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BEFORE THE ARIZONA CORPORATION COMMISSION: 47

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0867  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS SUN CITY WEST WATER AND )  
 WASTEWATER DISTRICTS. )

IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0868  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS SUN CITY WATER AND )  
 WASTEWATER DISTRICTS. )

IN THE MATTER OF THE APPLICATION ) DOCKET NO. ~~WS~~<sup>S</sup>-01303A-02-0869  
 OF ARIZONA-AMERICAN WATER )  
 COMPANY, INC., AN ARIZONA )  
 CORPORATION, FOR A )  
 DETERMINATION OF THE CURRENT )  
 FAIR VALUE OF ITS UTILITY PLANT )  
 AND PROPERTY AND FOR INCREASES )  
 IN ITS RATES AND CHARGES BASED )  
 THEREON FOR UTILITY SERVICE BY )  
 ITS MOHAVE WATER DISTRICT AND )  
 ITS HAVASU WATER DISTRICTS. )

Arizona Corporation Commission  
DOCKETED  
OCT 31 2003

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1 IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0870  
2 OF ARIZONA-AMERICAN WATER )  
3 COMPANY, INC., AN ARIZONA )  
4 CORPORATION, FOR A )  
5 DETERMINATION OF THE CURRENT )  
6 FAIR VALUE OF ITS UTILITY PLANT )  
7 AND PROPERTY AND FOR INCREASES )  
8 IN ITS RATES AND CHARGES BASED )  
9 THEREON FOR UTILITY SERVICE BY )  
10 ITS ANTHEM WATER DISTRICT, ITS )  
11 AGUA FRIA WATER DISTRICT, AND )  
12 ITS ANTHEM/AGUA FRIA )  
13 WASTEWATER DISTRICT. )

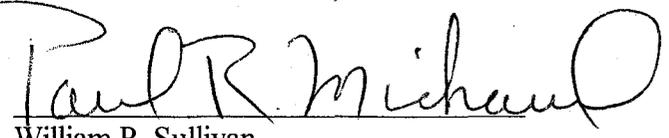
9 IN THE MATTER OF THE APPLICATION ) DOCKET NO. WS-01303A-02-0908  
10 OF ARIZONA-AMERICAN WATER )  
11 COMPANY, INC., AN ARIZONA )  
12 CORPORATION, FOR A )  
13 DETERMINATION OF THE CURRENT )  
14 FAIR VALUE OF ITS UTILITY PLANT )  
15 AND PROPERTY AND FOR INCREASES )  
16 IN ITS RATES AND CHARGES BASED )  
17 THEREON FOR UTILITY SERVICE BY )  
18 ITS TUBAC WATER DISTRICT. )

**TOWN OF YOUNGTOWN'S NOTICE OF FILING  
PREFILED SURREBUTTAL TESTIMONY**

Town of Youngtown, by and through its attorneys, hereby files the Prefiled  
Surrebuttal Testimony of Michael E. Burton and Andrew J. Burnham of Burton &  
Associates, Inc. and Jesse Mendez of the Town of Youngtown.

RESPECTFULLY SUBMITTED, this 31st day of October, 2003.

MARTINEZ & CURTIS, P.C.



William P. Sullivan  
Paul R. Michaud  
Attorneys for Town of Youngtown

1 **Original and twenty-one (21) copies of**  
2 **the foregoing filed this 31<sup>st</sup> day of October, 2003 with:**

3 Docket Control Division  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 **Copies of the foregoing hand-delivered and/or mailed**  
8 **this 31<sup>st</sup> day of October, 2003 to:**

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10 ARIZONA CORPORATION COMMISSION  
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13 Phoenix, Arizona 85007

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**PREFILED SURREBUTTAL TESTIMONY OF**

**MICHAEL E. BURTON**

**ON BEHALF OF TOWN OF YOUNGTOWN**

**Docket No. WS-01303A-02-0867**

**Docket No. WS-01303A-02-0868**

**Docket No. ~~WS~~-01303A-02-0869**

**Docket No. WS-01303A-02-0870**

**Docket No. ~~WS~~-01303A-02-0908**

**OCTOBER 31, 2003**

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**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Michael E. Burton and my business address is 2902 Isabella Blvd.,  
Suite 20, Jacksonville Beach, Florida.

**Q. ARE YOU THE SAME MICHAEL E. BURTON THAT PREPARED  
PREFILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF  
OF THE TOWN OF YOUNGTOWN (“YOUNGTOWN”)?**

A. Yes.

**II. SUMMARY OF RECOMMENDATIONS**

**Q. HAVE YOU REVIEWED THE PREFILED REBUTTAL TESTIMONY OF  
THE WITNESSES FOR ARIZONA-AMERICAN (“COMPANY”)?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR PREFILED SURREBUTTAL  
TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my Surrebuttal Testimony is to respond to various inaccuracies  
and mischaracterizations made by Arizona-American witness Mr. David P.  
Stephenson in his Prefiled Rebuttal Testimony regarding certain positions taken  
by Burton & Associates, Inc. on behalf of the Town of Youngtown. The Specific

1 areas of Mr. Stephenson's Rebuttal Testimony I respond to are: (1) Mr.  
2 Stephenson's mischaracterization of my understanding of fair value ratemaking in  
3 Arizona; (2) Mr. Stephenson's mischaracterization of my opinions regarding fair  
4 value rate base ("FVRB") determinations and subsequent operating income and  
5 rate calculations; and (3) Mr. Stephenson's inaccuracies regarding the recovery of  
6 all or a portion of the subject acquisition adjustment in this proceeding.  
7

8  
9 My Surrebuttal Testimony also responds to the Prefiled Rebuttal Testimony of  
10 Mr. Ronald L. Kozoman regarding Youngtown's request to be eligible for service  
11 under Arizona-American's water irrigation tariff.  
12

13 **III. FAIR VALUE RATE MAKING IN ARIZONA**  
14

15 **Q. MR. DAVID P. STEPHENSON TESTIFIES (REBUTTAL TESTIMONY,**  
16 **PAGE 14, LINE 21) THAT "YOUNGTOWN'S CONSULTANTS DO NOT**  
17 **UNDERSTAND ARIZONA LAW" AND "HAVE NO EXPERIENCE WITH**  
18 **RATE MAKING IN ARIZONA OR, FOR THAT MATTER, ANYWHERE**  
19 **THAT FOLLOWS THE 'FAIR VALUE' APPROACH". DO YOU HAVE**  
20 **ANY COMMENT ON THIS TESTIMONY?**  
21

22 **A.** Yes. I believe that Mr. Stephenson's implications that Arizona law and  
23 ratemaking are too complex to possibly understand without having direct  
24 experience in Arizona is unnecessarily inflammatory and inaccurate.  
25  
26

1 First of all, rate making in Arizona is not all that unique from other states. In fact,  
2 aside from the use of the fair value approach to rate base determinations, the  
3 fundamental rate making methods and principles are not uncommon from those  
4 utilized in other states.

5  
6  
7 Furthermore, as mentioned in my Prefiled Direct Testimony and explained in  
8 Exhibit MEB-1, I have over thirty years experience in the utility industry, and  
9 have written numerous papers, manuals, and other publications, as well as made  
10 multiple utility industry presentations. I am also a member of the American  
11 Water Works Association (“AWWA”) Rates and Charges Subcommittee (as was  
12 Arizona-American witness Mr. William Stout, according to Line 26 of his  
13 Rebuttal Testimony), a committee dedicated to developing solutions to a broad  
14 range of water rate making policy issues. I am not an attorney, but combining  
15 my extensive utility experience with a review of certain Arizona case law,  
16 relevant sections of the state constitution, and prior Arizona Corporation  
17 Commission (“Commission”) orders, I am able to fully grasp the ratemaking  
18 process of Arizona, including the concept of fair value, as it has been historically  
19 applied, contrary to the assertions of Mr. Stephenson.  
20  
21

22  
23 My understanding of Arizona rate making is exemplified when comparing my  
24 positions on behalf of Youngtown on key rate issues in this proceeding with the  
25 positions submitted by the Utilities Division Staff (“Staff”) and the Residential  
26

1 Utility Consumer Office (“RUCO”) on the same key issues in this proceeding.  
2 For example, Staff and RUCO both submitted similar positions to Youngtown in  
3 regard to the deferral of recovery of an acquisition adjustment (See Direct  
4 Testimony of Staff witness Darron W. Carlson, Page 9, Line 21 and Direct  
5 Testimony of RUCO witness Marylee Diaz Cortez, Page 3, Line 16) and the  
6 determination of FVRB on the basis of original cost rate base (“OCRB”) (See  
7 Direct Testimony of Staff witness Darron W. Carlson, Page 8, Line 15 and Direct  
8 Testimony of RUCO witness Marylee Diaz Cortez, Page 2, Line 22). The  
9 similarity of Staff and RUCO’s recommendations to Youngtown’s  
10 recommendation demonstrates my understanding of Arizona ratemaking and  
11 corroborates the validity of my analysis and recommendations.  
12  
13

14  
15 Finally, a comparison of the final recommended rate outcomes of Staff and RUCO  
16 with those of Youngtown substantiates my understanding of Arizona ratemaking.  
17 It is doubtful that all three parties; Staff, RUCO and Youngtown, are wrong in  
18 their analyses and recommendations when all three parties reach the same or  
19 similar conclusions. The final rate increase recommended by Staff and RUCO for  
20 the Sun City Water District is 31.14% (See Direct Testimony of Staff witness  
21 Darron W. Carlson, Page 5, Line 24) and 31.7% (See Direct Testimony of RUCO  
22 witness Rodney L. Moore, Page 12, Line 6) respectively, compared to  
23 Youngtown’s original recommendation of 38.25% (See Direct Testimony of  
24 Youngtown witness Andrew J. Burnham, Page 15) and revised proposal of  
25  
26

1 33.19% (See Surrebuttal Testimony of Youngtown witness Andrew J. Burnham,  
2 Page 5). For the Sun City Wastewater District, the final recommended rate  
3 increase proposed in the Prefiled Direct Testimony of Staff and RUCO is  
4 (15.86%) (See Direct Testimony of Staff witness Darron W. Carlson, Page 5, Line  
5 25) and (17.58%) (See Direct Testimony of RUCO witness Rodney L. Moore,  
6 Page 12, Line 6) respectively compared to Youngtown's original proposal of  
7 (11.05%) (See Direct Testimony of Youngtown witness Andrew J. Burnham,  
8 Page 15) and revised proposal of (14.33%) (See Surrebuttal Testimony of  
9 Youngtown witness Andrew J. Burnham, Page 6). The fact that the proposals  
10 submitted by Staff and RUCO are similar to those of Youngtown demonstrates a  
11 clear, common, and consistent understanding of Arizona ratemaking. In fact, it  
12 can be surmised that the similarity of the recommendations of Staff, RUCO and  
13 Youngtown tends to support a reasonable outcome in this proceeding consistent  
14 with the results of the recommendations of these parties as opposed to the  
15 proposal of the Company.  
16  
17

18  
19 **IV. FVRB DETERMINATION**

20  
21 **Q. DOES MR. STEPHENSON PROPERLY CHARACTERIZE YOUR**  
22 **PREFILED DIRECT TESTIMONY AS STATING THAT THE USE OF**  
23 **FAIR VALUE RATE BASE IN ARIZONA REQUIRES A RATEPAYER**  
24 **BENEFIT?**  
25  
26

1 A. No. My Direct Testimony states that if a FVRB and required operating income  
2 based on reconstruction cost new less depreciation ("RCND") is higher than the  
3 historically used FVRB and required operating income (essentially the required  
4 operating income under OCRB), the increase is effectively an acquisition  
5 adjustment and the utility must demonstrate a public benefit justifying the use of  
6 RCND in the fair value determination to comply with the previous Commission  
7 order. If no additional public benefit can be proven from the awarding of higher  
8 rates resulting from a fair value calculation relying upon RCND, there should not  
9 be a premium of value above OCRB. It is not my position that that the use of  
10 FVRB is predicated upon a showing of ratepayer benefit. Rather, it is my position  
11 that any amount of rate base or required operating income in excess of the  
12 historical fair value calculations based upon OCRB is an acquisition adjustment  
13 and is subject to the prior Commission order requiring a demonstration of public  
14 benefit.  
15  
16

17  
18 **Q. DOES MR. STEPHENSON PROPERLY CHARACTERIZE YOUR**  
19 **DIRECT TESTIMONY AS STATING THAT THE FAIR VALUE OF THE**  
20 **COMPANY'S ASSETS IN THIS PROCEEDING SHOULD BE**  
21 **DETERMINED BY ADDING THE ACQUISITION ADJUSTMENT TO**  
22 **THE ORIGINAL COST RATE BASE?**  
23

24 A. No. My Direct Testimony states my opinions quite clearly on how fair value and  
25 utility valuations should be determined. As such, I continue to advocate a FVRB  
26

1 determination in this proceeding based solely upon OCRB and multiplied against  
2 the appropriate cost of capital as historically determined by the Commission in  
3 order to determine the appropriate level of required operating income.

4  
5 **Q. PLEASE COMPARE YOUR APPROACH TO DETERMINING FAIR**  
6 **VALUE WITH THOSE ADVOCATED BY OTHERS IN THIS**  
7 **PROCEEDING AND NORMAL COMMISSION PAST PRACTICE?**  
8

9 A. As I mentioned earlier, both Staff and RUCO advocate a fair value approach  
10 based upon OCRB and the appropriate cost of capital. It is important to mention  
11 that Staff, RUCO, Youngtown and Arizona-American (Rebuttal Testimony of  
12 David P. Stephenson, Page 10, Line 25) all agree that the Company should not be  
13 allowed to recover any amount of an acquisition adjustment due to the fact that it  
14 has failed to meet certain conditions of Decision No. 63584. As such, Staff,  
15 RUCO, and Youngtown have removed the costs associated with an acquisition  
16 adjustment from the OCRB calculations presented in Direct Testimony.  
17

18  
19 Based upon my review of certain Commission prior orders and the Prefiled Direct  
20 Testimony of Staff witness Darron W. Carlson (Page 7, Line 3), my position with  
21 regard to the determination of fair value rate base in this proceeding is entirely  
22 consistent with prior fair value determinations. Staff witness Mr. Carlson states  
23 that most utilities in Arizona do not even submit valuations other than OCRB for  
24 consideration in fair value determinations. Furthermore, I understand that prior  
25  
26

1 fair value determinations in which OCRB and RCND valuations were presented  
2 typically utilized a weighted approach to determining the FVRB. In this situation,  
3 the FVRB was calculated based upon an equal weighting of the RCND and  
4 OCRB valuations, and the rate of return applied to the FVRB resulted in the same  
5 level of required operating income as multiplying the OCRB by the cost of  
6 capital. In essence, utilizing the Commission's past practice for determining fair  
7 value on the weighted approach produced the same required operating income  
8 results as a proposal based upon 100% OCRB and the cost of capital determined  
9 by the Commission.  
10

11  
12 **V. RECOVERY OF AN ACQUISITION ADJUSTMENT**

13  
14 **Q. DO YOU AGREE WITH MR. STEPHENSON'S STATEMENT ON PAGE**  
15 **11, LINE 14 OF HIS REBUTTAL TESTIMONY THAT THE COMPANY**  
16 **HAS "REQUESTED A REVENUE REQUIREMENT BASED UPON FVRB,**  
17 **EXCLUDING THE ACQUISITION ADJUSTMENT"?**

18  
19 **A. No.**

20  
21 **Q. PLEASE EXPLAIN.**

22 **A. As I mentioned in my Prefiled Direct Testimony, the RCND method is a**  
23 **calculated representation, in current dollars, of what it might cost to reconstruct**  
24 **the existing plant that multiplies the original cost of the facilities by a selected**  
25 **index (by month and year of acquisition). Typically, the RCND value is usually**  
26

1 greater than the OCRB value. Since historically the Commission has calculated  
2 fair value essentially on the basis of OCRB, the inclusion of RCND in FVRB in  
3 this instance amounts to an adjustment to compensate the Company for a portion  
4 of the purchase price in excess of OCRB, in essence an acquisition adjustment.  
5

6  
7 That being said, Decision No. 63584 has already set forth the criteria that must be  
8 met before Arizona-American can request recovery of an acquisition adjustment.

9 In fact, Arizona-American has stated that the Company is not proposing to  
10 recover an acquisition adjustment in this proceeding because it admittedly cannot  
11 satisfy that criteria (See Rebuttal Testimony of David P. Stephenson, Page 10,  
12 Line 25, and Direct Testimony of David P. Stephenson, Page 23, Line 10). Yet,  
13 in this proceeding, the Company has proposed that 100% of the RCND rate base  
14 be utilized as the fair value rate base. This is simply cloaking an acquisition  
15 adjustment in the veil of fair value. If Arizona-American's proposal were to be  
16 adopted, the Commission would be allowing the Company to avoid satisfying a  
17 condition from Decision No. 63584 that it knowingly cannot comply with at this  
18 time and allow a premium in value indicative of an acquisition adjustment without  
19 demonstrating public benefit.  
20  
21

22  
23 The second potential for recovery of an acquisition adjustment exists if the  
24 Commission were to determine FVRB as it has in the past when OCRB and  
25 RCND values have been presented based upon the OCRB values as filed by the  
26

1 Company. Typically, a weighting methodology was employed that resulted in the  
2 effective required operating income produced by multiplying OCRB and the cost  
3 of capital. However, the OCRB values filed by the Company in this proceeding  
4 include the booked acquisition adjustment amounts in rate base. Therefore, if the  
5 weighting methodology were to be utilized in this proceeding without removing  
6 the acquisition adjustment from the Company's OCRB filed values, the end result  
7 would be to authorize recovery of an acquisition adjustment since the Company  
8 included the acquisition adjustment in its calculation of OCRB.  
9

10  
11 **VI. ELIGIBILITY FOR WATER IRRIGATION TARIFF**

12  
13 **Q DO YOU HAVE ANY COMMENTS IN REGARD TO THE INTERPLAY**  
14 **BETWEEN RUCO'S RATE DESIGN PROPOSAL AND ELIGIBILITY**  
15 **FOR THE WATER IRRIGATION TARIFF AS OUTLINED IN THE**  
16 **ANSWER OF RONALD L. KOZOMAN ON PAGE 35, LINE 15 OF HIS**  
17 **REBUTTAL TESTIMONY?**

18  
19 **A. Yes.**

20  
21 **Q. PLEASE EXPLAIN.**

22 **A. First of all let me reiterate that in Mr. Burnham's Direct Testimony (Page 2, Line**  
23 **26) he stated that proposals made by Burton & Associates on behalf of**  
24 **Youngtown were independent of any Commission determination on revenue**  
25 **allocations to customer groups. Accordingly, the decision to advocate service**  
26

1           availability to Youngtown under the Company's lawn irrigation tariff was based  
2           upon the current rate structure of Arizona-American.   Essentially, Mr. Burnham  
3           stated that Youngtown was not advocating a change in the current rate structure of  
4           the Company's water and wastewater districts at this time. This position was  
5           largely due to the fact that there are significant rate increases proposed by the  
6           Company in this proceeding for its many districts. The compounding effects of  
7           simultaneously changing the existing rate structure as well as substantially  
8           increasing rates could have significant unintended consequences to certain  
9           customers depending upon their usage. As such, Youngtown believes it is more  
10          appropriate to defer a decision regarding the existing rate structure until the  
11          following rate proceeding due to the potential customer impacts of large rate  
12          increases combined with a change in rate structure.  
13  
14

15  
16       **Q.    DOES THIS CONCLUDE YOUR PREFILED SURREBUTTAL**  
17       **TESTIMONY?**

18       A.    Yes.  
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**PREFILED SURREBUTTAL TESTIMONY OF**  
**ANDREW J. BURNHAM**  
**ON BEHALF OF TOWN OF YOUNGTOWN**

Docket No. WS-01303A-02-0867  
Docket No. WS-01303A-02-0868  
Docket No. ~~WS~~-01303A-02-0869  
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Docket No. ~~WS~~-01303A-02-0908

**OCTOBER 31, 2003**

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**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Andrew J. Burnham and my business address is 2902 Isabella Blvd., Suite 20, Jacksonville Beach, Florida.

**Q. ARE YOU THE SAME ANDREW J. BURNHAM THAT PREPARED  
PREFILED DIRECT TESTIMONY IN THIS PROCEEDING ON  
BEHALF OF THE TOWN OF YOUNGTOWN (“YOUNGTOWN”)?**

A. Yes.

**Q. HAVE YOU REVIEWED THE PREFILED REBUTTAL TESTIMONY  
OF THE WITNESSES FOR ARIZONA-AMERICAN (“COMPANY”)?**

A. Yes.

**II. PURPOSE OF TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR PREFILED SURREBUTTAL  
TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my Surrebuttal Testimony is to respond to various inaccuracies made by Arizona-American witness Mr. David P. Stephenson in his Prefiled Rebuttal Testimony. The specific items addressed are the basis for allocation of an acquisition adjustment and the appropriate amortization

1 period for rate case expenses. My Rebuttal Testimony also provides a  
2 description of the revised schedules I am submitting for the Sun City Water  
3 and Wastewater Districts based upon the revisions made by Arizona-  
4 American in its Prefiled Rebuttal Testimony.  
5

6 **III. ALLOCATION OF ACQUISITION ADJUSTMENT**

7  
8 **Q. DO YOU AGREE WITH MR. STEPHENSON'S STATEMENT ON**  
9 **PAGE 16, LINE 21 OF HIS PREFILED REBUTTAL TESTIMONY**  
10 **THAT THE ALLOCATION OF AN ACQUISITION ADJUSTMENT**  
11 **BASED UPON NET PLANT IS "AN UNSUPPORTED ASSERTION OF**  
12 **YOUNGTOWN'S CONSULTANTS"?**

13 A. No.  
14

15  
16 **Q. PLEASE EXPLAIN.**

17 A. Allocating the acquisition adjustment based upon the current value of the  
18 assets is more appropriate. As described by Mr. Burton in his Direct  
19 Testimony (Direct Testimony of Michael E. Burton, Page 10), an acquisition  
20 adjustment is an adjustment to the current book value of assets intended to  
21 produce a book value close to the purchase price paid by a willing buyer.  
22 Essentially, it is an adjustment intended to reflect the current value of the  
23 assets. As such, the appropriate accounting and allocation method of the  
24 acquisition adjustment is one that utilizes current value, to the extent an  
25  
26

1 alternative approach has not been specified by the appropriate regulatory  
2 entities as a condition of the sale of assets to the Company. Arizona-  
3 American's methodology of allocation based upon gross plant values does not  
4 completely reflect current book value of assets because it ignores  
5 depreciation. Therefore, a more appropriate method of allocating an  
6 acquisition adjustment for accounting purposes would be the net plant value  
7 of each of the Company's districts at the time the sale of assets from Citizens  
8 to Arizona-American closed.  
9

10  
11 I recognize that Arizona-American is requesting a method to allocate the  
12 acquisition adjustment for accounting, not recovery purposes. A cause of  
13 concern, however, comes from the potential alignment of the accounting  
14 treatment contemplated in this proceeding and recovery of the acquisition  
15 adjustment from each district in the future. The Company may attempt to  
16 leverage the method of allocating an acquisition adjustment for accounting  
17 purposes as future justification for recovery from each district on the same  
18 basis. The same justification for allocating an acquisition adjustment for  
19 accounting purposes applies to allocation for recovery, and I would  
20 recommend that an acquisition adjustment be recovered from each district on  
21 the same net plant values described above. To the extent the Commission  
22 rules against my recommended allocation method, the Commission should  
23 make it specifically clear in its Decision and Order that any future  
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1 Commission decision regarding how an acquisition adjustment will be  
2 allocated for recovery is not bound by the accounting allocation resulting from  
3 this proceeding.  
4

5  
6 **IV. AMORTIZATION PERIOD OF RATE CASE EXPENSES**

7 **Q. DO YOU HAVE ANY COMMENTS TO MR. STEPHENSON'S**  
8 **REBUTTAL TESTIMONY (PAGE 24, LINE 23) REGARDING**  
9 **YOUNGTOWN'S PROPOSED AMORTIZATION PERIOD FOR RATE**  
10 **CASE EXPENSES?**  
11

12 **A.** Yes. First of all, Mr. Stephenson correctly recognizes that, on a historical  
13 basis, there indeed has been a large time period between rate cases for the  
14 utility systems in this proceeding. In fact, the span between rate cases is  
15 substantially greater than the time period over which rate case expenses have  
16 been amortized. The Commission ordered a four-year amortization period for  
17 recovery of rate case expenses in the last rate case for these systems in  
18 Decision No. 60172, when the actual time between filings has been more than  
19 six years.  
20

21  
22 That being said, Mr. Stephenson states that investments will have to be made  
23 over the next few years that will "likely lead to new rate cases being filed in  
24 less than five years" (Rebuttal Testimony of David P. Stephenson, Page 25,  
25 Line 4). "Likely" is hardly a definitive commitment to initiate a rate  
26

1 proceeding within the next five years. Based on the historical time period  
2 between rate proceedings for these utility systems, and the lack of the  
3 Company's specific commitment to file within 5 years, I maintain my  
4 recommendation of a five-year amortization period for rate case expenses.  
5

6  
7 **V. REVISED SCHEDULES FOR SUN CITY WATER AND**  
8 **WASTEWATER DISTRICTS**

9 **Q. DO THE REVISIONS MADE BY ARIZONA-AMERICAN IN ITS**  
10 **PREFILED REBUTTAL TESTIMONY AFFECT THE RATE**  
11 **CALCULATIONS YOU PREPARED IN YOUR DIRECT TESTIMONY**  
12 **ON BEHALF OF YOUNGTOWN?**

13 **A.** Yes. First, changes proposed by the Company to the overall cost of capital,  
14 gross utility plant in service, and accumulated depreciation affect the test-year  
15 adjusted operating income and required operating income calculations.  
16 Descriptions of the Company's revisions to expenses and their impacts are  
17 identified on Page 1 of Surrebuttal Schedule C-2 for the Sun City Water and  
18 Wastewater Districts attached to this testimony. The revisions to expenses  
19 affect the test-year calculation of adjusted operating income, which in turn  
20 affects the determination of the operating income deficiency and the  
21 calculation of the gross increase in revenue requirement.  
22  
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1       **Q.     PLEASE SUMMARIZE HOW THE REVISIONS MADE BY**  
2           **ARIZONA-AMERICAN IN THE COMPANY'S PREFILED DIRECT**  
3           **TESTIMONY AFFECT YOUNGTOWN'S RECOMMENDED RATE**  
4           **INCREASE ORIGINALLY SHOWN IN YOUR PREFILED DIRECT**  
5           **TESTIMONY.**

6       **A.**    As explained in detail below, adjustments to Youngtown's initial analysis due  
7           to these revisions by the Company in its Prefiled Rebuttal Testimony show  
8           that a maximum potential rate increase of \$2,055,466 for the Sun City Water  
9           District may be justified as opposed to \$2,369,086. This represents a 33.19%  
10          increase in the Company's existing rates instead of Youngtown's initial  
11          recommendation of 38.25%. Using Youngtown's recommended phase-in  
12          approach results in a 16.595% increase in the first year and a subsequent  
13          16.595% increase in the second year following a Commission order in this  
14          proceeding. This compares to a 19.125% increase in both the first and second  
15          years following a Commission order as initially recommended.

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18  
19          For the Sun City Wastewater District, adjustments to Youngtown's initial  
20          analysis reflecting the revisions made by the Company result in a (\$729,062)  
21          or a 14.33% decrease in the Company's existing rates instead of the  
22          (\$562,342) or 11.05% decrease initially proposed. This full rate decrease  
23          would be effective immediately following the Commission's order approving  
24          the rate decrease.  
25  
26

1       **Q.    PLEASE DESCRIBE THE SPECIFIC ADJUSTMENTS YOU MADE**  
2       **TO INCORPORATE THE REVISIONS PROPOSED BY ARIZONA-**  
3       **AMERICAN IN THE COMPANY'S PREFILED REBUTTAL**  
4       **TESTIMONY.**

5       A.    The first adjustment was to replace the originally filed rate of return of 7.75%  
6       with 7.52%, as revised in rebuttal by the Company. The adjusted rate of  
7       return is identified on Surrebuttal Schedule A-1 for each district attached to  
8       this testimony. Second, I incorporated the Company's Rebuttal Testimony  
9       revisions to plant in service and accumulated depreciation values into the  
10      original cost rate base ("OCRB") calculations as shown on Surrebuttal  
11      Schedule B-2 for each district attached to this testimony. Consistent with  
12      Youngtown's position that OCRB serve as fair value rate base ("FVRB"), the  
13      revised OCRB values were then carried forward to Surrebuttal Schedules B-1,  
14      and A-1 for each district attached to this testimony.

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17  
18      It is important to note that the Prefiled Rebuttal Testimony revisions of the  
19      Company to plant in service and accumulated depreciation values for all of its  
20      districts affect the allocation of certain corporate expenses, such as office  
21      expenses and insurance. This is due to the fact that these revisions ultimately  
22      affect the OCRB value for each district, which we propose serves as the  
23      FVRB for each district. As proposed by the Company, FVRB is the allocating  
24      factor for apportioning certain corporate office and insurance expenses to each  
25  
26

1 district. Therefore, adjustments to OCRB will affect the FVRB allocation  
2 factor calculations that are utilized in allocating these corporate expenses to  
3 each district. Furthermore, the amount of the office and insurance expenses  
4 allocated to each district is also affected by AA proposing to incorporate  
5 revised total costs reflecting actual 2002 data. The summary changes in the  
6 FVRB, FVRB allocators, corporate expense amounts, and expense amounts  
7 allocated to each district are included on Surrebuttal Schedule C2, Pages X  
8 and Xa attached to this testimony.  
9

10  
11 **Q HOW WERE THE TOTAL CORPORATE INSURANCE AND OFFICE**  
12 **EXPENSE AMOUNTS CALCULATED?**

13 A. The total corporate insurance and office expense amounts to be allocated to  
14 the Company's districts were calculated by summing the respective amounts  
15 allocated to each district in the Company's rebuttal schedules. In order to  
16 determine the amount of the corporate office expense that should be allocated  
17 based upon each factor, such as FVRB, customer count, and proforma plant, I  
18 multiplied the ratio of the expense previously allocated to each factor in AA's  
19 initial filing against the revised total office expense. This allowed me to re-  
20 allocate the portion of office expense allocated by FVRB percentages based  
21 upon our adjusted FVRB values that recognize the revised OCRB values in  
22 the Company's Prefiled Rebuttal Testimony.  
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1       **Q     PLEASE CONTINUE DESCRIBING THE SPECIFIC REVISIONS**  
2           **YOU MADE TO INCORPORATE THE ADJUSTMENTS PROPOSED**  
3           **BY ARIZONA-AMERICAN IN THE COMPANY'S PREFILED**  
4           **REBUTTAL TESTIMONY.**

5       A.     Surrebuttal Schedule C-1 for each district attached to this testimony identifies  
6           the adjusted test-year income statement results proposed in our direct filing.  
7           The revisions made by the Company in rebuttal cause the need for  
8           adjustments to specific components of those adjusted test-year results. These  
9           adjustments have been labeled 1 through 10.

10       **Q     PLEASE DESCRIBE ADJUSTMENTS 1 THROUGH 10.**

11       A.     Adjustment 1 revises the amount of salary and wages included in  
12           Youngtown's Prefiled Direct Testimony to reflect the 2002 actual amount  
13           included in the Company's rebuttal schedules. Page 2 of Surrebuttal Schedule  
14           C-2 attached to this testimony shows the amount included in Youngtown's  
15           Prefiled Direct Testimony, the revised amount, and the necessary adjustment  
16           to the test-year expense.

17           Adjustment 2 revises the amount of payroll taxes included in Youngtown's  
18           Prefiled Direct Testimony to reflect the payroll tax amount based upon 2002  
19           actual wages included in the Company's rebuttal schedules. Page 3 of  
20           Surrebuttal Schedule C-2 attached to this testimony shows the amount

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1 included in Youngtown's Prefiled Direct Testimony, the revised amount, and  
2 the corresponding adjustment to the test-year expense.

3  
4 Adjustment 3 is necessary to reflect revised depreciation rates, original cost  
5 plant bases, and removal of the acquisition adjustment as described in the  
6 Company's rebuttal filing. It is important to note that we removed the  
7 amortization of the original cost acquisition adjustment in Youngtown's  
8 Direct Testimony, so the net impacts of the above described revisions is an  
9 increase to the amount of depreciation expense. Page 4 of Surrebuttal  
10 Schedule C-2 attached to this testimony shows the amount included in  
11 Youngtown's Prefiled Direct Testimony, the revised amount, and the required  
12 adjustments.  
13

14  
15  
16 Adjustment 4 reflects the revised rebuttal position of the Company to use two  
17 years of adjusted revenue and one year of proposed revenue in property tax  
18 calculations. Page 5 of Surrebuttal Schedule C-2 attached to this testimony  
19 shows the revised calculation, the amount included in Youngtown's Prefiled  
20 Direct Testimony, and the corresponding adjustment to the test-year expense.  
21

22  
23 Adjustment 5 is necessary to reflect the fact that the previously discussed  
24 OCRB revisions provided by the Company in rebuttal will result in a different  
25 interest expense calculation. Page 6 of Surrebuttal Schedule C-2 attached to  
26

1           this testimony shows the revised calculation, the amount included in  
2           Youngtown's Prefiled Direct Testimony, and the necessary adjustment to the  
3           test-year expense.

4  
5           Adjustments 6, 7, 8, and 9 are revisions to the amount of corporate salaries  
6           and wages, office expenses, insurance expenses, and miscellaneous expenses  
7           allocated to each of the Company's districts in Youngtown's Prefiled Direct  
8           Testimony intended to reflect the revised Arizona-American rebuttal amounts  
9           that are based upon 2002 actual data. Pages 7, 8, 9, and 10 of Surrebuttal  
10          Schedule C-2 attached to this testimony show the revised calculations, the  
11          amounts included in the Town's Direct Testimony, and the corresponding  
12          adjustments to test-year expenses.

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16          Adjustment 10 revises the amount of Service Company charges allocated to  
17          each district in Youngtown's Direct Testimony to reflect the revised amount  
18          that is based upon 2002 actual values included in the Company's rebuttal  
19          filing. Page 11 of Surrebuttal Schedule C-2 attached to this testimony shows  
20          the revised calculation, the amount included in the direct filing, and the  
21          corresponding adjustment to the test-year expense.

1       **Q.     ARE THERE ANY OTHER REMAINING ADJUSTMENTS THAT**  
2       **YOU MADE THAT YOU HAVE NOT YET IDENTIFIED?**

3       A.     Yes. The income tax amount has been adjusted. As I mentioned in my  
4       Prefiled Direct Testimony (Page 13), income tax calculations are a direct  
5       result of profit or loss. The adjustments made above, affect the amount of  
6       profit or loss due to the differing amounts of revenue, expenses, and rate base,  
7       and subsequently impact the income tax calculation. The amount of the  
8       income tax adjustment is identified on Surrebuttal Schedule C-2, Page 1  
9       attached to this testimony and is carried forward into Surrebuttal Schedule C-  
10      1.  
11

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14      **VI.     SUMMARY AND RESULTS**

15      **Q.     WHAT IS THE MAXIMUM RATE INCREASE YOUNGTOWN**  
16      **BELIEVES MAY BE JUSTIFIED FOR ARIZONA-AMERICAN'S SUN**  
17      **CITY WATER AND WASTEWATER DISTRICTS BASED UPON**  
18      **YOUR ANALYSIS OF THE COMPANY'S REBUTTAL FILING?**

19  
20      A.     The analysis shows that an ultimate rate increase no higher than \$2,055,466  
21      for Arizona-American's Sun City Water District is justified based on the  
22      evidence presented by the Company in this proceeding including its Prefiled  
23      Rebuttal Testimony. This represents a 33.19% increase above Arizona-  
24      American's existing rates instead of our original recommendation of 38.25%.  
25      This would result in a 16.595% increase in the first year following the  
26

1 Commission order approving the rate increase and a subsequent 16.595%  
2 increase in the second year following the Commission's order. This compares  
3 to a 19.125% increase in the first and second years following the  
4 Commission's order as we originally proposed.  
5

6  
7 For Arizona-American's Sun City Wastewater District, the justifiable annual  
8 rate increase would be (\$729,062) or a 14.33% decrease from the Company's  
9 existing rates instead of the approximate 11.05% decrease we initially  
10 recommended. This full rate decrease would be effective immediately  
11 following the Commission's order approving such a decrease.  
12

13 The final rate increase or decrease warranted for each of Arizona-American's  
14 Sun City Districts is shown on Exhibit Surrebuttal Schedule A-1 attached to  
15 this testimony.  
16

17  
18 Of course these figures assume the cost of capital and return values requested  
19 by Arizona-American in its Prefiled Rebuttal Testimony are fair and  
20 reasonable, that all plant claimed to be in service by Arizona-American in  
21 rebuttal is servicing the public and that no other adjustments to expenses or  
22 plant is found to be necessary or appropriate by the Commission. Such issues  
23 were beyond the scope of Burton & Associates' investigation and analysis of  
24 the Company's rate increase application on behalf of the Town of Youngtown.  
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Thus, Youngtown's silence on any of these items should not be taken in any way as the Town's acceptance of Arizona-American's positions.

**Q. DOES THIS CONCLUDE YOUR PREFILED SURREBUTTAL TESTIMONY?**

**A. Yes.**

Line No.	Description	Direct			Surrebuttal			Variance		
		FVRB Fair Value Rate Base								
1	Sun City Water	22,220,302	0.240	22,014,473	0.239	(205,829)	(0.002)			
2	Sun City Wastewater	8,777,097	0.095	8,709,672	0.095	(67,424)	(0.000)			
3	Sun City West Water	11,818,391	0.128	12,063,646	0.131	245,255	0.003			
4	Sun City West Wastewater	8,849,391	0.096	8,915,007	0.097	65,616	0.001			
5	Agua Fria	16,550,086	0.179	16,722,762	0.181	172,676	0.002			
6	Anthem Water	9,168,370	0.099	9,267,853	0.101	99,483	0.001			
7										
8	Agua Fria/Anthem WW	2,746,896	0.030	2,731,317	0.030	(15,579)	(0.000)			
9										
10	Tubac Valley	1,138,953	0.012	1,126,292	0.012	(12,661)	(0.000)			
11	Mohave Sewer	677,136	0.007	-	-	(677,136)	(0.007)			
12	Mohave Water	9,584,736	0.104	9,726,373	0.106	141,637	0.002			
13	Havasu Water	899,240	0.010	875,573	0.010	(23,667)	(0.000)			
14										
15	Totals	92,430,597	1.000	92,152,968	1.000	(277,629)	(0.000)			

Notes:  
(1) FVRB is assumed to be Original Cost without an acquisition adjustment

Line No.	Description	Direct		Surebittal		Variance	
		Insurance FVRB	Office Exp. FVRB	Insurance FVRB	Office Exp. FVRB	Insurance FVRB	Office Exp. FVRB
1	Sun City Water	62,200	153,255	55,791	140,311	(6,409)	(12,944)
2	Sun City Wastewater	24,569	60,536	22,073	55,512	(2,496)	(5,024)
3	Sun City West Water	33,083	81,512	30,573	76,889	(2,510)	(4,623)
4	Sun City West Wastewater	24,772	61,035	22,593	56,821	(2,178)	(4,214)
5	Agua Fria	46,328	114,147	42,380	106,584	(3,947)	(7,563)
5	Anthem Water	25,665	63,235	23,487	59,070	(2,177)	(4,165)
6		0					
6	Agua Fria/Anthem WW	7,689	18,946	6,922	17,408	(767)	(1,537)
7		0					
7	Tubac Valley	3,188	7,855	2,854	7,179	(334)	(677)
8	Mohave Sewer	1,895	4,670	-	-	(1,895)	(4,670)
8	Mohave Water	26,830	66,107	24,650	61,992	(2,181)	(4,115)
9	Havasas Water	2,517	6,202	2,219	5,581	(298)	(622)
10							
11	Totals	258,736	637,500	233,543	587,346	(25,193)	(50,154)

Notes:

- (1) Total Surebittal expenses for Insurance and Office Expenses are the sum of the expense values assigned to each district in AA Rebuttal Schedules
- (2) FVRB Office Expenses determined by applying ratio of AA Direct Schedule expenses allocated to each factor to total office expenses in AA Rebuttal Schedules

**Youngtown - Sun City Water**  
 Test Year Ended December 31, 2001  
 Computation of Increase in Gross Revenue  
 Requirements As Adjusted

Exhibit  
 Surrebuttal Schedule A-1  
 Page  
 Witness: Burnham

Line

No.

1	Fair Value Rate Base	\$ 22,014,473
2		
3	Adjusted Operating Income	392,528
4		
5	Current Rate of Return	1.78%
6		
7	Required Operating Income	\$ 1,654,608
8		
9	Required Rate of Return on Fair Value Rate Base	7.52%
10		
11	Operating Income Deficiency	\$ 1,262,079
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 2,055,466
17		

18	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
19	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
20	<u>Classification</u>			
21	5/8 X 3/4 Inch Meter		\$ -	33.19%
22	1 Inch Meter		-	33.19%
23	1.5 Inch Meter - Commercial		-	33.19%
24	2 Inch Meter		-	33.19%
25	Construction Water		-	33.19%
26	Church		-	33.19%
27	Golf Course		-	33.19%
28	Private Fire		-	33.19%
29	Public Authority		-	33.19%
30	Miscellaneous Revenues		-	33.19%
31			-	33.19%
32	Total of Water Revenues	\$0	\$0	\$ - 33.19%

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SUPPORTING SCHEDULES:  
 Surrebuttal B-1  
 Surrebuttal C-1  
 AA Rebuttal D-1

Youngtown - Sun City Water  
 Test Year Ended December 31, 2001  
 Summary of Rate Base

Exhibit  
 Surrebuttal Schedule B-1  
 Page 1  
 Witness: Burnham

Line No.	Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1			
2	\$ 38,754,465	\$ 81,489,402	\$ 38,754,465
3	Less: Accumulated Depreciation	29,936,694	13,280,503
4			
5	\$ 25,473,962	\$ 51,552,708	\$ 25,473,962
6			
7	<u>Less:</u>		
8			
9	Advances in Aid of		
10	Construction	4,901,808	2,331,186
11	Contributions in Aid of		
12	Construction - Net of amortization	2,369,919	1,127,078
13	Customer Meter Deposits	1,225	1,225
14	Deferred Income Taxes & Credits	-	-
15	Investment tax Credits	-	-
16	<u>Plus:</u>		
17	Unamortized Finance		
18	Charges	-	-
19	Deferred Tax Assets	-	-
20	Allowance for Working Capital	-	-
21	Citizens Acquisition Adjustment	-	-
22	Total Rate Base	\$ 44,279,757	\$ 22,014,473

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SUPPORTING SCHEDULES:  
 Surrebuttal B-2

RECAP SCHEDULES:  
 Surrebuttal A-1

**Youngtown - Sun City Water**  
 Test Year Ended December 31, 2001  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Surrebuttal Schedule B-2  
 Page 1  
 Witness: Burnham

Line No.		Direct Adjusted at end of Test Year	AA Rebuttal Label	Adjustment: Amount	Surrebuttal Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 39,396,793	(1)	(642,328)	\$ 38,754,465
3					
4	<b>Less:</b>				
5					
6	Accumulated				
7	Depreciation	<u>13,717,002</u>	(2)	(436,499)	<u>13,280,503</u>
8					
9	Net Utility Plant				
10	in Service	\$ 25,679,791			\$ 25,473,962
11					
12	<b>Less:</b>				
13	Advances in Aid of				
14	Construction (Ratemaking Purposes Only)	2,331,186			2,331,186
15					
16	Contributions in Aid of				
17	Construction - Net (Ratemaking	1,127,078			1,127,078
18	Purposes Only)				
19	Customer Meter Deposits	1,225			1,225
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	<b>Plus:</b>				
23	Unamortized Finance				
24	Charges	-			-
25	Deferred Tax Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-			-
28					
29	<b>Total</b>	<u>\$ 22,220,302</u>			<u>\$ 22,014,473</u>
30					

31  
 32 (1) See AA Rebuttal B-2, Page 2  
 33 (2) See AA Rebuttal B-2, Page 3  
 34  
 35

**Youngtown - Sun City Water**  
 Test Year Ended December 31, 2001  
 Income Statement

Exhibit  
 Surrebuttal Schedule C-1  
 Page 1  
 Witness: Burnham

Line No.		Direct Test Year Adjusted Results	Label	Adjustment	Surrebuttal Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Metered Water Revenues	\$ 6,079,671			\$ 6,079,671	2,055,466	\$ 8,135,138
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	113,419			113,419		113,419
5		<u>\$ 6,193,090</u>		\$ -	<u>\$ 6,193,090</u>	<u>\$ 2,055,466</u>	<u>\$ 8,248,557</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ 1,148,174	1,6	(151,361)	\$ 996,813		\$ 996,813
8	Purchased Water	-		-	\$ -		\$ -
9	Purchased Power	1,416,410		-	\$ 1,416,410		\$ 1,416,410
10	Chemicals	17,413		-	\$ 17,413		\$ 17,413
11	Repairs and Maintenance	540,349		-	\$ 540,349		\$ 540,349
12	Office Supplies and Expense	429,053	7	(61,504)	\$ 367,549		\$ 367,549
13	Outside Services	93,641		-	\$ 93,641		\$ 93,641
14	Service Company Charges	909,428	10	(14,259)	\$ 895,168		\$ 895,168
15	Water Testing	6,878		-	\$ 6,878		\$ 6,878
16	Rents	28,369		-	\$ 28,369		\$ 28,369
17	Transportation Expenses	22		-	\$ 22		\$ 22
18	Insurance - General Liability	65,896	8	(6,409)	\$ 59,487		\$ 59,487
19	Insurance - health and Life	-		-	\$ -		\$ -
20	Regulatory Commission Expense - Rate Case	24,525		-	\$ 24,525		\$ 24,525
21	Miscellaneous Expense	300,122	9	342	\$ 300,464		\$ 300,464
22	Depreciation Expense	1,004,528	3	3,165	\$ 1,007,693		\$ 1,007,693
23	Taxes Other Than Income	62,065	2	688	\$ 62,753		\$ 62,753
24	Property Taxes	150,785	4	(10,966)	\$ 139,819		\$ 139,819
25	Income Tax	(271,892)		115,102	(156,790)		636,597
26		-		-	\$ -		-
27	<b>Total Operating Expenses</b>	<u>\$ 5,925,765</u>		<u>\$ (125,203)</u>	<u>\$ 5,800,562</u>	<u>\$ -</u>	<u>\$ 6,593,949</u>
28	<b>Operating Income</b>	<u>\$ 267,326</u>		<u>\$ 125,203</u>	<u>\$ 392,528</u>	<u>\$ 2,055,466</u>	<u>\$ 1,654,608</u>
29	<b>Other Income (Expense)</b>						
30	Interest Income	-		-	-		-
31	Other income	-		-	-		-
32	Interest Expense	(699,837)	5	57,895	(641,942)		(641,942)
33	Other Expense	-		-	-		-
34	Gain/Loss Sale of Fixed Assets	-		-	-		-
35	<b>Total Other Income (Expense)</b>	<u>\$ (699,837)</u>		<u>\$ 57,895</u>	<u>\$ (641,942)</u>	<u>\$ -</u>	<u>\$ (641,942)</u>
36	<b>Net Profit (Loss)</b>	<u>\$ (432,512)</u>		<u>\$ 183,098</u>	<u>\$ (249,414)</u>	<u>\$ 2,055,466</u>	<u>\$ 1,012,666</u>
37							
38	<u>SUPPORTING SCHEDULES:</u>					<u>RECAP SCHEDULES:</u>	
39	Surrebuttal C-2					Surrebuttal A-1	
40							

Youngtown - Sun City Water  
 Test Year Ended December 31, 2001  
 Summary of Surrebuttal Adjustments

Exhibit  
 Surrebuttal Schedule C-2  
 Page 1  
 Witness: Burnham

Line			<u>Sun City Water</u>
<u>No.</u>	<u>Water/Sewer</u>		
	<u>Label</u>	<u>Description</u>	
<b><u>Revenues</u></b>			
1		Revenues	-
2		Other Revenues	-
			<u>\$ -</u>
<b><u>Operating Expenses</u></b>			
3		Salaries and Wages	\$ 35,338
4		Salaries and Wages	(186,699)
5		Office Supplies & Expense	(61,504)
6		Service Company Charges	(14,259)
7		Insurance - General Liability	(6,409)
8		Miscellaneous Expense	342
9		Depreciation Expense	3,165
10		Taxes Other Than Income	688
11		Property Taxes	(10,966)
12		Income tax	115,102
13			
14		Total Operating Expenses	<u>#####</u>
15		Operating Income	<u>\$125,203</u>
16			

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Surrebuttal Schedule C-2  
Page 2  
Witness: Burnham

Line

No.

1	<u>Projected Salaries &amp; Wages and Related Expenses</u>	
2		
3	<u>Actual 2002 Wages and Salaries</u>	<u>Amount</u>
4	601 Salaries & Wages	\$ 769,786
5		
6	<u>Direct Filing Proposed Wages and Salar</u>	
7	601 Salaries & Wages	734,448
8		
9	Increase (Decrease)	\$ 35,338
10		
11	Adjustment to Revenues and/or Expenses	<u>\$ 35,338</u>
12		
13		

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Surrebuttal Schedule C-2  
Page 3  
Witness: Burnham

Line

<u>No.</u>		<u>Amount</u>
1	<u>Projected Salaries &amp; Wages and Related Expenses</u>	
2		
3	<u>PR Taxes Based on Actual 2002 Wages</u>	
4	408 Taxes Other Than Income	\$ 62,753
5		
6	<u>Direct Filing Proposed PR Taxes</u>	
7	408 Taxes Other Than Income	62,065
8		
9	Increase (Decrease)	\$ 688
10		
11	Adjustment to Revenues and/or Expenses	<u>\$ 688</u>
12		
13		

Youngtown - Sun City Water  
 Test Year Ended December 31, 2001  
 Adjustments to Revenues and Expenses  
 Adjustment Number 3

Exhibit  
 Surrebuttal Schedule C-2  
 Page 4  
 Witness: Burnham

Line No.	Account	Original Cost	Rate	Depreciation Expense
1	<b>Depreciation Expense</b>			
2				
3	<b>Intangible</b>			
4	301.00	\$ 471	0.00%	\$ -
5	302.00	2,851	0.00%	-
6	303.00	4,591	0.00%	-
7		<u>\$ 7,913</u>		<u>\$ -</u>
8	<b>Source of Supply</b>			
9	310.00	\$ 180,083	0.00%	\$ -
10	311.00	875,244	2.50%	21,881
11	312.00	314	2.50%	8
12	313.00	-	0.00%	-
13	314.00	1,891,544	2.52%	47,667
14		<u>\$ 2,947,185</u>		<u>\$ 69,556</u>
15	<b>Pumping</b>			
16	320.00	\$ 8,456	0.00%	\$ -
17	321.00	582,491	1.67%	9,728
18	323.00	9,554	4.42%	422
19	325.00	6,668,795	4.42%	294,761
20	326.00	25,151	5.00%	1,258
21	328.10	249,781	5.01%	12,514
22		<u>\$ 7,544,228</u>		<u>\$ 318,682</u>
23	<b>Water Treatment</b>			
24	330.00	\$ -	0.00%	\$ -
25	331.00	80,580	1.67%	1,346
26	332.00	393,191	4.00%	15,728
27		<u>\$ 473,771</u>		<u>\$ 17,073</u>
28	<b>Transmission and Distribution</b>			
29	340.00	\$ 10,493	0.00%	\$ -
30	341.00	28,604	2.00%	572
31	342.00	1,512,510	1.67%	25,259
32	343.00	14,034,103	1.53%	214,722
33	344.00	-	0.00%	-
34	345.00	4,783,796	2.48%	118,638
35	346.00	3,232,044	2.51%	81,124
36	348.00	1,814,681	2.00%	36,294
37	349.00	523	2.00%	10
38		<u>#####</u>		<u>\$ 476,619</u>
39	<b>General</b>			
40	389.00	\$ 1,163	0.00%	\$ -
41	390.00	798,274	1.67%	13,331
42	391.00	502,391	4.59%	23,060
43	391.10	227,321	4.59%	10,434
44	392.00	579,346	25.00%	144,837
45	393.00	6,848	3.91%	268
46	394.00	97,974	4.02%	3,939
47	395.00	31,035	3.71%	1,151
48	396.00	28,520	5.20%	1,483
49	397.00	177,800	10.30%	18,313
50	398.00	62,439	4.93%	3,078
51		<u>\$ 2,513,111</u>		<u>\$ 219,894</u>
52	<b>TOTALS</b>			
53		<u>#####</u>		<u>\$1,101,825</u>
54	Amortization of Deferred Regulatory Ass	\$ 655,877	2.8322%	18,576
55	Less: Amortization of Contributions	\$ 1,127,078	10.0000%	(112,708)
56	Total Depreciation Expense			\$1,007,693
57	Direct Filing Depreciation Expense			1,004,528
58	Increase (decrease) in Depreciation Expense			<u>3,165</u>

71 Adjustment to Revenues and/or Expenses

\$ 3,165

**Youngtown - Sun City Water**  
 Test Year Ended December 31, 2001  
 Adjustments to Revenues And Expenses  
 Adjustment Number 4

Exhibit  
 Surrebuttal Schedule C-2  
 Page 5  
 Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Surrebuttal Adjusted Revenues in year ended 12/31/01	\$ 6,193,090
4	Surrebuttal Adjusted Revenues in year ended 12/31/02	6,193,090
5	Proposed Revenues	<u>8,248,557</u>
6	Average of three year's of revenue	<u>\$6,878,246</u>
7	Average of three year's of revenue, times 2	\$13,756,492
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	579,346
12	Book Value of Transportation Equipment (proforma)	
13	Total Book Value of Transportation Equipment	<u>\$ 579,346</u>
14		
15	Full Cash Value	\$13,177,146
16	Assessment Ratio	<u>25%</u>
17	Assessed Value	3,294,286
18	Property Tax Rate	7.205292%
19		
20	Property Tax	237,363
21	Tax on Parcels	154
22		
23	Total Surrebuttal Property Tax at Proposed Rates	<u>\$ 237,517</u>
24	Direct Filing Property Taxes	248,483
25	Change in Property Taxes	<u>\$ (10,966)</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ (10,966)</u>
29		
30		

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 5

Exhibit  
Surrebuttal Schedule C-2  
Page 6  
Witness: Burnham

Line  
No.

1	<u>Interest Synchronization with Rate Base</u>	
2		
3	Fair Value Rate Base	\$22,014,473
4	Weighted Cost of Debt from Schedule D-1	2.92%
5	Surrebuttal Synchronized Interest Expense	641,942
6	Direct Filing Interest Expense	699,837
7	Increase in Interest Expense	<u>\$ (57,895)</u>
8		
9	Adjustment to Revenues and/or Expense	<u>57,895</u>
10		
11		

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Burnham

Line  
No.

1	<u>Projected Additional Expenses</u>		
2			
3			
4	Actual 2002 Salaries & Wages Expense (Corporate)	\$	227,027
5			
6	Direct Filing Proposed Additional Wages Expense (Cor)		413,726
7			
8			
9	Increase (Decrease) in Additional Expenses	<u>\$</u>	<u>(186,699)</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(186,699)</u>
12			
13			
14			
15			

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Burnham

Line

No.

1	<u>Projected Additional Expenses</u>		
2			
3			
4	Actual 2002 Additional Office Expense (Corporate)	\$	225,166
5			
6	Direct Filing Proposed Additional Office Expense (Corporate)		286,670
7			
8			
9	Increase (Decrease) in Additional Expenses	<u>\$</u>	<u>(61,504)</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(61,504)</u>
12			
13			
14			
15			

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 8

Exhibit  
Surrebuttal Schedule C-2  
Page 9  
Witness: Burnham

Line

No.

1	<u>Projected Additional Expenses</u>		
2			
3			
4	Actual 2002 Additional Insurance Expense (Corporate)	\$	55,791
5			
6	Direct Filing Proposed Additional Insurance Expense (C		62,200
7			
8			
9	Increase (Decrease) in Additional Expenses	<u>\$</u>	<u>(6,409)</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(6,409)</u>
12			
13			
14			
15			

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 9

Exhibit  
Surrebuttal Schedule C-2  
Page 10  
Witness: Burnham

Line

No.

1	<u>Projected Additional Expenses</u>		
2			
3			
4	Actual 2002 Additional Misc. Expense (Corporate)	\$	3,788
5			
6	Direct Filing Proposed Additional Misc. Expense (Corpc		3,446
7			
8			
9	Increase (Decrease) in Additional Expenses	<u>\$</u>	<u>342</u>
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>342</u>
12			
13			
14			
15			

Youngtown - Sun City Water  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 10

Exhibit  
Surrebuttal Schedule C-2  
Page 11  
Witness: Burnham

Line

<u>No.</u>			
1	<u>Service Company Charges</u>		
2			
3	Total 2002 Service Charges	\$	4,981,460
4	Allocation Factor (4 Factor Formula)		0.1797
5	Total Charges		<u>\$ 895,168</u>
6			
7	Direct Filing Proposed Charges	\$	5,060,811
8	Allocation Factor (4 Factor Formula)		0.1797
9	Total Charges		<u>\$ 909,428</u>
10			
11			
12			
13	Adjustment to Revenues and/or Expenses		<u>\$ (14,259)</u>
14			
15			
16			
17			

**Youngtown - Sun City Wastewater**  
 Test Year Ended December 31, 2001  
 Computation of Increase in Gross Revenue  
 Requirements As Adjusted

Exhibit  
 Surrebuttal Schedule A-1  
 Page 1  
 Witness: Burnham

Line  
 No.

1	Fair Value Rate Base	\$ 8,709,672
2		
3	Adjusted Operating Income	1,102,271
4		
5	Current Rate of Return	12.66%
6		
7	Required Operating Income	\$ 654,619
8		
9	Required Rate of Return on Fair Value Rate Base	7.52%
10		
11	Operating Income Deficiency	\$ (447,652)
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	\$ (729,062)
17		

18	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
19	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
20	<u>Classification</u>			
21	5/8 X 3/4 Inch Meter		\$ -	-14.33%
22	1 Inch Meter		-	-14.33%
23	1.5 Inch Meter - Commercial		-	-14.33%
24	2 Inch Meter		-	-14.33%
25	Construction Water		-	-14.33%
26	Church		-	-14.33%
27	Golf Course		-	-14.33%
28	Private Fire		-	-14.33%
29	Public Authority		-	-14.33%
30	Miscellaneous Revenues		-	-14.33%
31			-	-14.33%
32	Total of Water Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$ -</u>
			<u>-</u>	<u>-14.33%</u>

33  
 34  
 35  
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SUPPORTING SCHEDULES:  
 Surrebuttal B-1  
 Surrebuttal C-1  
 AA Rebuttal D-1

**Youngtown - Sun City Wastewater**  
 Test Year Ended December 31, 2001  
 Summary of Fair Value Rate Base

Exhibit  
 Surrebuttal Schedule B-1  
 Page 1  
 Witness: Burnham

Line No.	Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1			
2	\$ 19,900,933	\$ 51,811,232	\$ 19,900,933
3	Less: Accumulated Depreciation 7,195,117	20,408,401	7,195,117
4			
5	Net Utility Plant in Service \$ 12,705,816	\$ 31,402,831	\$ 12,705,816
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction 3,309,005	8,614,854	3,309,005
10	Contributions in Aid of		
11	Construction - Net of amortization 1,187,139	3,090,665	1,187,139
12	Customer Meter Deposits -	-	-
13	Deferred Income Taxes & Credits -	-	-
14	Investment tax Credits -	-	-
15	<u>Plus:</u>		
16	Tolleson Tricking		
17	Filter 500,000	500,000	500,000
18	Deferred Tax Assets -	-	-
19	Allowance for Working Capital -	-	-
20	Citizens Acquisition Adjustment -	-	-
21			
22	Total Rate Base \$ 8,709,672	\$ 20,197,312	\$ 8,709,672

23  
 24  
 25  
 26 SUPPORTING SCHEDULES:  
 27 Surrebuttal B-2  
 28  
 29  
 30

RECAP SCHEDULES:  
 Surrebuttal A-1

**Youngtown - Sun City Wastewater**  
 Test Year Ended December 31, 2001  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Surrebuttal Schedule B-2  
 Page 1  
 Witness: Burnham

Line No.		Direct Actual at End of <u>Test Year</u>	AA Rebuttal <u>Label</u>	Adjustments <u>Amount</u>	Surrebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility				
2	Plant in Service	\$ 19,962,780	(1)	(61,846)	\$ 19,900,933
3					
4					
5	<b>Less:</b>				
6	Accumulated				
7	Depreciation	<u>7,189,539</u>	(2)	5,578	<u>7,195,117</u>
8					
9	Net Utility Plant				
10	in Service	\$ 12,773,241			\$ 12,705,816
11					
12	<b>Less:</b>				
13	Advances in Aid of				
14	Construction (Rate-making Purposes Only)	3,309,005			3,309,005
15					
16	Contributions in Aid of				
17	Construction - Net (Rate-making	1,187,139			1,187,139
18	Purposes Only)				
19	Customer Meter Deposits	-			-
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	<b>Plus:</b>				
23	Tolleson Trickling				
24	Filter	500,000			500,000
25	Deferred Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-			-
28					
29	Total	<u>\$ 8,777,097</u>			<u>\$ 8,709,672</u>

30

31

32 (1) See AA Rebuttal B-2, Page 2

33 (2) See AA Rebuttal B-2, Page 3

34

35

Youngtown - Sun City Wastewater  
 Test Year Ended December 31, 2001  
 Income Statement

Exhibit  
 Surrebuttal Schedule C-1  
 Page 1  
 Witness: Burnham

Line No.		Direct Test Year Adjusted Results	Label	Adjustment	Surrebuttal Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Flat Rate Revenues	\$ 5,085,481		-	\$ 5,085,481	(729,062)	\$ 4,356,419
3	Measured Revenues	-		-	-	-	-
4	Other Wastewater Revenues	2,859		-	2,859	-	2,859
5		<u>\$ 5,088,340</u>		<u>\$ -</u>	<u>\$ 5,088,340</u>	<u>\$ (729,062)</u>	<u>\$ 4,359,278</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ 157,504	1,6	(50,322)	\$ 107,182	-	\$ 107,182
8	Purchased Wastewater Treatment	992,447		-	992,447	-	992,447
9	Purchased Power	1,510		-	1,510	-	1,510
10	Fuel for Power Production	-		-	-	-	-
11	Chemicals	-		-	-	-	-
12	Materials and Supplies	105,696		-	105,696	-	105,696
13	Repairs and Maintenance	-		-	-	-	-
14	Office Supplies and Expense	179,039	7	(51,101)	127,937	-	127,937
15	Outside Services	3,123		-	3,123	-	3,123
16	Service Company Charges	513,166	10	(8,046)	505,120	-	505,120
17	Water Testing	-		-	-	-	-
18	Rents	21,265		-	21,265	-	21,265
19	Transportation Expenses	-		-	-	-	-
20	Insurance - General Liability	26,009	8	(2,496)	23,513	-	23,513
21	Insurance - Health and Life	-		-	-	-	-
22	Regulatory Commission Expense - Rate Case	20,150		-	20,150	-	20,150
23	Miscellaneous Expense	145,130	9	414	145,544	-	145,544
24	Depreciation Expense	503,752	3	4,091	507,843	-	507,843
25	Taxes Other Than Income	7,754	2	(1,805)	5,949	-	5,949
26	Property Taxes	178,483	4	(1,695)	176,787	-	176,787
27	Income Tax	389,754		34,158	423,913	-	423,913
28	Tolleson Wastewater User Fees	818,091		-	818,091	-	818,091
29	<b>Total Operating Expenses</b>	<u>\$ 4,062,871</u>		<u>\$ (76,802)</u>	<u>\$ 3,986,069</u>	<u>\$ -</u>	<u>\$ 3,704,659</u>
30	<b>Operating Income</b>	<u>\$ 1,025,469</u>		<u>\$ 76,802</u>	<u>\$ 1,102,271</u>	<u>\$ (729,062)</u>	<u>\$ 654,619</u>
31	<b>Other Income (Expense)</b>						
32	Interest Income	-		-	-	-	-
33	Other income	-		-	-	-	-
34	Interest Expense	(405,468)	5	(22,465)	(427,933)	-	(427,933)
35	Other Expense	-		-	-	-	-
36	Gain/Loss Sale of Fixed Assets	-		-	-	-	-
37	<b>Total Other Income (Expense)</b>	<u>\$ (405,468)</u>		<u>\$ (22,465)</u>	<u>\$ (427,933)</u>	<u>\$ -</u>	<u>\$ (427,933)</u>
38	<b>Net Profit (Loss)</b>	<u>\$ 620,001</u>		<u>\$ 54,337</u>	<u>\$ 674,338</u>	<u>\$ (729,062)</u>	<u>\$ 226,686</u>

39  
 40 SUPPORTING SCHEDULES:  
 41 Surrebuttal C-2  
 42

RECAP SCHEDULES:  
 Surrebuttal A-1

Youngtown - Sun City Wastewater  
 Test Year Ended December 31, 2001  
 Adjustments to Revenues and Expenses

Exhibit  
 Surrebuttal Schedule C-2  
 Page 1  
 Witness: Burnham

Line No.		<u>Water/Sewer</u> Label	Description	Sun City Wastewater
<b>Revenues</b>				
1	Revenues		None	-
2	Other Revenues		None	-
				<u>\$ -</u>
<b>Operating Expenses</b>				
3	Salaries and Wages	1	Adjust to Actual 2002 Wages	\$ (19,206)
4	Salaries and Wages	6	Adjust to Actual 2002 Wages (Corporate)	(31,116)
5	Office Supplies & Expense	7	Adjust to Actual 2002 Additional (Corporate)	(51,101)
6	Service Company Charges	10	Adjust to Actual 2002 Service Company Charges	(8,046)
7	Insurance - General Liability	8	Adjust to Actual 2002 Additional (Corporate)	(2,496)
8	Miscellaneous Expense	9	Adjust to Actual 2002 Additional (Corporate)	414
9	Depreciation Expense	3	Depreciation Expense	4,091
10	Taxes Other Than Income	2	Adjust 2002 PR Tax based on Actual Wages	(1,805)
11	Property Taxes	4	Property Tax Calc	(1,695)
12	Income tax		NA	34,158
13				
14	Total Operating Expenses			<u>\$ (76,802)</u>
15	Operating Income			<u>\$ 76,802</u>
16				

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Surrebuttal Schedule C-2  
Page 2  
Witness: Burnham

Line  
No.  
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<u>Projected Salaries &amp; Wages and Related Expenses</u>			
	<u>Actual 2002 Wages and Salaries</u>	<u>Amount</u>	
601	Salaries & Wages	\$	69,343
	<u>Direct Filing Proposed Wages and Salaries</u>		
601	Salaries & Wages		88,549
	Increase (Decrease)	\$	(19,206)
	Adjustment to Revenues and/or Expenses	<u>\$</u>	<u>(19,206)</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Surrebuttal Schedule C-2  
Page 3  
Witness: Burnham

Line  
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Projected Salaries & Wages and Related Expenses

PR Taxes Based on Actual 2002 Wages an  
408 Taxes Other Than Income

Amount

\$ 5,949

Direct Filing Proposed PR Taxes

408 Taxes Other Than Income

7,754

Increase (Decrease)

\$ (1,805)

Adjustment to Revenues and/or Expenses

\$ (1,805)

Youngtown - Sun City Wastewater  
 Test Year Ended December 31, 2001  
 Adjustments to Revenues and Expenses  
 Adjustment Number 3

Exhibit  
 Surrebuttal Schedule C-2  
 Page 4  
 Witness: Burnham

Line  
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Depreciation Expense

Account	No.	Description	Original Cost	Rate	Depreciation Expense
<b>Intangible</b>					
	301.00	Organization	\$ 122,373	0.00%	\$ -
	302.00	Franchises	6,132	0.00%	-
	303.00	Miscellaneous Intangibles	9,627	0.00%	-
		<b>Subtotal Intangible</b>	<u>\$ 138,132</u>		<u>\$ -</u>
<b>Treatment &amp; Discharge</b>					
	310.00	Land and Land Rights	\$ 6,565	0.00%	\$ -
	311.00	Structures and Improvements	53,532	2.50%	1,338
	312.00	Preliminary Treatment	453	0.00%	-
	313.00	Primary Treatment Equipment	-	0.00%	-
	314.00	Secondary Treatment Equipme	2,575	2.52%	65
	315.00	Tertiary Equipment	-	0.00%	-
	316.00	Disinfection Equipment	-	0.00%	-
	317.00	Effluent Lift Station E	1,503	2.00%	30
	318.00	Outfall Line	291	2.00%	6
	319.00	Sludge, Treatment & Distributic	-	2.50%	-
	321.00	Influent Lift Station	178	2.00%	4
	322.00	General Treatment Equipment	18,743	2.00%	375
		<b>Subtotal Treatment &amp; Discha</b>	<u>\$ 83,840</u>		<u>\$ 1,818</u>
<b>Collection and Influent</b>					
	340.00	Land and Land Rights	\$ -	0.00%	\$ -
	341.00	Structures and Improvements	350,713	2.00%	7,014
	342.00	Collection System Lift	1,229,723	8.40%	103,297
	343.00	Collection Mains	12,384,369	2.04%	252,641
	344.00	Force Mains	1,300,266	2.07%	26,916
	345.00	Discharge Services	2,307,454	2.04%	47,072
	348.00	Manholes	-	2.03%	-
		<b>Subtotal Collection and Influ</b>	<u>\$ 17,572,525</u>		<u>\$ 436,940</u>
<b>General</b>					
	389.00	Land and Land Rights	\$ 1,108	0.00%	\$ -
	390.00	Structures and Improvements	760,473	1.68%	12,782
	391.00	Office Furniture and Equipmen	365,090	4.55%	16,594
	391.10	Computer Equipment	287,585	4.55%	13,071
	392.00	Transportation Equipment	408,123	25.00%	102,031
	393.00	Stores Equipment	6,523	3.92%	256
	394.00	Tools, Shop and Garage	93,334	4.14%	3,860
	395.00	Laboratory Equipment	29,565	3.71%	1,097
	396.00	Power Operated Equipment	27,169	5.14%	1,398
	397.00	Communication Equipment	164,710	10.28%	16,928
	398.00	Miscellaneous Equipment	59,482	4.98%	2,962
		<b>Subtotal General</b>	<u>\$ 2,203,162</u>		<u>\$ 170,978</u>
		Youngtown Plant *	(96,727)	3.06%	(2,964)
		ADFUC adjustment 3/95 **	-		-
		<b>TOTALS</b>	<u>\$ 19,900,933</u>		<u>\$ 606,771</u>
		Tolleson Trickling Filter	\$ 500,000	3.06%	15,320
		Amortization of Deferred Regulatory Assets	\$ 145,771	3.06%	4,466
		Less: Amortization of Contributions	\$ 1,187,139	10.00%	(118,714)
		<b>Total Depreciation Expense</b>			<u>\$ 507,843</u>
		Direct Filing Depreciation Expense			<u>503,752</u>
		Increase (decrease) in Depreciation Expense			<u>4,091</u>
		<b>Adjustment to Revenues and/or Expenses</b>			<u>\$ 4,091</u>

**Youngtown - Sun City Wastewater**  
**Test Year Ended December 31, 2001**  
**Adjustments to Revenues And Expenses**  
**Adjustment Number 4**

Exhibit  
 Surrebuttal Schedule C-2  
 Page 5  
 Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Surrebuttal Adjusted Revenues in year ended 12/31/01	\$ 5,088,340
4	Surrebuttal Adjusted Revenues in year ended 12/31/02	5,088,340
5	Proposed Revenues	<u>4,359,278</u>
6	Average of three year's of revenue	<u>\$4,845,319</u>
7	Average of three year's of revenue, times 2	<u>\$9,690,638</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	408,123
12	Book Value of Transportation Equipment (proforma)	-
13	Total Book Value of Transportation Equipment	<u>\$ 408,123</u>
14		
15	Full Cash Value	\$ 9,282,515
16	Assessment Ratio	<u>25%</u>
17	Assessed Value	2,320,629
18	Property Tax Rate	7.618094%
19		
20	Property Tax	176,788
21	Tax on Parcels	
22		
23	Total Surrebuttal Property Tax at Proposed Rates	<u>\$ 176,788</u>
24	Direct Filing Property Taxes	<u>178,483</u>
25	Change in Property Taxes	<u>\$ (1,695)</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ (1,695)</u>
29		
30		

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 5

Exhibit  
Surrebuttal Schedule C-2  
Page 6  
Witness: Burnham

<u>Line No.</u>		
1	<u>Interest Synchronization with Rate Base</u>	
2	Fair Value Rate Base	\$8,709,672
3	Weighted Cost of Debt from Schedule D-1	<u>2.92%</u>
4	Synchronized Interest Expense	<u>253,974</u>
5	Tolleson Bond Interest Differential	<u>129,029</u>
6	Surrebuttal Synchronized Interest Expense	<u>383,003</u>
7	Direct Filing Interest Expense	<u>405,468</u>
8	Increase in Interest Expense	<u>\$ (22,465)</u>
9		
10	Adjustment to Revenues and/or Expense	<u>22,465</u>
11		
12		

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 6

Exhibit  
Surrebuttal Schedule C-2  
Page 7  
Witness: Burnham

Line  
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Projected Additional Expenses

Actual 2002 Salaries & Wages Expense (Corporate)	\$	37,838
Direct Filing Proposed Additional Wages Expense (Corporate)		68,954
Increase (Decrease) in Additional Expenses	\$	<u>(31,116)</u>
Adjustment to Revenue and/or Expense	\$	<u>(31,116)</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 7

Exhibit  
Surrebuttal Schedule C-2  
Page 8  
Witness: Burnham

Line

No.

1	<u>Projected Additional Expenses</u>		
2			
3			
4	Actual 2002 Additional Office Expense (Corporate)	\$	135,537
5			
6	Direct Filing Proposed Additional Office Expense (Corporate)		186,638
7			
8			
9	Increase (Decrease) in Additional Expenses	\$	<u>(51,101)</u>
10			
11	Adjustment to Revenue and/or Expense	\$	<u>(51,101)</u>
12			
13			
14			
15			

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 8

Exhibit  
Surrebuttal Schedule C-2  
Page 9  
Witness: Burnham

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<u>Projected Additional Expenses</u>	
Actual 2002 Additional Insurance Expense (Corporate)	\$ 22,073
Direct Filing Proposed Additional Insurance Expense (Corporate)	24,569
Increase (Decrease) in Additional Expenses	<u>\$ (2,496)</u>
Adjustment to Revenue and/or Expense	<u>\$ (2,496)</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues And Expenses  
Adjustment Number 9

Exhibit  
Surrebuttal Schedule C-2  
Page 10  
Witness: Burnham

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<u>Projected Additional Expenses</u>	
Actual 2002 Additional Misc. Expense (Corporate)	\$ 1,663
Direct Filing Proposed Additional Misc. Expense (Corporate)	1,249
Increase (Decrease) in Additional Expenses	<u>\$ 414</u>
Adjustment to Revenue and/or Expense	<u>\$ 414</u>

Youngtown - Sun City Wastewater  
Test Year Ended December 31, 2001  
Adjustments to Revenues and Expenses  
Adjustment Number 10

Exhibit  
Surrebuttal Schedule C-2  
Page 11  
Witness: Burnham

Line

No.

1	<u>Service Company Charges</u>		
2			
3	Total 2002 Service Charges	\$	4,981,460
4	Allocation Factor (4 Factor Formula)		0.1014
5	Total Charges		<u>\$ 505,120</u>
6			
7	<u>Direct Filing Proposed Charges</u>	\$	5,060,811
8	Allocation Factor (4 Factor Formula)		0.1014
9	Total Charges		<u>\$ 513,186</u>
10			
11			
12			
13	Adjustment to Revenues and/or Expenses	\$	<u>(8,046)</u>
14			
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**PREFILED SURREBUTTAL TESTIMONY OF JESSE MENDEZ**

**ON BEHALF OF TOWN OF YOUNGTOWN**

Docket No. WS-01303A-02-0867  
Docket No. WS-01303A-02-0868  
Docket No. ~~WS~~-01303A-02-0869  
Docket No. WS-01303A-02-0870  
Docket No. ~~WS~~-01303A-02-0908

**OCTOBER 31, 2003**

1     **I.     INTRODUCTION AND QUALIFICATIONS**

2  
3     **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4     A.     My name is Jesse Mendez and my business address is 12030 Clubhouse Square,  
5            Youngtown, Arizona 85363.

6  
7     **Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8     A.     I am employed by the Town of Youngtown ("Youngtown" or "Town") as the  
9            Town's Public Works Director. I have been Youngtown's Public Works Director  
10           for twenty-three years.

11  
12  
13    **Q.     PLEASE DESCRIBE YOUR RESPONSIBILITIES AS THE PUBLIC**  
14    **WORKS DIRECTOR FOR THE TOWN OF YOUNGTOWN?**

15    A.     I direct all activities of the Youngtown Public Works Department including  
16            planning, organizing, and coordinating the activities of several sub-departments,  
17            which comprise the Public Works Department. My major responsibilities are  
18            aimed at the overall administration and coordination of engineering projects from  
19            the planning stage through completion. I also manage the development of long-  
20            term public works projects and programs to meet the various community needs  
21            according to their priorities. I managed the Youngtown water system for 23 years  
22            until it was sold to Citizens Utilities Company in 1996, which subsequently sold  
23            the system to Arizona-American.  
24  
25  
26

1 Q. IS IT FAIR TO SAY THAT BECAUSE YOU MANAGED THE  
2 YOUNGTOWN WATER SYSTEM FOR TWENTY-THREE YEARS, YOU  
3 ARE EXTREMELY FAMILIAR WITH THIS WATER SYSTEM?

4 A. Yes. I basically know every piece of the water system and where it is located. It  
5 is worth noting that because parts of the Youngtown system is so old, existing  
6 maps do not always show the lay-out of the water system in sufficient detail.  
7 Thus, I regularly receive calls from Arizona-American personnel asking questions  
8 about the water system in Youngtown.  
9

10

11 **II. PURPOSE OF TESTIMONY**

12

13 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

14 A. The purpose of my Surrebuttal Testimony is to respond to certain inaccurate or  
15 misleading statements made by Arizona-American's witness Mr. Fredrick K.  
16 Schneider in his Prefiled Rebuttal Testimony regarding the Town of Youngtown's  
17 request for a Fire Hydrant Water Service Improvement Plan. As indicated in  
18 Youngtown's Prefiled Direct Testimony, Youngtown proposes that Arizona-  
19 American, the Town, and the local fire department work together to develop a  
20 "Fire Hydrant Water Service Improvement Plan" to expedite Arizona-American's  
21 efforts to upgrade sub-standard size main and branch lines feeding hydrants  
22 located in certain older areas of the Youngtown water system. The specific street  
23 areas in Arizona-American's Sun City District where sub-standard size main and  
24  
25  
26

1 branch lines feeding hydrants exist are roughly shown on the map attached to this  
2 testimony.

3  
4 **III. DISCUSSION BETWEEN YOUNGTOWN AND ARIZONA-AMERICAN**  
5 **REGARDING THE ADEQUACY AND SAFETY OF WATER SERVICE**  
6 **TO THE TOWN**  
7

8 **Q. DO YOU AGREE WITH MR. SCHNEIDER'S REBUTTAL TESTIMONY**  
9 **(PAGE 5, LINE 13) THAT THE TOWN OF YOUNGTOWN NEVER**  
10 **CONTACTED ARIZONA-AMERICAN TO DISCUSS THE TOWN'S**  
11 **CONCERNS REGARDING THE ADEQUACY AND SAFETY OF WATER**  
12 **SERVICE TO THE TOWN'S HYDRANTS?**  
13

14 **A.** Absolutely not. In July of 2002, Youngtown Town Manager Mr. Mark Fooks and  
15 I met with the Arizona-American Manager Mr. Robert J. Kuta to discuss the  
16 Town's concerns regarding the adequacy and safety of Arizona-American's water  
17 service to the Town's hydrants in certain older portions of the water system. At  
18 this meeting, Mr. Kuta indicated that the Company would develop, with input  
19 from the Town, a long-term plan to remedy any sub-standard main and standpipes  
20 feeding the Town's hydrants. Youngtown, however, did not hear back from the  
21 Company until after the Town filed its Prefiled Direct Testimony over a year after  
22 the meeting.  
23  
24  
25  
26

1 **IV. ADEQUACY OF WATER SERVICE**

2  
3 **Q. IS MR. SCHNEIDER CORRECT IN HIS REBUTTAL TESTIMONY**  
4 **WHEN HE CHARACTERIZES YOUNGTOWN'S REQUEST FOR A FIRE**  
5 **HYDRANT WATER SERVICED IMPROVEMENT PLAN AS AN**  
6 **UPGRADE TO "FIRE FLOW" SERVICE?**

7 A. No. Youngtown has made no claim that Arizona-American has failed to comply  
8 with the Commission rule requiring delivery pressure equal to the minimum of 20  
9 pounds per square to each of its metered customers. As I indicated above,  
10 Youngtown's position and safety concern is that there are certain older areas of  
11 the Company's Sun City Water District water system within Youngtown (as  
12 identified roughly on the map attached to this testimony) that currently have sub-  
13 standard size main and branch lines to support the required size and type of fire  
14 hydrants being utilized by the local fire department. The water system in these  
15 areas dates back to the 1960's, have never been upgraded, and currently have only  
16 4 inch mains and only 3 inch standpipes that are far too small to provide adequate  
17 water service to the hydrants used by the fire department and are far smaller than  
18 current standard size main lines and standpipes used by utilities in new housing  
19 developments.  
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1       **V.       CONDITION OF THE WATER SYSTEM IN YOUNGTOWN**

2  
3       **Q.       DO YOU AGREE WITH MR. SCHNEIDER THAT THE WATER**  
4       **SYSTEM IN YOUNGTOWN IS GENERALLY IN GOOD CONDITION**  
5       **FOR ITS AGE AND PROVIDES ADEQUATE AND RELIABLE**  
6       **SERVICE?**

7       **A.**     I agree that overall, the water system in Youngtown is in good condition  
8             considering that parts of the system are over forty years old. I disagree, however,  
9             that the older parts of the system provide adequate and safe service to the Town's  
10            hydrants. Even Mr. Schneider seems to indicate that relative to modern water  
11            systems, the older parts the Youngtown system are simply not capable of  
12            providing adequate water flow service to hydrants and would not pass muster if  
13            constructed today. (See Schneider Prefiled Rebuttal Testimony, Page 5, Lines 6 –  
14            12). As indicated in Youngtown's Prefiled Direct Testimony, this is of great  
15            concern to the local fire department (Sun City Fire Department) because modern  
16            fire trucks cannot use the hydrants receiving this inadequate water service. It is  
17            my understanding that these hydrants have a special color tag so that the fire  
18            department can identify them. To overcome the problem of inadequate water  
19            service to these hydrants, the fire department has resorted to attending to fire calls  
20            in the older section of Youngtown with tanker trucks filled with water rather than  
21            rely exclusively on the fire hydrants.  
22  
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1       **Q.    DO YOU AGREE WITH MR. SCHNEIDER'S ASSERTION THAT**  
2       **IMPROVEMENTS TO THE WATER SYSTEM IN THE COMPANY'S**  
3       **SUN CITY WATER DISTRICT HAVE INCREASED THE FLOW**  
4       **CAPACITY OF THE WATER SYSTEM IN YOUNGTOWN?**

5       A.    No. Since 1996, upgrades and interconnections to the Sun City and Youngtown  
6       water systems have been made largely to provide water supply to new  
7       developments. These improvements did not (and cannot) increase flow capacity  
8       to the older parts of the Youngtown system. This is because adequate increases in  
9       water flow cannot be achieved unless and until the diameter size of the older  
10      existing mains and standpipes are also increased to modern standard sizes.

11  
12  
13       **VI.   APPROPRIATE VENUE TO ADDRESS YOUNGTOWN'S WATER**  
14       **ADEQUACY AND SAFETY CONCERNS**

15  
16       **Q.    IS MR. SCHNEIDER CORRECT IN HIS PREFILED REBUTTAL**  
17       **TESTIMONY WHEN HE ASSERTS THAT ARIZONA-AMERICAN'S**  
18       **RATE FILING IS NOT THE CORRECT FORUM FOR YOUNGTOWN**  
19       **TO PROPERLY ADDRESS THE TOWN'S CONCERNS REGARDING**  
20       **WATER SERVICE AND SAFETY TO ITS HYDRANTS?**

21  
22       A.    No. Youngtown is a customer of Arizona-American and has a legitimate concern  
23       regarding the adequacy and safety of the Company's water service to certain of  
24       the Town's hydrants.  
25  
26

1 Q. DO YOU AGREE WITH MR. SCHNEIDER'S ASSERTION THAT  
2 IMPROVEMENTS TO THE WATER SYSTEM IN THE COMPANY'S  
3 SUN CITY WATER DISTRICT HAVE INCREASED THE FLOW  
4 CAPACITY OF THE WATER SYSTEM IN YOUNGTOWN?  
5

6 A. No. Since 1996, upgrades and interconnections to the Sun City and Youngtown  
7 water systems have been made largely to provide water supply to new  
8 developments. These improvements did not (and cannot) increase flow capacity  
9 to the older parts of the Youngtown system. This is because adequate increases in  
10 water flow cannot be achieved unless and until the diameter size of the older  
11 existing mains and standpipes are also increased to modern standard sizes.  
12

13 VI. APPROPRIATE VENUE TO ADDRESS YOUNGTOWN'S WATER  
14 ADEQUACY AND SAFETY CONCERNS  
15

16 Q. IS MR. SCHNEIDER CORRECT IN HIS PREFILED REBUTTAL  
17 TESTIMONY WHEN HE ASSERTS THAT ARIZONA-AMERICAN'S  
18 RATE FILING IS NOT THE CORRECT FORUM FOR YOUNGTOWN  
19 TO PROPERLY ADDRESS THE TOWNS CONCERNS REGARDING  
20 WATER SERVICE AND SAFETY TO ITS HYDRANTS?  
21

22 A. No. Youngtown is a customer of Arizona-American and has a legitimate concern  
23 regarding the adequacy and safety of the Company's water service to certain of  
24 the Town's hydrants.  
25  
26

1     **Q.     DOES YOUNGTOWN AGREE WITH ANY OF THE OPINIONS**  
2           **EXPRESSED BY MR. SCHNEIDER IN HIS PREFILED REBUTTAL**  
3           **TESTIMONY REGARDING HOW ARIZONA-AMERICAN SHOULD**  
4           **ADDRESS YOUNGTOWN'S WATER ADEQUACY AND SAFETY**  
5           **CONCERNS?**

6  
7     A.    Yes. As already communicated to Arizona-American in Youngtown's responses  
8           to the Company's data requests, Youngtown agrees that: (1) Arizona-American  
9           should meet with the Town and the Sun City Fire Department to better understand  
10          the Town and fire department's concerns and time frame for improvements to the  
11          Youngtown water system; (2) these concerns should be evaluated in the context of  
12          the Company's Sun City/Youngtown water system (Sun City Water District); (3)  
13          an engineering analysis and cost estimate will need to be prepared; (4) costs and  
14          benefits of the potential upgrades must be weighted and the rate impacts  
15          considered; and (5) any fire hydrant water service improvement plan should be  
16          incorporated into the capital improvement plans of the Company.  
17  
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19

20     **Q.     DOES YOUNGTOWN DISAGREE WITH ANY OF THE OPINIONS**  
21           **EXPRESSED BY MR. SCHNEIDER IN HIS PREFILED REBUTTAL**  
22           **TESTIMONY REGARDING HOW ARIZONA-AMERICAN SHOULD**  
23           **ADDRESS YOUNGTOWN'S WATER ADEQUACY AND SAFETY**  
24           **CONCERNS?**  
25  
26

1 A. Yes. Youngtown strongly disagrees with Arizona-American on one important  
2 issue regarding implementation of a plan to improve water service to the Town's  
3 fire hydrants. The issue is priority! Although, Mr. Schneider indicates that  
4 Arizona-American may be willing to work with the Town and the local fire  
5 department to possibly address the Company's fire hydrant water service  
6 adequacy problems at some unknown time in the future, Mr. Schneider  
7 completely rejects Youngtown's recommendation that the Company commit to a  
8 formal Fire Hydrant Service Improvement Plan. Youngtown is appalled with Mr.  
9 Schneider's Rebuttal Testimony that improving sub-standard water service to the  
10 Town's fire hydrants (that could possibly save lives and structures in the event of  
11 fire) should not be given any special priority outside of the Company's "routine  
12 planning efforts." (See Schneider Prefiled Rebuttal Testimony, Page 7, Lines 9 –  
13 21.) This is not indicative of a good corporate citizen. The Company's apparent  
14 cavalier attitude on this important water service problem completely ignores the  
15 Company's duty as a certificated utility to provide safe and reliable water service  
16 to all of its customers, not just its new customers. Accordingly, Youngtown,  
17 remains firm on its original recommendation that Arizona-American commence a  
18 "Fire Hydrant Water Service Improvement Plan," which would be a five-year  
19 plan to remedy any identified deficiencies in the Company's water service to  
20 Youngtown's fire hydrants, including those deficiencies specifically identified  
21 above by the Sun City Fire Department in Youngtown's Direct Testimony MEB  
22 Exhibit 5. This proposal includes the requirement that Arizona-American include  
23 the participation of Youngtown, as well as the Sun City Fire Department, in the  
24  
25  
26

1 Company's development of the five-year Fire Hydrant Water Service  
2 Improvement Plan. Youngtown further recommends that the Commission include  
3 in its Decision and Order the requirement that Arizona-American complete the  
4 Plan at a "date certain" to insure that the Company follows-through with the Plan.  
5 Youngtown would be amenable to the Company proposing the date certain for  
6 completing of the Plan.  
7  
8

9 **VII. FUNDING UTILITY IMPROVEMENTS IN THE SUN CITY DISTRICT**

10  
11 **Q. DOES YOUNGTOWN AGREE WITH THE ARIZONA-AMERICAN**  
12 **THAT THE TOWN MUST FUND THE STUDY AND IMPROVEMENTS**  
13 **UNDER A PLAN FOR ARIZONA-AMERICAN TO UPGRADE WATER**  
14 **SERVICE TO THE TOWN'S FIRE HYDRANTS?**

15  
16 **A.** No. As a regulated utility, Arizona-American and its Sun City Water District  
17 should do what is necessary to provide safe and reliable water service to its  
18 customers within the District, and the Company should seek rate recovery  
19 accordingly in a future rate case before the Arizona Corporation Commission.  
20

21  
22 **Q. DOES THIS CONCLUDE YOUR PREFILED SURREBUTTAL**  
23 **TESTIMONY?**

24 **A.** Yes.  
25  
26

# TOWN OF Youngtown

Bold areas have 4" water mains and 3" standpipes.

