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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. FOR  
AUTHORITY TO INCREASE ITS RATES  
AND CHARGES FOR WATER SERVICE IN  
THE STATE OF IDAHO

Case No. UWI-W-11-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF JEREMIAH J. HEALY

1 Q. Please state your name and business address?

2 A. Jeremiah J. Healy, 8248 West Victory Road, Boise, Idaho 83709.

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

4 A. I am employed by United Water Idaho Inc. ("United Water" or "the Company") in  
5 the capacity of Manager Finance and Rates.

6 Q. How long have you been employed by United Water Idaho?

7 A. I have been employed by United Water Idaho or United Water Management and  
8 Services Company since February 1980.

9 Q. Briefly describe your responsibilities during your tenure.

10 A. As a Staff Accountant with the Central Region Office in Harrisburg, Pennsylvania  
11 until April 1982, I performed general accounting, prepared federal and state tax  
12 returns and public utility commission annual reports among other duties. In May  
13 1982 I transferred to the Philadelphia area as Internal Auditor responsible for  
14 conducting financial and special audits on regulated and non-regulated  
15 subsidiaries of General Waterworks. From September 1985 until December 1989 I  
16 was Accounting Supervisor for United Water Idaho in Boise. In this capacity, I  
17 was responsible for accounting and planning functions. In January 1990 I became  
18 Financial Coordinator for the Western Region of General Waterworks responsible  
19 for accounting, budgeting and strategic planning for five water and/or wastewater  
20 utilities. From August 1993 until October 1994 I was Director of Rates at United  
21 Water Management and Services Company in King of Prussia, Pennsylvania. In  
22 this capacity I prepared rate filings for various utility subsidiaries. In November  
23 1994 I assumed my current position.

- 1 Q. What is your educational background?
- 2 A. I was granted a Bachelor of Science degree with a major in accounting from the  
3 University of South Carolina in May 1977.
- 4 Q. Before what regulatory commissions have you appeared and presented expert  
5 testimony?
- 6 A. I have testified in various proceedings before the Idaho Public Utilities  
7 Commission ("IPUC") and I have submitted written testimony before regulatory  
8 bodies in Illinois and Arkansas as well.
- 9 Q. Have you attended rate making seminars over the course of your career?
- 10 A. In addition to ongoing extensive research of general rate cases and other matters  
11 before the IPUC and other jurisdictions, I have attended the NARUC Ratemaking  
12 Seminar in Fort Lauderdale, Florida and most recently I attended the three day  
13 seminar "Utility Finance & Accounting for Financial Professionals", presented by  
14 the Financial Accounting Institute in Las Vegas. This seminar is for financial  
15 professionals in utility finance & accounting to enhance their understanding of  
16 technical accounting issues and cutting edge ratemaking methodologies.
- 17 Q. What is the test year United Water is utilizing in this proceeding?
- 18 A. The Company is using the twelve-month historical period starting May 1, 2010  
19 and ending April 30, 2011 as the test period. Normalizing and annualizing  
20 adjustments have been made to the test period as appropriate. Also, known and  
21 measurable adjustments have been made for various operating expenses.
- 22 Q. In connection with the Company's present application for an increase in rates and  
23 charges, what is the scope of your participation and testimony?

1 A. My participation and testimony covers test-year operating expenses and  
2 adjustments thereto. I have delegated responsibility to Witness Jarmila Cary,  
3 Accounting Manager for United Water Idaho, for the account analysis and  
4 adjustment preparation for the areas of payroll to Operations & Maintenance,  
5 associated statutory payroll taxes, employee benefits and all deferred account  
6 amortizations, under my direction and supervision Ms. Cary has prepared the  
7 necessary workpapers and exhibits, as well as pre-filed direct testimony, to  
8 support the adjustments she is sponsoring. Ms. Cary and I will be referencing the  
9 same summary Exhibit 11, and that Exhibit will identify the sponsor of each  
10 adjustment. The adjustment to depreciation expense has been prepared by Witness  
11 Kevin Doherty, Regulatory Business Director for United Water Management and  
12 Services Company. I have analyzed the Company's books and records and  
13 prepared the necessary accounting exhibits to support adjustments to operating  
14 expenses that are my responsibility. I will in my workpapers include the list of  
15 accounts that were not adjusted from the test year level. These accounts comprise  
16 over 10% of total test year operations and maintenance expense. I am certain that  
17 pro forma adjustments could be made to some of these accounts, but for the sake  
18 of materiality, and recognition of the magnitude of increase requested in this case,  
19 no adjustments were made.

20 Q. Please generally describe the approach you have taken in preparing the exhibits  
21 for operation & maintenance expenses.

22 A. For operation and maintenance expenses, I have relied on information and data  
23 produced within the Company, and my own investigation thereof, as the basis for

1 my adjustments. In certain instances, adjustments were made for expenses, such  
2 as power and property tax, expenses that will experience significant known and  
3 measurable changes (the outcome of Idaho Power Company's Case No. IPCO-E-  
4 11-08 or the known Ada County composite levy rate for United Water property  
5 allocated to various County taxing districts) as appropriate during the prosecution  
6 of the instant case and clarifying information will become available that will be  
7 incorporated, in a timely manner, into the respective O&M adjustments.  
8 Additionally, I have carefully reviewed Commission Orders in United Water  
9 Idaho Inc.'s 2004, 2006 and 2009 general rate cases, as well as recent vintage  
10 Commission Orders in other utilities company matters subject to Idaho Public  
11 Utilities Commission jurisdiction to ensure that all adjustments included in  
12 Operating Expenses are within reason and do not contradict the Commissions  
13 general preferences. I am not proposing any adjustments I consider to be  
14 controversial in nature.

15 Q. Please introduce us to Exhibit No. 11, Summary, Page 1 of 1.

16 A. Exhibit No.11, Summary, page 1 of 1 contains in Column 1 a complete  
17 accounting of test year operation and maintenance expenses per books totaling  
18 \$24,909,443. Exclusive of depreciation expense and UPAA amortization, this  
19 total is \$17,458,292. Witness Cary and I are increasing test year expense by a total  
20 of \$1,139,174 or 6.52%. Major upward adjustments include, in order of monetary  
21 magnitude: pension expense, \$375,128; ad valorem taxes, \$307,837; employee  
22 group health, \$256,654; payroll to O&M expense, \$122,950; purchased power,  
23 \$114,959; and deferred rate case expense amortization, \$87,986. Major downward

1 expense adjustments include fringe benefits transferred, (\$247,817), post  
2 retirement health care expense (\$91,103); deferred power amortization (\$67,380).  
3 Also, expenses not deemed appropriate for rate making purposes in prior cases  
4 have been eliminated (\$21,775). Column 2 of Exhibit No.11, Summary, page 1 of  
5 1 indicates the net adjustment made to each account and column 3 of the same  
6 Exhibit indicates the pro-forma level of the expense.

7 The detailed support for the operation and maintenance expense  
8 adjustments are shown on the three Schedules following the Exhibit 11,  
9 Summary, page 1 of 1. Schedule 1, pages 1 to 30, provides the detail for  
10 adjustments made to operation and maintenance expense. Schedule 2, page 1  
11 provides the detail for adjustments to depreciation expense. Schedule 3, pages 1 to  
12 4, provides the detail for adjustments to payroll tax expense and property tax  
13 expense.

14 Q. Will you be addressing any other topics in you testimony?

15 A. Yes. I will be introducing the concept of an annual adjustment mechanism related  
16 to significant, volatile and largely uncontrollable costs incurred by United Water.  
17 This portion of my testimony will introduce an annual adjustment mechanism to  
18 allow United Water to more efficiently recover expense increases, or rebate  
19 expense decreases by way of an annual surcharge device adjusting purchased  
20 power expense, property tax expense, and cash pension contribution from levels  
21 set in the most recent general rate case. The mechanism is intended to assist  
22 United Water in its opportunity to earn and maintain its IPUC authorized overall  
23 rate of return as well as its authorized return on equity.

1 Q. Please describe the various normalizing and annualizing adjustments, as well as  
2 known and measurable adjustments, made to operation and maintenance expense  
3 that were prepared and sponsored by you.

4 A. Witness Cary discusses adjustments No's 1 through 17, so I will begin with  
5 Adjustment No. 18, increasing purchased water expense by \$12,915 (Schedule 1,  
6 Page 18). This adjustment reflects an incremental increase in the annual expense  
7 of purchased water largely due to the leasing of an additional 500 acre feet of  
8 water by United Water from the Boise Valley Irrigation District, at an annual cost  
9 of \$10,500, to meet water supply needs. Company Witness Scott Rhead provides  
10 an explanation of the Company's leased water strategy in his testimony.

11 Adjustment No. 19 increases the pro forma cost of purchased power by  
12 \$114,959(Schedule 1, Page 19). Purchased power is overwhelmingly comprised  
13 of Idaho Power billings to energize source of supply, water treatment & water  
14 distribution facilities. Purchased Power also includes a small amount for diesel  
15 fuel to power generators exercised to assure immediate readiness, as well as  
16 utilized in power outage situations that occur in the system. Purchased Power also  
17 includes the proceeds derived from United Waters' participation in an Idaho  
18 Power demand response program administered by EnerNOC. The Company  
19 designated certain facilities that United Water personnel have the option of  
20 curtailing, when requested by EnerNoc, in the event of unusually large power  
21 loads frequently associated with summer air conditioning demand, or other  
22 reasons that tax the power grid. In the test year, United Water reduced its  
23 purchased power costs by \$36,941 due to cash payments received from EnerNOC.

1 The anticipated proceeds from the 2011 summer season are incorporated into this  
2 adjustment.

3 Q. What are drivers of higher energy costs?

4 A. A significant driver of United Water's electricity costs consist of the fact that  
5 water systems that serve a diverse topographic area (such as United Water), are  
6 energy intensive. United Water utilized 31,883,608 kWh in the test year. United  
7 Water is extremely dependent on Idaho Power to supply its power needs. Idaho  
8 Power Company, in order to maintain its credit rating, fund infrastructure  
9 improvements & upgrades, and recover costs increases, files frequent general rate  
10 cases, limited scope cases and also uses several annual cost adjustment  
11 mechanisms, most notably the annual PCA, to maintain the financial viability of  
12 the Company. According to Idaho Power's 2010 Form 10-K, filed with the United  
13 States Securities & Exchange Commission, Idaho Power Company has put into  
14 effect seven material base rate increases since March 1, 2008 (five "permanent"  
15 base rate increases and two temporary increases). If 2011's activity is taken into  
16 account, one more annual adjustment mechanism (Pension Expense Recovery)  
17 took effect June 1, 2011. Also, on June 1, 2011, Idaho Power filed for a 9.9% base  
18 rate increase to be effective no later than January 1, 2012. If just the nominal  
19 percentage increase in these rate increases is added together (ignoring the  
20 compounding effect), and assuming Idaho Power receives 65% of its requested  
21 award in the current general rate case, Idaho Powers' base rates will have  
22 increased over 31% in the last 46 months. For an illustration of the impact on one  
23 customer, United Water had purchased power expense for the year 2008 of

1 \$1,432,453 compared to a pro forma expense of \$1,884,824 in this case. That is  
2 an increase of \$452,371 or 31.58%. United Water pumped 15.45 billion gallons in  
3 2008, versus 13.5 billion gallons in the test year.

4 Q. What is United Water doing to ensure efficiency in the usage of energy?

5 A. Mr. Wyatt discusses several initiatives the Company has employed to optimize  
6 power usage in his testimony. United Water has utilized Idaho Power's rebate  
7 programs, as well as developing internal programs to monitor and optimize energy  
8 usage.

9 Q. Briefly, how was pro forma power expense calculated?

10 A. I accumulated twelve months of billing determinants from every facility used in  
11 the test year from Idaho Power invoices including every kWh, demand unit, base  
12 load capacity unit, service charge, facility charge, etc. All of these units were  
13 priced out at rates in effect on June 1, 2011 for schedules 7, 9 S&P and 19 P.  
14 Capacity charges (schedule 46) that were paid for a portion of the test year, but are  
15 not going to be incurred in the rate year, were eliminated. This arithmetic exercise  
16 totals \$1,809,921. An assumption was made that Idaho Power will receive 65% of  
17 their June 1, 2011 general rate request of 9.9%. Because the rate increase varies by  
18 customer class, United Water would theoretically receive a weighted average  
19 5.32% increase, or \$96,288. Added to this electricity expense was the test year  
20 level of generator fuel offset by the proceeds from EnerNOC, a negative \$21,385.  
21 Adjustment No. 20 is for chemicals used in the water treatment process to  
22 disinfect or otherwise make water safe to consume or improve water aesthetically.

23 The pro forma increase is \$10,280 (Schedule, Page 20). Again, test year quantities

1 for each chemical agent were assembled and priced out at the most recent actual  
2 invoice price including sales tax, totaling \$267,486. The Company then used  
3 information from suppliers to anticipate price increases on the horizon. During the  
4 period between the filing of this rate case and the hearings, United Water will  
5 confirm price changes and substitute them into the pro forma worksheet as they  
6 become known throughout this proceeding.

7 Adjustment No. 21 increases transportation expense by \$65,202 from the test year  
8 level of \$532,101, to a pro forma amount of \$597,304 (Schedule 1, Page 21). The  
9 Company operates and maintains a fleet of 58 vehicles. The fleet includes heavy  
10 equipment such as four back hoes and three dump trucks, as well as a forklift.  
11 Twenty-five full size pick-up trucks ranging from Ford F 150's to Ford 650's  
12 comprise the bulk of the fleet, and are augmented with 18 Ford Rangers for meter  
13 reading, customer service work and other uses that can be efficiently performed  
14 with a lighter duty vehicle. Control System technicians utilize four Ford vans that  
15 have adequate storage space for all the parts and materials that are required to  
16 efficiently perform their jobs. The fleet is rounded out by one Ford Windstar,  
17 Escape & Explorer. Each year United Water employees drive about 600,000 miles  
18 and put 1,200 hours of usage on the back hoes and forklift. The primary reason for  
19 the increase in pro-forma cost is fuel: test year fuel totaled approximately  
20 \$169,000 while the Company expects pro forma year fuel expenditures of almost  
21 \$218,000, an increase of \$58,000. Test year per gallon average prices for gasoline  
22 and diesel were \$3.06 per gallon and \$3.48 per gallon, respectively. The Company  
23 is using pro forma fuel prices at approximately the current price levels for

1 gasoline, \$3.75 per gallon, and a diesel price of \$4.25 per gallon. Automobile  
2 insurance is expected to rise over \$15,000 from the test year, and the new  
3 Assistant Manager will receive an automobile allowance of \$4,800 annually.

4 Q. What steps has the Company taken since 2008 to control fuel consumption and  
5 overall transportation costs?

6 A. United Water has GPS units installed in most vehicles. Department heads are now  
7 able to track vehicle idle times and make drivers aware of them. Employees are  
8 challenged to make changes in their driving habits and turn off vehicles whenever  
9 possible to reduce fuel consumption. In the twelve month period ended June 2011,  
10 United Water used 2,733 fewer gallons of fuel than for the corresponding period  
11 one year earlier. That represents about \$10,000 in fuel costs avoided. Another  
12 advantage of GPS benefiting vehicle use efficiency is that it enables the Company  
13 to dispatch the nearest available vehicle/worker to a facility or customer location  
14 in response to an emergency or a request for service. In addition to GPS, tire  
15 service agreements and parts purchase contracts are re-bid annually to ensure  
16 optimum pricing.

17 Q. Please proceed with the next OPEX adjustment.

18 A. Adjustment No. 22 decreases test year expense by \$4,274 (Schedule 1, Page 22)  
19 for General Corporate Insurance, including General Liability & many other  
20 necessary coverage's, as well as Property Insurance expense. Test Year expense is  
21 a combined \$626,274 while pro forma costs are expected to decrease by  
22 approximately 0.70%. General liability insurance costs are comprised of two  
23 components: insurance premiums and uninsured losses. These costs are pooled

1 together and allocated to the various business units. Premiums are expected to rise  
2 in 2012, but it is premature to estimate the amount of the increase.

3 Adjustment No. 23 increases test year expense Customer Billing Expense by  
4 \$47,101 from the test year level of \$881,554 to the pro forma amount of \$928,655  
5 (Schedule 1, Page 23).

6 Q. This adjustment consolidates a number of different services and products integral  
7 to the billing of customers. Please explain these services and products.

8 A. Customer meter reading data begins the entire cycle of generating a customers'  
9 bill on paper or digitally, e-mailing the bill or packaging it for transmittal through  
10 the US Mail, collecting and processing payments whether made locally or mailed  
11 to the lock box in Pittsburgh, using paper, electronic or telephonic services to  
12 gently remind customers to pay, utilizing a collection agency to recover bad debts,  
13 maintaining all computer hardware & software and other necessary services.  
14 United Water is "in-sourcing" the operation of the billing system with a new asset  
15 that replaces the existing customer information system and relationship with an  
16 outside billing contractor. Witness Hawthorne in his testimony explains the  
17 Company's need for and decision to invest in a new customer information system.  
18 Witness Rhead includes the capital expenditure in his pro forma exhibit, Witness  
19 Doherty speaks of the Company's presentation and treatment of this investment in  
20 rate base and the associated depreciation expense, and I will explain the OPEX  
21 associated with the in-sourcing of the customer information system, as well as the  
22 many processes that will not be substantially changed under the new arrangement.

1 During the test period the Company utilized an outside contractor, Utility Business  
2 Services, to produce and transmit customer bills and notices; Treasury  
3 Management Services in Boise to process local cash payments; CDI, a local  
4 collection agency, to collect bad debts; Itron to maintain meter reading device  
5 hardware & software; Loomis to transport payments from the operations center to  
6 the local bank; Bank of NY-Mellon to operate a consolidated lock box and  
7 payment processing service for mailed payments for United Water Idaho and its  
8 sister Companies; E-Commerce Group to support e-billing and payment  
9 operations, Autosort, a local postage Company, to efficiently handle the  
10 transmission & postage of AR-1's and AR-2's (customer notices), customer  
11 backflow device testing notices and all other outgoing mail; Televox, an  
12 automated outbound calling service that contacts customers regarding various  
13 reminders; and Draper & Company to handle the production and mailing of  
14 annual EPA required Consumer Confidence reports. The test year level of expense  
15 for all these services totaled \$881,554. The pro forma increase of \$47,101, or  
16 5.3%, is due to several factors: (1) the number of bills produced – though  
17 customer growth has slowed during the economic downturn, the Company  
18 continues to add customers, 562 in 2008, 225 in 2009, 582 in 2010 and 388 year  
19 to date through June, 2011. The average number of total customers for the test  
20 year is 84,584, suggesting 507,504 bi-monthly bills. The number of bills  
21 annualized in the pro forma test year revenue, as adjusted, is 509,580, an increase  
22 of 2,076 bills at \$1.74 per bill or an approximate increase of \$3,600. Also, for the  
23 vendor E-Commerce group mentioned earlier, the test year included only five bills

1 averaging \$1,600 per. The annualization of this vendor's service adds another  
2 \$11,200 to pro forma costs. The in-sourcing of the customer information system  
3 and the change in the cost structure does not allow the old cost structure and the  
4 new cost structure to be efficiently analyzed.

5 Adjustment No. 24 increases test year bad debt expense by \$140 from the test year  
6 level of \$199,606 to a pro forma number of \$199,746(Schedule 1, Page 24) based  
7 on test year adjusted revenue developed by Witness Paul Herbert and used in this  
8 case. The last three twelve month periods ending May of 2009, 2010 & 2011  
9 experienced net bad-debt rates of 0.5082%, 0.5258% and 0.5299%, respectively.  
10 This is an increase in the net bad debt rate from the 2009 rate case of 25%.  
11 Witness Loy recommended a rate of 0.4200% in case UWI-W-09-01 and  
12 undoubtedly reflects the difficult local economy. Company Witness Wyatt  
13 discusses enhancements to the UW Cares program to respond to the  
14 difficult economic situation in the Boise area.

15 Adjustment No. 25 increases test year water quality testing expense by \$23,648  
16 from the test year level of \$64,952 to a pro forma level of \$88,600 (Schedule 1,  
17 Page 25). United Waters Water Quality Specialist analyzed the test year level of  
18 \$64,952, and the calendar year level for 2010 of \$62,175, both historically low  
19 annual amounts (compared to \$113,634 in 2009, \$102,981 in 2008, \$95,555 in  
20 2007 and \$72,761 in 2006 and \$84,472 in 2005). Because the sampling cycle is  
21 different from year to year, and more frequent sampling can occur if there is a  
22 "detect" at a certain facility, and new test are or programs are designed from time  
23 to time, this operating expense lends itself to a multi-year average. The average

1 annual expenditure, ignoring inflation, over the period from 2005 to 2010 is  
2 \$531,578 / 6 = \$88,597, or rounded to \$88,600 annually. Though higher than the  
3 test year level of expense, the Company believes this average is a fair and  
4 equitable way to smooth out an otherwise irregular annual expense.

5 Adjustment No. 26 increases test year IPUC Annual Assessment expense by  
6 \$14,153 from the test year expense per books of \$71,726 to the pro forma level of  
7 \$85,897. The pro forma amount is based on the Commissions Invoice # 3435  
8 (Schedule 1, Page 26) dated April 22, 2011 instructing United Water to make  
9 equal semi-annual payments in May and November 2011 of \$42,939.37 (Schedule  
10 1, Page 26).

11 Adjustment No. 27 leaves the test year expense level intact at \$192,662 for United  
12 Water contributions to the R&I Alliance of \$192,662. Witness Wyatt discusses  
13 the purpose and benefit of the R&I Alliance in his testimony.

14 Adjustment No. 28 reduces overall test year expense by \$21,775 by eliminating  
15 certain expenditures that the Commission does not consider appropriate for rate  
16 making purposes (Schedule 1, Page 28). From the test year, the Company has  
17 eliminated the following expenses: \$5,594 in dues to Hillcrest Country Club from  
18 account 90500, \$3,300 of National Association of Water Companies dues  
19 considered lobbying expense, as well as \$740 of lobbying dues paid to the Idaho  
20 Association of Commerce and Industry, from account 90500; also \$12,141 of  
21 expenditures spent for the annual Christmas party.

22 Q. Are there no charitable contributions to also be eliminated from test year  
23 operating expenses?

- 1 A. No. A Company policy was adopted that requires all charitable contributions to be  
2 recorded "below the line" and are therefore excluded from the ratemaking process.  
3 They are recorded in account 71254 and for the test period amounted to \$25,692.  
4 No adjustment is necessary.
- 5 Adjustment No. 29 reduces test year operating expenses (power & chemicals) by  
6 \$9,725 (Adjustment 29, Page 29) to coincide with the revenue reduction  
7 adjustment made by Witness Paul Herbert based on his review & analysis of the  
8 downward consumption trend of United Water customers over the last decade.  
9 The ratio of variable operating expenses (power, \$1,769,865 and chemicals,  
10 \$268,931) totaling \$2,038,796 to variable consumptive revenue (\$26,966,685) is  
11 7.561%. Mr. Herbert makes revenue adjustments to include the annualization of  
12 test year growth, as well as post test year growth included in this case, as well as a  
13 negative revenue adjustment to consumptive revenue based on his analysis. The  
14 net revenue adjustment is negative \$128,814. Since this consumptive revenue  
15 decline will logically impact power and chemical expense, they will decrease by  
16 7.55% of (\$128,814) or negative \$9,725.
- 17 Q. Please explain your next adjustment.
- 18 A. Adjustment No. 30 reduces test year operating expenses by \$7,416 by eliminating  
19 account 90852, non-regulated Management & Service Fees. The Company is not  
20 adjusting the other M&S Fee accounts, 90850 & 90851.
- 21 Q. Do you also have an adjustment to discuss in Taxes Other – account 70200, real  
22 estate taxes?

1 A. Yes I do. Exhibit No 11, Schedule No 3, Adjustment No 1, Page 1 of 4 indicates  
2 the test-year level of Ada County Property Tax is \$1,530,163, the test year  
3 adjustment is \$307,837, providing a pro forma expense of \$1,838,000, an increase  
4 of 20%.

5 Q. Why do you anticipate an increase? United Water has experienced an unexpected  
6 increase in property taxes over the last several, normally due to unexpectedly large  
7 increases in the composite levy rate. The assessment process can lead to large tax  
8 fluctuations by the nature of the process. The estimated net valuation of United  
9 Water property was \$111.0 million in 2009, fell to \$91.6 million in 2010, a  
10 decrease of \$19.4 million dollars or 17.5% and for the current year, the Company  
11 received verification dated July 13, 2011 that the net assessed value for the current  
12 year is \$101.1 million, a bounce-back increase of \$9.5 million or 10.4%.

13 Q. Please provide a brief explanation of the volatility of the net assessed value.

14 A. The Company is "centrally assessed" by the Idaho State Tax Commission (ISTC),  
15 even though all the Company's property is located in Ada County. Central  
16 Assessment is used with all "Operating Property", essentially utilities, pipeline  
17 companies, railroads, etc. The net assessed value is determined by merging two  
18 measures of value, namely the "Cost Approach" and the "Income Approach".  
19 Briefly, the Cost Approach is much like a rate base calculation, while the Income  
20 Approach capitalizes the net operating income of United Water at an industry  
21 specific "cap rate" to project total value. In the current years' appraisal, the Cost  
22 Indicator is \$168.4 million and the Income Indicator is \$105.6 million. Just for  
23 comparison, the prior years' appraisal indicated Cost at \$161.8 million and

1 Income at \$92.7 million. These two indicators are not weighted equally. The State  
2 Tax Commission has, in the last several years, applied a weighting of 30% cost  
3 approach and 70% income approach, to arrive at the overall gross assessed value  
4 for 2011, or the "System Correlation" value of \$124.5 million. From this  
5 correlated amount, the STC removes statutory exemptions to arrive at the  
6 "Estimated Idaho Valuation", \$101.1 million for 2011. In the last several years,  
7 United Waters falling usage per customer has lowered operating revenues and  
8 thus net operating income, which, when combined with the 70% weighting of the  
9 Income Approach, has a significant impact on assessed value.

10 Q. Doesn't this "low" assessed value tend to keep United Water Idaho's property  
11 taxes under control?

12 A. Not necessarily. The other key components of the property tax process is the  
13 determination of budgets by the various taxing districts in the County, and, the  
14 determination of the levy rate that, when applied to assessed property values  
15 within the bounds of any particular taxing district, theoretically generates the  
16 allotted tax revenue. The critical percentage is the composite levy rate to be  
17 applied to the Company's assessed value. From 2007 through 2010, United  
18 Water' composite levy has increased as follows: 2008 1.7%, 2009 10.7% and  
19 2010 14.9%. Compounded, this produces a 31.6% levy increase over 3 years.  
20 These levy increases have caused the Company's taxes to rise dramatically.

21 Q. What is your forecast of the composite levy rate for 2011?

22 A. I am forecasting a 10% increase to the composite levy rate (lower than the  
23 increase in the two prior years), resulting in a new composite levy rate of 1.697%,

1 which I expect will create a \$1,715,500 tax bill to be paid half in November 2011  
2 and half in June 2012.

3 Q. Is this your pro forma property tax expense in this case?

4 A. No. Since the composite levy rate will be know and measurable by November  
5 2011 at the latest, and the 2011 tax bill will be precisely known and measurable, I  
6 am forecasting property tax expense to closely coincide with the year that new  
7 rates will actually be in effect, early March, 2012. Even though I do not anticipate  
8 much change in the net assessed value of United Water in 2012, I do feel that,  
9 especially when the 2011 composite levy is known, it will justify a conservative  
10 composite levy rate increase of 7% resulting in an Ada County tax bill of  
11 \$1,838,000.

12 Q. Does this conclude your testimony regarding OPEX adjustments?

13 A. Yes, it does.

14 Q. Do you have another issue you would like to introduce?

15 A. Yes, as previously mentioned, I would like to discuss proposed cost adjustment  
16 mechanism for purchased power, property tax and pension funding costs. United  
17 Water has suffered rather poor ROE's the last several years primarily because  
18 customer usage has declined significantly from relative to historical usage. Even  
19 with rate increases granted in 2006 (\$3.6 million) and 2010/2011(\$4.3 million),  
20 the Company has not been able to sustain earnings in line with its authorized  
21 levels.

22 Witness Herbert, in his testimony, is proposing customer consumption levels that  
23 reflect this downward trend. Similarly, though less spectacularly, volatile

1 operating expenses also eat away at a utility's return, damaging the utilities ability  
2 to earn its authorized return and ultimately the Company's ability to meet the  
3 needs of its customers in an efficient manner. It is not uncommon for utility  
4 companies that serve homes and businesses in Idaho to utilize certain rate  
5 mechanisms, outside of a general rate filing, to mitigate the erosion of earnings,  
6 reduce the number of general rate cases filed and reduce the expense of filing a  
7 general rate case. Just as shrinking usage leads to insufficient revenue, operating  
8 expenses that are volatile and subject to substantial increases also make it difficult  
9 for a utility to sustain reasonable earnings. United Water has three operating  
10 expenses in particular that would be easily and equitably amenable to an annually  
11 adjustable rate-making mechanism. The three annual expenses I am referring to  
12 are cash pension contributions, purchased power expense and property tax  
13 expense. In the present case, these three items, cash pension contributions that  
14 have already been paid (\$1,388,921), power (\$1,884,824) and property taxes  
15 (\$1,838,000) represent a total expenditure of over \$5,111,000, about 11% of the  
16 Company's total revenue requirement. To have the opportunity to stay relatively  
17 whole on these three expenses will serve to help the Company in its efforts to  
18 achieve its authorized ROE. The annual mechanism will also allow the Company  
19 to accelerate the speed of recovery of expense increases and improve cash flow.

20 Q. Why do these expenses meet the criteria of being material and volatile?

21 A. In recent history and recent projected years, the cash pension contribution has  
22 varied from the amount of \$460,962 requested in Case UWI-W-09-01 to an  
23 estimated contribution of \$1,922,000 in FY 2013. This is a potential spread of

1 over \$1.4 million dollars. For a relatively small utility such as United Water, and  
2 its customers, the equity of recovery or rebate of such a large swing in a revenue  
3 requirement item is very important to maintain the fiscal health of the utility while  
4 also treating customers fairly. It is also possible that in some annual periods, the  
5 Company will not be required to make any cash pension contributions. With an  
6 adjustment mechanism in place, customers would not reimburse United Water for  
7 cost not incurred. The ratemaking challenge of dealing with erratic pension  
8 contributions amounts is thus efficiently solved.

9 Purchased power expense is volatile as well. Power expense was  
10 \$1,432,453 in 2008 and \$1,769,865 in the test year ended April 2011 (an increase  
11 of over \$337,000 or almost 24%). Pro forma power expense in this case is  
12 estimated to increase another \$114,959 or 6.5%. Also, United Water requests that  
13 the accounting treatment method of deferring annual PCA related changes  
14 approved by the Commission (see UWI-W-01-2, Order No. 28800 granting  
15 United Water permission to defer; subsequent Orders allowed recovery through an  
16 amortization allowance) during the western power crisis of the early 2000's be  
17 abandoned should the Commission approve the proposed mechanism. United  
18 Water would then record the full cost of electric service on its income statement  
19 (the full cost of power, including the PCA, will be expensed). The deferral  
20 mechanism was helpful to United Water by allowing the recovery of deferred  
21 power expense upon the filing of a general rate case, but it entailed a relatively  
22 long period of time between the payment for service and the recovery of the

1 expense. From a cash flow point of view this mechanism was not sufficiently  
2 effective.

3 A third expense category for which the Company is seeking an annual adjustment  
4 is property tax expense. In 2007, the Company recorded property tax expense of  
5 just under \$993,000. The 2011 bill is likely to be over \$1.7 million. That  
6 represents an increase of over \$700,000, or 71%, in five years. On the other side  
7 of the coin, due to a legislative change, from 2005 to 2006, United Waters  
8 property tax expense decreased \$479,000, or 34%.

9 Q. What are the specifics of the annual adjustment process the Company is proposing  
10 to mitigate the impact of these volatile expenses.

11 A. There are a variety of methods that can be utilized to accomplish such an annual  
12 adjustment process. The method outlined below is straightforward and is  
13 relatively easy for customers to understand and for the Company and the  
14 Commission to administer. While the Company understands that the proposed  
15 methodology may be modified before it is approved, the Companies' goal is to  
16 achieve conceptual agreement that such a mechanism is equitable and appropriate  
17 for the both United Water and for customers and to utilize the proposed  
18 methodology as the general basis for such a mechanism.

19 Q. Please describe the straightforward method.

20 A. In the course of this rate case, the Commission will decide the appropriate level of  
21 cash pension contributions, purchased power expense and property tax expense to  
22 include in the revenue requirement. For the sake of discussion, I will illustrate the  
23 adjustment concept using amounts that are part of the Companies direct case. In

1 its direct case, the Company has included cash pension contributions of  
2 \$1,388,921, purchased power of \$1,884,824 and property taxes of \$1,838,000,  
3 totaling \$5,111,745. This amount of operating expense represents 11.09% of the  
4 \$46,076,627 in proposed revenues. At the end of the one year from the time new  
5 rates are put into effect, information will be available to determine the level of  
6 cash pension contributions the Company made in the year ending April 2012 and  
7 the actual amount of purchased power expense and property tax expense that were  
8 actually incurred as well as the actual revenue for the year. We will conjecture that  
9 these known amounts were, respectively, \$1,500,000, \$1,700,000, and \$1,725,000  
10 totaling \$ 4,925,000 and, actual revenues for the year were \$45,900,000.

11  
12 Using this methodology, the Company has collected in its rates \$5,090,310  
13 ( $\$45,900,000 \times 11.09\%$ ) and therefore over-collected ( $\$5,090,310 - \$4,925,000$ )  
14 \$165,310. The mechanism attributes an equal recovery of the costs comprising  
15 each dollar of revenue requirement in the case to the actual revenue received from  
16 customers in the same proportion as that determined in the rate filing. Pro forma  
17 water revenue (no customer service fees or other fees included in revenue  
18 considered) was determined to be \$45,950,000. To compensate for the over  
19 collection, the Company will request that a ( $\$165,310 / \$45,950,000$ ) 0.359%  
20 surcredit be approved on the subject tariff that will effectively reduce customer  
21 rates by the amount of the over-collection and would be applied as a percentage  
22 reduction to customer's bills. If the actual expenses were higher than those  
23 authorized, the Company would request a surcharge. The decision in this case

1 would be the basis of the process until the next general rate case is filed.  
2 However, because the cash pension contribution will be known and measurable  
3 and very likely different than the level of cash contribution approved in this case,  
4 the revenue requirement will be adjusted to reflect the more current level of cash  
5 pension contributions so that, in theory, customers are reimbursing United Water  
6 only for the actual level of contributions. Purchased power and property taxes  
7 could remain as determined in the Order in this case, or they could be adjusted for  
8 customer growth and compensated for with an adjusted revenue requirement.

9 Q. Does this conclude your testimony?

10 A. Yes.

11

12

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21

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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-11-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBIT TO ACCOMPANY THE DIRECT TESTIMONY OF JERRY HEALY

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

## Adjustment No. 18 Purchased Water

| Line<br>No. | <u>Description</u>   | <u>Amount</u> | <u>Total</u>      | <u>Adjustment<br/>Amount</u> |
|-------------|--|---------------|-------------------|------------------------------|
| 1           | Adjust purchased water expense for rented and leased natural flow rights, shares in canal company's contracts/leases for storage water and purchases from Garden City. |               |                   | <u>\$ 12,915</u>             |
|             | <u>Details</u>   |               |                   |                              |
| 2           | Shares Leased in Canals  | \$ 45,405     |                   |                              |
| 3           | Contract Storage   | \$ 45,139     |                   |                              |
| 4           | State Water Bank   | \$ 490        |                   |                              |
| 5           | Basin 63 Rental Pool   | \$ 35,000     |                   |                              |
| 6           | Incentive Payments to Basin 63 Space Holders   | \$ 14,880     |                   |                              |
| 7           | Garden City Water Purchase   | \$ 1,758      |                   |                              |
| 8           | Pro Forma Purchased Water  |               | <u>\$ 142,672</u> |                              |
| 9           | Test Year Expense  |               | \$ 129,757        |                              |
| 10          | Adjustment   |               | <u>\$ 12,915</u>  |                              |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

## Adjustment No. 19 Energy: Purchased Power

| Line No. | <u>Description</u>  | <u>Tariff</u> | <u>Amount</u> | <u>Adjustment Amount</u> |
|----------|---|---------------|---------------|--------------------------|
| 1        | To adjust purchased power expense based on pricing at Idaho Power rates effective June 1, 2011 and Estimate of January 1, 2012 Rate Increase. |               |               | \$ 114,959               |
|          | <u>Details</u>  |               |               |                          |
| 2        | Marden Treatment Plant Annual Expense   | 19P           | \$ 213,683    |                          |
| 3        | Columbia Water Treatment Plant  | 9P            | 60,370        |                          |
| 4        | Boise River Raw Water Pump Station  | 9P            | 123,091       |                          |
| 5        | Wells   | 9S & 7        | 1,113,377     |                          |
| 6        | Boosters  | 9S & 7        | 299,400       |                          |
| 7        | Total Idaho Power   |               | \$ 1,809,921  |                          |
| 8        | Estimated % Increase to United Water Idaho based on 65% of Rate Increase Request.   | 5.32%         | \$ 96,288     |                          |
| 9        | Idaho Power Pro Forma Purchased Power Expense   |               | \$ 1,906,210  |                          |
| 10       | Benefit of Emernoc Demand Response Program from Test Year   |               | (36,941)      |                          |
| 11       | Diesel Fuel for Emergency Generators & Natural Gas  |               | 15,555        |                          |
| 12       | Total Pro Forma Purchased Power Expense   |               | \$ 1,884,824  |                          |
| 13       | Test Year Purchased Power Expense   |               | \$ 1,769,865  |                          |
| 14       | Adjustment  |               | \$ 114,959    |                          |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
**Details of Adjustments to Operations and Maintenance Expense**  
 Test Year Ending April 30, 2011

**Adjustment No. 20**  
 Chemical Expense

| Line No. | <u>Description</u>  | <u>Amount</u> | <u>Total</u>      | <u>Adjustment Amount</u> |
|----------|---|---------------|-------------------|--------------------------|
| 1        | To adjust chemical expense using test year quantities priced at proforma price. |               |                   | <b>\$ 10,280</b>         |
| <br>     |   |               |                   |                          |
|          | <u>Details</u>  | <u>Amount</u> | <u>Total</u>      |                          |
| 2        | Water Treatment Planes - Chemicals  | \$ 88,934     |                   |                          |
| 3        | Source of Supply Wells - Chemicals  | \$ 187,777    |                   |                          |
| 4        | Maintenance - Chemicals   | \$ 2,500      |                   |                          |
| 5        | <b>Pro Forma Chemical Expense</b>   |               | <b>\$ 279,211</b> |                          |
| 6        | Test Year Expense   |               | \$ 268,931        |                          |
| 7        | <b>Adjustment</b>   |               | <b>\$ 10,280</b>  |                          |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

## Adjustment No. 21 Transportation Expense

| Line No. | <u>Description</u>  | <u>Amount</u> | <u>Total</u>      | <u>Adjustment Amount</u> |
|----------|---|---------------|-------------------|--------------------------|
| 1        | To adjust transportation expense including all elements delineated below. |               |                   | \$ 65,203                |
|          | <u>Details</u>  |               |                   |                          |
| 2        | Lease Cost  | \$ 294,876    |                   |                          |
| 3        | Fuel  | 217,900       |                   |                          |
| 4        | Maintenance materials, outside service                                    | 82,000        |                   |                          |
| 5        | Mechanic payroll and benefits   | 79,968        |                   |                          |
| 6        | Insurance   | 49,500        |                   |                          |
| 7        | Depreciation  | 39,732        |                   |                          |
| 8        | VA Allowance  | 14,400        |                   |                          |
| 9        | GPS   | 14,250        |                   |                          |
| 10       | Lease disposal proceeds   | (6,803)       |                   |                          |
| 11       | <b>Pro Forma Transportation Expense</b>                                   |               | <b>\$ 785,823</b> |                          |
| 12       | Test Year O&M ratio   |               | 76.01%            |                          |
| 13       | Test Year Expense   |               | \$ 532,101        |                          |
| 14       | <b>Adjustment</b>   |               | <b>\$ 65,203</b>  |                          |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

**Adjustment No. 22**  
 Business Insurance: General Corporate & Property

| <u>Line No.</u> | <u>Description</u>  | <u>Amount</u>        | <u>Total</u>        | <u>Adjustment Amount</u> |
|-----------------|---|----------------------|---------------------|--------------------------|
| 1               | To adjust casualty and property insurance premiums and pooled losses allocation.                  |                      |                     | \$ <u>(4,274)</u>        |
|                 | <b><u>Details</u></b>   | <b><u>Amount</u></b> | <b><u>Total</u></b> |                          |
| 2               | Casualty Insurance Coverage Premiums & Allocated Losses and other<br>General Corporate Insurance. | \$ 584,000           |                     |                          |
| 3               | Property Insurance Coverage   | 38,000               |                     |                          |
| 4               | <b>Pro Forma Business Insurance Expense</b>   |                      | <b>\$ 622,000</b>   |                          |
| 5               | Casualty Insurance Coverage Premiums & Allocated Losses and other<br>General Corporate Insurance. | \$ 584,023           |                     |                          |
| 6               | Property Insurance Coverage   | 42,251               |                     |                          |
| 7               | Test Year Expense   |                      | \$ 626,274          |                          |
| 8               | Adjustment  |                      |                     | \$ <u>(4,274)</u>        |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

**Adjustment No. 23**  
 Customer Billing, Collection, Cash Mgt, Lock Box, Postage

| Line<br>No. | <u>Description</u>   | <u>Amount</u> | <u>Total</u>      | <u>Adjustment<br/>Amount</u> |
|-------------|--|---------------|-------------------|------------------------------|
| 1           | Pro Forma Costs for producing 522,996 Bills. 98,124 of which are E-Bills as well as Auxiliary Services based on 84,930 Customers at February 2012. |               |                   | \$ 47,101                    |
|             | <u>Details</u>   |               |                   |                              |
| 2           | United Water Idaho Share of CC&B Internalized Organization   | \$ 452,184    |                   |                              |
| 3           | Bank of New York Mellon Lock Box Services  | 52,440        |                   |                              |
| 4           | E-Commerce Group Payment Verification  | 19,200        |                   |                              |
| 5           | Treasury Management Services Local Deposit Handling & Processing   | 12,900        |                   |                              |
| 6           | Penn Credit Collection Agency  | 10,800        |                   |                              |
| 7           | Itron Meter Reading Hardware and Software Maintenance  | 6,788         |                   |                              |
| 8           | Loomis Armored Truck Service   | 5,160         |                   |                              |
| 9           | Televox Outward Calling Service  | 1,380         |                   |                              |
| 10          | Cash Cycle Solutions Bill Print, Arrears Notices Print   | 78,821        |                   |                              |
| 11          | Cash Cycle Solutions Mailing, Processing & Handling All Bills  | 216,480       |                   |                              |
| 12          | AR 1's & 2's Postage   | 33,278        |                   |                              |
| 13          | Auto Sort for Office Mail, Postage for EPA CCR, Cross Connection   | 39,100        |                   |                              |
| 14          | Notices Postage  | 124           |                   |                              |
| 14          | Rounding   |               |                   |                              |
| 15          | <b>Total Pro Forma Costs</b>   |               | <b>\$ 928,655</b> |                              |
| 16          | Test Year Expense  |               | \$ 881,554        |                              |
| 17          | <b>Adjustment</b>  |               |                   | <b>\$ 47,101</b>             |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

Adjustment No. 24  
 Bad Debts: Write Offs & Allowance

| Line<br>No. | <u>Description</u>  | <u>Year</u> | <u>Uncollectibles</u> | <u>Revenue</u>        | <u>Adjustment<br/>Amount</u> |
|-------------|---|-------------|-----------------------|-----------------------|------------------------------|
| 1           | To normalize uncollectible accounts expense based on a three<br>year average. |             |                       |                       | \$ 140                       |
|             | Details   |             |                       |                       |                              |
| 2           |   | April 2011  | \$ 199,606            | \$ 37,668,307         |                              |
| 3           |   | May 2010    | \$ 196,347            | \$ 37,339,387         |                              |
| 4           |   | May 2009    | \$ 179,320            | \$ 35,287,157         |                              |
| 5           | Subtotal  |             | <u>\$ 575,273</u>     | <u>\$ 110,294,851</u> |                              |
| 6           | Percentage Uncollectible Accounts Expense                                     |             |                       |                       | <u>\$ 38,296,603</u>         |
|             |   |             |                       |                       | 0.5216%                      |
| 7           | Pro Forma Revenue at Existing Rates   |             |                       |                       | \$ 199,746                   |
| 8           | Test Year Expense   |             |                       |                       | \$ 199,606                   |
| 9           | Pro Forma Uncollectible Expense   |             |                       |                       | <u>\$ 140</u>                |
| 10          | Adjustment  |             |                       |                       | <u>\$ 140</u>                |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

Adjustment No. 25  
 Water Quality Testing

| Line No.       | Description   | Adjustment Amount |
|----------------|---|-------------------|
| 1              | To adjust test year level of outside laboratory expense to a reasonable average in light of the irregular nature of the expense due to testing cycle and impact of test results on future testing requirements. | \$ 23,648         |
| <u>Details</u> |   |                   |
| 2              |   |                   |
| 2A             |   |                   |
| 2B             |   |                   |
| 2C             |   |                   |
| 2D             |   |                   |
| 2E             |   |                   |
| 3              | Total Expense   | \$ 531,578        |
| 4              | Six Year Average Pro Forma Expense  | \$ 88,600         |
| 5              | Test Year Expense   | \$ 64,952         |
| 6              | Adjustment  | \$ 23,648         |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

Adjustment No. 26  
 IPUC Annual Assessment

| Line<br>No. | <u>Description</u>   | <u>Amount</u> | <u>Total</u> | <u>Adjustment<br/>Amount</u> |
|-------------|--|---------------|--------------|------------------------------|
| 1           | To adjust test year level of IPUC Annual Assessment based on latest 2011 invoice dated April 11, 2011. |               |              | \$ 14,153                    |
| 2           | Reported Gross 2010 Interstate Operating Revenues  | \$ 37,387,347 |              |                              |
| 3           | 2010 IPUC Utility Assessment Rate  | 0.229700%     |              |                              |
| 4           | Actual 2011 IPUC Assessment  |               | \$ 85,879    |                              |
| 5           | Test Year Expense  |               | \$ 71,726    |                              |
| 6           | Adjustment   |               | \$ 14,153    |                              |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operations and Maintenance Expense  
 Test Year Ending April 30, 2011

Adjustment No. 27  
 Outside Serv - Mgt Fees Other R&I Alliance

| Line<br>No. | <u>Description</u>  | <u>Adjustment<br/>Amount</u> |
|-------------|---|------------------------------|
| 1           | Indicate Test Year R&I Alliance Allocation  |                              |
| 2           | This Operating Expense is not being Adjusted on latest 2011 invoice dated April 11, 2011. | \$ -                         |
|             | <u>Details</u>  |                              |
| 3           | Actual April 2011 Test Year End R&I Alliance Allocation                                   | \$ 192,662                   |
| 4           | Test Year Expense   | \$ 192,662                   |
| 5           | Adjustment  | \$ -                         |

# UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
**Details of Adjustments to Operations and Maintenance Expense**  
 Test Year Ending April 30, 2011

**Adjustment No. 28**  
 Eliminate Expenses Not Allowed For Rate Making Purposes

| Line No.  | <u>Description</u>   | <u>Amount</u>      |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
|---|--|--------------------|----------------|-----------------------------|---------------|---------------------|-------|------------|--------------------------------|-------|------------|--------------------------------|-------|----------|----------------------------|-------|-------------|---------------------|--|--------------------|
| 1   | To eliminate from the test year certain expenses [Dues, Charitable Contributions, Memberships, etc.] that do not qualify for rate making treatment under past IPUC Orders. | <u>\$ (21,775)</u> |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; vertical-align: bottom;"><u>Details</u></th> <th style="text-align: right; vertical-align: bottom;"><u>Removed from Account</u></th> <th style="text-align: right; vertical-align: bottom;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>2 Country Club Dues</td> <td style="text-align: right;">90500</td> <td style="text-align: right;">\$ (5,594)</td> </tr> <tr> <td>3 NAWC Dues - Lobbying portion</td> <td style="text-align: right;">90500</td> <td style="text-align: right;">\$ (3,300)</td> </tr> <tr> <td>4 IACI Dues - Lobbying portion</td> <td style="text-align: right;">90500</td> <td style="text-align: right;">\$ (740)</td> </tr> <tr> <td>5 Christmas Party Expenses</td> <td style="text-align: right;">90500</td> <td style="text-align: right;">\$ (12,141)</td> </tr> <tr> <td>6 <b>Adjustment</b></td> <td></td> <td style="text-align: right; vertical-align: bottom;"><u>\$ (21,775)</u></td> </tr> </tbody> </table> |  |                    | <u>Details</u> | <u>Removed from Account</u> | <u>Amount</u> | 2 Country Club Dues | 90500 | \$ (5,594) | 3 NAWC Dues - Lobbying portion | 90500 | \$ (3,300) | 4 IACI Dues - Lobbying portion | 90500 | \$ (740) | 5 Christmas Party Expenses | 90500 | \$ (12,141) | 6 <b>Adjustment</b> |  | <u>\$ (21,775)</u> |
| <u>Details</u>  | <u>Removed from Account</u>  | <u>Amount</u>      |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| 2 Country Club Dues   | 90500  | \$ (5,594)         |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| 3 NAWC Dues - Lobbying portion  | 90500  | \$ (3,300)         |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| 4 IACI Dues - Lobbying portion  | 90500  | \$ (740)           |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| 5 Christmas Party Expenses  | 90500  | \$ (12,141)        |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |
| 6 <b>Adjustment</b>   |  | <u>\$ (21,775)</u> |                |                             |               |                     |       |            |                                |       |            |                                |       |          |                            |       |             |                     |  |                    |

**UNITED WATER IDAHO**

**Adjustment No. 29**

**Adjustment to Variable Expenses Due to Volume Normalization**

| <u>Line No.</u> | <u>Description</u>   | <u>Amount</u>     | <u>Adjustment Amount</u> |
|-----------------|--|-------------------|--------------------------|
| 1               | To adjust purchased power expense and chemical expense for the upward annualized growth for the test year and full year additional revenue/customers through February 2012 offset by volume normalization. |                   | \$ <u>(9,725)</u>        |
| <br>            |  |                   |                          |
|                 | <u>Details</u>   | <u>Amount</u>     |                          |
| 2               | Test Year Purchased Power Expense  | \$ 1,769,865      |                          |
| 3               | Test Year Chemical Expense   | 268,931           |                          |
| 4               | Total Variable Cost Related to Volume Normalization  | <u>2,038,796</u>  |                          |
| 5               | Total Variable Expense   | 2,038,796         |                          |
| 6               | Test Year Variable Revenue   | 26,966,685        |                          |
| 7               | Ratio of Variable Cost to Revenue  | 7.561%            |                          |
| 8               | Volume Adjustment  | <u>(128,814)</u>  |                          |
| 9               | Rounding   | 15                |                          |
| 10              | Variable Expense associated with Volume Normalization  | <u>\$ (9,725)</u> |                          |

**UNITED WATER IDAHO**

Adjustment No. 32  
M & S Fees

| Line No. | Description                      | Details | Account | Test Year Amount | Pro Forma Amount | Total        | Adjustment Amount |
|----------|----------------------------------|---------|---------|------------------|------------------|--------------|-------------------|
| 1        | To remove non-regulated M&S fees |         |         |                  |                  |              | \$ (7,416)        |
| 2        | Corporate M&S Fees               |         | 90850   | \$1,306,070      | \$1,306,070      |              |                   |
| 3        | Regulated M&S Fees               |         | 90851   | \$1,152,700      | \$1,152,700      |              |                   |
| 4        | Non-regulated M&S Fees           |         | 90852   | \$ 7,416         | \$ -             |              |                   |
| 5        | Pro Forma Expense                |         |         |                  |                  | \$ 2,458,770 |                   |
| 6        | Test Year Expense                |         |         |                  |                  | \$ 2,466,186 |                   |
| 7        | Adjustment                       |         |         |                  |                  | \$ (7,416)   |                   |

**UNITED WATER IDAHO**

Adjustment No. 1  
Ad Valorem Taxes

| Line No. | <u>Description</u>   | <u>Amount</u>     | <u>Total</u>      | <u>Adjustment Amount</u> |
|----------|--|-------------------|-------------------|--------------------------|
| 1        | To adjust Property Tax expense to the level based on the 2011 Actual Tax Bill projected for 2012                               |                   |                   | \$ 307,837               |
|          | <u>Details</u>   |                   |                   |                          |
| 2        | United Water Idaho, Inc. Assessed Value recommended by the Idaho State Tax Commission for 2011 per letter dated July 13, 2011. | \$ 101,085,697    |                   |                          |
| 3        | Anticipated 2011 Corporate Levy Rate   | 1.697%            |                   |                          |
| 4        | 2011 Ada County Property Tax Expense   | \$ 1,715,424      |                   |                          |
| 5        | Rounding   | (424)             |                   |                          |
| 6        | Estimated 2011 Ada County Property Tax   | \$ 1,715,000      |                   |                          |
| 7        | Anticipated 2012 Levy Rate Increase  | 7.2%              |                   |                          |
| 8        | Estimated 2012 Increase  | <u>\$ 123,480</u> |                   |                          |
| 9        | Rounding   | (480)             |                   |                          |
| 10       | Pro Forma 2012 Ada County Property Tax Expense   | \$ 1,838,000      |                   |                          |
| 11       | Test Year Expense  | \$ 1,530,163      |                   |                          |
| 12       | <b>Adjustment</b>  |                   | <u>\$ 307,837</u> |                          |

UNITED WATER IDAHO

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operating Expenses at Present Rates  
 SUMMARY

Test Year Ending April 30, 2011

| Line No. | Witness        | Summary           | Description<br>Adjusted Operations & Maintenance Expense: | Schedule<br>Exhibit 11<br>Schedule 1 | Account Reference                     | Test Year Ended<br>April 30, 2011<br>(1) | Adjustments<br>(2) | Pro Forma<br>30-Apr-11<br>(3) |
|----------|----------------|-------------------|---|--------------------------------------|---------------------------------------|--|--------------------|-------------------------------|
| 1        | Jarmila Cary   | Payroll to Opex   | Payroll to Operations & Maintenance                       | 1                                    | Accounts 50100 to                     | \$ 4,169,997                             | \$ 122,950         | \$ 4,292,947                  |
| 2        | Jarmila Cary   | Employee Benefits | Employee Group Health, Dental, Vision & Life              | 2                                    | 91700, partial 91850                  | \$ 891,201                               | \$ 256,654         | \$ 1,147,855                  |
| 3        | Jarmila Cary   | Employee Benefits | Employee Pension Costs                                    | 3                                    | 91500                                 | \$ 1,013,793                             | \$ 375,128         | \$ 1,388,921                  |
| 4        | Jarmila Cary   | Employee Benefits | Post Retirement Health Care Accrual (PEBOP)               | 4                                    | 91550 & 92056                         | \$ 540,685                               | \$ (91,103)        | \$ 449,582                    |
| 5        | Jarmila Cary   | Employee Benefits | Company Employee 401k Match                               | 5                                    | 91800                                 | \$ 116,189                               | \$ 7,905           | \$ 124,094                    |
| 6        | Jarmila Cary   | Employee Benefits | Workers Compensation                                      | 6                                    | 91460                                 | \$ 103,688                               | \$ 40,012          | \$ 143,700                    |
| 7        | Jarmila Cary   | Employee Benefits | Other Employee Benefits                                   | 7                                    | Partial 91850                         | \$ 27,396                                | \$ (4,774)         | \$ 22,622                     |
| 8        | Jarmila Cary   | Emp. Benefits     | Fringe Benefits Transferred to CWIP, etc                  | 8                                    | 90950                                 | \$ (880,813)                             | \$ (247,817)       | \$ (928,630)                  |
| 9        | Jarmila Cary   | Amortizations     | Rate Case Expense Amortization                            | 9                                    | 92000                                 | \$ 60,917                                | \$ 87,986          | \$ 148,903                    |
| 10       | Jarmila Cary   | Amortizations     | Deferred Expenses Amortization                            | 10                                   | 92050 Conservation                    | \$ 65,168                                | \$ (1,184)         | \$ 63,984                     |
| 11       | Jarmila Cary   | Amortizations     | Relocation Expense Amortization                           | 11                                   | 92052                                 | \$ 4,000                                 | \$ 20,996          | \$ 24,996                     |
| 12       | Jarmila Cary   | Amortizations     | Tank Painting Expense Amortization                        | 12                                   | 92053                                 | \$ 34,901                                | \$ 10,475          | \$ 45,376                     |
| 13       | Jarmila Cary   | Amortizations     | Miscellaneous Amortization                                | 13                                   | 92054 LT2 water                       | \$ 600                                   | \$ (600)           | \$ -                          |
| 14       | Jarmila Cary   | Amortizations     | Legal Costs Amortization                                  | 14                                   | 92058                                 | \$ 612                                   | \$ (612)           | \$ -                          |
| 15       | Jarmila Cary   | Amortizations     | Deferred Power Costs Amortization                         | 15                                   | 92061                                 | \$ 337,044                               | \$ (67,360)        | \$ 269,684                    |
| 16       | Jarmila Cary   | Amortizations     | Redundant Power Amortization                              | 16                                   | 777                                   | \$ -                                     | \$ 37,140          | \$ 37,140                     |
| 17       | Jarmila Cary   | Amortizations     | AFUDC Equity Gross Up Amortization                        | 17                                   | 92064                                 | \$ 19,157                                | \$ 19,053          | \$ 38,210                     |
| 18       | Jeremiah Healy | Operations        | Purchased Water   | 18                                   | 50605                                 | \$ 129,757                               | \$ 12,915          | \$ 142,672                    |
| 19       | Jeremiah Healy | Operations        | Energy: Purchased Power                                   | 19                                   | 50610                                 | \$ 1,769,865                             | \$ 114,959         | \$ 1,884,824                  |
| 20       | Jeremiah Healy | Operations        | Chemicals   | 20                                   | 50635                                 | \$ 268,931                               | \$ 10,280          | \$ 279,211                    |
| 21       | Jeremiah Healy | Operations        | Transportation Expense                                    | 21                                   | 50645                                 | \$ 532,101                               | \$ 65,203          | \$ 597,304                    |
| 22       | Jeremiah Healy | Insurance         | Business Insurance: General Corporate & Property          | 22                                   | 91400 & 91450                         | \$ 626,274                               | \$ (4,274)         | \$ 622,000                    |
| 23       | Jeremiah Healy | Customer Billing  | Customer Billing, Collection, Cash Mgt, Lock Box, Postage | 23                                   | 50400 Partial, 50410 Partial, & 90450 | \$ 881,584                               | \$ 47,101          | \$ 928,685                    |
| 24       | Jeremiah Healy | Customer Billing  | Bad Debts: Write Offs & Allowance                         | 24                                   | 90400 & 90405                         | \$ 199,606                               | \$ 140             | \$ 199,746                    |
| 25       | Jeremiah Healy | Operations        | Water Quality Testing                                     | 25                                   | 50420                                 | \$ 64,952                                | \$ 23,648          | \$ 88,600                     |
| 26       | Jeremiah Healy | Administrative    | IPUC Annual Assessment                                    | 26                                   | 91900                                 | \$ 71,726                                | \$ 14,153          | \$ 85,879                     |
| 27       | Jeremiah Healy | Unadjusted        | Outside Serv - Mgt Fees Other R&I Alliance                | 27                                   | 91310                                 | \$ 192,662                               | \$ -               | \$ 192,662                    |
| 28       | Jeremiah Healy | Administrative    | Eliminate Expenses Not Allowed For Rate Making            | 28                                   | Various                               | \$ -                                     | \$ (21,775)        | \$ (21,775)                   |
| 29       | Jeremiah Healy | Operations        | Adjustment to Variable Expenses Due to Volume             | 29                                   | Various                               | \$ -                                     | \$ (9,725)         | \$ (9,725)                    |
| 30       |                |                   | Total Adjusted O&M  |                                      |                                       | \$ 11,441,963                            | \$ 817,454         | \$ 12,259,417                 |
| 31       |                |                   | Unadjusted O&M:   |                                      |                                       |  |                    |                               |
| 32       | Jeremiah Healy | Administrative    | M & S Fees  | 32                                   | 90850, 90851, 90852                   | \$ 2,466,186                             | \$ (7,416)         | \$ 2,458,770                  |
| 33       |                |                   | Other Operation and Maintenance Expense                   |                                      | Various                               | \$ 1,581,680                             | \$ -               | \$ 1,581,680                  |
| 34       |                |                   | Total Unadjusted O&M                                      |                                      |                                       | \$ 4,047,866                             | \$ (7,416)         | \$ 4,040,450                  |
| 35       |                |                   | Total Operation and Maintenance Adjustments               |                                      |                                       | \$ 15,489,829                            | \$ 810,038         | \$ 16,299,867                 |

**UNITED WATER IDAHO**

2011 Rate Case UWI-W-11-02  
 Details of Adjustments to Operating Expenses at Present Rates  
 SUMMARY

Test Year Ending April 30, 2011

| Line No.   | Witness        | Summary      | Description<br>Adjusted Operations & Maintenance Expense:<br>Schedule 1<br>Schedule 2 | Schedule Exhibit 11<br>Schedule 2 | Account Reference               | Test Year Ended<br>April 30, 2011<br>(1) | Adjustments<br>(2) | Pro Forma<br>30-Apr-11<br>(3) |
|------------|----------------|--------------|---|-----------------------------------|---------------------------------|--|--------------------|-------------------------------|
| 36         | Kevin Doherty  | Depreciation | Depreciation  | 36                                | 70100                           | \$ 7,441,785                             | 242,573 \$         | 7,684,358                     |
| 37         | Kevin Doherty  | Depreciation | Total Depreciation and Amortization   |                                   |                                 | \$ 7,441,785                             | 242,573 \$         | 7,684,358                     |
| Schedule 3 |                |              |   |                                   |                                 |  |                    |                               |
| 38         | Jeremiah Healy | Taxes Other  | Ad Valorem Taxes  | 1                                 | 70200                           | \$ 1,530,163                             | 307,837 \$         | 1,838,000                     |
| 39         | Jarmila Cary   | Taxes Other  | Payroll Taxes   | Pages 2, 3<br>& 4                 | 70250, 70251, 70252,<br>& 70253 | \$ 447,666                               | 21,299 \$          | 468,965                       |
| 40         |                |              | Total Taxes Other   |                                   |                                 | \$ 1,977,829                             | 329,136 \$         | 2,306,965                     |
| 41         |                |              | Total Operating Expenses  |                                   |                                 | \$ 24,909,443                            | 1,381,747 \$       | 26,291,190                    |