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1 Richard L. Sallquist, Esq. (002677)
SALLQUIST & DRUMMOND, P.C.
2 2525 E. Arizona Biltmore Circle, Suite 117
Phoenix, Arizona 85016
3 Telephone: (602) 224-9222
Fax: (602) 224-9366

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2001 FEB -8 P 3: 51

4 Attorneys for Applicant

AZ CORP COMMISSION
DOCUMENT CONTROL

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

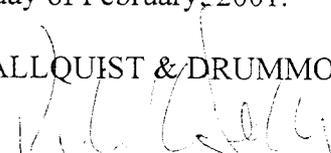
6 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-02156A-00-0321
7 OF RIO VERDE UTILITIES, INC. FOR AN) DOCKET NO. WS-02156A-00-0323
8 INCREASE IN ITS WATER AND)
9 WASTEWATER RATES FOR CUSTOMERS)
WITHIN MARICOPA COUNTY, ARIZONA.)

NOTICE OF FILING

10
11 Rio Verde Utilities, Inc., by and through its undersigned counsel, hereby provides this
12 Notice of Filing of the Rejoinder Testimonies of Ronald L. Kozoman, Thomas B. Kozoman, and
13 Arthur Brooks on behalf of the Company.

14 Respectfully submitted this 8th day of February, 2001.

15 SALLQUIST & DRUMMOND, P.C.

16 
Richard L. Sallquist
17 2525 E. Arizona Biltmore Circle
Suite 117
18 Phoenix, Arizona 85016
Attorneys for Rio Verde Utilities, Inc.

Arizona Corporation Commission
DOCKETED
FEB 08 2001
DOCKETED BY 

1 Original and ten copies of the
2 foregoing filed this ~~7th~~ 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 hand-delivered
8 this ~~8th~~ day of February, 2001, to:

9 Hearing Division
10 Arizona Corporation Commission
11 1200 W. Washington
12 Phoenix, Arizona 85007

13 Legal Division
14 Arizona Corporation Commission
15 1200 W. Washington
16 Phoenix, Arizona 85012

17 Utilities Division
18 Arizona Corporation Commission
19 1200 W. Washington
20 Phoenix, Arizona 85007

21 Scott Wakefield
22 Residential Utility Consumer Office
23 2828 N. Central Ave., Suite 1200
24 Phoenix, Arizona 85004

Thomas L. Mumaw
Snell & Wilmer
One Arizona Center
Phoenix, Arizona 85004

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REJOINDER TESTIMONY OF

RONALD L. KOZOMAN

FILED ON BEHALF OF

RIO VERDE UTILITIES, INC.

RATE APPLICATION

DOCKET NO. W-02156A-00-0321 & ~~XXXXXXXXXX-00-0322~~

FILED FEBRUARY 8, 2001

DEC 07 1984

BEFORE THE ARIZONA CORPORATION COMMISSION

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RICHARD KIMBALL
CHAIRMAN
JUNIUS HOFFMAN
COMMISSIONER
MARIANNE M. JENNINGS
COMMISSIONER

DOCKETED BY
C.M.

IN THE MATTER OF THE PETITION OF THE)
WATER UTILITIES ASSOCIATION OF ARIZONA)
FOR A GENERIC HEARING REGARDING CENTRAL)
ARIZONA PROJECT RELATED COSTS,)
OBLIGATIONS AND FACILITIES; FOR AN)
ORDER OF THE COMMISSION ESTABLISHING)
PROCEDURE FOR APPROVAL OF CERTAIN)
CONTRACTS; RECOGNITION OF INVESTMENTS)
IN CENTRAL ARIZONA PROJECT FACILITIES;)
AND FOR THE DETERMINATION OF AN)
APPROPRIATE SURCHARGE TO RECOVER COSTS)
RELATED TO CENTRAL ARIZONA PROJECT)
OBLIGATIONS AND FACILITIES.)

DOCKET NO. U-0000-84-212

DECISION NO. 54265

OPINION AND ORDER

DATE OF HEARING: October 3, 1984

PLACE OF HEARING: Phoenix, Arizona

PRESIDING OFFICER: Thomas L. Mumaw

IN ATTENDANCE: Junius Hoffman, Commissioner
Marianne M. Jennings, Commissioner

APPEARANCES: Evans, Kitchel & Jenckes, P.C., by Lex J. Smith and
Richard L. Sallquist, Attorneys for the Petitioner

Roger A. Schwartz and Stephen Anthony Avilla,
Attorneys, on behalf of the Residential Utility
Consumer Office

Christopher C. Kempley, Attorney, Legal Division, on
behalf of the Arizona Corporation Commission Staff

BY THE COMMISSION:

On August 14, 1984, the Water Utilities Association of Arizona
("Association") filed a Petition with the Arizona Corporation Commission
("Commission"), wherein the Association requested a generic hearing regarding
approval of certain contracts and the establishment of various cost recovery
mechanisms, all in connection with Central Arizona Project ("CAP") obligations
and facilities.

1 On August 29, 1984, the Residential Utility Consumer Office ("RUCO") filed
2 an Application for Leave to Intervene. Said Application was granted by
3 Procedural Order dated September 24, 1984.

4 Pursuant to Notice of Hearing dated September 24, 1984, this matter came
5 on for hearing before a duly authorized Hearing Officer of the Commission at
6 its offices in Phoenix, Arizona. The Association, RUCO and the Commission's
7 Utilities Division Staff appeared and were represented by counsel. At said
8 hearing, the Association amended its Application to include only a request for
9 implementation, on a generic basis, of an automatic adjustment mechanism to
10 recover the CAP contract costs incurred by Association members as a direct
11 result of signing contracts for the receipt of CAP water from the Central
12 Arizona Water Conservation District ("CAWCD").¹ The Association presented a
13 member witness, as well as witnesses from the CAWCD and the Arizona Department
14 of Water Resources ("DWR"). No other party presented evidence concerning the
15 Petition, and at the conclusion of a full public hearing, this proceeding was
16 adjourned pending submission of a Recommended Opinion and Order by the
17 Presiding Officer to the Commission.

18 There is little need to debate the merits of utilizing an automatic
19 adjustment clause mechanism for recovery of contract costs such as are at issue
20 here. These are classic examples of costs which, once the contracts are
21 signed, are wholly outside the control of the water utility. The level of cost
22 is roughly proportionate to water usage and thus a per gallon assessment is
23 likewise appropriate. Since the costs escalate each year in accordance with
24 provisions of the contract, failure to provide for their recovery by some
25 automatic mechanism (subject, of course, to Commission review for accuracy)
26 would necessitate

27
28 1. The CAWCD is the state contracting agency responsible for the repayment of
Arizona's CAP obligation to the U.S. Government. It has done so by a master
contract between CAWCD and the U.S. Department of Interior.

1 annual rate cases by a multitude of small and medium sized water companies.
2 The annual bureaucratic burden upon the Commission would be tremendous, and the
3 waste of ratepayers' money for such repetitious rate cases totally unnecessary.

4 Finally, the contract costs for each member of the Association signing
5 such an agreement are calculated in an identical manner and assessed on a
6 uniform per acre foot basis. Thus, standardization of any automatic adjustment
7 mechanism is both possible and desirable.

8 Likewise, we need no convincing from DWR as to the general wisdom of
9 substituting other water sources, including the CAP, for scarce groundwater.
10 Indeed, such is the declared public policy of this state. However, the
11 prudence of a particular water company's decision to secure CAP water in the
12 amount allocated to that company can not be conclusively determined without a
13 case by case analysis of the assumptions underlying such an allocation and the
14 alternatives to CAP water reasonably available.²

15 The witness from the CAWD was equally persuasive concerning the desire of
16 the District to serve as a mere conduit for the repayment of CAP obligations to
17 the federal government. The underlying purpose of the Basin Project Act and
18 the subsequent Arizona legislation creating the CAWD was for the user of CAP
19 water to bear its cost. We certainly do not disagree with that general
20 principle.

21 Our agreement with many of the points made by the Association herein can
22 not overcome two (2) fundamental problems with the Petition. The first is that
23 we can not possibly determine whether the incurrence of CAP costs of any kind

24
25 2. We are gratified to find out in this proceeding that there was some
26 rational scheme for determining allocations of CAP water which was not solely
27 dependent upon the water companies' unilateral assessments of their need for
28 such water. Department of Economic Security population estimates for the year
2034 formed the primary basis for allocations by the CAWD to individual
applicants for CAP water. There seemed to be some confusion as to whether or
not an applicant would be permitted to contract for less than its total
allotment.

1 are reasonable for each and every member of the Association contemplating
2 signing a CAP contract. This is a serious deficiency in the record before us,
3 but one which could possibly be overcome by a provision for some sort of ex
4 post facto review of these costs in individual general rate proceedings.
5 However, the second difficulty is fatal. In Op. Atty. Gen. No. 71-15, the
6 Attorney General of Arizona discusses the legality as well as the procedure for
7 implementation of automatic adjustment clauses. Although concluding that such
8 mechanisms are perfectly valid exercises of the Commission's authority under
9 Article XV, Section 3, of the Arizona Constitution, the Opinion further states
10 that they should be implemented only in the context of and with the same notice
11 to customers attending a general rate proceeding. As was noted therein, the
12 institution of an automatic adjustment clause can and often does result in an
13 increase in customer rates for utility service. In this case, no one doubts
14 that the very purpose of the Association's requested adjustment mechanism is to
15 increase rates. The Association points to instances in which the Commission
16 has apparently rejected the analysis set forth in Op. Atty. Gen. No. 71-15. We
17 can not confirm that such instances are analogous to the situation at issue in
18 this proceeding. Moreover, and more importantly, none of these instances
19 post-date the Arizona Court of Appeals' decision in Scates v. Arizona
20 Corporation Commission, 118 Ariz. 531 (Ct. App. 1978). Scates not only cites
21 Op. Atty. Gen. No. 71-15 with favor, but specifically holds that Article XV,
22 Section 14 of the Arizona Constitution requires that any increase in rates must
23 be accompanied by a determination of a public service corporation's "fair
24 value" rate base. Obviously, it would be impossible to determine the "fair
25 value" rate base for each affected member of the Association in this
26 proceeding. Consequently, and despite the obvious merits attending the concept
27 of an automatic adjustment clause covering CAP contract costs, the
28 Association's Petition herein must be denied.

Rio Verde Utilities, Inc. - Water
 Test Year Ended December 31, 1999
 Summary of Company's Rebuttal, ACC Staff's Surrebuttal
 RUCO Staff Surrebuttal & RVCA Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 1
 Witness: Kozoman

	Rate Base		RUCO		RVCA		Differences		
	Company Rebuttal	ACC Surrebuttal	Surrebuttal	Surrebuttal	Surrebuttal	Surrebuttal	ACC Staff - Company	RUCO - Company	RVCA - Company
Gross Utility Plant in Service	\$6,491,892	\$6,491,892	\$6,489,123	\$5,746,538	\$5,746,538		(\$0)	(\$2,769)	(\$745,354)
Less: Accumulated Depreciation	1,020,690	1,020,690	1,020,690	917,917	917,917		0	0	(102,773)
Net Utility Plant in Service	\$5,471,203	\$5,471,202	\$5,468,433	\$4,828,621	\$4,828,621		(\$0)	(\$2,770)	(\$642,582)
Less:									
Customer Advances for Construction	0		886,965				0	886,965	
Contributions in Aid of Construction	1,269,912	1,269,912	1,269,935	1,269,912	1,269,912		0	23	
Customer Meter Deposits	120,684	120,684	120,684	120,684	120,684		0	0	
Deferred Income Taxes	64,776	64,776	64,776	64,776	64,776		0	0	
Add:									
Unamortized Finance Charges	12,904		8,801	0	0		(12,904)	(4,103)	(12,904)
Allowance for Working Capital	90,643	90,643	89,535	90,643	90,643		0	(1,108)	(0)
Debt Reserve Fund (proposed Cobank loan)	129,039	129,039	88,007	0	0		0	(41,032)	(129,039)
Total Rate Base	\$ 4,248,417	\$ 4,235,513	\$ 3,312,416	\$ 3,463,892	\$ 3,463,892		\$ (12,904)	\$ (936,001)	\$ (784,525)

Gross Revenue Conversion Factor

1.628611446	1.628611	1.744300	1.628611	0.115689
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Dollar Amounts

	Cost of Capital		RUCO		RVCA		Differences		
	Company Rebuttal	ACC Surrebuttal	Surrebuttal	Surrebuttal	Surrebuttal	Surrebuttal	ACC Staff - Company	RUCO - Company	RVCA - Company
Common Equity	\$2,415,521	\$2,415,521	\$2,415,521	\$2,415,521	\$2,415,521		0	0	
Debt	1,856,612	566,223	1,446,291	1,714,669	1,714,669		(1,290,389)	(410,321)	(141,943)
Total	\$4,272,133	\$2,981,744	\$3,861,812	\$4,130,190	\$4,130,190		(\$1,290,389)	(\$410,321)	(\$141,943)

Percent of Total

Common Equity	56.54%	81.01%	62.55%	58.45%	24.469%	6.008%
Debt	43.46%	18.99%	37.45%	41.52%	-24.469%	-6.008%

Cost Rates

Common Equity	12.25%	11.00%	11.40%	11.00%	-1.250%	-0.850%
Debt	8.56%	9.14%	8.72%	9.23%	0.581%	0.161%

Weighted Costs

Common Equity	6.93%	8.91%	7.13%	6.43%	1.985%	0.204%
Debt	3.72%	1.74%	3.27%	3.83%	-1.984%	-0.454%
Total Cost of Capital	10.65%	10.65%	10.40%	10.26%	0.00%	-0.25%

Common Equity	1.985%	0.204%	-0.50%
Debt	-1.984%	-0.454%	0.11%
Total Cost of Capital	0.00%	-0.25%	-0.38%

CONCLUSIONS OF LAW

1
2 1. The members of the Association are public service corporations within
3 the meaning of Article XV of the Arizona Constitution.

4 2. The Commission has jurisdiction over the members of the Association
5 and of the subject matter of the application.

6 3. The Commission has no authority to approve the institution of an
7 automatic adjustment mechanism outside the context of general rate proceedings
8 at which a determination of "fair value" rate base must be made and a
9 reasonable rate of return thereon established.

10 4. The Application of the Association must be denied.

ORDER

11
12 IT IS THEREFORE ORDERED that the Application of the Water Utilities
13 Association of Arizona be, and the same is hereby denied.

14 IT IS FURTHER ORDERED that this Decision shall become effective
15 immediately.

16 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

17
18 *[Signature]*
19 CHAIRMAN

[Signature]
COMMISSIONER

COMMISSIONER

20 IN WITNESS WHEREOF, I, LORRIE DROBNY,
21 Executive Secretary of the Arizona Corporation
22 Commission, have hereunto set my hand and caused the
23 official seal of this Commission to be affixed at the
24 Capitol, in the City of Phoenix, this 6th day
25 of December, 1984.

[Signature]
26 LORRIE DROBNY
27 Executive Secretary

28
26 DISSENT *[Signature]*
27 j8

Rio Verde Utilities, Inc.
 Test Year Ended December 31, 1999
 RVCA Interest Cost

Exhibit
 Rejoinder Schedule D-2
 Page 1
 Witness: Kozoman

Line No.		Direct Filing	Surrebuttal Filing
1	Water Proposed Debt	1,290,369	1,290,369
2	Direct Filing interest rate	9.75%	9.19%
3	Interest Expense	125,811	118,585
4	Less: Earning on Debt Reserve at 4.50%	(5,807)	(5,807)
5	Add: Amortization of Deferred Fin. Charge over 20 years	(645)	(645)
6	Computed Interest Expense (a)	<u>119,359</u>	<u>112,133</u>
7			
8	Proposed Debt		1,290,369
9	Minus:		
10	Reserve Account		(129,037)
11	Deferred Finance Charges		(12,904)
12	Net Loan Proceeds	<u>1,148,428</u>	<u>1,148,428</u>
13			
14	Effective Interest Rate (b)	<u>10.393%</u>	<u>9.764%</u>
15			
16	(a) Mr. Neidlinger lists \$124,846 as Interest Expense in workpapers from Direct Filing.		
17	(b) Mr. Neidlinger lists Proposed Surrebuttal Debt Cost as 8.93%. Surrebuttal Sch. DLN-6		
18			
19		Direct Filing	Surrebuttal Filing
20			
21	Sewer Proposed Debt	1,179,398	1,179,398
22	Direct Filing interest rate	9.75%	9.19%
23	Interest Expense	114,991	108,387
24	Less: Earning on Debt Reserve at 4.50%	(5,307)	(5,307)
25	Add: Amortization of Deferred Fin. Charge over 20 years	(590)	(590)
26	Computed Interest Expense (c)	<u>109,094</u>	<u>102,490</u>
27			
28	Proposed Debt		1,179,398
29	Minus:		
30	Reserve Account		(117,940)
31	Deferred Finance Charges		(11,794)
32	Net Loan Proceeds	<u>1,049,664</u>	<u>1,049,664</u>
33			
34	Effective Interest Rate (d)	<u>10.393%</u>	<u>9.764%</u>
35			
36	(c) Mr. Neidlinger lists \$114,107 as Interest Expense in workpapers from Direct Filing		
37	(d) Mr. Neidlinger lists Proposed Surrebuttal Debt Cost as 9.08%. Surrebuttal Filing DLN-9		
38			

Rio Verde Utilities, Inc. - Water

Test Year Ended December 31, 1999

Summary of Company's Rebuttal , ACC Staff's Surrebuttal
 RUCO Staff Surrebuttal & RVCA Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 2
 Witness: Kozoman

Acct. No.	Plant Description	Plant Values			Differences			
		Company Rebuttal	ACC Surrebuttal	RUCO Surrebuttal	RVCA Surrebuttal	ACC Staff - Company	RUCO - Company	RVCA - Company
301	Organization Cost	1,380	1,380	1,380	1,380			
302	Franchise Cost							
303	Land and Land Rights	37,512	41,512	41,512	37,512	4,000	4,000	
304	Structures and Improvements	(26,213)	33,133	37,133	(26,213)	59,346	63,346	
307	Wells and Springs	1,610,304	1,546,958	1,610,304	1,610,304	(63,346)		
310	Power Generation Equipment	35,397	35,397	35,397	35,397			
311	Electric Pumping Equipment	957,185	957,185	973,284	957,185		16,099	
320	Water Treatment Equipment	12,184	12,184	12,184	12,184			
330	Distribution Reservoirs & Standpipe	360,282	360,282	360,282	360,282			
331	Transmission and Distribution Mains	2,699,640	2,699,640	2,701,140	2,699,640		1,500	
333	Services	327,002	327,002	347,232	327,002		20,230	
334	Meters	81,524	81,524	81,524	81,524			
335	Hydrants	183,259	183,259	183,259	183,259			
339	Plant Structures and Improvements	105,744	105,744	105,744	105,744			
340	Adjustment for Plant Differences			2	(745,354)		2	(745,354)
341	Adjustment for Plant Retirements			(130,251)			(130,251)	
343	Transportation Equipment	18,278	18,278	36,684	18,278		18,406	
344	Tools and Work Equipment	10,269	10,269	10,269	10,269			
345	Laboratory Equipment	6,136	6,136	7,336	6,136		1,200	
346	Communications Equipment	60,799	60,799	63,499	60,799		2,700	
348	Miscellaneous Equipment	1,083	1,083	1,083	1,083			
	Other Tangible Plant	10,128	10,128	10,128	10,128			
		6,491,893	6,491,892	6,489,123	5,746,538	(0)	(2,769)	(745,355)

Rio Verde Utilities, Inc. - Water

Test Year Ended December 31, 1999

Summary of Company's Rebuttal , ACC Staff's Surrebuttal
RUCO Staff Surrebuttal & RVCA Surrebutal Positions

Exhibit
Rejoinder Schedule A
Page 3
Witness: Kozoman

	Income Statement				Differences		
	Company Rebuttal	ACC Surrebuttal	RUCO Surrebuttal	RVCA Surrebuttal	ACC Staff - Company	RUCO - Company	RVCA - Company
Revenues							
Water Revenues	1,292,211	1,292,211	1,112,309	1,159,005	0	(179,902)	(133,206)
Hook-Up Fees	35,000	35,000	60,000	40,000	-	25,000	5,000
Disc Service Revenues	5,274	5,274	6,399	5,274	(0)	1,125	-
Total Revenues	1,332,485	1,332,485	1,178,708	1,204,279	(0)	(153,777)	(128,206)
Operating Expenses							
Salaries & Wages	95,603	95,603	89,735	95,603	(0)	(5,868)	
Purchased Power	156,637	156,637	156,637	178,637	-	0	
RP Ground water Charge	9,525	9,525	9,525	9,525	-	(0)	
CAP Purchased Water	52,528	52,528	52,528	52,528	-	-	
DWR Surcharge	5,329	5,329	5,239	5,329	-	(90)	
Maintenance	79,543	79,543	84,013	79,543	-	4,470	
Chemicals	1,007	1,007	1,007	1,007	-	0	
Administrative Office	12,009	12,009	12,009	12,009	-	-	
Automotive	4,712	4,712	4,712	4,712	-	(0)	
WUI Lab Operations	2,003	2,003	2,003	2,003	-	0	
Outside Lab	7,134	7,134	7,134	7,134	-	0	
Supplies	11	11	11	11	-	(0)	
Postage/Express/UPS	1,804	1,801	1,804	1,804	(3)	(0)	
Office Supplies	1,575	1,575	1,575	1,575	-	(0)	
Payroll Taxes	9,228	9,228	11,504	9,228	-	2,276	
Employee Benefits	7,399	7,399	7,399	7,399	-	0	
Taxes & Licenses (a)	37,195	28,485	25,195	37,195	(8,710)	(12,000)	
Telephone	3,800	3,800	3,800	3,800	-	(0)	
Insurance	7,539	7,539	7,539	7,539	-	(0)	
Legal Fees	739	739	739	739	-	(0)	
Professional Fees	6,248	6,248	6,248	6,248	-	0	
Education & Training	205	205	205	205	-	(0)	
Travel & Entertainment	593	593	593	593	-	(0)	
Security Charges	862	862	862	862	-	0	
Outside Services	27,667	27,667	27,839	27,667	-	172	
Miscellaneous	51	51	139	51	-	88	
Rate Case Expense	10,000	10,000	11,514	10,000	-	1,514	
Depreciation	154,281	154,158	154,073	131,443	(123)	(208)	
Income Taxes (a)	184,974	231,642	148,480	154,498	46,668	(36,494)	
Total Operating Expenses	880,204	918,035	834,061	848,889	37,832	(46,143)	(31,315)
Operating Income	452,281	414,450	344,647	355,390	(37,832)	(107,634)	(96,891)
Other Income (Expense)							
Interest Income	(0)	5,796	-	-	5,796	0	
Other income	-	-	-	-	-	-	
Interest Expense	158,023	51,779	108,362	109,635	(106,244)	(49,661)	
Other Expense	-	-	-	-	-	-	
Total Other Income, Expense	158,023	45,983	108,362	109,635	(112,040)	(49,661)	
Net Profit (Loss)	294,258	368,467	236,285	245,755	74,208	(57,973)	

(a) ACC Staff Property Taxes computed by Kozoman, using the average of revenues from 1998, 1999 and Proposed Rates. Income Taxes also adjusted.

Rio Verde Utilities, Inc. - Water

Test Year Ended December 31, 1999

Summary of Company's Rebuttal, ACC Staff's Surrebuttal
RUCO Staff Surrebuttal & RVCA Surrebutal Positions

Proposed Rates

Exhibit
Rejoinder Schedule A
Page 4
Witness: Kozoman

Meter Size	<u>Company Proposed</u>		<u>ACC Staff Proposed</u>		<u>RUCO Proposed</u>		<u>RVCA Proposed</u>	
	Monthly Minimum	Gallons Included in Minimum	Monthly Minimum	Gallons Included in Minimum	Monthly Minimum	Gallons Included in Minimum	Monthly Minimum	Gallons Included in Minimum
1/8 Inch	10.00	-	10.00	-	7.60	-	9.00	-
3/4 Inch	10.00	-	10.00	-	7.60	-	9.00	-
1 Inch	10.00	-	10.00	-	7.60	-	9.00	-
1 1/2 Inch			31.67	-				
2 Inch	53.33	-	53.33	-	39.00	-	80.00	-
3 Inch			109.67	-				
4 Inch	166.67	-	166.00	-	126.00	-	100.00	-
6 Inch	333.33	-	333.00	-	258.00	-	200.00	-
8 Inch	666.67	-	666.67	-	578.00	-	400.00	-
12 Inch	1,166.67	-	1,166.67	-	992.00	-	800.00	-
Commodity Rate	\$ 1.690		\$1.6900		\$ 1.56		\$ 1.51	
Non-Potable Irrigation Water	\$ 1.180		\$ 1.180		\$ 1.03		\$ 1.08	
Potable Irrigation Surcharger	\$ 0.510		\$ 0.510		\$ 0.53		\$ 0.43	
Hook-up Fees Accounted for as Revenue:								
	\$ 1,000		1000		\$ 1,500		\$ 500	
Number of Customers Hook-up Fee Accounted for as Revenue	35		35		60		(a) All	

\$500 Hook-up fee per customer as revenue, Plus \$1,500 fee per customer accounted for as Contribution in Aid of Construction ("CIAC").

Rio Verde Utilities, Inc. - Sewer
 Test Year Ended December 31, 1999
 Summary of Company's Rebuttal, ACC Staff's Surrebuttal
 & RUCO Staff's Surrebuttal & RVCA's Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 1
 Witness: Kozoman

	Rate Base		Differences	
	Company Rebuttal	ACC Surrebuttal	ACC Staff - Company	RUCO - Company
Gross Utility Plant in Service	\$5,391,755	\$5,391,754	(\$1)	\$23,724
Less: Accumulated Depreciation	812,276	812,276	0	5,687
Net Utility Plant in Service	\$4,579,479	\$4,579,478	(\$1)	\$18,037
Less:				
Customer Advances for Construction	0		0	0
Contributions in Aid of Construction	1,946,088	1,946,088	0	(2,894)
Customer Meter Deposits	146,534	146,534	0	0
Deferred Income Taxes				
Add:				
Unamortized Finance Charges	29,016		(29,016)	(3,099)
Allowance for Working Capital	61,857	61,857	0	(1,478)
Debt Reserve Fund (Existing Cobank loan)	224,500	224,500	0	0
Debt Reserve Fund (proposed Cobank loan)	117,940	117,940	0	(30,995)
Total Rate Base	\$2,920,170	\$2,891,153	\$ (29,017)	\$ (14,641)
				\$ (482,030)

	RVCA Surrebuttal	RUCO Surrebuttal	RVCA	RUCO
	\$5,023,084	\$5,415,479		
	778,679	817,963		
	\$4,244,405	\$4,597,516		
	1,946,088	1,943,194	1,946,088	
	146,534	146,534	146,534	
	25,917	25,917		
	61,857	60,379	61,857	
	224,500	224,500		
	86,945	86,945		
	\$2,213,640	\$2,905,529	\$ (29,017)	\$ (30,995)
	1.62861145	1.500100	1.628600	(0.128511)
				(0.000011)

	Cost of Capital		Differences	
	Company Rebuttal	ACC Surrebuttal	ACC Staff - Company	RUCO - Company
Dollar Amounts	\$1,325,092	\$1,325,092	(0)	(0)
Common Equity	\$3,024,000	\$1,844,602	(1,179,398)	(309,945)
Debt	\$4,349,093	\$3,169,694	(\$1,179,399)	(\$309,946)
Total				
	30.47%	41.81%	11.337%	2.338%
	69.53%	58.19%	-11.337%	-2.338%
	12.25%	11.00%	-1.250%	-0.850%
	8.18%	9.14%	0.956%	-0.234%
	3.73%	4.60%	0.866%	0.008%
	5.69%	5.32%	-0.371%	-0.348%
	9.42%	9.92%	0.49%	-0.34%

	Percent of Total		Cost Rates		Weighted Costs	
	Common Equity	Debt	Common Equity	Debt	Common Equity	Debt
	33.31%	66.69%	11.00%	9.00%	0.866%	-0.07%
	32.81%	67.19%	11.40%	7.95%	0.866%	0.56%
	32.81%	67.19%	11.40%	7.95%	0.866%	0.56%
	33.31%	66.69%	11.00%	9.00%	0.866%	-0.07%
	11.337%	-11.337%	-1.250%	0.956%	0.866%	0.56%
	2.338%	-2.338%	-0.850%	-0.234%	0.866%	0.56%
	0.008%	-0.348%	0.49%	-0.34%	0.866%	0.56%
	0.008%	-0.348%	0.49%	-0.34%	0.866%	0.56%
	0.008%	-0.348%	0.49%	-0.34%	0.866%	0.56%
	0.008%	-0.348%	0.49%	-0.34%	0.866%	0.56%

Rio Verde Utilities, Inc. - Sewer
 Test Year Ended December 31, 1999
 Summary of Company's Rebuttal, ACC Staff's Surrebuttal
 & RUCO Staff's Surrebuttal & RVCA's Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 2
 Witness: Kozoman

Acct. No.	Plant Description	Plant Values			Differences			
		Company Rebuttal	ACC Surrebuttal	RUCO Surrebuttal	RVCA Surrebuttal	ACC Staff - Company	RUCO - Company	RVCA - Company
301	Organization Cost	1,380	1,380	1,380	1,380			
302	Franchise Cost							
353	Land and Land Rights	50,513	50,513	50,513	50,513			
354	Structures and Improvements	277,883	277,883	277,883	277,883			
361	Sewer Line	1,723,698	1,723,698	1,723,698	1,723,698			
363	Services	562,446	562,446	560,154	560,154	0	(2,292)	(2,292)
368	Lift Station	194,885	194,885	194,885	194,885			
371	Effluent Pump	29,905	29,905	29,905	29,905			
380	Treatment Plant	2,346,167	2,346,167	3,686,714	2,027,693		1,340,547	(318,474)
380	Treatment Plant			(1,290,350)			(1,290,350)	
382	Effluent Lines	61,069	61,069	65,389	91,869		4,320	30,800
391	Transportation Equipment	14,130	14,130	36,680	28,186		22,550	14,056
393	Tools and Work Equipment	1,403	1,403	2,303	2,303		900	900
394	Laboratory Equipment	58,223	58,223	58,223	58,223			
396	Communications Equipment	7,950	7,950	7,950	7,950			
	Adjustment for Plant Differences			(51,951)	(102,548)		(51,951)	(102,548)
	Adjustment for Plant Retirements							
398	Other Tangible Plant	62,103	62,103	62,103	70,994			8,891
		5,391,755	5,391,755	5,415,479	5,023,084	(1)	23,723	(368,668)

Rio Verde Utilities, Inc. - Sewer
 Test Year Ended December 31, 1999
 Summary of Company's Rebuttal, ACC Staff's Surrebuttal
 & RUCO Staff's Surrebuttal & RVCA's Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 3
 Witness: Kozoman

	Income Statement				Differences		
	Company <u>Rebuttal</u>	ACC <u>Surrebuttal</u>	RUCO <u>Surrebuttal</u>	RVCA <u>Surrebuttal</u>	ACC Staff <u>- Company</u>	RUCO <u>- Company</u>	RVCA <u>- Company</u>
Revenues							
Sewer Revenues	761,923	754,615	695,327	651,790	(7,308)	(66,596)	(110,133)
Hook-Up Fees	52,500	52,500	90,000	80,000	-	37,500	27,500
Misc Service Revenues	2,341	2,341	2,341	2,341	0	0	-
Total Revenues	816,764	809,456	787,668	734,131	(7,308)	(29,096)	(82,633)
Operating Expenses							
Salaries & Wages	95,603	95,603	89,735	95,603	-	95,603	-
Purchased Power	65,656	65,656	65,656	65,656	-	65,656	-
SRP Ground water Charge	76,541	76,541	78,032	76,541	-	1,491	-
CAP Purchased Water	375	375	375	375	-	(0)	-
DWR Surcharge	816	816	816	816	-	(0)	-
Maintenance	13,264	13,264	13,264	13,264	-	0	-
Chemicals	14,676	14,676	14,676	14,676	-	(0)	-
Administrative Office	12,000	12,000	12,000	12,000	-	-	-
Automotive	5,538	5,538	5,538	5,538	-	(0)	-
RVUI Lab Operations	5,670	5,670	5,670	5,670	-	0	-
Outside Lab	828	828	828	828	-	1	-
Supplies	11	11	11	11	-	0	-
Postage/Express/UPS	1,823	1,823	1,823	1,823	-	0	-
Office Supplies	1,556	1,556	1,556	1,556	-	0	-
Payroll Taxes	9,228	9,228	11,490	9,228	-	2,262	-
Employee Benefits	7,399	7,399	7,399	7,399	-	0	-
Taxes & Licenses (a)	22,747	17,949	19,780	22,747	(4,798)	(2,967)	-
Telephone	2,390	2,390	2,390	2,390	-	0	-
Insurance	8,772	8,772	8,772	8,772	-	(0)	-
Legal Fees	138	138	138	138	-	(0)	-
Professional Fees	6,103	6,103	6,103	6,103	-	0	-
Education & Training	1,740	1,740	1,740	1,740	-	(0)	-
Travel & Entertainment	576	576	576	576	-	(0)	-
Security Charges	1,724	1,724	1,724	1,724	-	(0)	-
Outside Services	27,666	27,666	27,839	27,666	-	173	-
Miscellaneous	631	631	719	631	-	88	-
Rate Case Expense	10,000	10,000	11,514	10,000	-	1,514	-
Patronage Dividend	-	-	-	-	-	-	-
Depreciation	79,622	79,622	80,240	70,023	-	618	(9,599)
Income Taxes (a)	68,513	68,757	53,301	51,269	243	(15,212)	(17,244)
Total Operating Expenses	541,605	537,051	523,705	514,762	(4,555)	149,227	(26,843)
Operating Income	275,158	272,405	263,963	219,369	(2,753)	(178,322)	(55,789)
Other Income (Expense)							
Interest Income	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-
Interest Expense	166,167	163,036	155,298	137,817	(3,131)	(10,869)	(28,350)
Other Expense	-	-	-	-	-	-	-
Total Other Income, Expense	158,023	163,036	155,298	137,817	(3,131)	(10,869)	(20,206)
Net Profit (Loss)	108,991	109,369	108,665	81,552	378	(167,453)	(27,439)

(a) ACC Staff Surrebuttal Property Tax Computed by Kozoman, as average of revenues from 1998, 1999, and proposed revenues. Income Taxes Recomputed.

Rio Verde Utilities, Inc. - Sewer
 Test Year Ended December 31, 1999
 Summary of Company's Rebuttal, ACC Staff's Surrebuttal
 & RUCO Staff's Surrebuttal & RVCA's Surrebuttal Positions

Exhibit
 Rejoinder Schedule A
 Page 4
 Witness: Kozoman

	Proposed Rates			
	<u>Company Proposed</u>	<u>ACC Staff Surrebuttal</u>	<u>RUCO Staff Surrebuttal</u>	<u>RVCA Surrebuttal</u>
Residential	\$ 47.10	\$ 46.63	\$ 43.00	\$ 40.98
Commercial	150.00	150.00	140.00	100.00
Commercial - Restaurant	200.00	200.00	187.00	150.00
Effluent Sales (per 1,000 gallons)	1.15	1.15	1.02	0.94
Hook-Up Fee As Revenue	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,000
Number of Customer Hook-up Fees Accounted for as Revenue	35	35	60	(a) All

(a) \$1,000 Hook-up fee per customer as revenue, Plus \$1,000 fee per customer accounted for as Contribution in Aid of Construction ("CIAC").

* * * * *

1
2 Having considered the entire record herein and being fully advised in the
3 premises, the Commission finds, concludes, and orders that:

4 FINDINGS OF FACT

5 1. The Association is an Arizona non-profit corporation formed to act as
6 a trade and education association for water public service corporations within
7 Arizona.

8 2. Members of the association are engaged in the provision of water for
9 public purposes within portions of Arizona pursuant to authority granted by
10 this Commission.

11 3. On August 14, 1984, the Association filed a Petition with the
12 Commission, which, as amended at the public hearing noticed for and conducted
13 on October 3, 1984, requested institution by the Commission on a generic basis
14 of an automatic adjustment mechanism for the collection and recovery of CAP
15 contract costs.

16 4. An automatic adjustment clause was shown to be the most reasonable
17 method of recovering those CAP contract costs which were legitimately and
18 prudently incurred by water public service corporations.

19 5. Any such adjustment mechanism should be uniform for the entire private
20 water utility industry.

21 6. The signing by private water companies of contracts tendered to them
22 by the CAWCD is vitally necessary to the function of CAWCD.

23 7. In general, the use of CAP water by private water companies is in the
24 public interest as evidenced by the declared public policy of this state in the
25 Groundwater Management Act.

26 8. This proceeding was not noticed as a general rate proceeding.

27 9. There has been no evidence as to the "fair value" of any public
28 service corporation's rate base and no showing of what constitutes a reasonable
rate of return on said rate base.

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

2

3 Q. Please state your name and address?

4 A. Ronald L. Kozoman, 1605 W. Mulberry Drive, Phoenix, AZ 85015.

5 Q. Are you the same Ronald L. Kozoman who filed Direct and Rebuttal Testimony in the
6 instant case, Arizona Corporation Commission Docket Numbers WS-02156A-00-0321
7 and WS-02156-00-0323?

8 A. Yes.

9 Q. What is the purpose of this testimony?

10 A. I will provide Rejoinder Testimony to the recommendations set forth by the Staff of the
11 Arizona Corporation Commission ("ACC" or the "Commission"), the Staff of the
12 Residential Utility Consumers Office ("RUCO"), and the Rio Verde Community
13 Association and Rio Verde Country Club ("RVCA") for the rate application filed by Rio
14 Verde Utilities, Inc., hereafter referred to as the Company.

15 Q. Are you sponsoring rejoinder schedules in this filing?

16 A. Yes.

17 Q. Would you please discuss your Rejoinder Testimony to the ACC Staff?

18 A. I really do not have any Rejoinder Testimony to the ACC Staff, but I do have some
19 clarifications which I wish to make. The Company has agreed with the ACC Staff
20 revenue requirement for both the water and wastewater utilities.

21 I am somewhat confused regarding the testimony of ACC Staff witness Ron
22 Ludders as it relates to the CAP Adjuster. Although I agree with Mr. Ludders that the
23 Court of Appeals will decide the fate of the existing CAP surcharge, I am not clear on
24

1 what he means by his testimony the Court of Appeals ruling would only have an impact
2 on the CAP Water adjuster. It was my impression that from his Surrebuttal Testimony on
3 Page 5, lines 9 and 10, that he is proposing to set the CAP adjuster at zero in the instant
4 case. He suggests that further proceedings would be required to activate a change under
5 the adjuster. I should note that CAP costs have long been considered legitimate expenses
6 for such charges. In addition to the other companies for which the Commission has
7 allowed adjusters, over 17 years ago the Commission issued Decision No. 54265, dated
8 December 7, 1984, in a generic hearing regarding CAP cost recovery. I have attached
9 that Decision as Attachment A for the Commission's convenience. It concludes that CAP
10 costs are legitimate costs to be reviewed on a company-by-company basis, and should be
11 recovered through an adjuster clause established at a plenary rate proceeding. That is
12 precisely the posture of our request. Staff should provide unqualified support for the
13 adjuster.

14 As further clarification, I would like to reassure Mr. Rigsby that inclusion of the
15 Deferred Finance Charge in the rate base, and amortization of the these cost will not
16 result in a double collection by Rio Verde Utilities, Inc. The analogy to the inclusion of
17 the Deferred Finance Charge in rate base would be plant costs. The plant, net of the
18 accumulated depreciation is included in rate base, and customers pay a rate of return on
19 the plant. Additionally, customers also pay the depreciation expense. It is clear that the
20 Company is not double collecting on the plant. The inclusion of the deferred finance
21 charge in rate base, and the amortization of this cost will not result in a double recovery.

22 As the Staff has adopted the Company's revenue requirement for water, and the
23 Company has adopted the Staff's revenue requirement for sewer, the issue of equity
24

1 return, inclusion of deferred finance charges in rate and other minor differences are no
2 longer disputed between the Company and the Staff. I have attached to this Testimony
3 Rejoinders Schedules A, for both water and wastewater. It is evident that we are in
4 substantial agreement with Staff in this proceeding.

5 **Rejoinder to RUCO**

6 Q. What rejoinder points do you have with the RUCO surrebuttal filing?

7 A. The referenced Rejoinder Schedules A also make it clear that we have major differences
8 with RUCO and RUCA. Mr. Bourassa has pointed out most of the miscalculations in the
9 RUCO surrebuttal filing, which make the use of the RUCO Schedules by this
10 Commission unusable unless major corrections are made. I will address the debt cost,
11 equity return, and the CAP Adjuster.

12 Q. Would you first address the RUCO's proposed interest rates for the existing and proposed
13 CoBank loans?

14 A. Mr. Coley's Schedule TJC-16 for Wastewater, Line 16 indicates test year interest of
15 \$168,680. Mr. Coley contends this is the actual interest paid on this loan. However, the
16 interest rate on a variable interest rate during the test year must be adjusted to reflect the
17 known and measurable interest rate. In his computations for the proposed CoBank loan,
18 he uses \$869,452 times 9.19% to compute interest of \$79,903. This computation
19 assumes no payments on the loan during the first year. This overstates the interest
20 expense on the proposed loan. The computations for the existing loan and the proposed
21 loan contradict one another.

22 The computation of the patronage dividend should be based on the average loan
23 balance, not the beginning balance. This error understates the interest rate on the new
24

1 loan, and the existing loan. The same error is made on Mr. Coley's Schedule TLC-16 for
2 Water.

3 Q. Would you please address the RUCO witness, Ms. Diaz Cortez's Surrebuttal Testimony
4 on cost of capital as it relates to the equity return?

5 A. It is obvious from Ms. Diaz Cortez's refusal to acknowledge the impact of a company's
6 size on cost of capital, that she does not understand cost of capital. How she can argue
7 that a company's size has no impact on cost of capital, merely because all water
8 companies will face the same water quality standards, and attendant environmental
9 regulation risks, weather related risks, operational risks, and regulatory lag, is beyond
10 belief.

11 The instant case involves a water utility that operates in the middle of a desert.
12 The larger companies cited in my Direct Testimony, American Water Works, American
13 States Water, California Water, Connecticut Water, E'Town, Middlesex Water,
14 Philadelphia Suburban, SJW, United Water Resources, are not located exclusively in a
15 desert climate. (American Water Works owns Paradise Valley Water Company, and
16 American States Water owns Chaparral City Water Company.)

17 Nor, do the above cited comparison companies generate over 60% of their
18 revenues from irrigation revenues. Even slight changes in rainfall have a major impact
19 on earnings.

20 Some of the comparison companies have adjusters which can recover the
21 increased expenses, without the cost of a full blown rate case. Rio Verde requested and
22 received a surcharge from the ACC for the change in the CAP cost. RUCO asked for a
23 re-hearing, was denied, and thereafter RUCO filed an appeal with the Court of Appeals.
24

1 The Company's attempt to collect increased expenses resulted in additional increased
2 expense.

3 RUCO's witness states that she allowed an equity return at the upper end of small
4 similarly situated Arizona water utilities. Perhaps she should check the concept of
5 circular reasoning, as it relates to the cost of capital. The analogy to her argument on this
6 would be same as the person who failed an educational course (or, better yet, got a
7 perfect score), arguing that he or she should be awarded a score slightly above the class
8 average score.

9 The Company is requesting 25 basis points (0.25%) over the return that Value
10 Line estimates investors in the water industry will earn over the period the new rates will
11 be in effect.

12 Q. Would you address the RUCO position on the CAP Adjuster?

13 A. Ms. Diaz Cortez was at the Commission's Open Meeting when I provided responses to
14 the Commissioners' questions on the intent of the CAP Adjuster. I clearly told the
15 Commissioners that the Company would collect the additional CAP expense from 1998
16 forward, until all the additional expense was recovered. I also told the Commissioners
17 that the Company could not wait until the conclusion of a rate case to collect the
18 increased CAP costs. Now she states that the adjuster should cease when the new rates
19 go into effect, as the Company will be collecting the increased 1999 costs. However, as I
20 reminded the Commissioners, there was no way for the Company to recover the CAP
21 costs incurred from 1998 to date, except through an adjuster.

22 In the oral arguments before the Courts of Appeals, the RUCO attorney told the
23 Court that only in the context of a rate case, could an adjuster be granted to a utility.
24

1 Thus, the CAP Adjuster granted by the Commission, was illegal. Well, here we are in the
2 middle of rate case, and the RUCO witness states that there is no need for an adjuster.
3 RUCO does not support an adjuster in a rate case, because RUCO is afraid that some
4 expenses could decrease, or that revenue could increase. RUCO's concern that other
5 expenses have decreased, or that revenues have increased, can be remedied by the
6 Commission merely requiring the Company to file comparative income statements,
7 which can be used to check changes in expenses and revenues.

8 If RUCO is really attempting to protect residential customers, perhaps RUCO
9 should re-examine its stand on adjusters. RUCO leaves the Company with only one
10 option, file a rate case at a cost to the Company and its customers of over \$100,000. How
11 does this benefit the residential customers? An adjuster case postpone the need for a rate
12 case. Postponing a rate case is cost effective for both the Company and its customers.

13 Q. Does that conclude your rejoinder testimony to RUCO?

14 A. Yes, it does.

15 **Rejoinder to RVCA**

16 Q. What issues are you raising with the RVCA surrebuttal filing sponsored by Mr. Dan
17 Neidlinger?

18 A. As the RVCA is silent on the Adjuster, I assume that they do not oppose the Adjuster.
19 Mr. Neidlinger's computation of the effective interest rate for the existing and proposed
20 debt financing with CoBank, are incorrect. The omission of the debt reserve and
21 deferred charges from rate base, and incorrect computations of debt cost are depriving the
22 Company of a return on its investment, and its legitimate revenue requirement. Without
23 major corrections, the Commission cannot use the RVCA surrebuttal schedules.
24

1 Q. Would you please discuss the error in the debt cost?

2 A. The work papers supplied supporting RUCO's Direct filing and provided in response to
3 the Company's Data Request, show that Mr. Neidlinger deducted the interest income on
4 the debt reserve account(s) to derive his interest expense. I could not confirm that he
5 added the amortization of the deferred finance charge in his interest computations. He
6 also deducted the debt reserve and the deferred financing charge from the existing and
7 proposed debt to derive the balance of the debt owed to CoBank. It appears that that he
8 then divided the lower debt into his annual interest. I do not know how he derived annual
9 interest shown in his work papers. The amount could not be reconciled. The result is
10 less debt than the Company will actually have. The reduction in debt increases the
11 effective interest cost. The reduction in debt also increases the equity component as a
12 percentage of total capitalization, which results in a somewhat higher rate of return, as the
13 equity component is overstated. He followed the same procedure for the proposed debt.
14 The interest rate that was contained in his work papers for the water and sewer utilities
15 was 10.87% for the proposed CoBank loan(s). In his direct filing, no capitalization
16 schedules were filed.

17 In Mr. Neidlinger's surrebuttal filing, the interest on the proposed loans is now
18 8.93% for water, and 9.08% for sewer. It is not possible to derive different interest rates
19 for the same loan. If he followed the same methodology for the proposed water and
20 sewer utilities, he would derive the same effective interest rate. The correct interest rate
21 using Mr. Neidlinger's proposals would be 9.764% for the proposed debt for the water
22 and for the sewer utility. Thus, Mr. Neidlinger has understated the overall cost of capital
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1 for both the water and sewer utilities. Please see attached Rejoinder Testimony Schedule
2 D-2.

3 If Mr. Neidlinger is following the method used in his direct filing to compute the
4 amount of present and proposed CoBank debt, there is an additional problem. As I
5 previously testified, he deducted the debt reserve and deferred finance charges from the
6 existing and proposed CoBank debt. The debt reserve requirement is 10% of the original
7 loan balance. The deferred finance charge is 1.00% of the amount borrowed. Thus, the
8 maximum deduction from the existing and proposed debt would be 11%. For water, his
9 deduction is 11%. However, for the sewer utility, his deduction is 12%. This could be
10 the cause for his different interest rates for water and sewer on proposed debt. Please see
11 my Rejoinder Testimony Schedule D-2, Page 2.

12 Q. Let's go back to you point on the omission of the debt reserve. Why do you think that the
13 omission of the debt reserve from rate base gives customers the benefit of the earnings
14 from the debt reserve without the customers having to pay a return on the debt reserve?

15 A. First, the debt reserve represents Company funds or assets. Second, the Company was
16 and will be, required to maintain these debt reserves to qualify for the long term financing
17 proposed with CoBank, as well as the existing loan with CoBank. Thus, the debt reserve
18 are a condition of the loans.

19 As I previously testified, by deducting the debt reserve and deferred finance
20 charges from the actual debt, the result is that Mr. Neidlinger is reducing the debt. The
21 deferred finance charges represent money that the Company had to pay or borrow to
22 secure the loan. Deducting the deferred finance charges from the loan makes no sense,
23 unless one is attempting to determine the net proceeds of the loan.
24

1 If Mr. Neidlinger intends to use the net debt, and the effective interest cost on the
2 net debt, and omit the debt reserve and deferred finance charges from the rate base, that
3 concept would be acceptable, if he used the correct debt and correct interest cost.

4 However, Mr. Neidlinger has given the benefit of the exclusion of the debt
5 reserve and deferred financing charges from rate base to customers, without computing
6 the correct cost to the Company.

7 Q. What is your opinion of the 11.00% equity return recommended by Mr. Neidlinger?

8 A. My Rejoinder Testimony to RUCO's recommended equity return is also applicable to
9 Mr. Neidlinger. An 11.00% equity return for a utility that faces the risks that Rio Verde
10 Utilities faces, is unrealistic.

11 The Company is requesting 25 basis points (0.25%) over the return that Value
12 Line estimates investors in the water industry will earn over the period the new rates will
13 be in effect.

14 Q. Would you please discuss RVCA Surrebuttal Schedule DLN-2 and Mr. Neidlinger's
15 computation of higher rates to be charged customers due to the ACC Staff's omission of
16 the proposed debt?

17 A. If Mr. Neidlinger is attempting to compute the revenue requirement difference between
18 the ACC Staff revenue requirement with and without the proposed CoBank loan(s), he
19 needs to modify the numbers and/or assumption in his Surrebuttal Schedule DLN-2. The
20 ACC Staff rate bases are from the Staff's direct filing. These rate bases did not include
21 the debt reserve and deferred finance charges on the proposed loan. ACC Staff Schedule
22 RLM-2, which is the rate base for the sewer utility, contains both the debt reserve and
23 deferred finance charges on the exiting CoBank loan. If ACC Staff were to include the
24

1 CoBank proposed debt in their capitalization schedules, the rate base schedules would
2 also contain the proposed debt reserve and/or deferred finance charges.

3 Additionally, ACC Staff may not recommend an equity return of 11.00% in light
4 of the additional debt in the capitalization.

5 Changes in the rate base and equity return would substantially change Mr.
6 Neidlinger's Surrebuttal Schedule DLN-2.

7 The Company and the Staff have both compromised their positions and have
8 agreed on the revenue requirement for both the water and sewer utilities, thus the
9 Company and Staff have moved to common ground.

10 Q. Does the Company still request that the Hearing Officer grant an adjuster for the CAP
11 Expense?

12 A. Yes. Based on the cost in the instant case, the adjuster would be set at zero. The
13 Company agrees to files all data requested by the Commission Staff whether it be
14 quarterly, semi-annually, or annually.

15 Q. Mr. Kozoman, is there any Commission precedent regarding CAP adjuster clauses?

16 A. Yes, I cite that earlier in this Testimony.

17 Q. Does the Company have a request on the debt financing?

18 A. Yes. The Company has requested authorization to borrow the proposed debt listed in the
19 Company's direct and rebuttal filings. I would request that the Administrative Law Judge
20 set a range or ceiling for the interest rate in the proposed order. CoBank cannot commit
21 to a fixed interest rate at this date. However, an interest range of 9.00% to 9.75% in the
22 proposed order would be appropriate. If the Company can secure the debt at a cost less
23 than 9.00%, it will of course do so.

24

1 Q. In the rebuttal filing, you used an interest rate of 8.03%. Why are you requesting a
2 interest rate range for the proposed debt of 9.00% to 9.75%?

3 A. In the rebuttal filing I reduced the interest rate of 9.19% for the income on the debt
4 reserve and income on patronage dividend, and increased the interest rate for the
5 amortization of the deferred finance charge. Thus, I used an effective interest rate of
6 8.03%. In the rebuttal filing, I started the effective interest rate computation with an
7 interest rate of 9.19%. Approximately a week after filing the Rebuttal Testimony and
8 schedules were filed, CoBank advised me that the interest rate on long-term debt was
9 9.27%. Thus, the interest rate fluctuates, and the Company requests the Commission
10 provide for that the interest rate fluctuation in the proposed order.

11 Q. Mr. Kozoman, is there another non-rejoinder item you wish to address to the
12 Commission?

13 A. Yes. Just last month, the Internal Revenue Service issued new regulations regarding
14 what, I am sure, the Commission and all water companies hoped was a dead issue. That
15 is, IRS has reinstated the "Gross-up tax" on meters and service line fees. You will recall
16 that the Commission had previously authorized these charges on all customer advances
17 while previous regulations were in effective between 1986 and 1995. These new
18 regulations are much narrower in scope than the prior regulations, but will adversely
19 impact on the Company.

20 My Rebuttal Testimony at Schedule H-3, in a footnote, recites the appropriate
21 language to authorize recovery of these charges. The Company would like to be certain
22 that the Decision in this proceeding specifically authorizes those charges.

23 Q. Does that conclude your Rejoinder Testimony?
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1 A. Yes, it does.

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REJOINDER TESTIMONY OF

THOMAS BOURASSA

FILED ON BEHALF OF

RIO VERDE UTILITIES, INC.

RATE APPLICATION

DOCKET NO. W-02156A-00-0321 & [REDACTED]

FILED FEBRUARY 8, 2001

1 **REJOINDER TESTIMONY OF THOMAS BOURASSA**

2 Q. Please state your name and address?

3 A. Thomas Bourassa, 727 W. Maryland Avenue, Phoenix, AZ 85013.

4 Q. Are you the same Thomas Bourassa who filed Direct and Rebuttal Testimony in the
5 instant case, Arizona Corporation Commission Docket Numbers WS-02156A-00-0321
6 and WS-02156-00-0323?

7 A. Yes, I am.

8 Q. What is the purpose of this testimony?

9 A. I will provide Rejoinder Testimony to the recommendations set forth by the Staff of the
10 Residential Utility Consumers Office ("RUCO"), and the Rio Verde Community
11 Association and Rio Verde Country Club ("RVCA") for the rate application filed by Rio
12 Verde Utilities, Inc., (hereafter referred to as the "Company"). The Company agrees with
13 the revenue requirements contained in the Staff Reports of the Arizona Corporation
14 Commission (the "ACC" or the "Commission").

15 I will also explain why I computed property taxes in the Rebuttal Testimony using
16 only proposed revenues.

17 Q. Are you sponsoring rejoinder schedules?

18 A. No, although Mr. Kozoman has filed certain Rejoinder Schedules summarizing and
19 explaining the parties respective positions. The Company's rebuttal schedules still
20 represent the Company's proposals in the instant case. For all purposes, these schedules
21 basically match the revenue requirement set forth in the ACC Staff's Surrebuttal
22 Testimony. The ACC Staff has adopted the Company's revenue requirement for water,
23 and their revenue requirement for sewer. The Company agrees with the rates proposed
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1 for the sewer utility. As Mr. Ludders of the ACC Staff did not put water rates in his
2 surrebuttal filing, I assume that he agrees with the Company's rebuttal rates.

3 Q. Prior to you presenting your specific rejoinder, would you address the comments by Mr.
4 Coley of the RUCO Staff about whether or not the Company adopted any of RUCO
5 adjustments, and/or proposals.

6 A. I did adopt some of their adjustments and methods employed in their computations.

7
8 **Rejoinder to the RUCO Staff**

9 Q. Would you please provide your rejoinder to the RUCO Staff?

10 A. The RUCO Staff's schedules cannot be used by the Commission for the following
11 reasons:

- 12 1) Income taxes are computed under an illegal method, namely RUCO
13 assumes that the sewer and the water utility can file separate income tax
14 returns;
- 15 2) The deferred income tax deduction from the water and sewer rate bases
16 violates tax normalization requirements;
- 17 3) Property taxes based on the Arizona Department of Revenues' new
18 method of computing full cash value (basically two times revenues), does
19 not include the proposed rates for either the sewer or the water utility;
- 20 4) The revenue conversion factor for the water utility is overstated due to the
21 use of the 39% Federal income tax rate resulting from attempting to
22 compute Federal income tax on a stand alone basis for each utility;

- 1 5) The revenue conversion factor for the sewer utility is understated due to
- 2 the use of a much lower Federal income tax rate resulting from attempting
- 3 to compute Federal income tax on a stand alone basis for each utility;
- 4 6) The water rates proposed by RUCO produce \$11,142 more revenue than
- 5 set forth in RUCO's computed revenue requirement;
- 6 7) The sewer rates proposed by RUCO produce \$1,332 less revenue than set
- 7 forth in RUCO's computed revenue requirement;
- 8 8) The cash working capital allowance computations removes rate case
- 9 expense as a non cash item; and
- 10 9) The adjustment for plant financed with Contributions in Aid of
- 11 Construction ("CIAC") is incorrect.

12 Q. Why are you saying that the RUCO Staff is proposing an illegal method of computing
13 income taxes in it Surrebuttal Testimony, and at the same time are violating tax
14 normalization requirements?

15 A. The RUCO Staff witness Mr. Timothy Coley states that it has consistently been
16 Commission's policy to set rates based on stand-alone tax rates. This is true. Rio Verde
17 Utilities, Inc. is a stand alone tax filer. The sewer utility does not file a separate income
18 tax return, nor does the water utility. The water and sewer utilities together file one
19 federal and one state income tax return, under the name of Rio Verde Utilities, Inc. In the
20 last rate case for the Company, the Commission set income taxes based on the fact that
21 Rio Verde Utilities, Inc. files one Federal and one State income tax return which includes
22 both the water and sewer divisions or utilities.

1 Mr. Coley further cites that in many cases the use of consolidated tax rates would
2 result in the stand alone entity having no income tax liability due to consolidated tax
3 losses. That argument is not consistent with the facts in this case and is meaningless, as
4 Rio Verde Utilities, Inc. does not file a consolidated tax return with any other entity.

5 It is apparent that Mr. Coley's proposed income tax computations are only used
6 for the computation of income taxes at present and proposed rates. If the Commission
7 were to adopt this method of computing income taxes, the Commission would also have
8 to adjust the Company's deferred income taxes, for (1) the beginning balance of the
9 deferred income taxes, (2) the adjustment for plant held for future use, and (3) excess
10 depreciation on plant retired. Mr. Coley's proposed income tax computation and use of
11 the Company's computed deferred income tax balance violates tax normalization
12 requirements.

13 The adjustments to deferred income taxes for the Company's plant held for future
14 use at the sewer utility, and the removal of excess depreciation on retired plant, used a tax
15 rate of 38.60%. Mr. Coley can not use an effective income tax of 32.91% for computing
16 the revenue requirement, and a 38.60% rate for computing additions to deferred income
17 taxes.

18 For the water utility, Mr. Coley uses an effective income rate of 38.60% for the
19 addition to deferred income taxes for excess depreciation on retired plant. For the
20 computation of the income taxes at present and proposed rates, his Schedule TJC-14,
21 page 2, shows an effective income tax of 42.67%. Yet, his Schedule TJC-7 uses an
22 effective income tax rate of 38.60% for proposed revenue.

1 In summary, income taxes by tax law have to be computed using the combined
2 taxable income of both the water and sewer utilities. That effective income tax is
3 38.60%. The income tax rate should be used for computing the deferred tax adjustments,
4 and for computing the revenue requirement. The tax rates for computing proposed
5 income and deferred taxes must match.

6 An analogy to what Mr. Coley is proposing would be a family consisting of a
7 working husband and working wife with two children under three years of age, dividing
8 the total income of the family, and filing four federal income tax returns, each filing as
9 head of the household.

10 This violation of tax normalization requirements could result in the Company
11 losing it accelerated depreciation on plant installed prior to 1996, and of course the
12 investment tax credits which it has utilized.

13 Q. You previously testified that the RUCO computation of property taxes using the new
14 Arizona Department of Revenue new method for computing full cash value does not
15 reflect proposed rates. Would you please explain?

16 A. Please refer to Mr. Coley's Schedule TJC-10 for water, and Schedule TLC-10 for sewer.
17 On Line 1, Mr. Coley lists the actual revenue for 1997, 1998, and 1999. He then
18 computes an average based on the three years revenue, and then multiplies the three year
19 average by 2. He then deducts the book value of the licensed vehicles. This results in the
20 Full Cash Value shown on Line 14. He then multiplies by the assessment ratio of 25% to
21 derive assessed value. The assessed value is then multiplied by the Property Tax Rate of
22 2.4726%. On Line 20, is the heading "Property Taxes at Proposed Rates". How can
23 this be property taxes at proposed rates? Nothing in Mr. Coley's computation of property
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1 taxes includes the proposed rates. The Company will, by definition, under collect
2 property taxes until its next rate case.

3 Property taxes, like income taxes should be based on the proposed revenues.
4 What Mr. Coley has computed on property taxes would be the same as taking the income
5 taxes at present rates and calling it income tax under proposed rates.

6 It is interesting to note that RUCO has so readily changed its position on property
7 taxes in the instant case. In his Direct Testimony, Mr. Coley adjusted the property taxes
8 to the historic tax bill received in September 2000. When the revenue requirement can be
9 lowered using a new method to compute property taxes, RUCO adopts that procedure.

10 Q. You testified that the RUCO revenue conversion factors for both the water and
11 wastewater utilities are incorrect. Would you please explain why?

12 A. The revenue conversion factor for the water utility is incorrect because the RUCO
13 witness computed the income taxes as if the water utility filed a separate income tax
14 return, which did not include the sewer utility. The federal income tax bracket for tax
15 income between \$100,000 and \$335,000 is 39%. After \$335,000 of taxable income the
16 tax rate is 34%. However, due to the "stand alone" tax computation, Mr. Coley's tax
17 computations in the 39% tax bracket for water, results in a federal income tax rate of
18 38.754%. The effective federal tax rate is 35.7014% due to Arizona income taxes being
19 deductible for federal tax purposes. The 35.7014% federal tax rate plus the Arizona tax
20 rate of 6.968% results in a total effective income tax rate of 42.6694%. RUCO's taxes
21 are too high, which make the revenue conversion factor too high as well as the revenue
22 requirement.

1 For the same reason the sewer revenue conversion is wrong. Due to the "stand
2 alone" tax computation, Mr. Coley's tax computations barely get into the 39% tax
3 bracket for sewer, and the result in a federal income tax rate of 28.343%. The effective
4 federal tax rate if 26.3681% due to Arizona income taxes being deductible for federal tax
5 purposes. The 26.3681% federal tax rate plus the Arizona tax rate of 6.968% results in a
6 total effective income tax rate of 33.3361%. Here, RUCO's taxes are too low, which
7 translates to a short fall in the revenue requirement.

8 The correct tax rate for the water and sewer utilities of Rio Verde Utilities Inc., is
9 38.60%. Thus, RUCO charges the customers the incorrect income tax, and misstates its
10 revenue requirement.

11 Q. You testified that the revenue generated by RUCO proposed rates are \$11,142 too high
12 for water, and \$1,332 too low for sewer. How did you derive these numbers?

13 A. I used the RUCO proposed rates applied to the Company's bill counts to derive the
14 revenue generated from RUCO proposed rates.

15 Q. Why do you object to RUCO's omission of rate case expense from the allowable
16 expenses used to compute working capital?

17 A. Because the omission makes no sense. Mr. Coley terms the rate case expense as a non-
18 cash expense. This is not correct. The rate case expense was a cash expense. Just like
19 all other working capital items, it was and will be paid prior to the collection of new rates
20 in the instant rate case. The rate case expense is very much like plant. The plant that has
21 not been depreciated is included in the rate base, and customers pay a rate of return on the
22 plant. Customers also pay for depreciation on the plant in their rates.

1 The Company merely requests inclusion in rate base of 45 days of the \$10,000
2 annual rate case expense, or \$1,250 each, for water and wastewater. The Company will
3 have expended over \$100,000 for this rate case. In reality, the Company should earn a
4 return on the un-amortized portion of rate case expense. Thus, in the first year the total
5 un-amortized rate case expense would be \$100,000, less the amortization for one year of
6 \$20,000. Instead, the Company is requesting a total of \$2,500 of rate case expense to be
7 included in the total rate bases.

8 Q. Are you offering rejoinder to RUCO's position on excess capacity for the water utility?

9 A. No, Mr. Brooks will provide the Rejoinder Testimony on that issue.

10 Q. Mr. Coley contends that some of the plant that the Company is requesting financing on is
11 financed with CIAC, and thus he lowered the proposed debt. Would you please
12 comment on his proposal?

13 A. Nowhere in Mr. Coley's direct filing, or in his surrebuttal filing, does he set forth the
14 plant that was supposedly financed with CIAC. I assume he is referring to the proposal
15 by Ms. Diaz Cortez which removes water plant (storage facility and related plant) from
16 the Company's rate base and treats the plant as if it were financed with advances in aid of
17 construction. Perhaps there is just confusion between advances in aid of construction and
18 CIAC.

19 If Mr. Coley is referring to plant other than that discussed in Mr. Diaz Cortez's
20 testimony, I would like a reference, so that I can rebut his position.

21 Q. Would you please summarize your rejoinder position to the proposals set forth by
22 RUCO?

1 A. Unless numerous corrections are made, the RUCO Staff Report cannot be used by the
2 Commission in the instant case. I have adopted what I have been able to adopt from the
3 RUCO direct filing in my rebuttal filing. I do not propose that anything other than what I
4 adopted in my rebuttal filing is usable or correct.

5 Q. Does that conclude your rejoinder of proposals set forth by RUCO?

6 A. Yes, it does.

7
8 **Rejoinder to the RVCA**

9 Q. What points will be covered in your Rejoinder Testimony to RVCA Witness, Mr.
10 Neidlinger?

11 A. Mr. Neidlinger's schedules also cannot be used by the Commission to set rates for the
12 following reasons:

- 13 1) The rate bases proposed by Mr. Neidlinger violate tax normalization
14 requirements;
- 15 2) The omission of an adjustment to working capital for the increased pumping
16 power proposed by Mr. Neidlinger; and
- 17 3) Mr. Neidlinger's change in the number of new customers, from 70 to 80, does not
18 appear to be surrebuttal to anything raised in the Company's rebuttal filing.

19 Q. Why do you say that Mr. Neidlinger's rate bases violate tax normalization requirements?

20 A. In Mr. Neidlinger's direct filing, he testified that the deferred income taxes, which the
21 Company adjusted upward to reflect the excess capacity at the sewer utility should not
22 have been adjusted because the customers were not entitled to the deferred income taxes,
23 as the Company did not actually receive these benefits. Apparently, he has now decided
24 that the Company actually did receive those benefits.

1 In Mr. Neidlinger's Surrebuttal Testimony, he now adopts the Company proposed
2 rebuttal rate bases, and then adjusts these rate bases to reflect his opinion of excess
3 capacity at the sewer utility and excess storage capacity at the water utility. My
4 schedules from the direct and rebuttal filings, included deferred income taxes to reflect
5 the excess capacity at the sewer utility.

6 However, when Mr. Neidlinger increases the excess capacity, he does not adjust
7 the deferred income taxes, which would further reduce the Company's rate base. He
8 proposes excess storage capacity at the water utility, but makes no adjustment for
9 deferred income taxes. He also proposes additional excess wastewater treatment plant
10 capacity, but proposes no additional deferred income taxes. His surrebuttal schedules
11 include a mix of tax normalization adjustments. My rebuttal schedules increased the
12 deferred income taxes for depreciation taken on retired plant. The Company's rate bases
13 correctly reflect deferred income taxes, Mr. Neidlinger's do not.

14 Thus, if the Commission adopts Mr. Neidlinger's rate bases, adjustments are
15 needed to correct deferred income taxes. If not the Company will not be tax normalized.
16 This violation of tax normalization requirements could result in the Company losing its
17 accelerated depreciation on plant installed prior to 1996, and of course the investment tax
18 credits which it has utilized.

19 Q. Would you please address the adjustment that Mr. Neidlinger should have made for
20 working capital?

21 A. Mr. Neidlinger increased pumping for the water utility to reflect higher pumping costs
22 that the utility would incur if it had the storage recommended by him. However, he
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1 would also have to adjust his rate base to include higher working capital due to higher
2 pumping power.

3 Q. Mr. Neidlinger uses 80 customers for computing his revenues from hook-up fees. Did
4 the Company raise its estimate of new customers to 80 in its rebuttal case?

5 A. No. The previous order used 60 customers. The Company used 70 customers in both its
6 direct and rebuttal filings. In the rebuttal filing we proposed a transition of the number of
7 customers, and resulting hook-up fees, that would be recorded as revenue. The rebuttal
8 schedules contain 35 customers recorded as revenue, and the balance being accounted for
9 as CIAC. This change was a compromise to meet the ACC Staff position.

10 Q. Does that conclude your rejoinder to the RVCA and this testimony?

11 A. Yes, it does.

REJOINDER TESTIMONY OF

ARTHUR N. BROOKS

FILED ON BEHALF OF

RIO VERDE UTILITIES, INC.

RATE APPLICATION

DOCKET NO. W-02156A-00-0321 & ~~WS-02156A-00-0323~~

FILED FEBRUARY 8, 2001

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RIO VERDE UTILITIES WASTEWATER TREATMENT PLANT CAPACITY

February 7, 2001

Having reviewed the surrebuttal testimony of Mr. Dan L. Neidlinger regarding wastewater treatment plant capacity, I offer the following comments:

I find three significant issues where I differ with Mr. Neidlinger's statements. First, he states that a recent population count in Rio Verde shows 1,709 residents in 911 households averaging 1.88 residents per household. This may be true, however, it neglects the obvious, which is that during the winter months when the residents are all in their homes in Rio Verde and Tonto Verde, they often have visitors, relatives or guests in their homes causing the number of residents per dwelling unit to be higher. Our calculations based on the 354,000 gallons measured on April 19, 1999, reveal that approximately 2.75 residents per dwelling unit is a more accurate number. In fact, this is the number that was used in the original design report we prepared for Wastewater Treatment Plant #2, which was approved by the Arizona Department of Environmental Quality in June of 1995.

Second, Mr. Neidlinger's allegation that per capita flows in retirement communities such as Rio Verde are typically lower in the range of 70 to 80 gallons per day may be true at some times during the year; however, it is irrelevant in that ADEQ guidelines require 100 gallons per capita per day to be used to size wastewater treatment plant facilities. This is also the number that we use in the original design report for WWTP #2, which was approved by ADEQ in 1995.

Third, Mr. Neidlinger fails to properly apply a peaking factor, which is the factor that must be applied in order to account for the significant variations in hourly rate of flow that occur in a treatment plant serving a community of this size. The calculations of average hourly flow vs. peak hourly flow during April 19, 1999, indicate that the peaking being experienced by the Rio Verde system was 1.56 ($25,000 \text{ gpm} \div 16,000 \text{ gpm}$).

Rio Verde and Tonto Verde have now been fully planned out with almost all platting and infrastructure in place for 1,750 dwelling units. About 1260 houses are actually occupied with more becoming occupied continuously

The American Society of Civil Engineers, Manual No. 36, *Wastewater Treatment Plant Design*, states:

- “The design average flow rate is the average flow during some maximum period such as 4, 8, 12 or 16 hours....” (In the case of the Rio Verde Utilities WWTP it is the 6 hours between 9 A.M. and 3 P.M.)
- “Peak design rate, usually 2 to 2.25 times the average flow rate, is used for hydraulic sizing”....(of the WWTP).

Thus I believe the following is the proper way to calculate the required Wastewater Treatment capacity to provide adequate service for the 1,750 residences in the communities of Rio Verde and Tonto Verde:

WASTEWATER TREATMENT PLANT CAPACITY

Treatment Requirement

1,750 Dwelling Units x 2.75 residents x 100 gpcpd x 1.5 peaking = 721,875 gpd

Treatment Provided

WWTP #1	300,000
WWTP #2	<u>400,000</u>
	700,000 gpd

Based on the foregoing discussion and calculations, it is my conclusion and opinion that the wastewater treatment capacity provided by Rio Verde Utilities is proper to serve the Tonto Verde and Rio Verde communities at full build out and contains no excess capacity.

RIO VERDE UTILITIES WATER STORAGE FACILITIES

February 7, 2001

Having reviewed the surrebuttal testimony of Dan L. Neidlinger and Marylee Diaz Cortez, I offer the following comment.

I want to make it clear that the selection of the Asher Hills tank size was not done by Brooks, Hersey and Associates but rather by the water company, Rio Verde Utilities. Brooks, Hersey and Associates was retained to prepare construction plans and specifications. Rio Verde Utilities had several goals in mind. The first was to correct a history of inadequate pressure and flows experienced throughout Rio Verde. Second, to provide a gravity-fed system and reduce dependence on electric power for booster pump stations and well pumps to provide water service and third, to increase the amount of storage on the system to provide adequate fire protection for Rio Verde and Tonto Verde.

The primary difference of opinion between my estimate of the storage requirement and that of Mr. Neidlinger and Ms. Cortez is that the storage requirement is determined based on providing a fire flow and a 24-hour peak day flow, less the 4-hour production of well #2, which is equipped with an emergency standby power source. The following calculations demonstrate that the storage requirement to meet these criteria is about 682,000 gallons while the storage provided is approximately 666,000 gallons.

As explained before, the size of the Asher Hills Storage Tank was selected by the water company as being adequate to meet the domestic and fire protection requirements for Rio Verde and Tonto Verde, a total of 1,750 units at full build-out.

The following is a calculation of the storage requirement vs. storage provided to meet the domestic and fire protection needs for the Rio Verde and Tonto Verde communities.

ASHER HILLS STORAGE TANK

Storage Requirement

Domestic	24 hours, measured	438,000	g
Fire Flow	1700 gpm for 4 hours	408,000	
Well #2	682 gpm for 4 hours	<u>(163,680)</u>	
		682,320	g

Storage Provided

Asher Hills Tank	740,000	g
Storage Level Adjustment – 10%	<u>74,000</u>	
	666,000	g

The following points are made to clarify the rationale for these calculations.

There are numerous references which state that the tank should include not only fire demand but also the domestic flows for a 24-hour peak day. Title 18, Chapter 4 of the Arizona Administrative Code, dealing with DEQ safe drinking water standards, states the following:

- Paragraph R-18-4-503-A “The minimum storage requirement for a community system or a non-community system that serves a residential population or a school shall be equal to the average daily demand during the peak month of the year.”
- Paragraph R-18-4-502-B states “A potable water distribution system shall be designed to maintain and shall maintain a pressure of at least 20 pounds per square inch at ground level at all points in the distribution systems under all flow conditions.” (This includes during and after a fire.)
- The McGraw-Hill Publications, *Essential Engineering Information And Data*, by Mr. Ganic and Mr. Hicks states that “The fire demand is added to the normal demand on the maximum day to determine the total demand.” This is a criteria set by the National Board of Fire Underwriters.
- The McGraw-Hill Publications, *Water Supply And Sewerage Book*, by Mr. Steel and McGhee states that “The Insurance Services Offices which grade cities on their fire defensive facilities considers adequacies, so far as water supply is concerned, to be the

ability to provide the required fire flow in addition to the average consumption for the maximum day.”

- The McGraw-Hill Publications, *Standard Handbook Of Engineering Calculations*, by Mr. Hicks states that “The total water flow required equals the domestic flow plus the fire flow.”
- There are many other technical references and design standards can be provided to further illustrate the fact that the 24-hour domestic flow is in addition to the fire demand in sizing a community water storage tank.

The fire flow demand for the Rio Verde community has been set by the Rural Metro Fire Chief at 1,700 gpm for four (4) hours.

The Arizona Administrative Code, Paragraph R-18-4-503-B states “The minimum storage capacity for a multiple well system, for a community water system or a non-community water system that serves a residential population or a school may be reduced by the amount of the total daily demand minus the production from the largest producing well.” In this case Well #2, producing 682 gpm.

I will accept Mr. Neidlinger’s suggestion of a 10% storage level adjustment as being reasonable to account for the difference between the total volume of the tank and the usable volume of the tank.

I have been a registered professional engineer in the State of Arizona for 27 years and have designed numerous water supply and distribution facilities. It is standard and common in the engineering practice that water tanks are sized to accommodate the full volume of the 24-hour peak domestic flow and the full volume of the required fire flow in order to provide adequate water system facilities to a community. As far as I know, neither Mr. Neidlinger nor Ms. Cortez are engineers who have ever actually designed such facilities.

Based on the foregoing discussion and the calculations, it is my conclusion and opinion that the Asher Hills Water Tank is adequate to provide domestic service and fire flow protection to the Tonto Verde and Rio Verde communities, and contains no excess capacity.