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Arizona Corporation Commission
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Attorneys for Applicant

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01427A-01-0487
 7 OF LITCHFIELD PARK SERVICE) DOCKET NO. WS-01428A-01-0487
 8 COMPANY FOR AN INCREASE IN ITS)
 9 WATER AND WASTEWATER RATES FOR) **NOTICE OF FILING**
 CUSTOMERS WITHIN MARICOPA)
 COUNTY, ARIZONA.)

11 Litchfield Park Service Company, by and through its undersigned counsel, hereby
 12 provides this Notice of Filing on behalf of the Company of the Rebuttal Testimonies of David
 13 W. Ellis and Dan L. Neidlinger in the Post Settlement Agreement proceedings.

14 Respectfully submitted this 21st day of August, 2002.

15 SALLQUIST & DRUMMOND, P.C.
 16 *[Signature]*
 17 Richard L. Sallquist
 18 2525 E. Arizona Biltmore Circle
 19 Suite 117
 20 Phoenix, Arizona 85016
 21 Attorneys for Litchfield Park Service Company

1 Original and ten copies of the
2 foregoing filed this 21st day
3 of August, 2002, with:

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

5 Copy of the foregoing filed
6 this 21st day of August, 2002, to:

7 Hearing Division
8 Arizona Corporation Commission
9 1200 W. Washington
10 Phoenix, Arizona 85007

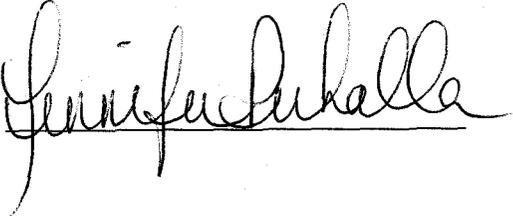
9 Legal Division
10 Arizona Corporation Commission
11 1200 W. Washington
12 Phoenix, Arizona 85012

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**LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. WS-01427A & WS-01428A-01-0487
RATE APPLICATION**

**POST
SETTLEMENT AGREEMENT
PROCEEDINGS
REBUTTAL TESTIMONY
OF
DAVID W. ELLIS**

**FILED
AUGUST 21, 2002**

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1 goal to use low interest bonding to get its equity/debt ratio close to 50/50% when rates
2 levels and Company financial conditions allow that to be accomplished.

- 3 • Has not raised rates since May 1998 and those rates are based on 1996 cost data.
- 4 • Not only has maintained but enhanced service to customers; improving water pressure,
5 replacing outdated hydrants and service lines, improving the disinfection process and
6 safety, and improving system reliability. Complaints to this Commission about LPSCO's
7 service have been virtually non existent, other than the complaints on the proposed rates
8 solicited by the City of Litchfield Park.
- 9 • Maintained the lowest combined water and wastewater rates in the surrounding area.
10 Even after the 43.26% settlement increase in water rates LPSCO will still have the lowest
11 water rates in the area.
- 12 • Strategically brought additional (non-SunCor) service territory into its CC & N under
13 favorable terms that has made LPSCO's system more cost efficient and resulted in
14 economies of scale that will result in great benefit to its rate payers by reducing future
15 increases to existing customers on its system. (as discussed below, this is actually
16 detrimental to SunCor's development business.)
- 17 • Worked with the City of Goodyear to realign the CC&N of LPSCO and the service
18 territory of the City of Goodyear using I-10 as the natural boundary and making both
19 Goodyear and LPSCO service territories easier and more efficient to serve. Two service
20 area exchanges have been accomplished and a third one is in progress.
- 21 • Master planned the water and wastewater systems so that the proper size lines are
22 installed initially. This eliminates the requirement for future street cuts and facilities
23

1 rework through developed areas at costs that often can often be 5 to 10 times more
2 expensive.

- 3 • Worked in conjunction with its developer parent SunCor to effectively and efficiently
4 serve a 20 square mile, mostly master planned service area. This support includes
5 providing strategically located wells, reservoirs, and booster pump sites, reclaimed water
6 disposal locations and wastewater processing/pumping sites.
- 7 • Hired an experienced General Manager who has 40-years utility experience, is a
8 registered professional engineer with expertise in all areas of utility operations and
9 management. LPSCO has vested with that individual the responsibility to run the day to
10 day operations of the utility company, free from outside development company influence.
- 11 • Although not a part of this rate case, recently completed construction of a new 4.1
12 million gallon a day, state of the art, water reclamation facility in Goodyear. This facility
13 was completed on time, under budget, and has been selected as a finalist in the Valley
14 Forward environment excellence awards for 2002.

15 Q. Mr. Cicchetti has testified that the Company is experiencing rapid growth and
16 recommends hookup fees to finance that growth. Do you have an opinion on that?

17 A. Yes I do - LPSCO is a rapidly growing company that is making the transition from a
18 small company to a larger one that will have to stand on its own and be and adequately
19 capitalized. The Company needs to use a combination of financial resources to accommodate that
20 rapid growth. To date the Company has done a very good job using a combination of equity, tax
21 exempt debt, developer advances, and contributions to finance that growth.

22 RUCO has testified earlier in these proceedings that LPSCO was using about the right
23 amount of contributed and advanced capital (20 to 22%). They indicated that LPSCO has been

1 most responsible in this area and in fact was the most responsible developer owned utility
2 company they had come across in this respect. (See Transcript of April 3, 2002, page 49)
3 Developer advances for areas that have been added to the CC&N far exceed any proposed hook-
4 up fees.

5 An over reliance on contributed capital as proposed by Mr. Cicchetti is severely flawed and
6 will lead to a unhealthy company. For example: Mr. Cicchetti recommends that all new
7 residential customers inside LPSCO's CC & N contribute \$1,500 for wastewater service. LPSCO
8 already requires the developer to contribute all on-site sewer lines. A further contribution of
9 \$1,500/lot would result in essentially all wastewater infrastructure contributed, with no sewer
10 rate base at all.

11 Q. Mr. Cicchetti also is recommending that customers inside the CC & N area be treated the
12 same as customers seeking to join the CC & N. Do you agree with that?

13 A. No I do not -- LPSCO has explained in its answers to an earlier City data request that its
14 policy of making customers who are joining the CC & N advance the entire infrastructure costs
15 associated with their developments is specifically designed to protect LPSCO's existing
16 customers. They should not be harmed by expanded the CC & N area and the CC&N should not
17 be expanded if they are not specifically benefited by the expansion. To use this policy as an
18 argument that LPSCO should treat customers inside its CC & N in the same manner , as Mr.
19 Cicchetti suggests, is not appropriate.

20 Q. The City claims that growth outside the City is unfair and is the cause for their rising
21 rates. Do you agree with that?

22 A. No. The City of Litchfield Park does not seem willing to acknowledge that it has an old
23 system, and that major parts of that system require replacing. A large part of the Litchfield Parks

1 system was installed in the 1950 - 1970 time frame, is 30 to 50 years old, is fully depreciated and
2 results in virtually no rate base. Anything that is done to improve or replace existing plant will
3 therefore increase rate base. This is as true for replaced galvanized water lines as it is for
4 wastewater treatment capacity.

5 The City seems unwilling to recognize that system replacement costs are not maintenance
6 costs, but are capital costs and that the appropriate accounting treatment of those costs will add to
7 the rate base inside the City.

8 Q. Mr. Cicchetti cites a 1993 water rate base for the Company of \$534,171 and a test year
9 rate base of \$5,909,975. Does that suggest anything of significance to you?

10 A. The 1993 rate base amount may be interesting history but should not play in this rate case.
11 The Commission approved a water rate base of \$1,711,000 base in the 1996 rate case. The test
12 year customers totaled 3,081. This amounted to \$555 per customer. Since that time, as detailed
13 in DWE-2 in my Rejoinder Testimony, and attached hereto as Attachment DWE-1, the Company
14 has added \$828,405 in water additions for the City that are not growth related. Many were as a
15 result of agreements with the City or at the specific request of the City. The projects were to
16 replace outdated hydrants, replace old corroded galvanized services, relocations associated with
17 City road improvement projects, improvement to water pressure, new water disinfection system,
18 and meet increasing customer requirements and expectations.

19 The costs associated with these projects have resulted in a water rate base inside the City of
20 Litchfield Park that is virtually identical to LPSCO's entire system on a per customer basis,
21 \$1,055 inside the City, and \$1,068 system-wide (see Attachment DWE_1). Mr. Cicchetti's
22 statement that "the only reasonable explanation to explain this increase in OCRB plant
23 investment per customer is growth" just doesn't square with the facts.

1 Q. Do the LPSCO facilities inside the City of Litchfield Park require more maintenance than
2 other parts of the LPSCO system?

3 A. Definitely - LPSCO's system outside of Litchfield Park is less than 10 years old and
4 requires very little in terms of maintenance. The LPSCO system inside the City however as
5 earlier stated is 30 to 50 years old and produces a disproportionate amount of the maintenance
6 problems. Those costs, whether booked as maintenance expenses or capitalized, are spread over
7 LPSCO's entire customer base to the City of Litchfield Park citizen's substantial benefit.

8 Q. Will you please put LPSCO's existing and proposed rate levels in perspective?

9 A. LPSCO has the lowest water rates in the west valley and the Commission Staff testified at
10 the initial hearing in this matter that LPSCO's rates are among the lowest in the State.

11 To underscore just how low LPSCO rates presently are, LPSCO conducted a survey of rates
12 in the surrounding communities. This survey indicates that LPSCO has the lowest water rates in
13 the area by a substantial margin. The second lowest was 50% higher than LPSCO and the
14 highest was 240% higher, with the average being 110% higher.

15 Even after the 43.26% increase in the settlement agreement, LPSCO water rates will still will
16 be the lowest in surrounding area. Attached as Attachments DWE-2 and 3 are two comparisons
17 of LPSCO's rates to other suppliers at 10,000 gallons per month (LPSCO's system average) and
18 at 23,000 gallons per month (Litchfield Park's average).

19 After the settlement increase LPSCO will be in about the middle for combined water and
20 sewer rates. At 10,000 gallons per month, LPSCO is fourth lowest out of eight surveyed, and at
21 23,000 gallons per month LPSCO is fifth lowest out of the eight surveyed.

22 Q. There are allegations and speculation by the City about the potential for LPSCO/SunCor's
23 abuse and manipulation of its finances to the detriment of the ratepayers.

1 A. The real question to be answered isn't; is there potential for abuse, but was there any
2 actual abuse? LPSCO has conducted all its business in an ethical and above board manner.
3 Decisions have been made from a good utility practice standpoint and in a non-discriminatory
4 manner. If there has been abuse, it has not been demonstrated by the City, even after dozens of
5 data requests, a deposition, and review of all SunCor documents related to utility service and
6 LPSCO financing.

7 The City's alleges and Mr. Cicchetti suggests that somehow, an inappropriate relationship
8 between LPSCO and SunCor has somehow worked to the disadvantage of the ratepayers.
9 However, the facts certainly fly in the face of this allocation, and the rates don't lie!

10 As stated above, the CC&N has been expanded to include non-SunCor properties which
11 compete with SunCor's development business. Also, these developers, in post-test year
12 transactions, have advanced millions of dollars for water and wastewater facilities that have
13 added substantially to the reliability and quality of service on the entire system, and that would
14 otherwise have to be funded by existing rate payers.

15 Further, the stockholders of LPSCO can hardly be accused of maximizing the return on
16 the utility company. Attached as Attachment DWE-4 is a summary of the LPSCO return on rate
17 base since the 1996 rate case. A less than 2% average return is not an "abuse" of rate payers in
18 my mind.

19 If SunCor has been out to manipulate LPSCO to the detriment of consumers, it has failed at
20 that task miserably.

21 Q. Mr. Cicchetti says that Mr. Appleyard makes the financial decisions for LPSCO. Is that
22 true.

1 A. Mr. Appleyard is the Vice President and Treasurer of LPSCO, but contrary to Mr.
2 Cicchetti suggestion, Geoff Appleyard has not made the decisions involving advances or
3 contributions in LPSCO line extension agreements. These decisions have been made by me.
4 Certainly, I have discussed and informed Mr. Appleyard about the general requirements in a
5 couple of major multi-million dollar agreements, but these agreements were negotiated and
6 signed by me, not Geoff Appleyard.

7 When my Company, Advanced Energy Strategies, Inc., was hired to manage LPSCO's
8 operations, a serious discussion took place between Mr. Appleyard and me about the positions
9 decision making authority and latitude. Mr. Appleyard made it very clear that I was to take care
10 of LPSCO and not worry about taking care of SunCor – that was not my job or responsibility. I
11 have followed that concept, often times to the dismay of the SunCor's development people.

12 Q. The City produced a document (Attachment A - Exceptions of the City of Litchfield Park
13 to the proposed Rate Case Settlement Agreement) at the rate hearing. What did this document
14 indicate?

15 A. "Attachments A" was a summary taken from various line extension agreements that
16 supposedly showed that LPSCO had lower line extension charges for its SunCor developments
17 and higher extension charges for non-SunCor developments. Specifically cited were costs for
18 items such as hydrants, B & C, and service lines. The document supposedly demonstrated the
19 inappropriate relationship between LPSCO and SunCor. The City clearly does not understand the
20 workings of LPSCO's line extension agreements. Here are the facts:

- 21 • The developer, not LPSCO does the infrastructure construction inside its
22 development/subdivision to LPSCO's specifications. LPSCO inspects and approves the
23 construction of those facilities.

- 1 • The costs that are itemized are the developers costs (not LPSCO's) to install those items
2 for that development/subdivision.
- 3 • The fact that some of SunCor's costs are lower than others indicates only that SunCor is
4 getting lower bids from their construction contractors.
- 5 • Under line extension agreements, LPSCO refunds 10% of the annual revenue generated
6 by the development/subdivision and not the cost of the project infrastructure.
- 7 • Refunds under the line extension agreements cannot exceed the developers actual costs.
8 Developers that have a lower installed costs will get less money refunded. What this
9 document demonstrates is that SunCor will get less refunded -- just the opposite of what
10 the City has alleged.

11 Q. There was a delayed execution of line extension agreements for Palm Valley Phase 1 and
12 PebbleCreek Phase 1. Mr. Cicchetti's direct testimony suggests that this was a questionable
13 practice. Did this work to SunCor's benefit?

14 A. No it did not and in fact it has worked to SunCor's disadvantage. When I came to LPSCO
15 in 1998 there were no current line extension agreements in place. Since that time LPSCO has
16 been working to bring all line extension agreements up to date. Both line extension agreements in
17 question have been filed with the ACC.

18 As indicated in the Company's Data Response LP - 3-50 to the City, the refunds due
19 under both these agreement are based on the actual revenue generated by customers in the years
20 that date as far back as 1993. The monetary effect of the delay in finalizing the agreements has
21 penalized the two developers for the time-value of money during the delay period.

22 Q. Are there benefits to LPSCO being owned by a developer?
23

1 A. Yes - examples where LPSCO customers benefited from the utility being owned by the
2 developer have been:

3 LPSCO purchased the reservoir site at approximately half the existing market value of the
4 land.

5 The well sites were purchased at less than the existing market value.

6 Most importantly, LPSCO was able to acquire the site for the new Palm Valley Water
7 Reclamation Facility (PVWRF) in a most advantageous location -- strategically located near 4
8 golf courses where the WRF effluent can be directly re-used.

9 Q. Mr. Cicchetti has recommended that approximately \$1.6 million be taken out of water
10 rate base. Do you agree with that?

11 A. No I certainly do not. First off, the test for inclusion in rate base in Arizona is "Used and
12 Useful". All of LPSCO's plant included in the rate base settlement agreement was in service
13 during the test year and met the "used and useful" criteria.

14 Mr. Cicchetti's premise is that there is significant excess capacity in the LPSCO system at
15 the end of the test year. This premise is flat wrong -- there is no excess capacity on the LPSCO
16 system that should be removed from rate base.

17 Q. Are there other problems with Mr. Cicchetti's calculations and assumptions?

18 A. Yes there are -- Mr. Cicchetti uses Marlin Scott's 7,060 customer capacity number (that is
19 base on well capacity for Town Wells 1A, 2, 4, 5, and 6). He then subtracts the 2000 year end
20 5,541 customers to arrive at an excess customer capacity. He then multiplies that number and the
21 water rate base of \$1,068 to remove \$1.6 million from the Settlement Agreement water rate base.

22 Q. Why is that inappropriate?
23

1 A. Marlin Scott's capacity calculation includes a well (TW1A) that is not in the Settlement
2 Agreement rate base. When you remove TW1A from the calculations, the alleged excess
3 capacity drops to (178 x \$1,068) or \$190,104 not \$1,622,292. (See Attachment DWE-5)

4 Even more problematic, Mr. Cicchetti's reliance on Marlin Scott's well capacity number
5 to calculate his proposed adjustment. Mr. Scott's well capacity number is based on the well's
6 design capacity and not its actual operating capacity. Over time sand erodes the pump impellers,
7 casings corrode and leak, etc. and actual production is not design capacity. We presently have
8 two wells that are not able to produce their design capacity for operational reasons.

9 Q. Are there addition problems with Mr. Cicchetti's methodology?

10 A. Yes - there are some serious errors in both his math and his understanding of the planning
11 and operating requirements of a water utility system. He has drawn erroneous conclusions from
12 insufficient data and then extrapolated those wrong conclusions to the entire water rate base.

13 These are detailed below:

14 Mr. Cicchetti has made a math error in calculating his cost/REU. If you multiply his
15 \$1019.67 cost/REU (Exhibit MAC-3 page 1 of 4) by the claimed design capacity customers
16 (7,060) you get a rate base of \$7,198,870. This is 22% higher than the actual settlement rate base
17 of \$5,909,975.

18 As I explained earlier he used the actual test year customers and a theoretical well
19 capacity number (generated by Marlin Scott) and then used that difference as a surrogate to be
20 applied to the entire Settlement Agreement water rate base.

21 Q. What's wrong with doing that?

22 A. Although LPSCO does not have Marlin Scott's underlying calculations there is not
23 sufficient well capacity during the test year to supply 7,060 customers for the following reasons:

- 1 • Good engineering design practice requires that the system provide uninterrupted water
2 service with the largest well out of service for repairs. (not only is this good
3 engineering/utility practice, but continuity of water supply is mandated by ADEQ Bulletin
4 #10)
- 5 • Additionally Marlin Scott's maximum day gallons/customer number of 942 is a monthly
6 average usage and is not reflective of the maximum day usage that must be served during
7 that month. (which is 16% higher than the average daily use).
- 8 • Also, the 942 gallons/customer/day is a gallons sold and not the gallons pumped—and as
9 such does not include the system lost water factor of 8.39%, or the systems fire flow
10 requirements.

11 Q. What happens to Mr. Cicchetti's excess capacity computation when you consider these
12 additional factors?

13 A. The attached Attachment DWE-6 shows the well capacity deficiency using the above
14 criteria. As can be seen from the calculations, using the 942-gallon number with one well out of
15 service, considering the maximum day to average day relationship, lost water and fire flow
16 requirements, the reserve deficiency is 503,708 gallons/day. This is an 8% short fall of the total
17 pumping capacity of the LPSCO system.

18 Q. How does LPSCO calculate the maximum day requirements?

19 A. The LPSCO design criteria for maximum day uses 225 gallons/person/day, 2.0 maximum
20 hour factor, and 2.6 persons/dwelling unit. This produces a maximum day number of 1,170
21 gallons/customer/day. Using 1,170 gallons/customer/day, there is a well deficiency of 467,370
22 gallons per day in the test year, 7.4% short fall of the total pumping capacity.

23 Q. What does this point out?

1 A. The LPSCO calculations in Attachment DWE-4 demonstrates the fatal flaw that can
2 happen when one component (or definition of capacity) is erroneously used to make sweeping
3 assumptions about the entire water system. Mr. Cicchetti's flawed methodology established a
4 \$1.6 million excess capacity component of rate base based on excess capacity when, in fact, the
5 system was deficient in pumping capacity by close to a half-million gallons a day under real time
6 operating conditions.

7 Similar assumptions by Mr. Cicchetti cannot be made applied to the distribution and
8 transmission system. The need for system reliability and backup water paths require the planning
9 engineers to carefully analyze the system for reliability and emergency performance (that's why
10 systems are normally looped and have built in factors of safety).

11 Additionally, many items of rate base have little to do with actual system capacity and
12 consequently cannot be extrapolated as Mr. Cicchetti has in his calculations (computers &
13 control equipment, office buildings and furniture, trucks, etc.).

14 Q. Has LPSCO ever lost a well on peak times for an extended period of time?

15 A. Yes, just like all utility companies, we have had equipment failures. LPSCO's design
16 assumptions are not "pie in the sky" paper calculations, but reflect real life operating situations.
17 During the test year 2000, LPSCO lost a well due to contamination and the well was completely
18 out of service during the summer peak period. The well was supplying over 1,000 GPM to the
19 system and LPSCO just made it through. There were days when LPSCO thought it might have to
20 curtail the water supply, and in fact I discussed this condition with the Litchfield Park City
21 Manager, Horatio Skeete and gave him a "heads up" to that possibility.

22 Q. Does the ACC consider uninterrupted water supply of major importance?
23

1 A. Yes it does. To underscore the importance of continuous water supply to customers in the
2 state of Arizona, the Commission Staff is requiring all water companies file curtailment plans
3 with the Commission. LPSCO has agreed to file a Curtailment Plan with the Commission within
4 90 days after a Commission Order in this Case. The plan will detail what steps LPSCO would
5 take during a supply shortage or disruption in the Company's ability to provide continuous water
6 to customers on its system.

7 Q. Did the ACC or RUCO find any excess capacity in the LPSCO system in their
8 investigations in this rate case?

9 A. No - neither the ACC staff nor RUCO found any excess capacity in their analysis of the
10 LPSCO system.

11 Q. The City has indicated that the settlement agreement, if approved, will cause rate shock.
12 Do you believe this?

13 A. No I don't. Granted the percentage increase may be high, but the base to which it is
14 applied is small, so the actual dollar increase to the average customer is small. The residential
15 sewer bill will increase \$4.00/month. The water bill for 10,000 gallons/month will increase
16 \$5.30/month. The City of Litchfield Park residents use approximately 23,000 gallons/month, so
17 there increase will be higher - but they also have the third highest income levels in the Maricopa
18 County. This should not produce "rate shock" in Litchfield Park.

19 Q. The City cites the fact that LPSCO has customers in its service area that are on fixed
20 incomes. How about the effect on them?

21 A. LPSCO does have a retirement community in PebbleCreek and a lot of the residents are
22 on a fixed income. The sewer increase will be identical at \$4.00/month, but the water increase
23

1 will less than the average. The average increase in water bills in PebbleCreek will be \$4.54 in
2 the high use summer months and \$3.00 in the winter.

3 Q. Will you please summarize the Company's position in response to the City of Litchfield
4 Park's issues?

5 A. Yes, we feel the City's approach in this proceeding has been ill advised. Prior to its
6 filing, I personally discussed our application with the Mayor and City Manager to keep them
7 informed of our plans and needs. I am aware that as elected officials they need to be a vigilant
8 regarding all issues within the City. It is unfortunate that they took the parties and the
9 Commission's time to explore these non-issues. After substantial effort on the part of the
10 Company in responding to these inquires, the City has presented no evidence that suggest that
11 anything other than the Settlement Agreement reached by all other parties should be approved.
12 We would urge the Commission to reject all of the City's arguments and approve the Settlement
13 Agreement.

14 Q. Does this conclude your testimony?

15 A. Yes it does.
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LITCHFIELD PARK SERVICE COMPANY
ACC Docket Nos. W-01427A-01-0487 & SW-01428A-0487
Test Year Ended December 31, 2000

Comparison of City Water Rate Base Per Meter With Total System Rate Base Per Meter

DESCRIPTION	TOTAL	YEAR OF ADDITION			
		2000	1999	1998	1997
Plant Additions Within the City:					
Hydrant Replacements	\$209,458	\$157,458		\$50,000	\$2,000
Service Line Replacements	364,521	21,521	150,000	164,000	29,000
Water Main Repl. & Purchases	123,800	118,000			5,800
Subtotal	\$697,779	\$296,979	\$150,000	\$214,000	\$36,800
Other Plant Improvements: (1)					
Booster Pump	\$247,375	\$113,000	\$10,000		\$124,375
Wells	45,600	7,000	36,000		2,600
Emergency Generator	68,000			68,000	
Water Treatment	83,275	82,310			965
Reservoir	19,550				19,550
Subtotal	\$463,800	\$202,310	\$46,000	\$68,000	\$147,490
Pro Rata Allocation to the City - 28.38% (2)	\$131,826	\$57,416	\$13,055	\$19,298	\$41,858
Total Water Additions - City	\$829,405	\$354,395	\$163,055	\$233,298	\$78,658
Less: Accumulated Depreciation (3)	(44,410)	(9,285)	(8,544)	(18,337)	(8,243)
Additions to Rate Base - City	\$784,996	\$345,109	\$154,511	\$214,961	\$70,414
Water Meters - City	1,570				
City Rate Base Additions - Per Meter	\$500				
Total Water Rate Base Per Meter - 1996 (4)	555				
City Water Rate Base Per Meter - 2000	\$1,055				
Total LPSCO Water RB Per Meter - 2000 (5)	\$1,068				
Difference - Per Meter Rate Base	(\$13)				

NOTES:

- (1) Plant Improvements of Benefit to All Customers Including Those in the City
- (2) City Meters (1,570) Divided by Total System Meters at 12-31-00 (5,532)
- (3) Calculated Using Authorized Water Depreciation Rate of 2.62%
- (4) Water Rate Base at 12-31-96 Updated to 2000 (\$1,711,000) Divided by Total Meters at 12-31-96 (3,081)
- (5) Water Rate Base at 12-31-00 (\$5,909,975) Divided by Total Meters at 12-31-00 (5,532)

Water and Wastewater Rates					
Based on 10,000 Gallons Per Month					
					Effective Date
Nearby Company	Water				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	47.56	1	47.56	1	Jul-91
Surprise(Citizens Utilities)	33.72	2	33.72	2	May-97
Peoria	32.61	3	32.61	3	Jul-00
Valley Utilities (Water Only)	32.60	4	32.60	4	Oct-00
Phoenix	24.20	5	24.20	5	Apr-01
Goodyear	21.62	6	21.62	6	Sep-98
Glendale	20.91	7	20.91	7	Nov-95
Avondale	20.90	8	20.90	8	Nov-98
LPSCO	13.95	9			May-98
New LPSCO Rate			19.25	9	Est Nov-02
	Wastewater				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	15.40	6	15.40	6	Jul-91
Surprise(Citizens Utilities)	12.00	8	12.00	8	May-97
Peoria	22.08	3	22.08	3	Jul-00
Phoenix	13.00	7	13.00	7	Apr-01
Goodyear	21.52	4	21.52	4	Sep-98
Glendale	18.74	5	18.74	5	May-01
Avondale	28.27	1	28.27	1	Nov-98
LPSCO	23.20	2			May-98
New LPSCO Rate			27.20	2	Est Nov-02
	Combined Water and Wastewater				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	62.96	1	62.96	1	Jul-91
Surprise(Citizens Utilities)	45.72	4	45.72	5	May-97
Peoria	54.69	2	54.69	2	Jul-00
Phoenix	37.20	7	37.20	8	Apr-01
Goodyear	43.14	5	43.14	6	Dec-01
Glendale	39.65	6	39.65	7	May-01
Avondale	49.17	3	49.17	3	Nov-98
LPSCO	37.15	8			May-98
New LPSCO Rate			46.45	4	Est Nov-02
Note: All rates Exclusive of Taxes					

DWE-2

Water and Wastewater Rates					
Based on 23,000 Gallons Per Month					
					Effective Date
Nearby Company	Water				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	100.47	1	100.47	1	Jul-91
Peoria	75.30	2	75.30	2	Jul-00
Valley Utilities (Water Only)	55.80	3	55.80	3	Oct-00
Phoenix	38.97	6	38.97	6	Apr-01
Goodyear	46.07	4	46.07	4	Dec-01
Glendale	39.34	5	39.34	5	Nov-95
Avondale	38.49	7	38.49	7	Nov-98
LPSCO	25.39	8			May-98
New LPSCO Rate			36.30	8	Est Nov-02
	Wastewater				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	29.05	4	29.05	4	Jul-91
Peoria	47.43	3	47.43	3	Jul-00
Phoenix	19.45	6	19.45	6	Apr-01
Goodyear	63.54	1	63.54	1	Dec-01
Glendale	18.83	7	18.83	7	May-01
Avondale	56.09	2	56.09	2	Nov-98
LPSCO	23.20	5			May-98
New LPSCO Rate			27.20	5	Est Nov-02
	Combined Water and Wastewater				
	Existing Rate	Rank	With Increase	Rank	
Buckeye	129.52	1	129.52	1	Jul-91
Surprise(Citizens Utilities)					May-97
Peoria	122.73	2	122.73	2	Jul-00
Phoenix	58.42	5	58.42	6	Apr-01
Goodyear	109.61	3	109.61	3	Dec-01
Glendale	58.17	6	58.17	7	May-01
Avondale	94.58	4	94.58	4	Nov-98
LPSCO	48.59	7			May-98
New LPSCO Rate			63.50	5	Est Nov-02

Note: All rates Exclusive of Taxes taxes

LPSCO HISTORICAL RETURNS

1997	Book Rate Base	\$6,527,737
	Book Oper. Inc.	\$75,600
	Rate of Return	1.16%
1998	Book Rate Base	\$10,317,567
	Book Oper. Inc.	\$79,781
	Rate of Return	0.77%
1999	Filing Rate Base	\$12,287,594
	Book Oper. Inc.	\$317,380
	Rate of Return	2.58%
2000	Filing Rate Base	\$15,624,287
	Book Oper. Inc.	\$527,684
	Rate of Return	3.38%

Item	Using Average Monthly Water Sales Numbers	Using LPSCO max day planning criteria of 225 GPD, 2x average Hour, 2.6 Persons/DU
Customers at end of test year	5,541	5,541
May 2000 average gallons	942	
Average daily gallons sold	5,219,622	
Lost water factor	0.089	
Max day/monthly average adjustment factor	0.16	
Lost water	464,546	
Max day/monthly average adjustment	835,140	
Max day gallon requirements	6,519,308	6,482,970
Max day requirements/customer	1,177	1,170
3-hour fire flow @ 1500 GPM	270,000	270,000
Required maximum daily pumping capacity	6,789,308	6,752,970
TW2 capacity in GPM	640	640
TW4 capacity in GPM	1,200	1,200
TW5 capacity in GPM	1,425	1,425
TW6 capacity in GPM	1,425	1,425
TW1A capacity in GPM	1,100	1,100
Total well capacity	5,790	5,790
Well capacity with largest pump out of service	4,365	4,365
Available daily gallons with loss of one pump	6,285,600	6,285,600
Required pumping capacity	6,789,308	6,752,970
Total reserve/deficiency	-503,708	-467,370
Percentage of available pumping capacity	-8.0	-7.4

DWE-5

Item	Cicchetti's Methodolgy Corrected for Town Well 1A
Customers at end of test year	5,541
TW2 capacity in GPM	640
TW4 capacity in GPM	1,200
TW5 capacity in GPM	1,425
TW6 capacity in GPM	1,425
TW1A capacity in GPM	1,100
TW2 daily capacity in gallons	921,600
TW4 daily capacity in gallons	1,728,000
TW5 daily capacity in gallons	2,052,000
TW6 daily capacity in gallons	2,052,000
TW1A daily capacity in gallons	1,584,000
Daily capacity in gallons	8,337,600
Marlin Scotts system customer capacity	7,060
Gallons/customer/day	1,181
Daily capacity in gal w/o TW1A	6,753,600
System customer capacityw/o TW1A	5,719
Excess system customer capacity	178
% excess system customer capacity	2.52

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**LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. WS-01427A & SW-01428A-01-0487**

**POST
SETTLEMENT AGREEMENT
PROCEEDING
REBUTTAL TESTIMONY
OF
DAN L. NEIDLINGER**

**FILED
AUGUST 21, 2002**

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1 **REBUTTAL TESTIMONY OF DAN L. NEIDLINGER**

2 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

3 A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix,
4 Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in
5 utility rate economics.

6 Q. DID YOU PREVIOUSLY FILE DIRECT AND REBUTTAL TESTIMONY IN THIS
7 PROCEEDING ON BEHALF OF THE APPLICANT, LITCHFIELD PARK SERVICE
8 COMPANY ("LPSCO" OR "COMPANY")?

9 A. Yes.

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS EXTENDED PHASE OF
11 THE PROCEEDING?

12 A. The purpose of my testimony is to comment on certain aspects of the testimony of Mr. Mark
13 Anthony Cicchetti, consultant to the City of Litchfield Park ("City"). More specifically, my
14 testimony addresses Mr. Cicchetti's proposed \$1.6 million reduction in the settlement rate
15 base for the water division and the Allowance for Funds Prudently Invested ("AFPI")
16 method for dealing with this adjustment, prospectively, in this case.

17 Q. WHAT IS YOUR OVERALL EVALUATION OF MR. CICHETTI'S TESTIMONY?

18 A. The primary objective of Mr. Cicchetti's testimony is to unravel the Settlement Agreement
19 as it relates to the water division. His conclusions and accordingly, his recommendations
20 are based on a series of invalid assumptions with respect to plant capacities. Moreover, his
21 analysis contains numerous calculation errors. Some of these errors are significant. The
22 recommended rate base adjustment and the proposed revisions to water rates that flow from
23 this faulty analysis are therefore without merit and should be rejected by the Commission.

Q. PLEASE DESCRIBE THE ASSUMPTIONS MADE BY MR. CICHETTI THAT, IN
YOUR VIEW, ARE NOT VALID.

1 A. Mr. Cicchetti has concluded that there is a significant amount of excess plant capacity in the
2 water system at the end of the year 2000, the test year in this case. He reaches this
3 conclusion based on a tiny portion of the analysis of Staff engineering witness, Mr. Marlin
4 Scott, Jr. Page 10 of the Staff engineering report states that water storage and pumping
5 capacities during the test year were capable of serving approximately 7,060 service
6 connections compared with the 5,541 served during the test year. Based entirely on this
7 statement, which he evidently did not understand, Mr. Cicchetti jumps to the conclusion that
8 the Company's entire water system at the end of 2000 has the capacity to serve an additional
9 1,519 connections (Mr. Cicchetti incorrectly calculates this difference to be 1,591). The
10 Rebuttal Testimony in these Post Settlement Agreement Proceedings filed by Mr. Dave
11 Ellis, General Manager of LPSCO, further discusses the flaws in Mr. Cicchetti's excess
12 capacity analysis. Using generally accepted design criteria, Mr. Ellis's analysis
13 demonstrates that there was no excess pumping and storage plant at the end of the test year.
14 To the contrary, there existed a shortage in capacity at that date.

12 Q. DID MR. SCOTT PROPOSE ANY ADJUSTMENT TO THE COMPANY'S WATER
13 PLANT DUE TO EXCESS CAPACITY?

14 A. No, nor did Mr. Brian Bozzo, the Staff analyst responsible for determining water rate base
15 for the Staff in this case.

16 Q. DID RUCO WITNESS MARYLEE DIAZ CORTEZ PROPOSE ANY ADJUSTMENT TO
17 THE COMPANY'S WATER PLANT DUE TO EXCESS CAPACITY?

18 A. No, she did not.

19 Q. DID ANY OTHER PARTY TO THIS PROCEEDING SUGGEST THAT LPSCO HAD
20 INSTALLED AN EXCESSIVE AMOUNT OF WATER PLANT AT THE END OF THE
21 TEST YEAR?

22 A. No, other than the City Manager of Litchfield Park, Mr. Horatio Skeete. Mr. Skeete,
23 however, presented no evidence to support his allegations regarding excess capacity.

1 Q. WHAT IS THE AFPI METHOD?

2 A. Mr. Cicchetti's testimony provides, at best, a very limited description of the method and its
3 application. Based on my understanding of his testimony, the AFPI method first assigns
4 plant between present and future customers based on an "excess capacity" concept. The
5 annual costs of the "excess" plant, including return and other fixed costs such as
6 depreciation and property taxes, are then deferred and recovered through one-time charges
7 to future customers as they connect to the utility's system.

8 Q. WHAT IS MR. CICCHETTI'S RATIONALE FOR ADVOCATING THE AFPI
9 METHOD?

10 A. As stated in his answer to the last question on page 13 of his testimony, Mr. Cicchetti
11 evidently believes that application of the AFPI method is consistent with cost of service
12 principles advocated by Bonbright ("Principles of Public Utility Rates", Bonbright et al,
13 second edition). He continues: "Correspondingly, a generally accepted ratemaking premise
14 is that costs should be placed on the cost-causer to the greatest extent possible. In the
15 interest of fairness, rates should be structured to place the costs of expected growth on future
16 customers."

17 Q. IS THE AFPI METHOD, IN YOUR VIEW, CONSISTENT WITH THE COST OF
18 SERVICE STANDARD?

19 A. No. The AFPI method assumes that one can readily identify those utility plant costs that
20 should be assigned to today's customers versus tomorrow's customers and that through the
21 application of the AFPI method, the costing and pricing of utility services will be improved.
22 Both this assumption and its cost-based-rates conclusion are hopelessly flawed.

23 Q. PLEASE EXPLAIN.

A. With few exceptions, expansion of backbone utility systems is designed to benefit all
customers – present and future. Accordingly, any attempt to assign plant and related costs to
"today's" customers versus "tomorrow's" customers is illogical and circuitous since
"tomorrow's" customers quickly become "today's" customers. Mr. Cicchetti's application

1 of the AFPI method to LPSCO identifies \$1,622,192 of water rate base that is capable of
2 serving 1,591 Residential Equivalent Units ("REUs") or 1,591 future residential customers
3 (as previously stated, the correct amount under Mr. Cicchetti's flawed theory is 1,519). By
4 the time revised rates are implemented in this case, at least 1,200 of these future customers
5 will have become present customers leaving only 319 future customers to carry the revenue
6 requirement on \$1.6 million of rate base!

7 Q. ARE THERE OTHER INHERENT PROBLEMS WITH THE AFPI METHOD?

8 A. Yes. First, there is no explanation provided by Mr. Cicchetti regarding the ultimate
9 ratemaking treatment of the \$1.6 million water rate base adjustment. I assume that he is not
10 recommending vintage rates (that is, rates established for customers as they come on the
11 system). The inclusion of this amount in rate base in a subsequent rate proceeding would
12 essentially concede my earlier point that the plant is of benefit to all of its customers.
13 Second, the AFPI method is a form of retroactive ratemaking since new customers are
14 required, through a connection charge, to recover costs incurred in prior years on the plant
15 subject to the method. Finally, the method is discriminatory. As shown on Mr. Cicchetti's
16 Exhibit MAC-3, Page 4 of 4, the customer connecting in January of the first year would pay
17 only \$15. This customer would not be required to pay any additional carrying costs on its
18 pro rata share of rate base until revised rates are implemented pursuant to a future rate case.
19 The customer connecting in December of the fifth year would pay \$1,023 since the
20 retroactive ratemaking aspect the AFPI method requires this customer to pay all carrying
21 costs for five years. Customers connecting during intervening months would, of course, pay
22 amounts that vary within this range. These huge variances based solely on the timing of the
23 connection to the system are clearly discriminatory in my view.

24 Q. DOES MR. CICHETTI'S ANALYSIS CONTAIN ERRORS?

25 A. Yes. Mr. Cicchetti's analysis contains both logic and arithmetic errors of some significance.
26 If an excess capacity adjustment were appropriate, which it is clearly not in this case, it
27 should be applied only to those specific components of utility plant that have abnormally
28 high capacities. Mr. Cicchetti's proposed adjustment is illogical since it is applied across-

1 the-board and applied not to plant, but to rate base. Rate base includes a variety of
2 components that are not in any way related to plant capacities.

3 Q. WHAT ABOUT THE ARITHMETIC ERRORS?

4 A. Mr. Cicchetti's \$1,622,292 rate base adjustment is derived by multiplying the average
5 dollar amount of water rate base per customer, \$1,068, times 1,519 "future" customers.
6 The \$1,068 amount (\$5,909,975 rate base divided by 5,532 meters) is shown on Exhibit
7 DWE-2, appended to Mr. Ellis's Rejoinder Testimony. Under his assumption that the
8 water plant is capable of serving 7,060 customers, the correct per-customer rate base
9 amount is \$837 (\$5,909,975 divided by 7,060) not \$1,068. Had Mr. Cicchetti used the
10 correct amount, his calculated adjustment would be \$1,271,403 (\$837 times 1,519) or
11 \$350,889 less than the proposed \$1,622,292 amount.

12 Q. ARE YOU SUGGESTING THE COMMISSION CONSIDER THE REVISED \$1,271,403
13 ADJUSTMENT AS PROPER IN THIS CASE?

14 A. Certainly not. The \$1,271,403 is merely a corrected calculation based on Mr. Cicchetti's
15 invalid assumptions regarding water plant capacities.

16 Q. DID MR. CICCHETTI PERFORM ANY OTHER ANALYSES TO TEST OR
17 EVALUATE THE REASONABLENESS OF HIS RECOMMENDATIONS?

18 A. Evidently not. He mentions on page 15 of his testimony the need to conduct a financial
19 integrity test – a test that he did not perform in this case. One need not, however, look
20 further than the end result of his recommendations i.e. a 27% reduction in water rate base, to
21 conclude that they do not pass the sanity test.

22 Q. DOES MR. CICCHETTI'S APFI ANALYSIS ALSO CONTAIN ERRORS?

23 A. Yes. In addition to using 1,591 REUs instead of 1,519 REUs, he incorrectly applies a
depreciation rate of 2.62% to rate base. Under Staff's revised depreciation rates, the
composite rate is 3.56% of total water plant, which equates to 5.70% of water rate base.

1 Further, his property tax is approximately \$6 per REU higher than actual and his gross
2 revenue conversion factor of 1.47 is materially lower than the correct multiplier of 1.6834.

3 Q. WHAT ABOUT MR. CICHETTI'S PROPOSED \$300 AND \$1,500 HOOK-UP FEES
4 FOR NEW WATER AND SEWER CONNECTIONS?

5 A. These issues are discussed in detail in Mr. Ellis's rebuttal testimony. The \$1,500 hook-up
6 fee for all new customer appears high since this fee, coupled with parcel-plant and treatment
7 capacity contributions, could result in an excessive amount of contributed sewer plant.
8 Hook-up fees, like advances and contributions, are designed to insure that current customers
9 are not required to provide a return on plant for development that may never happen.
10 Although the Company does not currently use sewer hook-up fees, its financing policy
11 requires developers to provide advances or contributions to meet that same objective: place
12 the risk of development on the developer and not the ratepayers. Mr. Cicchetti's testimony
13 leaves the false impression that the Company has not properly addressed development risk
14 in its plant financing policies. Both the Staff and RUCO have reviewed the financing
15 policies of the Company and have concluded that they reasonably mitigate development
16 risk.

17 Q. WHAT HAPPENS WHEN A UTILITY FUNDS ITS PLANT ALMOST EXCLUSIVELY
18 THROUGH CONTRIBUTIONS?

19 A. Funding utility entirely through contributions is, at first blush, attractive since it keeps rate
20 levels extremely low, at least in the short-run. However, in the long-run, this is an unwise
21 option since the contributed plant must be replaced almost entirely through outside sources
22 of capital. LPSCO is a good example of a utility that was financed in its infancy almost
23 entirely through contributions. LPSCO's historical rate levels provided insufficient cash
flows since it essentially had no rate base and accordingly no earning power. This shortage
in internal funds available to finance plant additions significantly limited LPSCO's ability to
obtain debt capital at reasonable rates. Recently, the Company's financing plan has
produced an improved balance between internal and external sources. The implementation

1 of excessively large hook-up fees would reverse the progress made to date by the Company
2 in achieving its capital structure objectives.

3 Q.. WHAT IS YOUR REACTION TO THE REVISED WATER RATES PROVIDED IN MR.
4 CICCEHTTI'S SUPPLEMENTAL TESTIMONY?

5 A. The revised rates are of no moment since they are predicated on Mr. Cicchetti's
6 unsupportable adjustment to water rate base.

7 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

8 A. Mr. Cicchetti has attempted to provide "legs" for Mr. Skeete's allegations. Through a
9 variety of faulty calculations, Mr. Cicchetti has created huge excess capacities in LPSCO's
10 water system at the end of the test year – all of which are fictitious. His recommendations
11 are without substance and should be rejected by the Commission.

12 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

13 A. Yes, it does.
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