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Addendum StartPage: 0

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<b>APPLICATION OF FOREST GLEN</b>	<b>§</b>	<b>BEFORE THE</b>
	<b>§</b>	
<b>UTILITY COMPANY FOR</b>	<b>§</b>	<b>STATE OFFICE OF</b>
	<b>§</b>	
<b>AUTHORITY TO CHANGE RATES</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>

**TESTIMONY IN SUPPORT OF THE UNOPPOSED STIPULATION AND  
SETTLEMENT AGREEMENT**

**OF**

**STEVEN GREENBERG**

**ON BEHALF OF**

**FOREST GLEN UTILITY COMPANY**

**NOVEMBER 9, 2018**

1   **Q.     PLEASE STATE YOUR NAME.**

2   A.     My name is Steven Greenberg.

3   **Q.     HAVE YOU ALREADY PROVIDED TESTIMONY IN THIS CASE?**

4   A.     Yes, I prepared direct testimony (July 18, 2018) and rebuttal testimony (September

5           10, 2018) as the Chief Executive Officer (“CEO”) on behalf of Forest Glen Utility

6           Company (“Forest Glen” or “FGU”). That testimony was previously filed and

7           admitted into the record in this case.

8   **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS FILING?**

9   A.     On September 13, 2018, after all the parties filed testimony but before the hearing

10          on the merits, the parties went to mediation and reached a settlement. The terms

11          of the settlement are set out in a Unopposed Stipulation and Settlement

12          Agreement. This testimony is intended to support that agreement.

13   **Q.     BRIEFLY, WHAT ARE THE TERMS OF THE STIPULATED**  
14   **SETTLEMENT.**

15   A.     First, all parties agree that the proposed sewer rate of \$65, which FGU

16          implemented as an interim rate on July 6, 2018, is just and reasonable and

17          consistent with the public interest. Additionally, the parties have agreed that:

18          a.     Forest Glen will record the connection fee of \$2,950 as a Contribution  
19                  in Aid of Construction (“CIAC”) once the 257<sup>th</sup> (through 366<sup>th</sup>) lot is  
20                  sold in Potranco Ranch Subdivision.

21          b.     Forest Glen is not recovering all its rate case expenses but only a  
22                  maximum of \$46,080 over 24 consecutive months through a \$5  
23                  surcharge the first year and a \$10 surcharge the second year.

24          c.     Forest Glen will provide customers with a minimum of 60-day notice before  
25                  a future rate change.

- 1           d.     In the next rate/tariff change application, Forest Glen will propose a rate  
2                 design that includes both a fixed charge and a variable rate.
- 3           e.     Forest Glen will provide its customers a quarterly newsletter, that will  
4                 include its Annual Report at least once per year after it is filed with the  
5                 Commission.
- 6           f.     Forest Glen will attend all regular meetings of the Potranco Ranch Home  
7                 Owners' Association and update residents on FGU's recent activities and  
8                 future plans.
- 9           g.     Forest Glen will not seek to recover the revenue shortfall that it will incur  
10                as a result of the \$65 rate as part of any future rate proceeding.

11   **Q.     WHAT DO YOU MEAN BY REVENUE SHORTFALL?**

12   A.     Forest Glen's cost of service exceeds the maximum revenue generated by the  
13           the \$65 rate. It recovers \$199,680 at the current customer count of 256 connections  
14           instead of a total revenue requirement of \$309,571 set out in the application  
15           (Schedule I-1). This leaves FGU with a shortfall or under-recovery. As I stated in  
16           my direct testimony, Schedule I-1 demonstrates that FGU can actually justify a  
17           much greater increase than it is currently requesting.

18   **Q.     PRIOR TO THE SETTLEMENT, DID YOU INTEND TO RECOVER THE**  
19           **SHORTFALL?**

20   A.     Yes. FGU had intended to treat the shortfall of the revenue requirement as  
21           revenue "held in abeyance" to be set aside in a balancing account to be collected  
22           when there are a sufficient number of customers to cover the revenue requirement.

23   **Q.     WHAT DOES IT MEAN TO HAVE REVENUE HELD IN ABEYANCE?**

24   A.     It is a portion of revenue requirement meant to be suspended or set aside and not  
25           included in the development of rates. Said another way, it represents costs that  
26           will not currently be recovered in rates, specifically this \$65 rate. So, Forest Glen

1 was proposing to defer the amount under-recovered, absorb these costs now but  
2 track them and place them in a balancing account with a 5% interest rate per year  
3 until the subdivision is built-out fully and a sufficient number of customers on the  
4 system to spread the costs among more customers. Although this is well-  
5 established practice in the utility industry, we are not proposing that now and in  
6 light of the settlement have agreed not to recover the shortfall through a balancing  
7 account or any other means. In other words, it would have been a way to avoid  
8 rate shock for the current customers, yet allow the utility to recover its actual cost  
9 in the future.

10 **Q. WHY WOULD A UTILITY FILE A RATE INCREASE REQUEST**  
11 **THAT DOES NOT COVER ITS ENTIRE REVENUE REQUIREMENT?**

12 A. This approach is taken to mitigate the impact of rate increases on our customers.  
13 Potranco Ranch Subdivision is still relatively new and in the start-up period. As  
14 PUC Staff Greg Charles testified, even with a much reduced revenue requirement  
15 (based on staff's adjustments) of \$165,842 (from \$309,571), FGU would be  
16 justified charging \$92.76 per month. However, based both on our research and  
17 customer feedback, charging a higher rate simply is not feasible right now and  
18 would result in significant rate shock. Until future growth provides a customer  
19 base sufficient to support a full and reasonable rate increase in the future, we are  
20 only seeking the lower \$65 rate. Future customer growth will keep rates at a  
21 reasonable level and Forest Glen expects the utility to break even in the next few  
22 years and be profitable by 2020. Our 2016 test year connection count was only  
23 149 customers, but since that time the subdivision has grown and, as of the  
24 mediation in September 2018, we had 256 customers. As the date of this filing,  
25 there are now 269 customers. As a rule of thumb, our experience indicates, over  
26 300 customers are needed to cover costs and over 350 are needed to earn a  
27 reasonable rate of return.

1   **Q.   HOW CAN FOREST GLEN CONTINUE TO OPERATE WITH AN**  
2       **OPERATING DEFICIT?**

3   A.   The additional cash flow from this requested rate increase, developer payments,  
4       and additional infusions of equity and debt will allow FGU to safely operate at the  
5       level of service it has provided until the number of customers reaches  
6       approximately 315, at which point rates should be able to sustain the wastewater  
7       operation alone. In addition, FGU receives revenues from the sale of reclaimed  
8       water. These reclaimed water sales provide an additional source of revenue for  
9       FGU allowing the reclaimed water sales to continue to subsidize the loss that would  
10      otherwise incur. FGU has operated at a loss since it began operations, and it has  
11      deployed additional equity, debt, and fees to developers to maintain safe operations  
12      and deliver continuous and adequate service. However, as I've explained above,  
13      FBU anticipates the losses will be temporary. It is not uncommon for investor-  
14      owned-utilities to operate in this manner.

15   **Q.   DOES THIS COMPLETE YOUR TESTIMONY?**

16   A.   Yes, the Unanimous Stipulation and Settlement Agreement is reasonable, in the  
17      public interest, and should be approved by the Commission.

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