



both shareholders and ratepayers, which is what this transaction accomplishes. I do not believe it is a conflict of interest to protect the interests of both.

In this transaction there were not any costs allocated between United Water Idaho and United Waterworks. I do not, therefore, understand Staff's concern about potential misallocations.

At page four of its Comments, Staff states:

If the purchase does not proceed, the Non-contiguous Water System Agreement requires the developers to install a second water source. UWI has indicated that the cost of the second source is expected to be approximately \$90,000. If the developer cannot fulfill its obligation then UWI would be required to make the necessary system improvements.

I believe the Non-contiguous Water System Agreement with Carriage Hill is very clear that the responsibility to install the second source of supply rests with the developers. There is no obligation of United Water to make the necessary system improvements in the event of Carriage Hill's inability to do so.

At page five of its Comments, Staff states:

UWI does not address any legal basis for making any payment to United Waterworks nor does it advance any rationale to justify a payment of any premium to United Waterworks. All the documentation indicates that the entire legal obligation for any debt owed to United Waterworks for the initial financing of the water project flows solely from Carriage Hill, L.L.C. ...

There is no agreement by UWI to assume the Developers obligation to United Water works, nor was there any provision in the agreement between UWI and the Developers to accelerate the payment of the Advances in Aid of Construction upon the transfer of the system, and finally, there is no evidence of any legal claim that can be asserted by United Waterworks for any portion of the proceeds from a sale of the water system.

While these statements are only partially true, I believe they miss the main point, which is that the loan from UWW enabled a transaction which was aimed at and accomplished providing safe and reliable, long term water service to the area. In attempting to structure a solution to the dilemmas presented by the Carriage Hill situation, I did not proceed based on a rigid analysis of legal rights and obligations of various parties. Rather, I looked for a practical solution that did not harm any ratepayers and that un-wound the financial obligations in a way that all parties were made whole. This may not be required from a strict legal point of view, but it is not prohibited, either. For the reasons explained in my Direct Testimony I believe the risk premium included in the sales price is most appropriately allocated to UWW.

I would also point out, as a small matter, that there is nothing in the Agreements accelerating the payment of advances, contrary to Staff's assertion, above.

On page 6 of its Comments, Staff states:

It is Staff's position that UWI should be viewed independently from United Waterworks, and the sales proceeds should be accounted for as if the total amount came only to UWI....The issue before the Commission should be how the sale proceeds are allocated between the parties with a vested interest in the proceeds: that being the ratepayers and UWI. The Commission should narrow its focus on the allocation of the sale proceeds to an allocation between only the ratepayers and UWI and not be distracted by the interests of UWW or the Developers.

Here, Staff is asking the Commission to ignore the Purchase and Sale Agreement and the loan repayment agreement between Carriage Hill and UWW that were both negotiated by the parties in good faith in an arms-length process. By focusing only on parties who have a strict legal entitlement to sale proceeds, Staff overlooks the reality of the circumstance—the proposed allocation results in all parties being made whole without harm to ratepayers. UWW is entitled to be repaid for the loan because its loan was the basis of a transaction which was in the public

interest, while insulating United and its customers from the risk of the transaction. By virtue of the loan, UWW clearly has a financial interest in the transaction and has a legal interest by virtue of its original loan document. By satisfying UWW's equitable financial interest with sale proceeds the necessity for UWW to pursue litigation to perfect its legal interest is avoided, to the benefit of all parties.

At page 9 of its Comments, Staff states:

UWI's request appears to have little concern for either improved service to customers or to reduce customers' rates.

This assertion is perplexing, when, in fact, the transaction will enable almost immediate connection to a second source of supply thereby satisfying DEQ's securing of supply rules. And because rates charged by the City of Nampa for water service are lower than United's, the Carriage Hill customers will obtain water service at a lower cost.

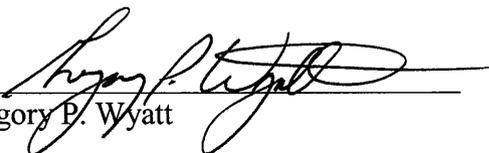
In the section of Comments entitled "Staff Recommendation" Staff says:

Staff recommends that UWI, in its next rate filing, ensure that all components associated with this sale are excluded from that filing including but not limited to: rate base components, expenses such as legal expenses, costs associated with UWI management time in negotiating and processing the sale and attorney fees.

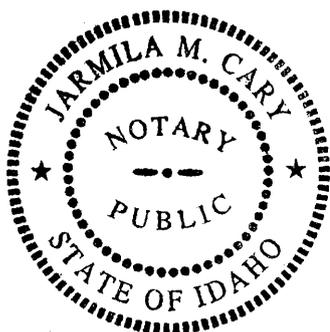
The accounting entries proposed by United for the sale proceeds already have the effect of reducing any investment associated with Carriage Hill to zero, so it is not clear what more Staff expects with respect to rate base adjustments. Any operational expense associated with Carriage Hill will not be included in the rate case. Attorney fees incurred by United will be paid from the sale proceeds, not included for recovery in the rate case. With respect to management time, I did not, and would not in the ordinary course of business, separately record my time for work on this project. And, even if I did, an adjustment to account for a one time, non-recurring event would not be an appropriate rate making practice.

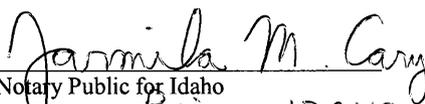
I am over the age of 21 years and make this Affidavit of my own knowledge.

DATED this 12<sup>th</sup> day of October, 2004.

  
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Gregory P. Wyatt

SUBSCRIBED AND SWORN to before me this 12<sup>th</sup> day of October, 2004.



  
\_\_\_\_\_  
Notary Public for Idaho  
Residing at: Boise, IDAHO  
Commission Exp: 07/14/2005