

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

3 A. My name is Randy Lobb and my business address is
4 472 West Washington Street, Boise, Idaho.

5 Q. By whom are you employed?

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

8 Q. What is your educational and professional
9 background?

10 A. I received a Bachelor of Science Degree in
11 Agricultural Engineering from the University of Idaho in
12 1980 and worked for the Idaho Department of Water Resources
13 from June of 1980 to November of 1987. I received my Idaho
14 license as a registered professional Civil Engineer in 1985
15 and began work at the Idaho Public Utilities Commission in
16 December of 1987. My duties at the Commission currently
17 include case management and oversight of all technical Staff
18 assigned to Commission filings. I have conducted analysis
19 of utility rate applications, rate design, tariff analysis
20 and customer petitions. I have testified in numerous
21 proceedings before the Commission including cases dealing
22 with rate structure, cost of service, power supply, line
23 extensions, regulatory policy and facility acquisitions.

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

1 A. The purpose of my testimony is to describe the
2 process leading to the filed Stipulation (the Proposed
3 Settlement) signed by the two parties in this case and to
4 explain the rationale for Staff's support.

5 Q. Please summarize your testimony.

6 A. Based on Staff's review of United Water Idaho's
7 (United Water; Company) rate case filing, a comprehensive
8 audit of Company test year results of operations and
9 consideration of outstanding rate case issues, Staff
10 believes that the proposed Settlement agreed to by Staff and
11 the Company is in the public interest and should be approved
12 by the Commission. The Company originally proposed an
13 annual revenue increase of \$5.92 million for an overall
14 increase of 17.91%. The proposed Settlement specifies an
15 annual revenue requirement increase of \$3.63 million for an
16 overall increase of 10.98%.

17 The primary consideration of the Commission Staff
18 in leading to the Stipulation on revenue requirement was a
19 belief that settlement would eliminate the risk of higher
20 revenue requirement and result in a smaller rate increase
21 than could be achieved through hearing based on the Staff
22 case. Staff concluded based on its evaluation of the
23 Company's filing that much of the requested increase was due
24 to compliance with the prior Commission order issued in the
25 most recent United Water rate case or associated with

1 undisputed known and measurable test year adjustments.
2 After additional audit and investigation, Staff also
3 concluded that the potential for additional, justifiable
4 revenue requirement reducing adjustments was limited given
5 the exhaustive Staff review conducted in the last general
6 rate case completed less than one year ago.

7 **The Stipulation**

8 Q. What are the key components of the proposed
9 Settlement Stipulation?

10 A. The key components include: 1) recommending an
11 annual revenue requirement increase of \$3.63 million or
12 10.98%; 2) agreement on a uniform percentage increase in all
13 customer charges and volumetric rate components; and 3)
14 dismissal of the appeal from Case No UWI-W-04-4, Supreme
15 Court Docket No. 32431.

16 The Stipulation also specifies amortization of
17 several additional deferred expenses including \$79,000 in
18 power expenses, \$150,000 in tank painting expenses and rate
19 case expenses for this case and the Company's last rate
20 case. Finally, the parties agreed to continued use of the
21 Stipulation approved by the Commission in Case No.
22 UWI-W-04-4 for the cost of debt methodology and return on
23 equity.

24 **Revenue Requirement**

25 Q. How did Staff identify revenue requirement issues

1 and determine that settlement should be considered in this
2 case?

3 A. Staff identified issues in this case by reviewing
4 the Company's rate case filing, conducting a comprehensive
5 audit of Company test year results of operations and
6 reexamining issues, recommendations and Commission Orders
7 associated with the Company's last general rate case, Case
8 No. UWI-W-04-4.

9 Staff determined that nearly 50% of the requested
10 \$5.91 million increase was directly due to Company
11 compliance with the Commission order in the last United
12 Water rate case with respect to the calculation of rate base
13 and pension expenses. In May 2006, the Company updated its
14 budgeted investments and expenses to reflect those actually
15 booked in the test year. The Company also reconfigured its
16 pension plan to further reduce annual expenses. The update
17 resulted in a new requested increase of \$4.9 million or
18 14.86%.

19 Compliance with prior Commission orders with
20 respect to rate base and pensions now represented nearly 60%
21 of the requested increase.

22 In addition to authorized increases due to rate
23 base and pensions, Staff also identified undisputed proforma
24 adjustments for items such as salaries, taxes and additional
25 investment. Finally Staff did not dispute the Company's

1 proposed continued use of the cost of debt methodology and
2 return on equity approved by the Commission in the last rate
3 case. Consequently, the remaining requested increase and
4 the underlying rate base and expenses, most of which were
5 reviewed at length by Staff and approved by the Commission
6 in the rate case completed in July of 2005, left limited
7 potential for additional revenue requirement adjustment in
8 this case.

9 Q. What is meant by authorized increases due to rate
10 base and pensions?

11 A. The authorized increase due to rate base results
12 from application of the 13-month average to determine test
13 year rate base. The Company simply incorporated prior
14 investment for the entire test year in this case that was
15 only partially incorporated in the test year used in the
16 last rate case due to the 13-month averaging methodology.

17 The authorized increase due to pensions resulted
18 from using the ERISA method, approved by the Commission in
19 the last case, to calculate test year pension expense in
20 this case.

21 Q. Please explain the overall rate of return as
22 agreed to by the parties as part of the stipulated revenue
23 requirement.

24 A. The parties agreed in this case to accept the
25 overall rate of return methodology included in the

1 Stipulation approved in Case No. UWI-W-04-4, Order No.
2 29838. That Stipulation specified a return on equity of
3 10.3% and a compromise method of calculating the cost of
4 debt. These agreements remain reasonable for adoption in
5 this case. The difference in the overall rate of return
6 filed by United Water in this case and authorized in Order
7 No. 29838 is the change in capital structure. The equity
8 ratio increased by 2% to 48% due to an equity infusion from
9 the parent company, retirement of the minority interest
10 preferred stock and retained earnings. The 48% equity ratio
11 is reasonable for this case in current markets. All of
12 these components may be issues in the Company's next rate
13 case.

14 Q. Was the Staff able to identify any additional
15 adjustments to the Company's requested increase?

16 A. Yes. Staff initially identified nearly 20
17 potential issues with annual revenue requirement impacts
18 ranging from \$5,500 to \$869,000 for each issue. Some of the
19 issues such as a back cast of plant in service dates,
20 purchased water expense, power supply costs, leased water
21 revenue and an early incentive payment paid by United Water
22 in conjunction with construction of the Columbia water
23 treatment plant were a continuation of issues raised in the
24 last rate case. The remaining issues new to this case
25 included imputation of affiliate revenue, miscellaneous

1 expense adjustments and weather normalization.

2 Q. What approach did Staff take in evaluating
3 settlement options and identifying a reasonable revenue
4 requirement?

5 A. Staff's overall approach in evaluating the merits
6 of settlement was to determine which alternative, settlement
7 or hearing, would most likely result in the best deal for
8 ratepayers based on Staff's case. Staff began by evaluating
9 each of the issues identified and placing them in one of
10 three categories: 1) firm revenue requirement reductions,
11 2) revenue requirement reductions that were less certain
12 with respect to acceptance in total by the Commission at
13 hearing and 3) revenue requirement adjustments that had a
14 high degree of uncertainty with respect to acceptance by the
15 Commission at hearing.

16 Staff determined that the first category of
17 adjustments reduced revenue requirement by approximately
18 \$527,000 from the adjusted request of \$4.92 million to \$4.4
19 million. The second category of adjustments could reduce
20 the request by another \$154,000 to approximately \$4.24
21 million. Finally, the third category of adjustments, the
22 most speculative, could reduce the overall request by an
23 additional \$962,000 to \$3.28 million or 9.9%.

24 Q. How did Staff arrive at the \$3.63 million revenue
25 requirement increase agreed to in the Stipulation?

1 A. Based on the nature of the expense/rate base
2 increases driving the Company's request and the potential
3 adjustments identified by Staff, the best-case outcome
4 through hearing would be an increase in revenue requirement
5 of approximately \$3.28 million or 9.9%. Staff believed that
6 the worst-case scenario could be in excess of \$4.24 million
7 or 12.82%.

8 Through negotiation and compromise, Staff and the
9 Company agreed to a revenue requirement increase of \$3.63
10 million or 10.98%. Staff determined that the negotiated
11 increase, incorporating nearly 70% of the uncertain revenue
12 requirement adjustments identified in categories 2 and 3,
13 was a reasonable outcome.

14 Staff also believed that the Company's agreement
15 to dismiss its appeal from Case No. UWI-W-04-4, Supreme
16 Court Docket No. 32431 provided additional value to the
17 Stipulation. The dismissal eliminates costly and time-
18 consuming litigation and removes the potential for
19 modification of test year rate base calculations and
20 associated rate impacts.

21 Q. Please explain the amortization of additional
22 deferred power supply, tank painting and rate case expenses
23 as included in the Stipulation.

24 A. The additional deferred power supply expense of
25 \$79,000 subject to amortization reflects actual costs

1 incurred by the Company for higher power supply costs due to
2 the PCA. Recovery of these deferred costs was approved by
3 the Commission in the last rate case.

4 Tank painting costs of \$150,000 in this case were
5 included for amortization over 20 years consistent with the
6 Commission decision to allow similar treatment of tank
7 painting expenses in the last rate case.

8 The additional rate case expense subject to
9 amortization is a compromise amount that allows costs
10 incurred by the Company as part of the last rate case and
11 rate case expenses incurred for this rate case to be
12 amortized over a four-year period. The additional expenses
13 from the last rate case were as yet unquantified when the
14 Commission previously approved recovery of such expenses.
15 The Company maintained that an additional \$199,000 was
16 incurred and deferred for recovery from the last rate case.
17 The Staff analysis used \$250,000 as the amount included for
18 recovery (the \$199,000 and amortization of approximately
19 \$50,000 in rate case expenses from this case).

20 Q. Why did Staff agree to a uniform increase in all
21 rate components including customer charges?

22 A. Staff originally opposed any increase in the
23 customer charge but agreed to the uniform increase to
24 further reduce the overall revenue requirement agreed to in
25 the Stipulation. Staff notes that other than rounding to

1 the nearest 10 cents, customer charges have not increased
2 since the year 2000.

3 Q. What will rates be if the Commission approves the
4 Stipulation?

5 A. For customers served by a ¾ inch meter, which
6 includes the majority of United Water customers, the
7 customer charge will increase from \$14.60 bi-monthly to
8 \$16.03 bi-monthly resulting in a monthly increase of 72
9 cents. The winter commodity rate and summer commodity rate
10 for the first 300 ccf (100 cubic feet) bimonthly will
11 increase from \$1.0912 per ccf to \$1.1981 per ccf. The
12 summer commodity rate for all water use above 300 ccf bi-
13 monthly will increase from \$1.3641 per ccf to \$1.5139 per
14 ccf.

15 Q. Does this conclude your testimony in this
16 proceeding?

17 A. Yes, it does.

18
19
20
21
22
23
24
25

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF JUNE 2006,
SERVED THE FOREGOING **DIRECT TESTIMONY OF RANDY LOBB**, IN
CASE NO. UWI-W-06-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID,
TO THE FOLLOWING:

WALTON HILL
UNITED WATER
200 OLD HOOK RD
HARRINGTON PARK NJ 07640

DEAN J MILLER
McDEVITT & MILLER LLP
PO BOX 2564
BOISE ID 83701



SECRETARY