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AZ CORP COMMISSION
STATE OF ARIZONA

BEFORE THE ARIZONA CORPORATION COMMISSION

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

Litchfield Park Service Company, by and through its undersigned counsel, hereby provides this Notice of Filing of the Rejoinder Testimony of David W. Ellis on behalf of the Company.

Respectfully submitted this 29th day of March, 2002.

SALLQUIST & DRUMMOND, P.C.

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Arizona Corporation Commission

DOCKETED

MAR 29 2002

DOCKETED BY	
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1 Original and ten copies of the
2 foregoing filed this 29th day
of March, 2002, with:

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

7 Copy of the foregoing hand-delivered
8 this 21st day of March, 2002, to:

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

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

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

**REJOINDER TESTIMONY
OF
DAVID W. ELLIS**

**FILED
MARCH 29, 2002**

1 A. Yes. RUCO has recommended excluding the tenant improvement cost from LPSCO's
2 office lease expense (approximately \$170/month) since the tenant improvement cost ended at the
3 end of the test year. As I indicated in my previous testimony, LPSCO is expanding the office
4 space by approximately 400 Sq. Ft. There is a current tenant improvement component to this
5 project (replacing carpet in the entire office, painting, new hallway walls, Etc.), that will result in
6 a monthly cost of \$280/month going forward. The argument that the tenant improvement cost has
7 expired and should be deleted because the cost has been eliminated, just is not so.

8 Q. Is RUCO also recommending exclusion of certain legal fees associated with your CAP
9 allocation?

10 A. Yes, RUCO has indicated that LPSCO's CAP legal expenses associated with our
11 negotiations to transfer our CAP allocation will not reoccur and therefore should be disallowed.
12 We believe that the CAP allocation is a very substantial asset and of great value to our present
13 and future customers. The availability of that water, water that will not require any arsenic
14 treatment, will be very important in the Company's future water service.

15 For some time now LPSCO has been searching for a way to be able to retain its CAP
16 allocation in the long run, while reducing/eliminating the short-term burden, for example,
17 through a lease to a third party. LPSCO is presently working with Department of Water
18 Resources ("DWR") and the Groundwater Replenishment District ("GRD") to accomplish that.

19 LPSCO has sent to the GRD an agreement whereby LPSCO would transfer its CAP
20 allocation to the GRD. In return, the GRD would pick up the ongoing capital costs in the short
21 run, recharge CAP water in the vicinity of LPSCO service area, and agree to return the allocation
22 to LPSCO in the future if LPSCO it is required for the service area. LPSCO continues to incur
23 legal costs associated with this effort.

1 LPSCO believes that this strategy is in the best interests of both the Company and the
2 ratepayers. The Company is not asking the annual CAP contract cost to be included in rates, but
3 it is requesting that ongoing legal costs be allowed. The experience we have gained in
4 understanding DWR's transfer rules and process from the earlier attempt has been invaluable.
5 LPSCO believes that the \$10,934 legal expenses from the CAP transfer negotiations should not
6 be disallowed in this rate case as proposed by RUCO.

7 Q. Will you please state the basis for your 80/20 allocation of administrative and general
8 costs?

9 A. RUCO argues in its Surrebuttal Testimony the future the labor ratio split between water
10 and sewer will shift substantially towards the sewer side of the business when LPSCO's Water
11 Reclamation Facility comes on line. That argument is being used to justify a move to a 50/50 cost
12 split now.

13 LPSCO has signed an agreement with Pacific Environmental Resources Corporation
14 (PERC) to operate the facility. Therefore, the labor costs to operate the plant will show up as an
15 Outside Services cost. This will be a direct charge to the sewer operation and probably will not
16 significantly affect LPSCO's own staffing levels. LPSCO continues to maintain that the existing
17 80/20 cost split between water and sewer is appropriate.

18 Q. Is there any basis for RUCO's insistence that amortization/depreciation life of the
19 wastewater treatment plant should be 40 years?

20 A. No. RUCO contends that the capital cost payments associated with the Wastewater
21 Treatment Agreement with the City of Goodyear should have a 40-year amortization. The capital
22 costs that LPSCO has paid are based on a 20.8-year depreciation schedule outlined in the
23

1 agreement with the City of Goodyear (a copy of that schedule was attached to my Rebuttal
2 Testimony)

3 LPSCO has made those payments as a necessary contractual cost of capacity at
4 Goodyear's WWTP. To argue that LPSCO should only recover approximately half those costs
5 because the contract is for 40 plus years, is neither logical nor fair.

6 Q. Are the other remaining issues with the RUCO testimony?

7 A. Yes, in its Surrebuttal Testimony, RUCO continues to contend that the lease of a carbon
8 scrubber odor control unit at the Wigwam lift station is a one-time non-reoccurring expense.

9 The facts as outlined in my Rebuttal Testimony are that the carbon scrubber unit remains in
10 service as of this date and has done a necessary and effective job at controlling odors at this
11 facility. Any contention to the contrary is simply not true.

12 Additionally, in its Surrebuttal Testimony, RUCO continues to contend that LPSCO does
13 not need the proposed "market rate" tariff for effluent because LPSCO has no effluent to dispose
14 of. In my Rebuttal Testimony I indicated that LPSCO's Water Reclamation Facility (WRF) will
15 be operational almost immediately and will have to dispose of all the effluent produced at that
16 facility as required by its Aqua Protection Permit issued by the State of Arizona. LPSCO
17 estimates the new WRF will be on line by April 10, 2002.

18 A market rate is necessary for LPSCO to dispose of all the effluent in the most cost-
19 effective manner. "Over-priced" effluent will not be sold to potential users. Effluent not sold
20 will have to be delivered to and disposed of at LPSCO's Groundwater Savings Facility. This will
21 result in additional cost to LPSCO and its ratepayers.

22 Q. Have you demonstrated the reasonableness of the payroll items Staff questions?
23

1 A. Yes, although Staff continues to maintain that LPSCO has not met the burden of proof
2 that incentive pay is of value to LPSCO's customers. In my Rebuttal Testimony, I outlined the
3 benefits of merit pay and its value in attracting and maintaining good employees, keeping
4 projects on schedule, fostering teamwork, etc. Additionally, I demonstrated this by sharing my
5 current incentive goals (which are very specific and relate to good customer service, getting
6 facilities permitted and built on time and at or under budget, planning for the water and sewer
7 systems, etc.). I believe it should be self evident to all Parties that this benefits ratepayers in the
8 long run. Incentive pay is fast becoming the cornerstone of how business is conducted in this
9 country in an increasingly competitive environment. There has been no suggestion by any Party
10 to this proceeding that the total compensation expense of the Company, or payment to any
11 employee, is not reasonable. These items should be allowed.

12 Q. You continue to maintain that the SunCor overhead charges are reasonable?

13 A. Yes, again no one has suggested that the Company is not receiving substantial benefits
14 from these services.

15 ACC Staff continues to assert that LPSCO's overhead charges from SunCor are
16 "estimated", and has recommended that they be disallowed. The charges are not estimates but are
17 actual allocated expenses for necessary services rendered to LPSC by its parent company. They
18 are known and measurable, and are appropriate for inclusion in the Company's expense
19 calculations.

20 In my Rebuttal Testimony I identified the services rendered and the value obtained for a
21 relatively small monthly cost. I also discussed how difficult and expensive it would be for a 10-
22 person company to duplicate the benefits and services. It would not be cost effective for LPSCO
23 to have personnel on its payroll to perform these highly specialized functions (such as computer

1 information systems, financial services, health care and retirement administration, etc.). These
2 would have to be contracted outside from consultants at fees substantially higher than the cost
3 charged by SunCor.

4 Q. Do you have any response to the Surrebuttal Testimony of the City of Litchfield Park (the
5 "City")?

6 A. Yes, Mr. Skeete states in his testimony that LPSCO has included in its water system rate
7 base utility plant that is largely for the benefit of "new" customers and not the existing
8 customers. He then implies on Page 3 of the testimony that the customers residing within the
9 City are being ask to pay for additions to water plant needed to support development activities
10 outside the City. Neither of these assertions have any factual foundation.

11 Q. Please Explain.

12 A. To put it simply, the existing customers of LPSCO are not being burdened in this rate
13 case with excess water plant installed to serve future customers. The Company has obtained
14 significant advances from developers to ensure that existing customers are protected. In some
15 instances, these advances call for 100% financing of backbone plant, including wells and
16 transmission mains – plant that is typically funded by the utility. As a result, our water rate base
17 per meter in this case of \$1,068 is extremely reasonable when compared with per-customer costs
18 for new water plant of approximately \$2,500.

19 Q. What about the implication that customers residing within the City are being asked to
20 provide a rate of return on and pay for depreciation and other costs related to water plant built to
21 serve customers outside the City?

22 A. This implication cannot be supported. As discussed in general in my rebuttal testimony,
23 significant dollars have been invested within the City to replace hydrants, services and mains.

1 Further, the Company has made other system improvements over the past few years that are of
2 benefit to the customers that reside within the City. The water investment per meter within the
3 City is comparable to that of the entire system.

4 Q. Have you prepared an analysis that supports this conclusion?

5 A. Yes. Exhibit DWE-2 provides a calculation of water rate base per meter within the City
6 at December 31, 2000 compared with water rate base per meter for LPSCO's total system. From
7 1996, the end of the test year in the Company's last rate case, through the year 2000, the
8 Company has invested \$697,779 in new water plant improvements which are specifically for the
9 benefit of water customers within the City. In addition, LPSCO spent \$463,800 for additional
10 system improvements that benefit all LPSCO customers. Approximately \$132,000 of the
11 \$463,800 would be pro rata allocable to the customers within the City. Accordingly, since the
12 last rate case, the water plant additions, net of accumulated depreciation, allocable to the City
13 total \$784,996 or \$500 per meter. Adding these additions to the average water rate base per
14 meter of \$555 at December 31, 1996, the City's water rate base per meter at December 31, 2000
15 is \$1,055 or only \$13 less than the system average of \$1,068. This analysis clearly refutes any
16 implication or notion that customers within the City will be required to pay more than their fair
17 share of the Company's proposed water revenues.

18 Q. Is there a continuing need to replace water plant within the City?

19 A. Yes. As previously mentioned, the water plant within the City is old and is in constant
20 need of repair and replacement.

21 Q. Will you please summarize the Company's position?
22
23

1 A. Yes, we are of the opinion, and we have not seen any testimony or evidence to the
2 contrary in this hearing, that the rate base and expense items revised by Staff and RUCO should
3 be treated as proposed. The Commission is urged to adopt the Company's proposals.

4 Q. Does this conclude your Rejoinder Testimony?

5 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	<u>\$697,779</u>	<u>\$296,979</u>	<u>\$150,000</u>	<u>\$214,000</u>	<u>\$36,800</u>
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	<u>\$463,800</u>	<u>\$202,310</u>	<u>\$46,000</u>	<u>\$68,000</u>	<u>\$147,490</u>
Pro Rata Allocation to the City - 28.38% (2)	<u>\$131,626</u>	<u>\$57,416</u>	<u>\$13,055</u>	<u>\$19,298</u>	<u>\$41,858</u>
Total Water Additions - City	\$829,405	\$354,395	\$163,055	\$233,298	\$78,658
Less: Accumulated Depreciation (3)	<u>(44,410)</u>	<u>(9,285)</u>	<u>(8,544)</u>	<u>(18,337)</u>	<u>(8,243)</u>
Additions to Rate Base - City	<u>\$784,996</u>	<u>\$345,109</u>	<u>\$154,511</u>	<u>\$214,961</u>	<u>\$70,414</u>
Water Meters - City	1,570				
City Rate Base Additions - Per Meter	\$500				
Total Water Rate Base Per Meter - 1996 (4)	<u>555</u>				
City Water Rate Base Per Meter - 2000	\$1,055				
Total LPSCO Water RB Per Meter - 2000 (5)	\$1,068				
Difference - Per Meter Rate Base	<u>(\$13)</u>				

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)