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2 **WASHINGTON UTILITIES AND TRANSPORTATION**  
3 **COMMISSION,**  
4  
5 **COMPLAINANT,**  
6 **V.**  
7 **KAYAK ESTATES WATER, LLC,**  
8  
9 **RESPONDENT.**

RECEIVED  
RECORDS MANAGEMENT  
06 FEB 28 PM 3:18  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

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11  
12 **DOCKET NO. UW-051444**

13  
14 **DIRECT TESTIMONY**  
15 **OF RICHARD KOOPMANS**  
16 **ON BEHALF OF KAYAK ESTATES WATER, LLC**

17  
18 **February 28, 2006**  
19

1           **Q:    PLEASE STATE YOUR NAME AND GIVE YOUR BUSINESS**  
2           **ADDRESS.**

3           A.     My name is Richard Koopmans. My business address is 15035 SE 46th Street,  
4           Bellevue, WA 98006.

5  
6           **Q.    PLEASE PROVIDE YOUR PROFESSIONAL BACKGROUND.**

7           A.     I graduated from the University of Washington in 1966 with a degree in  
8           Business Administration with a major in accounting. I then sat for and received my  
9           license as a Certified Public Accountant (CPA). Since that time, I have practiced as a  
10          CPA in a number of capacities. I currently own and operate my own accounting firm.

11  
12          **Q.    WHAT IS YOUR RELATIONSHIP TO KAYAK ESTATES WATER,**  
13          **LLC?**

14          A.     I have served as Kayak Estates' outside accountant since its inception.

15  
16          **Q.    DOES THAT MEAN YOU ARE FAMILIAR WITH THE FINANCIAL**  
17          **ASPECTS OF KAYAK ESTATES WATER, LLC?**

18          A.     Yes.

19  
20          **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

21          A.     My testimony will provide the basic financial information in support of the rate  
22          increase requested in this docket.

23

1           **Q.     DO YOU HAVE AN EXHIBIT THAT SHOWS THE FINANCIAL**  
2           **CONDITION OF THE COMPANY AND ITS REQUESTED INCREASE?**

3           A.     Yes. Attached to my testimony as Exhibit No. \_\_\_\_ (RK-2) is a Results of  
4           Operations Statement.

5  
6           **Q.     PLEASE EXPLAIN EXHIBIT NO. \_\_\_\_ (RK-2).**

7           A.     The first column sets out the various categories of revenue and expenses. The  
8           second column provides the per-book amount as of December 31, 2004. Other than  
9           depreciation and rate base numbers, these numbers tie to the Company's annual report  
10          filed with this Commission. A copy of the appropriate pages from that annual report  
11          are attached as Exhibit No. \_\_\_\_ (RK-3). The expenses are set out in somewhat more  
12          detail on the results of operations than in the annual report. However, except as noted,  
13          the totals should tie to one another.

14  
15          **Q.     PLEASE EXPLAIN THE EXCEPTIONS THAT YOU HAVE NOTED.**

16          A.     When I originally did the depreciation schedule that was included in the annual  
17          report, I only included one quarter of the actual depreciation for 2004. The reason this  
18          occurred is that based upon the acquisition of the Company in 2003, only one quarter of  
19          2003 went into the tax return for this Company. The selling company used the  
20          depreciation expense for the first three quarters of the year. When I was doing the 2004  
21          books, I carried that one quarter of 2003 forward. As a result, depreciation expense on  
22          the annual report is understated and rate base amounts are overstated. The results of

1 operation statement that is Exhibit No. \_\_\_\_\_ (RK-2) reflects the corrected numbers. A  
2 copy of the corrected depreciation schedule is attached as Exhibit No. \_\_\_\_\_ (RK-4).

3  
4 **Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF EXHIBIT NO.**  
5 **\_\_\_\_\_ (RK-2).**

6 A. The column after the Per Book column is for restating adjustments. The  
7 company is not proposing any restating adjustments. The next column sets forth the  
8 restated amounts, which in this case are the same as the per-book amounts.

9 The next column sets out the pro-forma adjustments. There is really only one  
10 pro-forma adjustment. That is for the cost associated with this rate case. Details of the  
11 pro-forma adjustment are set out in Exhibit No. \_\_\_\_\_ (RK-5). The next column sets out  
12 the results of operations on a pro-forma basis before the proposed rates. The next to  
13 last column then sets out the effect of the proposed rates. These include the effect of  
14 income taxes, bad debt expense and utility taxes. I will note that in the Per Book  
15 amount, bad debt is taken into account in the Operating Revenue Number, which is  
16 why the Per Book entry for Bad Debt is listed as 0.

17 The final column shows the results after the proposed rates are applied. As you  
18 can see, the Company's rate of return is at a modest 9.97%.

19  
20 **Q. HOW DID YOU ARRIVE AT THE ADDITIONAL REVENUE**  
21 **REQUIREMENT?**

22 A. In order to try to keep the cost of this proceeding as low as possible, realizing  
23 that the rate case costs can significantly affect the rates that the customers pay in a

1 system of this size, the Company took a simple approach to deriving an appropriate  
2 level of rates in consultation with the Company's attorney.

3 We took a look at the Company's capital structure starting with the average rate  
4 base of \$546,437.00. Taking the actual debt for the Company of \$442,703.00 with an  
5 actual cost of debt at 8.5%, the Company then looked at what might be an appropriate  
6 return on equity for a company of this size. The equity component of the capital  
7 structure is 18.98% and the debt component is 81.02%. The Company chose to apply a  
8 14% cost of capital, recognizing that the degree of leverage and the size of the  
9 Company would mean that a relatively high cost of capital should apply. From my own  
10 perspective, 14% would be a low number for real world expectations dealing with a  
11 company of this nature. In any event, this produced a return on investment number of  
12 9.55%. An exhibit showing the calculation is attached as Exhibit No. \_\_\_\_\_ (RK-6).

13 Then applying this rate of return to the rate base figure, produces an NOI  
14 requirement of \$52,185.00.

15  
16 **Q. IS THE COMPANY SEEKING ANY ADJUSTMENTS TO RATE BASE?**

17 A. Not in this docket. There is an issue as to whether a positive acquisition  
18 adjustment is appropriate. However, the Company is not seeking an upward acquisition  
19 adjustment in this docket. The Company does reserve the right to pursue that matter in  
20 the future, if it deems appropriate.

1           **Q.     PLEASE CONTINUE WITH YOUR EXPLANATION.**

2           A.     Taking the NOI requirement, the proforma NOI found on the Results of  
3           Operations exhibit was then added (since it is a negative number) from that number to  
4           produce an NOI deficiency. The conversion factor was then applied to produce the  
5           additional revenue requirement. An exhibit that shows this calculation is set out as  
6           Exhibit No. \_\_\_\_\_ (RK-7).

7  
8           **Q.     HOW DID YOU DERIVE THE CONVERSION FACTOR?**

9           A.     Again, this was done with the help of the Company and the Company's  
10          attorney. An exhibit that sets out that calculation is attached as Exhibit No. \_\_\_\_\_ (RK-  
11          8). The Company supplied me with the Commission's regulatory fee, an uncollectible  
12          factor based on the Company's history, and their utility tax percentage. I then used a  
13          federal income tax amount of 15% to come up with the final conversion factor.

14  
15          **Q.     WHAT DOES THIS PRODUCE?**

16          A.     In effect, what this produces is a need to increase rates by \$79,580.00. Such an  
17          increase in rates would produce a prospective rate of return of 9.97%. This is slightly  
18          different than the return shows on Exhibit No. \_\_\_\_\_ (RK-6), but is still in the range as  
19          shown on that Exhibit. Again, the Company chose to do an approach that was as  
20          simple as possible. Therefore, it started with a proposed return number and backed into  
21          a revenue effect that actually then produces a lower overall rate of return.

22  
23          **Q.     WHY IS THE COMPANY REQUESTING A RATE INCREASE?**

1           A.     From a financial perspective, it is clear to me that the Company should increase  
2           its rates to produce a reasonable return on its investment. The Company wants to keep  
3           this case as simple as possible. For further reasons supporting the filing of this case,  
4           please see Mr. Dorland's Testimony.

5

6           **Q.     DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

7           A.     Yes.

KAYAK ESTATES RATE ANALYSIS

EXHIBIT NO. \_\_\_\_ (RK-2)

	Per Book 12/31/04	Restated Adj.	Restated Amounts	Proforma Adj.	Proforma Before Proposed Rates	Effect of Proposed Rates	Proforma After Proposed Rates
Operating Revenue	\$135,217		\$135,217		\$135,217	\$79,580	\$214,797
Operating Expenses:							
Admin/Billing/Collection	20,952		20,952		20,952	159	21,111
Repairs & Maintenance	18,836		18,836		18,836	0	18,836
Meter reading	11,189		11,189		11,189	0	11,189
Utilities	10,593		10,593		10,593	0	10,593
Management fee	8,000		8,000		8,000	0	8,000
Flushing	7,548		7,548		7,548	0	7,548
Testing	7,274		7,274		7,274	0	7,274
Taxes	5,858		5,858		5,858	4,002	9,860
Location	3,650		3,650		3,650	0	3,650
Professional fees	2,885		2,885		2,885	0	2,885
Insurance	2,319		2,319		2,319	0	2,319
PUD testing	1,355		1,355		1,355	0	1,355
DOH fees	835		835		835	0	835
Licenses	725		725		725	0	725
Telephone	375		375		375	0	375
Postage	372		372		372	0	372
Bank fees	75		75		75	0	75
Depreciation	35,718		35,718		35,718	0	35,718
Bad Debt	0		0		0	955	955
Rate Case Expense	0		0	7,000	7,000	0	7,000
Total Operating Expenses	138,559		138,559		145,559	5,116	150,675
Utility Operating Income Before FIT	<3,342>		<3,342>		<10,342>	74,464	64,122
FIT	0		0		0	11,170	9,618
Net Operating Income	<3,342>		<3,342>		<10,342>	63,294	54,504
Rate Base (Average)							
Utility Plant In Service	1,800,610		1,800,610		1,800,610		1,800,610
Less Acc. Depreciation	1,100,172		1,100,172		1,100,172		1,100,172
Net CIAC	154,001		154,001		154,001		154,001
Net Average Rate Base	546,437		546,437		546,437		546,437
Rate of Return	<0.61>%		<0.61>%		<1.89>%		9.97%



**INCOME STATEMENT**  
For the Calendar Year 2004

EXHIBIT NO. (RK-3)  
Page 1 of 2

Line No. (L)	Account Name (a)	Water (b)	Other (c)	Total Company (d)
<b>REVENUES</b>				
1	Operating Revenue Accounts	\$ 135,217	\$	\$ 135,217
2	Miscellaneous Revenue Accounts			
3	Other Revenue Accounts			
4	Utility Operating Revenue (Add L1 thru L3)	\$ 135,217	\$	\$ 135,217
<b>EXPENSES</b>				
5	Operating Expense Accounts	100,671		100,671
6	Depreciation Expense	9,468		9,468
7	Federal Income Taxes			
8	Utility Operating Expense (Add L5 thru L7)	\$ 110,139	\$	\$ 110,139
9	Utility Operating Income (Loss) (L4 minus L8)	\$ 25,078	\$	\$ 25,078
<b>OTHER INCOME AND DEDUCTIONS</b>				
Other Income:				
10	Interest & Dividend Income	\$	\$	\$
11	Miscellaneous Nonutility Income CIAC		8,254	8,254
12	Total Other Income (Add L10 thru L11)	\$	\$ 8,254	\$ 8,254
Other Deductions:				
13	Interest Expense	\$ 36,408	\$	\$ 36,408
14	Miscellaneous Nonutility Expenses			
15	Total Other Deductions (Add L13 thru L14)	\$ 36,408	\$	\$ 36,408
16	Net Income (Loss) (Add L9 plus L12 minus L15)	\$ (11,330)	\$ 8,254	\$ (3,076)

**CUSTOMER COUNT SUMMARY**

Description (a)	Number at Begin Year (b)	New Services (c)	Number at End Year (d)	Temporary (e)
17 Total Unmetered	6		6	
18 Total Metered	352		352	
19 Total Master Metered				
20 Total Customers	358		358	

**COMPARATIVE BALANCE SHEET**  
For the Calendar Year 2003 & 2004

EXHIBIT NO. (RK-3)  
Page 2 of 2

Account Name (a)	Year 2003 (b)	Year 2004 (c)
<b>ASSETS:</b>		
Utility Plant	\$ 1,787,365	\$ 1,813,854
Less: Accumulated Depreciation	<u>1,081,564</u>	<u>1,091,032</u>
Accumulated Amortization	<u>          </u>	<u>          </u>
Utility Plant Acquisition Adjustment	<u>          </u>	<u>          </u>
Net Utility Plant (Add L1 thru L4)	\$ 705,801	\$ 722,822
Special funds (Surcharges, Facility Charges)	\$	\$
Cash	<u>15,576</u>	<u>20,988</u>
Customer Accounts Receivable	<u>          </u>	<u>          </u>
Other Assets (Specify)	<u>          </u>	<u>          </u>
Total Assets (Add L5, plus L6 thru L9)	\$ 721,377	\$ 743,810
<b>EQUITY CAPITAL AND LIABILITIES:</b>		
Capital Stock Issued	\$	\$
Other Paid In Capital	<u>          </u>	<u>          </u>
Retained Earnings	<u>8,773</u>	<u>697</u>
Proprietary Capital	<u>77,978</u>	<u>77,978</u>
Total Equity Capital (Add L11 thru L14)	\$ 86,751	\$ 78,675
Long-Term Debt	Interest Rate <u>8.5%</u> \$ 457,000	\$ 442,705
Accounts Payable	<u>19,498</u>	<u>72,556</u>
Current Debt	<u>          </u>	<u>          </u>
Contributions In Aid Of Construction (CIAC)	<u>158,128</u>	<u>158,128</u>
Less: Accumulated Amortization Of CIAC	<u>          </u>	<u>(8,254)</u>
Other Liabilities (Specify)	<u>          </u>	<u>          </u>
Total Liabilities (Add L16 thru L21)	\$ 634,626	\$ 665,135
Total Equity Capital and Liabilities (Add L15 & L22)	\$ 721,377	\$ 743,810

**WATER SUMMARY**

	Cubic Feet
Purchased or Ground Water	<u>          </u>
Loss or Wastage	<u>          </u>
Sold to Customers	<u>          </u>

**EMPLOYEE SUMMARY**

	Year 2003	Year 2004
Full Time Count	<u>0</u>	<u>0</u>
Part Time Count	<u>0</u>	<u>0</u>

CONVERSION: 1 cubic foot = 7.48 gallons

Kayak Water Company  
Depreciation  
Corrected

**2004**

EXHIBIT NO. \_\_\_\_\_ (RK-4)

Account Number	ASSET			Depreciation Years	Depreciation Rate	ACCUMULATED DEPRECIATION		
	Balance 01/01/04	Addition	Balance 12/31/04			Balance 01/01/04	Depreciation 12/31/04	
304 Structures	6,536		6,536	40	2.50	5,035	163	5,199
307 Wells	78,319		78,319	35	2.85	61,749	2,232	63,981
310 Power eq	45,367		45,367	48	5.10	26,759	2,314	29,072
311 Pumping	161,499		161,499	20	5.00	91,276	8,075	99,351
330 Res & tanks	158,690		158,690	60	1.66	115,669	2,634	118,304
331 Distribution	1,274,813		1,274,813	70	1.43	775,648	18,230	793,878
334 Meters	62,141		62,141	30	3.33	6,176	2,069	8,246
	<u>1,787,365</u>	0	<u>1,787,365</u>			<u>1,082,313</u>	<u>35,718</u>	<u>1,118,030</u>
<b>2004 PURCHASES</b>								
331 Distribution	18,072		18,072	70	1.43		259	259
334 Meters	8,417		8,417	30	3.33		280	280
	<u>26,489</u>		<u>26,489</u>					
	<u>1,813,854</u>		<u>1,813,854</u>			<u>1,082,313</u>	<u>36,256</u>	<u>1,118,569</u>
CIAC			<u>158,128</u>				<u>8,254</u>	<u>8,254</u>

Estimate of Rate Case Costs

Richard Koopmans – Accounting Support	\$5,000.00
Richard A. Finnigan – Legal	<u>\$16,000.00</u>
Total	\$21,000.00

Capital Structure

Debt 442,703  
Equity 103,734

$$\begin{aligned} 81.02\% \times 8.5\% &= 6.89\% \\ 18.98\% \times 14.0\% &= \underline{2.66\%} \\ &9.55\% \end{aligned}$$

Revenue Requirement Calculation

Rate Base	546,437
Rate of Return	9.55%
NOI Requirements	52,185
ProForm NOI	<u>&lt;10,342&gt;</u>
NOI Deficiency	62,527
Conversion Factor	0.78571
Additional Rev. Req.	79,580

Conversion Factor

Revenues	1.00000
WUTC Reg. Fee	.002
Uncollectible	.012
Utility tax	<u>.05029</u>
	0.93571
Federal Income Tax	<u>0.15</u>
Conversion Factor	0.78571