

Jean Jewell

From: mcneillkp@yahoo.com
Sent: Wednesday, January 04, 2012 3:44 AM
To: Jean Jewell; Beverly Barker; Gene Fadness
Subject: PUC Comment Form

A Comment from Kevin McNeill follows:

Case Number: UWI-W-11-02
Name: Kevin McNeill
Address:
City: Boise
State: Idaho
Zip:
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Contact E-Mail: mcneillkp@yahoo.com
Name of Utility Company: United Water
Acknowledge: acknowledge

Please describe your comment briefly:

At this time I would like to expand on my submission of August, 2011. As a professional consulting engineer I have designed water systems for Local Authorities and understand the extent, nature, and flexibility of water utility's assets. In addition, I worked for many years as an oil company engineer and witnessed first-hand the range of possible industry responses to rapid fluctuations in the price of an industry's product. An oil company's assets resemble those of a water utility to a high degree (wells, pipelines, product storage tanks, treatment plants, etc.).

Capital Expenditures:

As part of the justification for a 20% rate hike, United Water specified it has recently invested \$20 million in the Boise water system. The utility is demanding a return on equity of at least 8% in order to maintain a high credit rating, and to be able to attract Wall Street investment dollars.

This raises several concerns:

- State Revolving Fund (SRF) Loan: An entity with a very good AA bond rating would pay 21% more in total interest on a 5.0%, 20-year marketplace loan as it would on a 3.0% (60% of market rate), 20-year SRF loan! For a one million dollar loan, that is an extra \$256,400 in interest that would have to be paid to the bondholders to get marketplace financing! It would have been most prudent for United Water to have requested SRF financing for large capital improvements. The SRF Loan Program currently finances new and replacement water projects everywhere in Idaho, including water treatment plants, water tanks, water mains, new water supply including wells etc.

As far could be determined, United Water has never applied for an Idaho SRF Loan for a capital project.

- Maintenance Items Included as Capital Expenditures: As justification for the rate hike, United Water includes the following as capital expenditures 'replaced water mains, service lines, and meters.'

These common maintenance items are normally part of a capital repair/replacement plan, financed from a utility's maintenance fund (from past rates) and are not considered capital projects (in fact service lines from a residence to the utility's service lateral are owned by the homeowner and are not maintained by the utility).

- \$5.5 Million New Customer Information System: United Water should elaborate on this item.

Is it necessary - or prudent - to incur significant expense for a non-essential item like this when both the demand - and revenue - for your product is rapidly declining??

- Rate Hike to Increase Annual Revenue by \$7.6 Million: The reduction in revenue that United Water has experienced represents only 38% of the \$7.6 million/year increase that the Company requested.

Since revenue from customer rates is used for all utility financing why is United Water requesting \$4.71 million/year more from its customers than is required? At this rate the Utility would recover its recent investment of \$15 million (less the \$5 million Customer Info Sys) in less than 4 years. It appears the majority of the requested increase is to enhance the Company's apparent profitability - is that justified in our current financial climate?

- Sinking Fund: To a great degree, United Water's sinking fund should assist in attenuating capital maintenance and replacement costs. Does the Company have a sinking fund to assist in financing future capital requirements? Is the fund properly financed to meet future obligations? Does the Company have a capital repair/replacement plan?

Operation & Maintenance

Part of a water utility's major on-going operation and maintenance costs involve labor, power, chemicals, residuals management, and repair/replacement of assets.

Accordingly, reduced water production results in a proportionate decline in:

- Labor: reduced production results in less man-hours required for maintenance of filters, pumps, appurtenances etc.
- Power: less pumping is required to obtain, treat, move, and store the reduced quantity.
- Chemicals: proportionately less treatment/disinfection chemicals are required for reduced water production, regardless of the type of treatment employed e.g. standard filtration, membrane.
- Residuals Management: lower water production results in an associated reduced production of residuals to be collected, dewatered, and disposed of.
- Repair/replacement: reduced use results in a reduction in parts replacement in rotating equipment, water treatment membranes, water filtration media, etc.
- Mothball redundant facilities: water treatment plants are designed with multiple redundant treatment trains, used to maintain production while off-line units are on schedule maintenance; this facilitates isolating and mothballing separate unit processes thus conserving valuable assets until needed again.
- Vehicle fleet: reduced maintenance demands results in less use of the Company's vehicles, resulting in less fuel and maintenance costs.

Has United Water quantified any of these - or other - cost savings items to offset the reduced revenue from reduced demand for their product?

Austerity Program

One justification currently touted for extraordinary water utility rate hikes is that water utility companies are simply not like other industries in that they are very capital-intensive enterprises, requiring more capital expenditure per dollar of revenue than any other utility business, with fixed costs representing a significant percentage of total utility costs, and, as such are not subject to austerity programs. This is erroneous and misleading. Experience suggests the Company should present an austerity program detailing the applicability of at least the following cost-saving items:

- Mothballing redundant facilities: redundant treatment trains, pumps, and storage facilities should be taken off-line; this will result in reduced maintenance and delay capital replacement costs.
- Training: delay expenditure targeted for development of new training programs; delay/stagger existing training to optimize training dollars; nonessential training can be postponed; target training for specific applicable personnel only.

- Customer information systems: non-essential systems should be cancelled and expenditure recovered for essential services.
- Overtime: all absolutely non-essential overtime should be cancelled.
- Travel: nonessential travel should be cancelled; investigate alternative means of effective communication e.g. video and teleconferencing etc.
- Customer Service: delay or cancel programs and production of public relations materials etc.
- Capital projects: identify and postpone non-essential capital projects.
- Maintenance: maintenance schedules can be adjusted to fit new conditions by staggering the timing of some work and delaying less critical items (e.g. cleaning & painting water tanks).

What are the potential savings United Water has identified from their austerity program? Thank you for the opportunity to comment once again on United Water Company's request to the Commission for a 20% hike in water rates for Boise customers. Hopefully this information assists the Commission's deliberations considering the merits of the proposed request.

The form submitted on <http://www.puc.idaho.gov/forms/ipuc1/ipuc.html>
IP address is 24.119.76.187
