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5 Attorneys for Valley Utilities Water Co., Inc.

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
9 OF VALLEY UTILITIES WATER
10 COMPANY INC. FOR AN INCREASE IN
ITS WATER RATES FOR CUSTOMERS
WITHN MARICOPA COUNTY, ARIZONA

DOCKET NO. W-01412A-99-0615

11
12 IN THE MATTER OF THE APPLICATION
13 OF VALLEY UTILITIES WATER
14 COMPANY INC. FOR AUTHORITY TO
15 ISSUE PROMISSORY NOTE(S) AND
16 OTHER EVIDENCES OF
INDEBTEDNESS PAYABLE AT
PREIODES OF MORE THAN TWELVE
MONTHS AFTER THE DATE OF
ISSUANCE

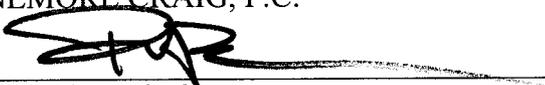
DOCKET NO. W-01412A-00-0023

**NOTICE OF FILING OF
DIRECT TESTIMONY OF
ROBERT L. PRINCE**

17
18 Notice is hereby given that on this date, Valley Utilities Water Company, Inc., filed
19 the attached Direct Testimony of Robert L. Prince along with Appendices and
20 Attachments in the above-captioned matter.

21
22 RESPECTFULLY SUBMITTED this 20th day of October, 2008.

FENNEMORE CRAIG, P.C.

23
24 By: 

Patrick J. Black
Attorneys for Valley Utilities Water Company, Inc.

25 Arizona Corporation Commission
26 **DOCKETED**

OCT 20 2008

DOCKETED BY

1 ORIGINAL and 13 copies of the foregoing
FILED this 20th day of October, 2008 with:

2 Docket Control
3 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
4 Phoenix, AZ 85007

5 COPY of the foregoing was
HAND-DELIVERED / MAILED
6 this 20th day of October, 2008 to:

7 Belinda Martin
Hearing Division
8 ARIZONA CORPORATION COMMISSION
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9 Tucson, AZ 85701-1347

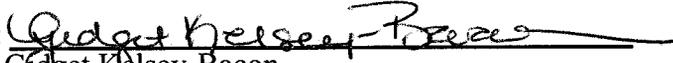
10 Ayesha Vohru
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By: 
Gidget Kelsey-Bacon
Secretary to Patrick J. Black

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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**
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10 IN THE MATTER OF THE APPLICATION OF
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11 INC. FOR AN INCREASE IN ITS WATER
RATES FOR CUSTOMERS WITHIN
12 MARICOPA COUNTY, ARIZONA

DOCKET NO. W-01412A-99-0615

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14 INC. FOR AUTHORITY TO ISSUE
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19
20 **DIRECT TESTIMONY OF**

21 **ROBERT L. PRINCE**
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1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
3 **NUMBER.**

4 **A.** Robert L. Prince, 6808 N. Dysart Road, Suite 112, Glendale, Arizona 85307. My
5 telephone number is (623) 935-1100.

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

7 **A.** I am the President of Valley Utilities Water Company, Inc. ("Valley Utilities" or the
8 "Company").

9 **Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS THEY RELATE**
10 **TO THE COMPANY.**

11 **A.** As the Executive Officer, I am generally responsible for the managing of all operational,
12 administrative, financial, and regulatory matters of Valley Utilities.

13 **Q. HOW LONG HAVE YOU BEEN INVOLVED WITH THE COMPANY?**

14 **A.** I started as a part-time employee in 1962, and became full-time in 1987.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
16 **CORPORATION COMMISSION?**

17 **A.** Yes, on several prior occasions.

18 **II. DIRECT TESTIMONY.**

19 **A. Summary of Position.**

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

21 **A.** First, I would like to suggest to Staff that we should suspend this proceeding in order to
22 allow the Company to amend its original Motion for an Order Confirming Compliance
23 and Release of Set-Aside Funds, filed on May 7, 2008 ("Motion"). The Motion should be
24 amended to include an application for approval of an arsenic removal surcharge tariff as
25 previously authorized by the Commission. Funds currently in the Company's set-aside
26 account ("Set-Aside Account") should be applied to reduce the amount of the surcharge

1 necessary instead of being released for unrestricted use, as originally requested. As you
2 will see in my testimony, I believe this procedure is consistent with past Commission
3 orders concerning the Set-Aside Account. In addition, I will address Commission Staff's
4 recommendations as expressed in its August 18, 2008 Revised Response and October 6,
5 2008 Response to the Motion.

6 **Q. PLEASE BE MORE SPECIFIC ABOUT THIS ARSENIC REMOVAL**
7 **SURCHARGE.**

8 **A.** In Decision No. 68309 (November 14, 2008), the Commission required Valley Utilities to,
9 among other things, file an arsenic removal surcharge tariff application, if necessary; a
10 report detailing the balance of funds in the Set-Aside Account, and the extent to which the
11 application of these funds to service debt would offset the amount of, or need for, an
12 arsenic removal surcharge; and a calculation of revenue requirement for principal, interest
13 and tax obligations on the debt approved using authorized Set-Aside Account funds and
14 hook-up fee collections.

15 **Q. HAS VALLEY UTILITIES COMPLIED WITH THESE REQUIREMENTS?**

16 **A.** The Company filed the report (see Motion, Exhibit 1) and revenue requirement calculation
17 (attached hereto as Exhibit BLP-1), but has not yet filed an arsenic removal surcharge
18 tariff application. I do concede that these two previous filings are not entirely clear with
19 how to address the Set-Aside Account. However, I think it is important to recognize – as
20 the Commission recognized in the order – that issues regarding the amount of funds in the
21 Company's Set-Aside Account and hook-up fee account are both linked to issues
22 concerning the arsenic removal surcharge.

23 **Q. DOES THE COMPANY INTEND TO FILE AN ARSENIC REMOVAL**
24 **SURCHARGE TARIFF APPLICATION (“SURCHARGE APPLICATION”) IN**
25 **THE NEAR FUTURE?**

26 **A.** Yes, unless Staff will agree to allow the Company to amend its Motion. The amount of

1 money available to the Company from its hook-up fee account is \$51,929.84, which it
2 uses to pay the monthly debt service of \$16,483.00 on the current Water Infrastructure
3 Financing Authority ("WIFA") loan ("WIFA Loan #2). With only three months worth of
4 debt service funds left available and no access to the Set-Aside Account funds, the
5 Company will be unable to pay the debt service on this loan beginning in February, 2009.

6 **Q. WHY ARE THERE LIMITED FUNDS IN THE HOOK-UP FEE ACCOUNT?**

7 A. The Arsenic Impact Fee ("AIF") authorized by the Commission in Decision No. 67669
8 (March 2, 2005) only applies to new service connections. Payments into the hook-up fee
9 account are non-existent in this economy and housing market, and the account is being
10 depleted of the remaining collected funds.

11 **Q. HOW DO THE ISSUES IN THIS PROCEEDING AFFECT THE ISSUES**
12 **PERTINENT TO AN ARSENIC REMOVAL SURCHARGE?**

13 A. The primary issue is how the funds that are, or should be, in the Set-Aside Account will
14 affect the amount of the surcharge that is necessary for Valley Utilities to pay its debt
15 financing obligations. Since Valley Utilities is also required to file a rate case application
16 by December 1, 2008, the Company was hoping to use the set-aside funds to pay for the
17 debt service on the existing WIFA loan, and to include an arsenic removal surcharge tariff
18 in its rate design request. However, given Staff's heavy workload, even if the set-aside
19 funds were made available to the Company within the next few months, it is unlikely that
20 the rate case proceeding can be finalized in time to implement the arsenic removal
21 surcharge necessary to finance the WIFA loan.

22 **Q. WHY DOESN'T THE COMPANY JUST WITHDRAW THE MOTION, AND FILE**
23 **A NEW SURCHARGE APPLICATION?**

24 A. I am open to this course of action, but given the time schedule, I believe it would be more
25 administratively efficient if Staff would agree to allow the Company to amend the current
26 Motion, and the administrative law judge approves a revised procedural schedule.

1 However, based on Staff's desire to move forward in this proceeding without discussing
2 possible resolutions, I anticipate that Staff is likely to oppose the Company's request. It is
3 clear that Staff believes Valley Utilities has exhibited a "flagrant disregard" of the
4 Commission's authority, and wants to move forward with a hearing to prove its
5 conclusions and support its recommendation for fines and penalties. I readily concede
6 that the Company should have made stronger efforts in working with Staff to address
7 matters that directly affected the ability of Valley Utilities to provide adequate and reliable
8 service to its customers. But please understand, the actions I took were for the benefit of
9 our customers and, I sincerely believe, within the scope of the Commission's orders
10 regarding the Set-Aside Account.

11 **B. Decision No. 62908 (September 18, 2000).**

12 **Q. PLEASE PROVIDE SOME BACKGROUND CONCERNING THE COMPANY'S**
13 **SET-ASIDE ACCOUNT.**

14 **A.** The Set-Aside Account was established in Decision No. 62908 in order to provide the
15 Company with funds equivalent to the annual debt service requirements of a WIFA loan
16 Valley Utilities was seeking in order to make certain needed improvements to the system.
17 These improvements included the replacement of a water storage facility, booster pump,
18 lines and valves, the installation of new fire hydrants, as well as other improvements to
19 maintain adequate water service to Valley Utilities' customers.

20 **Q. DID THE COMPANY KNOW THE AMOUNT OF THE WIFA LOAN AT THE**
21 **TIME DECISION NO. 62908 WAS ISSUED?**

22 **A.** No. Although the Commission authorized the Company to obtain long-term financing
23 from WIFA in an amount up to \$452,080, the final loan amount was not known at the time
24 of the order.

25 **Q. HOW DID THE COMMISSION ADDRESS THIS UNCERTAINTY**
26 **CONCERNING THE LOAN AMOUNT?**

1 A. The Commission ordered Valley Utilities to set aside funds equivalent to the annual debt
2 service requirements of the WIFA loan – one-twelfth of the annual requirement on a
3 monthly basis – once the amount of the loan became known to the Company. Until then,
4 Valley Utilities was to set-aside \$6.35 from each bill per month in an interest bearing
5 account to be used for the purpose of servicing the WIFA loan authorized in that decision.

6 **Q. WAS THE \$6.35 SET-ASIDE COLLECTED AS A SURCHARGE TO**
7 **CUSTOMERS?**

8 A. No. The \$6.35 was taken from each customer's monthly utility bill, which was part of the
9 operating revenue established in Decision No. 62908. The Commission granted Valley
10 Utilities a revenue level of \$432,301, resulting in an adjusted operating income of
11 \$48,754.

12 **Q. SO, IF THE COMMISSION HAD NOT REQUIRED THE SET-ASIDES, THESE**
13 **FUNDS WOULD HAVE BEEN OTHERWISE AVAILABLE TO PAY FOR THE**
14 **COMPANY'S OPERATING EXPENSES, CORRECT?**

15 A. Yes. That was my understanding, since the set-aside funds were collected from the
16 Company's revenue requirement, which included an operating margin, established by the
17 Commission.

18 **Q. DID THE COMPANY SET ASIDE FUNDS TO SERVICE THE WIFA LOAN AS**
19 **REQUIRED BY DECISION NO. 62908?**

20 A. Yes. The Company began setting aside funds in December 2000. Between December
21 2000 and September 10, 2003, the Company had set-aside approximately \$163,375.

22 **Q. WHAT WAS THE STATUS OF THE WIFA LOAN IN SEPTEMBER 2003?**

23 A. The Company did not meet WIFA's public health and urgency requirements to qualify for
24 a loan between December 2000 and the end of 2002. However, the Company continued to
25 pay into the Set-Aside Account as required by Decision No. 62908 during this time
26 period.

1 **Q. DID THE COMPANY CONTINUE TO SET-ASIDE \$6.35 FROM EACH**
2 **CUSTOMER BILL IN A SEPARATE INTEREST BEARING ACCOUNT AFTER**
3 **SEPTEMBER 2003?**

4 A. No.

5 **Q. WHY NOT?**

6 A. By that time, the Company knew it had enough set-aside funds to service the WIFA loan.
7 The Company changed its loan request to \$52,350 ("WIFA Loan #1"). Between October
8 2000 and the end of 2002, the Company's need to build infrastructure changed due to
9 rapid growth within our service area. The Company was trying to close the WIFA loan,
10 but needed to revise the scope of work. Valley Utilities had already commenced work on
11 most of the "Big-Ticket" items previously identified in its original WIFA financing
12 request; for instance, the Company established a service line replacement program due to
13 the many service line failures being experienced at the time (those in most need of
14 replacement were replaced first), in a manner that would be least intrusive of the
15 Company's operations and ability to provide customers water. At the beginning of 2003,
16 Valley Utilities had been working with both WIFA and Commission Staff, and was
17 advised that it could not add any new items to the list included with the original WIFA
18 financing request. After several discussions, the Company revised the amount requested
19 to \$52,350 and filed a new application.

20 **Q. DID THE COMPANY KEEP COMMISSION STAFF APPRISED AND**
21 **INFORMED OF THE SITUATION REGARDING THE ORIGINAL FINANCING**
22 **REQUEST DURING THIS TIME PERIOD?**

23 A. Yes. In fact, it became readily apparent to all parties involved during this period (Valley
24 Utilities, WIFA and Commission Staff) that the amount of WIFA Loan #1 was going to be
25 considerably less than authorized in Decision No. 62908. Mr. Steven Olea, who sits on
26 the WIFA Board, is the person who advised the Company that the original work scope as

1 applied for in Decision No. 62908 had to be adhered to, but that the loan amount could be
2 lowered due to the reduction of scope, which could not be augmented regardless of need.
3 As many of the "Big-Ticket" items had already been constructed, or were in the process of
4 being constructed, they could not qualify for the WIFA financing.

5 **Q. SO, IT WOULD BE FAIR TO SAY THAT THE COMPANY, AS WELL AS**
6 **COMMISSION STAFF, HAD REASON TO BELIEVE THAT THE WIFA LOAN**
7 **WOULD BE FOR AN AMOUNT LESS THAN HAD ALREADY BEEN SET ASIDE**
8 **BY THE COMPANY AT THIS TIME?**

9 A. Yes. During the first half of 2003, the Company was in the process of revising its request
10 and amending its application to the amount required to finish the remaining projects on
11 the original application, based on Mr. Olea's recommendations.

12 **Q. IN YOUR OPINION, WAS THE COMPANY REQUIRED TO CONTINUE**
13 **SETTING ASIDE FUNDS TO PAY FOR WIFA LOAN #1 AFTER THE AMOUNT**
14 **BECAME KNOWN TO THE COMPANY?**

15 A. No. The Commission did not accept Staff's recommendation to merely set aside \$6.35
16 from each monthly bill for purposes of servicing the WIFA financing in Decision No.
17 62908 ad infinitum. Instead, the Commission adopted the Company's proposal to set
18 aside the equivalent of one-twelfth the amount of funds of the debt service requirement
19 each month. Soon after the Company identified the amount of WIFA Loan #1 based on
20 discussions with Staff and WIFA personnel, we realized there was more than enough
21 money in the Set-Aside Account to pay off the entire loan.

22 **Q. DID DECISION NO. 62908 REQUIRE THE COMPANY TO COLLECT MORE**
23 **THAN WHAT WOULD BE REQUIRED TO SERVICE WIFA LOAN #1?**

24 A. I do not believe so. In fact, I think that is why the Commission adopted the Company's
25 proposed method of funding the set-aside account – to get the most accurate amount so
26 that the rest of the money could be used to pay for operating expenses and required system

1 improvements.

2 **Q. SO WHAT DID THE COMMISSION REQUIRE THE COMPANY TO DO WITH**
3 **ANY EXCESS FUNDS THAT WERE COLLECTED?**

4 **A.** Nothing. The purpose of the set-aside fund was to assure repayment of WIFA Loan #1 for
5 the protection of Valley Utilities' customers. Having accomplished that purpose by
6 keeping at least \$52,350 in the Set-Aside Account, I thought it was reasonable to then use
7 the excess funds for their original purpose, which was to provide the Company with
8 operating margin funds to address customer needs.

9 **Q. THEN YOU DISAGREE WITH STAFF'S AUGUST 18, 2008 REVISED**
10 **RESPONSE WHEREIN IT ARGUES THAT THE REQUIREMENT TO SET**
11 **ASIDE FUNDS TO SERVICE WIFA LOAN #1 ENDED WHEN THE**
12 **COMMISSION ISSUED DECISION NO. 68309?**

13 **A.** Yes, for the reasons I have just explained.

14 **Q. STAFF ALSO ASSERTS THAT "VALLEY NEVER RECEIVED A WIFA LOAN**
15 **FOR WHICH THE SET-ASIDE MONIES WERE TO BE USED RELATIVE TO**
16 **THE EITHER OF THE DECISIONS MENTIONED." DO YOU AGREE WITH**
17 **THIS ASSERTION?**

18 **A.** No. The Company did secure WIFA Loan #1, but never drew any funds. Remember, the
19 authority granted in Decision No. 62908 was rescinded in Decision No. 68309. As for the
20 debt authorized in Decision No. 68309, the Company filed loan documents with the
21 Commission relative to WIFA Loan #2 on June 7, 2006. It is this loan that the Company
22 is currently paying back to WIFA, which proceeds are being used for arsenic remediation.

23 **Q. IN YOUR OPINION, IS VALLEY UTILITIES IN COMPLIANCE WITH**
24 **DECISION NO. 62908?**

25 **A.** Yes.

26

1 **C. Decision No. 68309 (November 14, 2005).**

2 **Q. STAFF ALSO ASSERTS THAT VALLEY UTILITIES HAS NOT COMPLIED**
3 **WITH DECISION NO. 68309. DO YOU AGREE WITH THIS ASSERTION?**

4 **A.** No, I do not. I concede that some of the compliance filings made on behalf of the
5 Company may be confusing, and I shoulder the blame for not explaining these matters
6 more thoroughly with Staff. But I believe if you read the compliance requirements of
7 Decision No. 68309 relevant to the Set-Aside Account, Valley Utilities made efforts to
8 comply with the order and provide an accounting to Staff.

9 **Q. PLEASE DESCRIBE HOW THE COMMISSION ADDRESSED THE SET-ASIDE**
10 **ACCOUNT IN DECISION NO. 68309.**

11 **A.** The Company filed a rate application on October 7, 2004. In addition, the Company
12 sought approval to incur long-term debt in the form of another WIFA loan (WIFA Loan
13 #2) for \$1,926,100. This financing was needed in order to make improvements to address
14 the U.S. Environmental Protection Agency's reduction in the arsenic maximum
15 contaminant level from 50 parts per billion to 10 parts per billion.

16 **Q. HAD THE COMPANY FINALIZED WIFA LOAN #1 AT THE TIME THE RATE**
17 **AND FINANCING APPLICATIONS WERE FILED WITH THE COMMISSION?**

18 **A.** No. WIFA was still processing WIFA Loan #1 in the amount of \$52,350. Although the
19 loan finally closed on January 7, 2005, the Company never drew any funds made available
20 from WIFA Loan #1.

21 **Q. WHY NOT?**

22 **A.** The Company had received bids for projects contained in the original WIFA Loan #1
23 application back in 2002. Due to the staleness of those bids and the long interlude caused
24 by the Company's changed, then reduced, work scope, prices for the work had inflated
25 dramatically. The flushing hydrants contemplated in the scope had increased from \$2,000
26 per hydrant to \$4,347 per hydrant. Although the Company anticipated some inflation it

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was not prepared for the extent of change. The Company needed to evaluate its ability to add capitol to cover the short fall. This caused the Company to re-evaluate what it was going to be able to do and to prioritize the work. The Company was also involved with the rate case, development, inspections, normal operations and water supply shortages during peak demand times due to problems with Well Number 6, which ultimately failed.

Q. BUT WHAT ABOUT THE SET-ASIDE ACCOUNT THAT HAD BEEN CREATED SPECIFICALLY TO PAY THE DEBT SERVICE ON WIFA LOAN #1?

A. The Commission decided that since WIFA Loan #1 debt had not been incurred, the balance of the collected debt-service funds in the Set-Aside Account originally collected to service WIFA Loan #1 should be used to service debt incurred by WIFA Loan #2.

Q. SO THE COMPANY WAS NOT REQUIRED BY DECISION NO. 68309 TO CONTINUE SETTING ASIDE FUNDS AS PREVIOUSLY REQUIRED BY DECISION NO. 62908?

A. No.

Q. WHAT HAS THE COMPANY DONE TO COMPLY WITH DECISION NO. 68309 WITH RESPECT TO THE SET-ASIDE ACCOUNT?

A. On December 28, 2005, I sent a letter to Mr. Ernest Johnson, Utilities Director, providing a fairly lengthy narrative of the background concerning the set-aside account. (Motion at Exhibit 1). After providing this information along with a balance sheet regarding the Set-Aside Account itself, I requested a meeting with Staff to discuss the process for obtaining a Commission order to permit utilization of the Set-Aside Account funds for paying off WIFA Loan #2.

Q. DID THE COMPANY EVER RECEIVE A STAFF RESPONSE TO THIS REQUEST?

A. No.

Q. WHAT ELSE DID VALLEY UTILITIES FILE TO COMPLY WITH DECISION

1 **NO. 68309?**

2 A. On May 9, 2007, the Company filed a "WIFA Loan Surcharge Calculation and Notice of
3 Implementation" ("Notice"). I concede that this filing was not made in a timely manner,
4 but nevertheless was made to bring the Company into compliance upon notice from Staff.
5 In the Notice, we attempted to provide Staff information concerning funds in the Set-
6 Aside Account, and their impact on arsenic removal surcharge issues. The fact that there
7 was enough money in the hook-up fee account to service WIFA Loan #2 for at least
8 twelve months at the time the Notice was filed did not make it a pressing issue at that
9 time. But as with my previous request to work with Staff to ensure compliance, the
10 Company never received a response to the Notice as to whether implementation was
11 proper, or whether it contained appropriate calculations.

12 **Q. DOES THE COMPANY INTEND TO FILE A SEPARATE SURCHARGE**
13 **APPLICATION IN THE NEAR FUTURE?**

14 A. Within the next two weeks, unless Staff and the administrative law judge allows us to
15 amend the current Motion. It is apparent to me that the Commission's intent in Decision
16 No. 68309 was for the Company to use the Set-Aside Account to reduce the amount of an
17 arsenic removal surcharge required to help service WIFA Loan #2. As will be
18 demonstrated in either a revised Motion or new Surcharge Application, an arsenic removal
19 surcharge will be necessary to begin servicing the current outstanding loan once funds in
20 the hook-up fee account, and hopefully the Set-Aside Account, are exhausted.

21 **Q. DO YOU AGREE WITH STAFF THAT VALLEY UTILITIES IS NOT IN**
22 **COMPLIANCE WITH THE SET-ASIDE PROVISIONS OF DECISION NO.**
23 **68309?**

24 A. Only to the extent that the Company has not yet filed a Surcharge Application, which the
25 Commission specifically authorized in that decision should it become necessary. I believe
26 that once Valley Utilities files an amended Motion or separate Surcharge Application that

1 is subsequently consolidated with this proceeding, then all the issues raised in Decision
2 No. 68309 can be addressed at the same time. Some of these issues include the amount of
3 funds that *should* have been collected in the Set-Aside Account versus the amount that
4 was *actually* collected, the effect of applying the funds in the Set-Aside Account and
5 hook-up fee accounts to reduce the amount of an arsenic removal surcharge, and finally,
6 whether the Company's use of excess funds available in the Set-Aside Account was
7 proper and reasonable in light of the operational challenges facing the Company at that
8 time.

9 **D. Staff Recommendations.**

10 **Q. STAFF'S STAFF HAS RECOMMENDED THAT VALLEY UTILITIES SHOULD**
11 **BE ORDERED TO PREPAY \$125,540.07 TO WIFA TO REDUCE ITS EXISTING**
12 **DEBT BALANCE. CORRECT?**

13 **A.** I am a little confused, because Staff's original revised recommendations and October 6,
14 2008 Response appear to be inconsistent. In the earlier response, Staff recommends that
15 the Company prepay \$215,540.07 to WIFA, with the Company making up any fund
16 shortage. In the latter response, the prepayment amount is \$125,540.07, but it is silent
17 concerning any "shortage" that might be made up by the Company.

18 **Q. HOW DO YOU RESPOND THEN TO THE GENERAL RECOMMEDATION?**

19 **A.** First, I believe Staff's determination that there should be \$215,540.07 in the Set-Aside
20 Account is incorrect. Second, I believe that applying any of the funds in the Set-Aside
21 Account as a pre-payment to the existing WIFA Loan #2 would violate Decision No.
22 68309. Furthermore, although a pre-payment would also reduce the amount of arsenic
23 surcharge necessary over the life of the surcharge, it would also accelerate the need to
24 implement the surcharge earlier because there would be no funds left to the Company to
25 pay for the monthly debt service of \$16,483.00 beginning in February 2009.

26 **Q. STAFF MAKES SOME SERIOUS ALLEGATIONS REGARDING THE**

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COMPANY'S COMPLIANCE RECORD. HOW DO YOU RESPOND?

A. I strongly disagree. As I earlier testified, I do not believe that the company has violated Commission orders in its maintenance of the Set-Aside Account. Various Company filings and written requests to address set-aside related issues directly with Staff should demonstrate that there was no "flagrant disregard" of past Commission Orders involved on the part of Valley Utilities. As Staff points out in its October 6, 2008 Response, the Company has sought Staff and Commission approval on several other matters. Does it make sense then that we would be trying to work with Staff and the Commission on the one hand, while flagrantly disregarding past Commission decisions and orders on the other? I do not believe so.

E. Conclusion.

Q. MR. PRINCE, WHAT EVIDENCE HAVE YOU PROVIDED CONCERNING THE SET-ASIDE ACCOUNT, AND THE COMPANY'S USE OF EXCESS FUNDS AS REASONABLE AND NOT IN VIOLATION OF COMMISSION ORDERS?

A. I have referred mostly to evidence that is already a matter of record in this proceeding, as well as past proceedings (Docket No. W-01412A-04-0736 and W-01412A-04-0849). I request that administrative notice be taken of these dockets. In the event that Staff does not agree that it would be administratively efficient to deal with the issues raised in this proceeding in the context of an amended Motion or consolidated Surcharge Application, then I am prepared to provide a detailed accounting of the excess funds used in the Set-Aside Account in my Rebuttal Testimony.

Q. BUT YOUR PREFERENCE IS TO AMEND THE CURRENT MOTION?

A. Yes. I think it would be difficult on the Company and Staff to go through two sets of testimony and hearings to address and resolve issues that are so closely linked to one another.

Q. IS THERE ANYTHING YOU WOULD LIKE TO ADD TO YOUR TESTIMONY

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AT THIS TIME?

A. Yes. Despite all the allegations against Valley Utilities concerning past compliance and flagrant disregard of Commission orders, I did not see anything in either of the responses submitted by Staff demonstrating how the Company's customers were harmed. The excess funds in the Set-Aside Account were used by the Company for the benefit of its customers. I guess we can argue over what should have been done versus what was done with the excess funds in the Set-Aside Account, and whether my actions violated the express provisions of Commission orders. However, it seems to me that the Company and Staff should be working cooperatively, as we have done in the past, to ensure that ratepayers can continue to receive adequate and reliable water service under the regulatory oversight of the Commission. I am hopeful that Staff will reconsider its original position to move forward now, and allow the Company to amend the Motion in the interest of administrative efficiency and judicial economy, especially given all the other matters and proceedings before the Commission now and in the future.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

24964.001

EXHIBIT

BLP-1

ORIGINAL

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1 Richard L. Sallquist
2 Sallquist, Drummond & O'Connor, P.C.
3 Tempe Office
4 4500 S. Lakeshore Drive
5 Suite 339
6 Tempe, Arizona 85282
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Arizona Corporation Commission
DOCKETED
MAY - 9 2007

2007 MAY -9 P 1: 33
AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED BY nr

BEFORE THE ARIZONA CORPORATION COMMISSION

8 IN THE MATTER OF THE APPLICATION)
9 OF VALLEY UTILITIES WATER) DOCKET NO. W-01412A-04-0736
10 COMPANY INC. FOR AN INCREASE IN)
11 ITS WATER RATES FOR CUSTOMERS)
12 WITHIN MARICOPA COUNTY, ARIZONA)

11 IN THE MATTER OF THE APPLICATION)
12 OF VALLEY UTILITIES WATER) DOCKET NO. W-01412A-04-0849
13 COMPANY, INC. FOR AUTHORITY TO)
14 ISSUE PROMISSORY NOTE(S) AND)
15 OTHER EVIDENCES OF INDEBTEDNESS)
16 PAYABLE AT PERIODS OF MORE THAN)
17 TWELVE MONTHS AFTER THE DATE OF)
18 ISSUANCE.)
19
20
21
22
23

**WIFA LOAN SURCHARGE
CALCULATION AND NOTICE OF
IMPLEMENTATION**

1. On November 14, 2005 the Commission issued Decision No. 68309 (the "Decision"), which Decision, among other things, required the Company to file a WIFA Loan Surcharge calculation based on the debt service of the new WIFA Loan, net of certain "set asides" authorized in Decision No. 62908, dated September 18, 2000, and Arsenic Impact Fees authorized in Decision No. 67669 dated March 9, 2005.

2. Attached hereto as **Attachment One**, and incorporated herein by this reference, is a schedule setting forth that calculation. Due to the balances in the above referenced accounts,

1 the WIFA Loan Surcharge for the first fiscal year of the WIFA Loan will be \$0.00 per 1,000
2 gallons usage.

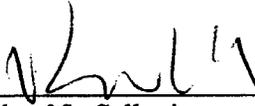
3 3. It is anticipated that the WIFA Loan Surcharge for the second fiscal year will
4 remain at that level, but will become positive in the third fiscal year. Annual filings will be made
5 no less than 30 days before the anniversary of the implementation.

6 4. The Decision is silent as to the procedure for implementing the WIFA Loan
7 Surcharge beyond the compliance filing. The Company would propose to commence showing a
8 "WIFA Loan Surcharge" line item on its monthly billings to customers at the \$0.00 level with the
9 June 2007 billings.

10 WHEREFORE, the Company hereby files this compliance item as required by Decision
11 No. 68309, and notifies the Commission of the implementation of a \$0.00 WIFA Loan Surcharge
12 with its June 1, 2007 billings.

13 RESPECTFULLY submitted this 9th day of May 2007.

14 SALLQUIST, DRUMMOND & O'CONNOR, P.C.

15 By 
16 Richard L. Sallquist
17 4500 S. Lakeshore Drive, Suite 339
18 Tempe, Arizona 85282
19 Attorneys for Valley Utilities Water Company

20 Original and fifteen copies of the
21 foregoing filed this 9th day
22 of May 2007:

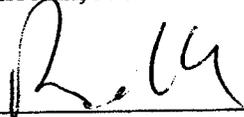
23 Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 A copy of the foregoing
mailed/hand delivered this
2 9th day of May 2007, to:

3 Utilities Division
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007

5
6 Legal Division
Arizona Corporation Commission
1200 West Washington
7 Phoenix, Arizona 85007

8 Hearing Division
Arizona Corporation Commission
9 1200 West Washington
Phoenix, Arizona 85007

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11 _____

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Valley Utilities Water Company
Computation of Arsenic Recovery Surcharge

Exhibit

Line			
<u>No.</u>			
1			
2	WIFA Debt Service Requirements (May 2007 to April 2008) ¹	\$	247,849
3	Reductions		
4	Arsenic Impact Fees to be used ²	\$	(247,849)
5	WIFA Loan Set Asides to be Used ³	-	
6	Total Reductions	\$	<u>(247,849)</u>
7	Amount to be Collected via Arsenic Recovery Surcharge	\$	(0)
8			
9	Gallons Sold (in 1,000's) during Prior Year (2006)		333,624
10			
11	Surcharge per 1,000 gallons	\$	-
12			
13	<u>Computation of Impact on Average 5/8 Inch metered Customer</u>		
14	Average Use (in gallons)		9,251
15	Average Bill (without surcharge)	\$	30.18
16	Arsenic Recovery Surcharge at Average Use	\$	-
17	Average Bill (with surcharge)	\$	30.18
18	Percent Increase in Average Bill		0.00%
19			
20	¹ WIFA Debt Service Requirements (May 2007 to April 2008) (From Loan Repayment Schedule)		
21	May '07	\$	66,537
22	June		16,483
23	July		16,483
24	August		16,483
25	September		16,483
26	October		16,483
27	November		16,483
28	December		16,483
29	January '08		16,483
30	February		16,483
31	March		16,483
32	April		16,483
33	Total	\$	<u>247,849</u>
34			
35	² Arsenic Impact Fees Collected and Used		
36	Fees Collected	\$	314,171
37	Less: Funds Previously Used for Arsenic Plant or Debt Service		(44,355)
38	Less: Funds used for Current Year's Debt Service		(247,849)
39	Balance of Arsenic Impact Fee Fund to be used in Future	\$	<u>21,967</u>
40			
41	³ WIFA Loan Set Asides(Collected between Nov. 2000 and Sept. 2005)		
42	Loan Set Asides	\$	141,129
43	Less: Funds Previously Used for Plant or Debt Service		-
44	Less: Funds used for Current Year's Debt Service		-
45	Balance of WIFA Loan Set Asides to be used in Future	\$	<u>141,129</u>
46			

VALLEY UTILITIES WATER COMPANY, INC.

DECEMBER, 2005

WIFA LOAN SET ASIDES FROM
NOVEMBER, 2000 TO SEPTEMBER, 2005

Year & Month	Number of Accounts	Set Aside	TOTAL SET ASIDES
2000			
November	635	\$6.35	\$4,032.25
December	635	\$6.35	\$4,032.25
2001			
January	635	\$6.35	\$4,032.25
February	635	\$6.35	\$4,032.25
March	635	\$6.35	\$4,032.25
April	635	\$6.35	\$4,032.25
May	635	\$6.35	\$4,032.25
June	635	\$6.35	\$4,032.25
July	635	\$6.35	\$4,032.25
August	635	\$6.35	\$4,032.25
September	635	\$6.35	\$4,032.25
October	635	\$6.35	\$4,032.25
November	635	\$6.35	\$4,032.25
December	635	\$6.35	\$4,032.25
2002			
January	635	\$6.35	\$4,032.25
February	635	\$6.35	\$4,032.25
March	635	\$6.35	\$4,032.25
April	635	\$6.35	\$4,032.25
May	635	\$6.35	\$4,032.25
June	635	\$6.35	\$4,032.25
July	635	\$6.35	\$4,032.25
August	635	\$6.35	\$4,032.25
September	635	\$6.35	\$4,032.25
October	635	\$6.35	\$4,032.25
November	635	\$6.35	\$4,032.25
December	635	\$6.35	\$4,032.25
2003			
January	635	\$6.35	\$4,032.25
February	635	\$6.35	\$4,032.25
March	635	\$6.35	\$4,032.25
April	635	\$6.35	\$4,032.25
May	635	\$6.35	\$4,032.25
June	635	\$6.35	\$4,032.25
July	635	\$6.35	\$4,032.25
August	635	\$6.35	\$4,032.25
September	635	\$6.35	\$4,032.25
TOTAL			\$141,128.75