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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

Case No. IPC-E-03-13

REBUTTAL TESTIMONY OF JEREMIAH HEALY

FOR UNITED WATER IDAHO INC.

1 Q. Please state your name and business address.

2 A. Jeremiah J. Healy; 8248 West Victory Road, Boise, ID 83709.

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

4 A. I am employed by United Water Idaho Inc. ("UWID" or "the Company") in
5 the capacity of Coordinator of Planning and Rates.

6 Q. How long have you been employed by United Water Idaho?

7 A. I have been employed by United Water Idaho and United Water Management
8 and Services Company since February 1980.

9 Q. Briefly described your responsibilities during your tenure.

10 A. As a Staff Accountant with the Central Region Office in Harrisburg,
11 Pennsylvania until April 1982 I performed general accounting, prepared
12 federal and state tax returns and public utility commission annual reports. In
13 May of 1982 I became an Internal Auditor responsible for conducting
14 financial and special audits on regulated and non-regulated subsidiaries. From
15 September 1985 until December 1989 I was Accounting Supervisor for United
16 Water Idaho. In this capacity, I was responsible for accounting and planning
17 functions. In January 1990 I became Financial Coordinator responsible for
18 accounting, budgeting and strategic planning for five water and/or wastewater
19 utilities. From August 1993 until October 1994 I was Director of Rates at
20 United Water Management and Services Company. In this capacity I
21 prepared rate filings for various utility subsidiaries. In November 1994 I
22 assumed my current position.

23 Q. What is your educational background?

1 A. I was granted a Bachelor of Science degree with a major in accounting from
2 the University of South Carolina in May 1977.

3 Q. Before what regulatory commissions have you appeared and presented expert
4 testimony?

5 A. I have testified in various proceedings before the Idaho Public Utilities
6 Commission and I have submitted written testimony before the regulatory
7 bodies in Illinois and Arkansas.

8 Q. Please describe United Water's interest in this proceeding.

9 A. United provides domestic water service to approximately 74,000 customers in
10 and around the City of Boise. All of United's customers are also in Idaho
11 Power's service territory. In order to operate its electric motors for supply,
12 boosting and distribution purposes, United Water purchases significant
13 quantities of electric power, primarily under Idaho Power's Schedule 9, Large
14 General Service and Primary Service. For the calendar year ending December
15 31, 2003 United Water spent over \$1.5 million on energy purchases from
16 Idaho Power utilizing approximately 35 million kWh at about 130 separate
17 points of delivery.

18 Q. What is the purpose of your testimony?

19 A. As noted above, electric power expense is a measurable part of United's cost
20 of providing service to its customers, and these costs, of course, must be
21 recovered from its customers. It is United Water's practice to take reasonable
22 steps to minimize the costs it must pass on to its customers. In particular,
23 United is concerned that its electric rates, and consequently the rates United

1 must charge its customers, include a subsidy to the irrigation class of
2 customers from which United's customers receive no benefit. Accordingly I
3 will address the issue of subsidy to the irrigation class. United believes the
4 parties have adequately addressed the many other issues in this case, and I
5 express no opinion on those other issues.

6 Q. What is the magnitude of the subsidy burden to United Water and its
7 customers?

8 A. Under Idaho Power's cost of service analysis Schedule 9 customers would
9 receive a 9.57% increase over current rates, based solely on cost of service.
10 Idaho Power's proposal for continuation of the largest part of the subsidy by
11 capping the irrigation class increase at 25% results in a 15.04% rate increase
12 to Schedule 9. (Gale Exhibit Pgs. 2 and 5). Rates for Schedule 9 customers are
13 5.4% higher than they should be, absent the subsidy, under Idaho Power's
14 proposal. . Additionally, of the \$25.6 million subsidy identified by Idaho
15 Power, the burden falls heaviest on the residential class (\$12,100,000) and
16 then most heavily on Schedule 9 (\$5,900,000). United's residential customers
17 are paying for the subsidy first through their electric rates and then again
18 through their water rates, which include United's electric power costs.

19 Q. Is perpetuation of the irrigation subsidy in the public interest?

20 A. No. I agree with Dr. Power's Testimony (Pg. 23—25) which demonstrates
21 that the subsidy unfairly burdens all other customers without any measurable
22 public interest benefit.

23 Q. Does Idaho Power propose any mechanism to mitigate the subsidy over time?

1 A. Other than an implication that the issue can again be addressed in subsequent
2 rate cases, the Company does not have any proposal.

3 Q. Has a case-by-case re-litigation of the subsidy issue been successful in the
4 past?

5 A. No. In response to discovery requests, Idaho Power identified the following
6 percentage increases necessary in irrigation class rates to eliminate the
7 irrigation deficiency in prior cases:

8 185 Case 59.96%

9 265A Case 31.16%

10 94-5 Case 26.16%

11 (IPCo Answer to AARP Request No. 18).

12 In the present case the percentage increase necessary to eliminate the
13 irrigation deficiency is 67%. The problem has worsened, not improved, over
14 time. The repeated re-litigation of this issue, in addition to consuming party
15 resources in each case, has not worked and it does not appear likely to work in
16 the future.

17 Q. Are there other approaches to this problem other than re-examination of the
18 subsidy in each rate proceeding?

19 A. Yes. Several parties in this case have proposed systematic approaches for a
20 structured phase-down of the subsidy over time, independent of subsequent
21 rate proceedings.

22 Q. Could you summarize those approaches?

1 A. Yes. AARP proposes annual upward adjustments to the irrigation over a five
2 year period, to accumulate increased revenue to other classes and to return
3 those revenues to the other classes at the time of the annual power cost
4 adjustment. (Powers Testimony, Pg. 25—26).

5 Kroeger recommends moving Irrigation one-third of the way to full cost of
6 service in three steps over three years and reducing other classes on an equal
7 percentage basis in each of the three years. (Higgins Testimony Pg. 6).

8 The Department of Energy proposes that the Irrigation class receive an
9 increase twice as large as the overall average system increase, although it is
10 not clear to me whether DOE is proposing further adjustments. (Goins
11 Testimony Pg. 19).

12 Micron proposes that all non-irrigation rate classes rates be set equal to the
13 respective costs of service immediately; that irrigation rates increase by 18.6%
14 and that Idaho power establish a deferred accounting mechanism, or Subsidy
15 Account, that is cleared over five or more years through annual increases to
16 the irrigation class. (Peseau Testimony Pg. 25-26).

17 Q. What is your general impression of the above testimony?

18 A. As a general matter, for perhaps the first time, there is a strong consensus
19 among most non-irrigation classes for a systematic approach to in some way
20 phase out the subsidy. Combined, the Residential Class, Schedule 9, Micron
21 and DOE are burdened with \$19.1 million of the \$25.6 million subsidy. Put
22 differently, 75% (\$19.1m/\$25.6m) of customer classes burdened by the
23 subsidy favor systematic efforts to remove it.

1 Q. Of the proposals you have summarized above, do you favor one over the
2 others?

3 A. United recommends that the Commission give serious consideration to Dr.
4 Peseau's approach.

5 Q. What are the advantages of that approach?

6 A. It has the advantage of immediately freeing the other customers classes from
7 the burden of the subsidy while phasing-up rates to the irrigation class over a
8 manageable period through the regulatory asset mechanism and Idaho Power
9 is kept whole during the transition.

10 Q. Does this conclude your Rebuttal Testimony?

11 A. Yes it does.