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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF UNITED WATER IDAHO INC.,  
FOR AN AMENDMENT TO ITS CERTIFICATE OF PUBLIC CONVENIENCE  
AND NECESSITY NO. 142 AND FOR AN ACCOUNTING ORDER

Case No. UWI-W-04-03

DIRECT TESTIMONY OF GREG WYATT  
FOR UNITED WATER IDAHO INC.

1 Q. Please state your name.

2 A. Gregory P. Wyatt

3 Q. What is your position?

4 A. I am the Vice President and General Manager of United Water Idaho.

5 Q. When did you assume your duties as General Manager of United Water Idaho?

6 A. January of 2000.

7 Q. What is the purpose of your testimony?

8 A. I will explain the history of the Carriage Hills non-contiguous project, the details  
9 of the proposed sale to the City of Nampa and the underlying rationale for the  
10 transaction.

11 Q. Please describe the early history of the Carriage Hills project.

12 A. As I understand it, on December 7, 1998 United Water Idaho and the Carriage  
13 Hills developers entered into a Residential or Multiple Family Housing Non-  
14 contiguous Water System Agreement and the Commission subsequently approved  
15 the Agreement. At the same time the Carriage Hills developers and United  
16 Waterworks, United Water Idaho's parent, entered into an understanding that  
17 United Waterworks would loan the developers up to \$350,000 to finance the  
18 construction of the Carriage Hills source of supply system only. This  
19 understanding was documented in a Design-Build Promissory Note signed by the  
20 developers dated December 7, 1998. In addition, there was also a Joint and  
21 Several Individuals' Guaranty executed the same date by the developers in favor  
22 of United Waterworks as guarantee for the Promissory Note. For a period of time

1 after that the project proceeded as expected—the system was installed; lots were  
2 developed and sold within the subdivision; Carriage Hills made payments to  
3 United Waterworks for the period beginning February 5, 2000 through November  
4 5, 2001.

5 Q. In the year 2002 did problems with the project start to develop?

6 A. Yes. Due, I believe, to the softening economy, sales of lots within the subdivision  
7 slowed and the Carriage Hills developers were, as a result, unable to make the  
8 required payments to United Waterworks. The Promissory Note became  
9 delinquent.

10 Q. What happened next?

11 A. We continued to pursue collections on the loan. We made numerous contacts  
12 with the developer requesting payment. We discussed loan refinancing with our  
13 corporate accounting and treasury departments and subsequently made proposals  
14 to the developer regarding a potential refinancing of the loan. The developer  
15 eventually made an interest only payment in the amount of \$16,232.64 in August  
16 2002 to bring the existing loan current from November 5, 2001 through August 5,  
17 2002. A loan refinancing never occurred.

18 Q. Did other factors arise?

19 A. Yes. As initially constructed the development had only one well, with both a  
20 domestic and fire pump, to serve as the source of supply. In the spring of 2002,  
21 the developer had embarked on Phase II of the distribution system that would add  
22 20 lots to the original 27 in Phase I. Eventually, twenty-five lots would be

1 connected, the maximum permitted by the Department of Environmental Quality  
2 for a system with only one source well. The Carriage Hills developers did not  
3 have the funds to construct a second source of supply and further growth within  
4 the subdivision was jeopardized.

5 Q. What was the status of the project in early 2003?

6 A. It was precarious. The Carriage Hills developers informed me that they did not  
7 have funds either to continue payments to United Waterworks or to drill a new  
8 well. Without a second source of supply the project would not be able to expand  
9 and thereby generate funds to finance the new well or to pay United Waterworks.

10 Q. What did you do in response to this situation?

11 A. At the developer's request, and working in conjunction with the developer, I  
12 began to explore possible solutions to the situation.

13 Q. What did you first explore?

14 A. First, we attempted to determine whether an interconnection agreement with the  
15 City of Nampa would be possible as a way to provide the second source of  
16 supply. I quickly learned that the City was not interested in such an arrangement.

17 Q. What occurred next?

18 A. While the City was not interested in an interconnection, the City did express an  
19 interest in acquiring the system. So, in August of 2003 we started discussions  
20 with the City for the sale of the system. The City performed its own due diligence  
21 on the system and at the same time we began work on a memorandum of  
22 understanding which would lead to a sale agreement. A Memorandum of

1 Understanding dated October 15, 2003 was executed. We also began negotiations  
2 regarding the system sale price.

3 Q. How long did the negotiations take?

4 A. A final purchase and sale agreement was signed on March 12, 2004.

5 Q. What was your goal during the negotiations?

6 A. As noted earlier, United Water Idaho did not employ me at the time the Carriage  
7 Hill project commenced and I inherited a problematic circumstance in which  
8 litigation was becoming a distinct possibility. My goal was to devise a solution  
9 whereby United Water Idaho's customers were not harmed and the expectations  
10 of all parties were not frustrated. The commencement of litigation against  
11 Carriage Hill by United Waterworks or United Water Idaho would in my opinion  
12 have not been cost efficient since such litigation would be costly and might not  
13 produce any enforceable judgment.

14 Q. During your negotiations what did you learn about the City's motivations?

15 A. It became apparent to me that the City believes multiple water suppliers within its  
16 boundaries, or even nearby to its borders, is not in the best interests of its citizens.  
17 The City was specifically interested in a solution that involved United Water  
18 Idaho exiting the area.

19 Q. Did the existence of these negotiations have an impact on the issue with DEQ  
20 regarding a second source of supply?

21 A. Yes. The prospect that the matter could be resolved through negotiation gave  
22 DEQ enough comfort to temporarily waive the 25-customer cap and to permit the

1 connection of ten additional lots to the domestic water system. This occurred in  
2 November of 2003.

3 Q. During the course of these negotiations what were the nature of your  
4 communications with your immediate supervisor and United Water's corporate  
5 office?

6 A. After learning that the city of Nampa had an interest in acquiring the system, I  
7 sought and received approval from my immediate supervisor, the western region  
8 manager, and a member of the United Water executive management team, to  
9 enter into negotiations for the sale. I developed and communicated a scenario in  
10 which United Water Idaho would be reimbursed fully for all its investments in the  
11 system, United Waterworks would be made whole on the outstanding debt, and  
12 the City of Nampa would accomplish its goal of providing water service to all the  
13 citizens in this area. Throughout the negotiations I involved our corporate legal  
14 department in reviews of both the Memorandum of Understanding as well as the  
15 Purchase and Sale Agreement.

16 Q. What is the agreed sale price for the system and how was it arrived at?

17 A. The sale price is \$375,000 and it was arrived at through arms length negotiations.  
18 The City retained its own engineering consultant to evaluate the system and the  
19 City made an independent judgment as to the amount it was willing to pay. My  
20 goal at this point was to obtain a sale price that would produce sufficient funds to  
21 make United Water Idaho and United Waterworks whole.

22 Q. How will the proceeds from the sale be distributed?

1 A. There will be some final adjustments at closing, but approximately \$339,000 will  
2 be paid to United Waterworks and approximately \$36,000 will be paid to United  
3 Water Idaho.

4 Q. How does United Water propose to account for the funds it will receive?

5 A. The proposed accounting is shown on Exhibit E to our Application. I am  
6 attaching to this testimony a Revised Exhibit E. Inadvertently, the initial Exhibit  
7 E did not include \$50,428 of distribution plant that was contributed by the  
8 developer for Phase II of the Carriage Hills project and booked in November  
9 2003. Revised Exhibit E includes this additional contributed plant and shows the  
10 corrected amortization calculations.

11 Q. Revised Exhibit E reflects Advanced Plant in Service of \$354,905.74 and  
12 Contributed Plant in Service of \$190,300.59. Isn't United Water Idaho  
13 transferring valuable property without receiving any consideration for its  
14 investment in the property?

15 A. No. It is important to remember that in the case of both contributed plant and  
16 advanced plant, these investments are not made with rate-payer supplied funds;  
17 the funds for these investments are provided by the developers. The advanced  
18 plant reflects the source of supply portion of the system and was provided by the  
19 developer, albeit United Waterworks loaned a significant portion of the funds to  
20 the developer for the source of supply. The contributed plant reflects the  
21 distribution portion of the system and was fully funded by the developer. United  
22 Water Idaho's customers were never at risk with respect to these investments.

1 Because advanced plant and contributed plant are not included in the Company's  
2 rate base, customers have not, though their rates, paid any return on those  
3 investments. United Water Idaho's customers have not acquired any financial or  
4 equitable interest for which they should be compensated upon sale of the assets.  
5 United Water Idaho's only "real" investments are in the source of supply in the  
6 amount of \$13,600, and customer meters in the amount of \$3,000, (before  
7 depreciation). Even then, those investments were primarily made through refunds  
8 as customers were connected, (the \$13,600) thereby insulating United's customers  
9 from speculative risk.

10 United Water Idaho's customers are further protected by the fact that the  
11 sale price, and thus the accounting, is sufficient to cover United Water Idaho's  
12 miscellaneous costs outstanding related to the project, (MJ Cost #2537 and 2849)  
13 as well as legal costs associated with the IPUC filing process.

14 Q. On Revised Exhibit E in the category "Miscellaneous Plant & Other" there is an  
15 item entitled "Refunds Payable to Carriage Hill at closing." Please explain this  
16 item.

17 A. Under the Non-Contiguous Agreement with Carriage Hills, United Water Idaho  
18 was obligated to refund to Carriage Hills \$800 per connected lot to reimburse the  
19 developers for their investment in source of supply. When Carriage Hills became  
20 delinquent in its loan repayment obligations, United Water Idaho suspended the  
21 refund payments. To me this seemed like a reasonable business decision and it

1 created an incentive for Carriage Hills to work seriously toward a resolution. At  
2 closing Carriage Hills will be fully compensated for refunds due.

3 Q. In the same category on Revised Exhibit E there is an item "Legal & IPUC Filing  
4 Expenses." Why are you proposing that these expenses be the responsibility of  
5 United Water Idaho rather than United Waterworks?

6 A. The issue is not about who has responsibility for these costs because the sale price  
7 contemplates these costs being reimbursed regardless of which business unit the  
8 accounting is handled under. United Water Idaho is the local business unit for  
9 which I have primary responsibility for and access to the books and records. It  
10 seemed logical to me to process these costs through United Water Idaho's local  
11 accounting rather than through a corporate entity since reimbursement of these  
12 costs is provided for in the sale price either way.

13 Q. How will the funds received by United Waterworks at closing be allocated?

14 A. Assuming a closing on October 15, 2004, the total amount of \$338,601.00 would  
15 be paid to United Waterworks as follows: accrued interest of \$47,551.00;  
16 outstanding loan principle in the amount of \$262,346.00 and a risk premium in  
17 the amount of \$28,704.00.

18 Q. If the sale price includes some profit, or risk premium, why is it appropriate for  
19 United Waterworks to receive that amount rather than United Water Idaho?

20 A. To me it seems fair that United Waterworks receive the risk premium because it is  
21 the entity that faced the risk of project failure. As previously referenced, United  
22 Water Idaho has only a small investment in the project and all of that investment

1 will be reimbursed through the sale proceeds. United Water Idaho's general body  
2 of customers faced no risk in the project because United Water Idaho primarily  
3 made investments in the project through the payment of refunds per connected lot  
4 when there was revenue to support the investment.

5 Q. Will United Water Idaho's general body of ratepayers be harmed in any sense by  
6 the transaction?

7 A. No. The effect of the accounting entries shown on Revised Exhibit E will be to  
8 reduce the revenue requirement associated with Carriage Hills to zero.

9 Q. What will be the effect upon United Water Idaho's current customers in the  
10 Carriage Hills subdivision?

11 A. They will obtain water service from a dependable municipal supplier at rates that  
12 are lower than United Water Idaho's rates.

13 Q. If this transaction is approved as proposed, will it create any precedent for future  
14 cases?

15 A. I do not believe so. This is a unique solution to a unique set of circumstances.  
16 There are no other non-contiguous projects in which United Waterworks operates  
17 as a financier, and I would not anticipate there would be any in the future.

18 Q. If for some reason the transaction fails, will there be negative consequences?

19 A. Yes, several. First, the City of Nampa has approved the Purchase Agreement and  
20 already established a Local Improvement District on the lands the developer seeks  
21 for future development contiguous to the Carriage Hill Subdivision, and the LID  
22 will help provide funding for the water system purchase. The City already has

1 water facilities near the Carriage Hill area and has expressed strong interest in  
2 serving those customers. The City also has now planned to use the Carriage Hill  
3 well in lieu of drilling an additional source in the area. If the transaction fails, all  
4 of these interests of the City of Nampa will be thwarted. Without the transfer of  
5 the Carriage Hill system to Nampa water service to the area will be uncertain.  
6 Given that the City has expressed its preference for United Water Idaho's  
7 departure it is possible that Nampa will extend water service to the surrounding  
8 areas and United Water Idaho's Carriage Hill system will be an island without  
9 any real potential for expansion. Without the transaction going ahead as planned,  
10 the relations between the City of Nampa and United Water Idaho would be  
11 strained significantly.

12 In addition, if the transaction fails the developers of Carriage Hill will be  
13 required to provide funding for a second well source for the existing phases of the  
14 development. This now seems duplicative since the City of Nampa is willing to  
15 provide the required second source via acquisition and interconnection to their  
16 system. Finally, if the transaction fails United Waterworks will likely have no  
17 other option than to pursue recovery of the outstanding loan through a legal  
18 process. It is my opinion that if United Waterworks proceeds to sue the developer  
19 it will cause significant and potentially irreversible harm to United Water Idaho's  
20 reputation with the developer community in Boise and the surrounding  
21 community.

22 Q. Could you please summarize why the transaction should be approved.

1           A.    I believe the transaction should be approved as filed because it is the only solution  
2                    that provides for all parties interests being satisfied. Under the proposed  
3                    transaction United Water Idaho's investments are reimbursed in full; its customers  
4                    are not harmed or penalized; the City of Nampa acquires a stable source of water  
5                    in a growing portion of their service area; the Carriage Hills customers receive  
6                    water service from a dependable municipal provider at rates that are lower than  
7                    United Water Idaho's; and United Waterworks is made whole on its outstanding  
8                    loan, thus avoiding potential litigation with the developers.

9           Q.    Does that conclude your testimony?

10          A.    Yes.

**United Water Idaho  
Proposed Journal Entry to Record Carriage Hill Sale  
(Assumes Closing As of October 15, 2004)**

**Account  
Number                      Debit                      Credit**

**UNITED WATER IDAHO:**

**Advanced Plant-** Reverse original cost plant; reverse book amount of advance liability; reverse accum depr on refunds made; book cash from City of Nampa

Plant in Service	101-000		354,905.74
Advances for Construction	252-000	341,305.74	
Accumulated Depreciation	108-010	2,179.41	
Cash	131-000	11,420.59	
		<b>354,905.74</b>	<b>354,905.74</b>

**Contributed Plant-** Reverse original cost plant; reverse CIAC; reverse amort of CIAC

Plant in Service	101-000		177,438.79
Contributions in Aid of Construction	271-000	177,438.79	
Accumulated Depreciation	108-010	12,861.80	
Accumulated Amortization of CIAC	272-000		12,861.80
		<b>190,300.59</b>	<b>190,300.59</b>

**Miscellaneous Plant & Other:**

PIS Meters	101-000		3,000.00
Accumulated Depreciation	108-010	231.00	
MJ Cost #2537 & 2849	186-025		5,409.00
Legal & IPUC Filing Expenses	143-000		5,500.00
Refunds Payable to Carriage Hill @ closing	232-000		10,400.00
Cash	131-000	24,078.00	
		<b>24,309.00</b>	<b>24,309.00</b>

**Total UWID Debits and Credits**

**569,515.33    569,515.33**

**Total Cash**

**35,498.59**