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IDAHO PUBLIC  
UTILITIES COMMISSION

Chas. F. McDevitt  
Dean J. (Joe) Miller

December 9, 2011

***Via Hand Delivery***

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

**Re: Case No UWI-W-11-02/General Rate Case Filing**

Dear Ms. Jewell:

Enclosed for filing are an original and nine (9) copies of the Supplemental Direct Testimony of Gregory P. Wyatt. A copy of the Supplemental Direct Testimony has been designated as the "Reporter's Copy." In addition, a disk containing MS Word version of the Supplemental Direct Testimony is enclosed for the Reporter.

If you have any questions, please do not hesitate to contact me.

Kindly return a stamped copy.

Very Truly Yours,

McDevitt & Miller LLP



Dean J. Miller

DJM/hh

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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

SUPPLEMENTAL DIRECT TESTIMONY OF GREGORY P. WYATT

1 Q. Please state your name and business address.

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

3 Q. What is your occupation?

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

6 Q. Are you the same Gregory P. Wyatt who previously filed Direct Written  
7 Testimony on August 3, 2011 in this matter?

8 A. Yes I am.

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

10 A. I want to express United Water’s support for the Settlement Stipulation signed by  
11 Commission Staff, Community Action Partnership Association of Idaho  
12 (CAPAI), and United Water on December 7, 2011, and filed December 8, 2011,  
13 and to urge the Commission to approve the Settlement Stipulation without  
14 material change or condition.

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

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

17 --The Company’s allowed revenues should be increased by \$4,000,000 in two  
18 phases as follows: \$3,050,000 effective February 1, 2012, which is an  
19 approximate 7.96% increase over current rates, and an additional \$950,000  
20 effective February 1, 2013, which is an approximate 2.48% increase over current  
21 rates;

22 --Both phases of the \$4,000,000 increase should be implemented by tariffs that  
23 increase the rates and charges (except incidental service charges) to all customers

1 in accordance with the Cost of Service Study submitted by United Water in its  
2 initial filing, modified only by the overall amount of the increase;  
3 --United Water accepts a rate case moratorium and will not file a general revenue  
4 requirement rate case that results in an effective date for new rates prior to  
5 January 1, 2014;  
6 --The Commission's final Order should approve various accounting methods and  
7 certain deferral items as set out in the Settlement Stipulation and listed below;  
8 • Idaho Power Company PCA  
9 • Deferred Rate Case Expenses  
10 • Deferred Tank Painting Expense  
11 • Deferred Redundant Power Expense  
12 • Deferred Employee Relocation Expense  
13 • Depreciation rate for new customer information system (CC&B)  
14 --The Commission's final Order should approve an exemption from filing future  
15 cost of service studies as agreed in the Settlement Stipulation;  
16 --The Commission's final Order should approve the deferral on the Company's  
17 books of all actual cash Pension funding contributions in any subsequent plan  
18 year in excess of or below \$1,300,769 as agreed in the Settlement Stipulation,  
19 until a new pension funding amount is established in a subsequent general rate  
20 case;  
21 --United Water and Commission Staff agree to convene an informal workshop,  
22 within a reasonable time after the entry of the Final Order in this matter, to  
23 discuss potential mechanisms for handling the problem of declining per capita

1 consumption and certain volatile expenses the Company experiences, including  
2 property tax.

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

5 A. Yes. On August 3, 2011 the Company filed its initial Application requesting a  
6 revenue increase of approximately \$7.616 million, or an overall increase of  
7 19.89%. The increase was requested in order to enable the Company to earn a  
8 return on additional capital investments it had made in its water system since rates  
9 were last set in February 2010, and to recover certain increases in operating costs  
10 including health care costs, pension funding, and property taxes.

11 Q. What was included in the Company's initial application relating to rate design?

12 A. Company Witness Paul Herbert performed and filed a cost of service study that  
13 proposed increases in the metered customer charges of approximately 28.2% over  
14 current rates, and increases of approximately 30% on the Private Fire Protection  
15 flat rate charges. The existing consumption rates were proposed to increase  
16 16.2%, while maintaining the 25% differential between the winter and summer  
17 consumption rate per CCF (hundred cubic feet) of water.

18 Q. Did the Company provide Witness Herbert with any guidance regarding rate  
19 design?

20 A. Yes it did. The guidance included increasing customer charges to be more in line  
21 with customer costs, develop private fire rates to recover the cost of providing  
22 private fire services, and increase rates by customer classification in a manner that

1 moves revenue recovered from each classification toward the indicated cost of  
2 service.

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

4 A. Staff conducted a thorough audit of the Application, assigning a team of auditors,  
5 engineers, and consumer specialists to the investigation. They reviewed internal  
6 processes and procedures regarding asset capitalization, operating expenses, and  
7 several other areas. The Staff extensively reviewed the Company's investment in  
8 its new Customer Care and Billing (CC&B) system implemented in October  
9 2011. The Company cooperated fully in the Staff investigation, responding to  
10 numerous Audit Requests and Production Requests in a timely fashion.

11 Q. After the activity you have described did the Company, CAPAI and Staff meet to  
12 discuss possible settlement?

13 A. Yes, representatives of the Company, Staff, and CAPAI met on November 16, 17,  
14 and 18, 2011. There are no other parties in the case. At the meetings an  
15 agreement on the basic settlement terms was reached. Afterwards the written  
16 Settlement Stipulation was finalized and ultimately filed on December 8, 2011.

17 Q. Turning to the specific elements of the Settlement Stipulation, please discuss the  
18 recommended revenue increase of \$4.0 million.

19 A. This figure represents an amount all parties believe reasonable after each party  
20 had an adequate opportunity to evaluate the merits of issues that were in dispute.  
21 While the parties did not attempt to resolve each issue on an item by item basis,  
22 the overall increase reflects each party's informed judgment regarding the likely  
23 outcome if the case were fully litigated. The agreed increase of \$4.0 million also

1 represents a significant concession from the Company's original request of \$7.616  
2 million.

3 Q. Please discuss the proposal for the percentage increase.

4 A. As stated previously, The Company filed a Cost of Service Study that proposed  
5 increases to the customer charges and Private Fire Protection rates that would  
6 move them toward the calculated cost of service for each classification. The  
7 proposed rates resulting from the Settlement Stipulation follow the Cost of  
8 Service tariff proposal made by the Company, but are modified by the overall  
9 amount of the increase.

10 Q. Is the rate design proposal a material term of the Settlement Stipulation from the  
11 Company's point of view?

12 A. Yes. The Company recognizes that each term of the Settlement Stipulation is not  
13 precedential and approval of it does not commit the Commission to a course of  
14 action in the future, however the Company believes it is a critical component of  
15 the Settlement Stipulation because customer costs are fixed costs that do not vary  
16 with customer usage. If these costs are not recovered in customer charges, then  
17 the only place for recovery is in the consumption charges. With the Company  
18 facing continuing declining use as demonstrated in my Direct Testimony and that  
19 of Witness Herbert, the Company will continue to under-recover fixed costs and  
20 erode its allowed rate of return.

21 For more than a decade the Company's rate changes, as authorized by this  
22 Commission, have been applied strictly on an "across-the-board" basis to both  
23 customer and consumption charges, even though the Company filed previous cost

1 of service testimony suggesting otherwise. The Company appreciates the  
2 accommodation that Staff and CAPAI have made in this Settlement Stipulation  
3 for the rate increase to be applied in a fashion that results in movement toward the  
4 cost of service for each customer classification.

5 The rate increase distribution to both the volume and customer charges in  
6 accordance with the Company's proposed Cost of Service study in this case was a  
7 material consideration in the Company's willingness to enter into the Settlement  
8 Stipulation.

9 Q. How much higher will the fixed charge be for a residential customer under the  
10 cost of service proposal rather than under an across-the-board increase approach?

11 A. For a customer with a standard 5/8"-3/4" meter, the difference will amount to  
12 \$4.92 more per year. I would like to point out here that beginning October 1,  
13 2011, the Company voluntarily increased the amount of financial assistance a  
14 qualified customer can receive under its UW Cares program by 30% from \$50 to  
15 \$65, and the annual assistance cap of \$20,000 was also removed.

16 Q. You mentioned that the Settlement Stipulation also contains agreements between  
17 the parties on certain accounting items. Please explain.

18 A. In paragraph 11, sub-clause a) of the Settlement Stipulation, agreements regarding  
19 accounting methods for the Idaho Power PCA are set forth. They propose that the  
20 Company may amortize both its unamortized balance authorized by Order No.  
21 31029, Case No UWI-W-09-01, and the current PCA deferral at January 31, 2012  
22 over three years commencing February 1, 2012, and continue to defer for later  
23 amortization all amounts billed by Idaho Power under its PCA. The Settlement

1 Stipulation also proposes that the Company may use the Commission approved  
2 interest rate on customer deposits to calculate a carrying cost on the un-amortized  
3 balances.

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

12 Q. Another term of the Settlement Stipulation is that the first phase of the rates  
13 would go into effect on February 1, 2012. Is this a material term of the Settlement  
14 Stipulation from the Company's point of view?

15 A. Yes it is. I understand that under the statutory suspension period the Commission  
16 would otherwise have until March 3, 2012 to make the rates effective. Although  
17 it is possible the Company would have received an ultimate rate award greater  
18 than the agreed settlement amount if the case was fully litigated, receiving an  
19 amount certain earlier than legally required was a material factor in the  
20 Company's agreement to accept an overall increase of \$4.0 million rather than  
21 pursue through hearing the full amount of its revised request.

1 Q. Earlier you mentioned that the Settlement Stipulation provides for a two-phase  
2 revenue increase and also includes a rate case moratorium. Please explain why  
3 the Company agreed to these provisions.

4 A. The Company was willing to accept the proposed \$4.0 million increase over two  
5 phases because it wishes to remain sensitive to the effect the full increase amount  
6 may have on customers. Although the Company believes the full \$4.0 million in  
7 increased revenue is justified now based on the Company's investments, costs and  
8 its filing, this phased-in recovery of the total increase will mitigate somewhat the  
9 rate impact on customers that would otherwise occur in one year. It also spreads  
10 the increase during the moratorium period the Company has agreed to, which  
11 prohibits the Company from receiving an increase in rates resulting from a  
12 general rate case Application prior to January 1, 2014.

13 Q. Please explain the purpose behind the proposed informal meeting with Staff  
14 mentioned in the Settlement Stipulation.

15 A. In this present case the Company proposed annual rate adjustments to take into  
16 consideration fluctuations in three very volatile expense categories over which the  
17 Company has little or no control; purchased power, property tax, and the  
18 Company's cash contributions to fund its pension plan. This Settlement  
19 Stipulation does not adopt the Company's proposal, although it does include a  
20 provision for deferral and eventual recovery of excess pension contributions.  
21 During settlement discussions the Company emphasized its continuing concern  
22 regarding the detrimental effects these volatile expenses have on earnings  
23 between general rate adjustments, and requested that the Parties continue to

1 discuss these issues and potential solutions after this present case is finished. The  
2 discussions would also extend to the related problem of revenue instability  
3 resulting from decreased per capita consumption.

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

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

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

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

14 Q. Does that conclude your testimony?

15 A. Yes it does.