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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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COMMISSIONER

5 IN THE MATTER OF THE APPLICATION OF  
6 LITCHFIELD PARK SERVICE COMPANY  
FOR AN INCREASE IN ITS WATER AND  
7 WASTEWATER RATES FOR CUSTOMERS  
WITHIN MARICOPA COUNTY, ARIZONA.

Docket Nos. W-01427A-01-0487  
SW-01428A-01-0487

Arizona Corporation Commission  
**DOCKETED**

OCT 04 2002

**RUCO'S OPENING BRIEF**

DOCKETED BY

11 The Residential Utility Consumer Office ("RUCO") hereby files its Opening Brief in this  
12 matter.

13 The City of Litchfield Park (the "City") has raised concerns regarding the methods by  
14 which Litchfield Park Service Company (the "Company" or "LPSCO") finances its plant.  
15 RUCO believes that the City's concerns are unfounded in the instant case, and continues to  
16 support approval of the Settlement Agreement that was the subject of the Commission's first  
17 hearing in this matter.

18 **Growth and Excess Capacity**

19 The City alleges that the cost of plant to serve new customers is greater than the cost  
20 was ten years ago, and therefore customer growth is responsible for increasing water and  
21 sewer costs. Exh. City-3, pg. 5 (Cicchetti). However, there are a number of reasons why the  
22 cost of water and sewer plant has increased over the past years. Inflation and heightened  
23 environmental requirements result in costlier plant for LPSCO and other water and sewer  
24 utilities. Exh. RUCO-5, pg. 5 (Diaz Cortez).

1 The City proposes that the Commission impose on the Company a mechanism (the  
2 Allowance for Funds Prudently Invested, or "AFPI") to remove perceived excess capacity  
3 from rate base. The mechanism is unnecessary, however, for several reasons.

4 First, LPSCO's test year level of plant does not include any excess capacity. In its  
5 original audit of the Company's application (prior to the filing of direct testimony and prior to  
6 the Settlement Agreement), RUCO explored whether there was excess capacity in the  
7 Company's proposed test year level of plant, and found none. Exh. RUCO-5 at 7 (Diaz  
8 Cortez); Tr. Vol. I, pg. 49, line 20 – pg. 50, line 5 (Diaz Cortez). Likewise, Staff did not  
9 propose any adjustment to the original application for excess capacity in the test year plant.  
10 (RUCO and Staff did both propose adjustments for pro forma Construction Work in Progress  
11 for a well placed in service after the test year, however. See Exh. RUCO-2 at 9-10 (Diaz  
12 Cortez); Exh. S-1 (direct) at 9-10 (Bozzo)).

13 Second, the AFPI is unnecessary because the issue can be addressed by the  
14 Commission in a future rate application by merely disallowing the excess capacity plant. In  
15 the past, the Company has been willing to remove excess capacity from rate base. Exh.  
16 RUCO-5, pg. 6, lines 13-22 (Diaz Cortez). To the extent the Company's new sewer plant  
17 presents excess capacity issues, it will be matter for the Company's next rate case, as  
18 LPSCO has not requested that the new sewer plant be included in rate base as part of this  
19 application. Tr. Vol. I, pg. 50, lines 6-22 (Diaz Cortez).

20 **Conflict of interest**

21 The City maintains that a conflict of interest exists between LPSCO and its developer  
22 affiliate, Suncor, and that customers are thereby harmed. While a relationship between a  
23 utility and a developer within the utility's service territory can result in ratepayer abuses, there  
24 is no evidence that it has here. The City suggests that the Company offers preferential

1 treatment by not requiring Suncor to advance the costs for certain plant that other developers  
2 are required to advance. However, the City has offered no evidence of how this results in  
3 any exploitation of customers.

4 To the contrary, the Company has utilized developer financing at an appropriate level.  
5 The Commission has previously recognized that excessive use of advanced plant may create  
6 cash flow problems for a utility. See Decision No. 60227 (June 5, 1997). Similarly,  
7 disproportionate use of contributions can negatively affect a utility's cash flow. Tr. Vol. II, pg.  
8 230-31 (Diaz Cortez). As of the end of the test year, 18.34 percent of the Company's water  
9 division plant was supported by contributions, and 16.04 percent of the sewer division's plant  
10 was supported by contributions. Exh. RUCO-5 at 4, 9 (Diaz Cortez). This is an appropriate  
11 percentage of plant for LPSCO to have financed by contributed plant, and the City's  
12 contention that LPSCO has underutilized developer financing of plant to the detriment of  
13 customer is unfounded.

14 The City itself agrees that there is nothing inherently wrong with LPSCO's policy of  
15 financing water production, storage, treatments and major water lines. Exh. City-3, pg. 7, line  
16 4 (Cichetti). In fact, such backbone plant is generally financed by a utility, not developers.  
17 Tr. Vol. I, pg. 46, lines 4-13 (Diaz Cortez).

18 Further, in its initial audit of the Company's application, RUCO examined the  
19 relationship between Suncor and the Company, and found no improper conduct. Tr. Vol. I,  
20 pg. 48, line 23 – pg. 49, line 6 (Diaz Cortez); Exh. RUCO-5 at 4 (Diaz Cortez). The City  
21 concedes that there is no documentary evidence to demonstrate that LPSCO or SunCor  
22 intends to use their affiliation to harm utility customers. Exh. City-3, pg. 10, lines 8½ - 10½  
23 (Cicchetti).

### 24 **Method of financing plant**

The City proposes that LPSCO should be required to utilize advances/contributions to  
a greater extent than it does currently. The City proposes that advances/contributions be

1 used to finance both the line extensions and the backbone plant that brings service to a  
2 neighborhood. However, it is important that a utility strike an appropriate balance in its use  
3 of advances, contributions, debt and equity in financing its plant investment. Over or under  
4 use of any of these financing methods can lead to financial problems. For example, over use  
5 of advances or contributions can result in cash flow problems and an inability to generate  
6 income. Conversely, over use of equity can result in high rates and excess earnings,  
7 because equity financing is the most expensive method of financing plant additions.

8 Contrary to the City's proposal, backbone plant is usually not financed by advances.  
9 Tr. Vol. I, pg. 46, lines 4-13 (Diaz Cortez). Using advances to finance backbone plant can  
10 result in the utility having so little plant in rate base that it lacks an opportunity to earn a  
11 sufficient return. In addition, the increased refunding obligations when backbone plant is  
12 financed by advances can strain cash flow.

13 As noted above, LPSCO has adequately balanced its use of advances/contributions  
14 and debt/equity.

15 **Hookup fees**

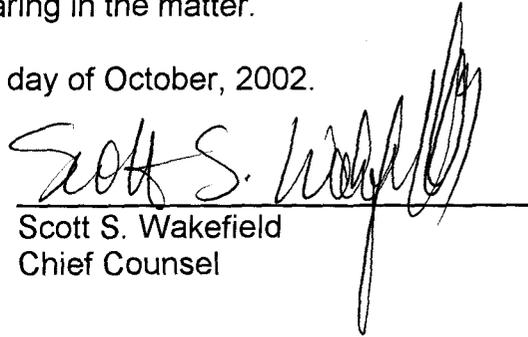
16 LPSCO has proposed a hookup fee from sewer customers in the amount of \$1,500  
17 per customer. The City proposes that the hookup fee be accounted for as a contribution,  
18 rather than as an advance. In addition, the City proposes a hookup fee for future water  
19 customers of \$300, to be treated as a contribution. RUCO generally does not oppose  
20 reasonable levels of hookup fees. Exh. RUCO-5, pg. 10, lines 4-5 (Diaz Cortez). However,  
21 adoption of hookup fees in this proceeding, whether treated as advances or contributions,  
22 would not have any effect on rates set in this proceeding. See Exh. RUCO-5, pg. 10, lines  
23 13-16 (Diaz Cortez); Tr. Vol. II, pg. 164, lines 4-9 (Cicchetti).

24

1 **Conclusion**

2 The City's concerns regarding LPSCO's chosen methods to finance its plant are  
3 unfounded. It is not necessary to implement the AFPI, because the Company's test year rate  
4 base has no excess capacity. LPSCO already utilizes an appropriate level of  
5 contributions/advances. Therefore, the Commission should approve the Settlement  
6 Agreement that was the subject of the first hearing in the matter.

7 RESPECTFULLY SUBMITTED this 4th day of October, 2002.

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9 \_\_\_\_\_  
10 Scott S. Wakefield  
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23 \\Server\Cases-Active\Water-Sewer\Litchfield Park-rate case (01-0487)\Brief (opening).doc

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