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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF UNITED WATER IDAHO INC., TO ) **CASE NO. UWI-W-07-05**  
AMEND AND REVISE CERTIFICATE OF )  
CONVENIENCE AND NECESSITY NO 143 )  
AND FOR AN ACCOUNTING ORDER )

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF GREGORY P. WYATT

September 28, 2007

1 Q. Please state your name.

2 A. Gregory P. Wyatt

3 Q. What is your position?

4 A. I am the Vice President and General Manager of United Water Idaho.

5 Q. When did you assume your duties as General Manager of United Water Idaho?

6 A. January of 2000.

7 Q. What is the purpose of your testimony?

8 A. I will explain the history of the Danskin-Saddle Ridge non-contiguous project, the  
9 details of the proposed sale to the City of Kuna and the underlying rationale for  
10 the transaction.

11 Q. Please describe the history of the Danskin-Saddle Ridge project.

12 A. On December 30, 1999 United Water Idaho and the developers entered into a  
13 Residential or Multiple Family Housing Non-contiguous Water System  
14 Agreement (Non-Contiguous Agreement) and the Commission subsequently  
15 approved the Non contiguous Agreement with modifications, (see UWI-W-00-2,  
16 Order No. 28377). After that the project proceeded as expected—the single well  
17 source of supply and distribution system was installed to serve the Danskin and  
18 Saddle Ridge Subdivisions; lots were developed and sold within the two  
19 subdivisions; United Water made refunds to the developers based on customer  
20 connections and in accordance with the Agreement.

21 Q. Was a second well eventually added to the system?

1 A. Yes. When customer connections approached the Idaho Department of  
2 Environmental Quality (IDEQ) limit for a single well source, the Company  
3 worked with the developer to establish a second well source of supply for the  
4 system, all within the context of the original Non-Contiguous Agreement. This  
5 additional investment by the developer was added to the initial advanced plant  
6 subject to refunds in accordance with the original Non-Contiguous Agreement.

7 Q. Please describe the circumstances leading to your discussions with the City of  
8 Kuna regarding the proposed sale of the Danskin-Saddle Ridge system?

9 A. Since the inception of the Danskin-Saddle Ridge system, the City of Kuna has  
10 been growing rapidly and expanding its City boundaries northward toward that  
11 area. In fact, Kuna has annexed certain lands that surround the Danskin-Saddle  
12 Ridge system, significantly limiting United Water's ability to expand its system in  
13 that area.

14 Q. Did other factors arise?

15 A. Yes. Kuna's growth has caused them to seek additional sources of water supply  
16 for their growing community, and in August of 2006 expressed interest in  
17 exploring the possibility of providing United Water with a proposal to purchase  
18 the Danskin-Saddle Ridge wells and system. The City performed its own due  
19 diligence on the system and we then began negotiations regarding the system sale  
20 price.

21 Q. How long did the negotiations take?

22 A. A final purchase and sale agreement was signed on July 26, 2007.

- 1 Q. What is the agreed sale price for the system and how was it arrived at?
- 2 A. The sale price is \$375,000 and it was arrived at through arms length negotiations.
- 3 The City retained its own engineering consultant to evaluate the system and the
- 4 City made an independent judgment as to the amount it was willing to pay.
- 5 Q. How will the proceeds from the sale be distributed?
- 6 A. There will be some final adjustments at closing, but a net proceed of
- 7 approximately \$212,255 will be paid to United Water Idaho.
- 8 Q. How does United Water propose to account for the funds it will receive?
- 9 A. The proposed accounting is shown on Exhibit C to the Application
- 10 Q. Exhibit C reflects Advanced Plant in Service of \$310,687 and Contributed Plant
- 11 in Service of \$794,611. Isn't United Water Idaho transferring valuable property
- 12 without receiving consideration for its investment in the property?
- 13 A. No. It is important to remember that in the case of both contributed plant and
- 14 advanced plant, these investments are not made with rate-payer supplied funds;
- 15 the funds for these investments are provided by the developers. The advanced
- 16 plant reflects the source of supply portion of the system and was provided by the
- 17 developers. The contributed plant reflects the distribution portion of the system
- 18 and was fully funded by the developers. United Water Idaho's customers were
- 19 never at risk with respect to these investments. Because advanced plant and
- 20 contributed plant are not included in the Company's rate base, customers have
- 21 not, through their rates, paid any return on those investments. United Water
- 22 Idaho's customers have not acquired any financial or equitable interest for which

1 they should be compensated upon sale of the assets. United Water Idaho's only  
2 "real" investments amount to \$147,745 (after depreciation), comprised of \$66,693  
3 in the source of supply plant (via refunds), \$8,648 in meters, \$28,865 in auxiliary  
4 power, \$39,160 in uranium mitigation study, and \$4,379 in miscellaneous plant.  
5 Those investments made through refunds (the \$66,693) were only made as  
6 customers were connected and providing revenue sufficient to support the refund,  
7 thereby insulating United Water's customers from speculative risk.

8 United Water Idaho's customers are further protected by the fact that the  
9 sale price, and thus the accounting, is sufficient to cover United Water Idaho's  
10 other investments and legal costs associated with the IPUC filing process.

11 Q. On Exhibit C there is an item "Reimbursement of Legal & IPUC Filing  
12 Expenses." Why are you proposing that these expenses be covered in the sale?

13 A. Because the sale price contemplates these costs being reimbursed.

14 Q. The sale price includes some profit, or risk premium; why is it appropriate for  
15 United Water Idaho to receive that amount?

16 A. I believe the transaction is properly characterized as a complete liquidation of a  
17 stand-alone utility system. Both the Environmental Protection Agency and the  
18 Idaho Department of Environmental Quality treat the Danskin-Saddle Ridge  
19 system as a separate system from United Water's integrated system. These  
20 agencies have assigned a separate Public Water System Identification Number to  
21 the Danskin-Saddle Ridge system. Because this transaction is a complete  
22 liquidation of a separate system, shareholders are entitled to any gain.

1                   Conversely, if there was a loss on the sale, the loss would be assigned to  
2                   shareholders, not United Water's remaining customers.

3           Q.     Will United Water Idaho's general body of ratepayers be harmed in any sense by  
4                   the transaction?

5           A.     No. The effect of the accounting entries shown on Exhibit C will be to reduce the  
6                   revenue requirement associated with the Danskin-Saddle Ridge system to zero.

7           Q.     What will be the effect upon United Water Idaho's current customers in the  
8                   Danskin-Saddle Ridge system?

9           A.     They will obtain water service from a dependable municipal supplier at rates that  
10                  are lower than United Water Idaho's rates. In addition, when Kuna connects the  
11                  Danskin-Saddle Ridge system with their existing municipal system the customers  
12                  will experience improved redundancy for domestic and fire protection flows as  
13                  well.

14          Q.     If for some reason the transaction fails, will there be negative consequences?

15          A.     Yes, several. First, the City of Kuna has approved the Purchase Agreement and  
16                  already has planned for the interconnecting main line. The City already has water  
17                  facilities near the Danskin-Saddle Ridge area and has expressed strong interest in  
18                  serving those customers. The City also has now planned to use the Danskin-  
19                  Saddle Ridge wells in lieu of drilling an additional source in the area. If the  
20                  transaction fails, all of these interests of the City of Kuna will be thwarted.

21                  Without the transfer of the Danskin-Saddle Ridge system to Kuna water service to  
22                  the area will be uncertain. It is likely that Kuna will extend water service to the

1 surrounding areas and United Water Idaho's Danskin-Saddle Ridge system will  
2 be an island without any real potential for expansion. Without the transaction  
3 going ahead as planned, the relations between the City of Kuna and United Water  
4 Idaho would be strained significantly.

5 Q. Could you please summarize why the transaction should be approved.

6 A. I believe the transaction should be approved as filed because it is a good solution  
7 that provides for all parties interests being satisfied. Under the proposed  
8 transaction United Water Idaho's investments are reimbursed in full; its customers  
9 are not harmed or penalized; the City of Kuna acquires a stable source of water in  
10 a growing portion of their service area; the Danskin-Saddle Ridge customers  
11 receive water service from a dependable municipal provider at rates that are lower  
12 than United Water Idaho's.

13 Q. Does that conclude your testimony?

14 A. Yes.