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November 6, 2015

Via Hand Delivery

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

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IDAHO PUBLIC
UTILITIES COMMISSION

Re: Case No UWI-W-15-01

Dear Ms. Jewell:

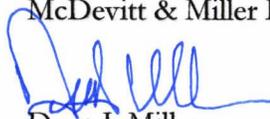
Enclosed for filing are an original and nine (9) copies of the Supplemental Direct Testimony of Marshall Thompson. A copy of the Supplemental Direct Testimony has been designated as the "Reporter's Copy." In addition, a disk containing MS Word version of the Supplemental Direct Testimony is enclosed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

Attorney for United Water Idaho, Inc.

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-15-01

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY OF MARSHALL THOMPSON

1 Q. Please state your name and business address.

2 A. Marshall Thompson, 8248 W. Victory Rd., Boise Idaho.

3 Q. What is your occupation?

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

6 Q. Are you the same Marshall Thompson who previously filed Direct Written
7 Testimony on May 21, 2015?

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
11 signed by Commission Staff (“Staff”), Community Action Partnership
12 Association of Idaho (“CAPAI”), and United Water on October 8, 2015,
13 and filed October 8, 2015, and to urge the Commission to approve the
14 Settlement Stipulation without change or condition.

15 Q. Please describe your involvement in the preparation and processing of
16 this general rate case.

17 A. I prepared written Direct Testimony regarding changes to the Company’s
18 Rules and Regulations. During the course of the proceeding I assisted in
19 preparation of responses to Staff Production Requests. I also participated
20 on behalf of the Company in the negotiations leading to the Settlement
21 Stipulation.

22 Q. As a result of that participation are you fully familiar with the Settlement
23 Stipulation terms and the process leading up to it?

1 A. Yes, I am.

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

3 A. Yes. In the Settlement Stipulation the Parties have agreed that:

- 4 • The Company's allowed revenues should be increased by \$2,730,000
5 effective December 22, 2015, which is an overall increase of
6 approximately 6% and by an additional \$670,000 effective December
7 22, 2016 which is an annual increase of 1.39%. The total revenue
8 increase is therefore \$3,400,000. Proposed tariff sheets containing
9 rates designed to recover these additional revenues are attached to
10 the Settlement Stipulation as Exhibit A.
- 11 • As reflected by Exhibit A, the additional revenue is to be recovered by
12 a uniform percentage increase to all rate elements.
- 13 • For the purpose of this case, United Water has accepted the
14 normalized values for water consumption proposed by Staff, without
15 agreeing on the methodology used to produce them.
- 16 • United Water will not file a general revenue requirement rate case that
17 results in new rates with an effective date prior to December 22, 2017.
- 18 • In its Final Order, the Commission may approve the following deferrals
19 and amortization periods.
 - 20 • Deferred Power- A 3-year amortization of the deferred balance
21 beginning December 2015.
 - 22 • Rate Case Expense – A 3-year amortization of the deferred
23 balance beginning December 2015.

- 1 • Tank Paintings – A 20-year amortization of new Gowen Tank
2 painting costs of \$208,040 beginning December 2015.
- 3 • Pension – A 3-year amortization of the deferred balance
4 beginning December 2015. The embedded pension expense is
5 proposed to be \$1,521,508 in order to establish a new deferral
6 threshold amount.
- 7 • The AFUDC equity gross up amount will be amortized over a
8 35-year period.
- 9 • Relocation Expense – A 5-year amortization of relocation
10 expenses of \$70,627 beginning December 2015.
- 11 • Conservation Expense – A 3-year amortization of conservation
12 expenses of \$35,000 beginning December 2015.
- 13 • The Commission may approve revisions to the Company’s Rules and
14 Regulations as set forth in Exhibit 2A to my Direct Testimony as
15 modified by Amendment 1 to Exhibit 2A, attached to the Stipulation.
- 16 • Although neither the Company nor CAPAI believe formal Commission
17 approval is required, the Settlement Stipulation also advises the
18 Commission of agreed upon enhancements to the UW Cares Program.

19 Q. To put the Settlement Stipulation in appropriate context, could you please
20 describe the Company’s initial Application in this case?

21 A. Yes. On May 21, 2015 the Company filed its initial Application requesting
22 a revenue increase of approximately \$5.88 million, or an overall increase
23 of 13.2%. The increase was requested in order to enable the Company to

1 earn a return on additional capital investments it had made in its water
2 system since rates were last set in January 2012, and to recover certain
3 increases in operating costs including health care costs, pension funding,
4 and property taxes.

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

6 A. Staff conducted a thorough audit of the Application, assigning a team of
7 auditors, engineers, and consumer specialists to the investigation. They
8 reviewed internal processes and procedures regarding asset
9 capitalization, operating expenses, and several other areas. The
10 Company cooperated fully in the Staff investigation, responding to
11 numerous Production Requests in a timely fashion.

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

14 A. Yes, representatives of the Company, Staff and CAPAI met on September
15 15, 2015. Although an agreement was not reached at that conference, the
16 Parties continued to discuss the matter by telephone and electronic
17 correspondence and eventually reached agreement on revenue
18 requirement and rate issues.

19 The Parties also met on September 23, 2015 to discuss revisions to
20 United Water's Rules and Regulations.

21 After these conferences and communications, the written
22 Settlement Stipulation was finalized and ultimately filed on October 8,
23 2015.

1 Q. Turning to the specific elements of the Settlement Stipulation, please
2 discuss the recommended revenue increase of \$3.4 million, which will be
3 implemented in two phases.

4 A. This figure represents an amount all Parties believe reasonable after each
5 party had an adequate opportunity to evaluate the merits of issues that
6 were in dispute. While the Parties did not attempt to resolve each issue
7 on an item by item basis, the overall increase reflects each party's
8 informed judgment regarding the likely outcome if the case were fully
9 litigated. The agreed total increase of \$3.4 million also represents a
10 significant concession from the Company's original request of \$5.88
11 million.

12 Q. Please discuss the proposal to recover the increased revenue by a
13 uniform percentage increase to all rate elements.

14 A. In United Water's previous general rate case, UWI-11-02, the
15 Commission granted, in part, the Company's request to increase fixed
16 charges by a larger percentage relative to volumetric charges. In return,
17 United Water agreed it would not request further adjustment to per meter
18 charges in this case. **See**, Case No. UWI-W-11-02, Order No. 32433.

19 Q. Is the rate design a continuing concern to the Company?

20 A. Yes. Under current rate design a significant portion of the Company's fixed
21 costs are recovered in consumption charges. As discussed in the Direct
22 Testimony of Witness Herbert, the Company continues to experience a
23 declining trend in per capita consumption, meaning the Company is

1 exposed to the risk of under recovery of fixed costs with resulting earnings
2 erosion. We believe it may be appropriate to re-visit this issue in the next
3 general rate case with a view toward further movement to cost of service.

4 Q. You mentioned that the Settlement Stipulation also contains agreements
5 between the Parties on certain deferral and amortization items. Please
6 explain.

7 A. In sub-clauses a, b, c, e, f, and g of paragraph 13 of the Settlement
8 Stipulation, agreements regarding certain other deferrals are set forth.
9 None of these items affects the revenue increase award in this case.
10 Rather, they reflect agreement on how these accounting issues will be
11 handled on a prospective basis, and specific regulatory approval is
12 necessary to support the accounting entries that will be made. They thus
13 eliminate the potential for disagreements on accounting methods in
14 subsequent cases. The Company requests these methods be approved
15 in the Commission's Final Order.

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

19 A. The Company was willing to accept the proposed \$3.4 million increase
20 over two phases because it wishes to remain sensitive to the affect the full
21 increase amount may have on customers. Although the Company
22 believes the full \$3.4 million in increased revenue is justified becoming
23 effective now and not in two phases based on the Company's investments

1 and costs, this phased-in recovery of the total increase will mitigate
2 somewhat the rate impact on customers that would otherwise occur in one
3 year. It also spreads the increase during the moratorium period to which
4 the Company has agreed, and prohibits the Company from receiving an
5 increase in rates resulting from a general rate case Application prior to
6 December 22, 2017.

7 Q. Please discuss the provisions of the Settlement Stipulation regarding the
8 Consumption Normalization Adjustment.

9 A. In his Direct Testimony, Witness Herbert performed a study of pro forma
10 consumption, normalized for weather. This study showed a significant
11 decline in consumption for the pro forma period, compared to the past
12 years. During settlement discussions we learned that Staff disagreed with
13 this analysis and that Staff would propose significantly higher normalized
14 consumption.

15 Q. Why is normalized consumption an important issue for the Company?

16 A. The value for customer consumption is a key component in calculating
17 rates. If actual consumption in the rate period is less than the value used
18 in the rate calculation, the Company will not recover its allowed revenue
19 and, all other things being equal, will not earn its allowed return.

20 Q. How did the Parties resolve this issue for the purpose of settlement?

21 A. For the purpose of this case, the Company agreed to accept Staff's
22 normalized values, and the Parties agreed to confer prior to the next

1 general rate case to better understand each side's methodology and
2 perhaps agree on a normalizing methodology for future cases.

3 Q. Please describe the Company's proposed changes to its Rules and
4 Regulations.

5 A. United Water had not undertaken a comprehensive review of its Rules and
6 Regulations for several years. Many of the proposed revisions correct
7 outdated formatting and bring the Rules into conformance with current
8 practices. These revisions are described at pages 2—9 of my Direct
9 Testimony.

10 Q. Did Staff review these revisions?

11 A. Yes. Staff did not express any concerns regarding these revisions.

12 Q. Are there proposed revisions of a more substantive nature?

13 A. Yes. These are primarily in connection with the Company Cross
14 Connection Control Program, as reflected in Rules 14, 15 and 16.

15 Q. Please describe the Cross Connection Control Program.

16 A. A Cross Connection Control Program is intended to protect the public
17 served by United Water's system from contamination due to actual or
18 potential cross connections with non-potable water sources. The Rules
19 for Public Drinking Water Systems promulgated by the Idaho Department
20 of Environmental Quality (IDAPA 58.01.08) require every public drinking
21 water system to develop and enforce a Cross Connection Control
22 Program.

1 In 2013 the Company undertook a comprehensive revision of its
2 control program, resulting in the development of a written Cross
3 Connection Control Program Policy (Policy). A copy of the Policy was
4 shared with Staff at that time.

5 Q. What was the purpose of revisions to Rules 14, 15 and 16?

6 A. These revisions were intended to make the Rules consistent with the
7 Policy.

8 Q. Did the Company meet with Staff to discuss these changes?

9 A. Yes, we met with Staff on September 23, 2015. As a result of that
10 meeting Staff suggested changes to the proposed revisions and these
11 changes are reflected in Amendment 1 to Exhibit 2A, attached to the
12 Settlement Stipulation. We believe the Staff suggested changes resulted
13 in improved clarity in those Rules.

14 Q. Are there other substantive changes to the Rules and Regulations?

15 A. Yes. We have proposed changes to Rules 44 and 45, relating to private
16 fire service. The changes make it clear that fire service line connections
17 will be separate from potable service lines. The changes also clarify who
18 will bear the financial cost of equipment on existing fire service
19 connections that the Company deems necessary to meter.

20 Amendment 1 to Exhibit 2A reflects suggestions by Staff for
21 improvements to the modifications to these Rules originally proposed in
22 the Application.

1 Q. The Settlement Stipulation also contains provisions for enhancements to
2 the UW Cares program. Please explain.

3 A. United Water is the only water utility in Idaho that provides financial
4 assistance to its low-income customers experiencing difficulty paying their
5 bills for water service. The program was initiated in 2005 and has
6 provided approximately \$146,000 in rate assistance.

7 Currently, the amount of per-customer assistance is capped at \$65
8 in any twelve-month period. In the Settlement Stipulation the Company
9 and CAPAI have agreed this amount will be increased to \$75 effective
10 January 1, 2016, an increase of approximately 15%. In addition, in
11 subsequent years the per-customer cap would be increased by the same
12 percentage increase (rounded up to the nearest dollar) as the percentage
13 increase in revenue awarded by the Commission in subsequent general
14 rate proceedings. (This percentage increase mechanism does not apply
15 to the agreed upon increase on December 22, 2016).

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

18 A. Yes. Settlement discussions were only undertaken after Staff conducted a
19 thorough audit of the Application. The Settlement Stipulation is the result
20 of arms-length negotiations between the Parties, all of whom had access
21 to all relevant facts. The Settlement Stipulation is supported by the
22 evidence demonstrating the need for rate adjustments to provide for

1 recovery of necessary investments and expenses. The end result is rates
2 that are fair, just and reasonable, in my opinion.

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

4 A. Yes. During the settlement process, the Company experienced a
5 willingness by Staff and CAPAI to address issues in a straightforward,
6 professional manner. The Company is very appreciative of these efforts
7 by the Parties.

8 Q. Does that conclude your testimony?

9 A. Yes it does.