

WORK PAPER SUPPORTING TARIFF INCREASE CROSSWOODS WATER COMPANY, INC.

IMPACT OF PROPOSED RATES

The test period of 2014 reflects annual revenue for the sale of water at \$44,289. The proposed rate increase is meant to cover an increase in operations cost of \$8,348. The actual annual increase is estimated at $\$5.89 \times 127 \times 12 = \$8,976$. This increase when compared to the test year income is a 20% increase in revenue.

TRANSACTIONS WITH AFFILIATED INTERESTS AFFECTING PROPOSED RATES

There are no affiliated interest transactions which will have an impact upon the proposed rates. The proposed rate increase is due to the increase in operations cost from normal inflation and, primarily, from increased repair costs. The initial phase of the system was installed over 40 years ago using materials that, though best available at the time, are not as reliable as our current material.

There are five (5) specific areas which could be called affiliated interests, namely; rental agreements with the two corporate officers, service agreements with the two corporate officers, and a service agreement between the son of the Company President for meter reading services

The rent paid by the Company for office space has remained the same since 1992. Originally all operations were conducted from one office but, in 1999, this office became impractical so operations were divided between two separate offices. The total annual rent, however, remained the same. The proposed rate increase is not affected by rent payments.

The Company is managed by its two corporate officers. President Kingma functions as systems operations manager and Secretary Fakkema functions as Company accounts manager and general office manager. These officers have had contractual agreements with the Company since its inception. The current rate of \$400 per month was set in January of 2004 with no increases since. The services agreement with the corporate officers therefore has no affect on the proposed rate increase.

The current cost, by contract, for meter reading by President Kingma's son is \$200 per reading. This rate went in effect in January, 2009, amended in May, 2011 from \$150 per reading to \$200 and, as reflected within the pro-forma statement, no adjustment is shown. An alternative reading method is listed within the King Water Company Services Agreement. This agreement provides meter reading at \$1.55 per meter read. The cost of meter reading therein is as follows: $\$2.40 \times 127 = \304.80 per reading cycle. Elimination of the current agreement with Carey Kingma would result in an increase of \$104.80 per reading cycle.

POWER COST

The expected cost of power for 2016 has been adjusted by 20% to reflect potential rate increases as well as additional pumping costs due to system leaks.

CHEMICAL AND TESTING COST

The total cost for chlorine for the test year was \$224. We anticipate an approximate increase in cost of 10% for 2016. Bacterial testing is consistent but chemical testing will probably increase 10% as well.

CONTRACTUAL OPERATIONS

As the system ages our operations requirements tend to increase. This includes pump house maintenance, reservoir maintenance, meter and service inspections and maintenance, etc. We are anticipating an approximate increase of 5% in operations.

ACCOUNTING SERVICES

Our CPA firm of Williams & Nulle, Anacortes, Washington, has prepared our tax accounting for many years. We have adjusted their fees by 5% to cover normal inflation costs.

TELEPHONE

The rental agreements with the Company officers provide for the Landlord supplying telephone service. The Company does, however, provide cell phones to the officers. These are greatly appreciated in the management of the system, especially when in the field. Upgraded phones and new phone plans will increase the cost. An adjustment of 10% was used as an estimate.

REPAIRS

Over the past two years we have experienced major problems with pipe failures, primarily in our service lines. The system is approximately 40 years old and wear and fatigue are beginning to cause major leaks. In 2014 the cost increase due to leaks increased by \$5,371 from 2013. Thus far in 2015 the same cost has increased an additional \$8,440. We have to assume that these repair costs will continue, but do not believe that the increase will be as much as this year. An increase of \$4,000 seems reasonable.

DEPRECIATION/AMORTIZATION

In 2014 the plant was fully depreciated.

UTILITY EXCISE TAX

An increase in rates will result in increased revenue which will generate approximately 15% additional excise tax.

INTEREST EXPENSE

The notes financing our 2011 treatment installation will be retired in December of this year. The directors, in order to meet the unexpected increase in cost for system repairs have had to borrow additional funds (see notes 5 & 6) which will result in a net reduction of interest paid in 2014.

FEDERAL INCOME TAX

The anticipated increase in cost will result in a reduction of gain and less income tax.