

BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
 UNITED WATER IDAHO INC FOR) CASE NO. UWI-W-15-01
 AUTHORITY TO INCREASE ITS RATES)
 AND CHARGES FOR WATER SERVICE IN)
 THE STATE OF IDAHO)
)
)
)

DIRECT TESTIMONY OF TERRI CARLOCK
IN SUPPORT OF THE STIPULATION
AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

NOVEMBER 6, 2015

1 Q. Please state your name and address for the
2 record.

3 A. My name is Terri Carlock. My business address
4 is 472 West Washington Street, Boise, Idaho.

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

6 A. I am the Deputy Administrator of the Utilities
7 Division at the Idaho Public Utilities Commission. I am
8 responsible for supervising the Accounting/Audit Section
9 and coordinating Staff's policy positions with Staff
10 Administrator Randy Lobb.

11 Q. Please outline your educational background and
12 experience.

13 A. I graduated from Boise State University in
14 1980, with B.B.A. Degrees in Accounting and Finance. I
15 have attended various regulatory, accounting, rate of
16 return, economics, finance, and ratings programs. I
17 Chair the Task Force on International Financial Reporting
18 Standards with the National Association of Regulatory
19 Utility Commissioners (NARUC) Staff Subcommittee on
20 Accounting and Finance. I previously chaired the NARUC
21 Staff Subcommittee Accounting and Finance for 3 years,
22 chaired the Subcommittee on Economics and Finance for
23 more than 3 years, and chaired the Ad Hoc Committee on
24 Diversification. I have been a presenter for the
25 Institute of Public Utilities at Michigan State

1 University and for many other conferences. Since joining
2 the Commission Staff in May 1980, I have participated in
3 audits, performed financial analysis on various
4 companies, and have presented testimony before this
5 Commission on numerous occasions.

6 Q. What is the purpose of your testimony in this
7 proceeding?

8 A. The purpose of my testimony is to describe the
9 process leading to and the terms of the filed Settlement
10 Stipulation (proposed Settlement) signed by all three
11 parties in this case and to explain the rationale for
12 Staff's support.

13 Q. Please summarize your testimony.

14 A. Staff conducted a review of United Water
15 Idaho's (United Water; Company) rate case filing, a
16 comprehensive audit of Company books and test year
17 results of operations, and identified rate case issues.
18 Based on this extensive review Staff believes that the
19 proposed Settlement agreed to by Staff, the Community
20 Action Partnership Association of Idaho (CAPAI) and the
21 Company (collectively the Parties) is in the public
22 interest and should be approved by the Commission. The
23 Company filed on May 21, 2015 seeking an annual revenue
24 increase of \$5,881,308 for an overall increase of 13.2%.
25 The proposed Settlement specifies a two-step increase in

1 annual revenue requirement of \$2.73 million or 6% to
2 become effective on December 22, 2015 and an additional
3 increase effective December 22, 2016 of \$670,000 or
4 1.39%. The Settlement Stipulation also includes a stay-
5 out provision prohibiting rate filings that result in
6 rate changes effective before December 22, 2017. The
7 primary consideration of the Commission Staff in
8 negotiating the Settlement was to obtain the best
9 possible result for United Water Idaho customers
10 associated with this case.

11 Q. How did Staff evaluate the benefit to customers
12 of the Settlement compared to continuing with a litigated
13 case?

14 A. Staff reviewed each of the identified revenue
15 requirement adjustments to assess the strength of each
16 argument and the likelihood it would be accepted by the
17 Commission. Most of the Staff adjustments would clearly
18 be opposed by the Company in a litigated case. Staff
19 believes several of the adjustments had a high
20 probability of being accepted by the Commission based on
21 past Commission orders. However the adjustments removing
22 projected costs and including only actual costs would
23 have been updated if the case was litigated since
24 additional months of actual costs would be known at the
25 time of hearing. If actual costs mirrored or were

1 greater than budgeted costs, the revenue requirement
2 would increase above the initial proposal by Staff in the
3 settlement discussions on September 15, 2015.

4 Based on the strong assessment guidelines utilized
5 by Staff, no agreement was initially made until
6 additional telephone and email communications solidified
7 the provisions for a two-year increase and a stay-out
8 period. Staff believes that the comprehensive multi-year
9 approach to resolving the revenue requirement in this
10 case represents a significantly better deal for customers
11 than could be achieved through either a one-year
12 settlement or litigation of the current rate case. The
13 comprehensive Settlement provides a compromise to arrive
14 at a mutually acceptable revenue requirement. It doesn't
15 set a precedent on an issue that might be addressed in
16 the future. In addition to the benefit from a
17 significant reduction in the revenue requirement, 57% of
18 the Company request, implementing a stay-out provision
19 provides rate stability for customers.

20 Q. Please describe the process Staff used to
21 review the Company's filing.

22 A. The Staff rate case team assigned to this case
23 included auditors, analysts, engineers and compliance
24 investigators. Each team member conducted an independent
25 review of the filing, asked and evaluated numerous

1 production requests and identified potential issues. The
2 revenue requirement determination also included an
3 account by account trend analysis over multiple years,
4 audit of the Company books and records, analysis of
5 allocations, review of operations and testing of internal
6 controls. The audit and internal analyses verified
7 investment and expenditures, evaluated proforma
8 adjustments for reasonableness and assessed corporate and
9 local decisions for prudence.

10 Q. Please explain the adjustments identified by
11 Staff that reduced the revenue requirement in preparation
12 for the Settlement discussions.

13 A. The Settlement Stipulation is a comprehensive
14 agreement of all revenue requirement issues in the case
15 but actual adjustments and dollar amounts were not
16 specifically agreed upon between the Staff and the
17 Company. Therefore I will identify the areas Staff
18 identified as potential adjustments. The areas adjusted
19 by Staff to determine reasonableness of the Settlement
20 include:

21 1) Return on Equity (ROE) and Capital Structure.
22 The Company requested a 10.4% ROE with an equity ratio of
23 55.3%. Staff considered both of these to be too high so
24 evaluated options. An ROE of 9.2% with the proposed
25 capital structure or an ROE of 9.5% with a 50% equity

1 ratio produce similar results and this lower overall rate
2 of return was used for Staff's revenue requirement
3 analysis.

4 2) Rate Base and associated expenses. The Company
5 used projections through November 30, 2015. Staff
6 analyzed actual rate base expenditures in place of the
7 projections. This would decrease rate base, depreciation
8 and related operating costs such as taxes, power costs
9 and chemicals. Staff also evaluated land that it
10 identified as not being used and useful, headquarter
11 relocation costs, automated meter (AMI) expenditures,
12 information technology upgrades and other affiliate costs
13 not yet fully supported. The timing of project
14 completion and ability to determine known and measurable
15 costs were considered for adjustments.

16 3) Allocations. Staff evaluated the
17 reasonableness of increases and the total amount of
18 corporate allocations to Idaho. Allocated costs included
19 administrative, engineering, legal, operations,
20 accounting, finance, human resources, purchasing,
21 insurance, data processing, customer service, billing,
22 public relations, planning, and ratemaking services.
23 Since these allocations are affiliate transactions they
24 must be verifiable, least cost and fully documented.
25 Staff believes an adjustment reducing the allocated

1 affiliate costs is justifiable.

2 4) Employee compensation, incentives, and pension
3 costs. Staff proposed adjustments to reduce the total
4 allowable level of employee compensation. Executive
5 incentives were removed from the revenue requirement by
6 Staff and placed below the line as a shareholder
7 responsibility.

8 Pension costs are established for United Water Idaho
9 by including a baseline in rates with variations from the
10 baseline deferred and amortized in future rate cases. A
11 new pension baseline of \$1,521,508 is established in the
12 Settlement. The current deferred balance will be
13 amortized over three years.

14 5) Other Expenses and deferral amortizations.
15 Staff analyzed other expense categories and proposed
16 adjustments to the amount or amortization period for
17 transportation expenses, personal use of company
18 vehicles, postage, conservation interpretive trail
19 expenditures, rate case expense, purchased water, power
20 cost and amortization of deferred power costs.

21 6) Weather normalization and declining customer
22 usage adjustment. Weather normalization is a standard
23 ratemaking adjustment to adjust consumption to a level
24 expected in an average weather year. Staff applied
25 standard multiple regression techniques to data for all

1 years provided by the Company (2000 through 2014). This
2 differs from the Company methodology.

3 The declining customer usage adjustment is proposed
4 by the Company to allow it to collect fixed and variable
5 costs considering changes in customer consumption
6 behavior. Staff believes the Company's water usage
7 projections are speculative and neither known nor
8 measurable.

9 The Staff and the Company disagreed on the
10 appropriate adjustments. Without agreeing to the
11 methodology used to produce the numbers, the Settlement
12 utilizes the normalized consumption values proposed by
13 Staff to establish rates. Staff and the Company also
14 agreed to meet and confer on the consumption issues.

15 Q. Please identify the deferrals and amortization
16 periods.

17 A. The deferral and amortization periods going
18 forward as a result of the settlement are as follows:

- 19 a. Deferred Power. 3-year amortization of
20 deferred balance beginning December 2015.
- 21 b. Rate Case Expense. 3-year amortization of
22 deferred balance beginning December 2015.
- 23 c. Tank Paintings. 20-year amortization of
24 new Gowen Tank painting cost of \$208,040
25 beginning December 2015.
- 26 d. Pension. 3-year amortization of deferred
27 balance beginning December 2015. The
28 embedded pension expense is proposed to
29 be \$1,521,508 in order to establish a new
30 deferral threshold amount.
- 31 e. The AFUDC equity gross up amount will be
32 amortized over a 35-year period.

1 f. Relocation Expense. 5-year amortization
of \$70,627 beginning December 2015.

2 g. Conservation Expense. 3-year
3 amortization of \$35,000 beginning
December 2015.

4 Q. Please identify the rate spread and rate
5 designed utilized in the Settlement.

6 A. In the Settlement the Parties agreed to a
7 uniform percentage increase to all rate elements.
8 Exhibit A to the Settlement Stipulation reflects the
9 tariff rates for each schedule.

10 Q. Please discuss the miscellaneous changes to the
11 Company's Rules and Regulations.

12 A. The parties met and ultimately agreed to
13 modifications as shown in Amendment 1 to Exhibit 2A
14 attached to the Settlement Stipulation. These
15 modifications address tariff changes regarding fire
16 protection service connections, cross connection control
17 and backflow prevention, and reconnection charges.

18 Q. Please discuss the low income issues in the
19 Settlement.

20 A. The Company agreed to modify the United Water
21 Cares program. The cap on per customer contribution will
22 be increased to \$75 effective January 1, 2016 from \$65,
23 an increase of approximately 15%. Thereafter, the per-
24 customer cap amount would be increased by the same
25 percentage (rounded up to the nearest dollar) as the

1 percentage increase in revenue awarded by the Commission
2 to United Water in subsequent general rate proceedings.
3 The percentage increase mechanism does not apply to the
4 agreed upon increase on December 22, 2016. This program
5 historically has been funded by United Water shareholders
6 and abandoned developer deposits.

7 Q. Does this conclude your direct testimony in
8 this proceeding?

9 A. Yes, it does.

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CERTIFICATE OF SERVICE

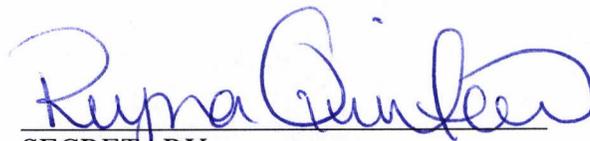
I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF NOVEMBER 2015, SERVED THE FOREGOING **DIRECT TESTIMONY OF TERRI CARLOCK IN SUPPORT OF THE STIPULATION SETTLEMENT**, IN CASE NO. UWI-W-15-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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