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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| 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 JEREMIAH J. HEALY

ON BEHALF OF UNITED WATER IDAHO INC.

February 2000

Q. Please state your name and business address?

A. Jeremiah J. Healy, 8248 West Victory Road, Boise, Idaho 83709.

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

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

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

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

Q. Briefly describe your responsibilities during your tenure.

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

Q. What is your educational background?

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

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

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

Q. In connection with the Company's present application for an increase in rates and charges, what is the scope of your participation and testimony?

A. I analyzed the Company's books and records and prepared the necessary accounting exhibits to adjust operating expenses.

Q. Describe generally the approach you have taken in preparing the accounting exhibits.

A. I have prepared exhibits setting forth the operating results of UWID for the test year consisting of the twelve months ended September 30, 1999. To this test period, normalizing and annualizing adjustments were made to reflect operating results at the year end level.

For operation and maintenance expenses, I have relied on information produced within the Company as the basis of my adjustments. For depreciation, amortization of plant held for future use, amortization of utility plant acquisition adjustments, operating taxes and income taxes, supporting details are shown which provide the basis for the adjustments.

Q. Have you prepared from the Company's books and records a series of exhibits depicting the Company's balance sheet and operating income statement for the test year ended September 30, 1999?

A. Yes, I have prepared Exhibits No. 12 and 13 which illustrate the Company's balance sheet (Exhibit No.12) and operating income statement per books (Exhibit No.13). Both of these exhibits are based upon results for the test period.

Q. Have you prepared an Exhibit which indicates the pro forma operating income of United Water Idaho Inc. at existing and proposed rates?

A. Yes. I have prepared Exhibit No. 11 which is titled "Statement of Operating Income Per Books and Pro Forma under Present and Proposed rates for the year ended September 30, 1999". I have also prepared Exhibit 11A summarizing the adjustments found on Schedule 1 of Exhibit 11.

Column 1 identifies the schedule which details the test year pro forma adjustments in Columns 5 and 6. Column 2 indicates the elements of operating income. The amounts therein are per books, as shown in Exhibit No. 13. Column 3 shows a summary of test year adjustments made to operating revenues and expenses. The adjustment to operating revenue shown on line 4 will be explained by Witness Gradilone. The adjustments to operation and maintenance expenses, summarized on line 6, are detailed in Exhibit No. 11, Schedule 1 and they will be explained in conjunction therewith. The adjustments to depreciation expense, amortization of plant held for future use and amortization of utility plant acquisition adjustments summarized on lines 7, 8 and 9 are detailed in Exhibit No. 11, Schedule 2, pages 1 to 4, and will be explained in conjunction therewith. The adjustments to operating taxes summarized on lines 11 and 12 are detailed in Exhibit No. 11, Schedule 3, pages 1 to 4, and will be explained in conjunction therewith. Column 4 shows the adjusted operating income at existing rates for the test period. Column 5 indicates the adjustments to operating revenues, operation and maintenance expenses, and income taxes under the rates proposed herein. The adjustment to operating revenues of $3,057,100 was computed based on a 9.15% rate of return on test year rate base. Column 6 shows the adjusted operating income at the rates proposed herein. The income taxes shown on lines 17 and 18 were computed as indicated on Exhibit No. 11, Schedule 4, and will be explained in conjunction therewith.

Q. Returning to Column 3 of Exhibit No. 11, please explain the adjustments to operating expenses.

A. Operation and maintenance expenses have been increased by $568,532 (Schedule 1). Depreciation and amortization expense has been increased by $666,007 (Schedule 2). Ad Valorem taxes have been decreased by $30,875 (Schedule 3). Payroll Taxes have been increased by $2,132 (Schedule 3). Federal income taxes have decreased $436,894 and State income taxes have been increased by $74,307 (Schedule 4).

The details supporting the operation and maintenance expense adjustments are shown on the 33 pages which comprise Schedule 1. The lead page is a summary of adjustments made to operation and maintenance expense, as well as depreciation and amortization and taxes other for the test year. Pages 1 through 33 illustrate the details of such adjustments for operation and maintenance expense. There are 33 adjustments to operation and maintenance expense, totaling $568,532.

This amount is indicated on Exhibit No. 11, Column 3, line 6.

Q. Please describe the various normalizing and annualizing adjustments to operation and maintenance expense.

A. Adjustment No. 1 increases payroll expense by $69,956 (Schedule 1, Page 1). This adjustment reflects anticipated pay increases for salaried employees to be effective April 1, 2000. For union employees, the pay rates used reflect the rates called for in the current labor contract to be effective April 1, 2000. For all employees, the total hours by employee covering the period October 1, 1998 through September 30, 1999 were determined and applied to the anticipated pay rates indicated above. The personnel establishment reflects the current group of employees plus two new positions to be filled before commencement of the hearings in this matter. A test-year based ratio of labor charged to operation and maintenance expense was applied to total labor to determine the O&M component. United Water Idaho has been able to raise the ratio of customers per employee from 573 at year end 1994 to 661 at year end 1999, a fifteen percent increase.

Adjustment No. 2 increases the Company's contribution to the 401(K)-thrift plan by $978 (Schedule 1, Page 2) based upon historical participation rates in this supplemental pension plan. The supplemental retirement contribution of $86,453 represents employer matching of employee contributions into the plan. The Company matches 50% of an employee's contributions up to a maximum of 2% of regular annual pay for hourly employees and 3% for salaried employees.

Adjustment No. 3 increases the cost of providing medical and dental care, long term disability insurance and group term life insurance coverage to employees by $69,199 (Schedule 1, Page 3). The pro forma cost of providing the various coverages was applied to one hundred employees included in the payroll adjustment. Contributions from union employees offsetting these costs were calculated based on amounts specified in the labor contract currently in force. Contributions from non-union employees were based on the current level for various coverage levels.

Q. Will the Company's late fall 1999 open enrollment period have any impact on the pro forma cost of Medical Care?

A. Yes. As this information becomes available, early in year 2000, the cost of providing medical, dental and vision coverage will be updated.

<u>Adjustment No. 4</u> increases test year expense by $6,290 for employee pension cost (Schedule 1, Page 4). This adjustment reflects the estimated 1999 SFAS87 cost as developed by the Company's actuary for bargaining and non-bargaining units of the Company and is consistent with the usual treatment afforded pension expense by the Commission

<u>Adjustment No. 5</u> increases test year cost by $82,861 for the normalization of PBOP (Post Retirement Benefits Other Than Pension; Schedule 1, Page 5). The pro forma level of expense represents the actual 1999 SFAS 106 cost as developed by the Company's actuary that includes a previously approved 20-year amortization of the deferred transition obligation of SFAS 106 expense.

<u>Adjustment No. 6</u> decreases test year expense by $9,732 for the normalization of payroll and overheads chargeable to other than Operations and Maintenance expense (Schedule 1, page 6). The relationship of payroll related

expenses to payroll dollars is 36.78%. Added to this percentage is 14.60% for non-work days, which, when combined, totals 51.38%. When 51.38% is applied to pro forma non-O&M payroll, the result is a pro forma overhead credit of $540,768, which is $9,732 more than the test year overhead credit of $531,036.

Adjustment No. 7 increases test year expense by $152,216 for the amortization of deferred early retirement costs (Schedule 1, page 7). In 1999, the Company offered an early retirement option to capture future cost efficiencies through workforce reduction throughout the Corporation. United Water Idaho had four employees that were offered and accepted the early retirement option. The Company is proposing to amortize these deferred expenses over 5 years. The rationale for this amortization period is that this is the average time between the retiring employees age at early retirement and age 62, when they would have been eligible to retire without penalty.

Adjustment No. 8 decreases chemical expense by $20,840 (Schedule 1, Page 8). The usages upon which this adjustment is predicated are test period actual. The test year contains an accounting aberration due to a change in treatment of chemical container deposits that overstated expense.

Adjustment No. 9 decreases test year expense by $9,580 for purchased water expense (Schedule 1, Page 9). The Company has found through experience that supplemental supply through the Garden City contract is necessary only in June, July and August. However, the test year contains a five-month period of summer season usage. The shoulder month purchases have been eliminated.

Adjustment No. 10 decreases purchased power cost by $79,467 (Schedule 1, Page 10). The power costs were computed by applying the tariff rates of the Idaho Power Company in effect at May 15, 1999 to test year usage of demand (KW), energy (kwh) and base load capacity. The Company is billed by Idaho Power under three different tariffs. The billing determinants were obtained from the power bills rendered to the Company from October 1, 1998 to September 30, 1999. Current tariff rates were applied to the above determinants and resulted in a pro forma purchased power cost of $1,000,945 while test year expense was $1,080,412. Power rates decreased substantially in May of 1999 due to the annual Power Cost Adjustment calculation. Prior to hearings in this case, the Company will be aware of the year 2000 Power Cost Adjustment and will update power cost at that time.

Adjustment No. 11 increases operations & maintenance cost by $3,090 to reflect the amortization of tank painting and tank repair expense incurred in late 1999 (Schedule 1, page 11). The Company painted the Good Street and North Mountain tanks at a total cost of $15,225. Also, the Company completed repairs to the Boulder reservoir at a cost of $15,675. Historically, the Commission has allowed the Company to recover this expense over a ten-year period. There was no deferred tank painting expense amortization in the test year.

Adjustment No.12 increases operations and maintenance expense by $10,000 to reflect the amortization of deferred chemical testing expense (Schedule 1, page 12). The Company is mandated by Federal and State drinking water authorities to test well facilities for synthetic organic chemicals at six-year intervals. The testing will be done as soon as wells are started in the spring of 2000, at a cost of $60,000. The Company proposes a six-year amortization period, consistent with the cycle of this expense.

Adjustment No. 13 decreases test year expense by $21,295 (Schedule 1, Page 13) for the normalization of uncollectible accounts expense based on a 3-year average experience. The uncollectible accounts rate of 0.3425% was determined by dividing $240,926 of 3-year net uncollectibles by 3-year revenues of $70,334,077. The uncollectible percent of 0.3425% was applied to pro forma revenues at existing rates. The calculation results in an uncollectible accounts expense less than the test year level.

Adjustment No. 14 increases test year expense by $114,603 to annualize the support expense for the Company's continuation of it's Information Technology strategy by implementing the new Customer Information System that became operational in November 1998 (Schedule 1, page 14). The test year contains only nine months of support expense, so it must be annualized. The support expense consists of an allocation of contractual EDS charges for operations support, applications support, network support, disaster recovery services, software modification and system maintenance.

Adjustment No. 15 increases test year expense by $1,958 for customer billing forms expense. (Schedule 1, page 15). The customer billing forms cost 0.0529 cents each based on test year expense. This cost was applied to the September 1999 base number of bills processed annually (390,324) to develop an annualized expense.

Adjustment No. 16 (Schedule 1, page 16) decreases the test year level of expense by $4,116 associated with the expiration of amortization of the deferred Data Center Consolidation cost. The test year contains two months amortization expense that will not be incurred in the rate period.

Adjustment No. 17 decreases test year customer postage cost by $5,204 (Schedule 1, page 17). There were 65,054 customers at September 30, 1999 who receive 6 bills per year for a total of 390,324 bills. Based on test year expense and bill volume, it cost the Company an average of $0.27 in postage for each bill, or $105,387. Added to this amount is a test year based $37,898 for postage incurred for customer communications other than bills as well as postage on return to office bills for a total pro forma cost of $143,285, which is $5,204 less than test year postage expense. The test year contained some out of period expenses.

Adjustment No. 18 increases test year expense by $10,560 for the normalization of the IPUC assessment (Schedule 1, Page 18). The most recent Commission assessment indicates a billing rate of 0.2600% which is applied to pro forma operating revenue and results in a pro forma assessment greater than test year expense.

Adjustment No. 19 reduces test year expense by $15,750 for expense related to a customer survey that were incurred and deferred several years ago and written off in the test year (Schedule 1, page 19). This expense will not re-occur in the rate year.

Adjustment No. 20 (Schedule 1, page 20) increases transportation related expense by $84,833 over the test year level. The Company has modified its accounting procedure utilized to record transportation expense to be in line with the Activity Based Accounting system the Company has adopted. Formerly, transportation related expenditures were charged to expense and a transportation overhead rate was applied to non O&M labor to relieve the expense. Now, the Company uses an automated “ vehicle allocation “ procedure. Transportation related expense including depreciation expense on owned vehicles, fuel, insurance, net leasing cost (lease payments less rebates on disposed vehicles), maintenance, and mechanic labor and overheads are charged to a clearing account. The clearing account is relieved via actual vehicle user timecards so there is an accurate matching of transportation charges to the corresponding labor charge. Test year expense is higher due to the fact that a higher percentage of vehicles are to be leased in the test year than were leased in the test year. Also, the test year experienced an unusually high number of lease rebates due to out of period transactions.

Adjustment No. 21 increases test year expense by $1,978 by increasing the level of employee relocation expense amortization (Schedule 1, Page 21). The Company anticipates additional deferred expenses of $70,000 to be incurred prior to the hearing in this matter for employees Wyatt & Abruzzese, who are replacing retired employees Linam (President and Manager) and Shiflet (Business Development), respectively. This additional expense is proposed to be added to the current unamortized balance, which will then be amortized over a five-year period. This results in a level of annual relocation expense of $25,666. This is $1,978 higher than the test year level of $23,688.

Adjustment No. 22 increases test year expense by $39,394 for business insurance cost (Schedule 1, Page 22). The Company's pro forma general liability, excess liability, worker's compensation and other coverage premiums cover the period January 1, 1999 through January 1, 2000 with the exception of two minor coverages, which have a fiscal year. Uninsured claim experience represents a normalized level of such cost. Pro forma premiums and cost amount to $332,112 which is $39,394 greater than test year expense of $292,718.

Adjustment No. 23 increases test year operations expense for Management and Service charges by $94,878. (Schedule 1, page 23). Test year Management and Service charges were $1,409,997; Management and Service charges for the calendar year ended December 31, 1999 were $1,504,875. The calendar year provides a more reliable indication of the true level of M&S expense since these expenses are planned, accounted for and adjusted, if needed, on a calendar basis.

Q. Please describe the relationship between United Water Idaho and United Water Management & Service Company and the nature of the charges incurred.

A. Since 1974, all of the operating utility subsidiaries of United Water Resources (and the former General Waterworks Corporation), including United Water Idaho, have contracted with United Water Management and Service Company, Inc. (formerly General Waterworks Management and Service Company) for the provision of various corporate services. The agreement sets forth in writing the pre-existing relationship between the utilities and the Management Company, which were designed to take advantage of economies of scale in the provision of common services to smaller operating units by a central service group. This relationship avoids inefficiencies and duplication that results if each operating unit performs these functions separately. The services provided, including accounting, engineering, information technology, treasury, regulatory, central purchasing, management, human resources and other functions are spelled out in the agreement. After the 1994 merger with United Water Resources, United Water Management and Service, Inc. assumed the contractual rights and obligations of the former General Waterworks Management and Services Company under the agreement, and GWM&S was merged into UWM&S. In those jurisdictions where required, the agreement has been filed and has received the necessary approvals.

Q. Please briefly explain the increase.

A. There are many drivers of the increase in the Management and Services fee; some examples of the drivers follow. As stated previously, the services are provided pursuant to an agreement that also details the method and basis of allocation. Since the Company's last rate case, UWI-W-97-6, and certainly in the last year, United Water Idaho has grown in the number of customers, capitalization and other areas used as a basis of allocation, contributing partially to the increase. Also, since the last rate case was based on a test year that crossed two very different years (1996 and 1997) and were not truly representative of current operations, the level of the fee was not representative of the ongoing expense. Additionally, the Company has embarked on new human resource initiatives such as training programs, management development, a management associate program to develop future managers, a diversity program and a customer care program to focus on improvement of customer service through common business practices to name a few. Finally, of course, there are salary and inflationary increases that have occurred since 1996.

Adjustment No. 24 increases test year expense by $58,347 for the amortization of current rate case expense and the unamortized balance of the prior proceeding (Schedule 1, Page 24). It is estimated that the current rate case will cost approximately $285,000 to which $110,858, the unamortized balance from the prior proceedings is added to reflect a total unamortized balance of $395,858. The $395,858 is divided by 2.5 years to reflect an annual amortization of $158,343. Deducting test year expense of $99,996 produces an adjustment of $58,347.The Company requested a two year amortization of rate case cost incurred in Case No. UWI-W-97-6, but was granted a three-year amortization period. The Company proposes a compromise of two and one half years amortization in the current case. This period more closely reflects the actual frequency of rate filings the Company has made over the last decade.

Adjustment No. 25 eliminates $30,401 of expenses recorded as dues, advertising, charitable contributions, subscriptions and memberships which are not considered appropriate for rate making purposes based upon prior Commission decisions (Schedule 1, page 25).

Adjustment No. 26 (Schedule 1, page 26) adjusts downward the annual cost of supporting the Information Technology (IT) infrastructure by $78,778 over the test year level.

Adjustment No. 27 (Schedule 1, page 27) increases test year expense by $39,355 in recognition of the additional operation and maintenance expense that will be incurred as a result of the increasing level of customers during the test year as well as the annualization of acquisitions. The adjustment is based upon the relationship of test year levels of purchased power, chemicals, transportation, general insurance, customer accounting and T&D cost excluding payroll (the variable cost) to test year revenue. The variable cost represents 11.92% of revenue (line 11). The11.92% variable cost was applied to customer growth revenue of $330,162 resulting in additional O&M expense of $39,355.

Adjustment No. 28 (Schedule 1, page 28) decreases test year expense by $32,808 in recognition of reduced operation cost associated with Witness Gradilone's weather normalization adjustment. The adjustment is based upon the relationship of purchased power and chemical cost (the variable cost) to test year revenue. The variable cost represents 5.16% of revenue (line 7). The 5.16% variable cost was applied to the weather normalization revenue impact of ($635,562) resulting in reduced O&M expense of $32,808.

Adjustment No. 29 (Schedule 1, page 29) increases test year expense by $51,065 related to expenses incurred and deferred in appealing Idaho State Tax Commission (ISTC) appraisals. The Company has challenged State Tax Commission property tax appraisals either informally, administratively or legally, in currently pending lawsuits, for the last four years. In each year the Company has been successful in reducing property tax appraisals, and the associated property tax billings, to the benefit of customers. The cumulative annual savings are in the area of $350,000. Had the Company simply accepted the Tax

Commission appraisal in each of the four prior years, the cumulative annual additional expense would be $900,000. The IPUC has granted the amortization of like expenses in the last two Company rate cases.

Adjustment No. 30 reduces test year operating expense by $7,545 to eliminate rent expense the Company incurred honoring the lease of the former South County Water Company offices on Overland Road (Schedule 1, page 30). The Company expects to sub-let the property or extricate itself from the lease in the near future. The lease runs through August of 2002.

Adjustment No. 31 increases test year operating expense by $6,883 to normalize Price Waterhouse Coopers audit fees (Schedule 1, page 31). The test year contained an out of period credit.

Adjustment No. 32 in the case, as filed, does not include an adjustment to the test year level of investor relations expense. Investor relations expense consists of United Water Idaho’s share of the overall cost of the annual shareholder meeting, annual & interim reporting, transfer agent expense and other shareholder communications. If Suez Lyonnaise des Eaux is successful in closing the acquisition of United Water Resources, as anticipated, in the first half of year 2000, UWR will no longer be a publicly traded company and expenses of this nature will be reduced or eliminated. The Company will update the status of this adjustment as more information becomes available.

Adjustment No. 33 reduces test year expense by $14,396 related to the elimination of a Corporate allocation of expenses for training related to the Company's Performance Indicator Standard’s program (Schedule 1, page 33). The Company introduced this program in 1999 as a method to focus on key indicators of effectiveness to help improve overall performance and incurred training expense that will not re-occur since the training has been completed.

Q. Please explain Exhibit No. 11, Schedule 2.

A. Exhibit No. 11, Schedule 2 consists of two pages. Page 1 summarizes the adjustment to depreciation expense in the amount of $641,596. Pro forma depreciation expense amounts to $4,518,388. This is $641,596 greater than depreciation recorded during the test year of $3,876,792 due to increases in the Company's investment in plant.

Page 2 of Schedule 2 shows the depreciable basis of Utility Plant by primary account, net of contributions, the depreciation rate for each account and the annual depreciation expense by primary account. Pro forma annual depreciation expense is carried forward to Page 1 in order to determine the adjustment needed to test year expense. The depreciation rates used are the same as those utilized in prior rate case filings.

Q. Please explain Exhibit No. 11 Schedule 2, Page 3.

A. Exhibit No. 11 Schedule 2, Page 3 adjusts amortization of plant held for future use downward by $16,664. The test year level was related to Commission authorized amortization of the Company's $530,000 investment in prudent oversizing of the Marden Treatment Plant during the initial construction, to allow for efficient future expansion. The Marden expansion was completed in May of 1999 and the associated plant held for future use was transferred to plant in service. As indicated in Witness Linam's testimony, the Company is requesting a different method of rate treatment on the Boise River Intake project investment than allowed by the Commission in Case No. UWI-W-97-6. In the instant case, the Company is not recognizing amortization expense for the River Intake in the revenue requirement

Q. Please explain Exhibit No. 11, Schedule 2, Page 4.

A. Exhibit No. 11, Schedule 2, Page 4 increases test year expense by $41,075 for the amortization of Utility Plant Acquisition Adjustments. Pro Forma UPAA amortization expense consist of Commission approved amortizations of South County Water Company, Barber Water Company and Warm Springs Mesa Water Company, as well as proposed amortizations related to Raintree Mutual, Redwood Creek and Island Woods.

Q. Please explain Exhibit No. 11, Schedule 3, Page 1.

A. Exhibit No. 11, Schedule 3, Page 1 decreases test year Ad Valorem taxes by $30,875. The schedule details the methodology used to arrive at a pro forma level of Ad Valorem expense. Essentially, the latest appraisal rendered by the Idaho State Tax Commission in representing the appraised value of United Water Idaho's property as of January 1, 1999 is increased by a four year average increase factor of 2.25% to arrive at the anticipated appraised value as of January 1, 2000. To this appraisal valuation I applied the latest known average levy rate from Ada County (per the tax bill received in November, 1999) to determine pro forma Ad Valorem taxes of $1,206,079. The test year level was $1,236,954, producing a downward adjustment of $30,875.

Q. Please explain Exhibit No. 11, Schedule 3, Pages 2, 3 and 4.

A. Exhibit No. 11, Schedule 3, Pages 2, 3 and 4 increase test year payroll taxes by $2,132. Page 2 indicates an increase in FICA taxes of $2,172. Page 3 shows an increase of $329 in Idaho unemployment taxes. Page 4 reflects a decrease of $369 in Federal unemployment taxes.

Q. Please explain Exhibit No. 11, Schedule 4.

A. Exhibit No. 11, Schedule 4 shows the calculation of state and federal income taxes at existing and proposed rates. The amounts shown on line 1 of columns 1 and 2 are the same as the amounts shown on line 15 of columns 4 and 6 of the summary schedule of Exhibit No. 11. These figures represent operating income before income taxes. From these figures must be deducted the applicable statutory deductions when computing the state and federal income taxes.

The first deduction is imputed interest expense and it is deductible in the computation of both state and federal taxable income. The calculation for the interest deduction is shown in Note A on lines 13 through 17. The deduction of interest is shown on line 3 and is self-explanatory.

The second deduction is the excess of pro forma tax depreciation over pro forma book depreciation. The excess tax depreciation is deducted from state taxable income only since state income taxes are calculated on the basis of flow through accounting while federal income taxes are calculated on the basis of normalization accounting. Lines 19 and 20 indicate the amounts used in determining excess tax depreciation.

The remaining calculations are self-explanatory except for the amortization of investment tax credit shown on Line 10. Federal income tax expense was reduced by the amortization of ITC, which is amortized ratably over the lives of the assets and represents 2% of the ITC claimed from 1971 through 1999.

Q. Please explain the adjustment shown on line 6, Column 5 of Exhibit No. 11.

A. The adjustment shown on line 6, Column 5 of Exhibit No. 11 represents additional uncollectible expense and IPUC assessment as a result of the pro forma adjustment to operating revenue shown on line 4, Column 5 of Exhibit No. 11.

Q. Does this conclude your testimony?

A. Yes.

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EXHIBITS TO ACCOMPANY

THE DIRECT TESTIMONY OF

JEREMIAH J. HEALY

ON BEHALF OF UNITED WATER IDAHO INC.

February 2000