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**ORIGINAL** BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

**COMMISSIONERS**

MIKE GLEASON, Chairman  
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2008 AUG 25 P 3: 43 Arizona Corporation Commission

**DOCKETED**

AZ CORP COMMISSION  
DOCKET CONTROL

AUG 25 2008

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IN THE MATTER OF THE APPLICATION  
OF WATER UTILITY OF NORTHERN  
SCOTTSDALE, INC. FOR A RATE  
INCREASE

Docket Nos. W-03720A-08-0225

**REPONSE TO STAFF REPORT**

Water Utility of Northern Scottsdale (“WUNS” or the “Company”) respectfully submits this response to the Staff Report dated August 13, 2008. The Company agrees with much of the Staff Report, but has concerns with two proposed conditions: (1) that the Company be required to use a “four factor” allocation system; and (2) that the Company be ordered to file a rate case on or before April 30, 2011. While the Company agrees that a change in allocation methods is appropriate, the Company requests greater flexibility. And the Company believes that a mandatory, future rate case is unnecessary and is likely to be unduly burdensome compared to the likely benefits.

**I. Allocation methods.**

As a small system with only 67 customers in the test year, it is not practical for the Company to have its own employees. However, the Company is ultimately owned by Global Water Resources, LLC (“Global Parent”), and it is therefore able to receive support services from Global Water Management, LLC (“Global Management”). Through Global Management, the Company has access to more than a hundred employees, including certified operators, engineers, customer service representatives, accountants and other professionals.

Because the services provided by Global Management are shared by all the utilities (the “Global Utilities”) owned by Global Parent, some method of allocating the costs of these shared

1 services to the utilities is required. Staff disagrees with the method used by the Company in the  
2 test year. The Company (and Global Parent) agrees that a different method should be used, and  
3 Global Parent has proposed a new methodology for all the Global Utilities as part of the pending  
4 notice of intent to re-organize Global Parent and to conduct an initial public offering of Global  
5 Parent.<sup>1</sup>

6 Staff does not refer to the notice of intent docket, and instead recommends that the  
7 Company “be required to allocate” shared services using a four factor allocation method.<sup>2</sup> Global  
8 Parent did consider a four factor method, but it ultimately determined that a different allocation  
9 method would be more accurate. While Staff’s proposed condition speaks in terms of a  
10 requirement, Staff also states that the Company “may use any causal basis for the allocation of  
11 Global’s expenses provided it is sufficiency supported and justified”<sup>3</sup> and that other “causal bases  
12 for the allocation of general office expenses exist and may be implemented by Global.”<sup>4</sup> Thus, it  
13 is not clear if Staff is recommending that the Company must use the four factor method, or if Staff  
14 considers the method proposed in the notice of intent to be an acceptable alternative.

15 The Company does not believe that the choice of allocation method needs to be made in  
16 this relatively minor docket. Instead, the allocation issues will likely be considered in more depth  
17 in the pending notice of intent docket. Therefore, the Company requests that this condition be  
18 modified as follows: “that the Company adopt whatever allocation method is approved by the  
19 Commission in the pending Notice of Intent docket, Docket No. W-20446A-08-0247 et al.”

20 In addition, the Company has some concerns with the \$26 per month per customer charge  
21 that Staff uses instead of the test year shared services expense. The Company has requested  
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23 <sup>1</sup> See Direct Testimony of Trevor T. Hill (at 26-28) and Jamie Moe (at 3-8) in Docket No. W-  
24 20446A-08-0247 et al.

25 <sup>2</sup> Staff Report at 6.

26 <sup>3</sup> Id. at 6.

27 <sup>4</sup> Id. at 5.

1 additional information from Staff concerning the methodology they used to develop this charge.  
2 However, given the small size of the revenue requirement in this case, the Company is not  
3 proposing a different per month charge at this time.

4 **II. Mandatory future rate case.**

5 The Company was surprised that Staff recommended that the Commission require the  
6 Company to file a rate case by April 30, 2011. The Staff Report does not contain an explanation  
7 of why Staff proposed this condition. As part of the process of certificating new utilities, the  
8 Commission typically requires new utilities to file a rate case after 5 years of operations (i.e. in the  
9 sixth year, using the fifth year as a test year). The standard rationale for this requirement is that  
10 rates for new utilities are set using projections (because there are no actual "hard" numbers) and  
11 therefore the rates should be updated once the utility is up and running and has actual data to  
12 provide. That rationale does not apply to the Company – the rates in this case are based on actual  
13 data from a standard historical test year.

14 The Company was required to file this rate case under its original CC&N order. After the  
15 conclusion of this case, the Company's rates will be based on actual data from a historical test  
16 year. There is no reason to mandate that the Company file a new rate case – especially one due  
17 less than three years from now. Moreover, given the small size of the utility, the time and expense  
18 of the rate case will likely exceed the limited benefits to the Company and the Commission of re-  
19 examining rates. Therefore, the Company requests that the Commission not impose a mandatory  
20 rate case. And if the Commission does mandate a rate case, then the Company requests that the  
21 new rate case be due not later than five years from the effective date of the Commission's decision  
22 in this case.

23 **III. Conclusion.**

24 The Company requests that the Commission defer any decision on allocation methods to  
25 the pending notice of intent docket, and that the Company not be required to file new rate case (or  
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1 in the alternative, that any mandatory rate case not be due until 5 years after the resolution of this  
2 case).

3  
4 RESPECTFULLY SUBMITTED this 25<sup>th</sup> day of August 2008.

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6 ROSHKA DEWULF & PATTEN, PLC

7  
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13 Original + 13 copies of the foregoing  
14 filed this 25<sup>th</sup> day of August 2008, with:

15 Docket Control  
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19 Copies of the foregoing hand-delivered/mailed  
20 this 25<sup>th</sup> day of August 2008, to:

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