

ORIGINAL



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MEMORANDUM

TO: Docket Control  
FROM: Ernest G. Johnson  
Director  
Utilities Division  
DATE: February 1, 2008

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EA for EGT  
AZARON CORPORATION  
DOCKET CONTROL

Arizona Corporation Commission  
DOCKETED

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RE: RESPONSE TO LIVCO WATER COMPANY'S OBJECTIONS TO THE STAFF REPORT (DOCKET NOS. W-02121A-07-0506 AND W-02121A-07-0688).

On January 23, 2008, the Company filed four objections to the Staff Report. Pursuant to the Procedural Order dated January 24, 2008, following is Staff's response to Livco Water Company's ("Company") objections to the Staff Report.

Objection # 1: "The Company's first objection to the Staff Report is in the Staff's recommended disallowance of the Company's pro-forma adjustment to reduce test year Operating Revenues by \$1,201 associated with Metered Water Revenues as set forth on pages 4 and 5 of the Staff Report. This is totally inappropriate. The four customers cited in the Staff Report have, in fact, requested and received different meter sizes to accommodate their water demands. Those changes are known and measurable changes in the Company's operations resulting in less net revenue during the Adjusted Test Year, and all years going forward. This is not unlike adjusting Test Year Revenues upward when customers are added mid-Test Year to reflect the years going forward. This is not a "mismatch" as suggested by Staff, but a very normal adjustment for a known and measurable change. The Commission should adopt the Company's downward adjustment of the Test Year Revenue by \$1,201."

Response:

As discussed in the Staff report, the Company used 2007 test year data and projections at the time it submitted its application.

The Company changed a school meter from a 1 inch to a 2 inch meter in June 2006 and claimed a usage reduction and revenue reduction, by using water usage data for the first six months of 2007, and relying on 2006 test year usage data for the last 6 months, as these amounts were not known and measurable at the time. Clearly this adjustment relies on usage data outside the test year, while incorrectly inferring the usage patterns for the last 6 months of 2007 are the same as the last 6 months of 2006.

**The very same reasoning applies to the other meter adjustments which are referred to in Staff's Report, which involves customer meter changes in 2007, except with no corresponding change in usage patterns.**

**The Company is correct in its assertion that Staff may make an annualization adjustment for customers who are added at some point in the test year, but does not allow annualization adjustments for customers added outside the test year, as there is not a corresponding adjustment to related expenses.**

**Finally, the Company has the discretion of when it files a rate case and what test year it selects.**

Objection # 2: "Staff has disallowed a \$1,361 "charitable contribution" as a Miscellaneous Expense on page 6 of the Staff Report. The Company fears the Staff was not fully apprised of the nature of this expense before its disallowance. This actual Test Year expense is representative of an expense the Company has incurred for the least several years which is associated with the provision of water to the Lions' Park, the only part [sic] in Concho. During the Test Year the Lions' Club was able to pay approximately \$21,000 of its total water bill, the shortfall being the \$3,761. The Company has supported the Park for the last several years at approximately the same level, 2002, \$2,000; 2003, \$2,300; 2004, \$1,500; 2006, \$1,300; and 2007, \$1,400, for a six year average of \$1,416 per year. This is the only Park in Concho and would be closed down if the Company did not support this project. The Park has three volunteers and limited sources of fund raising, so it can only afford about \$125 per month. The Company does put inserts in its bills to customers urging them to support the Park, and even has a "contribution jar" at the Company's office soliciting support for the Lions' Park water bill. It should be noted that if the Park discontinues operations, the Company will have a larger loss in revenue, approximately \$2,200, than the proposed expense. In short, the customer benefits the entire system. The Company is of the opinion that this expense benefits the entire community, and the Company's customers, to such an extent that public policy supports including this as an authorized expense of the Company."

**Response:**

**While Staff does not dispute that the Lions' Club is probably a worthwhile charity, Staff does have a problem with ratepayers picking-up this cost. As stated by the Company they put inserts into the customer billing statements urging them to support the Lions' Club and the Park. The Company has given the ratepayers a choice they can support the Park or not. However, customers should not be forced to pay these costs, if they do not wish to support this Park.**

**While any charitable contribution can be characterized as a worthy cause that is good public policy, it is still inappropriate for ratepayers to bear the burden of such costs in which they have no choice.**

Objection # 3: “The Company objects to the Income Taxes allowed by Staff on Page 6 of the Staff Report. We assume that the Recommended Order and Opinion in this docket will reflect the appropriate Income Taxes based upon that Revenues driven computation.”

**Response:**

**The income taxes that Staff recommended are simply a mathematical computation driven by the revenues and expenses recommended by Staff, in accordance with Federal and State income tax laws. The expense recommended by Staff correctly reflects the income tax expense.**

Objection # 4: “The final objection of the Company deals with the Staff proposed Rate Design. Staff proposes treating Residential Customers who utilize 5/8 inch and 3/4 inch meters differently than similarly sized Commercial Customers. Staff proposes a three tier designed for residential customers and a two-tier designed for commercial customers. The Company believes Staff proposal to unduly benefits commercial customers, albeit there are not that many on the system. While the Company agrees with the majority of Staff’s proposed Rate Design, the Company urges the Commission to adopt a design for 5/8 and 3/4 inch meters that does not differentiate between Residential and Commercial customers.”

**Response:**

**Depending on the overall rate design of an individual Company, Staff usually recommends a first tier nondiscretionary break-over point of either 3,000 or 4,000 gallons for residential customers. The first tier nondiscretionary usage of either 3,000 or 4,000 gallons covers basic health and sanitary items such as showering, washing clothes, and cooking meals. This standard does not apply to commercial users.**

**The first tier nondiscretionary level was specifically developed for residential customers, using residential usage information. This data and its results is not transferable to commercial users, as there are different classes of commercial users (i.e. restaurants, industrial users, retail stores, etc.), and differing water usage.**

**As a result of comparability issues, Staff does not recommend a first tier rate and break-over point of 3,000 gallons for 5/8-inch and 3/4-inch commercial customers, as well as commercial customers with larger meters.**

EGJ:JMM:red

Originator: Jeffrey M. Michlik

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Docket Nos. W-02121A-07-0506 and W-02121A-07-0688

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