

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

In the matter of

SUMMIT VIEW WATER WORKS LLC

Request for a General Rate Revision

Docket No.

PREFILED DIRECT TESTIMONY

OF ANN LARUE, CPA

JULY 31, 2024

TABLE OF CONTENTS

I. INTRODUCTION..... 1

II. SCOPE OF TESTIMONY 2

III. DISCUSSION AND DEVELOPMENT OF PROPOSED ADJUSTMENTS 4

EXHIBIT LIST

Exhibit No.	Description	Page Referenced
Exh. AML-02	Regulatory Depreciation	14 – 15
Exh. AML-03	Payroll – Wages and Taxes	4 – 7
Exh. AML-04	Benefits Expense	8 – 9
Exh. AML-05	Property Taxes	11 – 12
Exh. AML-06	Rate Case Expense	12 – 13

I. INTRODUCTION

1 **Q. Please state your name, business address.**

2 A. My name is Ann LaRue, and my business address is PO Box 325, Olympia WA 98507.
3
4 My business email is ann@kalahikiconsulting.com.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the owner of Kalahiki Consulting LLC – a regulatory consulting business. I am
7
8 testifying on behalf of my client, Summit View Water Works LLC (SVWW or Summit
9 View).

10 **Q. Please describe your educational background.**

11 A. I graduated from Sam Houston State University in Huntsville, Texas with a Bachelor of
12
13 Business Administration (BBA) in accounting in 1998 and a Master of Business
14 Administration (MBA) in 1999. I am also licensed as a Certified Public Accountant
15 (CPA) in Washington State.

16 **Q. What relevant professional training seminars have you had in public utility
17 accounting?**

18 A. I have attended the Institute of Public Utilities' (IPU) *Accounting and Ratemaking* course
19
20 and its *Advanced Regulatory Accounting and Auditing* course in 2022. Previously I have
21 attended the 29th Annual Western Rate School in San Diego, California in 2008 and the
22 49th Annual National Association of Regulatory Utility Commissioners (NARUC)
23 Regulatory Studies Program held at Michigan State University in East Lansing, Michigan
24 in 2007.

Q. Please describe your professional experience.

1 A. I have more than 22 years of accounting and auditing experience and approximately 16
2 years of regulatory experience. For almost three years I have been serving as a regulatory
3 consultant for my business, Kalahiki Consulting LLC. Prior to starting my own business,
4 for 13 years I served as commission staff at the Washington Utilities and Transportation
5 Commission (UTC).

6 As a regulatory consultant with Kalahiki Consulting, I have provided regulatory guidance
7 to several UTC-regulated companies which have included solid waste, auto
8 transportation, ferry, water, and pilotage industries. I have also submitted filings, on
9 behalf of my clients, with the UTC, such as general rate cases and other supplemental
10 filings such as commodity credit filings and yard waste disposal changes.
11

12 **Q. Can you elaborate briefly on your UTC experience?**

13 A. Yes. As commission staff, I served as a Regulatory Analyst in the Energy section for four
14 years. And I served as a Regulatory Analyst and an Accounting Policy Specialist in the
15 Water & Transportation section for nine years.
16

17 I have testified before the UTC as commission staff for the following rate cases:

- 18 • Northwest Natural Gas general rate case (UG-080546),
- 19 • Avista Corporation general rate case (UE-090134 and UG-090135), and
- 20 • Puget Sound Pilots general rate case (TP-190976)

21 I have participated as a commission staff member in other contested rate cases, including:

- 22 • Cascade Natural Gas, UG-061256
- 23 • Puget Sound Energy, UE-072300
- 24 • PacifiCorp, UE-080220
- Avista Corporation, UE-080416
- Waste Management of Washington, Inc., TG-143889

II. SCOPE OF TESTIMONY

Q. What is the scope of your testimony in this matter?

RESPONDENT'S PREFILED DIRECT TESTIMONY OF ANN LARUE - 2

1 A. My testimony supports and supplants the testimony of Mr. Danny Kermode, CPA
2 (retired) for Summit View's general rate case and discusses several of the more material
3 adjustments being proposed.

4 **Q. Please briefly describe to what Mr. Kermode will be testifying.**

5 A. Mr. Kermode is testifying to Summit View's proposed rates and the overall revenue
6 requirement, rate base, and cost of capital. He will also testify about six restating
7 adjustments and one pro forma adjustment which include:

- 8 • a reclassification of an insurance refund,
- 9 • revenue sensitive adjustments (i.e., adjustments to the commission regulatory fee to
10 actual, and an adjustment to the public utility tax for the test year),
- 11 • test year revenue adjustments, and
- 12 • the addition of working capital.

13 **Q. Please briefly here identify the specific adjustments you are proposing for this rate
14 case?**

15 A. The adjustments I am proposing for this rate case are:

16 Regulatory Depreciation	R-09 and P-11
17 Payroll – Wages and Taxes	R-02, R-03, P-01, P-02, P-03, and P-04
18 Benefits Expense	P-05
19 Property Taxes	R-08 and P-10
Rent Expense	P-06
Postage Expense	P-09
Rate Case Expense	P-08

20 **Q. Have you prepared any exhibits in support of your testimony and adjustments?**

21 A. Yes. I have prepared the following exhibits to support my testimony and proposed
22 adjustments:

23 Regulatory Depreciation	Exhibit AML-02
24 Payroll – Wages and Taxes	Exhibit AML-03
Benefits Expense	Exhibit AML-04
Property Tax Expense	Exhibit AML-05
Rate Case Expense	Exhibit AML-06

III. DISCUSSION AND DEVELOPMENT OF PROPOSED ADJUSTMENTS

Payroll – Wages and Taxes

1
2
3 **Q. Please quantify and discuss Summit View’s labor force and how it operates?**

4 A. When fully staffed, as it is now, Summit View has two full-time field crew operators,
5 with one relief field crew operator, one part-time water tester, one full-time controller,
6 one full-time accountant, and two part-time managers.

7 **Q. Is there any other attribute of the SVWW workforce you would note here?**

8 A. Yes. Because the company encourages flexible work schedules, it incurs very little
9 overtime which obviously saves payroll costs.

10 **Q. Have you proposed any adjustments to payroll expenses?**

11 A. Yes. I am proposing several adjustments to payroll wages and payroll taxes. The
12 adjustments are detailed in my Exhibit AML-03 - Payroll.

13 **Q. In that regard, can you explain the layout of your Exhibit AML-03 – Payroll?**

14 A. Certainly. Exhibit AML-03 is set up to reference and support the proposed adjustments to
15 wages and payroll taxes and contains ten schedules. The employee names have been
16 anonymized for this rate case. Sch 1.0 – Payroll Wages displays relevant employee
17 information, with test year wages, and reconciles the restating and pro forma adjustments
18 to payroll wages. Sch 2.0 – Payroll Taxes contains the same relevant employee
19 information and reconciles the restating and pro forma adjustments to payroll taxes. The
20 remaining eight schedules provide the test year employee information to support the
21 information on the first two schedules and the proposed adjustments.
22
23

24 **Q. Please discuss the payroll wages adjustments.**

1 A. As shown on Sch 1.0, I have proposed one restating (R-02) and two pro forma (P-01 and
2 P-02) adjustments to payroll wages. First, payroll wages were adjusted, in R-02, to restate
3 the test year payroll wages removing non-payroll entries and capturing payroll taxes in
4 the correct account. The two pro forma adjustments, P-01 and P-02, annualize wages for
5 a new hire, include increased hours for the managers, and capture Cost of Living
6 Adjustment (COLA) increases provided by the company to further employee retention.

7
8 **Q. What were the amounts removed from test year payroll wages with the proposed**
9 **restating adjustment?**

10 A. Test year payroll wages, supported by the company's profit and loss statement, are
11 \$329,288. Of this amount, \$4,542, for employee reimbursements and non-payroll items,
12 were removed for regulatory purposes. Additionally, because the company inadvertently
13 recorded payroll taxes in the payroll wages account, \$30,374 for payroll taxes was
14 additionally removed for regulatory purposes.

15
16 **Q. What then is the total restating adjustment (R-02) to payroll wages?**

17 A. A restating adjustment, R-02, totaling \$34,916 was made to reduce payroll wages.

18 **Q. Did you propose any other adjustments to payroll wages?**

19 A. Yes. I have proposed two pro forma adjustments to payroll wages.

20 **Q. Please discuss the proposed pro forma adjustments to payroll wages.**

21 A. The first pro forma adjustment, P-01, to payroll wages annualizes the wages for an
22 employee who was hired during the test year and annualizes the wages for the managers
23 due to the increased manager work hours and operational obligations. Additionally, this
24 adjustment captures the COLA wage increase that went into effect in January 2024 for all
employees.

1 **Q. Please elaborate on the first pro forma adjustment, P-01, to payroll wages.**

2 A. Summit View hired a new permanent part time employee in March 2023, to conduct
3 regular, required water testing, in compliance with the Washington State Department of
4 Health requirements, for ten hours per week. Therefore, a pro forma adjustment was
5 made to annualize hours and wages going forward for this key employee.

6 The managers for Summit View, Mr. Rathbun and Mr. Clark, have each been receiving a
7 stipend equivalent to eight hours per week for managing Summit View over the last
8 several years. However, after talking with Mr. Rathbun and reviewing the managers' job
9 description, we determined that he and Mr. Clark work a minimum of 20 hours each
10 week managing Summit View. This has now been memorialized in a memorandum of
11 understanding, supported by the company's comprehensive managers' job description,
12 and elaborated on by Mr. Rathbun's direct testimony. Therefore, a pro forma adjustment
13 was made for the additional wages for the increased hours of work for the managers.
14

15 Additionally, the company provides COLA wage increases at the beginning of each year
16 for all employees. This practice helps retain employees, which is reflected by the
17 company's low employee turnover. A pro forma adjustment was made to include the
18 January 2024 COLA increase of three percent.
19

20 **Q. What is the total amount of the first pro forma adjustment to payroll wages?**

21 A. The pro forma adjustment, P-01, to annualize wages and capture the 2024 COLA,
22 increases payroll wages by \$92,605, as shown on Sch 1.0 of Exhibit AML-03.
23

24 **Q. Please discuss your second pro forma adjustment, P-02, to payroll wages.**

1 A. A second pro forma adjustment, P-02, captures the known and measurable 2025 COLA
2 wage increase that will go into effect during the rate year. This additional adjustment to
3 recognize the 2025 COLA wage increase is \$11,511.

4 **Q. Please explain this adjustment in light of the timing of the revised rates in this filing.**

5 A. The company expects its new rates to take effect certainly by year end, therefore it is
6 important that a pro forma adjustment be made for the wage increase to be effective in
7 the rate year.

8 **Q. Please now explain the proposed adjustments to payroll taxes.**

9 A. I have proposed a single restating adjustment (R-03) and two pro forma adjustments (P-
10 03 and P-04) to payroll taxes. As shown on Sch 2.0 – Payroll Taxes, of Exhibit AML-03,
11 payroll taxes were first adjusted to restate the test year payroll taxes to actuals.
12 Subsequently, I made two pro forma adjustments to payroll taxes to capture the increased
13 taxes that resulted from the annualized wages and the COLA wage increases just
14 discussed.

15 **Q. What is the amount of the restating adjustment to payroll taxes, R-03?**

16 A. Test year payroll taxes, reflected in the company's profit and loss statement, are \$7,043.
17 However, as discussed previously, payroll taxes were inadvertently recorded in the
18 company's books under "wages." Therefore, a restating adjustment (R-03) in the amount
19 of \$23,331 was made to bring the per books balance to the actual test year amount of
20 \$30,374.

21 **Q. You also propose two proforma adjustments to payroll taxes, can you please discuss**
22 **those now?**

1 A. Yes. The first pro forma adjustment, P-03, increases payroll taxes by \$7,505, which is the
2 result of the annualized wages for the newly hired employee and the increased manager
3 hours, as well as the 2024 COLA wage increase.

4 **Q. Please discuss the second pro forma adjustment, P-04, to payroll taxes.**

5 A. A second pro forma adjustment, P-04, was made to capture the increased payroll taxes of
6 \$1,109 resulting from the 2025 COLA wage increase that will go into effect during the
7 rate year.
8

9 **Benefits**

10 **Q. Have you proposed an adjustment to benefits expenses?**

11 A. Yes. In my Exhibit AML-04 – Benefits Expense, I support one pro forma adjustment to
12 benefits expenses.

13 **Q. Can you also elaborate on the layout of your Exhibit AML-04- Benefits Expense?**

14 A. Certainly. Exhibit AML-04, which contains five schedules, is set up to support the
15 proposed pro forma adjustment to benefit expense. Sch 1.0 – Benefits Exp 2023
16 summarizes the company’s per books detailed amounts for all benefits in the test year.
17 And column J summarizes the pro forma adjustments calculated on the four subsequent
18 schedules. Schs. 2.0 – 5.0 contain the detailed per books amounts from the company’s
19 general ledger and provides the calculations for the pro forma adjustment.
20

21 **Q. Please explain why benefits expenses must be adjusted.**

22 A. Summit View began offering a dental benefit plan, through Delta Dental, during the test
23 year. Therefore, a pro forma adjustment of \$1,531, to annualize this additional expense,
24 has been calculated and is included in the summary in column J on Sch 1.0. This
adjustment is supported on Sch 2.0 – DD of Exhibit AML-04.

1 Additionally, there was a decrease to the Total Benefits Solutions premiums during the
2 test year. Therefore, a pro forma adjustment to benefits expense is being proposed in the
3 amount of \$12,613 reflecting that decrease in premiums and is included in the summary
4 on Sch 1.0 in column J. This adjustment is supported on Sch 3.0 – TBS of Exhibit AML-
5 04.

6 **Q. What is the total pro forma adjustment you propose for benefits expense, in P-05?**

7 A. Combining both the additional dental insurance expense and the reduction of Total
8 Benefits Solutions premiums, results in a pro forma adjustment (P-05) of \$11,082, as a
9 reduction to the test year benefits expense, as shown on Sch 1.0, column J.
10

11 **Postage**

12 **Q. Has the company also proposed an adjustment to postage expenses?**

13 A. Yes. I am proposing one pro forma adjustment to postage expenses.

14 **Q. Please explain why postage expenses should be adjusted.**

15 A. The US Postal Service, earlier this year, received approval for a 7.8 percent increase for
16 mailing services which went into effect July 14, 2024. Therefore, I am factoring in that
17 change in my adjustment.
18

19 **Q. What is the amount of the postage expense adjustment?**

20 A. The pro forma adjustment (P-09) reflecting the 7.8 percent increase to postage expenses
21 is \$637.
22

23 **Rent Expenses**

24 **Q. Has the company proposed an adjustment to rent expenses?**

A. Yes. I am proposing one adjustment to rent expenses.

Q. Please explain why rent expenses must be adjusted.

1 A. The company has signed a new lease for the shop space being used by SVWW.

2 **Q. Is this new lease with an affiliate?**

3 A. Yes. The shop space is located in a building owned by affiliate DV and C Companies
4 LLC (DV&C). Previously, the company was using this space, free of charge, because the
5 company could not afford to pay rent due to its prolonged revenue deficiency between
6 general rate filings. We are disclosing this relationship in this rate case in compliance
7 with Commission rule and we are requesting recovery of the rent expense associated with
8 this newly executed lease with DV&C.
9

10 **Q. How was the company able to use the shop free of charge?**

11 A. Because the building is owned by affiliate DV&C, SVWW was permitted to use the
12 space, free of charge, until a successful rate case could be prosecuted before the UTC.
13 Since we anticipate that this rate case will be successfully resolved, we are including this
14 expense.
15

16 **Q. Is there any other notable element of the shop lease arrangement worth mentioning?**

17 A. Yes. The shop is supplied fully stocked and inventory ready for SVWW by the owners
18 including all specialized tools such as plasma cutters, welding equipment and parts
19 necessary to maintain the water system at no additional charge by the owners. This
20 unquestionably is a clear cost benefit for regulated customers of the company.
21

22 **Q. What research did the company do to determine if the rent being charged to this
23 regulated company for this property is reasonable?**

24 A. In support of this request, the company received two market analyses for comparable
properties. These analyses support a rent amount of \$1.30 per square foot, or \$3,900 per
month for this 3,000 square foot shop space.

1 **Q. What is the amount of the rent expense adjustment?**

2 A. The pro forma adjustment (P-06) in the amount of \$46,800 reflects 12 months of rent at
3 \$3,900 per month.

4 **Q. Does SVWW have any other affiliated interests, as described in WAC 480-110-545
5 and 480-110-575?**

6 A. SVWW has several affiliated interests which include Candy Mountain LLC (CMLLC),
7 Tri City Development Inc, Eagle Butte Vineyards LLC, Candy Mountain Farms LLC,
8 and DV and C Companies LLC (DV&C).

9
10 **Q. Has the company disclosed its affiliated interests as required by WAC 480-110-545
11 and 480-110-575?**

12 A. It is not completely clear whether all of Summit View's past affiliated interest
13 relationships were disclosed to the UTC previously, because the company's prior attorney
14 has unfortunately passed away. Additionally, affiliated interest information submitted to
15 the Commission is not readily accessible outside the Commission without a request for
16 public records (RFPR) and while some of those relationships may have been disclosed
17 and communicated, they may not have been formally recognized.

18
19 **Property Taxes**

20 **Q. Are you proposing an adjustment to property taxes?**

21 A. Yes. I am proposing two adjustments to property taxes.

22 **Q. Have you prepared an exhibit to support this expense and the related adjustments?**

23 A. Yes. Exhibit AML-05 – Property Tax, which is a single page workbook, references the
24 property tax expenses and the adjustments.

Q. Please discuss the property taxes adjustments.

1 A. I have proposed one restating (R-08) and one pro forma (P-10) adjustment to property
2 taxes. I first adjust property taxes to restate the test year property taxes to actual test year
3 amounts. I then provide a pro forma adjustment to capture the increase in property taxes
4 in Benton County for 2024.

5 **Q. What is the total proposed restating adjustment (R-08) to property taxes?**

6 A. A restating adjustment, R-08, totaling \$730 was made to property taxes to reflect the
7 actual amount of property taxes paid by the company to Benton County in the 2023 test
8 year.
9

10 **Q. Please discuss the proposed pro forma adjustment to property taxes.**

11 A. Benton County property taxes have increased significantly over the last couple of years,
12 as has happened in many Washington state counties, post pandemic. The pro forma
13 adjustment, P-10, to property tax expense, captures the increased property taxes expense
14 for 2024 which is an increase of \$757.
15

16 **Rate Case Expenses**

17 **Q. Has the company proposed recovery of rate case expenses for this general rate case?**

18 A. Yes.

19 **Q. Please explain what expenses are included for rate case costs.**

20 A. Rate case expenses incurred as a result of filing this case include legal, consulting, and
21 customer notice expenses.

22 **Q. Have you prepared an exhibit to support this adjustment?**

23 A. Yes. Exhibit AML-06 – Rate Case Expense, is a single page workbook, and provides the
24 information for rate case expenses and reflects this adjustment.

Q. What is the total rate case expenses?

1 A. Total rate case expenses, at the time of filing, are \$50,610.

2 **Q. Has the company proposed amortizing these rate case expenses?**

3 A. Yes. The company proposes amortizing these rate case expenses over two years.

4 **Q. What justification can you provide for amortizing rate case expenses over two**
5 **years?**

6 A. It has been the company's intent to file rate cases every two years. However, this effort
7 has been impeded by the ongoing issues at the UTC and the untimely death of the
8 company's attorney.

9
10 Now that the company has new legal counsel and a regulatory consultant, it anticipates
11 material professional expenses for the next couple of years as it improves various
12 reporting processes. Therefore, it expects to file more frequent rate cases until the rate
13 adjustments authorized by the UTC are sufficient to stabilize its rate base.

14 Additionally, we are proposing a two-year rate plan to implement the domestic rate
15 increase over two years, which is additionally explained in the testimony of Mr.
16 Kermode.
17

18 **Q. What is the total pro forma (P-08) adjustment for rate case expenses?**

19 A. The pro forma adjustment, P-08, for rate case expenses is \$25,305. Towards the end of
20 the case, the company will provide an updated amount to reflect actual rate case expenses
21 and projects that the total expense amount could be higher, depending on how protracted
22 the review of the filing becomes.
23

24 **Depreciation**

Q. Has the company proposed any adjustments to depreciation?

A. Yes, I am proposing one restating and one pro forma adjustment to depreciation.

1 **Q. Please discuss the per books depreciation expense.**

2 A. In the past, the company did not record depreciation expenses in its profit and loss
3 statement. Consequently, the company's 2023 tax depreciation expense amount was used
4 as the per books depreciation amount.

5 **Q. Please explain your Exhibit AML-02 – Regulatory Depreciation.**

6 A. Exhibit AML-02 – Reg Depr contains three schedules. Sch 1.0 – TY Reg Depr shows the
7 restated regulatory depreciation and the resulting restating adjustment. Sch 2.0 – RY Reg
8 Depr shows the pro forma regulatory depreciation and the resulting total rate year
9 depreciation expense and investment. Sch 3.0 – CIAC displays all facility charges and
10 hook-up fees attributable to CIAC.

11 Throughout this exhibit, assets are separately identified as domestic, irrigation, or
12 common plant, and includes regulatory-required information for each asset, and provides
13 the supporting calculations for the adjustments.

14 **Q. Please now discuss the proposed restating depreciation expense adjustment, R-09.**

15 A. To reflect the proper regulatory depreciation expense for the test year, Sch 1.0 – TY Reg
16 Depr of Exhibit AML-02 lists SVWW's assets with all relevant information for these
17 calculations. A restating adjustment (R-09) of \$58,879 was therefore made to reconcile
18 the difference between the company's tax depreciation expense and regulatory
19 depreciation expense for 2023.

20 **Q. You are also proposing a pro forma adjustment for depreciation, can you please
21 explain why this adjustment is necessary?**

22 A. The company purchased new meters that were placed into service in 2024, therefore a pro
23 forma adjustment was necessary to capture the depreciation expense and investment for
24

1 the rate year. The company did exhaustive research when selecting its new meters and the
2 replacement of the meters is part of a forward-looking meter replacement plan which is
3 also discussed by Mr. Rathbun in his prefiled testimony.

4 **Q. What is the proposed pro forma adjustment to depreciation expense?**

5 A. The pro forma adjustment (P-11) for depreciation expense is \$1,654. The calculation of
6 this adjustment is on row 182 of Sch 1.0. Sch 2.0 – RY Reg Depr, includes the new
7 meters in the pro forma regulatory depreciation schedule for the rate year depreciation.
8

9 **Q. Please explain why you are proposing that the new meters be depreciated over 15**
10 **years instead of 20 years as was the case previously.**

11 A. The new meters have 15-year life batteries which must be replaced when the battery is
12 depleted. Therefore, a 15-year lifecycle is most appropriate for the new meters. Mr.
13 Rathbun again testifies in detail about the acquisition of the new meters.

14 **Tariff**

15 **Q. As explained in Mr. Kermode's testimony, Summit View is proposing a two-year**
16 **rate plan for implementing the domestic service rates. How does this affect the**
17 **tariff?**
18

19 A. Tariff W NU-2 is being submitted with this rate case. This new tariff is populated with
20 the revised rates supported by Mr. Kermode's rate design in Sch 5.0a Rates in his Exhibit
21 DPK-04 - Usage and Revenue Supporting Schedules, for all rates proposed to be
22 effective at the start of the rate year, September 1, 2024.

23 Additionally, revised tariff pages (Sheets 18-19) are also being submitted. As discussed
24 by Mr. Kermode, in order to reduce rate shock for the domestic customers, the company
is proposing to implement the domestic rate increase over a period of two years.

1 Therefore, revised sheets 18 and 19 of Tariff W NU-2, are being submitted for the second
2 year of the proposed domestic rate plan, with an effective date of September 1, 2025. The
3 rates in these revised tariff pages are also supported by Mr. Kermode's rate design in Sch
4 5.0b Rates (2) in his Exhibit DPK-04 - Usage and Revenue Supporting Schedules

5 **Q. Does this now conclude your testimony?**

6 **A.** Yes, it does.
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24