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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 GREGORY P. WYATT

April 10, 2015

1 Q. Please state your name and business address.

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

3 Q. What is your occupation?

4 A. I am the Vice President and General Manager of United Water Idaho Inc. (United
5 Water).

6 Q. Please describe your experience in the water industry.

7 A. I have been employed at United Waterworks properties, formerly General
8 Waterworks, since December 1974. Prior to assuming my current duties as
9 General Manager of United Water Idaho in late 1999, I worked in various
10 capacities in several states including General Manager for United Water
11 Pennsylvania, Area Manager for the United Water Indiana operations, Assistant
12 Manager of United Water Idaho and various accounting positions in New Jersey
13 and Pennsylvania.

14 Q. What are your duties and responsibilities?

15 A. My duties and responsibilities are to oversee the daily operation of providing
16 potable water to the customers of United Water Idaho. I oversee the various
17 departments of Engineering, Production, Transmission & Distribution, Customer
18 Service, Billing, Information Technology, Finance and Planning, and
19 Administration in meeting their responsibilities for the delivery of potable water,
20 maintaining compliance, and providing related services to customers.

21 My responsibilities also include supervision of the Company's compliance
22 with all regulations in regard to safety, compliance with the Safe Drinking Water
23 Act, and other similar requirements.

1 Q. Are you familiar with a July 15, 2014 *Agreement for Replacement and Operation*
2 *of Fire Hydrants* (Agreement) between United Water Idaho and The City of Boise
3 for the replacement and operation of fire hydrants within United Water's service
4 area in the City of Boise City, which is attached to the Joint Application of United
5 Water and the City of Boise?

6 A. Yes. I participated in the negotiation and finalization of that Agreement, and
7 signed it on behalf of United Water.

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

9 A. Beginning in 2012, representatives of Boise City, including their Public Works
10 Director Neal Oldemeyer, approached United Water with the concept of
11 transferring ownership and maintenance responsibility to United Water for the fire
12 hydrants within the Boise City limits. As discussions proceeded, the approach
13 described in the Agreement of transitioning fire hydrant ownership and
14 responsibility over a 40-year period on a new-only basis took shape.

15 In August of 2013, representatives from the City of Boise, including
16 Mayor David Bieter, and United Water met with the Idaho Public Utilities
17 Commissioners and Staff to review and explain the concepts around the City's
18 desire to transfer hydrant ownership and responsibility to United Water.

19 Q. Please describe the key provisions of the Agreement.

20 A. The Agreement contemplates United Water funding the replacement of existing
21 Boise City fire hydrants within United Water's certificated service area over an
22 approximately 40-year time frame, resulting in United Water assuming ownership
23 and responsibility for the hydrants on a newly installed basis only. Also, several

1 conditions precedent to United Water's obligations exists within the Agreement
2 that I will touch upon later in my testimony.

3 Q. Please explain the replacement program for existing hydrants contemplated by the
4 Agreement.

5 A. Pursuant to the Agreement, in each calendar year commencing with the year the
6 Agreement becomes effective, Boise City shall identify those hydrants that are
7 near the end of their useful life and are scheduled for replacement, which schedule
8 assumes a 40-year hydrant life. To the degree it can be accomplished, the
9 hydrants identified for replacement shall be located in common geographical
10 areas. Boise City shall provide to United Water all available fire hydrant
11 locations and maintenance records appropriate to the identified hydrants.

12 United Water, at its cost and expense, will then install replacement
13 hydrants, which may include isolation valves and pipe extending from main lines.

14 The Agreement applies to hydrants within the City of Boise that are
15 located in United Water's certificated service area.

16 Q. Who will be responsible to fund new hydrants that had not previously existed on
17 the system?

18 A. In the case of new hydrants associated with new additions and expansions to
19 United Water's distribution system, those new hydrants would be funded by the
20 developer or customer requesting the new additions in accordance with United
21 Water's existing Rules and Regulations for Water Main Extensions. In the case
22 of new hydrants associated with replacements of existing but undersized water
23 mains, those new hydrants would be funded by United Water.

1 To the extent that an existing Boise City hydrant is replaced in the course of
2 United Water's existing main replacement and improvement program, I anticipate
3 those hydrants would count toward the annual number of hydrants identified for
4 replacement by Boise City.

5 Q. Does United Water have the technical ability to operate and maintain fire
6 hydrants?

7 A. Yes. United Water currently owns and maintains over 1,000 hydrants in areas
8 outside the Boise City limits. United Water personnel currently maintain those
9 hydrants following American Water Works Association (AWWA) standards for
10 fire hydrant maintenance. United Water has the necessary tools and equipment
11 necessary to own and operate a fleet of fire hydrants. United Water tracks and
12 records hydrant maintenance through its GIS system. Specific maintenance
13 procedures are outlined in the Agreement.

14 Q. In your experience in the water industry, is the current arrangement whereby the
15 city owns the fire hydrants but a public utility provides water service a typical
16 arrangement?

17 A. No it is not. It is far from normal, and the current situation with Boise City
18 owning the fire hydrants is the only one of its kind I'm aware of. It is much more
19 common for the entity that provides water service to own and operate the fire
20 hydrants within the system. As observed in Mr. Oldemeyer's testimony, the
21 current arrangement is a historical anomaly.

22 Q. On average, how many hydrants are anticipated to be replaced each year?

1 A. Although the useful life profile of Boise's hydrants isn't a smooth line, we
2 anticipate an average of approximately 168 hydrant replacements annually.

3 Q. Have you estimated the dollar amount of the annual investment in replacement
4 hydrants that would be required of United Water to implement the terms of the
5 Agreement?

6 A. Yes. We estimate United Water's annual investment in replacement hydrants
7 would be approximately \$765,000 in the first year. The annual revenue
8 requirement associated with this level of investment, when included in rates, will
9 equate to approximately \$1.45 per customer, or about \$0.24 a bill, and will not be
10 a material burden to United Water customers.

11 Q. Is United Water proposing a new tariff to recover the revenue requirement on the
12 new fire hydrant investments?

13 A. No. I believe the revenue requirement for the new fire hydrant investments could
14 be handled under the existing tariffs for all customers in the same way as for the
15 Company's existing investments in the approximately 1,000 hydrants it already
16 owns.

17 Q. You previously mentioned several conditions precedent to United Water's
18 obligations within the Agreement. Please identify those.

19 A. The conditions precedent are that United Water obtain an approval and order from
20 the Idaho Public Utilities Commission on terms that are acceptable to United
21 Water that:

- 22
- Approves the Agreement;

- 1 • Approves United Water’s proposal for recovery of costs associated with
2 ownership, operation and maintenance of the hydrants;
3 • Approves the accounting treatment of the costs associated with ownership,
4 operation and maintenance of the hydrants.

5 Q. Please describe United Water’s cost recovery and accounting treatment proposals.

6 A. United Water requests a determination by the Commission that the investments
7 incurred in conformity with the Agreement are prudently incurred and that the
8 Commission provide an assurance that they will be fully included in rate base (not
9 13-month averaged) and in rates in United Water’s subsequent general rate
10 proceedings over the life of the Agreement.

11 Q. Is United Water proposing any additional rate making treatment?

12 A. Yes. United Water proposes the Commission allow the Company to continue the
13 calculation and accrual of post-closing AFUDC on the investments anticipated by
14 the Agreement until such time as those investments are fully accounted for and
15 included in rates in subsequent general rate case determinations over the life of
16 the Agreement.

17 Q. Please explain the rationale for this request.

18 A. United Water believes there are several reasons for this requested regulatory
19 recovery treatment. First, Boise City has sought out and asked United Water to
20 make these investments to help ensure the long-term viability of the fire
21 protection capabilities within the City.

1 Second, absent this request, the investments contemplated by the
2 Agreement would not typically be anticipated or included in United Water's
3 annual capital expenditures budget.

4 Lastly, investments in new and replacement fire hydrants within the City
5 of Boise will not, in and of themselves, generate any new or additional revenue.

6 Recognizing its capabilities, United Water is willing to devote its
7 resources to help solve public safety concerns including fire protection. However,
8 United Water believes it would be unfair for these investments to be, in effect,
9 stranded, without earning any kind of return between general rate cases.

10 Allowing accrual of post-closing AFUDC would be a step toward relieving that
11 unfairness. And, depending on the timing of United Water's general rate case
12 filings, the application of the now customary 13-month averaging methodology
13 could result in the full amount of the investment not being recognized in rates.

14 United Water is therefore requesting that this investment be exempt from the 13-
15 month methodology and fully included in rates in future general rate proceedings.

16 Q. How would United Water anticipate these fire hydrant investments being treated
17 in the future if it pursued a Distribution System Improvement Charge (DSIC)?

18 A. At some time in the future, United Water may apply to the Commission for
19 authority to implement a Distribution System Improvement Charge. Such a
20 mechanism, approved in a number of states, allows for a surcharge on customer's
21 bills to enable the utility to earn on certain non-revenue producing replacement
22 infrastructure investments (mains, services, meters, and fire hydrants) outside a
23 general rate case. United Water would anticipate investments in fire hydrant

1 replacements to be included in a DSIC along with the other infrastructure
2 replacements mentioned above in determination of a DSIC surcharge on
3 customer's water bill. United Water, however, is not requesting that the
4 Commission make a determination or commitment in this regard in this
5 proceeding.

6 Q. Does this conclude your testimony?

7 A. Yes it does.