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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-04-4

DIRECT TESTIMONY OF RANDY LOBB

IDAHO PUBLIC UTILITIES COMMISSION

APRIL 6, 2005

Q. Please state your name and business address for the record.

A. My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q. By whom are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, tariff analysis and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony in this case is to describe the policy position taken by the Staff with regard to the Company's proposed calculation of test year rate base and annualizing plant adjustments and explain the rationale supporting the position.

Q. Please summarize your testimony.

A. Staff proposes to establish the revenue requirement for United Water Idaho (UWI; Company) using rate base levels based on a test year average of the 13 monthly averages using July 2003 through July 2004 for the Company's proposed historic test year. Staff further proposes to include known and measurable plant additions through December 31, 2004 in the July 31, 2004 rate base total for calculation of the 13-month average. The additional five-month period proposed by Staff for making known and measurable plant adjustments allows the Company to update its historic test year to more current levels while reducing revenue/expense mismatches for adjustments out of the test year. It also allows Staff sufficient time to effectively evaluate and incorporate actual booked costs in its case. The December 31, 2004 deadline for adjusting historic test year values coincides with the close of calendar year 2004 and is generally consistent with the true-up to actual period allowed in the most recent Idaho

Power general rate case.

In a further effort to provide a revenue requirement more reflective of expected costs, Staff proposes to allow one notable exception to the December 31, 2004 test year plant adjustment deadline and average rate base calculation. That exception is to include investment associated with the Columbia Water Treatment Plant (CWTP) as if it were in service for the entire test year. Staff also proposes that the Commission allow reasonable revenue producing and expense reducing test year adjustments as proposed by the Company to fully recognize the economic impacts the treatment plant is expected to have on the Company's annual revenue requirement. Given the size of the project and its impact on test year rate base, expenses and revenues, Staff believes adjustments for the plant should be allowed even though actual expenses/revenues are not known and measurable. Annualizing or adding major plant additions such as this as if it were in service for the entire test year is consistent with treatment of major plant additions in the recently completed Idaho Power and Avista rate cases.

Q. Why did Staff find it necessary to set a deadline and propose a methodology for calculating test year rate base and incorporating post-test year plant investment?

A. The Staff makes its proposal for three primary reasons. The first reason is to establish some certainty and consistency in the process a utility uses when selecting a historic test year, making proforma adjustments and determining annual revenue requirement. By establishing guidelines, utilities will consistently calculate test year rate base and properly incorporate rate base adjustments. The second reason is that it will reduce the expense/revenue mismatch identified by the Commission to occur when the costs of plant adjustments are added as if they were in service for a whole year without adjusting for any benefits. The third reason is that it will allow Staff to focus on the Company's filing with the expectation that adjustments will be known and measurable and that revisions to originally filed information will be provided in time for Staff to complete a proper analysis.

Q. What historic test year is used by UWI in this case and what adjustments does it propose?

A. The Company has used a historic test year that runs from August 1, 2003 to July 31, 2004. The rate case was actually filed with the Commission on October 7, 2004. The Company has proposed many adjustments to the test year data. Some of the traditional adjustments are for such items as weather normalization, partial billing periods and other known and measurable changes. Other adjustments are for estimated impacts of the Columbia Water Treatment Plant

(CWTP). However, many of the adjustments are for budgeted, anticipated or estimated investments that the Company plans to make through May 31, 2005. In fact the Company proposes 90 post-test year plant additions to rate base based on cost estimates of anticipated projects. The Company then uses a year-end rate base that incorporates all of the post-test year additions as if they were in service for the entire test year.

Q. How does UWI's post-test year adjustments compare to those proposed by other companies in recent rate cases?

A. Idaho Power Company in Case No. IPC-E-03-13 filed a 2003 test year with 6 months of actual expenses, revenues and investments and 6 months estimated. The Company made it's filing on October 16, 2003 and provided updated actual test year balances to the Commission prior to the Staff prefile for hearings in late March and early April 2004. Various normalizing, annualizing and known and measurable adjustments were made to test year revenues and expenses. In addition, the average of the monthly average rate base was used to recognize that some plant was in service for only part of the test year. Finally, only three major plant additions were added beyond the end of the test year. These three major projects were included in the rate base calculation as if they were in service for the entire test year.

In Case No. AVU-E-04-01, Avista used a historic test year from January 1, 2002 to December 31, 2002. The Company then included various normalizing, annualizing and known and measurable adjustments to test year revenues and expenses. It too used an average of the monthly averages to establish rate base levels. The Company also included only four major plant additions beyond the test year; two generation projects and two transmission projects. These four major projects were included in the rate base calculation as if they were in service for the entire test year.

Q. Did the Commission approve the test year with post-test year plant additions as proposed by the companies in these two cases?

A. Yes. However, in both cases the Commission expressed specific concern regarding annualizing plant adjustments to include plant investment added late in the test year or after the test year as if it were in place for a full year. In Order No. 29505, in Case No. IPC-E-03-13, the Commission stated:

> We generally believe that including investment in the calculation of average year rate base as if it were in service the entire year when it was not… creates a mismatch between test year revenue and expenses.

In Order No. 29602, in Case No. AVU-E-04-1, the

Commission stated:

> Rather than deny the Company's annualizing plant rate base outright or require the Company to wait for its next rate case to include the plant in rates, we accept staff's proxy proposal for calculating imputed revenues and expense reductions.

The Commission went on to say:

> Henceforth, if the Company seeks full recovery of plant investment as if the plant had been in operation a full year, it must present a corresponding adjustment to revenues and expenses.

Q. Did the Commission allow a year-end rate base in these cases?

A. No, the Commission required that rate base be set at the average of the 13 monthly average for the test year. The Commission also allowed these companies to include limited major plant additions completed after the test year as if they had been in service for the entire year provided revenue producing or expense reducing benefits from these projects were also included.

Q. Is the UWI filing consistent with these Commission orders?

A. No, not with respect to determination of test year rate base levels or including test year ratepayer benefits that result from plant investment completed after the end of the test year. While the Company did add test year adjustments to reflect the revenue producing and expense reducing effects of the single large CWTP post-test year addition, it used an adjusted test year, year-end rate base total that results in a revenue requirement for plant additions as if the other post-test year plant additions had been in service for the entire test year. This treatment added nearly $10 million in post-test year plant additions to rate base for the entire test year without any revenue producing or expense reducing adjustments.

Q. How does UWI's proposed test year adjustments in this case compare to previous general rate filings made by the Company?

A. In Case No. UWI-W-97-6, the Company used a test year of July 1, 1996 to June 30, 1997. In addition to the standard normalizing, annualizing and known and measurable expense adjustments, the Company included over 100 post-test year plant additions through February of 1998 totaling approximately $5.2 million. In Case No. UWI-W-00-1, the Company used a test year of October 1, 1998 to September 30, 1999 with 70 post-test year plant adjustments through April of 2000 totaling $4.8 million. In both of these cases the Company based its investment amounts on budgeted estimates and then trued-up to actual cost after its filing with the Commission. The Company also used a year-end rate base as if these plant additions had been in service for the entire test year. No revenue producing or expense-reducing adjustments were made to the test year for this plant.

Q. If the Commission allowed multiple expected plant additions beyond the test year in each of these previous UWI cases without corresponding revenue/expense adjustments, why should the Commission not allow similar treatment in this case?

A. Because the Commission has since recognized an inequity in including the cost of plant additions in test year revenue requirement without incorporating the revenue producing/expense reducing effects of such projects. The Commission has established boundaries that limit this mismatch by requiring the use of average rather than year-end rate base and limiting post-test year plant additions to large projects with associated benefits incorporated in the test year. Also in the prior cases, the plant projections were better justified as known and measurable with a longer time period for Staff to verify the actual plant numbers. I discuss this further later in my testimony.

Q. What type of additional problems do you foresee if the Commission allows the continued use of year-end test year rate base and unrestricted post-test year plant adjustments?

A. Beyond the mismatch created by adding plant investment costs without corresponding test year benefits, allowing utilities to project post-test year investment based on anticipated budgets is contrary to the principal that test year adjustments should be known and measurable. Further revenue/expense adjustments based on estimates designed to eliminate the cost/benefit test year mismatch for an ever increasing number of post-test year rate base additions ultimately results in a forecasted rather than a historic test year. I do not believe it is the intent of the Commission to move to forecasted test years.

Moreover, UWI has continued to expand its time period for including estimated post-test year plant additions in its rate case filings. In the 97-6 case, the Company included 100 expected projects for 8 months after the end of the test year. In the 00-1 case, the Company included 70 expected projects up to 7 months after the end of the test year. In this case the Company has added 90 anticipated projects for ten months after the end of the test year. While the Company hopes to satisfy the known and measurable principal by providing actual costs for each project prior to or at the hearing, it provides no time for the Staff to verify or evaluate, through audit, the actual costs submitted.

Finally, if the Commission allows UWI to continue including unlimited post-test year plant adjustments using a year-end rate base without offsetting revenue/expense adjustments, then every Idaho utility can be expected to do the same. The statutory time frame for processing the company's rate case application is intended to reduce regulatory lag while allowing sufficient time for Commission review. The time period for processing a rate case in Idaho is already shorter than that for surrounding states. However, if cost information is continuously updated to the time of hearing, Staff and ultimately the Commission do not have sufficient time for adequate review. This is particularly true if Staff must also evaluate estimated revenue producing/expense reducing impacts of such plant additions when they are added to test year rate base on a year-end basis.

Q. Are there any other differences in what Staff proposes in this case and what the Commission approved in the most recent Idaho Power and Avista general rate cases with respect to test year rate base calculations?

A. Yes. There is one significant difference. In both the Idaho Power and Avista cases, no plant additions completed beyond the test year were included in the calculation of test year rate base other than the limited large plant additions previously described. In this case, Staff proposes that UWI be allowed to include plant additions proposed by UWI at the actual amount booked for non-CWTP plant investment through December 31, 2004 as if the investment were made by July 31, 2004, the end of the test year. The proposal allows the post-test year plant investment to be included for one month in the calculation of average rate base without requiring associated revenue producing or expense reducing test year adjustments. This treatment is consistent with the Commission's Idaho Power ruling that allowed six months of estimated investment to be trued up to actual investment and included in the test year calculation of average rate base.

Staff views this treatment as a compromise that allows estimated investment to be trued up to actual investment during the processing of the case and included in the average rate base calculation. In the Idaho Power case the number of months investment was allowed in the rate base calculation was dependent upon when in the test year investment was made. In the UWI case, all plant additions completed following the test year were added after the end of the test year and are therefore, only included in the rate base average for one month. Allowing plant to be included in rate base on this limited basis greatly reduces the potential for revenue/expense mismatch which reduces the need for further test year adjustment.

Q. What is the revenue impact of the Staff's proposal?

A. Staff witness Harms has determined that Staff's rate base proposal will reduce the Company's proposed annual revenue requirement by $2.13 million. Additional details regarding the revenue requirement impact are provided in Ms. Harms testimony in this case.

Q. Would you please summarize your recommendation?

A. Yes. Staff proposes to use an average of the 13 monthly average rate base to establish test year rate base for ratemaking purposes. The July 2004 monthly average would include plant additions proposed by UWI at the actual booked dollar amount through December 31, 2004. Actual and projected plant investment in the CWTP through May 31, 2005 would be included in the rate base total as if it were in service for the entire test year. The Company proposed revenue producing and expense reducing adjustment associated with the CWTP would be included in the revenue requirement calculation. Revenue producing and/or expense reducing adjustments to test year revenue requirement would not be required for non-CWTP post-test year plant additions included in the test year rate base average.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6Th DAY OF APRIL 2005, SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB,** IN CASE NO. UWI-W-04-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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