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Via Hand Delivery

Jean Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, Idaho 83720

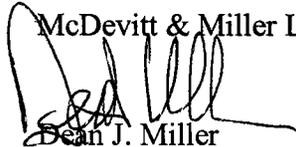
Re: United Water Idaho Inc., General Rate Case Application
Case No. UWI-W-06-02

Dear Ms. Jewell:

Enclosed please find the original and (9) copies of the supplemental testimony of Gregory P. Wyatt, with one copy of each designated as "Reporter's Copy". A computer disc containing the supplemental testimony is also enclosed.

An additional copy of the document and this letter is included for return to me with your file stamp thereon.

Very Truly Yours,

McDevitt & Miller LLP

Dean J. Miller

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PUBLIC UTILITIES COMMISSION

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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-06-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY OF GREGORY P. WYATT

1 Q. Please state your name and business address.

2 A. Gregory P. Wyatt, 8248 W. Victory Rd, Boise Idaho.

3 Q. What is your occupation?

4 A. I am the General Manager of United Water Idaho Inc., (“United Water” or the

5 “Company”).

6 Q. Are you the same Gregory P. Wyatt who previously filed Direct Written

7 Testimony on February 10, 2006 in this matter?

8 A. Yes I am.

9 Q. What is the purpose of your Supplemental Testimony?

10 A. I want to express United Water’s support for the Settlement Stipulation signed by

11 Commission Staff and United Water, dated and filed May 22, 2006, and urge the

12 Commission to approve the Settlement Stipulation without material change or

13 condition.

14 Q. Could you briefly describe the key features of the Settlement Stipulation?

15 A. Yes. In the Settlement Stipulation the parties have agreed that:

16 --The Company’s allowed revenues should be increased by \$3.633 million, which

17 is an approximate 10.98% increase over current rates;

18 --The \$3.633 million increase should be implemented by tariffs that increase the

19 rates and charges (except incidental service charges) to all customers by a uniform

20 percentage increase and that the increase apply equally to the Company’s

21 customer charge and volume charge;

1 --Upon Commission approval of the Settlement Stipulation, United Water will
2 dismiss with prejudice its pending Supreme Court Appeal of the Commission's
3 final orders in Case No. UWI-04-04;

4 --The Commission's final Order should approve various accounting methods for
5 the Idaho Power Company PCA and certain deferral items;

6 --Rates implementing the increase may go into effect by August 1, 2006.

7 Q. To put the Settlement Stipulation in appropriate context, could you please
8 describe the Company's initial Application in this case?

9 A. Yes. On February 10, 2006 the Company filed its initial Application requesting a
10 revenue increase of approximately \$5.922 million, or an overall increase of
11 17.91%. I believe this case can be viewed, in many respects, as a continuation of
12 Case No. UWI-W-04-04. There, the Commission determined that United Water
13 should follow the 13-month average methodology for rate base calculation, rather
14 than the year-end methodology previously employed. This resulted in
15 approximately \$13 million of investment being excluded from rate base. With the
16 passage of time that investment became eligible for rate base inclusion under the
17 13-month average methodology. A predictable consequence of the change in
18 methodology was that a follow-up case would be necessary to obtain recovery of
19 the investment excluded by the change in methodology.

20 Thus, following the Commission's directive, the Company filed this case
21 using the 13-month average methodology with a split test year consisting of 6-
22 month actual and 6-month projected data.

1 Q. Did the Commission's final orders in Case No.UWI-W-04-04 require other
2 changes in rate making methods that made this filing necessary?

3 A. Yes. In Case UWI-W-04-04 the Commission determined that the accrual method
4 of accounting for pension expense should not be used for rate making purposes.
5 In the intervening time, the Company has been required to make, and soon will
6 have to make, significant cash contributions to the United Water pension. In the
7 original Application, the Company sought recognition of this expense under the
8 Commission required cash method.

9 Q. Were there other features of the Company's initial application designed to
10 streamline processing of the case and eliminate contentious issues?

11 A. Yes. In Case No. UWI-W-04-04 the Company and Staff stipulated to the
12 appropriate return on equity and cost of debt. In its Application United Water
13 proposed to carry forward the results of that stipulation for use in this case, thus
14 eliminating the need for cost of capital witnesses. Staff agreed with that proposal.

15 Additionally, because the Company's operating expenses and revenues
16 were thoroughly reviewed in Case No. UWI-W-04-04, the Application proposed
17 only a limited number of adjustments to operating expense, concentrating on
18 items that represented material adjustments since the last case.

19 Finally, the Application did not propose any adjustments to rate base for
20 post-test year known and measurable additions, a topic that was a source of
21 contention in Case No. UWI-W-04-04.

22 Q. Please describe activities in this case after the initial filing.

1 A. Staff conducted a thorough audit of the Application, assigning a team of 6
2 auditors and engineers to the audit project. Two of the auditors spent a week at
3 the corporate headquarters in New Jersey examining corporate documents. They
4 also reviewed internal processes and procedures regarding inter-company
5 transactions. The Company cooperated fully in the Staff investigation,
6 responding to 107 informal written audit requests and 53 formal discovery
7 requests.

8 Q. As time passed, did the Company acquire actual financial data in place of the
9 projected 6-month data contained in the initial Application and did this lead to a
10 willingness to accept less than the rate request contained in the Application?

11 A. Yes. The projected test year ended April 30, 2006 and the projected data was
12 converted to actual early in May 2006. As a result of this and other adjustments
13 that became apparent during the Staff audit, the Company was prepared to make
14 adjustments to its filing reducing the requested percentage to 14.91% from
15 17.91%, for a revised revenue increase of \$4.93 million. The Company provided
16 to Staff the revised rate case exhibits Nos. 3, 4, and 11 showing the revised
17 request prior to settlement discussions.

18 Q. After the activity you have described, did the Company and Staff meet to discuss
19 possible settlement?

20 A. Yes, representatives of the Company and Staff met for most of the day on
21 May 15, 2006. There are no other parties in the case. At that meeting an
22 agreement on the basic settlement terms was reached. Then, over the next few

1 days, the written Settlement Stipulation was finalized and ultimately filed on May
2 22, 2006.

3 Q. Turning to the specific elements of the Settlement Stipulation, please discuss the
4 recommended revenue increase of \$3.633 million.

5 A. This figure represents an amount both parties believe reasonable after each party
6 had an adequate opportunity to evaluate the merits of issues that were in dispute.
7 While the parties did not attempt to resolve each issue on an item by item basis,
8 the overall increase reflects each party's informed judgment regarding the likely
9 outcome if the case were fully litigated.

10 Additionally, as discussed above, the majority of the increase is not
11 subject to dispute but, rather, is the inevitable consequence of implementing the
12 decisions made in Case No. UWI-W-04-04. As recited in the Stipulation, "...most
13 of the additional revenue requirement results from including in rate base project
14 costs and expenses that were not included in rates in the Company's last rate case,
15 Case No. UWI-W-04-04, and their inclusion here is consistent with the
16 Commission's decision in that case." The Company estimates that more than
17 75% of the settlement amount can be attributed to compliance with orders from
18 Case No. UWI-W-04-04, while the remaining amount can be attributed to
19 increases in investments and operating costs since the prior case.

20 The agreed increase of \$3.633 million also represents a significant
21 concession from the Company's original request of \$5.92 million and its revised
22 increase request of \$4.93 million.

1 Q. Is not a 10.98% increase a somewhat significant increase for the company's
2 customers?

3 A. On a percentage basis it may appear so, although, I would note that in dollar terms
4 it is about a \$3.00 per month increase for an average residential customer.

5 Additionally, as noted above, the majority of the increase is the inevitable
6 result of changes in rate making practices required by final orders in Case No.
7 UWI-W-04-04. Most of the increase is due to the inclusion in rate base of
8 investments excluded in Case No. UWI-W-04-04 resulting from the change to the
9 13-month methodology from the year end methodology.

10 Q. Please discuss the proposal for a uniform percentage increase.

11 A. In Case No. UWI-W-04-04, the issue of cost of service and rate design was
12 extensively debated. After an opportunity for full consideration, the Commission
13 settled upon a rate design it believed best served the public interest. Because rate
14 design and cost of service had so recently been reviewed at the time of filing this
15 case, the Company also filed a Motion allowing the Company to dispense with the
16 normal requirement that a cost of service study accompany the filing. The
17 Commission granted that Motion. (*See* Order No. 29988, dated March 3, 2006).

18 A uniform percentage increase also preserves the rate relationships the
19 Commission found to be reasonable in Case No. UWI-W-04-04.

20 Q. Has the Commission in the past been reluctant to order increases to the customer
21 charge contained in the Company tariffs?

22 A. A review of Commission Orders from the last three United Water rate cases
23 (UWI-W-97-6, UWI-W-00-1 , and UWI-W-04-4) shows that the Commission

1 approved “across the board” increases in two of the three. Only in Case No.
2 UWI-W-04-4 did the Commission apply the rate increase primarily to the
3 volumetric components of the tariff. However, given the unique nature of this
4 case, a uniform percentage increase applied to all rate elements will preserve the
5 relationship between the customer charge and volume charge the Commission
6 recently found to be reasonable. And, as the Company has argued in previous
7 cases a rate design that seeks to recover “too much” of the allowed revenue
8 requirement through volume charges serves to exacerbate the real risk of revenue
9 instability and under-recovery of the allowed return. The rate design proposal in
10 this case is a modest step in the direction of enabling revenue stability for the
11 Company, while still providing a significant conservation message via the 25%
12 higher summer rate.

13 Q. Is the rate design proposal a material term of the Settlement Stipulation from the
14 Company’s point of view?

15 A. Yes. While the Company recognizes that each term of the Settlement Stipulation
16 is not precedential and approval of it does not commit the Commission to a course
17 of action in the future, an equal distribution to both the volume and customer
18 charge in this case was a material consideration in the Company’s willingness to
19 enter into the Settlement Stipulation.

20 Q. Why, in conjunction with this case, is the Company willing to dismiss its Supreme
21 Court appeal from Case No. UWI-W-04-04?

22 A. While our legal counsel believes the appeal has legal merit, the Company
23 understands that the pendency of an appeal can be a source of friction between the

1 Company, the Commission and Commission Staff. And, if the Settlement
2 Stipulation is approved, the Company believes it's allowed revenues will be
3 sufficient to provide a reasonable opportunity to earn its allowed return on a
4 prospective basis. Dismissal of the appeal will also eliminate further litigation
5 costs for both the Company and the Commission.

6 Q. You mentioned that the Settlement Stipulation also contains agreements between
7 the Company and Staff on certain accounting items. Please explain.

8 A. In sub-clauses a—c of paragraph 6 of the Settlement Stipulation, agreements
9 regarding accounting methods for the Idaho Power PCA and certain deferrals are
10 set forth. None of these items affect the revenue increase award in this case.
11 Rather, they reflect agreement on how these accounting issues will be handled on
12 a prospective basis, and specific regulatory approval is necessary to support the
13 accounting entries that will be made. They thus eliminate the potential for
14 disagreements on accounting methods in subsequent cases. The Company
15 requests these methods be approved in the Commission's final order.

16 Q. A final term of the Settlement Stipulation is that rates would go into effect by
17 August 1, 2006. Is this a material term of the Settlement Stipulation from the
18 Company's point of view?

19 A. Yes it is. I understand that under the statutory suspension period the Commission
20 would otherwise have until September 12, 2006 to make the rates effective.
21 Although it is possible the Company would have received an ultimate rate award
22 greater than the agreed settlement amount if the case was fully litigated, receiving
23 an amount certain earlier than legally required was a material factor in the

1 Company's agreement to accept an increase of \$3.633 million rather than pursue
2 through hearing the full amount of it's revised request.

3 Q. Do you believe the Settlement Stipulation represents a fair resolution of this case?

4 A. Yes. Settlement discussions were only undertaken after Staff conducted a
5 thorough audit of the Application. The Settlement Stipulation is the result of
6 arms-length negotiations between two sophisticated parties, each of whom had
7 access to all relevant facts. The end result is rates that are fair, just and reasonable
8 in my opinion.

9 Q. Do you have any concluding remarks regarding the settlement process?

10 A. Yes. During the settlement process the Company experienced a willingness by
11 Staff to address issues in a straightforward, professional manner. The Company is
12 very appreciative of these efforts by Staff.

13 Q. Does that conclude your testimony?

14 A. Yes it does.