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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

Case No. UWI-W-11-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF GREGORY P. WYATT

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- 1 Q. Please state your name and business address.
- 2 A. Gregory P. Wyatt. United Water Idaho, 8248 West Victory Road, Boise Idaho.
- 3 Q. What is your occupation?
- 4 A. I am the Vice President and General Manager of United Water Idaho (“United
5 Water” or “Company”).
- 6 Q. Please describe your educational background and other qualifications.
- 7 A. I am a graduate of Bloomsburg University with a Bachelor of Arts degree in
8 Business Administration Management. I have previously provided testimony
9 before the Indiana Utility Regulatory Commission, the Pennsylvania Public
10 Utility Commission, and the Idaho Public Utilities Commission.
- 11 Q. Please describe your work experience.
- 12 A. I have been employed at United Waterworks properties, formerly General
13 Waterworks, since December 1974. Prior to assuming my current duties as
14 General Manager of United Water Idaho in late 1999, I worked in various
15 capacities in several states including General Manager for United Water
16 Pennsylvania, Area Manager for the United Water Indiana operations, Assistant
17 Manager of United Water Idaho and various accounting positions in New Jersey
18 and Pennsylvania.
- 19 Q. Please describe your duties as General Manager.
- 20 A. My duties are to oversee the daily operation of providing potable water to the
21 customers of United Water Idaho. I supervise the various departments of
22 Engineering, Production, Transmission & Distribution, Customer Service, Billing,

1 Information Technology, Planning and Accounting, and Administration in
2 meeting their responsibilities for the delivery of potable water, maintaining
3 compliance, and providing related services to customers.

4 These functions include planning for raw water source, construction,
5 maintenance and operation of the treatment and pumping facilities, construction,
6 maintenance, and operation of the distribution system including mains, services,
7 and storage tanks, responding to customer needs regarding initial service or
8 discontinuing service by reading customer meters, processing and delivering bills,
9 and responding to other customer needs through the Customer Service
10 Representatives.

11 My duties also include supervision of the Company's compliance with all
12 regulations in regard to safety, compliance with the Safe Drinking Water Act, and
13 other similar requirements.

14 Q. What is the purpose of your testimony?

15 A. Among other things, I will testify regarding the major reasons for the general rate
16 relief requested in this filing, the operations of the Company, and the Company's
17 conservation and customer service efforts. I will also be available to answer
18 questions of a general nature. My testimony is organized as follows:

- 19 -- Other Witnesses Pg. 3
- 20 -- Rate Increase Drivers Pg. 4
- 21 -- Proposed Annual Rate Adjustments Pg. 8
- 22 -- Cost Management and Efficiencies Pg. 13
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7

8 **Other Witnesses**

9 Q. Please identify the other witnesses who will testify on behalf of the Company and
10 the topics on which they will testify.

11 A. Mr. Paul Herbert, with Gannett Fleming, Inc. will testify regarding cost of service
12 and revenue adjustments.

13 Ms. Pauline Ahern, consulting expert with AUS Consultants, will testify
14 regarding cost of capital.

15 Mr. Bruce Hawthorne, President of Hawthorne Associates, Inc., will testify
16 regarding the United Water decision to replace its customer information system
17 (“CIS”).

18 Mr. Kevin Doherty, Director of Rates with the United Water M&S Company, will
19 testify regarding rate base and revenue requirement.

20 Ms. Jarmila Cary, Accounting Manager with United Water Idaho, will testify
21 regarding payroll, payroll taxes, and employee benefits expenses and associated
22 adjustments, as well as all amortization expenses and associated adjustments.

23 Mr. Jeremiah Healy, Manager Finance and Rates with United Water Idaho, will
24 testify regarding all other operating expenses and associated adjustments. He will

1 also address the Company's request for annual expense adjustment methodologies
2 to enable the Company to better cope with cost volatility in the areas of purchased
3 power, pension, and property tax that are largely outside of the Company's direct
4 control.

5 Mr. Scott Rhead, Director of Engineering with United Water Idaho, will testify
6 regarding pro-forma capital additions and retirements, plant in service, and
7 purchased water expense. Mr. Rhead will also address the Company's decision to
8 implement diesel generation at the Boise River Pump Station to replace an
9 existing agreement with Idaho Power to supply redundant power.

10 **Rate Increase Drivers**

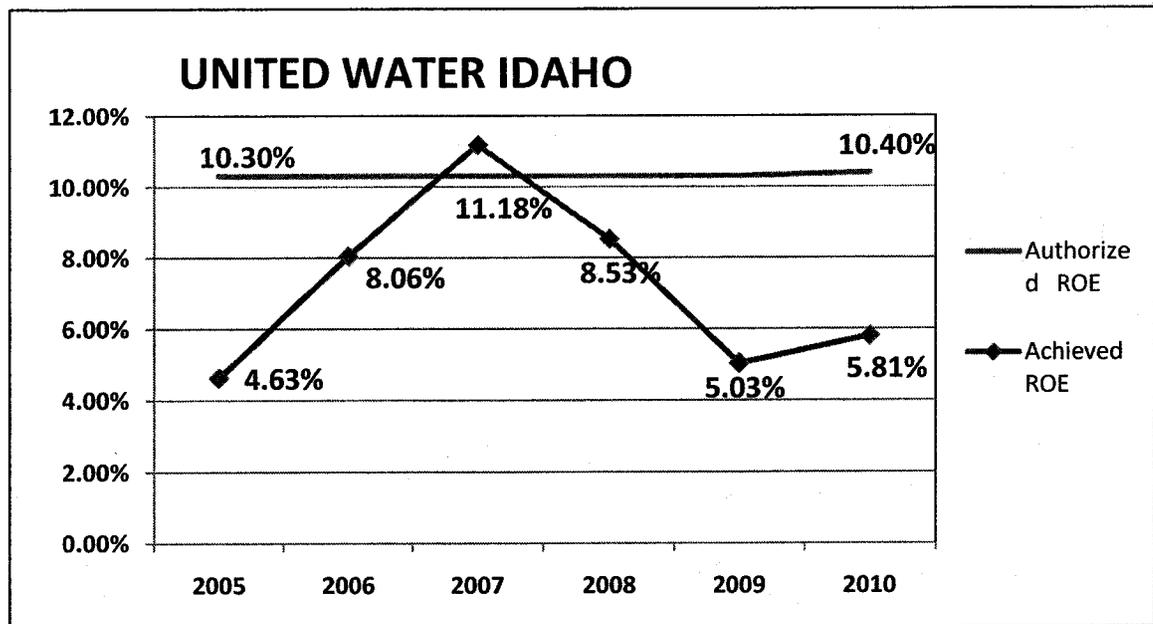
11 Q. Would you briefly explain why the Company is seeking a rate increase at this
12 time?

13 A. The increase is necessary for the Company to continue to provide quality service
14 to our customers and to improve service by investing in new and replacement
15 infrastructure. For these reasons, United continues to make capital investments in
16 utility plant. The Company's rate base of approximately \$154.1 million as filed
17 in its last rate proceeding (Case No. UWI-W-09-01) has increased to about \$162.9
18 in this proceeding or an increase of \$8.8 million. Operating costs, excluding
19 income taxes, have also increased since the last rate filing from approximately
20 \$24.1 million to almost \$26.3 million or an increase of \$2.2 million. Most
21 significantly, annual revenues have declined by almost \$3.0 million from the level
22 anticipated from the last rate proceeding award due to lower water consumption.
23 This significant decline in consumption and revenues, which comprises more than

1 38% of this current increase request, is discussed further below and in Witness
2 Herbert's testimony. An increase in rates is also necessary in order to provide
3 sufficient capital dollars to maintain and improve quality service to our customers,
4 to provide adequate operating and maintenance coverage, and to maintain a sound
5 financial position.

6 Q. Please discuss the Company's earnings performance over the past few years as it
7 relates to the current request for rate relief.

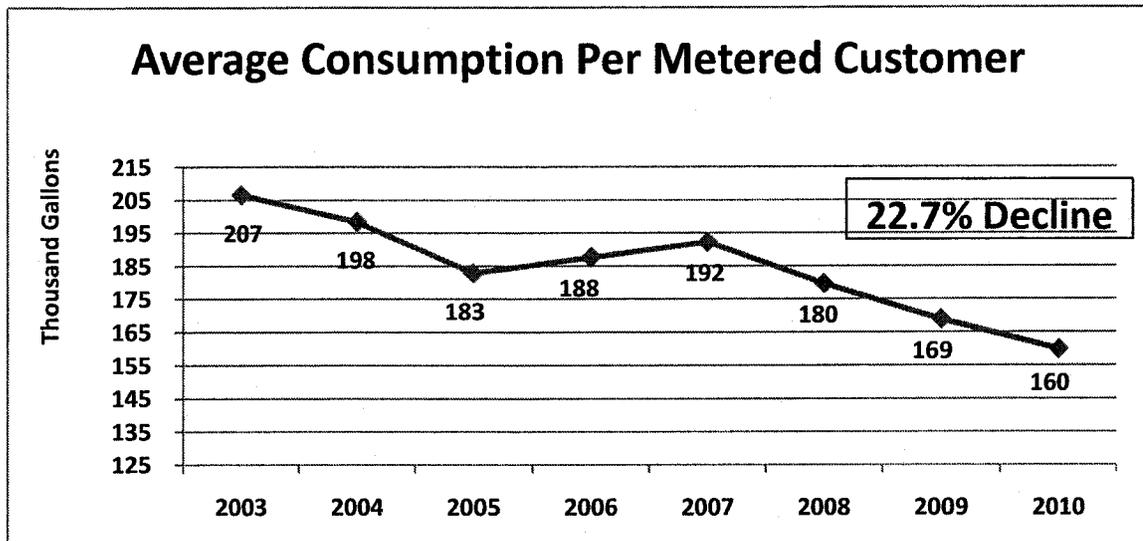
8 A. The Company has not earned its authorized return on equity ("ROE") for five out
9 of the past six years and does not expect to do so in 2011. The chart below shows
10 the Company's annual actual ROE compared to its authorized ROE over the last
11 six years.



12

13 Q. To what do you attribute the Company's inability to achieve its authorized ROE?

1 A. The single most significant factor is the continuing decline in water consumption
2 per customer and the resulting degradation in annual revenues. The chart below
3 shows an almost 23% decline in annual consumption per metered customer from
4 2003 to 2010.



5
6 And, because the Company's current rate tariff is structured such that
7 approximately 71% of the annual revenue requirement is derived from the
8 variable volumetric portion (while only approximately 12.4% of the Company's
9 operating expenses, excluding depreciation, are considered as variable), this
10 continual decline in customer consumption results in a significant shortfall in
11 annual revenues, and ultimately increases the risk that the Company will not
12 achieve its authorized ROE. In his testimony, Mr. Herbert further addresses this
13 consumption and revenue decline and their implications in this filing.

14 Q. What are the major capital investments the Company has made since the last rate
15 case that contribute to the increase in rate base?

1 A. The Company has invested more than \$2 million dollars in treatment facilities at
2 various locations in the system with \$1.6 million of that for the installation of a
3 green sand filter treatment system for the removal of iron and manganese at the
4 Hilton Well facility. This investment at the Hilton site has enabled the Company
5 to significantly improve water quality to customers in the vicinity while also
6 eliminating the use of phosphates for treatment, which reduces phosphate loading
7 to the City of Boise waste water treatment facilities. For this project United Water
8 Idaho received a City of Boise EnviroGuard award in 2010. The EnvirGuard
9 Award is presented to businesses, “In recognition of outstanding efforts in
10 implementing sustainable business practices, protecting Boise’s quality of life,
11 and serving as a steward of our precious natural resources.”

12 The Company has or will be making by the end of the post test year period
13 ending November 30, 2011, additional investments totaling almost \$6.4 million
14 dollars in replacing aging water mains, services and meters; approximately \$2.6
15 million in a new main to improve customer pressure in the Hill Road area; over
16 \$1.0 million in booster station improvements that improve system reliability;
17 more than \$0.9 million for a replacement storage tank to sustain pressure and
18 improve fire protection in the Warm Springs Mesa area; and over \$0.6 million
19 dollars in auxiliary power equipment at various sites throughout the water system.
20 In addition, the Company is investing approximately \$5.5 million in a new
21 customer information system (CIS) which replaces the current legacy system.
22 This investment in a new CIS system is discussed further in Witness Hawthorne’s
23 testimony.

1 Q. You mentioned before that operating costs in this current filing increased by \$2.2
2 million from the level in the Company's last filing. What are some of the major
3 areas of operating cost increases?

4 A. A significant portion of the operating cost increase in this case, about \$1,171,000,
5 arises from increases in health care costs and pension funding. Depreciation
6 expense related to the capital investments the Company has made is increasing by
7 about \$400,000. Additionally, property taxes are increasing by almost \$470,000.
8 All of these and other expense adjustments are discussed more fully in Witness
9 Cary's and Witness Healy's testimony and exhibits.

10 **Proposed Annual Rate Adjustments**

11 Q. Has the Idaho Commission implemented mechanisms to adjust rates between
12 general rate cases for other utility companies subject to its jurisdiction?

13 A. Yes it has. To my knowledge United Water is the only major utility company in
14 Idaho that does not have some mechanism for rate adjustment between rate cases.
15 A much smaller utility, Capital Water Corporation, has a rate adjustment
16 mechanism to recover electric power pumping costs between rate cases. See Case
17 No. CAP-W-11-01.

18 Q. Can you provide examples of rate adjustment mechanisms approved by the
19 Commission for other utilities?

20 A. Yes. Approved tariffs for Idaho Power Company contain the following rate
21 adjustment clauses:

- 22 ▪ Fixed cost Adjustment (Pilot): Schedule 54;
- 23 ▪ Power cost Adjustment: Schedule 55;

1 ▪ Energy Efficiency Rider: Schedule 91.

2 Additionally, Idaho Power Company is permitted to adjust rates to recover
3 pension plan cash contributions made between general rate cases. See Case No.
4 IPC-E-11-04, Order No. 32248.

5 Approved tariffs for Avista Corporation contain these automatic adjustment
6 clauses:

- 7 ▪ Power cost Adjustment: Schedule 66;
- 8 ▪ Energy Efficiency Rider: Schedule 91.

9 Approved tariffs for PacifiCorp contain the following rate adjustment clauses:

- 10 ▪ Energy cost Adjustment: Schedule 94;
- 11 ▪ Customer Efficiency Services Rate Adjustment: Schedule 191.

12 While the details of the above referenced mechanisms may differ from those
13 proposed by the Company in this case, these examples are provided to illustrate
14 the general proposition that rate adjustment clauses are not unusual in Idaho.

15 Q. Please discuss the proposals the Company is making in this filing with regard to
16 annual adjustments for certain operating costs.

17 A. In this filing the Company is proposing three different annual adjustments in
18 charges (surcharges) to customers which would enable recovery from, or return
19 to, customers for changes in its costs as they vary from the levels approved in this
20 current proceeding. The three areas are purchased power expense, property tax
21 expense, and the Company's cash contributions to fund its pension plan. The
22 Company's experience with these cost areas are that they are both volatile and not
23 within the Company's direct control. With regard to purchased power, although

1 the Company has implemented programs to optimize its power usage, it remains
2 fully susceptible to cost increases from Idaho Power Company's various annual
3 cost adjustments, plus base rate increases. Property Taxes have risen from around
4 \$900,000 in 2007 to over \$1.5 million in the test year period of this filing, with
5 the pro-forma expense expected to be over \$1.8 million (Witness Healy Exhibit
6 No. 11). The regular increases in both of these cost categories serve to erode the
7 Company's earnings, further inhibiting its opportunity to earn its authorized rate
8 of return. Since the Commission has determined in prior United Water cases that
9 pension costs should be recoverable only to the extent the Company makes cash
10 contributions to its pension fund, the Company is seeking treatment for this
11 category of cost consistent with that received by Idaho Power in its pension cost
12 recovery filings. The proposed adjustment approaches and mechanics are more
13 fully explained in Witness Healy's testimony.

14 Q. Previously in your testimony you indicated that annual consumption per metered
15 customer declined almost 23% between 2003 and 2010 resulting in an inability of
16 the Company to achieve its authorized return during most of that time period. Are
17 your proposed expense adjustments aimed at mitigating that concern?

18 A. Yes. Although the proposed expense adjustments do not directly address the
19 problem of revenue instability, by providing for more timely recovery of
20 uncontrollable expenses, they are a partial step towards achieving the authorized
21 return.

22 Q. Have other state commissions addressed the issue of declining sales volumes in
23 the water industry?

1 A. Yes. The issue of declining sales volumes is not limited to Idaho, but is an
2 industry-wide phenomenon. Like United Water, water utilities in many states are
3 seeing a decline in volumetric consumption caused by various reasons, including
4 tiered pricing structures, plumbing code changes, and conservation efforts. Some
5 states have adopted more aggressive approaches that more or less completely de-
6 couple sales from earnings for water utilities. For example, the California Public
7 Utilities Commission has implemented two mechanisms for water utilities—the
8 Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost
9 Balancing Account (MCBA) that decouple sales from revenues and provide for
10 rapid recovery of variable costs. Also, the New York Public Service Commission
11 has for many years employed a Revenue Reconciliation Clause (a decoupling
12 mechanism), and has permitted automatic adjustments for changes in purchased
13 water, purchased power, property tax and sludge removal costs.

14 Q. Are the expense adjustment mechanisms proposed by the Company in this case
15 modest steps when compared to complete de-coupling mechanisms?

16 A. Yes they are. United Water considered proposing mechanisms similar to the
17 California WRAM and MCBA in this case, but recognized that such mechanisms
18 can be complicated and perhaps contentious. Instead, the Company is proposing
19 expense adjustment mechanisms that are relatively simple as a modest first step
20 toward addressing earnings instability in the near term. This will allow for the
21 possibility of considering more comprehensive solutions in the future.

22 Q. Are these kinds of adjustments or mechanisms proposed by the Company
23 supported by utility regulators across the country?

1 A. Yes. In July of 2005, the Board of Directors of the National Association of
2 Regulatory Utility Commissioners (NARUC) adopted a “Resolution Supporting
3 Consideration of Regulatory Policies Deemed as “Best Practices”” (attached as
4 Exhibit No. 2), which supported and encouraged utility regulators to implement a
5 variety of innovative regulatory policies. This resolution was developed and
6 submitted by NARUC’s Water Committee and acknowledged the increasing
7 challenges facing the water industry and the need to address these challenges
8 through the regulatory process. Among the best practices identified in the
9 Resolution was the use of “pass-through adjustments”. The annual adjustments
10 sought by the Company in this proceeding with regard to its purchased power,
11 property tax, and pension costs are within the scope of the “pass-through
12 adjustments” best practice contemplated by the July 2005 NARUC Resolution.

13 Q. Are the proposed mechanisms symmetrical from the customer’s point of view?

14 A. Yes they are. To the extent that there are expense reductions in the identified
15 categories, those reductions will be reflected as credits on customer bills.

16 Q. Do you believe the proposed expense adjustments will seriously undermine the
17 goal of rate stability?

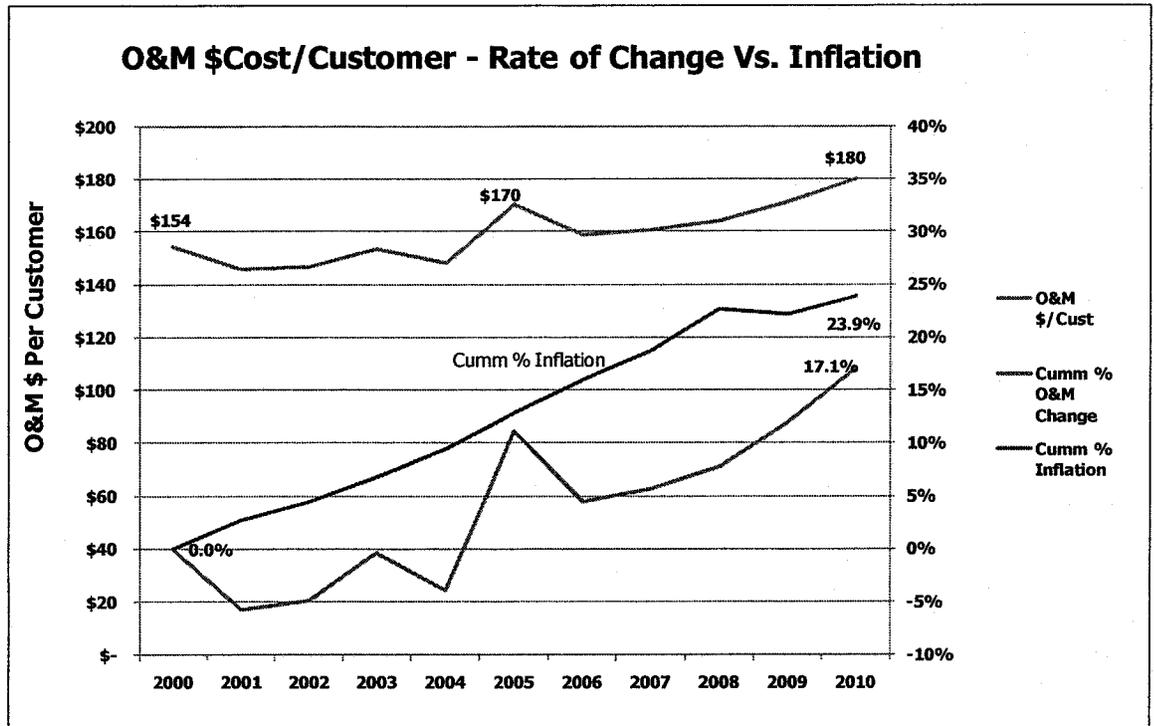
18 A. No I do not. The Company recognizes that rate stability is but one goal of utility
19 rate setting. Other goals include timely cost recovery and accurate price signals.
20 As illustrated by the variety of approved rate adjustment mechanisms listed
21 above, the Commission has determined that some amount of rate variability
22 between rate cases is acceptable, taking into account other rate setting objectives.
23 I believe the possible scope of rate variability resulting from the Company’s

1 proposed adjustments is within that acceptable range. In fact, in the long term,
 2 these types of adjustments can tend to reduce the frequency of base rate cases and
 3 thus act to smooth out the impact of increases in the cost of service over time.

4 **Cost Management and Efficiencies**

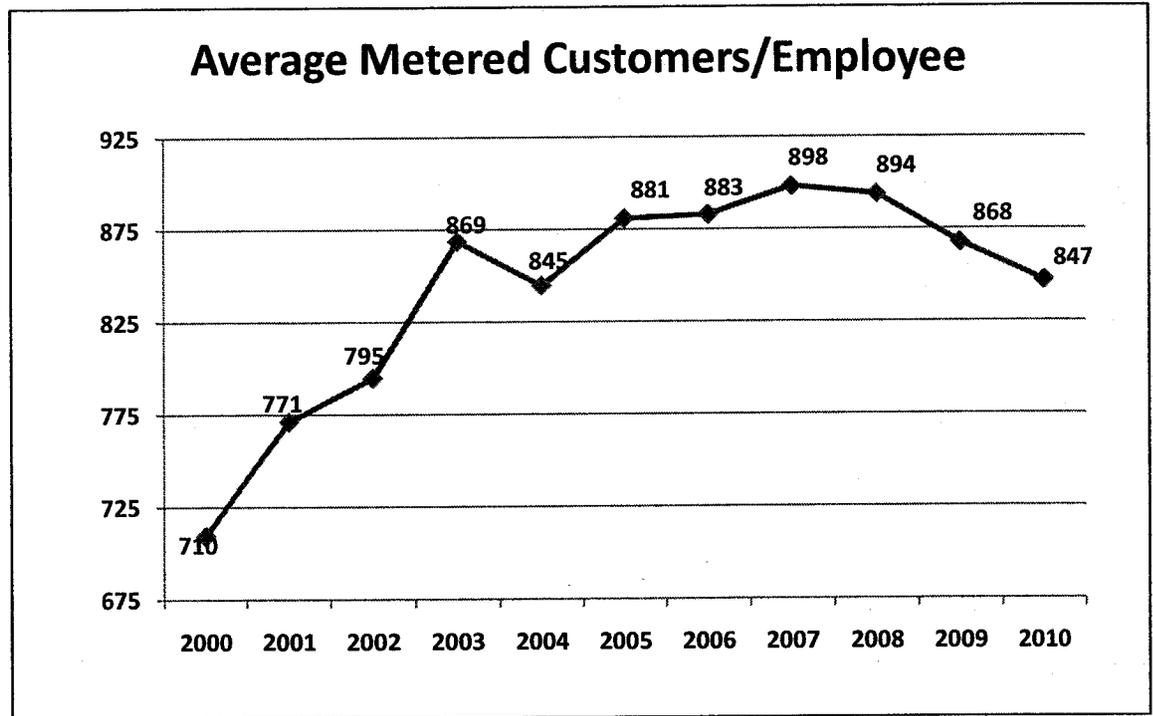
5 Q. Please discuss how United Water is managing its costs and seeking to mitigate the
 6 impact of increased costs on its customers?

7 A. United Water is continually looking for ways to reduce the costs of providing
 8 service to its customers and for ways to provide service more efficiently. As seen
 9 in the following graph, United Water has done a good job of managing its costs as
 10 evidenced by the growth in the Company's O&M expenses on a per customer
 11 basis (excluding depreciation, amortization, and property taxes) compared to the
 12 growth in the Consumer Price Index.

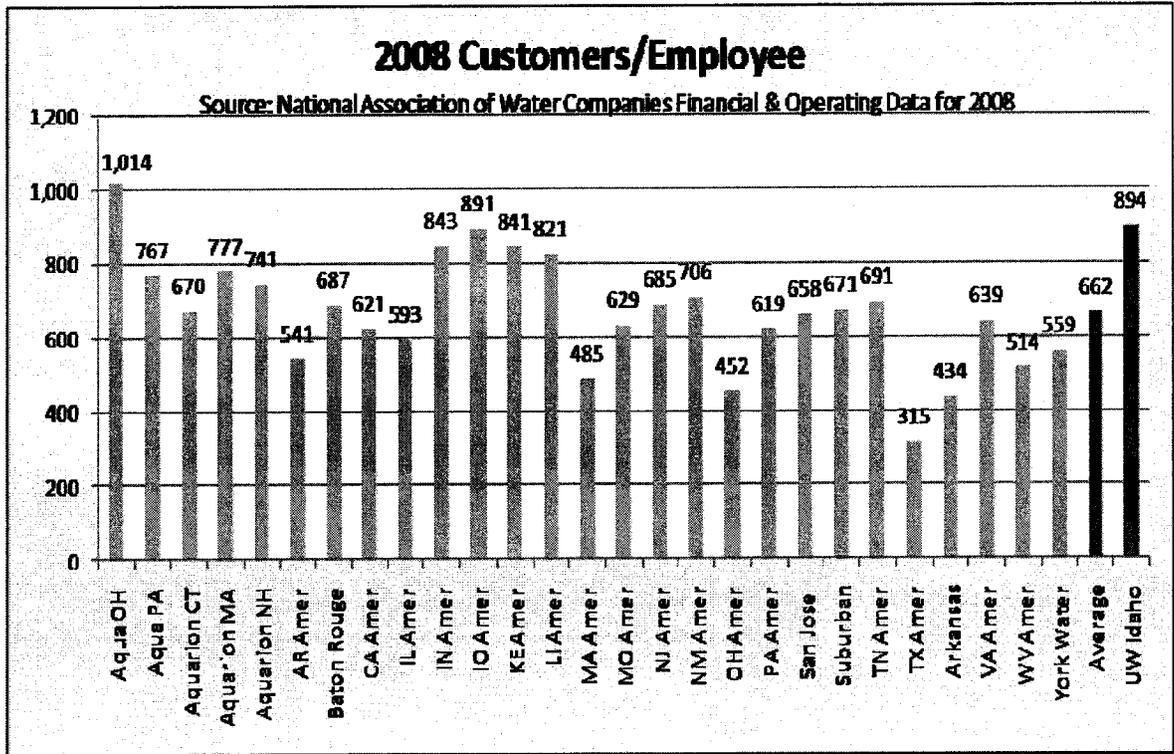


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1 Another area where United Water has demonstrated efficiency in
2 operations is in the number of employees required to operate the business. Here a
3 common measure of efficiency is the number of customers per employee. The
4 graph below shows the Company's average number of metered customers per
5 employee from 2000 to 2010.



8 The next graph shows the ratio for a group of regulated companies for a
9 recent period, and it can be seen that United Water's ratio of 894 customers per
10 employee was well in excess of the average of 662 for that period, bettering the
11 average by 35%. Although the Company's ratio has declined slightly by 2010, it
12 remains well in excess of the average.



1

2

3 Q. Please identify some areas where the Company has been able to control and/or
 4 reduce operating expenses.

5 A. United Water Idaho, as part of a national Company, has been able to leverage our
 6 Company's size and purchase volume to negotiate favorable unit prices (or
 7 mitigate the magnitude of price increases) on various products and services such
 8 as chemicals, materials, insurance, health care, fleet leasing, and other products
 9 and services.

10 United Water Idaho recently installed wire-to-water analysis equipment in
 11 its well facilities to monitor well equipment efficiency. Resulting data analysis
 12 has enabled the Company to target replacement of inefficient equipment resulting
 13 in a 1.6% reduction in kWh use per million gallons pumped from 2009 to 2010.

1 At the Company's Victory Road offices, we have taken various measures;
2 including taking advantage of Idaho Power lighting rebates, to lower electricity
3 use by almost 20% from 2006 to 2010.

4 Additionally, beginning in 2009, the Company entered into a Power
5 Demand Response Program Sales and Services Agreement with EnerNOC, Inc.
6 that provides payments to the Company for temporarily interrupting the use of
7 certain water pumping facilities when requested to do so by Idaho Power during
8 high electricity demand periods in the summer. These payments go directly to
9 reduce the Company's purchased power expense.

10 Also, from 2008 to 2010 the Company reduced its purchases of gasoline
11 and diesel fuels used for its fleet of vehicles and equipment by over 5.5%.

12 Q. Please describe efforts taken to control costs related to the Company's pension
13 obligations.

14 A. There have been two significant changes recently to the United Water Resources
15 Pension Plan. The first, in 2009, was the elimination of the Pension Plan benefit
16 for all new employees hired into the Company. The second, which became
17 effective this July, was the introduction of a participation cap of 35 years of
18 service for existing employees who are covered by the Company's current
19 Pension Plan.

20 **Tariff Design**

21 Q. What is the Company's proposal for adjustments to rates to recover any revenue
22 increase that may be awarded by the Commission?

1 A. As explained in more detail in the testimony of Witness Herbert, the Company is
2 proposing increases to all rate elements, excluding miscellaneous service charges
3 and fees, which would bring the rates paid by each class of customer closer to the
4 portion suggested by Witness Herbert's cost of service study. The Company is
5 not proposing, in this case, any change to the current tariff design and is
6 maintaining the 25% differential between winter and summer volumetric rates.

7 Q. What is the current average annual residential water bill as determined in the test
8 year?

9 A. The current average annual residential bill, as reflected in this case after
10 adjustments and normalization, for a customer using about 115,000 gallons of
11 water is \$350.98, exclusive of Idaho Department of Environmental Quality
12 (IDEQ) fees and city franchise taxes.

13 Q. What would be the average annual residential bill under the proposed rates in this
14 filing, and what is the overall increase request?

15 A. The average annual residential bill under proposed rates for the customer using
16 about 115,000 gallons would be \$420.89, or an increase of 19.9%, or about \$5.82
17 per month, or about \$.19 per day. The overall increase request in this present
18 filing is \$7,616,015 or 19.9%.

19 **Company Operations**

20 Q. Please describe the operations of the company.

21 A. As of June 30, 2011, United Water Idaho provided domestic water service and
22 fire protection to approximately 85,000 residential, commercial, private fire

1 protection and public authority customers within the City of Boise and the
2 immediate surrounding area. Currently our source of supply is comprised of two
3 (2) surface water treatment plants and eighty-five (85) deep wells, which are
4 located throughout a service area of approximately 146 square miles. The
5 projected nominal delivery capacity in the year 2011 of the surface water
6 treatment plants and the eighty-five (85) wells to customers is about 97.1 million
7 gallons per day (mgd).

8 At this time, well water treatment primarily consists of the addition of
9 chlorine for disinfection and system residuals as well as polyphosphate for
10 sequestration of iron and manganese. In addition, green sand filtration systems
11 treat water at three well stations in the system, (Bali Hai, Maple Hills and Hilton),
12 and a granular activated carbon filtration system treats two wells at the Swift well
13 site. At the Marden Street surface water treatment plant, the treatment ranges
14 from direct filtration to full coagulation, settling and filtration depending on the
15 quality of the raw water. At the Columbia surface water treatment plant,
16 treatment is accomplished using micro-filtration membranes.

17 During 2010, the maximum day production (demand) from all sources was
18 83.3 million gallons; the minimum day production was 16.2 million gallons;
19 while average day production was approximately 38.3 million gallons. The
20 historical maximum day demand was 94.1 million gallons in July 2003.

21 The distribution system consists of approximately 1,192 miles of water
22 main, varying in size from 2 inches to 30 inches in diameter. The distribution

1 system also is supported by 36.3 million gallons of storage capacity contained in
2 37 ground-level reservoirs.

3 Due to differences in elevation within the coverage of the service area,
4 United Water Idaho has 10 different major pressure zones. These zones are
5 necessary to maintain a reasonable range of pressure at the customers' points of
6 use. Connections from adjacent pressure zones allow us to transport water
7 between some pressure zones; however, it is not possible to transport water from
8 each pressure zone to all 9 of the other pressure zones. Since we have 87 sources
9 (points from which water originates), the customers within the area of influence
10 of a particular source normally will receive water from that source. As the
11 customers near the source begin to use up the water and as distance from the
12 source increases, more water will be consumed until the supply from a particular
13 source is exhausted and adjacent customers then receive water from a different
14 source.

15 Headcount Changes

16 Q. The pro-forma payroll related operating expense adjustments presented by
17 Witness Cary indicate changes in headcount from the Company's last rate filing
18 (UWI-W-09-1). Please discuss these changes.

19 A. In the prior rate filing the Company proposed a head-count of 99 full-time
20 employees (FTE). In this present filing the Company is proposing 98, or a net
21 reduction of 1 FTE. The changes are a reduction of two positions, (1 Field
22 Service Person, and 1 Utility Person), plus the addition of a new Assistant
23 Manager position. The Assistant Manager is being added as a management

1 training position. It is important for the Company to have management personnel
2 being developed who can, or will be ready to, assume department or Company
3 management positions as the current management team of the Company ages and
4 nears retirement. Additionally, the existing Company General Manager (GM)
5 position currently has 10 management team level direct reports, which is at the
6 top end of the range of an appropriate span of control. The Assistant Manager
7 position will enable the GM to delegate a number of these direct reports, thus
8 reducing the GM's span of control to a more appropriate and manageable number.

9 **R&I Alliance**

10 Q. The Company has \$192,662 of expense for R&I Alliance in the test year ending
11 April 30, 2011. Please explain the Company's R&I Alliance.

12 A. The R&I Alliance is a legal entity structured as a partnership between the
13 following companies: Lyonnaise des Eaux, United Water Management and
14 Services, Northumbrian Water, Aguas de Barcelona in Spain and Suez
15 Environment. This partnership provides the Company with access to a
16 worldwide technical network including experts in virtually every field of water
17 and wastewater operations, from water supply to treatment, distribution, and
18 sludge drying.

19 Q. What is the structure of the R&I Alliance and what part does United Water
20 Resources play?

21 A. The Alliance has a Board of Directors, in this case composed of the CEO of each
22 member company. The Board in turn provides direction to a Steering Committee

1 which is composed of two senior executives from each company, including the
2 Technical Director and Operations Director. United Water Resources' Chairman
3 of the Board is the Chairman of this Alliance.

4 Q. How is the Alliance funded?

5 A. It is funded by member contributions. United Water Resources contributes
6 approximately \$2.2 million per year of which United Water Idaho's portion is
7 \$192,662.

8 Q. What is the objective of the Alliance?

9 A. The mission of the Alliance is to select, fund and coordinate the execution of
10 common projects in the above member companies. The focus is on operational
11 needs within these companies in which innovation can be brought to everyday
12 operations.

13 Q. What are the advantages to United Water Idaho?

14 A. The Alliance was created to obtain better value from research and innovation
15 projects by means of Leverage – economies of scale and synergies between
16 companies; Direction – the ability to steer and influence the work undertaken;
17 Strategic input – a pool of expertise ensuring the needs of the US water industry
18 were met; and Transparency – clear selection and funding processes.

19 United Water Resources as a whole is able to participate in a range of
20 innovative projects far greater than possible on its own. As part of United Water
21 Resources, United Water Idaho is able to participate in, and direct this research.
22 In addition, as a member of the Alliance, United Water Idaho has access to

1 research results from other member companies and to water supply, treatment and
2 distribution experts from around the world.

3 Q. How are the projects managed?

4 A. There is a discrete technical program with identified phases of development,
5 execution and dissemination of results for projects. Overall the topics are arranged
6 into program themes, each theme being managed by a member of the steering
7 committee. The themes are, Asset Management, Energy Efficiency, Control of
8 Odors, Sludge Management, Storm Water Management, Metering, Water and
9 Health.

10 Q. Do you have any examples of these, particularly with respect to United Water
11 Idaho?

12 A. There are numerous projects underway and thereby a large amount of information
13 available to all United Water companies. Following are examples of some
14 projects and their application in the United Water Idaho service area.

15 • **Fixed Network Automated Metering**

16 This project is to evaluate the added value inherent with the unique
17 capabilities of Fixed Network automated meter reading technologies. In
18 particular the project focus is on engineering analysis and design, and customer
19 service/customer relations value added. This project at the United Water Idaho
20 location consists of two 100-meter pilot sites in the system evaluating two
21 different Fixed Network Automated Metering systems.

22 • **Water Demand Management Survey**

1 This project is to evaluate residential customer water use behavior both
2 indoors and outdoors. Its objectives include understanding the impact on
3 residential usage of various conservation products, obtaining data on customer
4 water use behavior, end-uses and appliance saturation, and facilitating
5 conservation behavior by providing household specific information on current
6 uses and conservation potential. Data is obtained via a residential customer water
7 audit survey.

8 • **Sandy Hill Aquifer ASR Project**

9 This project is to evaluate the Sandy Hill Aquifer (“SHA”) and its
10 potential use as an aquifer storage and recovery (“ASR”) source of supply for the
11 northern portion of United Water’s service area. Geologically, the SHA is a
12 strong candidate for ASR; however the aquifer soils contain arsenic particles that
13 are readily liberated into the water during ASR activities. This project seeks to
14 gain insight into the role of pre-conditioning or other methods to prevent
15 mobilization of the arsenic from the aquifer and into injected/stored/recovered
16 water.

17 Q. Why is it appropriate for the Company to participate in such a program?

18 A. A water utility the size of United Water Resources should engage in ongoing
19 research and development. There is a significant amount of research worldwide
20 and some of this is already being funded by the Company through its membership
21 in the American Water Works Association Water Research Foundation (“WRF”).
22 The total amount paid by the Company to the WRF in the test year was \$30,721.
23 The Company has not had any significant research and development expenses

1 beyond the WRF membership fees. Unfortunately, total research and
2 development in the water industry has been declining in real terms in recent years
3 in spite of looming issues like increasing energy costs and growing competition
4 for water resources. The larger companies, like United Water Resources, have a
5 responsibility to take a leadership role, and funding a reasonable level of research
6 and development should be part of that role.

7 Q. Is the Company's contribution to the R&I Alliance duplicative of the work that is
8 being done by the WRF?

9 A. There may be some overlap, but generally not. WRF funds research of general
10 interest to the water industry, which is important and necessary, however the R&I
11 Alliance focuses on research and development of specific benefit to the member
12 utilities including United Water Idaho.

13 Q. How does research and development in the water industry benefit water utility
14 customers?

15 A. The type of research done by organizations like WRF and R&I Alliance produces
16 best practices and new management and operating techniques that serve to
17 improve water quality, increase operating efficiency and extend asset life.

18 **Water Conservation**

19 Q. Would you please provide an overview of the Company's water conservation and
20 demand side management efforts and programs?

21 A. For over 17 years the Company has developed and implemented various customer
22 information, education and awareness programs, and outreach efforts that

1 promote wise water use and water conservation and that assist customers in
2 managing their water demand and consumption. Although some of these efforts
3 have sought to inform customers about water use in the home, the majority of
4 them have targeted customer water use outside on lawns, gardens and landscape
5 areas. This focus is designed to enable customers who use water provided by the
6 Company for irrigation purposes to benefit the most from the Company's efforts,
7 since irrigation demand is the largest driver of overall water system demand in the
8 summer.

9 Below is a brief summary of the Company's efforts in these areas:

10 • **Water Efficient Landscaping Classes**

11 Historically, in February of each year, United Water, in partnership with
12 the Ada County Extension Office and the City of Boise, have conducted six, two-
13 and-a-half-hour class sessions focused on the fundamentals of water efficient
14 landscaping. In 2011, the classes were consolidated into four, one-and-a-half-
15 hour class sessions in response to lower public demand for the classes.

16 • **Water Awareness Week**

17 In the summer of each year, United Water participates in Water
18 Awareness Week, which promotes water education and conservation information
19 for school students in Region 3 (which includes the Boise area) via teacher
20 workshops and through conservation education materials provided to teachers.
21 For 2011, Water Awareness Week partnered with i-STEM (Idaho Science,

1 Technology, Engineering, Mathematic education) to present a water strand for the
2 Treasure Valley teacher i-STEM workshop.

3 • **Free Indoor/Outdoor Water Conservation Kit for Customers**

4 When customers request an indoor water conservation kit they are
5 provided one free that includes a low flow showerhead, faucet aerators and toilet
6 dams. Free indoor water conservation kits, as well as free outdoor conservation
7 devices such as hose timer, hose nozzle, and rain sensor, are provided to low
8 income customers who receive assistance through United Water's low income
9 assistance program, UW Cares, which is administered by El-Ada Community
10 Action Partnership.

11 • **Summer Water Conservation Bill Insert**

12 As customer bills are delivered throughout the spring and summer, the bill
13 typically includes an insert that provides information on how customers can
14 reduce their outside water demand during the summer. For 2011 the
15 Conservation insert was included in the May and June bills.

16 • **Water Use Management Messaging Through the Media**

17 The overall media effort is designed to increase customer's awareness of
18 their water use and to provide them with concrete reminders and methods to
19 manage their water consumption. This consists of a coordinated use of newspaper
20 and television to communicate wise water use and management throughout the
21 summer. Beginning in 2005, United Water has produced an Annual Conservation
22 Guide, which is placed in the Idaho Statesman as an advertising supplement in

1 June. The Conservation Guide is also distributed for display at Boise City Hall,
2 Ada county Extension Office, the Foothills Learning Center, the Boise Watershed
3 facility, at seasonal displays at local Key Bank branches in the service area, the
4 Boise Library, and various events where United Water is present. The Guide
5 includes eight pages of water supply information and both indoor and outdoor
6 water use conservation information that customers can use to reduce their annual
7 water usage and cost. The Guide also includes coupons which customers can use
8 to obtain the free outdoor conservation devices mentioned above. The
9 supplement is designed for customers to easily save and refer to the information
10 year-round. In addition, 3 commercials featuring 3 water conservation messages
11 and reminders (2 outdoor and 1 indoor message per commercial) are aired June to
12 September on regular and cable networks. Additionally, United Water has
13 partnered with Idaho Rivers United each year on a newsprint and television
14 advertising campaign focused on conservation and preservation of the Boise River
15 water source.

16 • **Xeriscape Demonstration Garden**

17 In 2006, United Water installed a Xeriscape, or low-water use, demonstration
18 garden at its main office location on Victory Road. The garden contains over 45
19 drought-tolerant plant varieties and is configured with appropriate signage in a
20 walk-through venue. A listing of plants is available for customers at the office
21 and on our web site, and the Company's Outreach and Education Coordinator
22 conducts educational workshops for customer groups using the garden as the
23 centerpiece since its construction. In 2010, United Water financially supported

1 the installation of a new low-water use garden located at the Idaho Botanical
2 Garden, and a xeric garden on the Capital grounds upon completion of the Capital
3 expansion and restoration project. United Water works with both of these entities
4 to coordinate messaging, signage, and water conservation educational materials.
5 Beginning in 2009, United Water Idaho has participated in and helped sponsor the
6 Idaho Horticulture Society's Community Landscape & Garden Contest which
7 includes a xeric landscape entry.

8 • **Educational and Community Outreach**

9 United Water has developed various water awareness and conservation
10 presentations that are available and presented to schools, businesses, and
11 community organizations in the area. These include PowerPoint presentations,
12 topical lectures, science activities, and a video library. The Company also
13 participates in community events where conservation materials and information
14 are provided, including Earth Day events, various company green fairs such as
15 Citibank, Idaho Green Expo, Idaho Botanical Garden Landscaping Symposium,
16 Idaho Horticulture Society's Landscaping Symposium, Idaho Department of
17 Environmental Quality's Green Fair, as well as meetings with various
18 neighborhood associations and many subdivisions throughout the service area.
19 Last summer, the Company had a month long conservation display at three Key
20 Bank branches within our service territory. And, the past four years, United
21 Water displayed a month long conservation table at the main Boise Public
22 Library.

23 **Conservation Plan**

1 Q. Please comment on the Company's efforts to implement its updated Conservation
2 Plan.

3 A. As a result of the Company's 2004 case (UWI-W-04-04) the Commission, in its
4 September 20, 2005 Order No. 29871 directed the Company to prepare an
5 updated conservation plan and submit it to the Commission for review. United
6 Water prepared and then filed its updated Conservation Plan with the Commission
7 on December 1, 2006 (UWI-W-06-05), and by Order No. 30305 dated April 18,
8 2007 and Order No. 30305 Errata dated May 22, 2007, the Commission approved
9 implementation and associated cost deferral of four specific programs from the
10 updated Conservation Plan; specifically Xeriscape demonstration gardens, rain
11 sensor retrofit, trigger shut-off valves and hose timers, and restaurant low flow
12 spray nozzles.

13 Q. Please describe the Company's implementation efforts regarding the four
14 programs since Commission approval in April 2007.

15 A. United Water began promoting the trigger shut-off valve and hose timer program
16 via a free coupon in its 2007 Conservation Guide. In that first Guide, and
17 annually since, customers are encouraged to bring the coupon from the Guide into
18 the office and receive the free devices. The program is also promoted via signage
19 at the Company's office where extra coupons are available, at public shows and
20 displays, in the conservation bill insert, via bill messages, and on the Company's
21 web site. In 2011, the Company expanded distribution of the devices by adding
22 the following locations where customers may pick up devices: the Main Boise
23 Library, Collister Library, Hillcrest Library and El-Ada Community Action

1 Partnership administrative offices. As of July 22, 2011, 3,209 kits (each
2 containing a trigger shut-off valve and hose timer) have been provided to
3 customers.

4 In the summer of 2008, the Company began implementing the rain sensor
5 (shut-off device) retrofit on irrigation controllers program. This program involves
6 purchasing and providing a rain sensor device at no cost to customers. The device
7 connects to the customer's automatic irrigation system and interrupts the
8 scheduled watering cycle whenever sufficient rainfall is detected by the device.
9 This program is promoted in the same way as the trigger shut-off valve and hose
10 timer program via the annual Conservation Guide, office signage, public shows
11 and displays, in the conservation bill insert, via bill messages, and on the
12 Company web site. This program has been promoted in the same fashion during
13 the summers ever since. As of July 22, 2011, 1,593 rain sensors have been
14 provided to customers.

15 For both the trigger shut-off / hose timer, and rain sensor programs the
16 Company mailed letters to all neighborhood association presidents within the
17 service area advising them of the free devices along with extra coupons.

18 The restaurant low flow spray nozzle change out program began in 2009.
19 The Company partnered with Central District Health ("CDH") to obtain their list
20 of roughly 650 customers within our service area (such as restaurants, hospitals,
21 and group homes) who have commercial kitchen facilities. In this program
22 United Water replaces the customer's existing rinse and clean spray nozzles with
23 low flow units at no charge. The Company entered into an agreement with a

1 licensed plumbing contractor in August 2009 for the installation of these devices
2 for customers. The Company sent direct mail invitations to the list of customers
3 received from CDH on two separate occasions, and has so far replaced 72 low
4 flow spray nozzles in customer's facilities at no charge to the customer.

5 The Company's efforts regarding the fourth program approved by the
6 Commission in 2007, Xeriscape demonstration gardens, has already been
7 discussed above.

8 Q. Do you believe the Company has implemented the approved Conservation Plan
9 programs in the way the Commission intended?

10 A. Yes. The Company has made a diligent effort implementing the four approved
11 programs, while at the same time it has maintained and improved its previous
12 conservation efforts.

13 Q. Do you believe the Company's Conservation Plan efforts are showing success
14 through reduced water consumption by customers?

15 A. Yes. The water consumption per customer graph provided earlier in my
16 testimony clearly demonstrates that customers are using less water per customer
17 in both the summer and the winter. Certainly a portion of this water use decline is
18 attributable to the Company's diverse and widespread efforts to promote water
19 conservation.

20 **Customer Service**

21 Q. Please comment on the Company's customer service efforts.

1 A. United Water uses various measures and metrics to ensure that it maintains a high
2 level of service and responsiveness to its customers. For example, the Company
3 tracks customer complaints it receives relating to water quality. During 2010,
4 water quality complaints that required a field visit to resolve have averaged only
5 0.54% of total customers. Complaints relating to high bills and disconnection
6 have averaged only 0.33% and 0.48% respectively as a percentage of bills
7 rendered.

8 Q. Are there other measures used by the Company to track customer service
9 performance?

10 A. Yes. Our Customer Service group maintains various data relating to customer
11 calls, response time, length of call, and number of dropped calls. During 2010,
12 the Customer Service office answered 90,974 calls with an average answer speed
13 of 31 seconds. The average length of calls was 2.46 minutes, and the abandoned
14 or dropped call rate was 2.8% of all calls. In addition, due to the fact that
15 virtually all customer meters are located in outside pits or vaults, we are able to
16 render bills based on actual meter readings 98.7% of the time.

17 Q. Does United Water Idaho monitor customer satisfaction?

18 A. Yes. The Company conducts an annual customer satisfaction survey with the
19 purpose of measuring customer satisfaction across various areas of service as well
20 as overall satisfaction. Samples of the positive satisfaction results for 2010 are:

- 21 • Overall satisfaction: 85% (somewhat to extremely satisfied)
- 22 • Overall service quality: 98% (fair to excellent)

- 1 • Quality of water: 98% (fair to excellent)
- 2 • Reliability of supply: 99% (fair to excellent)
- 3 • Value for money: 97% (fair to excellent)

4 90 percent of all customers surveyed said that they would recommend United
5 Water Idaho as their water company of choice to a friend or relative.

6 **Low-Income Customer Assistance**

7 Q. Does the Company currently have a low-income customer assistance program in
8 place?

9 A. Yes. Beginning in September 2005 the Company initiated UW Cares, which is
10 the first and only water utility customer assistance program in the state. The
11 program, which is administered through the El-Ada Community Action
12 Partnership social service organizations, provides up to \$50 annual water bill
13 assistance to qualifying customers. The program was initially designed such that
14 the Company funded the program and would match customer contributions into
15 the fund up to \$20,000 annually. Additionally, the Company provides the
16 agencies with indoor water conservation kits for distribution and installation for
17 qualified customers in the program. Since UW Cares began in the fall of 2005,
18 more than \$74,000 in assistance has been provided to more than 1,600 qualified
19 customers to help pay their water bills, with over \$71,000 being provided by the
20 Company shareholder and about \$3,000 provided by customer donations.

21 Also, during its 2004 rate proceeding (UWI-W-04-04), the Company
22 supported and agreed to a proposed change in it's rate tariff whereby the first 3

1 hundred cubic feet (ccf) of consumption used during the summer rates period
2 (May through September) is priced at the 25% lower winter rate.

3 Q. How has the Company sought customer donations for its UW Cares program?

4 A. Each year the Company uses various communications means and messages to
5 encourage customer donations to support UW Cares, including bill message, bill
6 insert, information in our annual summer Conservation Guide, and via our web
7 site.

8 Q. In spite of the Company's communications efforts, customer donations in support
9 of UW Cares have been modest. Does the Company have any plans to modify its
10 UW Cares program to better benefit customers who may experience difficulty in
11 paying their water bill?

12 A. Yes, the Company plans to increase the amount of annual assistance a qualified
13 customer can receive from \$50 to \$65, and is removing the matching "cap" which
14 was initially set at \$20,000 annually. The Company plans to make the change
15 beginning October 1, 2011.

16 Q. Why is the Company proposing to increase the annual UW Cares amount a
17 customer may receive and why make the change in October 2011?

18 A. The Company recognizes that we remain in challenging economic times and this
19 30% increase in the annual amount of UW Cares available to qualified customers
20 is recognition of this and the fact that the Company has made a request for a
21 19.9% increase in rates in this current filing. The Company is making the change

1 beginning in the fourth quarter of this year because that is when customers
2 historically begin to face the need to pay their higher summertime bills.

3 Q. Does this conclude your testimony?

4 A. Yes.

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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

EXHIBIT TO ACCOMPANY THE DIRECT TESTIMONY OF GREGORY P. WYATT

Resolution Supporting Consideration of Regulatory Policies Deemed as "Best Practices"

WHEREAS, A number of innovative regulatory policies and mechanisms have been implemented by public utility commissions throughout the United States which have contributed to the ability of the water industry to effectively meet water quality and infrastructure challenges; *and*

WHEREAS, The capacity of such policies and mechanism to facilitate resolution of these challenges in appropriate circumstances supports identification of such policies and mechanisms as "best practices"; *and*

WHEREAS, During a recent educational dialogue, the "2005 NAWC Water Policy Forum," held among representatives from the water industry, State economic regulators, and State and federal drinking water program administrators, participants discussed (consensus was not sought nor determined) and identified over 30 innovative policies and mechanisms that have been summarized in a report of the Forum to be available on the website of the Committee on Water at www.naruc.org; *and*

WHEREAS, As public utility commissions continue to grapple with finding solutions to meet the myriad water and wastewater industry challenges, the Committee on Water hereby acknowledges the Forum's *Summary Report* as a starting point in a commission's review of available and proven regulatory mechanisms whenever additional regulatory policies and mechanisms are being considered; *and*

WHEREAS, To meet the challenges of the water and wastewater industry which may face a combined capital investment requirement nearing one trillion dollars over a 20-year period, the following policies and mechanisms were identified to help ensure sustainable practices in promoting needed capital investment and cost-effective rates: a) the use of prospectively relevant test years; b) the distribution system improvement charge; c) construction work in progress; d) pass-through adjustments; e) staff-assisted rate cases; f) consolidation to achieve economies of scale; g) acquisition adjustment policies to promote consolidation and elimination of non-viable systems; h) a streamlined rate case process; i) mediation and settlement procedures; j) defined timeframes for rate cases; k) integrated water resource management; l) a fair return on capital investment; *and* m) improved communications with ratepayers and stakeholders; *and*

WHEREAS, Due to the massive capital investment required to meet current and future water quality and infrastructure requirements, adequately adjusting allowed equity returns to recognize industry risk in order to provide a fair return on invested capital was recognized as crucial; *and*

WHEREAS, In light of the possibility that rate increases necessary to remediate aging infrastructure to comply with increasing water quality standards could adversely affect the affordability of water service to some customers, the following were identified as best practices to address these concerns: a) rate case phase-ins; b) innovative payment arrangements; c) allowing the consolidation of rates ("Single Tariff Pricing") of a multi-divisional water utility to spread capital costs over a larger base of customers; *and* d) targeted customer assistance programs; *and*

WHEREAS, Small water company viability issues continue to be a challenge for regulators, drinking water program administrators and the water industry; best practices identified by Forum participants include: a) stakeholder collaboration; b) a memoranda of understanding among relevant

State agencies and health departments; c) condemnation and receivership authority; and d) capacity development planning; *and*

WHEREAS, The U.S. Environmental Protection Agency's "Four-Pillar Approach" was discussed as yet another best practice essential for water and wastewater systems to sustain a robust and sustainable infrastructure to comprehensively ensure safe drinking water and clean wastewater, including: a) better management at the local or facility level; b) full-cost pricing; c) water efficiency or water conservation; *and* d) adopting the watershed approach, all of which economic regulators can help promote; *and*

WHEREAS, State drinking water program administrators emphasized the following mechanisms which Forum participants identified as best practices: a) active and effective security programs; b) interagency coordination to assist with new water quality regulation development and implementation, such as a memorandum of understanding; c) expanded technical assistance for small water systems; d) data system modernization to improve data reliability; e) effective administration and oversight of the Drinking Water State Revolving Fund to maximize infrastructure remediation, along with permitting investor owned water companies access in all States; f) the move from source water assessment to actual protection; *and* g) providing State drinking water programs with adequate resources to carry out their mandates; *now therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners (NARUC), convened in its July 2005 Summer Meetings in Austin, Texas, conceptually supports review and consideration of the innovative regulatory policies and practices identified herein as "best practices;" *and be it further*

RESOLVED, That NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as best practices; *and be it further*

RESOLVED, That the Committee on Water stands ready to assist economic regulators with implementation of any of the best practices set forth within this Resolution.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors July 27, 2005