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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-02156A-00-0321
7 OF RIO VERDE UTILITIES, INC. FOR AN) DOCKET NO. WS-02156A-00-0323
8 INCREASE IN ITS WATER AND)
9 WASTEWATER RATES FOR CUSTOMERS) **NOTICE OF FILING**
10 WITHIN MARICOPA COUNTY, ARIZONA.)

11 Rio Verde Utilities, Inc., by and through its undersigned counsel, hereby provides this
12 Notice of Filing Summaries of the Testimonies of Ronald L. Kozoman, Thomas Broussa, and
13 Arthur Brooks on behalf of the Company.

14 Respectfully submitted this 20th day of February, 2001.

15 SALLQUIST & DRUMMOND, P.C.

16 Richard L. Sallquist
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18 Suite 117
19 Phoenix, Arizona 85016
20 Attorneys for Rio Verde Utilities, Inc.

21 Arizona Corporation Commission
22 **DOCKETED**

23 FEB 21 2001

24 DOCKETED BY

1 Original and ten copies of the
2 foregoing filed this 20th day
of February, 2001, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington
6 Phoenix, Arizona 85007

7 Copy of the foregoing faxed
8 this 20th day of February, 2001, to:

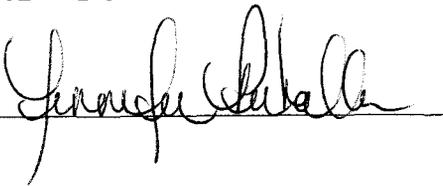
9 Hearing Division
10 Arizona Corporation Commission
11 1200 W. Washington
12 Phoenix, Arizona 85007
13 602-542-4230

14 Legal Division
15 Arizona Corporation Commission
16 1200 W. Washington
17 Phoenix, Arizona 85012
18 602-542-4870

19 Utilities Division
20 Arizona Corporation Commission
21 1200 W. Washington
22 Phoenix, Arizona 85007
23 602-542-2129

24 Scott Wakefield
Residential Utility Consumer Office
2828 N. Central Ave., Suite 1200
Phoenix, Arizona 85004
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Phoenix, Arizona 85004
602-382-6070



1 **SUMMARY OF REJOINDER TESTIMONY OF RONALD L. KOZOMAN**

2 Agreement with the ACC Staff

3 Mr. Kozoman is supporting the Company's request for the Hearing Officer in the instant
4 case to set a new adjuster for the CAP Water costs, based at zero, and proposes that ACC Staff
5 do so as a part of its agreement.

6 As the Staff has adopted the Company's revenue requirement for water, and the
7 Company has adopted the Staff's revenue requirement for sewer, the issue of equity return,
8 inclusion of deferred finance charges in rate and other minor differences are no longer disputed
9 between the Company and the Staff.

10 Rejoinder to RUCO

11 Mr. Kozoman provides rejoinder testimony to the incorrect method used by RUCO on
12 computing interest expense. The method used by RUCO does not use the average loan balance
13 for computing the patronage dividend.

14 Rejoinder testimony is also provided to RUCO's failure in it equity return
15 recommendation to recognize risks due to Rio Verde Utilities Inc. small size, operating
16 exclusively in a desert climate, and dependence on irrigation revenues for approximately 60% of
17 its water revenues. RUCO opposition to an adjuster for the CAP Water cost, adds additional risk
18 which should be recognized. The RUCO witnesses use of returns allowed to Arizona water and
19 wastewater utilities demonstrates RUCO's lack of understanding of computing a reasonable
20 equity return. The use of returns allowed to Arizona water and wastewater utilities is an example
21 of circular reasoning.

22 RUCO opposition to an adjuster for the CAP Water cost, adds additional risk which
23 should be recognized

1 Rejoinder to RVCA

2 Mr. Kozoman provides rejoinder to RVCA's computation of the effective interest rate for
3 the existing and proposed debt financing with CoBank, which are in incorrect as computed. The
4 omission of the debt reserve and deferred charges from rate base, and incorrect computations of
5 debt cost are short changing the Company on its investment, and revenue requirement. Without
6 major corrections, the Commission cannot use the RVCA surrebuttal schedules.

7 In the RCVA's surrebuttal filing, the interest on the proposed loans is now 8.93% for
8 water, and 9.08% for sewer. It is not possible to derive different interest rates for the proposed
9 loans. The RVCA witness deducts the deferred finance charge of 1.00% and the required debt
10 reserve of 10% from of the amount borrowed. The maximum deduction from the existing and
11 proposed debt would be 11%. For water, RVCA's deduction is 11%. However, for the sewer
12 utility, the deduction is 12%. This could be the cause for his different interest rates for water and
13 sewer on proposed debt. Please see Rejoinder Schedule D-2, Page 2.

14 The Company is requesting an equity return of 12.25%, or 25 basis point (+0.25%) over
15 the return that Value Line estimates investors in the water industry will earn over the period the
16 new rates will be in effect.

17 Mr. Kozoman explains why the RVCA's contention that ACC Staff's omission of the
18 proposed CoBank debt, results in the ACC Staff are overcharging customers by approximately
19 \$100,000, is flawed.

1 **SUMMARY OF REJOINDER TESTIMONY OF THOMAS BOURASSA**

2 Mr. Bourassa's Rejoinder to the RUCO Staff covers the topics of:

3 Income taxes are computed under an illegal method, namely that the sewer and the water
4 utility can file separate income tax returns;

5 The deferred income tax deduction from the water and sewer rate bases violates tax
6 normalization requirements.

7 Property taxes based on the new Arizona Department of Revenues' new method of
8 computing full cash value (basically two times revenues), does not include the proposed rates for
9 either the sewer or the water utility;

10 The revenue conversion factor for the water utility is overstated due to the use of the 39%
11 Federal income tax rate resulting from attempting to compute Federal income tax on a stand
12 alone basis for each utility;

13 The revenue conversion factor for the sewer utility is understated due to the use of a
14 much lower Federal income tax rate resulting from attempting to compute Federal income tax on
15 a stand alone basis for each utility;

16 The water rates proposed by RUCO produce \$11,142 more revenue than set forth in
17 RUCO's computed revenue requirement;

18 The sewer rates proposed by RUCO produce \$1,332 less revenue than set forth in
19 RUCO's computed revenue requirement;

20 The cash working capital allowance computations removes rate case expense as a non
21 cash item; and

22 The adjustment for plant financed with Contributions in Aid of Construction ("CIAC") is
23 incorrect.

1 Mr. Bourassa's Rejoinder to the RVCA cover the topics of:

2 The rate bases proposed by Mr. Neidlinger violates tax normalization
3 requirements;

4 The omission of an adjustment to working capital for the increased pumping power
5 proposed by Mr. Neidlinger, and

6 Mr. Neidlinger's change in the number of new customers, from 70 to 80, does not appear
7 to be surrebuttal to anything raised in the Company's rebuttal filing.
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