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IDAHO PUBLIC
UTILITIES COMMISSION

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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

REBUTTAL TESTIMONY OF SCOTT RHEAD

1 Q. Please state your name.

2 A. Scott Rhead.

3 Q. Are you the same Scott Rhead who previously filed direct testimony in
4 this case?

5 A. Yes, I am.

6 Q. What is the purpose of your rebuttal testimony?

7 A. My rebuttal testimony replies to the direct testimony of Staff witness
8 Sterling. More specifically, I will:

9 > Respond to Mr. Sterling's critique of the Design-Build procurement
10 method for CWTP;

11 > Demonstrate that the early completion incentive to CDM was
12 prudent and cost effective;

13 > Demonstrate that Mr. Sterling's proposed adjustment for CWTP
14 excess capacity and land is over stated;

15 > Demonstrate that the amount paid for the Initial Butte water right
16 corresponds to the value of the usable quantity of the right acquired;

17 > Demonstrate the proposed adjustment to purchased water is
18 incorrect;

19 > Demonstrate that the Company's investment in the Integrated
20 Municipal Application Package (IMAP) should be allowed in rates;

21 > Demonstrate that the Company's natural flow right no 63-31409 is
22 currently in service;

1 ➤ Provide an updated Exhibit 8, dated 04/22/2005 with revised
2 proforma capital additions thru 03/31/2005.

3 Q. Have you prepared any Exhibits to your rebuttal testimony?

4 A. Yes. I have one, Exhibit No. 16, Schedules 1 through 8.

5 Q. How would you summarize Mr. Sterling's critique of the design-build
6 procurement process?

7 A. Mr. Sterling discusses the advantages and perceived shortcomings of
8 the process compared to the more traditional design-bid method.
9 While I disagree with some of his criticisms, I will not discuss each in
10 detail because, in the end, Mr. Sterling does not recommend any
11 disallowance based on the decision to employ the design-build
12 method.

13 Q. Does Mr. Sterling make a recommendation with which you disagree?

14 A. Yes. Mr. Sterling presents several arguments in favor of design-build,
15 and presents no evidence that these benefits have not been achieved.
16 Mr. Sterling presents several theoretical downsides to design build, but
17 presents no evidence that these downsides occurred on the Columbia
18 WTP project. In particular, Mr. Sterling discusses three specific
19 theoretical problems with design build, and the ways to overcome
20 them:

21 1. Owner must exercise greater responsibility to ensure interests are
22 protected. *The Company did this, assigning an experienced project*

1 *engineer to the project to observe daily construction activities and*
2 *review all subcontracting decisions.*

3 2. Establish a guaranteed maximum price GMP at some stage in the
4 process. *The Company obtained a GMP prior to issuing notice to*
5 *proceed with construction.*

6 3. Require competitive bidding for each element of the construction.
7 *The vast majority of equipment, materials, and construction*
8 *elements were competitively bid.*

9 The Company exercised all the cautions recommended by Mr. Sterling,
10 and realized all the potential benefits of design build that he identifies.
11 Mr. Sterling has presented no evidence to the contrary. The Company
12 believes that this method has responded to the circumstances more
13 flexibly, in less time, and at lower cost than the traditional design-bid-
14 build method, and Mr. Sterling has provided no evidence to the
15 contrary. The Company's experience in this area has been favorable
16 and doesn't anticipate reverting to a design-bid-build method in similar
17 circumstances.

18 Q. Has Mr. Sterling made any particular recommendation with regard to
19 United Water's use of the design-build procurement approach on future
20 company projects? If so, please reply.

21 A. Mr. Sterling recommends that the Company be directed not to use the
22 design-build method for major projects in the future. This is an un-
23 warranted intrusion on management's business judgment. The

1 Company must keep procurement options open based on future
2 circumstances of specialty construction, schedule and contractor
3 availability. Domestic water facilities by their very nature require
4 experience and a unique understanding of the public health
5 requirements. The Company must be contractor selective and be able
6 to use judgment as to the best way to manage, construct facilities and
7 operate the business.

8 Q. Mr. Sterling also questions the early completion bonus paid to CDM
9 and in the absence of further cost justification recommends its
10 disallowance. Have you developed additional support for the bonus?

11 A. Yes. The incentive payment earned by CDM has a direct impact on
12 bringing down the overall project cost. There is a legitimate project
13 management cost for labor, overhead and expenses spread throughout
14 the contract duration. These costs are calculated on a per day basis
15 and are attached as Schedule 1. As shown these legitimate costs are
16 \$5,191/day and are charged until the project is substantially complete
17 so long as the Guaranteed Maximum Price is not exceeded. Pushing
18 the project to an earlier completion by paying an incentive of
19 \$3,500/day saves the overall project a direct benefit of \$1,691/day.
20 The sooner the project could be completed the less the overall cost.
21 The project benefited a total of $\$1,691 \times 82 = \$138,662$ from this
22 incentive provision, it is justified and should be allowed in rate base.

1 Q. What is your understanding of Mr. Sterling's recommendation
2 regarding portions of the CWTP that will accommodate future
3 expansion?

4 A. Mr. Sterling estimates that approximately 3,200 sq. ft. of the plant will
5 accommodate future addition of ultraviolet disinfection. He then
6 multiplies the 3,200 sq. ft. by an estimated cost of \$110 per square foot
7 and proposes that \$352,000 of investment be considered plant held for
8 future use.

9 Q. Do you agree with this calculation? Please explain.

10 A. No. The main process building was designed and laid out in the most
11 efficient way possible. It would be unreasonable to deny recovery of
12 any floor space constructed that took advantage of economics of scale
13 during the initial construction. Certainly it is unreasonable and unwise
14 to penalize future customers more by paying a premium for future
15 space that can be enclosed now at a fraction of the future cost. The
16 3,200 sf in question is specifically this situation. The construction of
17 this space was the least costly area of the entire process building.
18 Costs to enclose were floor slab, roof system and simple masonry wall.
19 The building as a whole is used and useful. The as built cost of this
20 3,200 sf space as documented by CDM is \$173,630 or \$54.26/sf (See
21 Schedule 2). This space should not be classified as plant held for
22 future use. If, however, any adjustment for recovery is thought

1 necessary the actual construction costs, not the design estimate, is the
2 appropriate measure which would yield an amount of \$173,632.

3 Q. Do you agree with the recommended adjustment of 2.8 acres of land
4 held as future use totaling \$181,083.70? Please explain.

5 A. No. United Water believes the entire site should be allowed in rate
6 base. Mr. Sterling cites 2.8 acres of the plant site as being unused and
7 intended for future facilities. In response to United's Production
8 Request No. 27, Mr. Sterling provided his calculations used to arrive at
9 2.8 acres as shown on Schedule 3, this calculation is incorrect and the
10 correct amount is 1.84 acres. Mr. Sterling states that it was prudent for
11 the Company to acquire this land. Mr. Sterling incorrectly includes for
12 disallowance approximately .64 acres of site space that is devoted to
13 stormwater management and septic tank/drain field that are required
14 by Ada County and are an integral part of the initial facilities. Ada
15 County Comprehensive Plan Policy # 3 for Storm Drainage, as stated
16 under paragraph 2.2 on page 4 of the August 22, 2002 Conditional Use
17 Permit, requires that on-site treatment (bioswale), storm drain, and
18 flood control (detention basin) facilities be constructed coincident with
19 the development of the rest of the site. In addition, the project could
20 not have been built on only the space required for the footprint of the
21 initial facilities. All construction projects require space, beyond that
22 required for the facilities themselves, for materials laydown, staging,
23 construction offices and storage, construction equipment access,

1 maneuvering, and setup. The small amount of additional land acquired
2 was essential for the construction of the initial facilities. Any
3 adjustment for recovery would be unreasonable but if any adjustment
4 is thought necessary the area should be no more than 1.2 acres due to
5 the requirements discussed above. The cost of the 1.2 acres is 10.43%
6 of the total 11.5 acres and equates to \$77,571.73 (743,736.64 x .1043)
7 using the same cost basis.

8 Q. Please explain the background and history of the Integrated Municipal
9 Application Package (IMAP) that has been submitted to the Idaho
10 Department of Water Resources.

11 A. Three main factors motivated the Company to submit the IMAP. First,
12 the Idaho Department of Water Resources ("IDWR") is beginning to
13 implement conjunctive management of water rights in Idaho, which
14 means that ground water rights are managed in conjunction with
15 surface water rights. Before now, ground water rights generally were
16 administered separately from surface water rights. Under conjunctive
17 management, junior priority ground water rights may be curtailed in
18 order to make more water available for senior surface water rights. A
19 major goal of the IMAP is to allow the Company to use its most senior
20 ground water rights at its most productive wells. This would allow
21 United Water to respond efficiently to a ground water curtailment in
22 the Treasure Valley. To achieve this, United Water had to file an
23 application to transfer essentially all of its ground water rights to

1 recognize all of its ground water wells as alternate points of diversion
2 for each right. It involves 93 separate transfer applications and 13
3 separate applications to amend water rights permits.

4 Q. Is the possibility of curtailment a present day reality or only something
5 that might occur in the future?

6 A. It is a present day reality. For example, the curtailment order affecting
7 ground water pumpers in the Eastern Snake Plain Aquifer that has
8 been in the news recently is a good example of the effect of
9 conjunctive management. In response to this order, and potential
10 additional orders, communities are having to restrict or make plans to
11 restrict municipal water use. For example, the City of Shoshone
12 recently imposed water use restrictions on its citizens and is making
13 plans to impose further restrictions if another curtailment order is
14 issued. A major goal of the IMAP is allow the Company to use its most
15 senior ground water rights at its most productive wells in response to
16 potential curtailment orders. For example, if a curtailment order
17 restricted use of ground water rights in the Treasure Valley with
18 priority dates junior in time to 1967, without the IMAP the Company
19 could not divert from any of its wells that were drilled after 1967, even
20 if these wells were the most productive wells. When the IMAP is
21 approved the Company can utilize its pre-1967 water rights to pump
22 from its most productive wells and thereby maximize its ability to
23 serve its customers in the event of a curtailment order. To achieve

1 this, United Water had to file an application to transfer essentially all
2 of its ground water rights to recognize all of its ground water wells as
3 alternate points of diversion for each right. This application for
4 transfer is the foundation of the IMAP. This is a massive undertaking,
5 but one the Company believes is imperative to serve its existing
6 customers in this new era of conjunctive management. The Company
7 believes conjunctive management in the Treasure Valley is inevitable.
8 The IMAP is a proactive tool that will maximize the Company's
9 ability to effectively serve its customers in response to conjunctive
10 management.

11 Q. What are the other factors that led United Water to submit the IMAP?

12 A. The second major reason United Water submitted the IMAP was to
13 consolidate its water rights in advance of review by the Snake River
14 Basin Adjudication ("SRBA"), including the alternate point of
15 diversion transfer described above. In the SRBA, the Idaho
16 Department of Water Resources and the Snake River Basin court
17 evaluate each party's water rights as part of a court process that
18 reviews most of the water rights across the state. Other water rights
19 holders have the opportunity to challenge others' water rights in this
20 process. We believe our chances of successfully defending our
21 existing water rights in the SRBA are enhanced by seeking a transfer
22 to consolidate points of diversion and to recognize a consistent service
23 area and municipal purpose of use for all of the Company's rights.

1 The IMAP seeks to consolidate Company's water right portfolio in this
2 manner.

3 Q. Are there any other reasons for submitting the IMAP?

4 A. Yes. The third major reason the Company submitted the IMAP was to
5 bring our water right portfolio into compliance with the Municipal
6 Water Rights Act of 1996 (the "1996 Act"). This Act encourages
7 municipal water providers to plan to meet future demand. While this
8 requires an aspect of future planning, our primary motivation for
9 seeking protection under the 1996 Act is to protect our existing
10 portfolio of water rights, and particularly our most senior ground water
11 rights, from forfeiture. Importantly, the IMAP does not seek any new
12 water rights. But to ensure protection of our existing, senior water
13 rights, and to prevent forfeiture of those rights, we need to show that
14 those rights will help to meet some future demand.

15 Q. Would the Company have filed the IMAP even if the 1996 Act had not
16 been passed?

17 A. I think we would have. We had discussed the need to respond to
18 possible conjunctive management scenarios and the need to
19 consolidate our water rights in preparation for the SRBA even before
20 the passage of the 1996 Act. Accomplishing these goals would have
21 required a comprehensive transfer application like the IMAP
22 regardless of the 1996 Act.

1 Q. Mr. Sterling states that based on the IMAP the Company is seeking to
2 hold and protect at least 160 cubic feet per second (cfs) under its
3 current portfolio for future growth. Is Mr. Sterling correct?

4 A. No. Mr. Sterling's 160 cfs number is derived from a summary of the
5 IMAP that assumes the application will be approved in a manner that
6 will allow the Company to pool all of its water rights without any
7 conditions. In reality, water rights and administration are more
8 complicated than this, and any approval of the IMAP will very likely
9 include conditions that restrict the manner in which the Company can
10 use its rights. The Company has always recognized this and has
11 engaged in extensive negotiations with other parties to the IMAP
12 regarding possible conditions that should be imposed. Thus, even
13 though the total authorized diversion rate under the Company's ground
14 water rights is 310 cfs when all the rights are pooled, the rights have
15 (and likely will continue to have) limitations that include, among other
16 things, where they can be diverted, and/or when they can be diverted.
17 Consequently, even though the Company's peak demand in 2000 was
18 about 150 cfs, the Company cannot meet this demand simply by using
19 150 cfs worth of its water rights. To meet its annual demand, the
20 Company must use all, or at least nearly all, of its existing water rights.

21 Q. Does Mr. Sterling dispute the prudence of the Company's actions
22 regarding the IMAP?

1 A. No. In fact, he says, “I am not challenging the prudence of IMAP
2 activities in any way; in fact IMAP is something United Water should
3 be doing.” (Sterling Di. Pg 34).

4 Q. Even though he acknowledges the prudence of IMAP activities, Mr.
5 Sterling recommends disallowance of the entire investment, claiming
6 IMAP is intended to preserve and protect water rights for future use.
7 (Emphasis in original). Does Mr. Sterling correctly understand the
8 nature of the IMAP?

9 A. No, I do not think he does. As I explained above, the main thrust of
10 the IMAP is to consolidate the Company's water right portfolio in a
11 manner that will allow it to respond efficiently today to potential
12 ground water curtailments and to maximize its ability to defend the
13 existing water rights from challenges, including challenges that it has
14 forfeited some of its most senior water rights in the ongoing Snake
15 River Basin Adjudication.

16 Q. Do the Company and its customers obtain value today from knowing
17 that there is security in the Company’s water rights portfolio?

18 A. Absolutely. As described above, the Company’s ability to serve its
19 customers is threatened by potential ground water curtailments under
20 conjunctive management and also by challenges to the existence of the
21 Company’s most senior water rights. The present challenges require
22 the company to take proactive measures to protect its water rights so
23 that it can continue to serve its existing customers most effectively.

1 Q. Mr. Sterling also recommends a disallowance with respect to water
2 permit No. 63-31409, believing that the permit relates solely to future
3 ground water recharge projects. Is this water right intended only for
4 future recharge projects?

5 A. No. Recharge projects are only one component of permit 63-31409,
6 and an ancillary one at that. The primary purpose of permit 63-31409
7 is to allow the Company to divert natural flow from the Boise River to
8 the Columbia Water Treatment Plant (CWTP) for municipal purposes.
9 Based on his Response to United Water Idaho Production Request No.
10 31 Mr. Sterling now recognizes that this water right has two purposes.
11 As stated in the Response: "Upon further investigation and
12 examination of the actual permit and other documents contained in the
13 water rights file held by the Department of Water Resources, Mr.
14 Sterling now recognizes admits that the water right has two purposes."
15 This water right is used and useful now and this investment should be
16 allowed in rate base. The use of flood flow when available is not only
17 prudent but very economical because of no annual costs.

18 Q. Please explain the background and history of the three water rights
19 known collectively as the Initial Butte Water Right?

20 A. In 2002 the Bureau of Land Management (BLM) had negotiated for
21 the land purchase of the Initial Butte Farm totaling 2055 acres. The
22 BLM wanted the land for habitat purposes associated with the Birds of
23 Prey facility and therefore wanted to let the land revert back to its

1 natural condition. This provided the unique opportunity to separate
2 the land from the associated water rights. This situation does not
3 happen very often without injury to some party. The landowners
4 approached the Company about the potential purchase of this water
5 right. The difficulty for the Company was to determine a price for
6 Snake River water due to the fact the Company's pumping and
7 treatment facilities are all located on the Boise River. After many
8 work sessions with interested parties a creative and efficient exchange
9 was approved between the Snake and Boise River. This exchange
10 occurs during summer periods of salmon flow augmentation and is
11 monitored by Water District #63, Idaho Department of Water
12 Resources and Bureau of Reclamation (BLM). This exchange
13 provided raw water availability during the summer without the
14 significant capital cost of pipelines and pumping infrastructure to
15 deliver the water 25 miles to Boise. Of course it is not possible to
16 purchase a partial water right for a portion of the season. It was
17 necessary for the Company to purchase the entire 9,247.5 acre-feet
18 with a combined diversion rate 35.21cfs.

19 Q. Mr. Sterling recommends that the purchase price of \$1,838,560 be
20 discounted to take into account portions of the rights he believes
21 cannot physically be used. Is this adjustment appropriate? Please
22 explain.

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A. No. Based on his Response to United Water's Production Request No. 33, it appears that Mr. Sterling has not considered the price paid by the Company compared to market value. The Company knew that only a partial summer use was available related to the exchange discussed above. Because the owners were also getting value for the land sold to the BLM they were willing to negotiate a below market value for the water right. The market price was estimated at \$300/acre foot and was later confirmed by an independent appraisal completed for the State of Idaho associated with the Bell Rapids Water Right Purchase in 2004. (See Schedule 4). Mr. Sterling also recognizes this market price based on the attachment to his Response to Request No. 33. The Company purchased Initial Butte for \$135/acre foot (See Schedule 5) or 45% of market value with the understanding that approximately 45% of the volume could be diverted under the exchange. Lee Sisco, Watermaster for Water District #63 confirmed that salmon flow was 60 days in 2004 (See Schedule 6). This calculation is as follows:

Both water plants at 2005 Capacity 35cfs x 2 af/day/cfs x 60 days = 4,200af. Total purchase 4,200 af/9,247.5 af = 45.42%. This matches almost exactly with the purchase price compared to market price of $\$135/\$300 = 45\%$. In other words, the water right "yield" and price paid are fair and appropriate. The Company should be allowed to recover the entire price of the Initial Butte water right, as it is all used and useful.

1 Q. Does the estimated 4,200 af Initial Butte water right provide all of the
2 surface water needed for both the Marden Water Treatment Plant and
3 Columbia Water Treatment Plant?
4 A. No. Both plants combined require approximately 12,000 af to operate
5 at capacity during the summer.
6 Q. Do you agree with Mr. Sterling's adjustments No. 9 for a total
7 purchased water cost of \$117,837?
8 A. No. Mr. Sterling fails to consider the overall volume requirements of
9 both plants and the variety of annual mechanisms necessary to assure
10 availability
11 Q. Do you consider 2005 a "normal" water year related to these annual
12 mechanisms?
13 A. No.
14 Q. Can you explain and provide an estimate of what the normal level of
15 expense should be?
16 A. Yes. For the past 10 years the supply and demand on the Boise River
17 has been reasonably stable. The Company has had rental leases and
18 storage contracts in place to augment the early natural flow from the
19 Boise River drainage. Three primary changes all occurred at the same
20 time, which have now complicated the certainty and associated price.
21 These changes are extended low snowfall conditions, Bureau of
22 Reclamation Lucky Peak contract renewal uncertainties and

1 conjunctive management enforcement between ground water and
2 surface water in the upper Snake River.

3 Willing parties, relationships and competition have been in
4 tremendous flux over the past 12-18 months. The "picture" is
5 beginning to clear but as a result of market forces all of the prices
6 increased both for annual and acquisition costs. Examples are, Basin
7 63 rentals increased from \$6.50 to \$14.00 af, State administered water
8 bank leases increased from \$11.00 to \$20.62 af, natural flow
9 acquisition on the Snake River increased to \$300 af etc. This
10 background is provided in an effort to explain the difficulty in
11 predicting "normal" annual purchased water costs. The Company also
12 must make the difficult decision each year to keep its own storage and
13 lease water beyond the natural flow uncertainties or drain the system
14 and hope for refill next year.

15 Several contracts were not known and measurable during
16 staff review as discussed by Mr. Sterling's Response to Request No.
17 34. These items have since been executed and previously have been
18 provided by Jerry Healy (4/27/2005) including a 2005 purchased water
19 spreadsheet. The estimated 2005 cost is \$274,982. I have provided as
20 Schedule 7, a revised spreadsheet, which attempts to normalize the
21 affects of 2005. I have assumed three primary elements will become
22 "normal" and that the associated costs will come down. These
23 elements are the natural flow exchange from Initial Butte will become

1 available (4,200 af). Basin 63 incentive payments will come down to
2 \$7.00 from the higher costs paid to Simplot and Trinity Springs in
3 2005. The Lucky Peak payments to the Bureau of Reclamation will
4 return to the minimum and all existing storage water will be held for
5 drought protection. The normal annual purchased raw water cost then
6 is \$185,484 for the 13,454 af needed to operate Marden Water
7 Treatment Plant and Columbia Water Treatment Plant annually and to
8 meet peak summer demand.

9 Q. The Company has provided several updates to the capital proforma
10 additions referred to as Exhibit 8 in the direct testimony filed by Scott
11 Rhead. Are you providing a final update of the expected additions?

12 A. Yes. The updated Exhibit 8 dated 4/22/2005 is attached as Schedule 8.
13 The total forecast in-service addition is \$39,471,461 of which
14 \$37,264,250 is in service as of 3/31/2005. Several large invoices were
15 processed in April and early May for payment. These invoices total
16 approximately \$2,150,000.

17 Q. Does this conclude your testimony?

18 A. Yes it does.



United Water CWTP Calculated Daily Burn Rate

Actual average daily expenditures: budgeted and incurred based on the scheduled project duration.

CM Labor	Unit Rate (per hr)	Units (hrs)	Total Per Day
CM	\$115	6	\$690
Superintendent	\$65	8	\$520
Admin	\$19	8	\$152
Project Engineer	\$70	8	\$560
Labor	\$15	16	\$240
Misc	\$75	6	\$450
			Subtotal \$2,612

Inspection/Oversight	Monthly Rate	Total Per Day
Inspection/Conflicts/Submittal Approvals	\$112	\$58
Subtotal \$1,098		

Actual burdened average rate.

General Conditions	Monthly Rate	Total Per Day
Office Trailer	\$1,150	\$58
Conex (3)	\$450	\$23
Insurance	\$7,500	\$375
Temporary Utilities	\$2,000	\$100
Drinking Water	\$120	\$6
Site Office supplies	\$1,000	\$50
Trash	\$400	\$20
Postage	\$600	\$30
Subsistence (avg. 2 per mon.)	\$2,200	\$110
Auto (2 per mon.)	\$1,200	\$60
Travel (avg. 6 per mon.)	\$2,000	\$100
Heavy Equipment	\$7,000	\$350
Fuel	\$800	\$40
Safety Supplies	\$200	\$10
Small tools and consumables	\$2,200	\$110
Misc	\$800	\$40
Subtotal \$1,481		

Total burn rate per work day	\$5,191
Early Completion Bonus	\$3,500
UWID Savings for each day completed early	\$1,691



United Water CWTP Building UV Area Actual Cost Evaluation

Element	Subcontractor	Subcontractor's Total Price for Element	Percent of total element included in UV area	Actual cost incurred for UV area	Notes
Concrete Footings	McAlvain	\$48,000	10	\$4,800	110 lf of footings for the UV area. Reinforcing steel placement included.
Stem Walls	McAlvain	\$25,000	10	\$2,500	110 lf of stem walls. Reinforcing steel placement included.
Slab on Grade	McAlvain	\$88,000	15	\$13,200	3200 sq ft of SOG. Reinforcing steel placement included.
Masonry (wall face)	Sommer	\$188,000	19	\$35,720	19% of total project wall face used for UV area
Castlalted Beams	Western Steel	\$72,000	25	\$18,000	Includes steel erection
Metal Decking	Western Steel	\$31,000	15	\$4,650	Includes steel erection
Roofing (surface area)	Osmus	\$92,000	20	\$18,400	Percentage reflects that only metal roofing (no membrane) used in this area
HVAC Materials & Installation	Hobson	\$262,000	15	\$39,300	Process Area =54% of total; UV area = 27% of Process Area: 14.6%
Coatings	Color Craft	\$92,000	8	\$7,360	Approx. one-half cost is for piping (none in UV area): 0.50 x 0.15 = 8%
Fire Protection (density)	Treasure Valley	\$97,000	15	\$14,550	Element amount reflects \$35,000 deduct for fire pump from \$132,000 subcontract value.
Electrical Lighting	A&E	\$101,000	15	\$15,150	3200 sq ft of 22,000 sq ft total for building.
Total				\$173,630	

Current Cost per square foot =

\$54

Evaluation based on 3200 square feet

ATTACHED TO
REQUEST NO. 27
PROVIDED BY R. STERLING

Plant Held for Future Use

CWTP Property

<u>Unused Area</u>	<u>sq. ft</u>	
250 x 150	37,500	
150 x 150	45,000	- 22,500 SF
200 x 100	40,000	- 20,000 SF
Total	122,500	- 2.81 acres 1.84 AC.
	80,000	11.46 total acreage
		24.54 percent of total acreage

CWTP Building

<u>Total Area</u>	<u>sq. ft</u>
150 x 128	19,200
132 x 130	3,960
	23,160

<u>Unused Area</u>	<u>sq. ft</u>	
40 x 80	3,200	13.82 percent of total acreage

3,200 @ \$110/sq. ft. = \$352,000



**COMPLETE SUMMARY
APPRAISAL REPORT OF THE
WATER RIGHT #'S 2-7857 AND 2-10216**

**Owned by Ball Rapids Mutual Irrigation Company
388 East 5900 North
Hagerman, Idaho 83332**

**EFFECTIVE DATE OF APPRAISAL
August 30, 2004**

**PREPARED FOR
Clive J. Strong
State of Idaho, Idaho Attorney General's Office
P.O. Box 83720
Boise, Idaho 83720-0010**

**PREPARED BY
Clend Lemoyne ARA, CRPA, ASA
Idaho Certified General Appraiser #0147
Lemoyne Appraisal & C.
PO Box 5225
Twin Falls, Idaho 83303-5225**

#3192

DISTRIBUTION RESTRICTED—See Page 14

Le Moyne Appraisal L.L.C.

HENRI LEMOYNE, A.R.A., S.R.P.A., A.S.A.
ACCREDITED RURAL APPRAISER
IDAHO CERTIFIED APPRAISER

CRAIG A. MOORE
IDAHO CERTIFIED APPRAISER

BRENT STANGER, A.R.A.
ACCREDITED RURAL APPRAISER
IDAHO CERTIFIED APPRAISER

SEAN BROWN
APPRAISAL TRAINEE

September 8, 2004

Clive J. Strong
State of Idaho, Idaho Attorney General's Office
P.O. Box 83720
Boise, Idaho 83720-0010

Dear Mr. Strong:

Pursuant to your request for an estimate of market value of the unencumbered fee simple title to the property known as the Bell Rapids water rights, more particularly described on the following pages, I personally have inspected the records and other available information and have made a careful and detailed analysis of all factors pertinent to the estimate of value.

The accompanying report of 65 pages contains the results of my investigation and analysis.

I offered Greg Brown who is the Chairman of the Board of Bell Rapids Mutual Irrigation Company an opportunity to accompany me on my inspection of this property by telephone on August 30, 2004.

The water rights discussed in this appraisal report are held by Bell Rapids Mutual Irrigation Company but are not being appraised as if there was only one owner. As of this writing it is the intention of the State of Idaho, as I understand it, to negotiate for the purchase of the water rights. However, some of the stock holders of Bell Rapids Mutual Irrigation Company may wish to retain all or a portion of the rights that are appurtenant to the real estate they own. Therefore this appraisal estimates a range of value so that if necessary the water rights may be negotiated for individually. Therefore it is a specific assumption of this appraisal that there is no discount for size of the water right considered in this analysis. A more in-depth discussion regarding this assumption can be found in the Direct Sales Comparison Approach.

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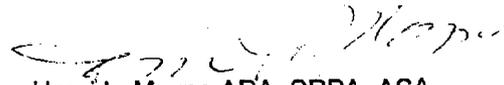
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Rhead, United Water
Schedule 4, Page 2 of 3

Per agreement with Clive Strong I have assumed that this water right is completely useable and have not investigated its historic use or partial lack of use thereof.

In my opinion, the market value of the subject property as of, August 30, 2004 was:

\$250 TO \$300 PER Acre Foot Annual Volume

Respectfully submitted,



Henri LeMoyne ARA, SRPA, ASA
Idaho Certified Appraiser #9

WATER RIGHT PURCHASE AND SALE AGREEMENT

THIS WATER RIGHT PURCHASE AND SALE AGREEMENT ("Agreement") is entered into effective this 30th day of May 2002 ("Effective Date") by and between Southwest, Inc., an Idaho corporation whose address is, c/o Gene Stunz, P.O. Box 2562, Nyssa, Oregon 97913, and Duane and Laura Pancheri, husband and wife, whose address is 19010 South Canada Road, Melba, Idaho 83614 ("Sellers"), and United Water Idaho, Inc., or its assigns, whose address is 8248 West Victory Road, Boise, Idaho 83707 ("Buyer"). In consideration of the sums to be paid by Buyer to Sellers, and the mutual covenants herein contained, the parties hereby agree as follows:

RECITALS

1. Sellers own water rights to divert surface water within the Snake River Basin, which water rights are represented by license numbers 02-2341, 02-2358 and 02-2420 and Snake River Basin Adjudication ("SRBA") claim numbers A02-02341, A02-02358 and A02-02420 ("Water Rights") in the records of the Idaho Department of Water Resources ("Department"), and which water rights, in combination, authorize diversion of surface water for irrigation at a rate of 35.21 cubic feet per second ("cfs") and a volume of 9,247.5 acre-feet per year.
2. The Water Rights are appurtenant to and beneficially used on 2,055 acres of land owned by Sellers and described in Exhibits A, B, C and D.
3. Sellers desire to sell and Buyer desires to purchase the Water Rights and to exchange the point of diversion and place of use thereof for Buyer's purposes and use ("Exchange").
4. Sellers and Buyer acknowledge the Exchange will require formal application to and approval by the Department.
5. Sellers and Buyer signed a letter of intent to enter a purchase and sale agreement in accordance with the terms stated herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing recitals, and the covenants and conditions set forth below, Sellers agree to sell, and Buyer agrees to purchase the Water Rights.

1. Purchase Price. One Million Two Hundred Forty-Eight Thousand Four Hundred Twelve and 50/100 DOLLARS (\$1,248,412.50), payable as follows: $\frac{1,248,412.50}{9,247.5} = 135/AF!$
 - a. Purchase Price at Closing. Ninety percent (90%) of the Purchase Price, or One Million One Hundred Twenty-Three Thousand Five Hundred Seventy-One and 25/100 DOLLARS (\$1,123,571.25), shall be due and payable to Sellers at Closing. Of this amount, Eight Hundred Fifty-Three Thousand Four Hundred Seventy-Six and 75/100 DOLLARS (\$853,476.75) shall be payable to Southwest, Inc., and Two Hundred Seventy Thousand Ninety-Four and 50/100 DOLLARS shall be payable to Duane and Laura Pancheri.

STATE OF IDAHO
WATER DISTRICT #63
LEE SISCO
6616 OVERLAND RD., BOISE, IDAHO 83709
PHONE 378-0246 FAX 378-1274

FAX TRANSMITTAL MEMO

TO: *UWI*

COMPANY/AGENCY NAME:

ATTENTION: *Scott Rhead*

DATE:

TIME:

NO. OF PAGES: *2*

Exhibit No. 16
Case No. UWI-W-04-04
Rhead, United Water
Schedule 6, Page 1 of 2

**SEE CASE FILE FOR
SPREADSHEETS**