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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO. W-01427A-01-0487
DOCKET NO. WS-01428A-01-0487
NOTICE OF FILING DIRECT
TESTIMONY

City of Litchfield Park, Intervenor in this action, by and through its attorneys, hereby files the Direct Testimony of Horatio Skeete, City Manager of the City of Litchfield Park.

Respectfully submitted this 5th day of February, 2002.

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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
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MARC SPITZER
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IN THE MATTER OF THE)
APPLICATION OF LITCHFIELD) DOCKET NO. W-01427A-01-0487
PARK SERVICE COMPANY FOR) DOCKET NO. WS-01428A-01-0487
AN INCREASE IN ITS WATER)
AND WASTEWATER RATES FOR)
CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA)

DIRECT TESTIMONY OF

HORATIO SKEETE
CITY MANAGER

ON BEHALF OF

CITY OF LITCHFIELD PARK, INTERVENOR

FEBRUARY 5, 2002

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HORATIO SKEETE, CITY MANAGER
CITY OF LITCHFIELD PARK, INTERVENOR

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. Horatio Skeete, 214 West Wigwam Blvd., Litchfield Park, Arizona.

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

A. I serve as City Manager for the City of Litchfield Park.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING TESTIMONY IN THE PROCEEDING?

A. I am testifying on behalf of the City of Litchfield Park.

II. CITY OF LITCHFIELD PARK'S CONCERNS

Q. WHY HAS THE CITY OF LITCHFIELD PARK INTERVENED IN THIS PROCEEDING?

A. The City of Litchfield Park is a community of approximately 3.3 square miles. While it has experienced some modest growth over the past five years, it is nothing compared to the booming growth being experienced by surrounding communities. In reviewing the rate filing of Litchfield Park Service Company (the "Company"), it is evident that much of the rate increase being sought is due to a significant increase in rate base. The increase in rate base reflects water and sewer plant installed to serve new growth that, at least in part, is not yet in place and paying rates. The City is concerned that its residents are being required to pay rates to provide financing and a return on plant that has been installed to benefit future customers.

For example, in response to RUCO's Data Request 5.3, the Company identified 13 active developments in its service area, representing

1
2 approximately 8,900 new residential customers, yet no customers were present
3 at the end of the new test year. The Company failed to identify those
4 properties under development within its service area that had some customers
5 during the test year but which were not yet fully built out, but the City believes
6 the number to be substantial. The City asks the Commission to make sure no
7 existing customers are paying for plant that is really designed to meet future
8 demand, even if a portion of the facility is used to provide service today.

9 Furthermore, by agreement dated March 22, 1993, the Company expressly
10 agreed that water and sewer treatment charges to residents of Litchfield Park
11 are to be based on the actual cost of providing service to Litchfield Park
12 residents. The utility facilities needed to serve the City have been in place for
13 years. The residents of the City represent a significant part of the Company's
14 customer base. The City is concerned that the costs of providing service to our
15 neighbors is now being, at least in part, disproportionately shifted to the
16 residents of Litchfield Park.

17 **Q. DOES THE CITY HAVE ANY OTHER CONCERNS?**

18 A. The City is aware that backbone systems may be financed in many ways.
19 Traditionally, water and sewer plant installed to meet new developments are
20 financed by the developer as an advance-in-aid-of-construction or even as a
21 contribution-in-aid-of-construction. The Commission also has approved
22 connection fees for many utilities to fund backbone plant. In this case, the
23 development of much of the areas adjacent to the City of Litchfield Park were
24 owned or controlled by its sole shareholder, Suncor Development Company.
25 Suncor also spearheaded the creation of Communities Facility District
26 ("CFD") over much of the area outside the City. A CFD has the ability to
secure indebtedness, backed by the taxing power of the District, at municipal

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rates to fund utility infrastructure, and to recover the cost of the utility infrastructure from District landowners and lands whether or not the land is occupied.

In summary, the shareholders of Suncor (the sole shareholder of the Company) had the ability to characterize monies that would normally have been received as advances, contributions, or connection fees, as equity or loans and thereby increase both the Company's rate base and the cost of capital. The Company's basic financing structure used to pay for the expansion over the last decade has not been determined by a traditional arms length transaction between a water company and independent developers. Therefore, the City requests the Commission to ensure that the capital structure of the Company and the cost of capital reflects a reasonable, prudent and economical method of financing the new plant.

Q. DOES THE CITY OF LITCHFIELD PARK HAVE ANY OTHER CONCERNS?

A. The City, like every ratepayer, desires a financially stable utility that makes good investment decisions, and provides safe and reliable service at the lowest possible cost consistent with good management practices. Rates should be designed to cover only necessary and appropriate operating costs, provide a reasonable return on the plant needed to provide utility service to the ratepayers. However, these are areas of investigation where in depth analysis is usually provided by the Arizona Corporation Commission and the Residential Utility Consumer Office as part of their functions in serving the public. However, the City reserves the right to adopt and support positions of other parties, including Commission Staff and RUCO, and to pursue (during

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cross-examination), other areas of inquiry that may arise through the course of this proceeding.

The City is also concerned that the amount of increase requested by the Company constitutes rate shock, especially when one recognizes the Company is still actively adding plant.

Finally, the City is also concerned that the Company's rapid expansion is resulting in neglect or delay in maintaining, upgrading and replacing portions of its existing facilities within the City. For example, the Company has indicated a need to and interest in replacing various water lines within the City, but continues to merely repair them when they break.

III. POTENTIAL METHODS OF ADDRESSING THE CITY'S CONCERNS

Q. HOW MIGHT THE CITY'S CONCERNS BE ADDRESSED BY THE COMMISSION?

A. Any expense found to be unreasonable or imprudent, of course, should be disallowed altogether. Further, the Commission has traditionally adjusted the rate base to reflect the underutilization of plant. In fact, the Company's rate base has been subject to such an adjustment in past rate cases. Therefore, the City of Litchfield Park requests the Commission closely scrutinize the utilization factor of the Company's plant, especially the new plant, to determine whether the values the Company has placed in rate base should be adjusted for underutilization.

1
2 **Q. ARE THERE ANY OTHER METHODS OF ADDRESSING THE**
3 **CITY'S CONCERNS?**

4 A. The City also requests the Commission closely scrutinize the Company's
5 capital structure, cost of capital and its requested rate of return on fair value to
6 ensure that the existing ratepayers are not being disadvantaged by financing
7 decisions made by the Company. The Company should not receive a return of
8 capital it could and should have obtained more inexpensively. Much of the
9 cost of the plant needed to serve new developments, including backbone plant,
10 could have been obtained from the parties benefiting from the new plant—the
11 developers and the new customers. To the extent the Company has elected to
12 spend equity instead of collecting advances or connection fees, it has overpaid
13 for plant. The City respectfully requests the Commission closely examine the
14 extent to which the Company's cost of capital fails to incorporate cheaper
15 financing. On a going forward basis, the City suggests the Company be
16 required to implement appropriate non-refundable connection fees to be paid
17 by the Developers and/or future customers. In this manner, the Company's
18 rapid expansion will be financed at the lowest long-term cost to ratepayers.

18 **Q. HAVE YOU REACHED A CONCLUSION AS TO THE LEVEL OF**
19 **ADJUSTMENTS THAT ARE APPROPRIATE TO ADDRESS THE**
20 **CITY OF LITCHFIELD PARK'S CONCERNS?**

21 A. Not at the present time. We are still evaluating the Data Requests that have
22 been provided and expect to promulgate additional data requests. Further, we
23 expect to develop additional information through cross-examination of
24 witnesses at hearing. Therefore, the City of Litchfield Park reserves the right
25 to make specific recommendations at the close of hearing based upon the
26 totality of evidence presented.

DIRECT TESTIMONY OF HORATIO SKEETE ON BEHALF OF
THE CITY OF LITCHFIELD PARK, INTERVENOR
DOCKET NOS. W-01427A-01-0487 and WS-01428A-01-0487
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Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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