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Idaho Public Utilities Commission  
Office of the Secretary  
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Boise, Idaho

*Attorneys for Applicant*

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION  
OF UNITED WATER IDAHO INC. FOR  
AUTHORITY TO INCREASE ITS RATES  
AND CHARGES FOR WATER SERVICE IN  
THE STATE OF IDAHO

Case No. UWI-W-04-04

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF FRANK GRADILONE III

1 Q. Please state your name and business address.

2 A. Frank Gradilone III, United Water Resources (UWR), 200 Old Hook  
3 Road, Harrington Park, New Jersey 07640.

4 Q. Please state your educational and professional background.

5 A. I hold Master Degrees in Business Administration and in City and  
6 Regional Planning from Rutgers, the State University of New Jersey. As  
7 an undergraduate, I majored in environmental studies and political  
8 science, and received a BA from the State University of New York at  
9 Stony Brook.

10 While a graduate student in the City and Regional Planning program  
11 at Rutgers University, I was a Research Associate at the Center for Urban  
12 Policy Research where I was involved in a number of research projects for  
13 local government agencies and organizations, and for the U.S.  
14 Department of Housing and Urban Development. My responsibilities  
15 included survey research, computer based quantitative analyses, and fiscal  
16 impact analysis. I am a contributing author to the 1980, Center for Urban  
17 Policy Research publication entitled, **The Adaptive Reuse Handbook.**

18 I have been a Licensed Professional Planner in the State of New  
19 Jersey since June of 1981. I was a member of the Vernon Township (NJ)  
20 Environmental Commission, and served as chairperson of that body from  
21 1993 through 1995.

22 I have authored and presented a number of technical papers at  
23 national and regional conferences in the field. These papers and  
24 presentations include: "A Perspective on Outdoor Water Conservation

1 Programs at United Water", jointly with R. Henning, UNITED Water  
2 New Jersey and M. Cahoon, United Water Idaho, at **Conserv '99**, "A  
3 Water Conservation Program for the Spring Valley Water Company",  
4 **Proceedings of Conserv '93**, Las Vegas, NV, 1993; "Seasonal Rates-the  
5 Pros and Cons: A Case Study", a paper presented at the American Society  
6 of Civil Engineers, Water Resources and Planning & Management '93  
7 Conference, in Seattle, Washington, May 1993; **Automatic Meter**  
8 **Reading for the Water Industry**, co-authored with Donald L. Schlenger,  
9 American Water Works Association Research Foundation, Denver,  
10 Colorado, 1992; "Some Questions on Cost and Benefits of Rate  
11 Regulation," co-authored with Drs. Michael Crew and Donald L.  
12 Schlenger, published in **NAWC Water**, Summer 1986; "Water  
13 Conservation: A Case Study," a paper presented at the **Water for the**  
14 **21st Century** conference in Dallas, Texas, 1984; "Impact of  
15 Summer/Winter Differential Rate Structure," a paper presented at the  
16 **ASCE, Urban Water 1984 Conference** in Baltimore, Maryland; and the  
17 "AWWA Survey of Remote Metering Practices," a paper presented jointly  
18 with Donald L. Schlenger at the **1984 AWWA Annual Conference** in  
19 Dallas, Texas.

20 Q. Please describe your employment experience with UWR.

21 A. I have been employed by UWR, and its predecessor companies, since  
22 August 1979. From 1979 to 1983, I was a Special Projects Researcher in  
23 the Research and Development Division of the Hackensack Water

1 Company (now known as United Water New Jersey). My responsibilities  
2 included research design and quantitative analysis, system operation  
3 analysis, and survey research for the Company and its subsidiary, Spring  
4 Valley Water Company (now known as United Water New York).

5 From 1983 through 1987, I was Manager of Demand Forecasting.  
6 My responsibilities included demographic and economic forecasting,  
7 capital projects planning, liaison with government agencies and regulatory  
8 bodies, and management of research personnel. I also provided testimony  
9 before the New York State Department of Environmental Conservation on  
10 the need and timing for a proposed reservoir and water filtration plant  
11 project for the United Water New York system, known as the Ambrey  
12 Project.

13 In 1988 I transferred to United Water Resources as Manager-  
14 Resources Planning in the Regulatory Department for United Water  
15 Management & Services Company (UWM&S). In this capacity, I was  
16 responsible for water demand, demographic and economic forecasts for  
17 United Water's operating units.

18 With respect to my involvement in water demand forecasting, to date,  
19 I have conducted basic research to determine the appropriate forecasting  
20 methods. I have created forecasting databases, and I continued to provide  
21 long-range forecasts for both United Water New York and United Water  
22 New Jersey. I produced short-run water consumption and revenue  
23 forecasts for United Water Idaho in its last two rate cases (UWI-W-97-6,  
24 and UWI-W-00-1). I have also provided short-run water consumption

1 and revenue forecasts for a number of other United Water operations  
2 including: United Water New York in its last two rate cases (NYS PSC  
3 Case 92-W-0645 and Case 94-W-0486); United Water New Jersey (NJ  
4 BPU Case WR-90080792J); United Water Toms River (NJ BPU Case  
5 WR-95050219); United Water New Rochelle (NYS PSC. Case 96-W-  
6 1168 and Case 99-W-0948), United Water Florida (FPSC Case 960451-  
7 WS), United Water Delaware (DPSC. Case 96-164), United Water  
8 Pennsylvania (PPUC. Docket No. R-00973947), and United Water  
9 Arkansas (APSC Case 960451-WS).

10 In 2001 I took over the management of United Water's LeakGuard  
11 program. LeakGuard, which has been offered in the United Water Idaho  
12 service area, provides coverage for the repair or replacement of the  
13 customer owned portion of the water service line connecting that  
14 customer's home to the water system. In addition to my responsibilities  
15 here, I have continued to provide the short run revenue forecasts for  
16 United Water New Jersey and have had a continuing liaison with the  
17 UWM&S Rate Department on the revenue side of rate cases; this case  
18 included.

19 Q. Could you describe your responsibilities in connection with this rate  
20 filing?

21 A. The purpose of my testimony is to present an assessment of pro forma  
22 revenues for metered water revenues, private fire protection service  
23 revenues, and other revenues for a test year covering the twelve month

1 period ended July 31, 2004 for United Water Idaho (“United” or  
2 “Company”).

3 Q. How did you prepare these projections?

4 A. Separate assessments of metered water consumption and revenues were  
5 made for each customer sector in the system; residential, commercial, and  
6 public authority. Revenues for private fire protection services and other  
7 revenues were also analyzed. This analysis, and supporting tables and  
8 figures detailing this assessment, is contained in Exhibit 6, Schedules 1  
9 through 4.

10 Q. What was the level of metered water sales for the test year in this case  
11 based on the Company’s financial records?

12 A. Test year metered water sales revenue for the twelve-month period ended  
13 July 31, 2004 under existing tariff schedules totaled \$30,270,932. Private  
14 fire protection services for the test year were \$490,058. Other revenue  
15 sources, including miscellaneous revenues from customer fees and  
16 charges, rents, and unbilled revenues totaled \$239,232 for the test year.  
17 Overall as shown in Exhibit 6, Schedule 1, Page 1 of 2, Column 1, total  
18 revenue per the income statement for the Company for the test year was  
19 \$31,000,222.

20 Q. Was it necessary to adjust the test year revenues as shown on the income  
21 statement of United Water Idaho?

22 A. Yes. Unbilled revenues of \$95,542 were deducted from the revenue  
23 stream since once total billed consumption for the test year is assessed, all  
24 water used is priced and assumed to be billed, and collected, during the

1 pro forma test period. In addition the test year revenue from the Carriage  
2 Hills system was removed in anticipation of its pending sale to the City of  
3 Nampa, IPUC Order NO. 29625. The customers in this system generated  
4 \$5,605 in revenues in the test year. These revenues were deducted from  
5 book revenue since these revenues will not be realized moving forward.

6 Q. Did you obtain a bill analysis for the test year period?

7 A. Yes. Overall, the level of revenue in the bill analysis for billed services to  
8 the residential, commercial and public sectors in the test year was \$18,575  
9 less than the books, or in percentage terms only 0.06%, as shown in  
10 Exhibit 6, Schedule 1, Page 1 of 2, Column 4.

11 Q. Did you have to make any adjustments to revenues as per the bill analysis  
12 to normalize revenues for the test period?

13 A. Yes. These adjustments fell into three areas. First was an adjustment to  
14 revenues for the customers in the South County area to account for the  
15 final phase-in of rates during the test year. Second was a weather  
16 normalization, to correct for the impact of deviations in weather  
17 conditions from normal that affected consumption in the test year. Third  
18 and fourth, were adjustments to annualize for growth in the system during  
19 the test year, and to account for expected growth in the system through  
20 May 2005 to ensure that pro forma revenues are in synch with the capital  
21 additions that the Company desires to have included for consideration in  
22 this rate proceeding.

23 Q. Could you explain the adjustment you made to revenues for the customer  
24 in the South County service area?

1           A.       The South County system was added to United's system in January 1999.  
2                    The existing 3,885 customers in the South County system were billed  
3                    under the final step of a phase-in tariff for part of the test year. Pricing  
4                    these bill determinants at prevailing rates results in an upward adjustment  
5                    of test year revenue of \$88,397 as shown in Exhibit 6, Schedule 1, Page 2  
6                    of 2, Column 2.

7           Q.       How did you proceed with the weather normalization and the change in  
8                    usage patterns due to the additions of new system areas and the change in  
9                    irrigation water regulations?

10          A.       To assess the impact of these factors on demand during the test year a  
11                    detailed analysis of the usage trends in the residential, commercial and  
12                    public sectors in the system was conducted. These analyses, which  
13                    involved the use of multiple regression modeling of historical  
14                    consumption patterns versus weather data, are detailed in Exhibit 6,  
15                    Schedule 2 accompanying my testimony. As developed in this analysis a  
16                    normalizing adjustment of (\$246,462) was indicated for the test year.

17          Q.       Could you discuss the annualization adjustments that were made in your  
18                    analysis?

19          A.       Yes. First, there were annualization adjustments for growth in the United  
20                    system during the test year. During the test year an additional 1,841  
21                    residential customers were added to United's system. Using the half-year  
22                    convention, on an annualized basis these customers represent an  
23                    additional 5,523 bills rendered and 119,804 KG in consumption. Priced at  
24                    current rates this yields an additional \$264,198 in revenues in the test

1 year. For the commercial sector 130 customers were added.  
2 Using the same methodology as used for the residential sector this growth  
3 results in the addition of 390 bills rendered, and 41,351 KG of billed use.  
4 Based on existing rates this represents \$72,522 in additional revenues.

5 Q. Could you discuss the adjustments made to account for expected customer  
6 growth through May 2005?

7 A. Yes. These adjustments were treated in the same fashion as the  
8 annualization adjustment. Growth for the 12 month period following the  
9 test year was projected to be about the same as experienced during the test  
10 year; i.e., 1,800 for the residential sector and 130 for the commercial  
11 sector. The number of customers through May 2005 was calculated on a  
12 pro rata basis (that is, 10/12ths of the projected growth through July  
13 2005.), and since these customers will fully affect demand at the end of  
14 the period, these customers were priced for a full year of service and use.  
15 These calculations result in a revenue adjustment of \$356,120 for the  
16 residential sector and of \$94,613 for the commercial sector. (No growth  
17 in the number of customers in the public authority sector is anticipated, so  
18 no adjustment was made here.)

19 Q. What is your assessment of the proper level of consumption for Micron  
20 Industries for the test year?

21 A. During the 1990s, Micron Technologies was United's largest customer,  
22 representing nearly \$250,000 in revenues. Since then Micron has  
23 embarked on a major efficiency and water reuse program, and has  
24 downsized its water consumption from United to the extent that Micron

1 no longer needs to be considered as a separate case. However since  
2 Micron was treated separately in the prior rate cases, it was decided to  
3 continue to look at Micron separately to make comparisons from prior  
4 case easier. From a high of 451,025 KG in the 1995-96 period, Micron  
5 dropped to 68,593 KG during the test period. In the absence of any  
6 definitive evidence that Micron will use either more or less water in the  
7 near term it was assumed that the metered consumption sales for Micron  
8 during the test year is the best measure of what Micron will consume in  
9 the rate effective period.

10 Q. Could you please discuss your assessment of private fire service revenues  
11 for the test year?

12 A. United provides private fire protection services to about 1,300 customers  
13 through separate service lines and hydrants. Test year revenues for these  
14 services based on data in the bill analysis were \$495,741. Due to growth  
15 in the number of private fire services during the year and anticipated  
16 through May 2005 an additional \$22,920 in revenues were added to the  
17 total to derive normalized private fire revenues of \$518,661 the test year  
18 (Exhibit 6, Schedule 1, Page 2 of 2, Column 6).

19 Q. Could you please discuss your assessment of the proper level of other  
20 revenues that should be considered on a pro forma basis for the test year?

21 A. Looking ahead the Company can be reasonably expected to receive  
22 revenues from three additional sources—bulk water sales through  
23 hydrants, rents of water meters to construction sites, and miscellaneous  
24 customer service charge revenues (reconnection charges, bad check fees,

1 etc.). The Company received \$88,344 from bulk water sales and \$12,220  
2 in revenues from construction meter rents; this level is not expected to  
3 change. Customer service charges amounted \$44,656 in the test year.  
4 Based on the average rate of miscellaneous revenue per customer that this  
5 level of revenues represents and the growth in the customer count of 1,841  
6 customers, another \$1,329 in customer service revenues was added to the  
7 test year total. No change was assumed in bulk water and construction  
8 meter revenues for the pro forma test year.

9 Q. Based on your analysis what conclusions do you draw for total pro forma  
10 revenues for the test year?

11 A. Pro forma metered water sales, fire service and other revenues under the  
12 existing tariff schedule for the twelve month test period ended May 31,  
13 2004 total \$31,389,812 (as shown in Exhibit 6, Schedule 1, Page 2 of 2,  
14 Column 6).

15 Q. Have you prepared any other schedules for this Application for Rate  
16 Increase?

17 A. Yes. I also prepared Exhibit 7, which shows the existing tariffs and  
18 proposed tariffs for this case.

19 Q. How does the Company propose to change its tariffs to reflect the change  
20 in rates proposed in this rate case?

21 A. Based on the results of the cost of service study conducted in conjunction  
22 with this case, the Company proposes to increase rates to meet its revenue  
23 requirements as follows. Fixed service charges would be increased by  
24 about 36.4%: The cost of service study found that fixed charges should be

1 increased by 51.1%. It was decided that making such a large change in  
2 this component of the rate structure at one time would be too disruptive.  
3 Hence, it was decided to increase these charges by an amount that was the  
4 average of the 51.1% increase as called for in the cost of service study,  
5 and the overall increase required, or by 36.4%. Fire protection charges  
6 would increase by about 21.5%. The cost of service study found that fire  
7 protection charges could be decreased. However, it was decided to not  
8 move rates in this direction at this time, but simply to increase the fire  
9 protection sector the same amount as the overall increase requested.  
10 Water use charges would be increased by about 16.9%. Based on the  
11 decision to increase fixed service charges by 36.4%, and fire protection  
12 charges by 21.5%, water use charges would need to be increase by 16.9%  
13 to meet the revenue requirement. In terms of rate design, it was also  
14 decided to maintain the summer/winter rate structure and keep the  
15 differential at 25%.

16 Q. Are there any other tariff changes being proposed by the Company?

17 A. Yes. Upon review of the United Water Idaho's tariff, it was decided to  
18 take the opportunity presented by this proceeding to update the tariff to  
19 conform to current IPUC standards, and to remove a number of tariff  
20 pages associated with phase in rate schedules for a number of acquired  
21 system that are no longer in use. Most of the changes are cosmetic in  
22 nature and/or involve correcting grammatical or unclear language. The  
23 only change made to the tariff that is of substance is in Section 71 of  
24 the Rules and Regulations. The words "and/or Commercial" was

1 inserted after "Industrial" on the fourth line of the section in reference  
2 to situations where developers of subdivisions pay for services when  
3 the size and location of the service cannot be initially determined. We  
4 believe the rule should also include the commercial sector because that  
5 is the most common type of developments after residential; we do not  
6 typically see any purely industrial developments. In the past we were  
7 not collecting service line cost CIAC on Commercial developments  
8 where the service size and location could not be determined up front,  
9 and thus we were paying to install them later. This change in the tariff  
10 will insure that developers of both industrial and commercial projects  
11 pay this cost. The other changes made in the tariff are detailed in Exhibit  
12 6, Schedule 2 accompanying this testimony.

13 Q. Have you developed a rate proof to show that the proposed tariffs will  
14 generate the revenues needed to meet the revenue requirement?

15 A. Yes. The analysis for metered sales in the residential, commercial and  
16 public sectors is shown in Exhibit 6, Schedule 3 Page 24 of 25. The rate  
17 proof for private fire protection services is shown in Exhibit 6, Schedule 3  
18 Page 25 of 25. The overall rate increase requested is \$6,787,870, or  
19 21.46%, representing a revenue requirement of \$38,302,702 (Exhibit 6,  
20 Schedule 1 Page 2 of 2, Column 7). The rate proof generates \$38,302,699  
21 in revenues; a difference of \$3.00 with respect to the revenue requirement.

22 Q. Does this conclude your testimony?

23 A. Yes it does.