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IDAHO PUBLIC UTILITIES COMMISSION

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-06-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF SCOTT RHEAD

1 Q. Please state your name.

2 A. Scott Rhead.

3 Q. By whom are you employed and in what capacity?

4 A. United Water Idaho (“United Water” or “Company”) as Managing Engineer.

5 Q. What are your duties and responsibilities in your capacity as Managing

6 Engineer?

7 A. I manage all activities of the Engineering group. These responsibilities

8 include strategic planning, capital budgeting, engineering design,

9 information technology, water quality, and construction management for

10 capital improvements.

11 Q. Please describe your professional training and experience.

12 A. I received a Bachelor of Science Degree in Civil Engineering from Idaho

13 State University in 1972. I was employed by Forsgren Consulting

14 Engineering from 1975 to 1990 designing and managing a variety of water

15 and waste water municipal improvement projects. I joined United in 1990.

16 Since then I have had diversified responsibilities in both Engineering and

17 Production departments. I am a registered professional engineer in Idaho,

18 Oregon, Washington, Utah and New Mexico. I am also a certified Idaho

19 Water Treatment Operator Level I.

20 Q. What is the purpose of your testimony?

21 A. I will discuss these topics:

22 • The increase in plant in service excluded from rate base in Case No. UWI-

23 W-04-04 and plant additions since that case.

- 1 • Support and background explanation for the re-statement of the plant in
2 service.
- 3 • Justification for including the early incentive bonus (\$287,000) paid to the
4 contractor as a part of the project costs for the recently completed Columbia
5 Water Treatment Plant (CWTP) which payment was disallowed in Case No.
6 UWI-W-04-04.
- 7 • Pro forma adjustments in the test year rate base to recognize investments in
8 plant in service during the six-month projected period November 1, 2005 –
9 April 30, 2006.
- 10 • Explanation of the purchased water expense adjustment as it relates to
11 market and weather conditions.

12 Q. Since the last proceeding has the Company continued to invest in utility
13 plant in service?

14 A. Yes. The Company continues to provide new and replacement plant in all
15 areas of the business including:

- 16 • Source of Supply
- 17 • Water Treatment
- 18 • Pumping
- 19 • Transmission and Distribution Mains
- 20 • Distribution Storage
- 21 • Customer Service Lines
- 22 • Customer Meters
- 23 • Information Technology

1 • General Plant

2 Plant Additions

3 Q. Please discuss the overall investment increase in gross plant in service since
4 Case No. UWI-W-04-04 in which the 13-month average rate base
5 methodology was used.

6 A. The 13-month average gross plant in service amount is expected to increase
7 from the approximately \$243.8 million used to determine rate base in the last
8 case (UWI-W-0404) to approximately \$268.6 million projected through April
9 30, 2006 in this instant case, an increase of about \$24.8 million. Much
10 of this investment was already in service to customers at the time of the last
11 case but was not recognized for ratemaking purposes due to the 13-month
12 averaging methodology. Approximately \$7 million relates to capital projects
13 that were placed in service during the test year period of August 2003 to July
14 2004 but were excluded from rate base due to the 13-month averaging
15 method. Another approximately \$7 million relates to the same averaging
16 affect on post-test year plant additions itemized on Company's Exhibit 8 in
17 Case UWI-W-04-04, excluding the Columbia Water Treatment Plant and
18 associated projects. The remaining amount relates to capital projects in
19 service to customers since the last case, and those capital additions reflected
20 in the six-month forecast portion of the test year in this instant case.

21

22

23

1 Restatement of Plant in Service Dates

2 Q. In order to accurately reflect plant in service for the 13-month averaging
3 method, did United Water have to restate or “backcast” the booked plant in
4 service for this case filing?

5 A. Yes. As discussed by Witness Healy, the automated process of moving capital
6 additions from construction work in process (CWIP) to plant in service on
7 the books did not initially function correctly. The backcast of capital
8 additions referred to by Witness Healy was required in order to correctly
9 align the various plant in service projects and associated dollars with the
10 periods of time they were first physically placed in service to customers.

11 Q. On what did you rely to verify the actual in service timing of various capital
12 additions?

13 A. I relied upon various sources of information, which were and are available
14 to verify the accurate time line for construction completion, placing in
15 service and cost accumulation. For each project, the construction work in
16 progress (CWIP) ledger was evaluated to determine physical in service
17 circumstances and timing. Company inspector “as-built” drawings and
18 records provided evidence that distribution system projects were complete
19 and physically in service. Pumping meter records were used to verify project
20 start-up for source, pumping and treatment facilities addition. Purchase
21 order history within the procurement system was also used to verify project
22 completion and payment timing. In addition, project closeout notifications

1 that were emailed by Engineering to Corporate Accounting requesting that
2 projects be placed in service, were also relied upon to verify project timing.

3 Q. Did you provide these supporting elements to Witness Healy in order to
4 enable the backcast and appropriate re-statement of the plant in service for
5 ratemaking purposes?

6 A. Yes, under my direction, these adjustments to plant in service were provided
7 to Witness Healy to accurately reflect the backcast as detailed in his Exhibit
8 5, Schedule 2, page 1 of 1 and Schedule 3, pages 1 through 6.

9 Early Completion Incentive

10 Q. In case UWI-W-04-04, with respect to the Columbia Water Treatment Plant,
11 how did the Commission treat the early completion incentive paid to the
12 contractor, CDM?

13 A. The Commission disallowed the bonus, believing that there was not an
14 adequate demonstration that the incentive actually reduced the overall
15 construction cost of the project. The Commission, however, provided that
16 the Company could present these costs in its next rate case for Commission
17 review. (Order No. 29838, pg. 9).

18 Q. Has the early completion incentive been paid to CDM?

19 A. Yes. It was fully approved and the payment request forwarded to accounting,
20 May 12, 2005. CDM received payment June 6, 2005.

21 Q. Have you been able to verify that the bonus reduced the overall project cost?

22 A. Yes. Included in the CDM contract was an allowance for project
23 management costs computed on a per diem basis. These costs are shown on

1 Exhibit 8, page 1 of 1 and total \$5,191 per day. These costs are charged to
2 the project each day up to the date of substantial completion, so long as the
3 guaranteed maximum price is not exceeded.

4 Q. Did the early completion incentive reduce these costs?

5 A. Yes, the incentive of \$3,500 per day reduced the project management costs by
6 \$1,691 per day for each day by which the actual completion date was in
7 advance of the contract completion date (\$5,191 - \$3,500).

8 Q. Have you calculated the overall savings to the project achieved by the early
9 completion incentive?

10 A. Yes. The actual completion date was 82 days prior to the contract
11 completion date so the savings are 82 x \$1,691, or the sum of \$138,662.

12 Q. Do you believe there is now adequate verification that the early completion
13 incentive reduced project costs, as required by Order No. 29838?

14 A. Yes, I do. The early completion incentive resulted in financial savings to our
15 customers in the amount of \$138,662.

16 Q. In addition to financial savings, was there a reliability of service benefit to
17 having the project substantially completed prior to the contractually required
18 completion date of June 1, 2005?

19 A. Yes. Customers certainly benefited by having the project completed before
20 peak water demands that occur in the late spring and early summer. With
21 the project being substantially complete and placed in service in March,
22 there was sufficient time to test and operate the pump station and new
23 technologies associated with the plant equipment. We were thus able to

1 confirm plant reliability prior to peak water demand season. This was all
2 able to occur during the March to June 2005 time frame so as to ensure
3 reliable and uninterrupted service to customers during higher summer
4 demands.

5 Pro Forma Additions

6 Q. Can you now discuss, in general terms, the capital additions planned to be
7 placed in service between November 1, 2005 and April 30, 2006, the six-
8 month forecasted portion of the test year?

9 A. Yes. The plant additions for this time period, which represent a normal level
10 of capital additions during this timeframe, are detailed by month in Exhibit 9
11 page 1 through 4. Examples of these capital additions include customer
12 services, meters, pumping equipment, a booster station along Warm Springs
13 avenue, new and replacement mains, auxiliary power at two facilities to
14 comply with Idaho Department of Environmental Quality requirements, and
15 security upgrades.

16 Purchased Water Expense

17 Q. Please discuss the basis for United Water's purchased water expense, as
18 detailed in Schedule 1, page 6 of Witness Healy's testimony.

19 A. The annual cost to purchase or lease surface water is related to several
20 factors. For several years the Company has had rental leases and storage
21 contracts to augment the early natural flow releases from the Boise river
22 drainage. Due to several years of low snow pack and questionable water
23 allocations, willing parties, relationships and competition have been in



United Water CWTP Calculated Daily Burn Rate

CM Labor	Unit Rate (per hr)	Units (hrs)	Total Per Day	Actual average daily expenditures; budgeted and incurred based on the scheduled project duration.
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 Inspection/Conflicts/Submittal Approvals \$112 9.8 **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
Substance (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

Early Completion Bonus

UWID Savings for each day completed early

\$5,191

\$3,500

\$1,691

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**Projected Capital In-Service per Month
January 1, 2006 through April 30, 2006**

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Account
CEA No. Number Description Jan-06 Feb-06 Mar-06 Apr-06 Totals

Blanket Projects

New Short Mains & Valves						
33140	T&D Mains	42.3	1.0	1.0	1.0	45.3
						0.0
Repl Short Mains & Valves						
33140	T&D Mains	5.0	5.0	5.0	5.0	20.0
						0.0
New Domestic Services						
33340	Services	139.9	116.9	116.9	116.9	490.6
33340	Services - A&C	(144.9)	(121.9)	(121.9)	(121.9)	(510.6)
						0.0
New Fire Services						
33340	Services	29.1	17.0	17.0	17.0	80.1
						0.0
New Domestic Services Co Funded						
33340	Services	70.2	30.0	30.0	30.0	160.2
						0.0
Repl Domestic Services						
33340	Services	57.6	25.0	50.0	50.0	182.6
						0.0
New Customer Meters						
33440	Meter and Meter Installations	66.5	5.0	5.0	5.0	81.5
						0.0
Repl Customer Meters						
33440	Meter and Meter Installations	263.9	8.0	8.0	8.0	287.9
						0.0

Other Capital Projects

C02B002 Columbia Water Treatment Plant						
30430	Structures & Improvements	3.5				3.5
31120	Pumping Equipment	3.5				3.5
32030	Water Treatment Equipment	3.5				3.5
32030K	Filter Elements	3.5				3.5
33140	T&D Mains	3.5				3.5
C03B003 Maple Hill Well Treatment						
30430	Structures & Improvements	4.9				4.9
31120	Pumping Equipment	6.2				6.2
C04B002 Raw Water Pump Station						
30430	Structures & Improvements	49.2				49.2
C04B007 Marden WTP Chlorine Generator						
32030	Water Treatment Equipment					0.0
C04B504 Production General Plant-Marden						
						0.0

**Projected Capital In-Service per Month
January 1, 2006 through April 30, 2006**

Account		Jan-06	Feb-06	Mar-06	Apr-06	Totals
CEA No.	Number Description					
	32030 Water Treatment Equipment					0.0
C04C002	Auxiliary Power @ Pleasant Valley Well					0.0
	30420 Structures & Improvements	2.1				2.1
	31020 Power Generation Equipment	1.9				1.9
C04C005	VFD Installations-Efficiency					0.0
	31120 Pumping Equipment					0.0
C04D003	Operational Control Equipment					0.0
	33140 T&D Mains	13.6				13.6
	34650 Communication Equipment	6.2				6.2
C04J501	Repl Production Field Laptops					0.0
	3405A Computer Software & Hardware					0.0
C04K106	Security Upgrades					0.0
	30420 Structures & Improvements					0.0
	30430 Structures & Improvements					0.0
C04K304	UWID Master Plan					0.0
	34850 Other Intangible Plant					0.0
C05A001	Upgrade Cap at Floating Feather Well					0.0
	31120 Pumping Equipment	175.4				175.4
	33140 T&D Mains	34.6				34.6
C05A002	Upgrade Cap at Fisk Well					0.0
	31120 Pumping Equipment	109.5				109.5
C05A003	Cole Well ASR					0.0
	31120 Pumping Equipment	129.7	15.0			144.7
C05A102	Water Rights					0.0
	3032W Water Rights	48.1				48.1
C05B501	Marden Valves					0.0
	32030 Water Treatment Equipment	6.6				6.6
C05C003	Warm Springs Booster Station					0.0
	30440 Structures & Improvements	101.8	49.0			150.8
	31120 Pumping Equipment	113.6	2.9	20.4		136.9
	33140 T&D Mains	64.4				64.4
	34650 Communication Equipment	20.2				20.2
C05C100	Pumping Equip-Source of Supply					0.0
	30340 Land and Land Rights	4.5				4.5
	31120 Pumping Equipment	22.7				22.7
C05C005	Landscaping Well Sites					0.0
	30420 Structures & Improvements	52.0				52.0
C05C301	Aux Power Belmont & Coventry					0.0
	31020 Power Generation Equipment	67.4				67.4
C05C006	Reconstruct Pumping Facilities					0.0
	30420 Structures & Improvements	15.5				15.5
	30440 Structures & Improvements	7.9				7.9
	31120 Pumping Equipment	4.1				4.1
C05C501	SCADA Upgrade					0.0

**Projected Capital In-Service per Month
January 1, 2006 through April 30, 2006**

Account		Jan-06	Feb-06	Mar-06	Apr-06	Totals
CEA No.	Number Description					
	34650 Communication Equipment					0.0
C05C502	Replace Control Equipment					0.0
	31120 Pumping Equipment					0.0
C05C505	Crestline Booster Upgrade					0.0
	31120 Pumping Equipment		30.0			30.0
C05C506	VFD Installations Pioneer/Marden					0.0
	31120 Pumping Equipment	41.0				41.0
C05D101	Cribben & Bowmont					0.0
	33140 T&D Mains	11.0				11.0
C05D102	Central Park PRV					0.0
	33140 T&D Mains	102.0				102.0
C05D103	Hill Rd					0.0
	33140 T&D Mains	107.6				107.6
CxxD300	Developer Projects					
	33140 T&D Mains	315.7	438.9	438.9	438.9	1,632.4
CxxD300	Developer Projects A&C	(315.7)	(438.9)	(438.9)	(438.9)	(1,632.4)
C05D622	Kootenia & Johnson					0.0
	33140 T&D Mains			130.0		130.0
C05D623	Berkley St					0.0
	33140 T&D Mains	28.1				28.1
C05D706	Maple Grove Extension					0.0
	33140 T&D Mains			48.0		48.0
C05D707	16th St & State					0.0
	33140 T&D Mains			211.7		211.7
C05J001	Managed Desktop Server					0.0
	3405A Computer Software & Hardware	7.8				7.8
C05J005	New IT Equipment					0.0
	3405A Computer Software & Hardware	12.4				12.4
C05J503	Repl IT Equipment					0.0
	34050 Office Furniture & Equipment	4.0				4.0
	34650 Communication Equipment	4.1				4.1
C05K106	General Plant					0.0
	34350 Tools, Shop & Garage Equipment	8.5				8.5
C05K107	Security Upgrades Ph 2					0.0
	30420 Structures & Improvements			5.4	5.4	10.8
	30450 Structures & Improvements		11.2	22.4		33.6
	33040 Distr Reservoirs & Standpipes		18.4			18.4
	34050 Office Furniture & Equipment		23.3			23.3
	3405A Computer Software & Hardware		13.8			13.8
C05K501	Repl General Plant Ph 2					0.0
	34150	3.2				3.2
	34350	17.6				17.6
C05K502	Replace Office Chairs					0.0
	34050 Office Furniture & Equipment	5.6				5.6

**Projected Capital In-Service per Month
January 1, 2006 through April 30, 2006**

Account		Jan-06	Feb-06	Mar-06	Apr-06	Totals
CEA No.	Number Description					
C06B001	Metering at Mesa #3-Arsenic					0.0
	33140 T&D Mains		35.0			35.0
C06B002	Metering at Cent Pk-Arsenic					0.0
	33140 T&D Mains			20.0		20.0
C06B501	Repl Chlorination Equip					0.0
	32030 Water Treatment Equipment		20.0			20.0
C06B503	Repl Chlorine Residual Analyzers					0.0
	32030 Water Treatment Equipment		5.0			5.0
C06C001	Pump Station Cooling					0.0
	30420 Structures & Improvements				55.0	55.0
C06D701	Highland St					0.0
	33140 T&D Mains			50.0		50.0
C06Kxxx	Wash Rack Building					0.0
	30450 Structures & Improvements			3.0		3.0
	Net Totals	1,962.1	309.6	621.9	171.4	3,065.0
	A&C Totals	(460.6)	(560.8)	(560.8)	(560.8)	(2,143.0)
	Gross Totals	2,422.7	870.4	1,182.7	732.2	5,208.0

**SEE CASE FILE FOR
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AN OVERSIZE PAGE**