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IDAHO PUBLIC
UTILITIES COMMISSION

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Attorneys for SUEZ Water Idaho Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF
SUEZ WATER IDAHO INC. FOR
AUTHORIZATION TO ELIMINATE
COLLECTION OF GROSS-UP PAYMENTS
ASSOCIATED WITH CONTRIBUTIONS
IN AID OF CONSTRUCTION

Case No. SUZ-W-20-01

**DIRECT TESTIMONY OF CATHY COOPER
ON BEHALF OF SUEZ WATER IDAHO INC.**

JUNE 22, 2020

1 **Q. Please state your name and business address.**

2 A. My name is Cathy Cooper, P.E. My business address is 8248 West Victory Road,
3 Boise, Idaho 83709.

4 **Q. By whom are you employed, and in what capacity?**

5 A. I am the Director of Engineering for SUEZ Water Idaho Inc. (“SUEZ” or
6 “Company”).

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

8 A. I am a graduate of the University of Colorado at Boulder with a Bachelor of
9 Science in Civil Engineering. I completed my Master of Science in Civil
10 Engineering at the University of Washington in Seattle. I have been a licensed
11 Professional Engineering in the State of Idaho since 1999.

12 I have been employed as a civil engineer for 26 years. My work experience
13 includes 22 years at Boise area consulting firms where I focused my work on
14 water system engineering. My experience includes preparing detailed hydraulic
15 calculations; designs for storage tanks, pump stations, pressure reducing stations,
16 pipelines, and well houses; water system Master Facility plans; hydraulic models;
17 and project cost estimates. I was an Owner and the Managing Partner at my last
18 consulting firm.

19 I have been employed by SUEZ since July 2016 as the Director of Engineering in
20 Idaho.

21 **Q. Please describe your duties as Director of Engineering.**

22 A. I have oversight over the Company’s capital expenditure budget and short
23 and long-term facility and water supply planning. SUEZ’ engineering group

1 includes several staff members whose time is dedicated to working with
2 developers and potential future SUEZ customers to implement new projects and
3 new water service connections. As the supervisor of these staff members, I have
4 frequent interactions with developers and potential new customers.

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

6 A. The purpose of my testimony is to support SUEZ's proposal to no longer collect
7 the federal and state income tax gross-up amount related to Contributions in Aid
8 of Construction (CIAC).

9 **Q. Would you please summarize your testimony?**

10 A. My testimony describes the SUEZ developer process and how CIAC tax gross-up
11 costs fit in; impacts that SUEZ has seen locally since collection of the CIAC tax
12 gross-up started in mid-2018; data and calculations that SUEZ prepared to
13 determine that developer projects generate sufficient annual revenue to cover the
14 revenue requirement of the CIAC tax gross-up; specific examples of two outlying
15 large developments related to CIAC tax gross-up costs; and a summary of impacts
16 to small developers and individual homeowners due to collection of the CIAC tax
17 gross-up.

18 **Q. Would you please explain the current SUEZ process for developers and how
19 CIAC tax gross-up costs fit in?**

20 A. The process that a SUEZ developer project follows is lengthy and complex. This
21 process is illustrated in the flowcharts included as Exhibit 1 that show the three
22 process phases: 1) Planning and Approval; 2) Construction Cost and Agreement;
23 and 3) Construction and Completion.

1 The CIAC tax gross-up is calculated and presented to the developer as part of the
2 cost analysis SUEZ performs during Phase 2, Steps 3 or 7, and then is collected
3 from the developer during Phase 2, step 10. Full payment of the costs due to
4 SUEZ (including CIAC tax gross-up) must be received before project
5 construction commences.

6 Once construction is complete, SUEZ reconciles the actual costs for project
7 completion, provides the developer with a memo summarizing actual costs and
8 the supplemental agreement. Once the developer returns the signed agreement,
9 the completed cost reconciliation is finalized and the developer is given a refund
10 of any initial costs collected that were in excess of the actual project costs.

11 **Q. What impacts from collection of the CIAC tax gross-up has SUEZ seen with**
12 **local developers?**

13 A. Unlike most of our neighboring municipally-owned water systems, SUEZ does
14 not charge a connection fee to homeowners. Instead, costs that may typically be
15 covered through a connection fee are covered as a part of the overhead and
16 inspection charges the developer agrees to pay in Phase 2, Steps 3 or 7. These
17 overhead and inspection costs are typically twenty to twenty-five percent of
18 project construction costs. These overhead and inspection fees are quite unpopular
19 with developers because they must be paid up-front prior to the start of project
20 construction, unlike a connection fee that is paid by a homeowner or home builder
21 at the time water service is requested. At twenty to twenty-five percent of
22 construction costs, though, these fees have been tolerated by most developers
23 although not without complaints. In June 2018 SUEZ started including the 21.56

1 percent CIAC tax gross-up on the project cost (a portion of which is attributable
2 to Overhead and Inspection fees). These additional fees collected by SUEZ
3 including Overhead, Inspection and now the CIAC tax gross-up represent
4 between forty-five to fifty percent of the project construction cost. The impact to
5 developers of having to pay up to an additional 50-percent of construction costs
6 prior to project construction commencing has been substantial and SUEZ has
7 experienced heavy pushback from developers.

8 Specifically, I have seen that the larger developments on the borders of SUEZ's
9 service area have the most flexibility in choosing whether to request water service
10 from SUEZ or from a neighboring City, or are choosing to set up their own water
11 system. With the addition of the CIAC tax gross-up, SUEZ has become a less
12 desirable water service provider than neighboring municipal or nonprofit, user-
13 owned providers that do not collect the CIAC tax gross-up.

14 I know of one large development that will be seeking future water service for
15 much of their development area from another entity. Another large new
16 development was planning to obtain water service from a neighboring
17 municipality despite being located largely within the SUEZ service area
18 boundary. My understanding is that only the Municipality's shortage of future
19 supply, with other large developments in the area contemplated, ultimately pushed
20 the development to seek water service from SUEZ. Another large development
21 has proceeded with setting up its own water system (prior to SUEZ'
22 implementation of the collection of CIAC tax gross-up), due to its objection to
23 SUEZ's collection of overhead and inspection fees in advance of project

1 construction. Clearly the addition of the CIAC tax gross-up charges would have
2 been an additional disincentive for this development to seek water service from
3 SUEZ rather than develop its own water system.

4 In addition to the above negative impacts to large developments, we also have
5 seen small project owners unable to proceed with projects because they simply
6 cannot afford the additional 21.56 percent CIAC tax gross-up. Examples include
7 homeowners whose well has run dry, or who wish to have a service on their lot
8 relocated. We have one example of a small developer (i.e. - three homes)
9 choosing to put in individual wells rather than complete a main extension because
10 of the additional CIAC tax gross-up costs, and other small developers that have
11 been unable to proceed with their project due to overall costs being too high,
12 which includes an additional 21.56 percent due to CIAC gross-up.

13 Municipalities, schools, and other tax-exempt entities that typically complete
14 multiple projects per year with SUEZ have seen negative impacts to their project
15 budgets. A tax-exempt entity having to pay tax that SUEZ owes is difficult for
16 them to accept, regardless of the IRS regulations.

17 Exhibit 3 (CONFIDENTIAL) includes specific information on the above
18 mentioned customers.

19 **Q. What data did SUEZ investigate to determine that new developments generate**
20 **enough annual revenue to cover the annual revenue requirement for the CIAC**
21 **tax?**

22 A. I supervised the assembly of data for each developer project completed (as of
23 May 2020) from January 2016 through the end of March 2020 (Exhibit 2). The

1 data assembled included the Actual Project Cost and number of
2 domestic/commercial/irrigation services included with the project of different
3 sizes – ¾”, 1”, 2”, 4”, 6”, and 8”; and the number of fire services of different sizes
4 – 2”, 4”, 6”, and 8”. The State and Federal Tax amount was calculated as 26.47
5 percent of the Actual Project Cost, in accordance with our approved tariff. The
6 Annual Revenue Requirement for State and Federal Tax was calculated utilizing a
7 9.31 percent calculated rate of return in accordance with Section 85 of the
8 Company’s approved tariff.

9 An estimated Annual Revenue for each project was calculated using average bill
10 data from 2019 and monthly tariff rates for fire services. This analysis produced
11 the following results for domestic/commercial/irrigation (non-fire) services.

12 For 2” or smaller non-fire services a \$370 average annual water bill; for non-fire
13 services larger than 2”, average bills from 2019 for services of the same size were
14 used to calculate an average:

15 4” service - \$15,154 average annual water bill

16 6” service - \$33,627 average annual water bill

17 8” service - \$98,369 average annual water bill

18 For fire services, the monthly tariff amounts were used.

19 The difference between Annual Revenue and the Revenue Requirement was
20 calculated.

21 The 4.25 year period included 201 projects. Of these projects, 174, or 86 percent,
22 generated more revenue than the revenue requirement of the CIAC tax obligation.

23 The average over the 4.25 year period of “difference between annual revenue and

1 revenue requirement” for each project was \$12,888. The average annual amount
2 of revenue generated in excess of the revenue requirement was \$609,500.

3 **Q. Did you also prepare calculations for any specific outlying developments as an**
4 **example?**

5 A. Yes. We specifically looked at two large outlying developments. The calculations
6 are included in Exhibit 2.

7 Both developments made substantial investments in backbone infrastructure. The
8 development that is closer to build-out shows a “difference between annual revenue
9 and revenue requirement” of approximately \$428,000. The other development
10 shows a positive difference of approximately \$42,800, but with substantial capacity
11 left in their backbone infrastructure investment to support approximately 1700
12 additional revenue-generating connections. The calculations show that both large
13 developments generate more than enough revenue annually to cover the revenue
14 requirement of the CIAC tax obligation.

15 **Q. Could you please summarize your testimony?**

16 A. The collection of federal and state income tax gross-up related to Contributions in
17 Aid of Construction (CIAC) has had negative impacts for SUEZ customers because
18 it is a barrier to growth. Collection of the CIAC tax gross-up is driving large
19 developers on the edges of SUEZ’s service area to seek service from neighboring
20 municipalities that don’t collect the CIAC tax gross-up. The large developments
21 would bring substantial numbers of new customers into the SUEZ system, which
22 benefits existing customers by spreading costs over a larger customer base. We
23 expect there will be more examples than those mentioned here of developers that

1 choose to set up their own small water system to avoid paying the CIAC tax gross-
2 up, which could cause long-term issues as they face water quality regulation
3 changes and may not have the funding necessary to keep investing in facility
4 infrastructure, maintenance, and replacement.

5 Homeowners who have a well dry up and wish to connect to the SUEZ system, or
6 who want to relocate a service have been unable to afford these projects with the
7 additional CIAC tax gross-up costs. Small developers of several lots have been
8 unable to complete projects, or are choosing to install individual wells rather than
9 connect to the SUEZ system.

10 Tax-exempt entities such as cities and schools have seen negative impacts to their
11 project budgets from the collection of CIAC tax gross-up charges.

12 Our analysis of all SUEZ developer projects completed from January 2016 through
13 March 2020 indicate that developer projects generate more than enough annual
14 revenue to cover the revenue requirement of the CIAC tax obligation.

15 The proposed change to the Company paying the tax obligation on CIAC rather
16 than collecting it from developers will remove a barrier for growth and help keep
17 customer charges low. Because growth is self-sustaining and benefits existing
18 customers by spreading costs over a larger customer base, the Company asserts that
19 the requested change will ultimately benefit existing utility customers.

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

21 **A.** Yes.

22

Case No. SUZ-W-20-01

**DIRECT TESTIMONY OF
CATHY COOPER**

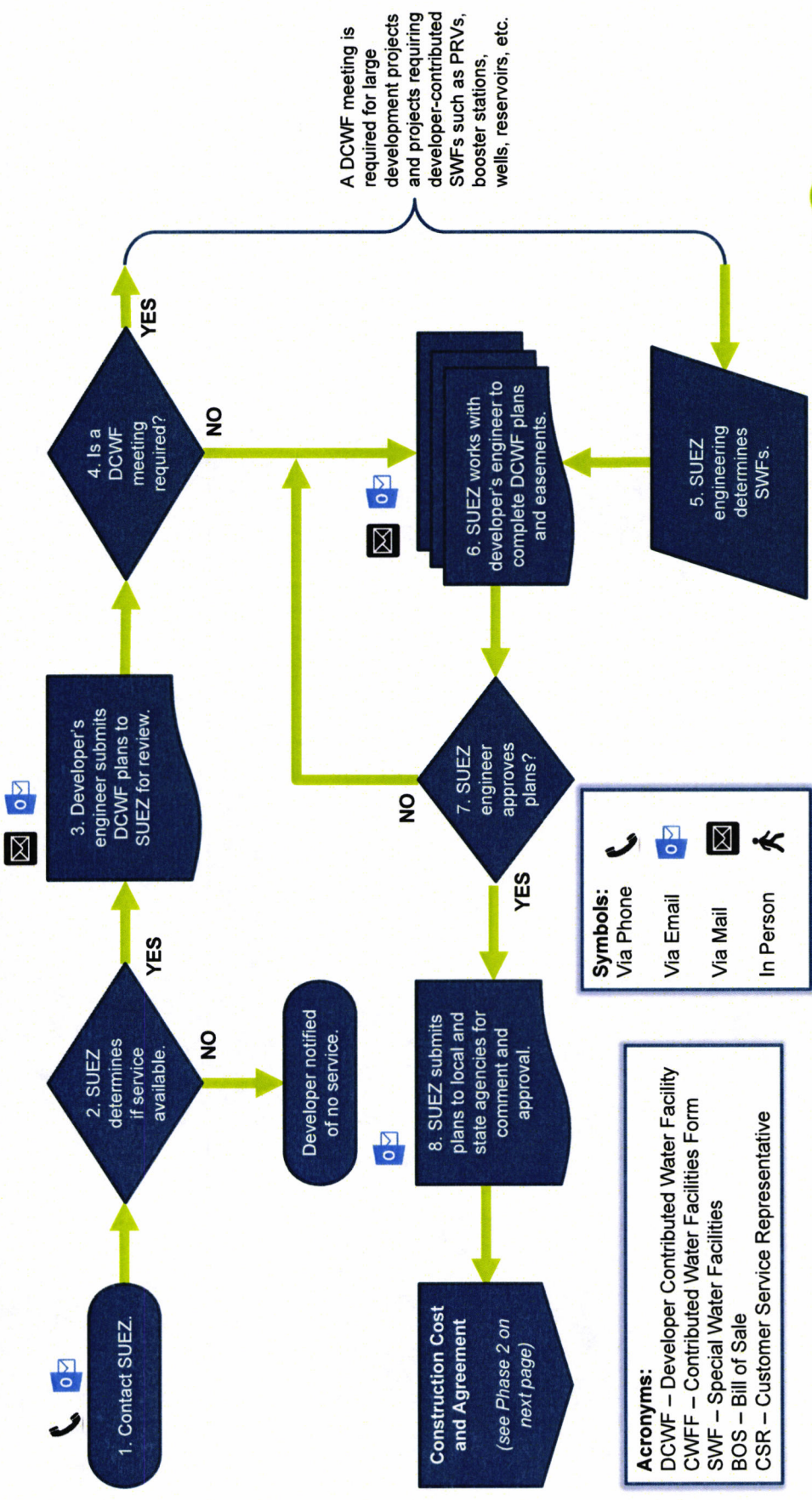
**EXHIBIT 1
Developer Flow Chart**

Phase 1 – Planning and Approval

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1 | SUEZ Idaho Developer Main Extension Process (rev11-18)



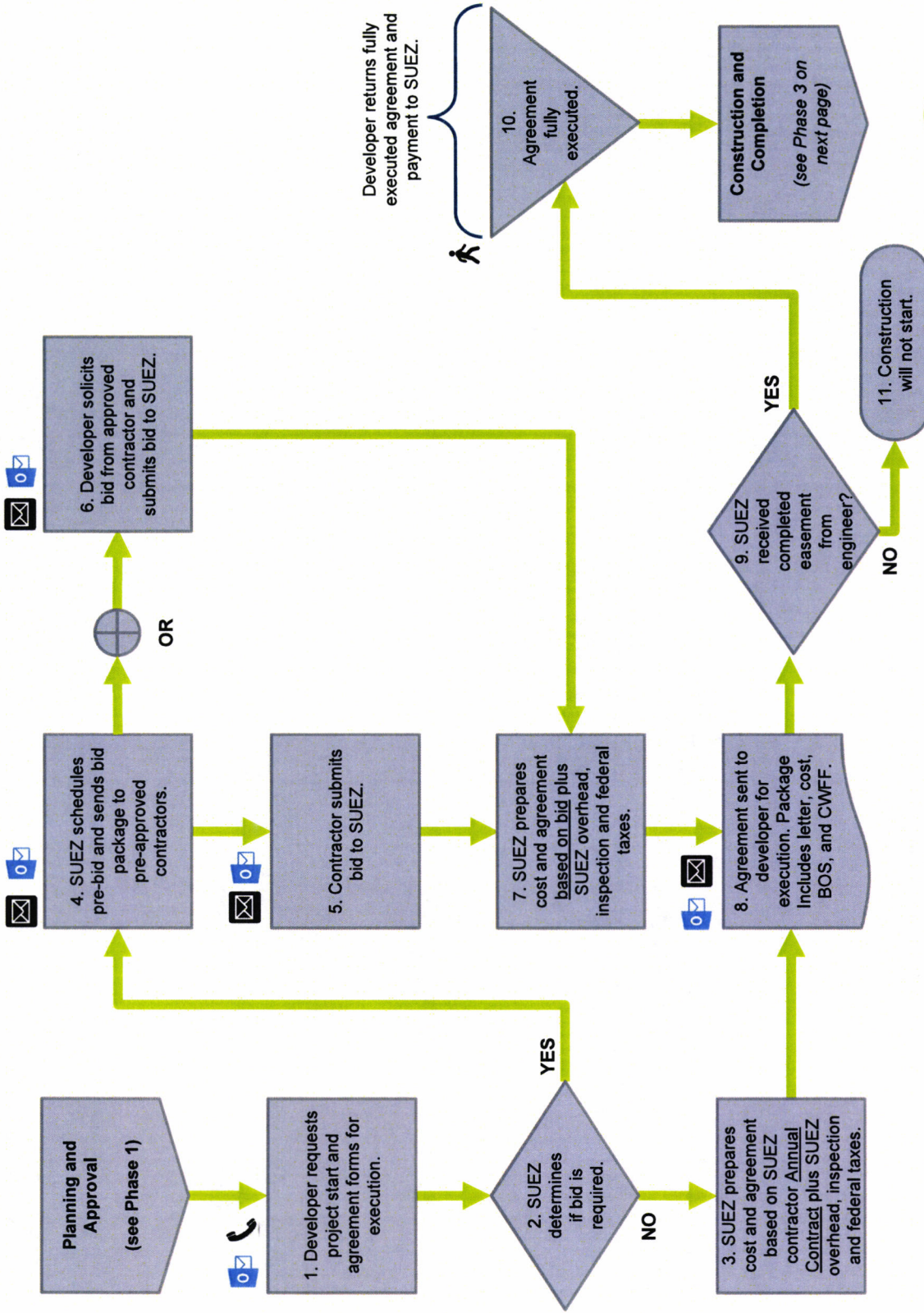
Exhibit 1

Case No. SUZ-W-20-1

C. Cooper, SUEZ

Developer Flow Charts

Phase 2 – Construction Cost and Agreement



2 | SUEZ Idaho Developer Main Extension Process (rev11-18)



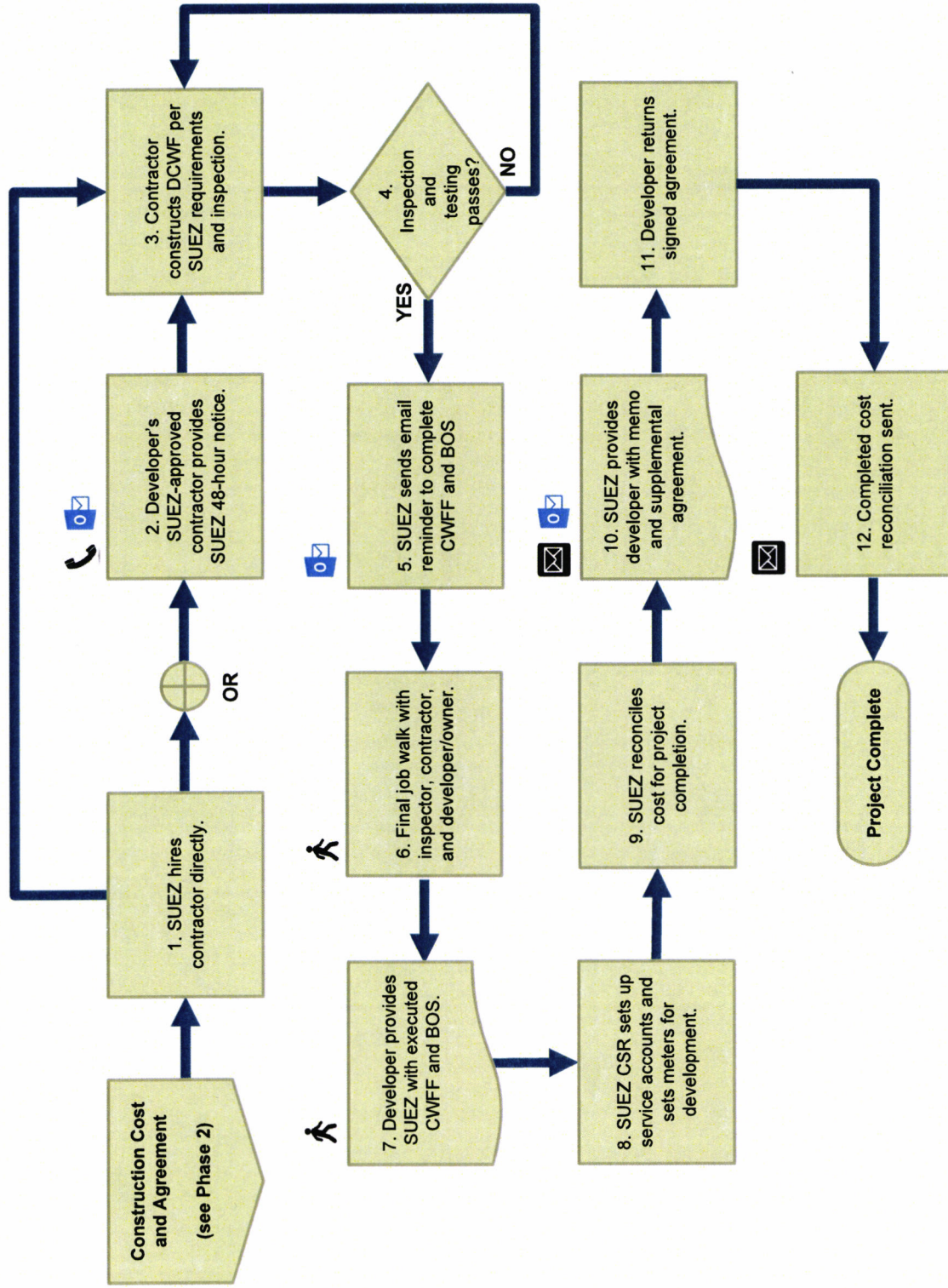
Exhibit 1

Case No. SUZ-W-20-1

C. Cooper, SUEZ

Developer Flow Charts

Phase 3 – Construction and Completion



3 | SUEZ Idaho Developer Main Extension Process (rev11-18)

Case No. SUZ-W-20-01

**DIRECT TESTIMONY OF
CATHY COOPER**

**EXHIBIT 2
Developer Data**

Project #	Actual Project Cost (no tax included)	3 1/4" Services	2" Services	1" Services	4" Fire Services	6" Fire Services	8" Fire Services	8" Fire Service	Comments	State and Federal Tax Amount (26.47%)	Annual Revenue Requirement (9.31%)	Calculated Annual Revenue	Difference Between Annual Revenue and Requirement
C16024	\$199,265.80		9			9				\$52,765.56	\$4,910.62	\$305,973.00	\$ 301,062.38
C16029	\$95,539.55		1				1			\$25,899.32	\$2,354.44	\$129,047.00	\$ 126,692.56
C16038	\$57,814.41						1			\$15,424.75	\$1,424.75	\$113,523.00	\$ 112,098.25
C16048	\$133,814.79		10							\$35,420.77	\$3,297.67	\$133,108.00	\$ 109,810.33
C17050	\$60,556.61		4							\$15,576.39	\$1,487.40	\$98,890.00	\$ 98,161.60
C17053	\$41,184.33		1				1			\$10,901.49	\$1,014.93	\$8,793.00	\$ 97,724.07
C17057	\$140,440.54		6			3				\$37,895.96	\$3,785.31	\$130,101.00	\$ 97,319.42
C17062	\$42,240.27		2							\$11,180.96	\$1,090.95	\$8,364.00	\$ 67,333.05
C17067	\$33,994.09		2							\$8,839.42	\$872.95	\$7,994.00	\$ 67,171.05
C18052	\$35,221.09		1							\$9,323.02	\$867.97	\$7,994.00	\$ 67,126.03
C18037	\$50,379.82		1							\$13,335.54	\$1,241.54	\$8,364.00	\$ 67,122.46
C17059	\$53,176.72		5							\$13,075.88	\$1,310.48	\$7,624.00	\$ 66,113.54
C17032	\$278,781.95					1			Included Priv	\$73,993.85	\$6,870.21	\$50,631.00	\$ 43,760.79
C18051	\$407,242.85		119							\$107,823.65	\$10,038.38	\$44,400.00	\$ 43,361.62
C17031	\$18,355.61		8							\$4,702.20	\$450.20	\$3,400.00	\$ 3,049.20
C17032	\$235,111.46		7			1				\$59,897.38	\$5,741.52	\$33,400.00	\$ 30,658.38
C19037	\$266,251.65		7							\$70,776.81	\$6,561.38	\$29,200.00	\$ 22,668.41
C19040	\$156,469.24		6							\$41,417.41	\$3,855.96	\$2,700.00	\$ 22,414.04
C19003	\$109,814.55		61							\$29,067.91	\$2,706.27	\$2,700.00	\$ 19,863.78
C17027	\$236,462.27		50							\$62,091.56	\$5,872.71	\$4,200.00	\$ 18,932.73
C18027	\$135,048.12		28							\$35,747.24	\$3,328.07	\$1,800.00	\$ 18,501.93
C16043	\$291,205.68		58							\$69,612.14	\$4,711.99	\$2,570.00	\$ 17,858.01
C16052	\$88,555.61		5							\$22,534.23	\$2,148.54	\$1,400.00	\$ 16,031.46
C16054	\$189,837.00		30							\$48,000.00	\$4,500.00	\$2,500.00	\$ 15,500.00
C19034	\$129,317.16		48							\$37,144.35	\$3,445.08	\$1,900.00	\$ 15,233.27
C19034	\$175,634.63		5							\$44,200.25	\$4,188.84	\$3,600.00	\$ 16,623.16
C17044	\$465,345.96		68							\$116,900.49	\$10,924.26	\$7,700.00	\$ 16,991.74
C16031	\$115,667.64		48							\$31,173.08	\$2,924.79	\$2,700.00	\$ 16,882.21
C17026	\$108,284.02		48							\$28,662.78	\$2,666.50	\$1,500.00	\$ 15,831.50
C16021	\$184,314.87		54							\$46,788.15	\$4,342.18	\$2,300.00	\$ 15,807.42
C16025	\$139,935.41		62							\$35,913.32	\$3,436.63	\$2,400.00	\$ 15,803.37
C17022	\$145,818.68		44							\$38,598.20	\$3,593.48	\$2,400.00	\$ 15,646.51
C17067	\$431,090.05		62							\$114,109.54	\$10,623.68	\$6,200.00	\$ 15,646.40
C17024	\$114,078.15		46							\$30,196.49	\$2,811.29	\$1,100.00	\$ 15,318.71
C16033	\$138,802.30		40							\$36,740.97	\$3,420.58	\$1,500.00	\$ 15,079.42
C17031	\$126,987.36		38							\$33,608.26	\$3,128.93	\$1,100.00	\$ 15,001.07
C18043	\$60,026.79									\$15,889.09	\$1,479.27	\$1,264.00	\$ 14,784.73
C16036	\$201,281.24		53							\$50,803.85	\$4,854.44	\$3,854.00	\$ 14,400.00
C17058	\$352,489.85		54							\$93,244.28	\$8,685.61	\$2,500.00	\$ 14,252.16
C18030	\$37,640.94									\$9,863.56	\$927.63	\$1,500.00	\$ 14,226.39
C17037	\$175,811.59		46							\$46,537.38	\$4,332.63	\$1,500.00	\$ 14,167.37
C16036	\$67,821.11		34							\$17,652.25	\$1,671.35	\$1,500.00	\$ 13,868.05
C17043	\$273,072.20		36							\$69,047.21	\$6,497.40	\$1,700.00	\$ 13,742.70
C16039	\$983,621.74		70							\$154,484.67	\$14,382.52	\$2,100.00	\$ 13,737.48
C17030	\$84,772.05									\$22,439.16	\$2,089.09	\$1,524.00	\$ 13,484.91
C17033	\$128,668.88		38							\$32,483.76	\$3,070.78	\$1,600.00	\$ 13,209.21
C16020	\$62,929.04		18				0			\$16,400.85	\$1,548.33	\$1,400.00	\$ 12,881.67
C17029	\$183,287.51		40							\$48,516.20	\$4,518.68	\$1,700.00	\$ 12,503.14
C17038	\$93,889.39		38							\$24,852.52	\$2,313.77	\$1,400.00	\$ 12,466.23
C18032	\$27,871.36		34							\$7,377.35	\$686.85	\$1,250.00	\$ 12,463.15
C18056	\$158,956.20		24							\$42,075.71	\$3,912.25	\$1,999.84	\$ 12,682.59
C17041	\$91,875.43		6							\$24,319.43	\$2,264.14	\$1,000.00	\$ 11,995.86
C17025	\$125,023.73		36							\$33,093.78	\$3,081.03	\$1,400.00	\$ 11,718.97
C17037	\$224,664.23		36							\$59,468.62	\$5,536.53	\$1,706.44	\$ 11,688.91
C17037	\$160,664.23		30							\$41,100.00	\$3,850.00	\$1,400.00	\$ 11,688.91
C16040	\$160,930.46		41							\$42,298.29	\$3,965.94	\$1,170.00	\$ 11,284.10

Background Information Used in Annual Revenue Calculation

Information used to calculate Annual Revenue:
 2" or smaller domestic service - \$370 average annual water bill (2019 average residential revenue)
 Larger (non fire) services, used average bills from 2019 for existing services of the same size
 4" - \$35,154
 6" - \$33,627
 8" - \$98,389
 Fire Services:

IDAHO PUBLIC UTILITIES COMMISSION
 Agency Meeting
 May 31, 2019
 June 1, 2019
 Per O.R. 34674
 Diane W. Heiman Secretary

Sheet No. 7
 Replacing all Previous Sheets

SUEZ WATER IDAHO INC.

SCHEDULE NO. 3
 PRIVATE FIRE SPRINKLER AND SERVICE

Availability

To all customers who have sprinkler systems and/or inside hose connections supplied by a dedicated service line for fire fighting purposes.

Rate

For service through a separate line for fire fighting purposes.

- For 3" service or smaller, per month: \$18.01
- For 4" service per month: \$28.21
- For 6" service per month: \$70.06
- For 8" service per month: \$179.54
- For 12" service per month: \$209.93

Miscellaneous:

Provided that if the installation of a private fire service shall require an extension of the existing mains of the company, the cost of such extension shall be borne by the customer.

All private fire services shall be equipped with sealed gate valves or thermal automatic openings.

Meters may be placed on fire services by the utility at any time; however, metered usage will be billed to the consumer under Rate Schedule No. 1.

SUEZ Water Idaho
 Developer - Contributed Project Costs for Large Development 1, Phases 1-10
 June 2020

Project #	Project Name	Actual Project Cost	Refunds (life to date through Apr 2020)	3/4" Services	1" Services	2" Services	2" Fire Service	4" Services	4" Fire Service	6" Services	6" Fire Service	8" Services	8" Fire Service	State and Federal Tax Amount (26.47%)	Annual Revenue Requirement for S&F Tax (9.31%)	Calculated Annual Revenue	Difference Between Annual Revenue and Requirement
C07D358	Phase 1 and 2	\$ 1,070,341.00		188	32									\$283,319.26	\$26,377.02	\$ 81,400.00	\$ 55,022.98
C13D306	Phase 3	\$ 104,637.00		16	25									\$27,697.41	\$2,578.63	\$ 15,170.00	\$ 12,591.37
C14D382	Phase 4	\$ 323,430.06		68	15									\$85,611.94	\$7,970.47	\$ 30,710.00	\$ 22,739.53
C16D339	Phase 5	\$ 583,621.74		70	6									\$154,484.67	\$14,382.52	\$ 28,120.00	\$ 13,737.48
C17D357	Phase 6	\$ 575,779.26		52	27	2								\$152,408.77	\$14,189.26	\$ 29,970.00	\$ 15,780.74
C18D347	Phase 7	\$ 106,839.29			10									\$28,280.36	\$2,632.90	\$ 3,700.00	\$ 1,067.10
C18D351	Phase 8	\$ 407,342.85		119	1									\$107,823.65	\$10,038.38	\$ 44,400.00	\$ 34,361.62
C19S339	Phase 9	\$ 569,715.39		26	53	2								\$150,803.66	\$14,039.82	\$ 29,970.00	\$ 15,930.18
C20D315	Phase 10	\$ 151,625.99		26	10									\$40,135.40	\$3,736.61	\$ 13,320.00	\$ 9,583.39
Backbone Infrastructure Costs																	
C07D339	Transmission Main	\$ 3,717,521.00												\$884,027.81	\$91,612.99	\$ -	\$ (91,612.99)
C07C003	Booster Pump Station	\$ 1,166,741.47	\$ (161,502.00)											\$266,086.89	\$24,772.69	\$ -	\$ (24,772.69)
C07E002	Storage Reservoir	\$ 1,019,611.72	\$ (141,138.00)											\$232,531.99	\$21,648.73	\$ -	\$ (21,648.73)
																Total	\$ 42,779.98

Note: The Backbone Infrastructure after completion of Phases 1 - 10 will still have about 75% of its capacity left to serve future connections (could accommodate approximately 1,700 additional connections).

