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2015 APR 10 AM 11:01

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT
APPLICATION OF UNITED WATER
IDAHO AND THE CITY OF BOISE,
IDAHO, FOR APPROVAL OF AN
AGREEMENT FOR TRANSFER AND
OPERATION OF FIRE HYDRANTS AND
FOR APPROVAL OF RATE MAKING
TREATMENT.

Case No. UWI-W-15-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF NEAL OLDEMEYER

April 10, 2015

1 Q. Please state your name and address.

2 A. Neal Oldemeyer, 150 N. Capitol Blvd, Boise, Idaho.

3 Q. What is your occupation?

4 A. I am a licensed mechanical engineer and Director of the Boise City Public Works
5 Department.

6 Q. Please describe your educational background.

7 A. I have a Mechanical Engineering degree from Oregon State University and a
8 Master's in Business Administration from Boise State University.

9 Q. Please describe your work experience.

10 A. I served as a nuclear-trained submariner for about five years, and then worked as
11 a design engineer for seven years designing large belt conveyor systems primarily
12 for the mining industry. Since 1992, I have worked for Boise City Public Works,
13 first serving as the manager of the City's geothermal water system. About three
14 years later, I transitioned to an administrative position within Public Works
15 responsible for budgeting, rate setting, collection of fees, contract administration
16 and many related duties. In 2008, I was appointed the City's Public Works
17 Director.

18 Q. What are your responsibilities as the Boise City Public Works Director?

19 A. I manage a department of 239 full time equivalent employees with an annual
20 operating budget of \$67 million and a capital budget of over \$10 million. The
21 Department is responsible for the wastewater collection and treatment systems;
22 the country's largest direct use geothermal heating system; an irrigation system;
23 the solid waste collection and related programs; facilities management and

1 construction; and various other engineering and environmental related duties. I
2 also manage and coordinate the City of Boise's Franchise Agreement with United
3 Water Idaho (United Water).

4 Q. Can you tell us a little about the Franchise Agreement with United Water?

5 A. The Agreement, which took effect November 1, 1994, is for a period of twenty-
6 one years. The Franchise Agreement defines the terms and conditions under
7 which United Water Idaho may operate its privately owned water utility within
8 the corporate limits within the City of Boise.

9 Q. What does management and coordination of the Franchise Agreement entail?

10 A. I am the primary point of contact with United Water when issues arise regarding
11 the implementation of the Franchise Agreement, which involve such matters as
12 rate issues, coordination with other utilities, arranging annual meetings and
13 updates with the City Council, proposing amendments or adjustments to the
14 Franchise Agreement or addressing fire hydrant ownership and maintenance.

15 Q. Are you familiar with a July 15, 2014 *Agreement for Replacement and Operation*
16 *of Fire Hydrants* ("Agreement") between Boise City and United Water Idaho for
17 the replacement and operation of fire hydrants within United Water's service area
18 in the City of Boise City?

19 A. Yes. I participated in the negotiation and finalization of that Agreement.

20 Q. Can you provide some background on how the fire hydrant agreement arose?

21 A. For many years, I have been aware that the fire hydrants were owned and
22 operated by the City, in particular the Fire Department. This seemed odd to me
23 from a utility operations perspective, so when I became the Public Works Director

1 I decided to investigate further. I have not been able to identify the original
2 reason for the City owning the hydrants, but have come across documentation that
3 suggests that the City has maintained this operational model because of control
4 issues: maintenance and operation responsibilities, potential ownership issues, and
5 so forth. At this point, City leadership has decided the benefits of transferring
6 ownership outweigh any concerns that may currently exist or in the past been
7 present.

8 I have also reviewed the Franchise Agreement, which does not directly
9 address ownership and maintenance of hydrants. In addition, I contacted most of
10 the larger cities in Idaho to learn about their ownership and operational models
11 and found that all were either paying for fire hydrant maintenance and
12 replacement through their city-owned water utilities or, like in some areas of
13 Eagle, Idaho, the hydrants were owned and maintained by a private water
14 purveyor such as United Water. In parallel, I approached United Water to gauge
15 their interest in owning and maintaining the hydrants in Boise City. The
16 Agreement was subsequently negotiated and approved by both the City and
17 United Water. I have since reached out more broadly to my city public works
18 peers – using the Association of Idaho Cities e-mail contact list – and have
19 confirmed that Boise’s current ownership/operational model is indeed uncommon,
20 as all others support and fund fire hydrants as part of an integrated water system.
21 The only variance to this statement might be Kellogg, which seems to address the
22 funding of the fire hydrants through an agreement with the water district and fire
23 district.

1 Q. Can you explain the City's interest in entering into the Agreement?

2 A. Yes. There were four key objectives:

3 1. To provide operations consistent with other communities in the state;

4 2. To provide equity among taxpayers and ratepayers;

5 3. To make available capital funding for fire protection infrastructure;

6 4. To conform to the intent of the Franchise Agreement;

7 Q. Can you provide more detail regarding the first objective: to provide operations
8 consistent with other communities in the state?

9 A. Yes. We have been unable to find any other water system in the state that
10 functions as the one we have in Boise City. Specifically, we know of no other
11 system that operates and funds its fire hydrants separately from the rest of the
12 water system. As described in an earlier statement, the only variance to this
13 statement might be Kellogg, which seems to address the funding of the fire
14 hydrants through an agreement with the local water district and fire district.

15 United Water owns and operates the entire water system with the
16 exception of the hydrant isolation valves, small extensions of pipe beyond the
17 valves, and the hydrants. These latter elements are owned, operated and
18 maintained by Boise City, largely by the Boise Fire Department. This odd
19 bifurcation of the system does not make sense, particularly when the water system
20 operational and maintenance expertise resides with the water company.

21 Q. Can you provide more detail regarding the second objective: to provide equity
22 among taxpayers and ratepayers?

1 A. Yes. It is our understanding that other communities typically fund their water
2 systems – capital, operations, and maintenance – through fees and capital charges.
3 These are normally managed within stand-alone enterprise funds or business
4 units. All aspects of the water systems including hydrants are included. There is
5 no tax support.

6 In Boise, however, this business model falls short. The water users pay
7 for the entire water system except for hydrants. The hydrants are paid for by the
8 general fund (largely taxes), which not everyone pays. This means that
9 governments, non-profits, and other tax-exempt entities are not required to fund
10 this important element of the water and fire protection system even though they
11 receive great benefit from it.

12 It is important to note that in some parts of Eagle and unincorporated Ada
13 County hydrants are already included in the United Water system. Consistency
14 throughout the county and state should be an important consideration.

15 Q. Can you provide more detail regarding the third objective: to make available
16 funding for fire protection infrastructure?

17 A. Yes. Boise City has an extensive general fund capital plan and budget for capital
18 projects as well as equipment. The project list includes planned libraries, parks,
19 fire stations, and much more including fire hydrant installation and replacement.
20 The City's annual capital budget typically includes about \$450,000 for the
21 hydrant work, this has been adequate in the recent years, but is projected to fall
22 short in the near future. The budget of \$450,000 per year is for replacement of

1 approximately 100 hydrants per year plus infill opportunities that may result from
2 coordinating with road construction projects.

3 The City has received voter bond approval to address the larger one-time
4 capital expenditures such as for fire stations and a fire training facility. Other
5 one-time capital needs still exist along with an ongoing base need for police cars,
6 fire trucks and engines, parks maintenance equipment, and so forth. The fire
7 equipment places a significant burden on this budget, as Boise owns, operates and
8 maintains 16 fire engines, 3 ladder trucks, and a variety of other specialty
9 equipment. These pieces of equipment are replaced approximately every ten
10 years. Each engine costs about \$600,000; each ladder truck costs about \$2.0
11 million.

12 If the fire hydrants were owned and operated by United Water, the City's
13 fire hydrant budget could be eliminated and, in the discretion of the Council this
14 money be reallocated to the replacement of other critical fire equipment such as
15 engines and trucks or to enhance or preserve the current level of services for fire,
16 police, libraries and parks.

17 Q. Can you provide more detail regarding the fourth objective: to conform to the
18 intent of the franchise agreement?

19 A. Yes. Section 5(d) and (e) of the Franchise Agreement require United Water to
20 provide apparatus, equipment and fixtures to maintain Class III fire rating and to
21 follow a capital improvement plan for improving fire protection. Hydrants are a
22 small but integral part of the water system necessary to provide fire protection
23 within the City. United Water owns and maintains all other portions of piping

1 and water sources necessary to provide that protection. The parties recognized
2 that hydrants should be part of the fire protection works, apparatus and fixtures
3 provided by United Water pursuant to the franchise agreement.

4 Q. Pursuant to the Agreement, how will the turnover of hydrants, including piping
5 and valves, take place?

6 A. The overall transition of hydrant ownership to United Water will take place over
7 about a 40-year time frame. The City currently owns and operates approximately
8 6700 hydrants, which are depreciated and replaced on a 40-year cycle. As each of
9 these hydrants reach the end of its useful life, the hydrant will be replaced by
10 United Water at which point United Water will take ownership.

11 Any new hydrant installed on the system will immediately become the
12 property of United Water. An example would be if a developer dedicated a new
13 portion of the water system to United Water, which included several hydrants. It
14 may also occur if new hydrants were installed by United Water as part of a main
15 replacement project.

16 Q. Are there other benefits to the agreement?

17 A. Yes, in my mind there is one that stands out: the oversight of the maintenance and
18 operation of the hydrants will be left up to the water experts. These folks
19 understand what is required to operate and maintain a water system including the
20 hydrants. The firefighters should be left to fight the fires and respond to
21 emergencies.

22 Q. Are there other water utilities operating in Boise City pursuant to a Franchise
23 Agreement?

- 1 A. Yes. Capital Water.
- 2 Q. What is the City's arrangement with Capital Water regarding fire hydrant
3 maintenance and ownership?
- 4 A. It is the same as the relationship we have with United Water. There are only
5 about 200 hydrants connected to the Capital Water system. If the Commission
6 approves the ownership transition of hydrants to United Water, we would contact
7 Capital Water and request the same sort of arrangement.
- 8 Q. Have you reviewed United Water's proposed ratemaking treatment on fire
9 hydrant investments described in the Direct Testimony of Gregory P. Wyatt?
- 10 A. Yes, I have.
- 11 Q. Does the City support United Water's proposal?
- 12 A. Yes. Although I am not an expert on the subject of Idaho Public Utility
13 Commission regulated ratemaking, I do understand that the general intent of the
14 proposal is to enable United Water to earn its authorized return on the fire hydrant
15 investments as they are made and to ensure that they will be fully recovered in
16 rates in a timely fashion. I believe it is reasonable for the Commission to
17 approve United Water's ratemaking proposal so as to fairly compensate United
18 Water for its willingness to undertake this investment.
- 19 Q. Does this conclude your testimony?
- 20 A. Yes, it does.