

**BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF MARYLAND**

**Application of Maryland Water Service )  
Inc., for Bulk Purchased Water Rate ) Case No. 9212  
Increase and Purchased Water Surcharge)  
Reconciliation – Pinto and Highland )  
Estates )**

**DIRECT TESTIMONY OF**

**FRANK W. RADIGAN**

**ON BEHALF OF THE MARYLAND OFFICE OF PEOPLE'S COUNSEL**

**December 8, 2009**

1 **INTRODUCTION**

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

3 A. My name is Frank W. Radigan. I am a principal in the Hudson River Energy Group, a  
4 consulting firm providing services regarding the utility industry and specializing in the  
5 fields of rates, planning and utility economics. My office address is 237 Schoolhouse  
6 Road, Albany, New York 12203.

7

8 **Q. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATION AND BUSINESS**  
9 **EXPERIENCE?**

10 A. I received a Bachelor of Science degree in Chemical Engineering from Clarkson College  
11 of Technology in Potsdam, New York (now Clarkson University) in 1981. I received a  
12 Certificate in Regulatory Economics from the State University of New York at Albany in  
13 1990. From 1981 through February 1997, I served on the Staff of the Department of  
14 Public Service, which is the staff arm of the New York State Public Service Commission.  
15 I served in the Rates and System Planning sections of the Power Division and in the Rates  
16 Section of the Energy and Water Division. My responsibilities included resource  
17 planning and the analysis of rates, depreciation rates and tariffs of electric, gas, water and  
18 steam utilities in the State of New York and encompassed rate design and performing  
19 embedded and marginal cost of service studies, as well as depreciation studies.

20

21 Before leaving the Commission, I was responsible for directing all engineering staff  
22 during major proceedings including those relating to rates, integrated resource planning  
23 and environmental impact studies. In February 1997, I left the Commission and joined

1 the firm of Louis Berger & Associates as a Senior Energy Consultant. In December 1998,  
2 I formed my own company, the Hudson River Energy Group.

3  
4 In my 28 years of experience, I have testified as an expert witness in utility rate  
5 proceedings on more than 80 occasions before various utility regulatory bodies including  
6 the Arizona Corporation Commission, the Connecticut Department of Utility Control, the  
7 Maryland Public Service Commission, the Massachusetts Department of  
8 Telecommunications and Energy, the Michigan Public Service Commission, the New  
9 York State Public Service Commission, the New York State Department of Taxation and  
10 Finance, the Nevada Public Utilities Commission, the Public Utilities Commission of  
11 Ohio, the Rhode Island Public Utilities Commission, the Vermont Public Service Board,  
12 and the Federal Energy Regulatory Commission.

13  
14 I currently advise a variety of Regulatory Commissions, consumer advocates, municipal  
15 utilities and industrial customers concerning rate matters, including wholesale electricity  
16 rates and electric transmission rates. My resume is attached as Exhibit 1 to this testimony.

17  
18 **Q. WERE THE EXHIBITS TO YOUR TESTIMONY EITHER PREPARED UNDER**  
19 **YOUR DIRECTION, OR TRUE AND ACCURATE COPIES OF THE ORIGINAL**  
20 **DOCUMENT?**

21 A. Yes.

22  
23 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

1 A. I am testifying on behalf of the Maryland Office of the People's Counsel.

2

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. I have been asked to review the reasonableness of Maryland Water Services, Inc.'s  
5 (MWS or the Company) proposed Bulk Purchased Water Rate Increases and  
6 Purchased Water Surcharge Reconciliations for its two operating companies, Pinto and  
7 Highland Estates.

8

9 **Q. PLEASE BRIEFLY DESCRIBE THE TWO SYSTEMS**

10 A. MWS is a Maryland corporation and operates two water operating companies - Highland  
11 Estates and Pinto. Highland Estates serves 39 customers in the Highland Estates  
12 community located on the northeast side of the City of Cumberland, Maryland. The City  
13 of Cumberland directly supplies the company with its water. The Pinto operating  
14 company serves approximately 942 customers in Pinto, Maryland. Pinto, Maryland is  
15 southwest of the City of Cumberland and Pinto receives its water from the Cresaptown  
16 Civic Improvement Association (CCIA) which in turn receives its water from the City  
17 of Cumberland. While the two operating companies both obtain water from the City of  
18 Cumberland, Maryland they are physically separated by twenty miles. Because of its  
19 small size Highland Estates operates under the Pinto tariff.

20

21 **Q. WHO OWNS MWS?**

22 A. MWS is a wholly owned subsidiary of Utilities, Inc., an Illinois corporation that acquires,  
23 develops, and operates water utilities, wastewater utilities, and water-related businesses.  
24 Utilities, Inc. was formed in 1965 and through its approximately 90 subsidiaries, operates  
25 over 500 utility systems in 15 states and serves over 300,000 connections. Utilities, Inc.  
26 has two other water companies in Maryland: Provinces Utilities, Inc. in Anne Arundel  
27 County, and Greenridge Utilities, Inc. in Harford County.

28

1 **Q. PLEASE DESCRIBE MWS PROPOSALS FOR PINTO AND HIGHLAND**  
2 **ESTATES.**

3 A. On July 27, 2009, MWS filed requests to increase the bulk purchase water rate for its  
4 Pinto and Highland Estate customers to reflect an increase in the bulk purchased water  
5 costs effective August 26, 2009 pursuant to its tariff (Rate Request). On August 3,  
6 2009, MWS filed a request to impose three concurrent purchased water reconciliation  
7 surcharges to collect the difference between MWS purchased water costs and the  
8 revenues collected from Pinto customers in the years 2006, 2007, and 2008, effective  
9 September 4, 2009. On September 24, 2009, MWS also filed a request for approval of its  
10 purchased water reconciliation for its Highland Estates system for the years 2006, 2007,  
11 and 2008. Both of these filings will be referred to as the Surcharge Requests.

12

13 **SUMMARY AND RECOMMENDATIONS**

14 **Q. BASED ON YOUR REVIEW OF THE FILINGS, WHAT DO YOU**  
15 **RECOMMEND CONCERNING THE COMPANY'S REQUESTS?**

16 A. The Rate Requests are simply to reflect changes in the bulk water costs and have nothing  
17 to do with tariff interpretation or operating practices of the utility. In both cases the bill  
18 impacts are small. For Pinto, the increase in the bulk purchase power rate will increase  
19 the average monthly bill by \$1.22 or 2.9%. For Highland Estates the change is a  
20 decrease in the bulk purchase power which will decrease the average monthly bill by  
21 \$0.08 or 0.2%. The Rate Request should be supported.

22

23 The Surcharge Requests are more complicated for several reasons, as will be more fully  
24 discussed below. First, is the issue of the meaning of "annual reconciliation" as used in

1 the tariff.<sup>1</sup> In the case of Pinto, the Company's filing is for a reconciliation of under-  
2 collections that occurred over three years: 2006, 2007 and 2008. Per its interpretation of  
3 the tariff, MWS proposes to limit the surcharge request so that no charge may exceed  
4 10% of the recent average bill. Accordingly, the Company proposes to collect the under  
5 collection for each year to an amount equal to approximately 10% of the bill. The three  
6 concurrent surcharges add up to \$12.69 per month which is an increase of 30%. There  
7 are issues with this proposal, however, since it is not clear that the Company has the right  
8 to seek recovery of over- or under-collections for the years 2006 and 2007. The tariff is  
9 clear that the Company has the right to seek reconciliation on an annual basis but it is not  
10 clear that the right continues once the year is over. The Commission must determine if  
11 the right to reconciliation for previous years' under-collections exists, if the Company  
12 does not file for it. I have been advised by counsel that the only Commission precedent  
13 for submitting multi-year applications for surcharges exists from the prior filings made by  
14 this company's parent, Utilities, Inc., under Mail Log 97841 and from the direct testimony  
15 of Michael T. Dryjanski<sup>2</sup> referring to the company's filings made under Mail Log No.  
16 76219 and Mail Log No, 79158. If not, then the Company is only permitted to file for  
17 over- or under-collections for 2008 but nothing for 2006 and 2007. Even if one were to  
18 allow the Company to reconcile for all over- or under-collections since the last  
19 surcharges were filed, the Company has misinterpreted its tariff, in that it has claimed the  
20 right to charge for concurrent surcharges for prior unfiled annual reconciliation amounts.  
21

**Comment [ T 1 ]:** I assume that you will fill in a tariff cite?

**Comment [ T 2 ]:** Peter, I also assume that the situation is of first impression not covered by either COMAR or other PSC precedent. If so, he ought to mention that he has been advised by counsel that that is the case.

1 Maryland Water Service, Inc, Pinto, Maryland tariff, PSC.MD. No.1, Ninth Revised Page No. 2.  
2 Direct Testimony, Michael T. Dryjanski, page 8, lines 7-9.

1 Second, the company's tariff is quite clear that the reconciliation is to be limited to 10%  
2 of the bill for any over- or under-collections. It does not say there are separate  
3 reconciliations for each year. The 10% limitation is a ratemaking mechanism to ensure  
4 that the Company monitors over- and under-collections and will keep them to a  
5 reasonable amount.

6  
7 Third, one must consider the impact on rates. The calendar year 2009 is almost over and  
8 by the time the Commission considers the surcharge requests in this case the Company  
9 could file another one for under recoveries in 2009. Lost and unaccounted for water on  
10 these systems is very high and data from 2009 to date indicates that under-collections on  
11 both systems will be at the level of 2008. Again, using Pinto as an example, for 2009 I  
12 estimate that there will be an additional under-recovery of \$317,000 on top of the  
13 approximate \$625,000 for under-recoveries for the period 2006-2008. In total, there is  
14 just short of \$1 million in under-recoveries. One must remember that the Pinto system  
15 has 942 customers with annual revenues of approximately \$500,000. Under the  
16 Company's logic of amortizing each annual under recovery as a 10% surcharge to rates,  
17 future surcharges will just keep pancaking on top of the current request.

18  
19 Fourth, for both systems the largest reason for the under-recovery is the lost and  
20 unaccounted for water (UFW) on the systems. As will be shown below, the Company  
21 has done little to maintain the system UFW at reasonable levels. To provide for the  
22 proper incentive to minimize UFW, the Company should only to be allowed to surcharge  
23 its customers a total of 10%. This would allow recovery of approximately \$50,000 per

1 year. I recognize that this will cause the utility financial harm given that under-  
2 recoveries are expected to be on the order of \$330,000 per year if UFW does not  
3 improve. This may seem draconian but I believe necessary, so that the utility recognizes  
4 and aligns its interests with the interests of its customers. One must recognize that there  
5 are steps that the utility can take to reduce the amount of UFW; one must just find the  
6 right incentive. For example, once prompted by staff in this case, the Company  
7 undertook a leak detection survey which identified leaks costing approximately \$80,000  
8 per year<sup>3</sup>. If the Company wants to recover all past under-recoveries of purchased water  
9 costs, it must reduce losses going forward.

10  
11 **RATE REQUEST**

12 **Q. PLEASE DESCRIBE EXACTLY WHAT IS BEING ASKED FOR IN THE RATE**  
13 **REQUEST?**

14 A. For the Pinto customers MWS filed a request with the Commission to increase the bulk  
15 water rate for its Pinto customers (up to \$6.17) to reflect an increase in the bulk  
16 purchased water costs charged by its supplier, the CCIA. Commission Order No. 82899,  
17 approved the bulk purchased water rate charge for the Pinto customers as a temporary  
18 rate (\$6.17) subject to possible refund and effective September 9, 2009 and set the matter  
19 for further proceedings in this case, Case No. 9212.

20  
21 For Highland Estates MWS sought Commission approval to decrease its purchased water  
22 rate to reflect a decrease in the cost of water charged by its supplier, the City of

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<sup>3</sup> See response to Staff 5-13, Attachment I.



1 Cumberland. The decrease related to calendar year 2008 and resulted in a decrease from  
2 \$7.63 per 1,000 gallons to \$7.61 per 1,000 gallons for a decrease of \$0.02 per 1,000  
3 gallons. The Commission considered this matter at the August 26, 2009 Administrative  
4 Meeting, and accepted the proposed bulk water purchase adjustment with an effective  
5 date of August 26, 2009.

6  
7 **Q. UNDER WHAT AUTHORITY IS MWS SEEKING THE RATE REQUEST?**

8 A. The tariff for Pinto (under which Highland Estates also provides service) has a provision  
9 that provides as follows:

10           öThe Utility will also charge as a separate line item on the customer's bill, for the  
11 cost of water purchased from the government body, or agency, or other entity.  
12 The charges imposed or charged by the government body, or agency, or other  
13 entity will be charged to the utility's affected customers based on each customer's  
14 metered consumption. The Utility will add a 10% adjustment on the water  
15 supplier's rate as an estimate of unaccounted for water losses.ö (P.S.C. Md. No. 1  
16 Ninth Revised Page No. 2)  
17

18 **Q. WHAT IS THE RATE IMPACT OF THE RATE REQUEST?**

19 A. For Pinto the current bulk water rate is \$5.89 per 1,000 gallons and the proposed rate is  
20 \$6.17 per 1,000 gallons, an increase of \$0.28 per 1,000 gallons or 4.86%. In 2008, the  
21 typical monthly bill for a Pinto customer was for usage of 4,400 gallons at a cost of  
22 \$42.77. The increase in the bulk purchase power rate will increase the average monthly  
23 bill by \$1.22 or 2.9%.

24  
25 For Highland Estates the current bulk water rate is \$7.63 per 1,000 gallons and the  
26 proposed rate is \$7.61 per 1,000 gallons, a decrease of \$0.02 per 1,000 gallons or 0.3%.  
27 In 2008, the typical monthly bill for a Highland Estates customer was for usage of 4,200

1 gallons at a cost of \$47.61. The decrease in the bulk purchase power rate will decrease  
2 the average monthly bill by \$0.08 or 0.2%.

3

4 **Q. IS WHAT THE COMPANY REQUESTS REASONABLE?**

5 A. Yes. The Rate Requests are simply to reflect increases or decreases in the bulk water  
6 costs and have nothing to do with tariff interpretation or operating practices of the utility.  
7 In both cases the bill impacts are small. The Rate Requests are supported.

8

9 **SURCHARGE REQUEST**

10 **Q. PLEASE DESCRIBE EXACTLY WHAT IS BEING ASKED FOR IN THE**  
11 **SURCHARGE REQUEST?**

12 A. For Pinto, the Company's filing is for a reconciliation of under-collections that occurred  
13 over three years: 2006, 2007 and 2008. The amount of under collection was \$73,834.54  
14 for 2006; \$234,085.52 for 2007; and \$317,135.91 for 2008. In addition, the company  
15 identified that the reconciliation surcharge for the 2005 period (\$5.49 for 26 months) was  
16 inadvertently continued beyond its date of termination. The Company calculated that this  
17 inadvertent error resulted in the over-collection of approximately \$40,516 from Pinto  
18 customers.

19

20 Per its interpretation of the tariff MWS proposes to limit the surcharge request so that no  
21 charge may exceed 10% of the recent average bill. Accordingly, the Company proposes  
22 to collect the under-collection for each year to an amount equal to approximately 10% of  
23 the bill. MWS proposes to reduce the surcharge reconciliation for the 2006 calendar year  
24 period by the 2005 over collection. Thus, MWS proposes three separate surcharges as  
25 shown below

26

1) a \$4.12 surcharge for a period of 19 months for the 2006 under collection,

- 1                   2) a \$4.27 surcharge for a period of 58 months for the 2007 under collection, and  
2                   3) a \$4.25 surcharge for a period of 79 months for the 2008 under collection  
3

4                   For Highland Estates the Company proposes to implement a surcharge, which  
5                   consolidates a three year net under-recovery that occurred over three years: 2006, 2007,  
6                   and 2008. The amount of under-collection was \$99.81 for 2006; \$797.57 for 2007; and  
7                   an over-collection of 693.76 in 2008. Thus, there is an overall net under collection of  
8                   \$203.62 for the three year period. The Company proposes to surcharge customers \$2.74  
9                   per customer for a period of two months.  
10

11 **Q. UNDER WHAT AUTHORITY IS MWS SEEKING THE SURCHARGE**  
12 **REQUEST?**

- 13 A. For the Surcharge Request the tariff for Pinto (under which Highland Estates also  
14 provides service) has a provision that provides as follows:

15                   öOn an annual basis the utility will submit water sold and water purchased data to  
16                   the Maryland P.S.C. for the purpose of reconciling total water sold and total water  
17                   purchased. Estimated losses will be reconciled with actual losses at the annual  
18                   true-up. Under-collections or over-collections of purchased water costs will be  
19                   charge or credited to the first bill following the Maryland P.S.C. audit of the true-  
20                   up. In the event that the true-up of the under-collected water costs results in an  
21                   increase in the average bill of greater than 10%, the charges for under-collected  
22                   water shall be limited to 10% of the average bill. The charge for under-collected  
23                   purchased water costs shall continue on subsequent billings, limited to a  
24                   maximum of 10% of the average bill, until eliminated.ö (P.S.C. Md. No. 1 Ninth  
25                   Revised Page No. 2)  
26

27 **Q. WHAT IS THE RATE IMPACT OF THE SURCHARGE REQUEST FOR**  
28 **PINTO?**

1 A. For Pinto, totaling the three separate surcharges, the Company is asking for concurrent  
2 surcharges that add up to \$12.69 per month. Given that the average bill for a MWS-Pinto  
3 customer in 2008 was \$42.77, this amounts to an increase of 30%.

4

5 **Q. WHAT IS THE RATE IMPACT OF THE SURCHARGE REQUEST FOR**  
6 **HIGHLAND ESTATES?**

7 A. For Highland Estates the two month surcharge averages would increase the average bill  
8 from \$47.61 to \$50.35 or 5.7%.

9

10 **Q. IS WHAT THE COMPANY PROPOSES REASONABLE?**

11 A. No, for four reasons.

12

13 First, it is not clear that the Company has the right to seek recovery of over- or under-  
14 collections for the years 2006 and 2007. Although I am not an attorney, on its face the  
15 tariff is clear that the Company has the right to seek reconciliation on an annual basis but  
16 it is not clear that the right continues once the year is over. The Commission must  
17 determine if the right to reconciliation exists if the Company does not file for it. If not,  
18 then the Company can only file for over- or under-collections for 2008 and nothing for  
19 2006 and 2007.

20

21 Second, even if one were to allow the Company to reconcile for all over- or under-  
22 collections since the last surcharge filings were made, the Company has misinterpreted  
23 the tariff in that it claims the right to charge for concurrent surcharges for unfiled annual

1 reconciliation amounts. The tariff is quite clear that the reconciliation is to be limited to  
2 10% of the bill for any over- or under-collection. It does not say there are separate  
3 reconciliations for each year. The 10% limitation is a ratemaking mechanism to ensure  
4 that the Company monitors over- and under-collections and will keep them to a  
5 reasonable amount.

6  
7 Third, one must take into consideration future surcharges and their impact on rates. The  
8 calendar year 2009 is almost over and by the time the Commission considers the  
9 surcharge requests in this case, the Company could file another surcharge application  
10 with the Commission for under-recoveries in 2009. Lost and unaccounted for water on  
11 these systems is very high and data from 2009 to date indicates that under collections on  
12 both systems will be at the level of 2008. For Pinto this would be an additional under-  
13 recovery of \$317,000 on top of the approximate \$625,000 for under-recoveries for the  
14 period 2006-2008 (2006 - \$73,834, 2007 - \$234,086 and 2008 - \$317,136). For Pinto  
15 therefore the under-recoveries add up to approximately \$942,000. Under the Company's  
16 logic of amortizing each annual under-recovery as a 10% surcharge to rates, future  
17 surcharges will just keep pancaking on top of the current request.

18  
19 In the case of Highland Estates' 2009 water purchases, the amount of water purchased to  
20 serve customers skyrocketed in 2008. Some of this increase in water purchases was for  
21 flushing the system, some for main breaks, but most was lost and unaccounted for.  
22 Through August 2008, the Company purchased 2.4 million gallons of water for an  
23 annualized rate of 3.7 million gallons. At this rate the under-collection for 2008

1 purchases can be estimated at \$14,000. This lost revenue is for a 39 customer system  
2 with average annual revenues of approximately \$19,000. Based on this information and  
3 the fact that the Company believes that the system is expected to have losses in the 20%  
4 to 35% range (Paul Burris Direct Testimony for Highland Estates, page 10, line 11),  
5 under-collections can be expected to continue at the 2008 level.

6  
7 Fourth, for both systems the largest reason for the under-recovery is the lost and  
8 unaccounted for water (öUFWö) on the systems. Company Witness Burris testifies that  
9 a reasonable amount of losses for both the Pinto and Highland Estates systems is 20% to  
10 35%<sup>4</sup>. Mr. Burris attempts to justify this level by presenting information on some of the  
11 other systems that Utilities, Inc. operates in other parts of the country. Mr. Burris  
12 provides data for six systems that have mountainous topography, like that of the Pinto  
13 and Highland Estates systems. According to Mr. Burris, these systems have UFW in the  
14 20% to 35% range (Paul Burris direct Testimony for Pinto, page 11). While the data  
15 presented does show that these systems do have UFW percentages in the range that Mr.  
16 Burris testifies to, (they average 23%) there are two of the systems (33% of the data  
17 presented) which have UFW percentages below 15%. It should be noted that the  
18 American Water Works Association finds acceptable between 10% and 20% UFW for a  
19 fully metered system in good working order (Paul Burris Direct Testimony for Pinto,  
20 page 14, line 18).

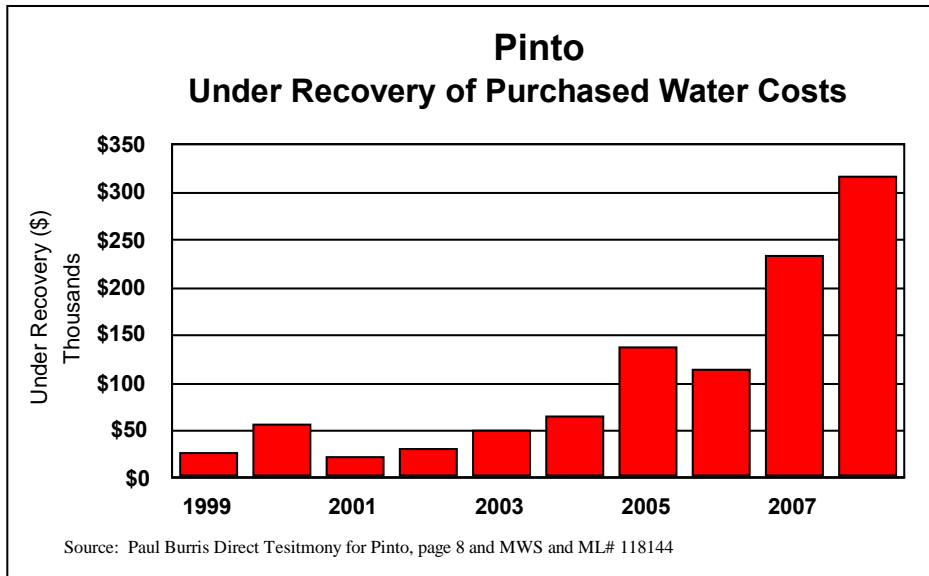
21  

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<sup>4</sup> Direct testimony of Paul Burris for Pinto, page 14, line 16 and direct testimony of Paul Burris for Highland Estates, page 10, line 11.

1 Another important factor to consider in reviewing the data in this proceeding is that the  
2 under-recovery amounts only occurred recently as shown on the graph below:

3



4

5

6 **Q. DOES THE RECORD IN THIS CASE INDICATE THAT THE COMPANY HAS**  
7 **UNDERTAKEN EFFORTS TO REDUCE UFW ON THE TWO SYSTEMS?**

8 A. No. Besides claiming that the UFW rates for both systems are reasonable, the Company  
9 also states that it has no intention of implementing a main replacement program. As  
10 testified by Mr. Burris:

11       MWS-Pinto does not have a systematic main replacement program at this time.  
12       Based on the age of the system, which is approximately 45 years old, the current  
13       distribution main installed has a life expectancy of approximately 70 years. Linear  
14       replacement programs usually begin towards the end of the life expectancy of the  
15       distribution main. Currently MWS-Pinto is approximately 10 to 25 years away from  
16       such a program” (Paul Burris Direct Testimony for Pinto, page 13).  
17

1 “MWS-Highland does not have a systematic main replacement program at this time.  
2 Based on the age of the system, which is approximately 37 years old, the current  
3 distribution main installed has a life expectancy of approximately 70 years. Linear  
4 replacement programs usually begin towards the end of the life expectancy of the  
5 distribution main. Currently MWS-Highland is approximately 30 years away from  
6 such a program” (Paul Burris Direct Testimony for Highland Estates, page 9).  
7

8 In addition, it was not until after Commission Staff inquired about any leak detection  
9 program did the Company lift a finger to do something<sup>5</sup>. As testified by Mr. Burris:

10 “The "extensive leak detection program" Staff inquired about identifies large  
11 leaks as well as smaller more difficult-to-locate leaks in the distribution system,  
12 and also includes charting, reporting, and a complete analysis of the distribution  
13 system. The leak detection program typically performed at MWS Pinto locates  
14 and identifies large leaks. Again, MWS-Highland's contract with its outside  
15 vendor is for an "extensive leak detection analysis and we are awaiting the  
16 vendor's final report.” (Paul Burris Direct Testimony for Pinto, page 9).  
17

18 Finally, MWS has never performed an analysis of the condition of the  
19 transmission and distribution system<sup>6</sup>. As testified by Mr. Burris:

20 “...an analysis of the condition of the transmission and distribution pipes. MWS-  
21 Highland's current observations during water main breaks have been that such  
22 breaks are only vertical in nature, and thus can be repaired without the  
23 need for partial main replacements. Based on these observations, MWS-  
24 Highland has determined that an analysis of the transmission and distribution  
25 pipes is not necessary at this time. MWS-Highland staff will continue to observe  
26 and evaluate the condition of the mains during future breaks. If, in the future, a  
27 circumstance arises different than current observations, MWS-Highland will revise  
28 its current procedures.” (Paul Burris Direct Testimony for Pinto, page 13 and Paul  
29 Burris Direct Testimony for Highland Estates, page 9).  
30

31 **Q. DOES THE RECORD IN THIS CASE INDICATE THAT THE COMPANY IS**  
32 **CONCERNED ABOUT THE LEVEL OF UFW?**

33 A. No. Besides the testimony that the UFW level at 20% to 35% is reasonable, the  
34 Company is also on record stating that the purchased water adjustment mechanism was

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<sup>5</sup> See response to Staff DR 1-8, Attachment II.

<sup>6</sup> See response to Staff DR 1-9, Attachment III.



1 integral to its decision to acquire the Pinto system in the first place. As testified to by

2 Company Witness Michael Dryjanski:

3 “The timely recovery of purchased water costs through the operation of the  
4 purchased water adjustment mechanism was the incentive needed for MWS to  
5 purchase the Pinto system” (Direct Testimony of Michael Dryjanski for Pinto,  
6 page 5)  
7

8 **Q. DOES THE RECORD IN THIS CASE INDICATE THAT THE COMPANY IS**  
9 **CONCERNED ABOUT THE FINANCIAL CONSEQUENCES OF A HIGH UFW**  
10 **RATE AND ITS RESULTANT IMPACT ON ITS CUSTOMERS?**

11 A. No, as I read the transcript in this case it appears that the purchased water adjustment has  
12 caused the utility to act like a monopoly that is indifferent to the plight of its customers.  
13 It appears that the Company recognizes the large increase in purchased water cost, but it  
14 is indifferent to it as: 1) it is recoverable from ratepayers; and 2) it would cause it to  
15 spend shareholder money to fix the underlying system problems. .

16  
17 **Q. WHAT DO YOU RECOMMEND THAT THE COMMISSION DO WITH**  
18 **RESPECT TO THE SURCHARGE REQUEST?**

19 A. Nothing but a strict reading of the Company's tariff. The Company should be allowed in  
20 this and in any future Surcharge Request case only to be allowed to surcharge its  
21 customers a total of 10%. This would allow recovery of approximately \$50,000 per year.  
22 I recognize that this will cause the utility financial harm, given that under-recoveries are  
23 expected to be on the order of \$330,000 per year if the UFW rate does not improve. This  
24 may seem draconian, but I believe necessary, so that the utility recognizes and aligns its  
25 interests with the interests of its customers. One must recognize that there are steps that

1 the utility can take to reduce the amount of UFW. One must simply find the right  
2 regulatory incentive. For example, once prompted by staff in this case, the Company  
3 undertook a leak detection survey, which identified leaks costing approximately \$80,000  
4 per year<sup>7</sup>. If the Company wants to recover all past under-recoveries of purchased water  
5 costs, it must demonstrate that it can reduce losses going forward.

6

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

8 A. Yes, it does.

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<sup>7</sup> See response to Staff 5-13.