

Idaho Public Utilities Commission  
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NOV 30 2004

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*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 GREGORY P. WYATT

- 1 Q. Please state your name and business address.
- 2 A. Gregory P. Wyatt. United Water Idaho 8248 West Victory Road, Boise  
3 Idaho.
- 4 Q. What is your occupation?
- 5 A. I am the General Manager of United Water Idaho (“United” or  
6 “Company”).
- 7 Q. Please describe your educational background and other qualifications.
- 8 A. I am a graduate of Bloomsburg University with a Bachelor of Arts  
9 degree in Business Administration Management. I have previously  
10 provided testimony before the Indiana Utility Regulatory Commission,  
11 the Pennsylvania Public Utility Commission, and the Idaho Public  
12 Utilities Commission.
- 13 Q. Please describe your work experience.
- 14 A. I have been employed at United Waterworks properties, formerly  
15 General Waterworks, since December 1974. Prior to assuming my  
16 current duties as General Manager of United Water Idaho in late 1999,  
17 I worked in various capacities in several states including General  
18 Manager for United Water Pennsylvania, Area Manager for the United  
19 Water Indiana properties, Assistant Manager of United Water Idaho  
20 and various accounting positions in New Jersey and Pennsylvania.
- 21 Q. Please describe your duties as General Manager.

1           A.       My duties are to oversee the daily operation of providing potable water  
2                   to the customers of United Water Idaho. I supervise the various  
3                   departments of Engineering, Production, Transmission & Distribution,  
4                   Customer Service, Billing, Information Technology, Planning and  
5                   Accounting in meeting their responsibilities for the delivery of potable  
6                   water and the related services in dealing with customers.

7                   These functions include planning for raw water source,  
8                   construction, maintenance and operation of the treatment and pumping  
9                   facilities, construction, maintenance, and operation of the distribution  
10                  system including mains, services, and storage tanks, responding to  
11                  customer needs regarding initial service or discontinuing service by  
12                  reading customer meters, processing and delivering bills, and  
13                  responding to customer needs through the Customer Service  
14                  Representatives.

15                  My duties also include supervision of the Company's compliance  
16                  with all regulations in regard to safety, complying with the Safe  
17                  Drinking Water Act, and meeting other similar requirements.

18           Q.       What is the purpose of your testimony?

19           A.       I will testify regarding the major reasons for the rate increase requested  
20                   in this present case, the operations of the Company, the Company's  
21                   efforts to comply with the Commission's recent directive regarding  
22                   revenue and expense effects of major new investments, the Company's  
23                   conservation and customer service efforts, a new Company proposal

1 regarding assistance for low-income customers, and the Commission's  
2 recent Order No.29625 regarding "risk premium" proceeds to United  
3 Water Idaho from the sale of Carriage Hills to the City of Nampa. I will  
4 also be available to answer questions of a general nature.

5 Q. Please identify the other witnesses who will testify on behalf of the  
6 Company and the topics on which they will testify.

7 A. Mr. Jeremiah Healy, Coordinator, Planning and Rates, will testify  
8 regarding rate base and expense adjustments.

9 Mr. Scott Rhead, Managing Engineer, will testify regarding capital  
10 additions including the Columbia Water Treatment Plant (CWTP).

11 Professor A.T. Wallace, a consulting engineer from the University  
12 of Idaho, will testify regarding the Columbia Water Treatment Plant.

13 Mr. Frank Gradilone, Manager Business Development with United  
14 Water New Jersey, will testify regarding revenue adjustments.

15 Ms. Pauline Ahern, consulting expert with AUS consultants, will  
16 testify regarding cost of capital.

17 Dr. Dennis Peseau, consulting expert with Utility Resources, Inc.,  
18 will testify regarding cost of service and rate design.

19 **Rate Increase Drivers**

20 Q. Would you briefly explain why the Company is seeking a rate increase  
21 at this time?

1           A.       The increase is necessary for the Company to continue to provide  
2                    quality service to our customers, to improve service by replacing aging  
3                    infrastructure and to replace infrastructure that is in conflict with other  
4                    infrastructure renewal (such as highway and street rebuilds). For these  
5                    reasons, United continues to make capital investments in utility plant.  
6                    A major example of this is the investments required for the Columbia  
7                    Water Treatment Plant. As a result of this and other infrastructure  
8                    investments, the Company's rate base of \$98,862,937 as allowed in our  
9                    last rate proceeding, has increased to \$140,062,546 in this proceeding  
10                   or an increase of \$41,199,609. In addition, our operating costs have  
11                   increased from \$17,059,284 to \$21,766,679 or an increase of  
12                   \$4,707,395. An increase in rates is necessary in order to provide  
13                   sufficient capital dollars to maintain and improve quality service to our  
14                   customers, to provide adequate operating and maintenance coverage,  
15                   and to maintain a sound financial position.

16           Q.       What are the major capital investments the Company has made since  
17                    the last rate case that account for the significant increase in rate base?

18           A.       The Columbia Water Treatment Plant itself comprises an investment of  
19                    over \$18 million dollars. Facilities associated with the CWTP, such as  
20                    land, piping, clearwell, and pump station and equipment amount to  
21                    approximately \$11 million dollars. Additionally, the Company is  
22                    investing over \$2 million dollars in wellhead treatment at two locations  
23                    elsewhere in the system, (Bali Hai and Maple Hills). The investments

1 at Bali Hai and Maple Hills wells have enabled the Company to  
2 improve water quality to customers while also utilizing more of the  
3 source well water from those sites. Water storage facilities have been  
4 constructed at a cost of about \$3.5 million dollars that provide fire  
5 protection and sustainable pressure to customers in the system, most  
6 notably in the South County area, which was acquired from the South  
7 County Water Company in 1999. The Company has made investments  
8 totaling about \$11 million dollars in replacing aging infrastructure.  
9 Since the last case the company has replaced about 16 miles of water  
10 mainline, 2,900 water services, and 22,000 meters. The Company has  
11 improved safety for employees and the community by investing over  
12 \$1 million dollars in non-hazardous disinfection systems in order to  
13 replace all liquid chlorine gas operations throughout the water system.  
14 All these and other capital additions are discussed more fully in  
15 Witness Rhead's testimony and exhibits.

16 Q. What are the major areas of cost increase that the Company has  
17 experienced since the last rate case?

18 A. A significant portion of the expense increase in this case comes from  
19 depreciation related to the CWTP and other capital investments the  
20 Company has made. The depreciation expense has increased by more  
21 than \$1.9 million dollars. Additionally, costs have increased by almost  
22 \$1.2 million dollars related to purchased power and the amortization of  
23 deferred power, as referred to in Witness Healy's testimony. Employee

1 benefits, including medical, dental and pension costs have increased  
2 over \$700,000. General insurance has also increased over \$700,000.  
3 Payroll and property taxes have increased over \$300,000 and purchased  
4 water and chemicals have increased over \$200,000. All of these and  
5 other expense changes are discussed more fully in Witness Healy's  
6 testimony and exhibits.

7 Q. What is the current average annual residential water bill as determined  
8 in the test year?

9 A. Currently, the average annual residential bill is \$323.05, exclusive of  
10 IDEQ fees and franchise tax.

11 Q. What would be the average annual residential bill under the proposed  
12 rates in this filing, and what is the overall increase request?

13 A. The average annual residential bill under proposed rates would be  
14 \$395.25, or an increase of 22.35%. The overall increase request in this  
15 present filing is 21.46%

16 **Company Operations**

17 Q. Please describe the operations of the company.

18 A. As of July 31, 2004, United Water Idaho provided domestic water  
19 service and fire protection to approximately 75,400 residential,  
20 commercial, industrial, private fire protection and public authority  
21 customers within the City of Boise and the immediate surrounding area.  
22 Over ninety-nine percent (99%) of the customers are located in what

1 we call the core area system, which is a totally interconnected system.  
2 Additionally, there are five (5) satellite systems that are not  
3 interconnected with each other or to the core area system. These  
4 satellite systems are identified as Mesa area, Coventry Place,  
5 Danskin/Saddle Ridge, Belmont, and M&M. For the purposes of this  
6 filing the Carriage Hills system has been removed in anticipation of its  
7 pending sale to the City of Nampa. Currently our source of supply for  
8 the core area is one (1) surface water treatment plant and eighty (80)  
9 deep wells, which are located throughout a service area of  
10 approximately 140 square miles. The projected delivery capacity in the  
11 year 2004 of the surface water treatment plant and the eighty (80) wells  
12 to the customers in the core service area is 95.09 million gallons per  
13 day (mgd). The Mesa area is served by three (3) wells with a combined  
14 rated capacity of 1.7 mgd; Coventry Place is served by one (1) well  
15 with a rated capacity of 0.4 mgd; the Danskin/Saddle Ridge area is  
16 served by two (2) wells with a combined rated capacity of 2.0 mgd; the  
17 Belmont system is served by two (2) wells with a rated capacity of 1.1  
18 mgd; and the M&M system is served by one (1) well with a rated  
19 capacity of 0.14 mgd. The wells in the satellite areas are all currently  
20 capable of meeting the maximum day demands in those areas.

21 At this time, water treatment essentially consists of the addition of  
22 chlorine for disinfection and system residuals and polyphosphate for  
23 sequestration of iron and manganese. In addition, green sand filtration

1 systems treat water at two well stations in the system, (Bali Hai and  
2 Maple Hills). At the surface water treatment plant, the treatment ranges  
3 from direct filtration to full coagulation, settling and filtration  
4 depending on the quality of the raw water.

5 During the test year, the maximum day production from all sources  
6 was 86.8 million gallons; the minimum day production was 18.5  
7 million gallons; while average day production was approximately 43.8  
8 million gallons.

9 The distribution system consists of approximately 1,043 miles of  
10 water main, varying in size from 2 inches to 30 inches in diameter. The  
11 distribution system also is supported by 34.8 million gallons of storage  
12 capacity contained in 31 ground-level reservoirs.

13 Due to differences in elevation within the coverage of the service  
14 area, United Water Idaho has 10 different pressure zones in the core  
15 area. Each satellite area also can be considered as a separate pressure  
16 zone. These zones are necessary to maintain a reasonable range of  
17 pressure at our customers' points of use. Connections from adjacent  
18 pressure zones allow us to transport water between some pressure  
19 zones; however, it is impossible to transport water from each pressure  
20 zone to all 9 of the other pressure zones. Since we have 81 sources  
21 (points from which water originates) in the core area, the customers  
22 within the area of influence of a particular source normally will receive  
23 water from that source. As the customers near the source begin to use

1 up the water and as distance from the source increases, more water will  
2 be consumed until the supply from a particular source is exhausted and  
3 adjacent customers then receive water from a different source.

4 Q. You note that the combined delivery capacity in the core area is  
5 approximately 95.1 mgd while the maximum day production during the  
6 test year was 86.8 million gallons. Does this mean that you can serve  
7 additional customers without adding any additional source?

8 A. No, it does not. That would require a perfectly balanced distribution  
9 system and every well would have to produce 100% of capacity at the  
10 same time. This perfect balance would have to be between the main  
11 sizes, main locations, source locations, pumping capacity, storage size,  
12 and storage locations. As discussed in Witness Rhead's testimony,  
13 history from 2001, 2002 and 2003 shows maximum day demand of  
14 93.673 million gallons, 94.553 million gallons and 94.061 million  
15 gallons respectively, all of which are quite close to the system's  
16 delivery capacity of approximately 95.1 mgd.

17 **Revenue and Expense Effects of Major Capital Additions**

18 Q. Have you reviewed the Commission's recent decisions in the Idaho  
19 Power Company (IPCo) and Avista Corporation rate cases regarding  
20 revenue and expense effects of major new investment?

21 A. Yes, I have reviewed the pertinent areas of Commission Orders Nos.  
22 29505 (IPCo) and 29602 (Avista) that address this issue.

23 Q. What is your understanding of the guidance provided by those orders?

1           A.       As I understand those orders, the Commission is concerned that when  
2                               significant plant improvements are completed during the test period  
3                               proper, or post-test period, there should be an effort made by the  
4                               Company to identify expense reductions and/or revenue additions  
5                               associated with the plant improvements. This is in addition to the direct  
6                               effects of the plant improvement itself, such as incremental operating  
7                               and maintenance expense, depreciation expense and return on  
8                               investment.

9           Q.       Do the Orders in question have relevance to United's instant case?

10          A.       Yes, I believe they do. The Company is including in rate base several  
11                               major plant adjustments, collectively referred to as the Columbia Water  
12                               Treatment Plant. The new facility is expected to begin providing  
13                               service to United's customers in March 2005.

14          Q.       Has the Company attempted to comply with the Commission guidance  
15                               provided in recent Orders?

16          A.       Yes, although the guidance provided in the aforementioned cases does  
17                               not provide a clear means or a defined methodology by which a utility  
18                               is to determine how or to what extent compliance is accomplished.  
19                               Nonetheless, United has used its best efforts in proposing adjustments  
20                               that both increase revenues and decrease expenses as a result of the  
21                               addition of the CWTP. While the Commission's direction in the IPCo  
22                               and Avista cases have been more at a conceptual level, the revenue and  
23                               expense effects are difficult to quantify accurately in actual practice.

1                   Because the amount of investment associated with a facility such as the  
2                   CWTP is known and measurable, the return and depreciation expense  
3                   are easily calculated. Operations and maintenance expense can also be  
4                   estimated with a high degree of accuracy. However, the revenue  
5                   producing or expense mitigating effects of the CWTP are much more  
6                   difficult to identify because they are not yet known and measurable.  
7                   Over time, United reasonably assumes that the CWTP will provide  
8                   reliable service to an increasing customer base. United also expects  
9                   CWTP to immediately provide a margin of capacity safety to customers  
10                  in the event of the failure of less reliable source(s). Company  
11                  Management, Engineers and consultants have, over time, all combined  
12                  to do a prudent job of adding incremental source, at a reasonable cost,  
13                  and best utilizing the natural resources available to the Company.

14                  Q.        What revenue increasing adjustment has United made that is  
15                               attributable to the CWTP?

16                  A.        Pro forma revenue has been increased by \$462,480 to account for  
17                               additional customers, annualized at existing rates, from July 31, 2004,  
18                               the end of the test year, through May 31, 2005. This adjustment is  
19                               further discussed in the testimony and exhibits of Witness Gradilone.

20                  Q.        In what way is this revenue adjustment appropriate in responding to the  
21                               Commission's concern regarding revenue enhancements from  
22                               additional plant?

1           A.       First, let me say that in United's prior rate proceedings, it had been  
2                   Commission practice to accept Company adjustments to annualize  
3                   revenue only for test year customer growth. Never before has United  
4                   offered or has the Commission calculated revenue from future growth  
5                   customers in determining base revenues upon which future rates may  
6                   be calculated. Second, I suggest that increases in revenue to the  
7                   Company typically arise from one of three situations: adding new  
8                   customers, increased consumption from existing customers, or from an  
9                   increase in rates. Increased revenue to the Company does not simply  
10                  "happen" because the Company makes an investment in new or  
11                  replacement plant. Neither does a new source of supply plant  
12                  automatically add new customers or increase existing customer  
13                  consumption. As described in Witness Rhead's testimony, the CWTP  
14                  is designed to provide a margin of capacity safety to customers in the  
15                  event of the failure of less reliable source(s), and to provide for service  
16                  to new customers added over time.

17                         With these thoughts in mind, United has attempted to comply with  
18                         the direction and guidance from the IPCo and Avista cases by adding  
19                         annualized customer growth revenue at current rates to the Company's  
20                         base revenues for all customers anticipated to be added to the entire  
21                         system from the test year through May 31, 2005.

22           Q.       What expense reducing adjustment has United made that is attributable  
23                   to the CWTP?

1           A.       An expense reduction adjustment for power and chemical expense of  
2                   \$139,580 has been made to reflect changes in system operation caused  
3                   by use of the CWTP. This adjustment is included in Witness Healy's  
4                   exhibits and testimony.

5                   Witness Rhead testifies that as many as nine (9) existing wells that  
6                   currently supply water in the vicinity of the CWTP may be idled or  
7                   have their production level reduced as a result of using the CWTP. The  
8                   expense reduction of \$139,580 is related to the costs for power and  
9                   chemicals foregone at these sources.

10                   **Water Conservation**

11           Q.       Would you please provide an overview of the Company's water  
12                   conservation and demand side management efforts and programs?

13           A.       For over 10 years the Company has developed and implemented  
14                   various customer information, education and awareness programs and  
15                   outreach efforts that promote wise water use and water conservation  
16                   and that assist customers in managing their water demand and  
17                   consumption. Although some of these efforts have sought to inform  
18                   customers about water use in the home, the majority of them have  
19                   targeted customer water use outside on lawns, gardens and landscape  
20                   areas. This focus is designed to enable customers who use water  
21                   provided by the Company for irrigation purposes to benefit the most  
22                   from the Company's efforts, since irrigation demand is the driver of  
23                   overall water system demand in the summer.

1 Below is a brief summary of the company's efforts in these areas:

2 Water Efficient Landscaping Classes:

3 In February of each year, United and others conduct seven, two-hour  
4 class sessions focused on the fundamentals of water efficient  
5 landscaping. In 2004, 747 adult individuals attended the classes.

6 Water Awareness Week

7 In May of each year, United participates in Water Awareness Week,  
8 which promotes water education and conservation information for  
9 school students in Region 3, which includes the Boise area.

10 Indoor Water Conservation Kit give-a-way

11 Customers seeking ways to reduce their water consumption are offered  
12 a free water conservation kit that includes a low flow showerhead,  
13 faucet aerators and toilet dams.

14 Summer water conservation bill insert

15 As customer bills go out throughout the spring and summer, the bill  
16 includes an insert that provides information on how customers can  
17 reduce their outside water demand during the summer.

18 Water use management messaging through the media

19 The overall media effort is designed to increase customer awareness  
20 about their water use and to provide them with concrete reminders and  
21 ways to manage their water consumption. This consists of a

1 coordinated use of newspaper, radio and television to communicate  
2 wise water use and management throughout the summer. It includes  
3 weekly newspaper ads in the spring and early summer targeting ways  
4 customers can use water more wisely outdoors around their homes;  
5 daily radio spots during drive time that feature water conservation  
6 messages and tips; and weeknight television partnership with Channel 6  
7 KIVI highlighting United's daily production compared to normal and to  
8 history, along with conservation tips, trivia, and interviews.

9 Educational and Community outreach

10 United has developed various water awareness and conservation  
11 presentations that it makes available and delivers to schools and  
12 community organizations in the area. These include PowerPoint  
13 presentations, topical lectures, school skits and plays, puppet shows,  
14 and a video library.

15 Customer Service

16 Q. Please comment on the Company's customer service efforts.

17 A. United uses various measures and metrics to ensure that it maintains a  
18 high level of service and responsiveness to its customers. For example,  
19 the Company tracks customer complaints it receives relating to water  
20 quality. Over the past four years, Water quality complaints that  
21 required a field visit to resolve have averaged only .87% of total  
22 customers. Complaints relating to high bills and disconnection have

1 averaged only .36% and .38% respectively as a percentage of bills  
2 rendered.

3 Q. Are there other measures used by the Company to track customer  
4 service performance?

5 A. Yes. Our Customer Service group maintains various data relating to  
6 customer calls, response time, length of call, and number of dropped  
7 calls. For the current year to date through September, the Customer  
8 Service office has answered 66,887 calls with an average answer speed  
9 of 36 seconds. The average length of calls is 2 minutes, and the  
10 abandoned or dropped call rate is 5.2% of all calls. Almost 40% of the  
11 dropped calls occur during the first 30 seconds of hold time and this  
12 would include those customers who may have reached our office in  
13 error (i.e. wrong number) and hung up. Assuming a caller is willing to  
14 hold more than 30 seconds, the dropped call rate falls to 3.1%. In  
15 addition, due to the fact that virtually all customer meters are located in  
16 outside pits or vaults, we are able to render bills based on actual meter  
17 readings 99.9% of the time.

18 **Low-Income Customer Assistance**

19 Q. Does the Company currently have any kind of low-income customer  
20 assistance program in place?

1 A. No, but the Company recognizes that its requested increase of  
2 approximately 22% in this proceeding increases the need for  
3 consideration and discussion of such a program.

4 Q. What does the Company propose with regard to low-income  
5 assistance?

6 A. The Company proposes that between the time of this filing and before  
7 hearings in this proceeding, the Company, along with Commission  
8 Staff and other interested parties, convene a workshop(s) to evaluate  
9 the need for, scope and design of such an assistance program for  
10 United's low-income water customers. The Company believes a  
11 collaborative effort between the parties is the most effective way to  
12 develop a program that truly meets customer's needs and guards  
13 against excessive costs to either the shareholder or the general customer  
14 base. Assuming a program agreeable to all parties can be developed,  
15 the Company would seek implementation in conjunction with new rates  
16 and effective with an Order in this case.

17 **Commission Order No. 29625**

18 Q. What does Commission Order No. 29625 state regarding the "risk  
19 premium" portion of the proceeds to be paid to United Water Idaho in  
20 conjunction with the sale of the Carriage Hill water system to the City  
21 of Nampa?

22 A. Order No 29625 states:

1 “We further find it reasonable and direct United Water to book the  
2 \$28,138 amount originally proposed as a risk premium distribution to  
3 United Waterworks as regulated revenue to be passed through to  
4 customers in the Company’s upcoming general rate case.”  
5

6 Q. What is United’s position with regard to this portion of Order No.  
7 29625?

8 A. The Company has no objection to booking whatever remains of the  
9 “risk premium” as regulated revenue on its books, however the actual  
10 amount of that revenue will not be fully known until the transaction in  
11 that proceeding closes sometime in December. All transaction costs  
12 must be netted against the amount before a final accounting of the  
13 remainder can be recorded as regulated revenue.

14 In addition, United believes the proper way to treat the revenue for  
15 rate making purposes is to amortize it over a three-year period, which  
16 would coincide with other amortizations the Company is  
17 recommending in this case, such as rate case expense, based on the  
18 anticipated rate filing frequency. Receipt of revenue from the risk  
19 premium is a one time, non-recurring event and it is not appropriate to  
20 include the total amount in annualized revenue for ratemaking  
21 purposes.

22 When the actual revenue amount is known United intends to submit  
23 that information to the Commission Staff for inclusion in this rate case.

1 Q. Does this conclude your testimony?

2 A. Yes.