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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF UNITED WATER IDAHO INC.)	CASE NO. UWI-W-00-1
FOR APPROVAL OF INCREASED RATES)	
FOR WATER SERVICE)	

DIRECT TESTIMONY OF WILLIAM C. LINAM
ON BEHALF OF UNITED WATER IDAHO INC.

February 2000

1 Q. What is your name and business address?

2 A. My name is William C. Linam and my address is 505 E. Sunnyridge Court,
3 Boise, Idaho 83702.

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

5 A. I am currently engaged by United Water Idaho as a consultant.

6 Q. Please describe your work experience.

7 A. I was employed at United Waterworks Inc. and/or a subsidiary from 1970
8 until December 31, 1999. I worked in various capacities in several states
9 during my employment, including engineering services for United
10 companies located in Arkansas, Missouri, Indiana, Illinois, Delaware,
11 Pennsylvania, Idaho, Oregon and California. I was Manager of United
12 Water Idaho from July 1, 1997, to December 31, 1999, and was Region
13 Manager for United companies located in Pennsylvania, Delaware, New
14 Jersey, Arkansas, Virginia, Florida, Maine, Connecticut, New York,
15 Indiana, Illinois, Missouri, Rhode Island and New Mexico from September
16 1985 to June 1997. I was the General Manager of United Water Idaho
17 throughout the test year.

18 Q. Please describe your educational background and other qualifications.

19 A. I am a graduate of the University of Arkansas with Bachelor and Master of
20 Science degrees in Civil Engineering. I have completed approximately 40
21 combined semester hours of business courses at the University of
22 Arkansas, Boise State University, and Pennsylvania State University. I
23 previously have provided testimony concerning engineering and/or

1 operations before the Pennsylvania, Arkansas, Delaware, New Mexico,
2 and Illinois Regulatory Utility Commissions.

3 Q. What is the purpose of your testimony?

4 A. I will testify to the necessity for certain capital additions, and a requested
5 change in accounting treatment for a river intake and pipeline project in
6 Southeast Boise. My testimony is divided into the following sections:

- 7 • Investment in Island Woods
- 8 • Northwest Pipeline
- 9 • Acquisition of Raintree Mutual Water Company Assets
- 10 • Accounting Treatment of River Intake.

11 Island Woods Investment

12 Q. Mr. Wyatt has testified that Island Woods is considered a satellite system
13 not interconnected to the core area system. Has this system been granted
14 rate base treatment by the IPUC?

15 A. Only partially. In the company's previous rate proceeding, the Commission
16 disallowed rate base treatment of \$73,400.

17 Q. On what basis was the \$73,400 disallowed?

18 A. The \$73,400 was disallowed on the basis that the revenues from the
19 customers in this satellite system did not support the \$260,751 of net rate
20 base requested in Case No. UWI-W-97-6, Order No. 27617, page 23.

21 Q. Is UWID requesting inclusion of the total of the net rate base of the Island
22 Woods system in this case?

1 A. Yes, in the amount of \$327,622

2 Q. Why is the request in this case greater than in UWI-W-97-6?

3 A. Because in UWI-W-97-6, UWID had elected to exclude a portion of the
4 purchase price from the request that we did not think was supportable at
5 that time.

6 Q. Is the full \$327,622 now supported by the customers taking service within
7 this satellite system?

8 A. Yes. As shown on Exhibit 1, column 2, the investment is fully supported
9 by the revenues at current rates and, in fact, the revenues from
10 anticipated customers when the rates are effective in this case support an
11 investment of over \$120,000 greater than the current investment at current
12 rates, as shown in column 3. At the proposed rates, this supported
13 investment over the actual investment will be much greater. Exhibit 1 was
14 prepared using the same method of analysis approved by the Commission
15 in Case No. UWI-W-97-6.

16 Northwest Pipeline

17 Q. In UWI-W-97-6, UWID requested the inclusion of \$940,000 for an
18 investment in a pipeline identified as the Northwest Pipeline which was
19 constructed in 1997. The Staff opposed the inclusion of this pipeline in the
20 rate base and the Commission in Order No. 27617 rejected the inclusion
21 of this pipeline in rate base. Please outline your understanding of Staff's
22 objections to this pipeline.

1 8. They queried the Company as to why UWID had not considered
2 bridging what Staff perceives to be a short-term supply deficit with
3 conservation measures, i.e., alternate day sprinkling.

4 9. They contended that a lengthy distribution pipeline constructed ahead
5 of development places a substantial portion of the cost of new
6 development on the backs of existing customers rather than funding it
7 through developer contributions.

8 10. They note construction of the Northwest Pipeline makes nearly
9 \$850,000 worth of investment in the Eagle area used and useful,
10 provides reservoir back up and emergency fire protection to the Eagle
11 municipal water system and makes lower cost service available to a
12 large undeveloped area that would simply not be possible without the
13 pipeline.

14 Q. Since the time of the Final Order in Case No. UWI-W-97-6, have you
15 acquired additional information based on actual operations that is relevant
16 to this issue?

17 A. Yes. As I discuss below, data from 1998 and 1999 operations clearly
18 shows that the pipeline is necessary to meet demand in the core area and
19 there are not any viable, less costly alternatives.

20 Q. Was the Marden Street Treatment Plant expanded from 8 MGD to 16
21 MGD in 1999?

1 A. Yes, but on peak day in 1998 we had actually forced 9.4 MGD through the
2 plant, or 1.4 MGD greater than the rated capacity. Therefore we
3 effectively only gained additional capacity of 6.6 MGD.

4 Q. Did this nullify the need for the water being delivered from Redwood
5 Creek/Floating to the core service area?

6 A. No. The Marden Street expansion was completed in May 1999. Utilizing
7 this expanded supply in addition to the Redwood Creek/Floating Feather
8 supply we still were not able to meet the maximum day demands from
9 supply in the East Main and West Main service areas, the areas in which
10 the water from Marden and Redwood Creek/Floating Feather are
11 delivered and utilized.

12 Q. How do you measure that you could not meet the demands in these areas
13 from supply?

14 A. There are three primary storage reservoirs that control the pressures and
15 supply the peak hour demands in the area north of the Boise River
16 between the Warm Springs Golf Course and Seamans Gulch Road. I
17 have prepared three graphs (Exhibits 2, 3, and 4) which plot the maximum
18 daily elevation of water in these reservoirs for the period of July and
19 August for 1997, 1998, and 1999. The overflow elevation for Hulls Gulch
20 Reservoir is 2,861 feet, 39 feet higher than Good Street and Hidden
21 Hollow at 2,822 feet. In 1997, water was pumped from the Marden Plant
22 and surrounding area to Hulls Gulch Reservoir, and from there flowed by
23 gravity to the Good Street and Hidden Hollow Reservoirs. Water from

1 Swift Wells and purchased water from Garden City was pumped directly
2 into Good Street and Hidden Hollow without passing through Hulls Gulch.
3 As can be seen from Exhibit 2, these three reservoirs seldom, if ever, filled
4 during the peak usage period of July-August 1997. Although there was
5 some problem in delivering adequate water to the Hulls Gulch Reservoir,
6 the graphs highlight major problems in the ability to deliver water to the
7 Good Street and Hidden Hollow Reservoirs. The graph also demonstrates
8 that the water level in the Hidden Hollow Reservoir was consistently 3 to
9 13 feet below the level in Good Street Reservoir.

10 Q. Why were you unable to fill these reservoirs on a consistent basis during
11 this period?

12 A. We were unable to fill these reservoirs for two reasons: insufficient supply
13 and transmission capacity.

14 Q. What choices did UWID have to resolve the problems?

15 A. Resolving the problems required a combination of adding additional
16 supply and transmission upgrades to move the water to the areas or
17 points of use.

18 We attempted to develop an additional source in the State Street
19 area. This would have required the addition of a transmission main to
20 move the water to the areas or points of use. We had budgeted an
21 estimated cost of \$960,000, \$340,000 for the source and \$620,000 for
22 transmission. Since the test drilling proved that the water was not
23 available, this was no longer an alternative. Even if this plan had been

1 successful, the expansion of the Marden Street Plant and some
2 transmission main still would have been necessary. An ideal solution
3 would have been to develop a source between the Good Street and the
4 Hidden Hollow Reservoirs. However, lack of ground water in this area
5 prevented this from being a viable solution. This left the only viable
6 solutions to be:

- 7 1. Developing a good quality source outside of the area of
8 Good Street and Hidden Hollow Reservoirs and transporting
9 the water to these reservoirs by installing a transmission
10 main;
- 11 2. Utilizing some existing reliable, good quality source not
12 being used and building a transmission main to move this
13 unutilized good quality source to points where it could be
14 used; or
- 15 3. Pursuing a combination of solutions 1 and 2 above.

16 For the 1998 peak season, the Company elected to construct the
17 Northwest Pipeline to transport a reliable, unutilized, good quality supply
18 at Redwood Creek/Floating Feather to points of use. The alternative to
19 this would have been to develop source and transmission from points
20 further away from the points of use, which would have been a more
21 expensive alternative. Exhibit 3 depicts graphically that although this did
22 not resolve all problems at Hidden Hollow, it certainly relieved much of the
23 problem. This part of the solution did not relieve the problems with filling

1 the Good Street Reservoir. In fact, the ability to fill Good Street in 1998
2 deteriorated from 1997 due to overall customer usage.

3 Q. In your opinion, what would have been the probable consequences of not
4 having water from Redwood Creek/Floating Feather transported to Hidden
5 Hollow in the peak period of 1998?

6 A. As you can see from Exhibit 2, without the Northwest Pipeline, the water
7 level in Hidden Hollow Reservoir was consistently below the level in Good
8 Street Reservoir. Also remember that from these graphs we are looking at
9 the maximum levels in the reservoirs. The low level in the Hidden Hollow
10 Reservoir ranged from 5 to 11 feet below the levels shown on the graph,
11 which begins to seriously limit the volume of water remaining in the
12 reservoir. Looking at the level of water in the Good Street Reservoir in
13 1998 from Exhibit 3, one can easily conclude that there would have been
14 periods in 1998 when the Hidden Hollow Reservoir would have gone dry.

15 Q. Since the purpose of a reservoir is to provide some of the water necessary
16 for the peak flows, what is the problem with the reservoir going dry?

17 A. The other purpose of a reservoir is to provide necessary fire protection.
18 Without adequate volume of water remaining in the reservoir during peak
19 periods, the homes, businesses, and schools do not have the necessary
20 fire protection.

21 Q. Are there any schools in this area?

22 A. Yes, there are two schools in the immediate vicinity, Shadow Hills
23 Elementary and River Glen Junior High. There are five other schools

1 which would receive a contribution from Hidden Hollow Reservoir in the
2 event of a fire. These schools are Pierce Park Elementary, Cynthia Mann,
3 Collister Elementary, Hillside Junior High, and Taft Elementary.

4 Q. What was the next component to supply adequate water to the area we
5 have been discussing?

6 A. The next piece was the expansion of the Marden Plant and installation of
7 a larger transmission main to get this water away from the plant and into
8 Hulls Gulch Reservoir. Having a greater volume from the Marden Plant
9 and delivering water at a more consistent pressure to Hulls Gulch
10 Reservoir gave us the ability to flow more water into Good Street
11 Reservoir shown on Exhibit 4 by less deviation in water levels in 1999 vs.
12 1998 (Exhibit 3). By the Northwest Pipeline relieving some of the
13 requirement of moving water from Good Street to Hidden Hollow, which in
14 turn relieved some of the flow requirements from Hulls Gulch to Good
15 Street, we were able to more closely supply the demands in the area we
16 have been discussing.

17 Q. You say the Company is closer to supplying the needs after completing
18 these two projects. Are you saying there are still some deficiencies even
19 with these two projects?

20 A. Due to continued growth and existing pipeline restrictions, the ability to
21 transport enough water to fill the reservoirs on a consistent basis is still
22 somewhat lacking, even with using the water at Swift as we did in 1999
23 and purchasing water from Garden City. This again is depicted

1 graphically on Exhibit 4 which shows the reservoir did not totally fill on a
2 daily basis.

3 Q. Couldn't the Company have supplied all this water to the Good Street and
4 Hidden Hollow Reservoirs by the expansion of Marden Street Plant?

5 A. No. Even if we developed enough supply at Marden Street, or moved it
6 from other sources from the bench area above Marden, we still could not
7 have moved enough water all the way to Hidden Hollow without making
8 some major transmission improvements between Hulls Gulch and Hidden
9 Hollow. We projected the cost of these improvements at greater than \$4.4
10 million, a much more expensive alternative than the Northwest Pipeline.
11 In addition, we still would not have had the full utilization of the available
12 source of Redwood Creek/Floating Feather. An added benefit of
13 Redwood Creek/Floating Feather water is that it was of a known quantity
14 and quality, as opposed to water not being available in the State Street
15 test drilling or of poor quality such as the Swift Well field.

16 Q. What about Swift Wells, were you utilizing this supply when you were
17 unable to fill the reservoirs?

18 A. Yes, in 1999 we were utilizing Swift at the same time. We had not used
19 Swift in 1997, as stated by the Staff, because the water quality had
20 deteriorated to the point that we received numerous customer complaints
21 when this source was used. We did attempt to utilize Swift again in 1998,
22 even after the Redwood Creek/Floating Feather wells and the Northwest
23 Pipeline were placed in service. Within four hours of introducing water

1 from this source into the system, we had numerous customer complaints.
2 These complaints were due to the taste and odor of the water. These
3 complaints were certainly justified in that the taste of the water was
4 sufficiently objectionable so that the company could not reasonably expect
5 its customers to accept this water for consumption.

6 Q. How was the company able to use the Swift Wells in 1999 after receiving
7 so many complaints from using it in 1998?

8 A. We developed in 1999 an Aquifer Storage and Recovery (ASR) project
9 where we treated the water and then re-injected it into the ground. We
10 then were able to withdraw this water during peak periods and deliver it to
11 our customers without experiencing the poor quality of water that was
12 delivered prior to the ASR project.

13 Q. The Staff contended that you were not utilizing purchases from Garden
14 City to the maximum. Is this true for 1998 and 1999?

15 A. No. During the 1997 period, we were purchasing up to 2.15 MGD; in 1998,
16 we were purchasing up to 2.47 MGD; and in 1999, we were purchasing up
17 to 2.1 MGD. The contract with Garden City allows us to purchase up to
18 2.3 MGD, which under normal conditions would be the system constraint
19 as to the amount of water we can transport from Garden City.

20 Q. How does this relate to the Staff's contention that the deficiency in 1997
21 was no greater than the deficiencies in previous years?

22 A. With 20/20 hindsight we now can see clearly that even with the Northwest
23 Pipeline and purchases from Garden City in 1998 our ability to supply the

1 needs of our customers in the East Main and West Main service levels
2 was seriously deficient. Without the use of the Northwest Pipeline, we
3 would have experienced empty storage reservoirs on several days in
4 1998.

5 Q. What about the claim that additional supply had been added since 1997,
6 such as 27th Street Well?

7 A. Additional supply had been added after 1997 but before the 1998 summer
8 peak period. We also had a higher potential demand in 1998 than in 1997.
9 All the additional supply was in use in 1998, and we still had difficulty
10 supplying our customers' demands.

11 Q. What about the Staff's claim that the company could have constructed a
12 less costly new supply?

13 A. The cost of developing the supply does not appear to be the real question
14 here; it is transmission. Even if we developed supply in other locations,
15 there is still the question of delivering this supply to the points of use by
16 the customers. Unless you can develop supply in the area of use, the only
17 way to move the water from the source of supply to the point of use is by a
18 transmission main. We had budgeted the construction of a new well and
19 transmission main in the State Street area in 1997 to deliver water to this
20 area at a projected cost of \$960,000. However test drilling proved that the
21 water simply was not available. Developing this supply somewhere else
22 still would have resulted in a similar or greater cost to move the water to
23 the required location. Since supply already had been developed

1 somewhere else, the installation of the Northwest Pipeline was the most
2 prudent way to deliver the water to where it was needed.

3 Q. What about the Staff's claims that current and future development and
4 related water supply contracts in the Eagle area require the Redwood
5 Creek/Floating Feather water supplies?

6 A. The only water supply contract in the Eagle area is the contract between
7 United Water Idaho and the City of Eagle for United to supply emergency
8 back-up water to the City of Eagle. "In consideration of conveyance of
9 emergency back-up water to City from the Reservoir, City hereby grants to
10 UWID, and to its successors and assigns, the exclusive right and privilege,
11 for a period of thirty (30) years from the first day following the hereof, to
12 convey potable water to and through the System, all subject to the terms
13 and conditions hereinafter specified." Back-up water is for an emergency
14 situation and certainly will not demand the full capacity of the Redwood
15 Creek/Floating Feather wells. The City of Eagle system has its own
16 supply, and United Water Idaho is under no obligation to supply the City's
17 long-term needs. Providing backup water in an emergency is something
18 one utility would do for another if they had an interconnection, even if
19 there was no agreement to do so. In addition, the customers of United
20 Water Idaho received a huge benefit from this intertie in that the City of
21 Eagle's system is utilized to wheel water from the Redwood
22 Creek/Floating Feather sources to United Water Idaho's Northwest
23 Pipeline saving some \$360,000 in construction cost. For the argument of

1 future development in the area requiring the capacity of the existing
2 sources to have any validity, you have to assume that sources can be
3 developed at any location you choose and that water can only be utilized
4 by the development in the area of the source. This argument fails on both
5 counts. For example, the development in the area of the Marden Street
6 Treatment Plant certainly does not utilize the 16.0 MGD capacity of this
7 plant. However, since a source is capable of being developed at Marden
8 Street and since the area between the Boise River and the foothills is
9 source deficient, source greater than the immediate area needs was
10 developed and water is transmitted west to areas where source is not
11 available. Similarly sources were developed in the Eagle area and
12 transmitted back to the east into the areas where source is not available to
13 be developed. Not all the water that Redwood Creek/Floating Feather
14 wells can produce is transported away from the area. Since ground water
15 appears to be available in the Eagle area in quantities greater than what
16 the immediate area would require, if additional source is necessary in the
17 Eagle area, it will be developed in that area to take care of the needs of
18 this area. Simply stated, when an area does not have any source
19 capabilities, either a moratorium is placed on development in that area or
20 source is developed outside the area and moved to those locations by
21 building transmission mains. In many water systems throughout the
22 United States, this is the norm rather than the exception as here in Boise,
23 Idaho. The facts are that we have customers in the West Main area where

1 no source is available and, if they are to have adequate service, water has
2 to be transported into the area.

3 Q. The Staff reports that they queried the Company as to why UWID had not
4 considered bridging what Staff perceives to be a short-term supply deficit
5 with conservation measures, i.e., alternate day sprinkling. Do you
6 consider the supply situation as it existed in 1998 as a short-term supply
7 deficit that could be bridged by conservation measures?

8 A. No. Experience since 1997 clearly shows the deficit is not a short-term
9 deficit that could be resolved by conservation measures such as alternate
10 day sprinkling. In addition, we are keying on the wrong issue by continuing
11 to think that the need for the Northwest Pipeline is simply one of ability to
12 produce water. The water must not only be produced, it must be delivered
13 to the point of use. This is the reason why the Northwest Pipeline was
14 necessary. In 1997, we produced on maximum day 75.9 million gallons
15 and delivered to customers 77.1 million gallons on that same day. In
16 1998, by utilizing additional capacity developed, using the Redwood
17 Creek/Floating Feather supplies, and delivering this water through the
18 Northwest Pipeline, we produced 81.9 million gallons and delivered to the
19 customers 84.2 million gallons on the same day. The 1998 production
20 exceeded the 1997 maximum day consumption for 15 consecutive days.
21 For 12 consecutive days, the production ranged from 80.2 MGD to 81.9
22 MGD for an average of 80.85 MGD and a mean of 81.05 MGD. This
23 results in a deviation from the mean of plus or minus 0.85 MGD or a

1 variation of plus or minus 1%. Alternate day sprinkling is normally viewed
2 as a means to reduce one-day peaks. When you have extended periods
3 of time when the usage variation is no more than plus or minus 1%,
4 alternate day sprinkling is not going to result in major changes. With the
5 numerous amount of sprinkler systems within the system and the wide
6 customer base, we basically are already seeing the effect of alternate day
7 sprinkling and have already achieved the result of reducing that single day
8 peak usage.

9 Q. What about the contention that construction of a pipeline ahead of
10 development places the cost of new development on the backs of existing
11 customers rather than through developer contributions?

12 A. The pipeline was installed because it was necessary to provide adequate
13 service to existing customers. To have waited for developers to install this
14 line would have resulted in customers suffering inadequate service for a
15 long period of time. This is evident by the fact that not a single
16 development has connected to this line in the approximately two years
17 that it has been in service, two years in which this pipeline played a vital
18 role in supplying our customers' needs. If it were such a windfall to
19 developers, you would expect some development to have connected to
20 this line within a two-year period.

21 Q. Finally, the Staff objects to the fact that the Northwest Pipeline makes a
22 prior investment of nearly \$850,000 used and useful. In your opinion, are
23 both investments now necessary to serve the needs of the customers.

1 A. Yes they are.

2 Q. Could you summarize the reasons the Company made this investment?

3 A. Because we were absolutely convinced that installing this pipeline was the
4 only way we could avoid having serious service problems not only in 1998
5 but in years to come.

6 Q. Could you deliver adequate volumes of water from the Marden Street
7 Plant to the Hidden Hollow Reservoir even if the water from Marden Street
8 were not needed in other locations?

9 A. As I have explained earlier in my testimony and as will be explained
10 further in the testimony of Witness Wallace, we could not deliver adequate
11 volumes of water without constructing additional transmission mains
12 between Marden Street and Hidden Hollow Reservoir at a much greater
13 cost than \$940,000.

14 Q. Did you make a calculation similar to Exhibit 1 to show the supported
15 investment in the Redwood Creek/Floating Feather wells and transmission
16 mains?

17 A. Yes, I did. However, as expressed in the last several pages of testimony,
18 it is clear that the investment in the Redwood Creek/Floating Feather
19 facilities is used and useful even without any immediate customers in the
20 vicinity of the facilities. These facilities are providing service within the
21 core service area of UWID and are necessary to provide adequate service
22 to the customers of UWID. However, Exhibit 5 shows the amount of the
23 investment supported by the customers in the immediate area for

1 Redwood Creek/Floating Feather. At current rates, the customers that will
2 be in place at the beginning of the period the proposed rates will be in
3 effect will support an investment of \$557,500. This leaves a balance of
4 \$287,319, which is more than supported by the fact that 2.0 MGD of water
5 flows from these facilities to provide service to customers that are not
6 located in the immediate vicinity of Redwood Creek/Floating Feather. In
7 addition, the theoretical unsupported investment at the proposed rate will
8 be much less than the \$287,319. In fact, if the Island Woods and
9 Redwood Creek/Floating Feather areas are combined, as shown on
10 Exhibit 6, the unsupported investment at current rates is approximately
11 \$165,441; and at proposed rates, there is no unsupported investment,
12 even ignoring the fact that this plant is providing service back to the
13 Hidden Hollow area.

14 Acquisition of Raintree Mutual Water Company Assets

15 Q. Please describe Raintree Mutual Water Company (Raintree) and the
16 relationship between Raintree and UWID.

17 A. Raintree was a nonprofit water company organized by a group of
18 developers to provide water service to property they were developing in
19 the area of Chinden Boulevard and Eagle Road. This system was
20 operated by United Water Idaho Operations Inc., previously known as
21 Engineering, Management & Maintenance, Inc. (EM²), with UWID selling
22 water to United Water Idaho Operations Inc. (UWIO), who in turn sold
23 water to the customers.

1 Q. When did UWID and UWIO, respectively, begin supplying water and
2 operating the Raintree system?

3 A. The operations agreement between Raintree and UWIO was signed in
4 September 1995 and a verbal agreement was reached for UWID to supply
5 water at this same time. The agreement between UWID and Raintree for
6 the supply of water was not reduced to writing until January 1998. Both
7 water service and operations service began soon after the first agreement
8 was signed in 1995.

9 Q. Was the IPUC Staff involved in any way with the agreements with
10 Raintree?

11 A. Yes.

12 Q. What were the results of the IPUC Staff involvement?

13 A. At the time the agreements were reached with Raintree, UWID was
14 collecting a connection fee for each new customer connection. The
15 amount of the connection fee was dependent upon the size of the meter
16 necessary to service the customer. UWID's initial reaction was that its
17 customer was Raintree, who would receive service through three or four
18 6-inch meters. Therefore, UWID initially intended to collect connection
19 fees from Raintree for the three or four 6-inch meters. The Staff proposed
20 that the appropriate connection fee should be levied for each individual
21 residential or commercial customer located within Raintree as if each
22 individual customer were a customer of UWID. Connection fees were

1 collected by UWID from the individual customers and were recorded as
2 contributions to UWID until the rate change in 1997.

3 Q. Would you say that although UWID only had one customer (Raintree), at
4 least in the area of connection fees, the Staff appeared to look through the
5 contract and consider these individual customers as customers of UWID?

6 A. Yes.

7 Q. What was the amount of the connection fees collected by and recorded as
8 contributions to UWID prior to May 1997?

9 A. \$60,450.

10 Q. Did UWID purchase the assets of Raintree?

11 A. Yes.

12 Q. What infrastructure did UWID purchase from Raintree?

13 A. UWID purchased the water mains and the services which provide service
14 or are ready to provide service to 1,102 individual building lots.

15 Q. What was the original cost of these facilities?

16 A. The original cost was \$1,140,324.50 for the mains and \$288,999.67 for
17 the services, for a total of \$1,429,324.17.

18 Q. What amount of rate base is UWID proposing to include as rate base in
19 this case?

20 A. UWID requests as rate base \$828,942.

21 Q. How did you arrive at this figure?

1 A. We arrived at an agreed purchase price after lengthy arms-length
2 negotiations with Raintree of \$1,125,000, less a cash contribution by
3 Raintree of \$296,058, leaving a net investment of \$828,942.

4 Q. How are you proposing to book the difference in the original cost and the
5 agreed to purchase price of \$1,125,000?

6 A. We are proposing that the difference between the \$1,429,324 and the
7 \$1,125,000 less accumulated depreciation of \$76,730 be booked as a
8 negative acquisition adjustment in the amount of \$227,594.

9 Q. And you are proposing to book the \$296,058 as a contribution?

10 A. Yes.

11 Q. Leaving the net of \$828,942 you are proposing for rate base?

12 A. Yes.

13 Q. In addition to the fact that the purchase price was arrived at through arms-
14 length negotiations, is there another way to demonstrate that the purchase
15 price and requested rate base amount are reasonable?

16 A. Yes. Since Raintree served development that was within UWID's service
17 area, we evaluated this transaction as if UWID had entered into a main
18 extension agreement with these developers in 1995.

19 Q. How did you do that?

20 A. In 1995, our extension rules resulted in using what was commonly referred
21 to as a guaranteed revenue agreement. This means that the developer(s)
22 entered into an agreement where UWID made an investment in the utility
23 plant and the developer(s) would then guarantee the return on that

1 investment for a 5-year period. The developer(s) might also make a
2 contribution to reduce the amount of the investment by UWID on which the
3 developer(s) made the guarantee.

4 I used the same data and format to evaluate what would have
5 transpired had we entered into an extension agreement with the
6 developers in 1995.

7 Q. Did you use the same average revenue, operating cost, rate of return,
8 etc., that UWID was using in 1995 to evaluate developer extensions?

9 A. Yes.

10 Q. You didn't update for the higher revenues for an average customer for
11 changes in rates since 1995?

12 A. No.

13 Q. Do you have an exhibit of this evaluation?

14 A. Yes, it is included as Exhibit 7. If you turn to this exhibit, you will see the
15 original cost of the mains on line 1a and the services on line 1b. The cost
16 for mains was \$1,140,325 and the cost for services was \$289,000, for a
17 total of \$1,429,325. We also added the cost of the meters (line 1d) at \$57
18 per meter and a backbone plant investment of \$100 per customer (line
19 1e). We then deducted any contributions by the developers (line 1f).

20 Q. I note the contribution is \$412,800. Please explain how this number was
21 determined.

22 A. The \$412,800 was calculated as follows:

1 The difference in the original cost of \$1,429,325 and the purchase price of
2 \$1,125,000 is \$304,325 plus an allocated \$108,475 of the \$296,058 cash
3 contribution equals the \$412,800 shown on Exhibit 7, line 18.

4 Q. How did you arrive at the allocation of \$108,425 of the cash contribution
5 toward mains and services and \$187,582 towards source of supply?

6 A. In 1995, UWID collected a connection fee of \$465. The allocation of this
7 \$465 was \$294.62 towards source of supply and \$170.38 towards taxes.
8 Since no taxes had to be paid on the \$296,058, the ratio of 294.62/465
9 (296,058) or \$187,582 was allocated to source of supply and the balance
10 of \$108,475 was allocated as a contribution to mains and services. This is
11 equivalent to the same dollars from connection fees collected in 1995 for
12 source of supply.

13 Q. Then the developers contributed the difference in the original cost of
14 \$1,429,325 and the purchase price of \$1,125,000, or \$304,325?

15 A. Yes.

16 Q. They then made additional cash contributions of \$296,058, is that correct?

17 A. Yes, and it is this \$296,058 that I have allocated between contributions
18 toward the mains and services of \$108,476, since no taxes had to be paid,
19 and \$187,582 which would be equivalent to the connection fees charged
20 in 1995 for the customers added between May 1997 and the purchase
21 date.

22 Q. What about connection fees for those customers added between 1995
23 and May 1997?

1 A. UWID collected those connection fees for every customer added during
2 that period for a total amount of \$\$60,450 which was booked as a
3 contribution reducing UWID's rate base.

4 Q. Please continue with your explanation of Exhibit 7.

5 A. The infrastructure in place as a result of the purchase of Raintree is mains
6 and services to serve 1,102 customers. At the time of the initial
7 investment by UWID, there were 830 existing customers in place.
8 Therefore, Year 1 was evaluated with the 830 customers in place; and we
9 simply carried the evaluation through the model, based on the fact that an
10 acceptable return as per the rates in effect would result. The developer(s)
11 would not have to guarantee any additional revenue for the installation of
12 these mains and services over the \$412,800. It also means that UWID
13 collected the equivalent of the connection fees in the amount of \$187,582
14 plus \$60,450 for a total of \$248,032, that would have been applicable had
15 this transaction been a single main extension agreement in 1995 rather
16 than Raintree being formed and purchased by UWID in 1999.

17 Q. So this transaction just worked out as though UWID had entered an
18 extension agreement with the developer(s) in 1995?

19 A. Actually it did not just work out that way. We were targeting to complete
20 the deal on a similar basis as to what would have happened if we had
21 entered into an extension agreement.

1 Boise River Intake

2 Q. In Case No. UWI-W-97-6, UWID requested and was disallowed the
3 inclusion in rate base of \$1,882,531 for the construction of a river intake
4 and installation of a transmission main in Southeast Boise. Is this
5 \$1,882,531 included in the rate base in this case?

6 A. No.

7 Q. Did the IPUC authorize any treatment of this \$1,882,531 construction
8 cost?

9 A. Yes, the Commission authorized the recovery of amortization at the level
10 of depreciation of this construction cost in the amount of \$37,651 annually.

11 Q. Can you give us your basic understanding of the Commission's dilemma
12 in including investment in rate base for plant that is not providing service
13 at the present time?

14 A. Yes. My understanding of the Commission's position is that for the
15 Company to include an investment in rate base, the facilities for which that
16 investment was made must be providing service for existing customers at
17 the point in time that the rates are set. I believe the theory behind this
18 requirement is to prevent a utility from making speculative investment and
19 then passing the cost along to its customers, who may or may not receive
20 any benefit from that investment.

21 Q. Notwithstanding the merits of the policy underlying the "used and useful"
22 rule, are there ways the rule can result in unfairness?

1 A. Yes. If an investment reduces future costs and/or maintains the
2 Company's ability to provide service in the future, customers receive the
3 benefit of the reduced cost. The Company, however, receives in effect a
4 penalty in the form of an inability to earn on the investment.

5 Q. Can you give an example where you believe only the customers benefited,
6 at least financially, from an investment the Company made for the future?

7 Yes. When UWID constructed the first phase of the Marden Treatment
8 Plant, it was anticipated that this plant would be expanded in the future.
9 Therefore, critical components of the original construction were sized to
10 facilitate this future expansion. The Commission determined that
11 \$530,000 of this original investment was not providing service to
12 customers existing at the time of construction. The treatment of the
13 \$530,000 for ratemaking purposes was to disallow a return on the
14 investment, but to allow recovery of the investment through allowing
15 depreciation on the investment. With the expansion of the Marden Street
16 Treatment Plant in 1998/99, the investment of \$530,000 in 1993/94
17 resulted in savings of approximately three times that amount in the
18 1998/99 expansion. Therefore, the existing customers in 2000 will not
19 only receive the benefit of the savings of approximately \$1,000,000 (the
20 difference in \$530,000 for oversizing and the \$1,500,000 which would
21 have been incurred had oversizing not been done during original
22 construction) which will never be included in rate base, but also they will
23 receive the benefit of the amount included in rate base being less than the

1 actual original cost by \$87,500. In addition, UWID lost the cost of money
2 on the entire \$530,000 for the three and one-half year period since the
3 rates went into effect in November 1996 and projected to go into effect for
4 this case. Exhibit 8 quantifies those benefits to the customers and the
5 detriment to UWID. This Exhibit shows that when the \$530,000, less the
6 accumulated depreciation of \$87,500, is placed in rate base the revenue
7 requirement will be approximately \$73,000 annually. Without depreciation
8 on this plant in the amount of \$87,500, the revenue requirement would
9 have been approximately \$83,000 annually.

10 Q. What would the accumulated AFUDC have amounted to if the
11 Commission had allowed post-closing AFUDC on this \$530,000
12 investment?

13 A. \$199,173.

14 Q. In this example would you then have been requesting the \$530,000 in rate
15 base plus the \$199,173 of AFUDC, for a total of \$729,173?

16 A. Yes.

17 Q. What would the annual revenue requirement have been if the AFUDC had
18 been allowed?

19 A. Approximately \$114,000.

20 Q. What would have been the result of not planning for this future expansion?

21 A. Our design engineers have estimated that the cost of the Marden Street
22 Plant expansion in 1998/99 would have cost an additional \$1,500,000.

23 Q. What would the annual revenue requirement be on this \$1,500,000?

1 A. Approximately \$235,000.

2 Q. In summary, what is the result of UWID making the \$530,000 investment
3 for future expansion of the Marden Street Plant?

4 A. The customer will save approximately \$162,000 annually over the life of
5 the plant, or more than \$5,000,000.

6 Q. What will UWID have lost as a result of this investment in planning for
7 future expansion?

8 A. We will have lost earning a return on the investment, plus we will have lost
9 approximately \$184,000 in cost of money.

10 Q. Are you requesting that some retroactive adjustment be made in regard to
11 the Marden Treatment Plant oversizing?

12 A. No, I am simply using this as a known and measurable example of how
13 plant constructed in advance benefits customers.

14 Q. Is the Company requesting the inclusion of this investment in rate base?

15 A. No it is not; we are requesting post-closing AFUDC for the net investment
16 of \$2,555,658 in the river intake and pipeline and the deferral of the
17 current amortization until the project goes in service.

18 Q. Please explain why the current costs are higher than those in Case UWI-
19 W-97-6.

20 A. At the time of the Company's last rate case all incurred costs had not yet
21 been known and booked. Additionally, this project involved the
22 participation of Micron and Simplot with a sharing of certain costs that had

1 not been completely determined at the time of the Company's last rate
2 case.

3 Q. Have you included the amortization expense for the river intake and
4 pipeline in your revenue request?

5 A. No.

6 Q. Why have you not included the amounts previously authorized?

7 A. The Company believes that post-closing AFUDC is more equitable.

8 Q. Why are you requesting approval to continue post-closing AFUDC and the
9 deferral of depreciation on the project?

10 A. Unless specifically authorized by the Commission, when plant or a portion
11 of plant previously under construction is placed in service, the accrual of
12 AFUDC on such property ceases. Regarding the amortization, this
13 Commission specifically authorized amortization on this project in case
14 UWI-W-97-6.

15 Q. Will the above cost of \$2,555,658 be the total cost that will be requested in
16 rate base when it does begin providing service to the customers?

17 A. No. It will be that amount plus the accrued interest. Additionally, the river
18 intake is only a part of a planned surface water treatment project, which
19 will be necessary to supply the customer needs in the future.

20 Q. Why are you sure such a surface water treatment plant will be needed in
21 the future? Why not just continue to depend upon a well supply?

22 A. From our knowledge of the ground water supply in the area, we have
23 concluded that due to quantity, quality, and consistence, ground water will

1 not always supply the needs of the customers of UWID. Even from
2 discussions with the Director of the Idaho Department of Water Resources
3 we received an acknowledgement that surface water is the future for this
4 area. Many major urban areas that were once dependent upon ground
5 water have or are beginning to move toward surface water due to
6 contamination issues and the renewable nature of surface water.

7 Q. What accounting treatment are you requesting?

8 A. (1) To begin recording AFUDC on the net investment and to stop the
9 amortization from the in-service date of the order in this case until the date
10 of a Commission rate order including the project in UWID's rate base and
11 including depreciation expense in UWID's recoverable operating
12 expenses;

13 (2) To record such post-closing AFUDC and deferred depreciation as a
14 regulatory asset in Account 186, Miscellaneous Deferred Debits;

15 (3) To amortize such regulatory asset as a recoverable expense for rate
16 making purposes over the estimated life of the overall water treatment
17 plant project, commencing on the date of the first rate order including the
18 project in UWID's rate base and including depreciation expense in UWID's
19 recoverable operating expenses; and,

20 (4) To include the unamortized portion of the regulatory asset in UWID's
21 rate base upon which it is permitted to earn a return.

22 Q. What post-closing AFUDC rate is UWID proposing to utilize?

- 1 A. We are requesting the same rate as the requested cost of capital in this
2 case of 9.15%.
- 3 Q. Does that conclude your testimony?
- 4 A. Yes it does.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF UNITED WATER IDAHO INC.)	CASE NO. UWI-W-00-1
FOR APPROVAL OF INCREASED RATES)	
FOR WATER SERVICE)	

EXHIBITS TO ACCOMPANY
THE DIRECT TESTIMONY OF
WILLIAM C. LINAM
ON BEHALF OF UNITED WATER IDAHO INC.

February 2000