Q.Please state your name and business address for the record.

A.My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q.By whom are you employed?

A.I am employed by the Idaho Public Utilities Commission as Engineering Supervisor.

Q.What is your educational and professional background?

A.I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987.  I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987.  My duties at the Commission include analysis of utility rate applications, rate design, tariff analysis and customer petitions.  I have testified in numerous United Water Idaho proceedings including cases dealing with rates, line extensions, developer complaints and facility acquisitions.

Q.What is the purpose of your testimony in this case?

A.The purpose of my testimony is to identify the investment requested for recovery by United Water Idaho (UWI) that is either not financially supported by associated new revenue or is not adequately justified by the Company.  I will also address aesthetic water quality investment and expenses requested for inclusion in rates and how the costs compare to those presented in Staff’s water quality report in Case No. UWI-W-96-6.

Q.Please summarize your testimony.

A.The Company has proposed to include in rate base, the investment associated with various water system acquisitions and water facility additions.  Staff recommends that approximately $2.42 million of the requested acquisition and additional investment not be allowed in rate base.  Staff analysis shows that insufficient revenue is generated by customers served within the existing Island Woods and Redwood Creek water systems to cover the revenue requirement associated with all of the acquisition investment requested for recovery.  Failure to reduce the investment allowed in rate base will burden the general body of existing UWI ratepayers.  Therefore, I recommend that the Company’s rate base proposal for these two projects be reduced by $897,650.

With respect to the Garden City acquisition, it is inappropriate to allow UWI to rate base its Garden City investment when the purchased facilities were previously contributed by customers.  Allowing the $577,664 facility investment in rates after the facilities were previously contributed constitutes a double recovery of costs.  However, if the purchase price is allowed in rates, insufficient new revenue is available as a result of the exchange to cover both the purchase price and the cost of water supply to serve the area.  In that instance, Staff believes that the incremental water supply investment required to serve this area would need to be quantified and subtracted from rate base to assure that existing ratepayers are not harmed by the acquisition.

In the context of the cost to acquire new water supply, the Company has not shown sufficient justification to require existing customers to pay for the Northwest pipeline and thereby the stranded water supply and distribution facilities in the Eagle area.  Given the recently improved water supply situation in the main service level, the planned expansion of the Marden water treatment plant and the potential for growth in the Eagle area, an investment of this type and magnitude at this time is not supported by the facts and is not prudent.  Therefore, the Northwest pipeline investment of $940,000 should not be allowed in rates.

Finally, over $450,000 of additional revenue requirement or about 13% of the Company’s requested increase in this case is associated with the Company’s attempt to resolve aesthetic water quality problems.  The actual effect of this investment on customer water quality complaints will not be measurable until a summer irrigation season is complete and may not even be measurable at that time.

Q.Would you please describe the acquisitions made by the Company that are the subject of cost recovery in this case?

A.Yes.  The Company has requested cost recovery on five different projects.  Three of the projects including Warm Springs Mesa, the Banbury Subdivision and Island Woods are all existing systems purchased by the Company.  The Redwood Creek project is a combination of purchased existing facilities and new facilities constructed by the Company.  The final project consists of an exchange of existing facilities with Garden City.  Staff Exhibit No. 102 provides an itemized listing of each project, the number of customers, the projected annual revenue and the amount of associated investment requested in rates.

Q.Do you support the Company’s proposed recovery of costs associated with these acquisitions?

A.No, not entirely.  While I do support recovery of costs associated with the purchase of the Banbury Subdivision and the Warm Springs Mesa systems, I cannot support recovery of some if not all of the acquisition costs associated with Island Woods, Redwood Creek and the Garden City exchange.

Q.Would you please explain?

A.Yes.  I will address acquisition cost recovery for each project beginning with Island Woods.

Island Woods

The Company states in its response to Staff’s Production Request No. 62 that a net rate base addition of $260,751 was made for the acquisition of the Island Woods water system.  The effect of increasing rate base by this amount to acquire the system was evaluated using an investment model shown as Staff Exhibit No. 103.  The model determines the incremental increase in revenue requirement due to increased operating expenses, taxes and depreciation expense.  The increased revenue requirement is then compared to the incremental increase in annual revenue generated from the new customers to determine if the Company will earn its authorized return on investment.  If insufficient new revenue is generated, then allowed investment must be reduced or the general body of ratepayers will be required to subsidize the acquisition.  Staff Exhibit No. 103 shows that new revenue generated from Island Woods customers can only support an investment of $187,351 without burdening the general body of UWI ratepayers.  Therefore, I recommend that $73,400 of the requested net rate base increase for Island Woods be disallowed.

Redwood Creek

Using the same investment model, I evaluated the Company’s request to increase rate base by $890,269 for the acquisition/construction of the Redwood Creek Water system.  Staff Exhibit No. 104 shows that new customer revenue generated as a result of the Redwood Creek acquisition can only support an addition to rate base of $66,019 without burdening the general body of existing UWI ratepayers.  Therefore, I recommend that $824,250 of the requested net rate base increase for Redwood Creek be disallowed.

North State/Garden City Exchange

The facility and customer exchange between Garden City and UWI was previously heard by the Commission in Case No. UWI-W-95-2.  In testimony filed in that case, Staff recommended that none of the investment made by the Company to purchase Garden City facilities in the North State area be allowed in rate base on the grounds that the purchased plant was previously contributed.  The original Staff position in this case is still valid and, therefore, I recommend that the $673,530 requested net rate base for the Garden City exchange be disallowed.  Staff witness Smith will address this issue more fully in his direct testimony.  I have also evaluated the Garden City exchange using the same investment model described above for Island Woods and Redwood Creek.  Staff Exhibit No. 105 shows that new incremental revenue will support an incremental increase in rate base of $583,164 or slightly more than the $577,664 incremental increase requested by the Company in this case.  The incremental increase is the $673,530 depreciated investment paid for the North State area less the $95,866 exchanged Millstream facilities already in rate base.

The purpose of this analysis is to show that while new revenue will support the incremental increase in rate base caused by the exchange, should the Commission allow the investment, it will support very little additional expense or investment for water supply needed to serve the North State area.  Therefore, the cost of water supply to serve the North State area would need to be quantified.

Q.What is the cost of water supply in the North State area?

A.Because the North State area is currently integrated into UWI’s existing system, water supply costs should reflect the incremental cost of providing water to the area whether the supply comes from traditional groundwater, purchases, remote well fields or a combination of all three.

Q.Did the Company need to acquire additional water supply in order to serve the North State area?

A.Yes.  Initially, the Company had to purchase water from Garden City because the system serving the North State area was not physically connected to UWI’s system.  The Company indicated in Case No. UWI-W-95-2 that the estimated North State area summer demand of about 1 million gallons per day (MGD) would be provided through purchase of water from Garden City.  The Company also stated that it would not have to develop additional source of supply capacity to serve this area, adding that the cost of drilling a new well to provide capacity would be approximately $300,000.

Q.Does the Company currently have a water supply agreement with Garden City?

A.Yes.  The water supply agreement with Garden City attached as Staff Exhibit No. 106 shows that the Company shall have the right to purchase 1 MGD during the peak season from May through September for five years and up to 2.3 MGD during the peak season in 1997 and 1998.  The agreement also allows for additional supplies subject to availability and approval by the City and one year extensions for up to ten years.  Finally, Garden City has agreed to provide UWI with an additional 0.5 MGD to serve the Duncan’s Landing subdivision located just west of the North State area for a total combined purchase capacity of nearly 3 MGD.

Q.Did the Company have a water purchase agreement with Garden City prior to the Garden City Exchange?

A.Yes.  The Company indicates that 170 million gallons of water was purchased in 1996 before the Garden City exchange was completed.

Q.How much does the Garden City water purchase agreement cost UWI?

A.The purchase of water from Garden City required an interconnection investment of approximately $52,000 and specifies a contract rate for all purchased water of $0.35 per 1000 gallons.  The actual cost of water during the test year was $59,554.  However, this amount does not include purchases required for the North State area.  The Company estimates that purchase cost will total about $79,000 per year when the North State area is included.  The annual revenue requirement associated with water purchases for the North State area would support a water supply capital investment of approximately $187,000.

Q.So the purchase of water from Garden City is a good deal when compared to the $300,000 cost of a new well?

A.Yes, and the Company has the opportunity to purchase up to three times as much water from Garden City at a similar price over the next two to ten years.

NORTHWEST PIPELINE

Q.Then by purchasing water from Garden City, will the Company be able to defer the cost of drilling new wells to serve this portion of the main service level?

A.Not exactly.  According to the Company, the main service level which includes the North State area has a capacity deficiency of 6 MGD requiring new water supply facilities.  However, instead of constructing new wells for approximately $300,000 per 1 MGD, the Company has constructed a 3.5 mile long pipeline to connect the Hidden Hollow Storage reservoir with the Redwood Creek water system west of Eagle.  The total cost of this water supply alternative, when the cost of the pipeline is combined with the otherwise stranded Redwood Creek investment, is nearly $1.8 million dollars or over $700,000 per 1 MGD provided.

Q.Should the Company be allowed to begin recovery of this water supply investment at this time?

A.No, I do not believe that it should for several reasons.  First of all, when the available peak-day capacity in the main service level is compared to peak-day demand, the current deficiency is as low as it has been in the past five years.  Staff Exhibit No. 107 shows the peak day demand and peak day capacity for the years 1993 through 1997 and estimates for the years 1998 and 1999.  Deficiencies have grown as high as 9 mgd in 1994 and 7.6 mgd in 1996 but are currently less than 4 MGD.  Moreover, storage capacity in the main service level has been increased by over 17% with the 1995 addition of the 2 million gallon Hidden Hollow reservoir and surplus capacity can be expected in 1999 when the planned Marden treatment plant expansion comes on line.  Therefore, the current situation makes justification for the project less compelling now than it has been for the last five years.

Another reason to oppose cost recovery for this water supply investment deals with current and future development in the Eagle area and the possibility that water supplies in the Eagle area will not be available for use in the main service level.  Although the Company characterizes its water supply obligation to the City of Eagle as one limited to augmenting the City’s fire flow capacity, the agreement to provide supplemental water for fire flows, attached as Staff Exhibit No. 108, seems to indicate otherwise.  Item B. under RECITALS states that “Eagle desires to obtain an additional source of water, including for fire protection purposes, to serve Eagle.”  It also states under Item 1, Provision of Water, that “United Water agrees to provide the City additional water and supplemental fire flows...”  In addition, Staff Exhibit No. 109 is an agreement between the City of Eagle and UWI obligating the Company to provide emergency back-up water to and through the City’s system from the Hidden Hollow water storage reservoir.  This would be very much like what is already expected to happen in the Columbia/Gowen service level.  Company witness Linam has indicated in testimony that water supplying the Boise Water Supply Project, the only other project connecting ground water supplies to a remote service area via pipeline, will be needed to serve new residential development in the immediate area of the wells rather than the remote service area as intended.

Finally, construction of the pipeline and inclusion of costs in rates at this time eliminates, in part, the requirement that distribution facilities be contributed by developers as part of the line extension rules.  A lengthy distribution pipeline constructed ahead of development places a substantial portion of the cost of new development on the backs of existing ratepayers rather than the developers as rules require.  For example, in Case No. EAG-W-98-1, the Bonita Hills New Service Complaint, the Company states in its application to intervene:

United has constructed or is in the

process of constructing, mainline

facilities within the vicinity of

Bonita Hills Subdivision.  United has

the ability to provide service to

Bonita Hills.

UWI’s ability to serve this subdivision and any other proposed along the largely undeveloped alignment of the pipeline will be made less costly for developers because the pipeline will become the responsibility of the general body of ratepayers.  There is no provision in current line extension rules for developers that benefit from existing mains to reimburse ratepayers who pay for the mains through rates.

Q.What would be the effect if the Commission determines that the Northwest pipeline project is justified?

A.The reason cited by the Company for constructing the pipeline is to utilize the Redwood Creek facilities to supply the main service level.  I assume that this would mean also allowing all of the Redwood Creek facilities in rate base, and in effect providing a potentially declining 2.5 MGD of capacity to the system at $1.8 million.

Q.If construction of the Northwest pipeline makes the Redwood Creek water supply facilities used and useful by the general body of ratepayers, wouldn’t you conclude that the additional water supply is needed in the main service level?

A.While it is true that the main service level continues to be supply deficient on a stand alone basis, the Company has been able to provide supply from other service levels to meet deficiencies that were significantly greater than they are today.  As deficiencies decline in the main service level or as new supply is added from the Eagle area, supply is made available for use by the entire system.  In my opinion, the Company has not shown that this is the most cost effective alternative at this point in time either within the main service level or system wide.

In addition, UWI has expressed a desire to displace existing water supplies including water purchases from Garden City and wells in the main service level because the aesthetic water quality is not as high as the Company would like.  UWI has not indicated what its objective ultimately is with regard to water quality, how the Company will know when the objective has been achieved or how much money should be spent in pursuit of improvement.  I will further address the aesthetic water quality issue later in my testimony.

Q.Would you please summarize your opposition to cost recovery for the Northwest pipeline project?

A.Yes.  There are significant incentives for the Company to construct the Northwest pipeline that are unrelated to the need for new supply in the main service level.  It will arguably make nearly $850,000 worth of investment in the Eagle area used and useful, it will provide reservoir backup and emergency fire protection to the Eagle City Water system and it will make lower cost service available to a large undeveloped area that would simply not be possible without the pipeline.  However, none of these reasons are justification for making existing customers pay for the project through rates.  Given the current and future supply resources of the Company including purchases from Garden City and expansion of the Marden water treatment plant, I believe the Company could have and should have taken more time to investigate other supply alternatives more fully and at the same time allowed more infill to occur between the main service level and the Eagle area.

Q.Do you have comments on any of the other investments proposed by the Company for cost recovery in this case?

A.Yes.  The Company has requested that its $1.9 million investment in the Boise River diversion and pipeline project located in southeast Boise be allowed in rate base even though it is not used and useful.  The Company admits that the water treatment plant requiring these facilities will not be constructed until the year 2005, but insists that the cost savings associated with constructing the project now justifies its inclusion in rates.  The Company has also stated in response to Staff’s Production Request No. 7 that no water rights have been obtained for the treatment plant.  While I recognize the cost savings that result from sharing project costs and do not necessarily oppose the Company’s proposal, I am concerned about matching system costs with the ratepayers who benefit.  If the cost of the diversion is included in this case, then today’s customers will pay for facilities that benefit a greater number of customers in seven years.  In addition, rate basing at this time is contrary to representations made to the City of Boise regarding recovery of costs.  Staff Exhibit No. 110 is an internal City memo provided by the Company in response to Staff’s Production Request No. 58 stating that UWI has provided assurances not to rate base the diversion facilities until they were used and useful.  The annual revenue requirement associated with this investment is approximately $306,000.

Q.Have you reviewed the annual test year revenue generation estimates presented by the Company?

A.Yes.  While Staff did identify several errors in the Company’s calculation of normalized revenue, we did not find them to be material.  Staff Exhibit No. 111 shows actual test year revenue, test year revenue normalized for weather and test year revenue normalized for new customers.

Q.Do you accept the weather normalization adjustment proposed by the Company?

A.Yes.  Staff has reviewed the weather normalization analysis and found the resulting adjustment to be acceptable in this case.

AESTHETIC WATER QUALITY

Q.In Case No. UWI-W-96-6, Staff was directed to address water quality in this case.  Do you have any comments or recommendations regarding this issue?

A.Yes.  Case No. UWI-W-96-6 dealt primarily with aesthetic or non-health threatening water quality problems throughout the UWI system.  Iron and manganese introduced into the system by groundwater wells were identified as the primary cause of the aesthetic water quality problems and have been identified as issues in the Garden City exchange and in water supply acquisition problems in the west main service area.

Q.How does the aesthetic water quality issue relate to the Garden City exchange and general water supply cost in the west main service level?

A.Aesthetic water quality was raised as an issue in the Garden City exchange because water supplies in the west main service level, whether from Garden City or UWI, generally have higher levels of iron and manganese than those found in other areas.  As a condition of the exchange and in conjunction with increasing rates, customers expected water quality to improve over that provided by Garden City.  The Commission, in Order No. 26562, also directed the Company to strive for cost effective improvement in aesthetic water quality.  In response, the Company has attempted to improve water quality by replacing existing supplies with supplies that have lower levels of iron and manganese.  Staff discussed this issue as part of its final report in the water quality case identified above.  The Staff water quality report is attached as Staff Exhibit No. 112.

As indicated in Staff’s report, UWI is investing significant sums of money to replace supply resources that do not meet its standard for aesthetic water quality.  In this case the Company has requested cost recovery for several projects located in the west main service level including the new Swift well, costs associated with the Gary Lane exploratory well and to some extent, the costs associated with the Northwest pipeline.  Staff Exhibit No. 113 provides an itemized listing of capital projects and annual expenses undertaken by the Company to improve aesthetic water quality and requested for recovery in this case.  The exhibit also shows that the estimated annual revenue requirement associated with the improvements is over $450,000, representing over 13% of the overall requested increase.  The capital investment for these projects represents over 30% of the rate base increase requested in this case.

The Company has not specified what its standard for aesthetic water quality is, nor has it indicated how it will measure if its projects have been successful.  The effect of these projects cannot really be measured until a full summer season is completed and even then measurement may be difficult.  Nonetheless, the only project on the list opposed in this case is the Northwest pipeline.  I believe this project is ill timed and is not cost justified for providing capacity or improved water quality.

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

A.Yes, it does.