would have increased as will the risk of negatively impacting business  
19          operations and customer service.

20                 The upgrade also provided cyber security updates that contribute to  
21                 compliance with Payment Card Industry (PCI) regulations that protects customer  
22                 cardholder information. By upgrading the system to the current version ECC EP8,  
23                 many risks to our customers were greatly reduced. SAP Business Suite on Hana



1 (replacing Microsoft SQL Server database) is a database that not only supports the  
 2 ECC modules noted previously but also brings together transactions and analytics  
 3 on a single in-memory platform in order to improve performance and functionality.  
 4 This allows for elimination of the existing SAP ECC & CRM&B interfaces to  
 5 Microsoft SQL Databases which is not ideal as it included a multi-vendor solution  
 6 and required constant attention.

7 The Hana platform will provide many other benefits. There were a significant  
 8 number of manual processes and technical interfaces required to move data from  
 9 the transactional system (ECC) to the reporting system (Business Warehouse) in  
 10 order to produce information for the Public Utility Commission of Oregon. The  
 11 Hana platform puts this information in one central location and thus enables  
 12 improved timeliness and quality of reporting. Implementing Hana in conjunction  
 13 with the upgrade also allows for the eventual implementation of Advanced  
 14 Metering Infrastructure (AMI) and the ability to store and process large amounts of  
 15 data that interface with smart meters to help customers better manage water  
 16 consumption. Hana also includes Advanced Analytics to enable improved customer  
 17 service.

18 **Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST’S 2018 CAPITAL**  
 19 **PROGRAM.**

20 A. The table below shows a summary of the IT elements of SouthWest’s 2018 capital  
 21 program:

<b><u>IT Element</u></b>	<b><u>Amount</u></b>
Cyber security	\$46,197.92
Facilities	\$41,438.10
Hardware	\$56,068.44

Software / Website	\$8,053.80
SAP Upgrades	\$164,187.07
Infrastructure Reliability Upgrade	\$1,550,370.00

1 **Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST’S 2018 CAPITAL**  
 2 **PROGRAM.**

- 3 • **CYBER SECURITY** - The scope of the cyber security implementation was  
 4 primarily the procurement of licenses for the email gateway that monitors inbound  
 5 and outbound emails and address any cyber security issues. Among the items that  
 6 this security application addresses are threats involving malware, ransomware, and  
 7 payloads that are sent via email.
- 8 • **FACILITIES** - The scope of this spend covered upgrades of two air conditioner  
 9 units at SouthWest’s corporate headquarters in Sugar Land, Texas where some of  
 10 the IT, accounting and other support groups operate from.
- 11 • **HARDWARE** - The scope of the hardware implementation included refreshing  
 12 laptop computers and monitors for employees after the 3 to 4-year window expired  
 13 for their prior machines. As part of this effort, the computer operating systems were  
 14 upgraded to Microsoft Windows 10 which enabled a number of functional  
 15 enhancements and cyber security features.
- 16 • **SOFTWARE/WEBSITE** - The scope of this project was primarily software licenses  
 17 to support employee computing needs.
- 18 • **SAP UPGRADES** - The scope of this area included key human resources – payroll  
 19 items such as updating SouthWest’s payroll systems to account for the Federal Tax  
 20 Cut and Jobs Act. In addition, new automation was implemented to enhance  
 21 customer service processes. These included improved precision to help field

1 workers identify premise addresses in large complexes to reduce the time of service.  
2 Other items include supporting non-utility billing to unify the customer payment  
3 experience for supplementary services like backflow testing. Automation was also  
4 implemented to provide additional installment plans for customers who needed  
5 extra time to pay their invoices.

- 6 • **INFRASTRUCTURE RELIABILITY UPGRADE** - In order to enhance the  
7 robustness of the computing infrastructure, we implemented an Infrastructure as a  
8 Service (IAAS) model to run SouthWest's SAP system hosted by Amazon Web  
9 Services (AWS). This was in lieu of purchasing hardware for a leased data center  
10 and was the best approach for supporting this platform and ultimately providing  
11 service to our customers in a reliable and cost-effective manner. After consultation  
12 with industry experts, an agreement was reached with AWS for cloud computing  
13 services for a 41-month period from July 2018 – November 2021. The parties are  
14 also working on an extension through 2023 and this approach and budget has been  
15 approved by SouthWest's board of directors.

16 Recommendations for the best approach (traditional data center vs. IAAS  
17 via AWS) were provided by smartShift Technologies, which is included with my  
18 direct testimony as Attachment OWU/301. Protiviti - a leading cyber security firm  
19 - documents Protiviti's support of the Cloud Computing Strategy, as well as the  
20 excellent track record of SouthWest in terms of cyber security in a memo included  
21 with my direct testimony as CONFIDENTIAL Attachment OWU/302.

1 **Q. PLEASE IDENTIFY THE IT ELEMENTS OF SOUTHWEST’S 2017 CAPITAL**  
 2 **PROGRAM.**

3 A. The table below shows a summary of the IT elements of SouthWest’s 2017 capital  
 4 program as of the acquisition date of OWU-ML:

<u>IT Element</u>	<u>Amount</u>
Cyber security	\$81,119.91
Hardware	\$62,161.57
Software / Website	\$857,771.50
SAP Upgrades	\$80,367.91

5  
 6 **Q. PLEASE DESCRIBE THE IT ELEMENTS OF SOUTHWEST’S 2017 CAPITAL**  
 7 **PROGRAM.**

- 8 • **CYBER SECURITY** - The scope of the cyber security implementation involved  
 9 the implementation of upgraded technology to secure customer payment  
 10 information plus an upgrade of the SouthWest’s virtual private network (VPN)  
 11 technology called Net Motion. The VPN allows employees to access SouthWest’s  
 12 network while not physically located in one of our offices in a safe and secure  
 13 manner. This also serves as a perimeter defense against cyber-attacks.
- 14 • **HARDWARE** - The primary component of the hardware purchase was a Wifi  
 15 Controller that manages the Wifi access points distributed throughout office  
 16 workplaces. Wifi enables employees to access SouthWest’s network and computer  
 17 applications to provide customer service and back office functions.
- 18 • **SOFTWARE/WEBSITE** - The primary scope of the software implementation was  
 19 an upgrade of the software used to support our field operations via a work order,  
 20 dispatch, and tracking system called Work Manager. This system is integrated with  
 21 SAP and the customer service functionality and enables an automated, efficient

1 process by which the field operator can respond to customer requests, asset  
2 maintenance, and other mission critical operations processes.

- 3 • SAP UPGRADES - The primary scope in this area included upgrading  
4 functionality that provides services for our customers. Among the items that  
5 enhanced customer service processes included automating the customer refund  
6 process, adding new billing and payment functionality, and supporting customer  
7 service metric reporting. In addition, some of the configuration that supports  
8 employee human resources processes such as time entry and overtime tracking were  
9 enhanced as well. Features that automate the processing and posting of customer  
10 payments to their accounts were also upgraded.

#### 11 IV. ALLOCATIONS AND BENEFITS

12 **Q. HOW ARE COSTS OF SOUTHWEST'S IT PROJECTS ALLOCATED TO**  
13 **OWU-ML?**

14 A. Mujeeb Hafeez provides detail in his direct testimony on the allocations to OWU-ML  
15 of corporate costs, including parent company base, of which the above-described  
16 projects are part.

17 **Q. PLEASE DISCUSS SPECIFICALLY HOW OWU-ML'S CUSTOMERS**  
18 **BENEFIT FROM SOUTHWEST'S CAPITAL IT PROJECTS.**

19 A. The benefits of SouthWest's IT projects accrue to customers of all its operating units,  
20 including OWU-ML. A strong corporate IT function enhances reliability and security  
21 of the systems that are necessary to provide safe and reliable water and wastewater  
22 service.

1 **Q. IN YOUR OPINION ARE SOUTHWEST'S CAPITAL IT PROJECTS ALL**  
2 **USED AND USEFUL FOR OWU-ML'S PROVISION OF UTILITY SERVICE**  
3 **TO ITS CUSTOMERS?**

4 A. Yes, based on my role as Vice President of IT, I can attest that all of the capital IT  
5 projects listed in my testimony are all used and useful to the provision of service to  
6 OWU-ML customers and aid in the reliability and security of the systems that are  
7 necessary to provide safe and reliable water and wastewater service.

8 **V. CONCLUSION**

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes, it does.

Exhibit OWU/301  
smartShift Technologies Letter



6 Liberty Sq., Suite 2214, Boston, MA 02109  
Phone: 617-528-2100 | Fax: 716-535-1695  
connect@smartshiftech.com

July 26, 2019

Mr. Jeff Farney  
Director IT  
SouthWest Water Company  
12535 Reed Road  
Sugar Land, TX 77478

RE: SAP Infrastructure Selection

Dear Mr. Farney,

This letter has been prepared by smartShift Technologies to provide feedback on SouthWest Water Company's decision to select Amazon Web Services (AWS) to provide infrastructure hosting for SouthWest Water Company's critical SAP systems.

smartShift Technologies, headquartered in Boston, is a global technology and services provider specializing in SAP and enterprise system modernization and migration. smartShift has completed over 700 successful SAP modernization projects. Six of the top-ten SAP customers in the world utilize smartShift's technology and expertise. smartShift is also a consulting, migration, and managed service provider partner to leading cloud infrastructure providers including AWS, Microsoft Azure, Google Cloud, Virtustream, and others. smartShift does not have exclusivity agreements with any infrastructure vendors and provides vendor agnostic guidance and support for its customers.

smartShift was engaged by SouthWest Water Company in 2017 to provide advisement services for SouthWest Water Company's SAP upgrade initiative. smartShift reviewed SouthWest Water Company's existing infrastructure, present-state and proposed future-state SAP landscapes, proposed architectures, and goals and objectives with respect to critical and necessary upgrades to modernize SouthWest Water Company's SAP systems.

smartShift facilitated a review and vendor selection process to identify and evaluate best-in-class infrastructure options for SouthWest Water Company's SAP systems, including comparison of traditional on premise options to offerings now available from cloud hyperscalers such as AWS and private cloud specialist infrastructure providers such as Virtustream. During the evaluation, AWS's Cloud Economics Team was also engaged to provide assistance with overall cost optimization review and to support verification of accounting treatment in alignment with SouthWest Water Company's finance team and independent accountants.

As a result of the evaluation and selection process, Amazon Web Services was selected at the best-choice provider for SouthWest Water Company's SAP infrastructure needs.

The following were key findings supporting the decision to use AWS for SouthWest Water Company's SAP infrastructure:

- SAP certified infrastructure, best practices, and solution offerings for SAP on AWS have matured since 2016 and are now market leading. In-fact, SAP itself utilizes AWS infrastructure for the SAP National Security Services Secure Cloud and for SAP's HEC (HANA Enterprise Cloud) infrastructure service offerings.





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- AWS is able to provide a more cost effective solution vs. other alternatives, making AWS a good fiscal choice.
- AWS is able to provide far higher reliability than is possible via a traditional data center approach and at far lower cost. For example AWS provides multi-data center and multi-region availability and disaster recovery, and Amazon's S3 storage reliability is unsurpassed at 99.999999999% design durability.
- AWS is able to provide greater information and asset security than would be possible via a traditional data center approach. This is confirmed by both Forrester Research, and Gartner, made evident by AWS's market-leading assurance program certifications, and demonstrated by the use of AWS as a strategic vendor by high-security national security and defense organizations including the DoD, NSA, and CIA.
- AWS is able to support capitalization accounting requirements and enhanced system security through their "dedicated hosts" capability, which provides the ability to reserve and use specific, dedicated physical machines.

After evaluating the alternatives, for the reasons noted above as well as the favorable overall economics, improved reliability for SouthWest Water users and customers, and ability to support future business demands without constraints, SouthWest Water Company selected AWS. It is smartShift's professional opinion that this decision was and remains an excellent choice.

Sincerely,

**Jack (Scott) Loose**

VP of Operations

smartShift Technology, Inc.

[sloose@smartshiftech.com](mailto:sloose@smartshiftech.com)

617-335-5100

CONFIDENTIAL Exhibit OWU/302

Protiviti Cybersecurity Memo

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**END OF FILING**