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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for SUEZ Water Idaho Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT
APPLICATION OF EAGLE WATER
COMPANY, INC. AND SUEZ WATER
IDAHO INC. FOR APPROVAL OF SALE
AND ACQUISITION OF EAGLE WATER
COMPANY, INC. ASSETS BY SUEZ
WATER IDAHO INC. AND AMENDMENT
OF CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY NO.
143, AND APPROVAL OF RATES AND
CHARGES

Case Nos. SUZ-W-18-02
EAG-W-18-01

DIRECT TESTIMONY OF MARSHALL THOMPSON

ON BEHALF OF SUEZ WATER IDAHO INC.

November 2018

1 **BACKGROUND**

2 **Q. Please state your name and title.**

3 A. Marshall Thompson, Vice President and General Manager of SUEZ Water Idaho
4 Inc. (“SUEZ” or “Company”)

5 **Q. Please summarize your professional experience and educational background.**

6 A. I am a graduate of Central Washington University with a Bachelor of Arts degrees
7 in both Geography and Earth Science. I completed my Master of Engineering and
8 Technology Management degree at Washington State University, where I also
9 received a Graduate Certification in Construction Project Management.

10 I have been employed by SUEZ since January 2012. Prior to becoming the
11 General Manager in July 2018 I worked as the Director of Operations, prior to
12 that I was the Assistant Manager in Training. Prior to working for SUEZ, I was
13 employed by the City of Spokane Washington in a variety of utility focused
14 technical roles.

15 **Q. What is the purpose of your testimony?**

16 A. My testimony will provide background facts concerning the instant Application,
17 which seeks, among other things, Commission approval of the sale of Eagle
18 Water Company (“Eagle Water”) assets to SUEZ and the amendment of SUEZ’s
19 certificate of public convenience and necessity to incorporate Eagle Water’s
20 certificated service area and customers.

21 **Q. Please identify the other witnesses who will testify on behalf of the Company**
22 **and the topics on which they will testify.**

1 A. Ms. Jarmila Cary, Director of Finance with SUEZ, will testify regarding her
2 review and analysis of Eagle Water's financial condition and accounts as well as
3 her analysis related to operating cost projections and justification for a phased-in
4 tariff increase for Eagle Water customers if the asset acquisition is approved.

5 Ms. Cathy Cooper, Director of Engineering with SUEZ, will testify regarding
6 source of supply needs, anticipated capital costs for future plant upgrades to the
7 Eagle Water system and synergies and economies that would be realized for the
8 benefit of current Eagle Water and SUEZ customers if the asset acquisition is
9 approved.

10 Mr. Robert DeShazo, the President and General Manager of Eagle Water, also is
11 submitting testimony concerning the reasons for the proposed sale to SUEZ.

12 **Q. Please describe SUEZ.**

13 A. SUEZ is a public utility corporation organized and existing under the laws of the
14 State of Idaho and is subject to the Commission's jurisdiction. SUEZ provides
15 water service to approximately 96,000 customers within the Cities of Boise,
16 Eagle, Meridian, and in unincorporated Ada County pursuant to Certificate of
17 Public Convenience and Necessity No. 143 as amended.

18 SUEZ is a subsidiary of SUEZ North America, which provides water and waste
19 recycling services to more than 7.5 million people in the United States and
20 Canada. SUEZ is the successor to the former United Water Idaho and Boise
21 Water Company, which have cumulatively provided continuous, regulated water
22 service to the Treasure Valley for over 100 years.

23 **Q. Please explain why SUEZ wishes to acquire Eagle Water Company.**

1 A. SUEZ, in one form or another, has been the water service provider to the greater-
2 Boise area for many years. Throughout our history, the Company has
3 continuously evaluated acquisition opportunities that would further our
4 commitment to providing reliable service to our customers.

5 The Company recognizes that serving a growing customer base requires ready
6 access to low-cost capital and the ability to maintain or replace aging
7 infrastructure. The escalating costs for compliance with increasing state and
8 federal regulations make the need for qualified utility management that much
9 greater. With this in mind, the Company has acquired several local public water
10 systems faced with financial or regulatory challenges. SUEZ's acquisitions of the
11 South County Water and Brian Subdivision HOA systems are recent examples.
12 Many of the above factors also come into play with respect to this Application.
13 Coincident with Mr. DeShazo's desire for an orderly succession of service from
14 Eagle Water to another provider, is the close geographic linkage of the SUEZ and
15 Eagle Water Certificated Areas. The Company has long considered acquisition of
16 the Eagle Water service area to be a prudent business opportunity if and when
17 circumstances presented themselves.

18 The Eagle Water Company service area is contiguous to SUEZ's on three fronts.
19 It has experienced significant residential and commercial growth largely within
20 planned developments that are relatively easy to serve. The contiguity of the two
21 service areas also has on occasion been a source of friction between the two
22 providers in terms of who should be entitled to extend service to new customers at
23 their margins.

- 1 In sum, the Eagle Water asset purchase presents opportunities for:
- 2 a. Growth of the SUEZ water system and customer base;
- 3 b. Providing high quality service to additional customers through proven
- 4 experience and ability to fund necessary infrastructure;
- 5 c. Interconnection to portions of the SUEZ system that are currently isolated;
- 6 d. Optimizing efficiencies in storage and supply between the SUEZ and
- 7 Eagle Water systems for the benefit of SUEZ customers as well as the
- 8 current Eagle Water customers;
- 9 e. Obtaining additional and redundant sources of supply in the northwest
- 10 portion of the SUEZ water system; and
- 11 f. Providing a means of orderly succession in management and operation of
- 12 the Eagle Water system and continuity of quality service to its customers.

13 **THE PROPOSED ACQUISITION OF EAGLE WATER COMPANY ASSETS**

14 **Q. Please describe Eagle Water Company.**

15 A. Eagle Water Company is a private, regulated water utility with approximately

16 4,200 customers. Their service area covers portions of the City of Eagle and

17 unincorporated Ada County. A map showing Eagle Water's current service area

18 and significant facilities is included as Attachment 1 to the Joint Application.

19 **Q. Please describe the structure of the proposed transaction.**

20 A. The parties have structured this transaction as an asset purchase by which SUEZ

21 would acquire by deed or ground lease properties whereon Eagle Water wells and

22 booster pumps are located, all appurtenant or in-gross easements for water system

23 facilities, all governmental authorizations, all personal property used by and for

1 the operation of the Eagle Water system, customer accounts, deposits and hook-
2 up fees and all water rights (the “Assets”).

3 In May of 2018, H2O Eagle Acquisitions, LLC a Wyoming limited liability
4 company (“H2O Eagle”), negotiated an assignable Asset Purchase Agreement
5 with Eagle Water (the “Eagle APA”) with the understanding that the Assets
6 ultimately could be acquired by a qualified third-party such as SUEZ. At
7 approximately the same time, H2O Eagle approached SUEZ inquiring whether it
8 had an interest in acquiring the Eagle Water system. At that time a non-binding
9 letter of interest was signed by H2O Eagle and SUEZ setting out basic
10 expectations and a due diligence process that would precede entering into a
11 definitive purchase and sale agreement.

12 On September 20, 2018 H2O Eagle and SUEZ entered into an Asset Purchase
13 Agreement (the “H2O-SUEZ APA”) that substantially mirrored the May 2018
14 Eagle APA. The H2O-SUEZ APA provided that H2O Eagle would cause the
15 Eagle APA to be amended to, among other things, include additional due
16 diligence and contingency provisions, and provide that Eagle Water would
17 cooperate with SUEZ in presenting the proposed purchase and sale to the
18 Commission for approval.

19 The H2O-SUEZ APA sets a cash purchase price of \$10 Million, with a deposit
20 into escrow following execution of \$100,000 to be applied to the purchase price at
21 closing. Ten thousand dollars of the deposit is deemed non-refundable. SUEZ’s
22 obligation to close the purchase and sale is expressly contingent upon approval of
23 the transaction by the Commission on terms acceptable to SUEZ.

1 **Q. Please describe how the purchase price was determined.**

2 A. The purchase price was determined by an arm's length negotiation between SUEZ
3 and H2O Eagle, and was based on SUEZ's evaluation of the underlying value of
4 Eagle Water Assets. The purchase price equates to approximately \$2,380 per
5 Eagle Water customer. For comparison purposes, SUEZ's investment per
6 customer as of November 2015 per Case No. UWI-W-15-01 was approximately
7 \$1,924. *See Direct Testimony of Jarmila Cary*, p. 3, l. 17-21. SUEZ's valuation
8 methodology and conclusions and its avoided capital investment analysis
9 supporting the purchase price is described in Ms. Cooper's testimony.

10 **Q. What relationship does the negotiated purchase price bear to the book value**
11 **of the Assets?**

12 A. This information is provided in detail in Ms. Cary's and Ms. Cooper's testimony.
13 However, based on Eagle Water's records of accounts, a per book calculation of
14 rate base as of December 31, 2017 is approximately a negative \$1,208,792. For
15 purposes of its analysis in connection with the proposed acquisition and this
16 filing, SUEZ has assumed a rate base of zero. Consequently, SUEZ is requesting
17 that the Commission approve the purchase and sale with an acquisition
18 adjustment.

19 **Q. What treatment is SUEZ seeking with respect to the acquisition adjustment?**

20 A. SUEZ is seeking Commission approval to include the full purchase price in rate
21 base and to amortize the acquisition adjustment over an appropriate period of
22 time—proposed as forty years—to represent the approximate average life of water

1 system assets. The acquisition adjustment and the amortization thereof would be
2 included in the Company's next base rate case.

3 **Q. Why should the Commission allow recognition of the acquisition adjustment**
4 **in rate base?**

5 A. SUEZ believes that the purchase price and acquisition adjustment are supported
6 by avoided capital investment as discussed in detail by Ms. Cooper. Also, SUEZ
7 thinks it is appropriate to recognize that, like many private, regulated water
8 systems in Idaho, the Eagle Water system consists of significant vintage facilities
9 that have been largely or fully depreciated and much of the newer facilities have
10 been funded in some significant part by contributions in aid of construction
11 ("CIAC"). Also, although largely or fully depreciated on Eagle Water's books, its
12 plant in service continues to have a fair value component both in terms of its
13 remaining service life and the extent that portions of the plant would represent
14 avoided costs for SUEZ' own operations.

15 In the instant case, a purchase price based solely on net book value also would not
16 be expected to provide sufficient consideration to bring the assets to the market
17 regardless of other factors that make a sale or a purchase the prudent course. The
18 owner reasonably expects that his or her long-term investments (personal and
19 financial) in developing the business, the system and the customer base, together
20 with the revenue stream of in-service plant, will continue to generate income
21 regardless of book value, and warrants a purchase price that appropriately takes
22 these factors into account.

1 SUEZ believes that the purchase price represents a fair value that takes all these
2 factors into account and provides the necessary consideration to make a sale that
3 ultimately should happen, happen.

4 **Q. Are you seeking to increase rates for Eagle Water customers as a result of the**
5 **acquisition?**

6 A. Yes. Suez believes that the Eagle Water system has suffered from less than optimal
7 capital investment for some time. SUEZ's due diligence review of the Eagle Water
8 system and SUEZ's standards for plant maintenance, upgrades and replacements
9 indicate that some substantial capital investments in plant should be scheduled over
10 the next several years. The rate structure that SUEZ proposes is intended to reflect
11 projected costs required to correct identified deficiencies over a reasonable time
12 period while minimizing rate-shock.

13 The Company proposes a phase-in to full SUEZ tariff rates over a period of three
14 years. This is justified by contemplated capital investments that will directly benefit
15 the customers formerly served by Eagle Water. During the phase-in period, former
16 Eagle Water customers would have a separate rate schedule from other SUEZ
17 customers. While the Company acknowledges this it is not an ideal situation to have
18 customers of the same company experiencing different rates, Eagle Water's rates
19 are currently lower than SUEZ's. Eagle Water base rates have not increased since
20 1992, although there have been several surcharges approved in that time. This
21 multi-year phase-in will provide customers the opportunity to take whatever steps
22 they so choose to adjust water consumption patterns. The proposed phase-in would
23 reflect a percentage of SUEZ's tariff rate so that ultimately rates will be uniform

1 and be automatically adjusted for any overall rate charges approved by the
2 Commission in the future. SUEZ's proposed phase-in is detailed in Ms. Cary's
3 testimony.

4 **Q. Would new customers in the Eagle Water company area be subject to the**
5 **phased in rate structure?**

6 No, we are requesting that post-closing any newly-established customer accounts—
7 including new customers changing an account for an existing connection in the
8 expanded SUEZ service area—would commence service at regular SUEZ rates.

9 **Q. What is the Company's proposed treatment of main extensions and other**
10 **tariff issues following the purchase?**

11 A. The Company is proposing to adopt the Eagle Water service area and customers
12 immediately following closing under SUEZ' applicable tariff rules and regulations.

13 **Q. Please describe your plans for making improvements to the Eagle Water**
14 **system.**

15 A. These capital improvements are discussed in Ms. Cooper's testimony.

16 **Q. Are you seeking approval of these improvements in this filing?**

17 A. No. SUEZ intends to include them in future rate cases after capital improvements
18 have been completed.

19 **Q. Are there identifiable synergies or efficiencies that will result from this**
20 **acquisition?**

21 A. Yes. Earlier in my testimony I indicated that the Eagle Water asset acquisition
22 would provide certain efficiencies that would benefit customers in both service
23 areas. These include the interconnection with Eagle Water facilities of SUEZ

1 facilities that currently are isolated. The two systems have water storage and
2 sources that when integrated could be used to optimize dispatching water for
3 overall demand and peak and fire flow needs.

4 With the interconnection of the two systems, customers will benefit from shared
5 access to storage facilities and additional sources of supply. SUEZ customers
6 currently have a rated water supply capacity per customer of approximately 979
7 gpd/customer (94 MGD / 96,000 customers), while Eagle Water Company
8 customers have a rated water supply capacity per customer of 2,810 gpd/customer
9 (11.8 MGD / 4,200 customers). This difference is due to Eagle Water Company
10 having to pump peaking, fire flow, and provide a redundant well since it does not
11 have storage tanks.

12 Additionally, Eagle Water customers ultimately would benefit from lower
13 operating expenses and increased capital investment. SUEZ is prepared to offer
14 additional services to the expanded customer base, including:

- 15 1) 24-hour automated system monitoring;
- 16 2) Numerous field personnel trained and certified in water distribution, water
17 treatment, and cross connection control that are able to respond quickly to any
18 issues;
- 19 3) Web site access for customers;
- 20 4) Electronic billing and payment options;
- 21 5) Greater financial stability and access to the capital markets with related ability
22 to fund projects at lower cost;

- 1 6) The ability to take advantage of economies of scale and buying power not
2 currently available to Eagle Water;
- 3 7) Water conservation programs and no-cost conservation devices;
- 4 8) The ability to maintain the water system in regulatory compliance;
- 5 9) The ability to spread costs of Eagle area capital improvements over a large
6 customer base and avoidance of future surcharges.

7 **Q. What impacts on current Eagle Water Company customers does SUEZ**
8 **anticipate?**

9 A. SUEZ believes service quality will be positively impacted. SUEZ employs over
10 sixty field personnel trained and certified in water distribution, water treatment,
11 and cross-connection control. SUEZ also maintains full-time maintenance crews
12 and sufficient materials in inventory to rapidly repair damaged facilities and
13 restore service after an emergency outage without relying on contractor or supply
14 house availability. The addition of full time SCADA monitoring to the system
15 will allow SUEZ staff to monitor sites remotely twenty-four hours per day, which
16 will expedite responses to operating problems and/or emergency situations.

17 **Q. What impacts on current SUEZ customers and operations does SUEZ**
18 **anticipate?**

19 A. SUEZ customers will realize a cost savings in SUEZ acquiring additional and
20 redundant water supply. This is explained more in Ms. Cooper's testimony
21 related to SUEZ's contemplated avoided capital investment.

22 **Q. What billing schedule does SUEZ anticipate?**

1 A. Eagle Water customers currently are billed monthly. SUEZ anticipates
2 continuing monthly billing for these customers.

3 **Q. How will SUEZ communicate with Eagle Water Company and SUEZ**
4 **customers regarding the acquisition?**

5 A. SUEZ has developed a communications plan related to the acquisition. An
6 outline of this plan is included below in my testimony. By way of summary, this
7 plan will include town hall meetings, press releases, social media posts, a landing
8 page for new customers on the SUEZ website with specific acquisition
9 information, notices, and a welcome packet for Eagle Water customers.
10 Specific information on water conservation will be provided in the Company's
11 welcome packet to new customers. This will assist them in reducing their water
12 use and associated water bills to be comparable to other SUEZ customers ahead
13 of full rate adoption.

14 Communications Plan Outline – Pre and Post Closing Activities

- 15 • Press release and customer notice (accompanying the Joint Application)
- 16 • Micro-Website Available (Pre-Closing)
- 17 • Press Release (Pre-Closing)
- 18 • External Stakeholder Outreach to Municipal Offices and Regulatory
19 Agencies (Pre-Closing)
- 20 • Customer Mailings and New Customer Welcome Packets (Pre and Post
21 Closing)
- 22 • Location Targeted Social Media Advertising (Pre and Post Closing)
- 23 • Print Advertising (Idaho Statesman) (Pre and Post Closing)

1 • Town Hall Events and Facility Open Houses (Pre and Post Closing)

2 **Q. Do you believe the acquisition of Eagle Water by SUEZ is in the public**
3 **interest?**

4 A. Yes, for all of the reasons stated above.

5 **Q. Does this conclude your testimony?**

6 A. Yes.

7