BEFORE THE VIRGIN ISLANDS PUBLIC SERVICES COMMISSION

RE: THE VIRGIN ISLANDS WATER AND POWER AUTHORITY

APPLICATION FOR INCREASED RATES FOR THE WATER DEPARTMENT

VIPSC DOCKET 613

REPORT OF THE TECHNICAL CONSULTANTS

JAMSHED K. MADAN, LARRY R. GAWLIK & MICHAEL D. DIRMEIER

July 3, 2013

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I. STATEMENT OF QUALIFICATIONS

Q. WOULD YOU PLEASE STATE YOUR NAMES AND ADDRESSES?

A. My name is Jamshed K. Madan and my business address is 13 Grove Street, Ridgefield, Connecticut.

My name is Larry R. Gawlik and my business address is 17 Cousteau Lane Austin, TX 78746.

My name is Michael D. Dirmeier and my business address is 1902 Overlook Ridge Drive, Keller, TX 76248.

Q. ARE YOU ALL TESTIFYING AS A PANEL?

A. Yes. The specific areas of responsibilities are described below.

Q. MR. MADAN, BY WHOM ARE YOU EMPLOYED?

A. I am a principal of the Georgetown Consulting Group ("GCG"), which is a firm specializing in utility regulation.

Q. WOULD YOU BRIEFLY DESCRIBE YOUR FIRM'S SERVICES?

A. Georgetown Consulting Group ("GCG") was founded in 1979 and has provided expert testimony on behalf of various clients in the United States and internationally with specific concentration in utility regulation. GCG has represented numerous Public Utility Commissions and other interveners in several jurisdictions regarding matters involving electric, gas, water, wastewater and telephone utilities.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from the Massachusetts Institute of Technology (MIT) with a Bachelor of Science Degree in Electrical Engineering. I continued my education at MIT and graduated with an MS degree in Management from the Alfred B. Sloan School of Management.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have. The Virgin Islands Public Services Commission ("PSC" or "Commission") appointed GCG as the Technical Consultant in Docket #533.[1] I have previously presented testimony in the Electric Phase of the rate investigation in Docket No. 533. I have also testified numerous times on matters involving the Virgin Islands Water & Power Authority ("WAPA" or "Authority") Levelized Energy Adjustment Clause ("LEAC") in Docket #289. In earlier years, I have testified in most WAPA matters, base rate proceedings, fuel adjustment proceedings and other WAPA-related matters brought before the PSC in the past 30 years as a member of GCG and prior to that as a Principal and employee of Touche Ross & Co (currently Deloitte).

[1] Docket No. 533 was set to hear the base rate cases for both the Electric and Water Departments in 2003.

Q. PLEASE DESCRIBE YOUR EXPERIENCE IN UTILITY REGULATION.

A. I have testified and provided other services to Regulatory Commissions for over thirty years. I have been a witness before the Public Services Commission of the Virgin Islands on scores of other occasions in matters involving the Virgin Islands Water and Power Authority as well as VITELCO (currently d.b.a. Innovative Telephone) and other regulated entities.

Q. WHAT WERE YOUR RESPONSIBILITIES IN THE PREPARATION OF THIS TESTIMONY?

A. My responsibility as part of the panel was to provide analysis of the issues in the context of prior cases and to provide guidance on the policy regulatory issues in this proceeding as well as the end result.

Q. MR. DIRMEIER, BY WHOM ARE YOU EMPLOYED?

A. I am a principal of the Georgetown Consulting Group ("GCG"), which is a firm specializing in utility regulation.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from Texas A&M University with a Bachelor of Science Degree in Physics. I continued my education at the University of Chicago, from which I received a Master of Business Administration degree in finance.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have. I have previously appeared before the PSC in matters involving VITELCO.

Q. PLEASE DESCRIBE YOUR EXPERIENCE IN UTILITY REGULATION.

A. I have analyzed utility companies' testimonies and managed the preparation of testimony or testified in the following jurisdictions: Alabama, Arkansas, Colorado, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Vermont, Virginia, the U.S. Virgin Islands, the District of Columbia, the Federal Energy Regulatory Commission, the U.S. Nuclear Regulatory Commission, and before the Board of Commissioners for the City of Las Cruces. I have also testified before the Third Judicial District of the State of New Mexico.

Q. WHAT WERE YOUR RESPONSIBILITIES IN THE PREPARATION OF THIS TESTIMONY?

A. My responsibility as part of the panel was to review the filing, prepare discovery requests and analyze responses to discovery and other material relevant to the case, and to be primarily responsible for the development of the positions and schedules that support our position. I provided input into all aspects of the position.

Q. MR. GAWLIK, PLEASE STATE YOUR POSITION AND DESCRIBE YOUR EDUCATIONAL BACKGROUND?

A. I am an independent consultant and Associate of GCG. I graduated from the University of Florida with a Bachelor degree in Electrical Engineering. Subsequently, I enrolled at the University of Texas at Austin in the Graduate School of Business and received a Master of Business Administration degree.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have. In my role with GCG, Technical Consultant to the PSC, I provided testimony in the electric rate investigation in Docket #533. I have also testified numerous times on matters involving WAPA including Dockets 576, water rate investigation, and in numerous Docket #289, LEAC proceedings since 2003.

Q. PLEASE DESCRIBE YOUR EXPERIENCE IN UTILITY REGULATION.

A. I have on behalf of utility companies and regulatory agencies managed the preparation or participated in the preparation of testimony or testified in jurisdictions located in: Arkansas, California, Connecticut, Florida, Georgia, Louisiana, Illinois, Indiana, New Mexico, New York, Nevada, North Carolina, Nova Scotia, Oregon, Texas, Utah, the U.S. Territories of Guam, Northern Marinas Islands, and Virgin Islands, Washington, the Federal Energy Regulatory Commission, the U.S. Nuclear Regulatory Commission, and before over 30 foreign regulatory commissions, city councils and governing boards.

Q. WHAT WERE YOUR RESPONSIBILITIES IN THE PREPARATION OF THIS TESTIMONY?

A. My responsibility as part of the panel was to review the filing, prepare initial discovery requests and analyze responses to discovery and other material relevant to the case, and to as s part of the panel in this proceeding I focused on matters involving master planning, unaccounted for water, and the impact of the use of reverse osmosis units in WAPA's water operations

Resumes of Messrs. Madan, Dirmeier and Gawlik have been provided to the PSC in several proceedings and can be produced on request in this proceeding.

Q. UPON WHAT HAVE YOU RELIED IN REACHING YOUR CONCLUSIONS IN FORMULATING THE COMMISSION'S OPTIONS DESCRIBED IN THIS TESTIMONY?

A. We have relied on WAPA's petition, responses to discovery requests, WAPA's internal financial reports and other documents, participation in related WAPA proceedings current and past, our experience in regulation and discussions with the Authority's personnel.

Q. IS THERE ANY OTHER TESTIMONY PREPARED ON BEHALF OF GCG IN THIS MATTER?

A. Yes, there is one additional testimony. The testimony of Mr. Bruce Oliver. Mr. Oliver will testify on cost of service and rate design, and proposals for implementation of the appropriate rates that result from this proceeding.

II. SCOPE AND PURPOSE

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. This testimony is filed in response to the Virgin Islands Water and Power Authority's November 2012 request ("filing") to increase the rates for water service. In this proceeding we have evaluated WAPA's request for financial relief. WAPA is requesting an increase in revenues of an additional $3.86 million, including the emergency rate relief of $1.56 million granted WAPA by the PSC on July 6, 2012. This total of $3.86 million, if granted, would be a significant increase of 15.2% on base rates that were in place prior to the emergency increase.

Q. WHAT IS THE SCOPE OF YOUR TESTIMONY?

A. The scope of our testimony is to evaluate WAPA's request for rate relief and make alternative proposals and recommendations for the amount of rate relief requested, as well as any other issue raised in this proceeding.

III. EXECUTIVE SUMMARY

Q. PLEASE PROVIDE AN OVERALL SUMMARY OF YOUR COMBINED TESTIMONY IN THIS PROCEEDING AND DESCRIBE THOSE ISSUES THAT YOU WISH THE PSC TO PAY PARTICULAR ATTENTION TO?

A. WAPA is requesting the PSC to approve a permanent Water System base rate increase totaling $2.3 million in addition to the approved interim rate increase of $1.5 million. This increase consists of two parts: $1.4 million would be added to the base tariffed rates, and $900,000 would be added as a line loss reduction capital surcharge of $0.71 per 1000 gallons. The petition, if approved, is projected to increase annual revenues by $2.3 million over the $1.5 million level that we currently estimate to be produced by the rates approved for the interim rate relief.

Q. IS THIS NOT THE FIRST BASE RATE INCREASE SINCE THE 2009 RATE PROCEEDING AND SHOULD SOME CONSIDERATION BE GIVEN TO THE PERIOD OF TIME THAT WAPA HAS STAYED OUT AND NOT INCREASED RATES?

A. This is the first permanent base rate increase requested by WAPA since 2009. As with the electric system, we believe that the stay-out for that period of time was not prudent and did not permit WAPA to perform prudently the utility functions required of a water utility. The 2009 base rate proceeding had a filing and pattern very similar to these proceedings: in addition to seeking permanent rate relief, the 2009 proceedings also included emergency rate relief requests. In the 2009 proceeding, WAPA entered into a Global Settlement with the Technical

Consultants and subsequently approved by the PSC wherein it agreed to various important activities that have not been undertaken as required by the Global Settlement. Specifically:

- In paragraph 7 of the Global Settlement, which was approved by the Commission, WAPA agreed to perform a Management Audit.[2] This has not been undertaken, WAPA did not bring this matter before the PSC in the interim proceeding, and there is no mention of this responsibility in WAPA's base rate filing. As we stated in the electric base rate proceeding, management audits are a best practice in utility regulation, which has been adopted in many jurisdictions. A management audit would provide for independent advice, with recommendations on the issues facing WAPA.
- In paragraph 8, WAPA agreed to provide its Strategic Business Plan and to indicate how it would expand service to areas not currently served. We do not believe that this has been provided.[3]
- In paragraph 6, WAPA agreed to develop jointly with the Technical Consultant a set of Minimum Filing Requirements (MFRs).[4] This has not been undertaken.

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[2] Stipulation paragraph 7: *The Authority agrees to accept the recommendation of the Technical Consultants that a Management Audit of the Authority should be performed by an independent management auditor. The Authority agrees to develop the scope of the Management Audit with collaborative input from the Technical Consultants and to award a contract for such work 270 days after the execution of this Settlement or the approval and implementation of the revised rates in this proceeding, whichever is later. The audit shall be completed within 545 days (18 months) and filed with the PSC with a report on the proposed action the Authority will take as a result of the Management Audit and the estimated impact of such actions on future water rates.*

[3] Global Settlement paragraph 8: *The Authority shall file with the PSC within sixty days of its completion its strategic business plan, but in no event later than 180 days from the effective date of the Order implementing the revised water rates in this proceeding, setting forth: plans to extend water service to cost-effective areas not currently served, how the Authority may further improve the efficiency of water production and the long-term affordability of water.*

- In paragraph 4 (C), WAPA agreed to implement a line loss program; was provided authority to request additional funding; and was to inform the PSC if funding was insufficient to provide for the program that was to be implemented.[5] No filing was made for any additional funding. Nor was a filing made to notify the PSC of any funding shortfall. WAPA now requests in this filing a surcharge of $900,000 annually to fund line loss programs, and justifies the request on the savings that it will bring to consumers.

Q. IN ADDITION TO NOT MEETING ITS COMMITMENTS UNDER THE GLOBAL SETTLEMENT, WHAT HAS BEEN THE RESULT OF THE STAY-OUT?

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[4] Global Settlement paragraph 6: *The Parties recognize that a reasonable and an agreed set of filing requirements will reduce controversy and costs and will expedite proceedings, recognizing that the Authority is an instrumentality of the Government of the U.S. Virgin Islands and not an investor owned utility. To that effect, the Parties agree to jointly develop, sponsor and submit to the PSC for review and approval in a separate docket a set of "Minimum Filing Requirements" ("MFR") no later than 180 days from the implementation of the initial rate increase in this proceeding.*

[5]*Global Settlement paragraph 4(C) : The Authority shall file with the PSC an amended Water Department line loss program within 120 days from the approval date of this Settlement updating the project list specifically identifying those capital projects discussed above but in an amount not less than $6.6 million.*

The Authority agrees to continue providing to the PSC ongoing quarterly reports on the Water Department "line loss program" including, but not limited to, estimated costs, actual expenditures to date, variance from budget, time lines and other relevant information requested by the PSC.

Subject to agreement by the Parties on specific projects identified in the Amended Line Loss Program, the Authority may seek additional funding from the PSC through the LEAC for line loss mitigation projects (exclusive of the $6,600,000 of line loss mitigation projects identified in the current Water Department's capital improvement program), and the Technical Consultants will support such additional funding.

If the Authority determines that it does not have the funds necessary to fully fund the specific projects identified in the Amended Line Loss Program, the Authority shall promptly notify the Commission (and in no event more than 60 days after the Authority determines it has a funding shortfall) and such notice shall identify the reason for the funding shortfall and seek additional relief to ensure the program continues.

A. The result of the stay-out has been poor service, and very high rates through the water LEAC (WLEAC). In addition, the financial results have been dismal, with WAPA continually violating the standards of its bond indenture as shown below as provided in the testimony of CFO Rhymer:

Table 1: Water System Debt Service Coverage FY2009 – FY2012 [1]

$ in 1000s	FY 09	FY 10	FY 11	FY12
Debt Service Ratio [2]	0.22	1.09	0.98	0.23
Net Revenue Over (Under) [2]	($3,978)	($616)	($1,043)	($3,948)

[1] Amounts based on Audited Financial Statements for each Fiscal Year; except FY12 which is unaudited as shown in Exhibit WAPA-JAR-2.on FY12 which is unaudited as shown in Exhibit WAPA-JAR-2.
[2] Amounts exclude Unfunded OPEB.

Q. WHAT DSCR IS THE TARGET REQUIRED TO BE MET IN ANY FISCAL YEAR AND, IF NOT MET, WHAT ACTION IS WAPA REQUIRED TO TAKE?

A. WAPA is required to achieve a DSCR of 1.25x. Pursuant to the Bond Resolution under which the Authority's Series 1998 Bonds were issued, the Authority has covenanted, among other things, to seek to establish rates and charges for water service in amounts at least equal to 1.25 times the Aggregate Debt Service Requirements (all as defined in the Bond Resolution) for such Fiscal Year on all Bonds outstanding under the Bond Resolution. As can be seen WAPA did not meet this standard in any of the years from FY 2009 to FY 2012. CFO Rhymer states:

Bond Counsel to the Authority has advised that the failure to achieve the minimum DSC Ratio does not, by itself, constitute a default under the Water Resolution; provided the Authority takes appropriate steps to cure the Net Water Revenue deficiency. However, failure to take appropriate steps to cure the Net Water Revenue deficiency could lead to an Event of Default with very serious consequences. In a worst case scenario, a Covenant Default could result in the acceleration of the entire $16.5 million outstanding balance of the 1998 Bonds to become immediately due and payable.

It is our understanding that WAPA views this rate filing as being the "appropriate steps" to cure the Net Water Revenue deficiency. This is after WAPA has been in violation for at least three years. The Executive Director calls the results of DSCR for 2012 "dismal".[6]

Q. DID THE 2009 GLOBAL SETTLEMENT DISCUSS THE ISSUE OF OTHER POST EMPLOYMENT BENEFITS (OPEB)?

A. Yes. Paragraph 10 of the Settlement stated as follows:

The Parties agree that the issue of Other Post Employment Benefits ("OPEB") is a recent, additional issue that has not been resolved and that Docket No. 576, should be temporarily held open to provide the Parties the opportunity to address this issue subsequent to the filing of this Settlement. The Parties agree that the approval and implementation of the water rate increase shall not be delayed as a result of this yet to be resolved issue. In addition, the Parties agree that this issue can be submitted either to the Hearing Examiner or directly to the PSC.

WAPA has had available since 2009 the opportunity to deal with the OPEB issue that has caused significant issues with its auditors. Only in this filing has WAPA requested the PSC to approve certain rate treatment for OPEB. However, it has not

[6] Testimony of Hugo Hodge at page 8: *Based on audited Fiscal Year 2011 results the actual DSC Ratio was .98 based upon the Authority's unaudited financial statement for actual Fiscal Year 2012 debt service coverage was a dismal 0.23 DSC Ratio.*

provided complete details as to how funds, if provided through rates, will be treated internally by WAPA.

Q. BASED ON THE ABOVE, WHAT ARE YOUR RECOMMENDATIONS TO THE PSC?

A. As we stated in our electric base case testimony, we believe that the PSC cannot rely on WAPA to undertake what it represents it will do in this proceeding. While many of the arguments and positions appear plausible in the abstract, they must be read in the context of WAPA not undertaking the same actions for four years without any plausible explanation, and in the process causing severe harm to the water system's financial condition, providing poor service and high rates. While stating in alarming terms to the PSC the dangers of not providing the relief that WAPA requests in this proceeding, WAPA has ignored all of its commitments from the prior Global Stipulation, and it has ignored its obligations to take action as required in its bond indentures when it violated the standards set by the bond indenture.

As with the electric system we recommend that revenues be provided for essential operations as well as to provide a path back to Fiscal Year stability. In this regard we recommend the following:

- Revenues to recover OPEB expenses should be provided as a revenue requirement. As with the electric we recommend that all OPEB revenues be placed in a separate account, expenses be paid from the account and the excess revenues over the pay-as-you-go expenses remain in a separate account. These revenues should be in the form of a surcharge that we present in the rate design testimony of Mr. Oliver. WAPA indicated that it would provide the decision of its Board as to how it plans to handle the OPEB contributions but to date has not provided us with this information. We recommend that all OPEB-related revenues be placed in a separate or escrow account, from which withdrawals can be made only for the purposes of either funding current OPEB costs, or for payment to a trustee assuming an OPEB trust is established. The PSC should review the operation of the separate account at least annually for compliance, and WAPA should provide quarterly reports together with its LEAC filings.

- The operation of the Line Loss Surcharge should be reviewed and approved annually. The Line Loss revenues should go into a separate account, with withdrawals made only for funding the projects for line loss approved annually by the PSC. The project requirements, the collection and use of funds, the status of the projects including the budgets, actual expenditures, variances in the expected cost and date of completion should be provided for review. The PSC should make an affirmative ruling to extend or modify the surcharge annually, and indicate that it will be extended if the program is progressing satisfactorily as planned. We make this recommendation because we understand that WAPA's ability to meet a commitment to a multi-year project depends on the source of funding.
- The PSC should require that the management audit agreed to as part of the Global Stipulation in the last base rate proceeding (Docket 576) should be implemented under the same terms previously stipulated. We recommend

that the RFP be issued by no later than April 1, 2014, which would be years after the date originally set in the Global Settlement in Docket 576.

Q. PLEASE TURN YOUR ATTENTION TO THE SPECIFICS AND BASIS OF THE RATE REQUEST MADE BY WAPA IN THIS PROCEEDING. FIRST, PLEASE PROVIDE YOUR COMMENTS ON THE STANDARD THAT WAPA RELIES ON TO SUPPORT IT RATE REQUEST?

A. It is not entirely clear what the specific standard is. This standard is dealt with by both CFO Rhymer and Mr. Thomas. On page 5 of his testimony, Mr. Thomas, who develops the revenue requirement, states that the proposed permanent rates are predicated on the Authority’s operating, capital and financial needs, including a significant funding requirement associated with OPEB expenses, which are discussed in detail in Mr. Rhymer’s testimony. On page 13 of his testimony, Mr. Rhymer states that the permanent rate request considers: i) funding of adequate operating/working capital reserves to ensure future financial stability; ii) the repayment of certain deferred expenses owed to the Electric System from prior period operations; iii) repayment of a $2,500,000 loan from the Water System’s $5,000,000 line of credit held by First Bank and Banco Popular, which was used to pay operating expenses in FY2011; iv) funding of OPEB; and v) funding of capital improvements required to increase water distribution system safety, reliability and efficiency and lower future water supply costs through line loss reductions on St. Thomas and St. Croix. In addition he indicates that WAPA should be permitted to build up 45 days of operating expenses as a cash working capital allowance, which alone would require $800,000 of annual rate support for the next five years. See Exhibit JAR-3 line 19. The approach to deriving the revenue requirement is therefore the sum of the piece parts. No particular objective standard such as coverage has been stated as a goal.

Q. DO YOU AGREE WITH THE COMPONENTS OF REVENUE REQUIREMENTS AS STATED BY CFO RHYMER?

A. We agree with only a few components. These include funding of operating expenses and debt service costs; funding of actuarially determined OPEB expenses; funding of reasonable capital improvements; and building up a working capital reserve at some reasonable level. WAPA has requested several additional components with which we do not agree. We discuss these below.

CFO Rhymer states that there is a balance due to the electric system of a little over $10 million for prior period operations, which WAPA proposes to recover over 6 years. See Exhibit JAR-4 line 6. This proposal is incorrect on several levels and should not be adopted. First, expenses from prior years are not permissible generally by regulatory bodies to be recovered as a current revenue requirement. Generally accepted ratemaking principles do not permit retroactive ratemaking. WAPA clearly states that these are prior period operating expenses and therefore should not qualify.

Further, regulatory protocol would have required WAPA to make the request for rate making treatment at the time the expenses were being incurred and propose the treatment requested. No request was made to the PSC at that or any other time other than in this rate proceeding. As we state in the electric system testimony, it is certainly very surprising that the electric system, which was in a very tight cash position, provided over $10 million to the water system while deferring significant maintenance on its generating equipment, because of a lack of liquidity, which resulted in inefficient operations and significant increased costs and rates to electric consumers. We do not deny that the $10 million is a cash obligation of the water department because of the loan from the electric department, but to be a revenue requirement would need the PSC to provide extraordinary treatment to waive a generally accepted regulatory principle. The water system testimony treats this as matter-of-fact, as if this is a component of new rates that cannot be denied and an obligation that must be included in future rates.

Similarly, repayment of a $2,500,000 loan from the Water System's $5,000,000 line of credit held by First Bank and Banco Popular, which was used to pay operating expenses in FY2011, increases the claimed revenue requirement in this proceeding by $500,000. The above considerations equally apply. FY 2011 operating expenses need to be recovered in rates in 2011, not in this case. WAPA does not even address the issue that the use of a loan to pay operating expenses is not a prudent financial practice. WAPA did not approach the PSC to discuss the rate support needed in FY 2011. As this violates normal ratemaking protocol, we do not recommend that this adjustment be adopted. The PSC will have to weigh this very difficult situation that WAPA has put itself into, and decide whether any relief is appropriate.

Q. IF THERE IS NO ALLOWANCE FOR THESE ITEMS WHERE IS THE SOURCE OF CASH TO PAY FOR THE ITEMS?

A. There will be no obvious source of funds and that is what makes the decision difficult. WAPA needs to discuss these matters with the PSC at the time they are occurring, or risk getting no revenues when requested at a later time. Again, a fundamental ratemaking policy is that retroactive expenses are not recovered in rates. WAPA, which in the past has been very assertive in describing the limits of PSC authority, now finds itself in a situation of its own making where PSC support for two significant unorthodox requests is critical. In the event that the PSC sees fit to provide some or all of the rate relief associated with these two items, we strongly recommend that the PSC initiate a separate proceeding to understand what led to these circumstances and to verify that the revenues, if granted, be used for the purposes intended and to evaluate what assurances WAPA can provide that similar actions will not recur in the future. This can be accomplished by providing a surcharge for the amounts in the future, if granted, and monitoring the collection and payments of the amounts.

Q. IN YOUR DISCUSSIONS WITH WAPA DID YOU DISCUSS WHAT STANDARDS WAPA USED TO DETERMINE THE APPROPRIATE RATE REQUEST IN THIS PROCEEDING?

A. Yes, we did. Witness Henry indicated that one of the objectives was to attempt to keep the rates stable in comparison to the rates before WAPA's proposed filing in this proceeding, including both the anticipated decreases in the water LEAC (WLEAC) and the anticipated increases in this proceeding.

Q. DO YOU BELIEVE THIS TO BE A REASONABLE GOAL FOR WAPA AND ITS RATEPAYERS?

A. This is an issue with many stakeholders and should be addressed taking into account all of their input. Consumers are coming off a period of high cost and poor service. Keeping total rates the same means that the issue of high costs will continue. Further cost reductions are projected into the future and depend on future WAPA performance. The construction proposed in this proceeding is mainly efficiency related, the line-loss reduction projects. These projects should reduce costs in the future. However, there is no discussion of strategic business planning or revenue enhancement projects, including expansion of the water system, now that RO water production technologies make it more cost effective to make water service available to a greater number of potential consumers in unserved areas. Done properly, this would allow WAPA to spread its fixed cost of a larger sales base, reducing the cost for all consumers and improving the long-term affordability of water service to consumers. This should be discussed in stakeholder meetings. Funds provided by the PSC to support construction should evaluate all of the options and require WAPA to provide the appropriate studies and analyses.

Q. DO YOU HAVE ANY COMMENTS ON THE TEST YEAR PROPOSED BY WAPA, AND HOW THE TEST YEAR WOULD RELATE TO THE OPEB ISSUE?

A. CFO Rhymer and Mr. Thomas indicate that rates from this proceeding were intended to be implemented on July 1, 2013 and the first full year was to have been FY 2014.[7] While WAPA's filing begins with Fiscal Year 2011, as shown on Exhibit GCG-3, the first WAPA adjustment is to subtract Fiscal Year 2011 data and replace it with Fiscal Year 2013 budgeted information. As such, WAPA has used the FY 2013 budget of the water system as the basis for the underlying cost for the proposed rates, which in some cases have been adjusted for cost increases through FY 2014.

With regard to OPEBs, however, WAPA has taken a different position by electing to reflect Fiscal Year 2011 cost. While the OPEB cost per the actuary in FY 2011 was $9.577 million for the combined electric and water systems, that cost has now decreased to $6.505 million for FY 2014. This is a known change and is the amount that should be recovered by both systems in FY 2014. A portion is paid by the systems on a pay-as-you-go basis and the remainder is sought to be collected through revenues and, according to our recommendation, placed into a separate account. We discussed the decrease in OPEB costs with WAPA, because their filing uses the larger FY 2011 amount to determine the revenue requirement and not the FY 2014 amount that we believe is appropriate. We are unsure

[7] There will be a delay in the implementation of the requested rates.

whether they will make the change.[8] Exhibit GCG-5 develops the adjustment associated with using the OPEB expense for FY 2014, which is $616,412 less than the expense sought by WAPA in its filing. Adjusting for known changes is a well-established regulatory principle.

Q. ARE THERE ANY OTHER ADJUSTMENTS RELATED TO THE TEST YEAR ISSUE?

A. Yes. At the time of making the filing, WAPA anticipated that rates would go into effect on July 1, 2013. Under the current schedule, the Hearing Examiner will issue her Findings and Proposed Order on September 20, 2013, with rates to be effective after the PSC considers the proposed Order and makes its decision. The WAPA filing assumes that the IDE plants would be in operation for the early part of FY 2014 (July 2013 through June 2014) when the rates from this proceeding were anticipated to be in effect. With the current schedule, shortly after or concurrent with when rates go into effect, the entire WAPA water system will be supplied potable water on both islands totally through seawater Reverse Osmosis (RO) systems. We have adjusted the Test Year to reflect the fact that there will be no IDE potable water production and all production will be from RO on a going forward basis.

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[8] WAPA did indicate that they received the report from the actuary for FY 2014 after they had filed their petition in this proceeding.

Q. PLEASE SUMMARIZE YOUR OVERALL RECOMMENDATION WITH REGARD TO RATE LEVELS?

A. We recommend a total revenue increase of $987,000, which is less than the earlier interim revenue award of $1,556,000. This is a direct result of our recommendation not to allow current funding of prior year operating expenses, which have resulted in a $10 million liability to the electric system, which WAPA has requested be funded over a six year period at an approximate cost of $1.679 million annually. It also is a direct result of our not agreeing with WAPA's request to increase rates by $500,000 to pay off a line of credit, built up for prior period expenses, with a current liability of $2.5 million. Also the use of the updated OPEB study from the actuary reduces revenue requirements, and expense, by $616,412. To the extent that the PSC would grant some or all of the adjustments for the liability to the electric system and the payment for the line of credit, then the PSC should require that all of the revenues associated with the allowance should be used for those purposes only.

The specific design of the rates to accomplish our recommendations is contained in the testimony of Mr. Oliver. This would include setting the Net revenues to recover total OPEB expenses as a surcharge and permit the Line Loss surcharge.

The remainder of our report deals with the development of our revenue requirement in detail.

III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE DESCRIBE THE MAGNITUDE OF WAPA'S PROPOSED RATE INCREASE?

A. At 15.7% above the levels prior to when the emergency interim rates were put into effect, WAPA's proposed water base rate increase is large and burdensome, especially in these difficult economic times and when applied to a population already paying disproportionately high rates for water service. While the production of potable water by seawater RO units will reduce the LEAC charges in the near-term and thereby keep the total bill somewhat level, there is much to be done to reduce overall water costs and improve service.

Q. WHAT IS THE RATE MAKING STANDARD THAT WAPA IS USING IN ITS REQUEST REVENUE INCREASE?

A. If the revenue increase is awarded, WAPA forecasts that it will achieve a Debt Service Coverage[9] Ratio ("DSCR") of 2.15 times (2.15x) senior debt service cost, which is $3.9 million (Series 1998A).

Q. HAS A COVERAGE STANDARD BEEN ESTABLISHED FOR WAPA IN A PRIOR PROCEEDING?

A. The PSC has set a standard of 1.75x coverage on the debt service of its senior bonds of the Electric Department in Docket #533. We not believe that any particular standard has been set for the Water Department by the PSC in any past

[9] Debt Service is the total amount of principal and interest on an annual basis.

rate proceeding. However, the WAPA Board has established a “DSCR” target of 1.75x.

Q. WHAT COVERAGE STANDARD HAS WAPA USED IN ITS CALCULATION OF ITS REVENUE DEFICIENCY IN THIS DOCKET?

A. As stated above, WAPA has indicated that a standard of 2.15x in the budgeted year 2013 (adjusted) would be acceptable. Furthermore, WAPA projects that if the PSC were to grant its entire request, WAPA would have sufficient revenues through Fiscal Year 2018 and would not be required to request further increases.[10]

Q. IS THE USE OF A DSCR GREATER THAN 1.75X AN APPROPRIATE STANDARD FOR WAPA?

A. No, it is not. There are several very important reasons why this standard is inappropriate. There has been no direct testimony presented by WAPA as to what an appropriate standard is. No testimony has been presented as to why the standard should be higher than the standard established by its Board and higher than the standard set recently by the PSC for electric operations. This coverage standard for the Electric Department resulted in a successful issuance of a significant amount of revenue bonds.

Q. THEN HOW DID WAPA PRESENT ITS CASE?

A. The Authority essentially prepared a “cash case.”

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[10] See WAPA Exhibit HLT-11 and Thomas testimony, page 15.

Q. WOULD YOU PLEASE EXPLAIN THE TERM CASH CASE?

A. The "net revenues"[11] are used to determine the coverage and are clearly in excess of the required level should WAPA be awarded its full rate request. The resulting net revenues will result in cash for purposes other than bond coverage requirements. In this case, WAPA proposes three additional cash requirements: (i.) reducing the liability to the electric department, (ii.) payment on the lines of credit, and (iii.) establishing a cash reserve for operations. There are also two other uses of cash, i.e. capital projects and debt service. We describe the test year operations and cash flow in a later portion of this testimony.

[11] Net revenues is defined in the bond as operating revenues less operating expenses, with the exception of depreciation.

Q. WHAT ADJUSTMENTS TO THE BUDGETED 2013 TEST YEAR HAVE YOU PROPOSED?

A. We have made the following adjustments:

Revenue increase per Authority

1. FY14 with full annual interim	$ 39,106,011	HLT-3 p.3 L.54
2. Proposed base rate increase, Docket 612	2,303,936	HLT-7 p.1 L.12
3. Total proposed revenue	$ 41,409,947	L.1 + L.2
4. Test year without rate change	37,550,028	Ex. 1-7A
5. Total proposed interim and base rate change	$ 3,859,919	L.3 - L.4
6. Payment to credit line for prior period expenses	(500,000)	GCG-2 L.27
7. Remove payment to electric for prior period expense	(1,678,533)	GCG-2 L.29
8. Reduce OPEB to updated actuary report	(616,412)	GCG-5
9. Set Reverse Osmosis production rate at 100%	(421,145)	GCG-4
10. Set revenue requirement to achieve 1.75x DSCR	687,314	GCG-1
11. Lower uncollectible to 2.0%.	(343,933)	GCG-2
12. Interim & base increase, cash flow	$ 987,210	

Q. WHAT IS YOUR CONCLUSION REGARDING ANY ADDITIONAL REVENUE REQUIREMENT AND BASE RATE CHANGES USING A BUDGETED 2013 TEST YEAR?

A. WAPA should be authorized a total rate increase of $987,000, which is less than the interim increase previously authorized by the Commission. As such, this provides approximately $60,000 per year more than WAPA requested as its Line Loss Reduction Capital Surcharge. The revenues for this surcharge should be reserved for that specific purpose, and are included in our recommendation.

Q. WILL THE INCREASE THAT YOU RECOMMEND PROVIDE THE REQUIRED COVERAGE AND CASH?

A. As shown on Exhibit GCG-2 lines 23 through 31, the rate increase that we recommend:

- Provides a surplus of $6.77 million.
- After payment of debt service cost, capital improvements and the transfer to working capital reserve, provides $687,000.
- Produces a debt service coverage ratio of 1.75x.

Q. ARE THERE RATE DESIGN ISSUES THAT YOU BELIEVE NEED ATTENTION NOW?

A. Yes, there are rate design issues that should be addressed in this proceeding and are discussed in detail in the testimony of Mr. Oliver.

V. <u>THE TEST YEAR AND ADJUSTMENTS</u>

Q. WHAT TEST YEAR DID WAPA CHOOSE IN DETERMINING ITS REVENUE REQUIREMENT?

A. Although stating that it was using audited 2011 financials as the test year, WAPA actually used the budgeted twelve months ending June 30, 2013 as its test year. The basis for this projected test year is the WAPA Board-approved operating budget, adjusted for the significant changes in operations during the test year related to the RO units and the new methodology employed by WAPA for interdepartmental cost payments.

Q. WHAT ADJUSTMENTS DID WAPA PROPOSE TO THE FISCAL YEAR 2013 BUSINESS PLAN BUDGET TO REFLECT ITS REVENUE REQUIREMENT?

A. WAPA makes only four adjustments to the operating and capital budgets for Fiscal Year 2013 after the business plan. WAPA adjusts the FY2013 operating budget for inflation. It also asks for additional cash to fund an operating reserve, to fund priority "1" projects and to repay the electric departments for expenses from prior years. These were recorded *in the past* as expenses on the books of the water department, but were essentially funded by the electric system ratepayers.

Q. PLEASE BRIEFLY SUMMARIZE THE ADJUSTMENTS THAT YOU RECOMMEND.

A. **<u>Payment to credit line for prior period expenses &</u>**

<u>Remove payment to electric for prior period expense</u>

As discussed earlier, WAPA includes prior period expenses in its current rate filing. That WAPA borrowed to pay these expenses is a responsibility of WAPA's management, not consumers. WAPA's requests violate one of the central principles of rate making, which is the prohibition against retroactive ratemaking – i.e. recovering previously incurred costs through current rates. As such, we recommend elimination of these prior expenses in the determination of current rates.

<u>Reduce OPEB to updated actuary report</u>

In the past, WAPA's expenses for OPEB has equaled its out-of-pocket cash payments for those benefits. This has caused some concern on the part of WAPA's actuaries and auditors, both of whom state that the out-of-pocket expense under-recovers actual costs, which are based on projections of future obligations promised to WAPA's present and past employees. Accordingly, WAPA has requested the full test year accrued cost as determined by its actuary as an expense in this proceeding. WAPA's proposed expense to be recovered in rates is based on the budget for Fiscal Year 2013 adjusted for known changes in FY 2014. The actuarial report provided by WAPA in support of its request is dated June 30, 2011. It includes total OPEB costs of $10.995 million for Fiscal

Year 2013, which is much greater than the $6.505 million total cost for Fiscal Year 2014 provided in the updated actuarial report, dated January 11, 2013, provided as Exhibit 1-27A in the electric proceeding, Docket #612. The 40% reduction in FY 2014 for OPEB costs is the basis for our adjustment.

Set Reverse Osmosis production rate at 100%

WAPA's filing assumes that St. Thomas will be at 100% RO production in Fiscal Year 2014, while St. Croix will have 16.67% IDE water production. For the majority of the period of time for which rates are being set, both islands will be at 100% RO water production. We also understand that based on recent information St. Croix will be at 100% RO water production approximately concurrently with when rates from this proceeding go into effect. Accordingly, we recommend that permanent rates be established with the assumption of 100% RO water production, which is reflective of the most current estimate.

Set revenue requirement to achieve 1.75x DSCR

With the other adjustments that we recommend in this proceeding, WAPA's DSCR would have been below the 1.75x standard that the Commission previously has adopted for the electric system. We believe that to be an appropriate standard for the water system, as well, and recommend that rates in this proceeding be established to achieve that level of coverage.

Lower uncollectible to 2.0%.

As shown on a footnote to Exhibit HLT-1 page 4, WAPA used a 2.87% factor to calculate the uncollectible expense in its filing. This is based on actual write-offs in Fiscal Year 2012. While actual write-offs are relevant to determining the appropriate rate for uncollectibles, they do not determine the appropriate rate. WAPA's uncollectible rate was below 2% in Fiscal Years 2009 - 2011, and was budgeted at 1.26% for Fiscal Year 2012. We conservatively recommend the use of a 2% uncollectible rate in setting rates in this proceeding.

a. Payment to credit line for prior period expenses

b. Remove payment to electric for prior period expense

Q. TAKING THE FIRST TWO, PRIOR PERIOD ADJUSTMENTS TOGETHER, WHAT IS THE BASIS FOR WAPA'S POSITION?

A. Mr. Hodge explains the Authority's position on page 6 of his testimony:

In addition to the water production cost recovery and cost allocation issues the permanent rate petition also addresses, among other things, Water System financial requirements related to: i) the repayment of certain deferred expenses owed to the Electric System from prior period operations; ii) repayment of a $2,500,000 loan from the Water System's $5,000,000 line of credit held by First Bank and Banco Popular which was used to pay operating expenses in Fiscal Year 2011...

Q. IS THAT AN APPROPRIATE JUSTIFICATION FOR INCLUDING THE FINANCED PRIOR PERIOD EXPENSES IN RATES?

A. No, it is not. In fact, it would set a terrible precedent to allow such costs. It would mean that any time that the Authority wanted to undertake an activity, it would feel free to do so, so long as it could borrow, with some assurance that, in subsequent rate proceedings, the borrowing to pay for operating expenses would be recovered in rates. Historically, the majority of the Authority's debt has been incurred in order to pay for capital assets or major reconditioning of capital assets. That is an appropriate use of debt, for which consumers almost always are responsible. To reach into the past, to make consumers today pay for operating expenses that were incurred in the past and financed, would doubly-burden current consumers – they would be paying not only for the exorbitantly expensive current cost of providing service, but also for costs to provide service in the past.

Q. WHY IS RETROACTIVE RATEMAKING GENERALLY PROHIBITED?

A. The inclusion of past costs in current rates produces a situation in which consumers do not fully know, prior to the purchase of utility service, what the rates being charged are. That is because, while they know the current rates at the time of service, they don't know how much of their current cost of service is going to be added to future rates. In State Ag Processing Inc. V. Public Service Commission State KCP, the Missouri Court of Appeals for the Western District stated:

> Retroactive ratemaking is defined as "the setting of rates which permit a utility to recover past losses or which require it to refund past excess profits collected under a rate that did not perfectly match expenses plus rate-of-return with the rate actually established." State ex rel. Util. Consumers' Council of Mo., 585 S.W.2d at 59. The filed rate doctrine's rule against retroactive ratemaking has an "underlying policy of predictability, meaning that if a utility is bound by the rates which it properly filed with the appropriate regulatory agency, then its customers

> will know prior to purchase what rates are being charged, and can therefore make economic or business plans or adjustments in response." State ex rel. Associated Natural Gas Co., 954 S.W.2d at 531 (emphasis added). In other words, the approved tariffs are to "provide advance notice to customers of prospective charges, allowing the customers to plan accordingly." Id.

– see http://caselaw.findlaw.com/mo-court-of-appeals/1523053.html.

Q. WHAT IS YOUR RECOMMENDATION?

A. The Commission should reject this attempt by WAPA to reach into the past to attempt to collect past expenses from future consumers. It is unfair to consumers, and allowing such a request would encourage WAPA to undertake, in the future, the very bad practice of financing operating expenses with debt.

c. <u>Reduce OPEB to updated actuary report</u>

Q. DID WAPA APPLY THE SAME RATE MAKING TREATMENT TO OPEB IN THE WATER PROCEEDING AS IT DID IN THE ELECTRIC CASE?

A. No, it did not. Both systems included the current "pay-as-you-go" cost of OPEBs for existing retirees as an expense that reduced revenues in calculating the income available for debt. However, the OPEB accrual, for the excess of OPEB cost over the pay-as-you-go amount, was not treated by the electric system in its filing as a reduction of available income. Contrary to that, in the water filing, WAPA has included the entire expense, pay-as-you-go as well as the excess of cost over pay-go, as a reduction of income available for debt.

Q. DO YOU AGREE WITH THE WATER SYSTEM'S TREATMENT?

A. Yes, we do. Consequently, in the electric case, we moved the OPEB accrual so that it would be treated as a reduction of income available. However, as in the electric system, we disagree with WAPA's total OPEB cost. The amount WAPA has requested is in excess of current cost for OPEB and in excess of the cost it will incur during the rate-effective period.

WAPA seeks to include a total of $1.123 million of OPEB expense in rates, based on the Fiscal Year 2013 budget. However, for the total electric and water systems, the Fiscal Year 2013 budget was $10.995 million, while the Fiscal Year 2014 requirement from the actuarial report is only $6.51 million, for a 41% cost reduction. That is not a one-time reduction, because the actuarial report projects OPEB cost to remain at a level much below the Fiscal Year 2013 budget for years into the future.

Q. IS THIS REDUCTION IN OPEB REFLECTED ON WAPA'S FINANCIAL STATEMENT?

A. Yes, it is. The accrued OPEB liability in the 10 months ending April, 2013 was $873,000, or just over one-half of the accrual in the entire Fiscal Year 2012, which was $1.65 million.

Q. WHAT IS YOUR OPEB RECOMMENDATION?

A. In view of the data provided by WAPA, the cost of OPEBs has declined to a permanent level significantly below that included by WAPA in its filing. The amount that consumers pay should be reflective of the actual cost that WAPA will incur during the rate-effective period. Accordingly, we have adjusted the OPEB cost to reflect the lower actual cost.

In this proceeding, WAPA seeks to increase consumers' charges for OPEB by $1.1 million. With our adjustment, the increase to charges due to OPEB will be $506,000.

Q. DOES YOUR RECOMMENDATION PROVIDE FOR RECOVERY OF UNFUNDED PRIOR COSTS?

A. Yes, it does. As shown on page B-1 of the January 2013 actuary report, the total annual OPEB cost for Fiscal Year 2012 includes an amortization over 26 years of the unfunded actuarial accrued liability. Page A-3 of the report states, "The results presented herein have been derived using the Entry Age Actuarial Cost Method with an amortization of the Unfunded Actuarial Accrued Liability as a level percent of expected payroll. This is the most common such method used for government Pension valuations and spreads the costs evenly as a percent of pay throughout the collective careers of those in the covered workforce." Accordingly, previously incurred but unpaid costs are included in the total amount that we recommend for inclusion in rates in this proceeding.

d. Set Reverse Osmosis production rate at 100%

Q. DID WAPA ADJUST FOR CHANGES IN THE PERCENTAGE OF WATER PRODUCED BASED ON IDE, FOR TOTAL WATER PRODUCTION FROM REVERSE OSMOSIS?

A. Yes, it did. Exhibit HLT-5 shows that WAPA assumed the following water production levels by production technology by island:

	FY 2013	FY 2014
St. Thomas		
IDE production	22%	0%
RO purchase	78%	100%
St. Croix		
IDE production	67%	17%
RO purchase	33%	83%

The costs included in WAPA's filing are based on the Fiscal Year 2014 water production technology values.

Q. WHY HAVE YOU ADJUSTED WAPA'S POSITION TO REFLECT 100% WATER PRODUCTION BY RO TECHNOLOGY?

A. On page 5 of his testimony, Mr. Hodge states:

> *The current project construction schedule estimates the full implementation of the new water supply arrangement by March 2013 on St. Thomas and January 2014 on St. Croix. By January 2014 the Authority will purchase 100% of its water supply requirements.*

In other words, within two months of the anticipated date for new rates, 100% of WAPA's water supply will be purchased from production using RO technology.

Despite this, WAPA seeks to set rates, which will last into the indefinite future, as if it were not at 100% RO production. In Fiscal Year 2014, the total system will be at 91% purchased (RO) water. Thereafter, it will be at 100%. We do not believe that consumers should be saddled with the higher cost of IDE-produced water when that higher cost is going to be incurred for only two months, at most, of the life of the rates being set in this proceeding. Based on recent statements of Mr. Hodge, the RO plants will provide 100% of the water by the time rates are anticipated to be in effect from this proceeding, since the in-service dates for the RO plants have been moved earlier.

e. <u>Set revenue requirement to achieve 1.75x DSCR</u>

Q. EARLIER, YOU TESTIFIED THAT WAPA DID NOT UTILIZE A COVERAGE RATIO TO ESTABLISH ITS RATE REQUEST. WHY ARE USING ONE?

A. WAPA inflated its rate request in this proceeding by seeking to include prior period expenses in current rates. As discussed earlier, we have excluded those expenses. After removing them, we calculated the coverage that would result and found that it would be below 1.75x, which is the standard that has been adopted by WAPA's Board and by the Commission for WAPA's electric system. At least for the present time, we believe it is appropriate to consider the use of that coverage as a standard for the water system.

f. <u>Lower uncollectible to 2.0%.</u>

Q. WHY HAVE YOU ADJUSTED FOR UNCOLLECTIBLES?

A. WAPA's filing uses the 2.87% bad debt write-off experience from Fiscal Year 2012 as if that were the appropriate rate for accruing uncollectible expense. We do not believe that it is. Actual bad debt write-offs can vary from year to year. The purpose of an accrual is not to make uncollectible expense equal the bad debt write-offs, but to record an annual expense that, over time, accrues as much expense as is written-off.

Q. WHAT HAS BEEN WAPA'S UNCOLLECTIBLE EXPERIENCE?

A. In Fiscal Year 2009, WAPA's uncollectible expense was 0.5% of revenue. The expense has increased since that time, to 0.73% in Fiscal Year 2010, 1.91% in Fiscal Year 2011 and 2.79% in Fiscal Year 2012. However, the budget for Fiscal Year 2012 was 1.26% and the budget for Fiscal Year 2013 was 2.11%. We believe the recent actual high write-off experience is not reflective of normal conditions, but of high water and electric rates that are adversely affecting consumers' ability to pay for their service at a time when they also are suffering from a bad economy.

Q. WHAT IS YOUR RECOMMENDATION?

A. We recommend that the Commission set water rates using an appropriate uncollectible rate of 2%. As it is, we believe that is a high uncollectible rate (retail water industry average is well below 1%), and not one that would be found in most jurisdictions for the purchase of water, which is a necessity. However, we do believe that a 2.0% level is more reflective of what WAPA should be experiencing than the 2.87% rate that the Authority has proposed.

VI. SUMMARY OF ORDERING RECOMMENDATIONS

Q. COULD YOU SUMMARIZE FOR THE PSC YOUR PROPOSED ORDERING RECOMMENDATIONS?

A. As a result of this proceeding we recommend the PSC find and include in its final order in this docket the following:

1. Starting with the position prior to the interim increase, the Commission should authorize a total rate increase in this docket of $987,000, which is $569,000 less than the interim increase, and $2.87 million less than the total increase requested by WAPA.
2. WAPA's request for a Line Loss Reduction Capital Surcharge should be approved. This surcharge should be subject to annual review, modification and approval by the Commission. The Line Loss revenues should go into a separate account, with withdrawals made only for funding the projects for line loss approved by the PSC.
3. WAPA's request for retroactive ratemaking, through its proposed treatment of prior period expense adjustments [payment to credit line and payment to electric for prior period expenses] should be rejected.
4. WAPA's request to include the full accrued cost for OPEBs should be approved. However, the cost that WAPA has included for OPEBs is excessive, and funds collected for OPEBs should be placed in separate or escrowed accounts, or a trust if an OPEB trust is established.

5. The RFP for the management audit to which WAPA agreed in the last base rate proceeding, Docket 576, should be issued by no later than April 1, 2014.
6. Rates should be established based on costs that assume 100% purchase of potable water produced by seawater Reverse Osmosis.
7. The revenue requirement, for this proceeding only, should be established with the target of achieving a DSCR of 1.75x on WAPA's senior debt.
8. The uncollectible rate charged to customers should be 2%.

Q. DOES THAT CONCLUDE YOUR PRE-FILED TESTIMONY IN THIS PROCEEDING?

A. Yes, it does.