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2005 MAY 23 AM 11: 26

IDAHO PUBLIC
UTILITIES COMMISSION

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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF UNITED WATER IDAHO INC. FOR)	CASE NO. UWI-W-04-4
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR WATER SERVICE IN)	
THE STATE OF IDAHO)	SETTLEMENT OF THE
)	OVERALL WEIGHTED COST
)	OF CAPITAL

At issue in the rate case filed by United Water Idaho is determination of the cost of capital for the Company, including determination of its capital structure, cost of debt and a recommendation of an appropriate return on equity. Testimony was prefiled in the case by United Water and by Staff that addresses the capital structure and cost issues. No other party filed testimony on the issues relating to the capital structure of United Water.

The testimony prefiled by Staff and the Company reflect differences in the Company's cost of debt and in the recommended return on equity. To resolve these issues between the parties, United Water and Staff agree as follows:

1. The prefiled testimony of Staff indicates the proper calculation for determination of the Company's cost of debt results in a cost of debt that is 6.45%. The testimony prefiled by the Company indicates the proper calculation for determination of the Company's cost of debt results in a cost of debt that is 6.9%. Recognizing that the method used to calculate the cost of debt by each party differs due to the treatment of issue expenses, discounts and premiums, solely

to resolve this issue that remains in dispute, the parties agree that a cost of debt for United Water as a component of its capital structure may be 6.675%.

2. The testimony prefiled by the Staff indicates an appropriate return on equity for United Water falls within the range of 9.25% to 10.25%. Staff recommended a return on equity of 10%. The testimony prefiled by United Water indicates an appropriate return on equity falls within the range of 10.8% to 11.2%. United Water recommended a return on equity of 11.1%. The parties agree that a return on equity of 10.3% is acceptable for United Water and agree to recommend that return on equity to the Commission in this case.

Applying the cost of debt and return on equity numbers agreed upon, the capital structure and cost of capital results for United Water are as follows:

Capital	Ratio	Cost Rate	Weighted Cost
LT Debt	53.41%	6.675%	3.565%
Minority Interest	0.13%	5.000%	0.007%
Equity	46.46%	10.300%	4.785%
	100.00%		8.357%

3. The prefiled testimony of Staff witness Carolee Hall and Terri Carlock and United Water witness Pauline Ahern may be spread upon the record to support the cost of capital numbers and the terms of this settlement.

4. The parties agree that this Settlement represents a compromise of the positions of the parties in this case. The parties agree that this Settlement is in the public interest and that all of its terms and conditions are fair, just and reasonable. Nothing in this Settlement, including the actual cost of capital numbers accepted by the parties, may be used as a precedent in future cases whether involving United Water or any other utility.

5. Execution of this Settlement shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery, and no Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Settlement is appropriate for resolving any issues in any other proceeding in the future.

This Settlement will be entered into the record as evidence in this proceeding. The parties shall support adoption of this Settlement and acceptance of this Settlement as a

reasonable resolution of the issues identified previously. If the Commission adopts this Settlement without material change, no party shall attempt to further litigate or appeal the issues resolved by this Settlement. If the Commission rejects any or all of this Settlement, the party disadvantaged by such decision shall have the right to include any term rejected by the Commission in an appeal, if any.

Dated at Boise, Idaho this 23rd day of May 2005.



Weldon B. Stutzman
Deputy Attorney General

Attorney for Commission Staff



Dean J. Miller
McDevitt & Miller, LLP

Attorney for United Water Idaho Inc

bls/N:UWIW0404_ws_settlement

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 23RD DAY OF MAY 2005, SERVED THE FOREGOING **SETTLEMENT OF OVERALL WEIGHTED COST OF CAPITAL**, IN CASE NO. UWI-W-04-04, BY FAXING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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