

**Exhibit No. AW-1T  
Docket UW-090839  
Witness: Amy White**

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**CRISTALINA, LLC,**

**Respondent.**

**DOCKET UW-090839**

**DIRECT TESTIMONY**

**OF**

**AMY WHITE**

**STAFF OF WASHINGTON UTILITIES  
AND TRANSPORTATION COMMISSION**

**January 29, 2010**

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1 I. INTRODUCTION

2  
3 **Q. Please state your name, business address and present position with the**  
4 **Washington Utilities and Transportation Commission.**

5 A. My name is Amy I. White, and my business address is 1300 S. Evergreen Park Drive  
6 S.W., P.O. Box 47250, Olympia, WA 98504. My email address is  
7 [awhite@utc.wa.gov](mailto:awhite@utc.wa.gov). My current position is that of Regulatory Analyst 3.  
8

9 **Q. How long have you been employed by the Commission?**

10 A. I have been employed by the Commission since June 2007.  
11

12 **Q. What are your responsibilities as a Regulatory Analyst 3?**

13 A. I analyze utility company rate case filings and other company-proposed tariff  
14 revisions. Typically, I review a company's accounting documents as well as other  
15 relevant information to determine a company's revenue requirement and to  
16 recommend to the Commission rates that are fair, just, reasonable and sufficient.  
17

18 **Q. Please describe your relevant educational and professional background.**

19 A. I graduated in 1982 from the University of Washington in Seattle with a Bachelor of  
20 Business Administration degree with an emphasis in Accounting. I earned a Master  
21 of Business Administration degree from City University of Seattle in 1988 and in  
22 1989 I completed a Master of Public Administration degree at City University. I  
23 hold a Certified Government Audit Professional credential from the Institute of

1 Internal Auditors. I was an Internal Auditor for the Department of Social and Health  
2 Services (DSHS) for five years. I also worked for DSHS as a Medicaid Fraud  
3 Auditor for five years, as a Hospital Auditor for three years, and as the manager of  
4 the Surveillance and Utilization Review unit, which performed preaudit analysis of  
5 suspected fraudulent providers, for three years. In addition, I worked for DSHS as a  
6 rate analyst developing hospital rates in the Medicaid program for seven years. I  
7 also developed rates for hospitals for one year in the workers' compensation program  
8 at the Department of Labor and Industries.

9  
10 **Q. Have you testified in previous regulatory proceedings?**

11 **A. No.**

12  
13 **II. PURPOSE OF TESTIMONY**

14  
15 **Q. What is the purpose of your testimony in this case?**

16 **A. The purpose of my testimony is to explain and support the Settlement Agreement**  
17 **that Commission Staff (Staff) and Cristalina, LLC (Cristalina or Company) have**  
18 **entered into to resolve the issues in the Complaint Against Rates filed by the**  
19 **Commission against Cristalina in this docket (Complaint).**

1  
2  
3 **III. BACKGROUND**

4 **Q. Please briefly describe the background of this case.**

5 A. Cristalina has been regulated by the Commission since February 2003. In the early  
6 part of 2009, Staff briefly reviewed Cristalina's operations as a part of the  
7 Company's filing in Docket UW-090516 for a surcharge to repay a \$555,500  
8 Drinking Water State Revolving Fund (DWSRF) loan for construction. The initial  
9 profit and loss statement filed by the Company in UW-090516 indicated gross  
10 income to the Company of \$58,506.04 and a net profit of \$29,968.66. This amount  
11 of net profit appeared to be excessive relative to the Company's gross income. The  
12 Company's balance sheet, filed along with the profit and loss statement, confirmed a  
13 net profit of \$29,968.66 in owner's equity. After noting this unusually high profit  
14 margin, Staff contacted the Company and requested that Cristalina file a general rate  
15 case. The Company agreed to do so on three separate occasions but failed to file a  
16 case. The Commission issued the Complaint on June 25, 2009.

17 **Q. Please provide an overview of the documents you analyzed to reach your**  
18 **conclusions in this matter.**

19 A. I reviewed the accounting records provided by the Company, including the  
20 Company's general ledger; customer accounts receivable records; documentation of  
21 expenses such as repairs, electricity, and office expenses; information concerning  
22 payments made to related parties; and documents relating to the Company's DWSRF  
23 loan on file in Docket UW-090516. I reviewed financial statements such as the

1 balance sheet and profit and loss statement as prepared by the Company. I also  
2 reviewed the Company's annual reports and its tariff on file with the Commission.  
3 In addition, I reviewed Cristalina's responses to 38 data requests that Staff sent to the  
4 Company. Many of the data responses contained documents that the Company  
5 created only in response to the specific data request, and were not maintained as part  
6 of regular business operations.

7  
8 **Q. Can you please describe the analysis you applied to reach your conclusions?**

9 A. Yes. I entered cost and income data as submitted by the Company into a  
10 standardized analysis spreadsheet used by Staff at the Commission. The spreadsheet  
11 performs routine calculations on items such as the Company's capital structure, rate  
12 base, taxes and interest paid. In addition, I analyzed each expense category to  
13 determine whether each component of expense was documented, a reasonable and  
14 prudent business expense, and an allowable business expense that should be borne by  
15 ratepayers.

16  
17 **IV. COMMISSION'S SETTLEMENT APPROVAL STANDARD**

18  
19 **Q. What is the Commission's settlement approval standard?**

20 A. The Commission's settlement approval standard is whether the proposed settlement  
21 is "consistent with the public interest." (WAC 480-07-750(1)).

1 **Q. Based on the review and analysis you describe above, does the Settlement**  
2 **Agreement satisfy that standard?**

3 A. Yes, for the reasons stated below.

4

5 **V. STAFF'S REVIEW OF THE SETTLEMENT**

6

7 **Q: What do you address in Section V of your testimony?**

8 A: I address Section III of the Settlement Agreement. The lettering of each topic in my  
9 testimony aligns with the lettering in the corresponding sections of the Settlement  
10 Agreement.

11

12 **A. Revenue Requirement**

13

14 **Q. What revenue amount does the Settlement Agreement call for?**

15 A. According to the Settlement Agreement at Paragraph 8, the Company will receive  
16 revenues of \$31,838. This is a decrease of \$10,662 in annual operating revenues. In  
17 addition, the Company will receive surcharge funds of \$4,032 annually for two years  
18 after the effective date of the settlement, related to necessary repairs to the water  
19 system that were made in 2008 and 2009. Finally, the Company will receive  
20 surcharge revenues of \$32,256 for repayment of the DWSRF loan for system  
21 improvement, as approved in Docket UW-090516. Combining the revenue required  
22 to recover operating expenses, the pipeline repair surcharge, and the DWSRF loan

1 surcharge, Cristalina's total annual income for the two years following the settlement  
2 will be \$68,543.

3  
4 **B. Rates and Effective Date of the Rate Decrease**

5  
6 **Q: What rates will customers pay under the Settlement Agreement?**

7 A: According to the Settlement Agreement at Paragraph 9, the flat rate of \$77 per month  
8 will be decreased to \$68.30 per month. The monthly charge of \$68.30 consists of a  
9 water service rate of \$32, a pipeline repair surcharge of \$4.30 per month, and the  
10 DWSRF loan surcharge of \$32. The current rate consists of \$45 per month for water  
11 service and \$32 for the DWSRF surcharge.

12  
13 **Q: What is the effective date of the Settlement Agreement?**

14 A: The Settlement Agreement will become effective the first day of the month after the  
15 Commission approves the Settlement Agreement.

16  
17 **C. Rate of Return, Return on Equity, and Capital Structure**

18  
19 **Q. From Staff's perspective, are the rate of return, return on equity, and capital  
20 structure provisions of the Settlement Agreement reasonable?**

21 A: Yes. The rate of return is calculated at 9.3 percent which reflects a hypothetical  
22 capital structure composed of 40 percent debt, at 8 percent, and 60 percent equity, at  
23 12 percent. Cristalina has very little debt but at the same time has very limited



1 owner's equity. Use of the hypothetical capital structure moderates the return to the  
2 owner and thus decreases the rates paid by customers.

3  
4 **D. Refunds to Offset Repair Surcharge**

5  
6 **Q. Please describe the pipeline repairs undertaken by Cristalina that underlie the**  
7 **surcharge.**

8 A. The Company spent \$5,512 during 2008 and \$9,632 in 2009 on repairs for a broken  
9 water main in a section of the water system that will be abandoned once the DWSRF  
10 loan construction is completed in late 2009 or early 2010. The repairs were  
11 necessary and the Company should be allowed to recover these costs, even though  
12 these assets will be abandoned. Recovery of these costs through a surcharge will  
13 keep these extraordinary costs out of regular operating expenses and rates.

14  
15 **Q. Please explain why Staff supports amortizing the system repair expenses over**  
16 **two years.**

17 A. A two-year amortization of system repair costs strikes a balance between customer  
18 and company interests. Spreading recovery of the costs over time avoids the  
19 requirement of a large lump-sum payment by the customers. At the same time,  
20 restricting the amortization period to two years minimizes the administrative costs to  
21 the Company of billing for the surcharge, which also keeps rates lower for  
22 customers.

1 **Q. Please describe the refunds due to customers and how the refunds were**  
2 **calculated.**

3 A: In keeping with the Settlement Agreement at Paragraph 12, customers would be  
4 entitled to refunds of the difference between the current water service rate of \$45 and  
5 the new water service rate of \$32 agreed to in the settlement. The refund period  
6 under the Settlement Agreement at Paragraph 13 would run from June 25, 2009, the  
7 date the Complaint issued, through January 31, 2010. Defining the refund period  
8 makes it possible to calculate the exact amount of the refund. Using the \$13 monthly  
9 difference between the two rates, Staff calculated that a \$7,644 refund is due to the  
10 customers for the refund period.

11  
12 **Q. Please explain how the refund amount was netted against the 2008 and 2009**  
13 **pipeline repair expenses.**

14 A. The total refund amount of \$7,644 was netted against the pipeline expense amount of  
15 \$15,144. This decreased the amount of repair expenses to be recovered through  
16 customers from \$15,144 to \$7,500. Amortizing the remaining pipeline repair  
17 expense over two years results in a surcharge of \$4.30 per month per customer.

18  
19  
20

1 **E. Conditions**

2

3 **Q. Please describe why Cristalina should collect and report usage data such as**  
4 **wellhead readings and usage data from individual customer meters.**

5 A: Water usage data is necessary in order to set usage blocks when designing metered  
6 rates for a water company. Since Cristalina has not previously had individual  
7 meters, wellhead data will serve as a proxy measure for use in establishing a  
8 temporary metered rate structure.

9

10 **Q. Why are temporary metered rates necessary?**

11 A. Cristalina is installing individual customer meters as part of the construction project  
12 funded by the DWSRF loan. The system previously has been unmetered. Once  
13 meters are installed in the new system, the use of a flat rate is inappropriate. A flat  
14 rate does not encourage water conservation. Setting permanent metered rates requires  
15 12 months of reliable metered usage data. While this data is collected, temporary  
16 metered rates are necessary. The filing for permanent metered rates will include a  
17 true-up calculation to adjust rates as needed.

18

19 **Q. Please explain the timing requirements regarding Cristalina's future filing for**  
20 **permanent rates.**

21 A. Setting the deadline for filing for permanent rates 18 months from the time the  
22 customer meters are installed and connected provides a reasonable time frame in  
23 which Cristalina may collect reliable data and prepare a rate case filing. The period

1 of 18 months allows for a three month adjustment period while customers adjust  
2 their usage habits to metered rates, followed by a 12 month period of normal usage,  
3 and then a three month allowance of time for Cristalina to prepare a permanent rate  
4 filing.

5  
6 **VI. CONCLUSION**

7  
8 **Q. Please summarize why you believe the Settlement Agreement is consistent with**  
9 **the public interest.**

10 A. The revenue requirement agreed to in the settlement results in rates that are fair, just,  
11 reasonable and sufficient. Over the years, the withdrawal of nearly 100 percent of  
12 the owner's equity from the business left Cristalina without any operating capital and  
13 necessitated the use of DWSRF loans for system replacement. Given this history,  
14 Cristalina must improve its management of the Company's water system.  
15 Implementing the rates and accounting terms agreed to in the settlement provides a  
16 solid first step upon which the Company can build. The other terms of the settlement  
17 requiring the Company to file reports and to file a rate case following meter  
18 installation will keep this Company on track and under Commission supervision as it  
19 migrates to a metered system.

20  
21 **Q. Does this conclude your direct testimony?**

22 A. Yes.