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BEFORE THE ARIZONA CORPORATION COMMISSION

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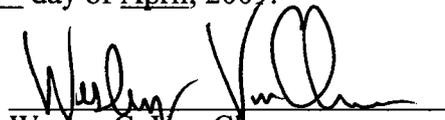
IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PROPERTY AND
FOR AN INCREASE IN ITS WATER RATES
AND CHARGES.

DOCKET NO. W-02069A-08-0406

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
of Staff Witness Alexander I. Igwe in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of April, 2009.


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Arizona Corporation Commission
DOCKETED
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SURREBUTTAL

TESTIMONY

OF

ALEXANDER I. IGWE

DOCKET NO. W-02069A-08-0406

**IN THE MATTER OF THE APPLICATION OF
SUNRISE WATER COMPANY AN ARIZONA
CORPORATION FOR A DETERMINAION OF THE
CURRENT FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS RATES
AND CHARGES BASED THEREON FOR UTILITY SERVICE**

APRIL 17, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
SUNRISE WATER CO., AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE CURRENT FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR)
INCREASES IN ITS RATES AND CHARGES)
BASED THEREON FOR UTILITY SERVICE)

DOCKET NO. W-02069A-08-0406

SURREBUTTAL

TESTIMONY

OF

ALEXANDER IBHADE IGWE, CPA

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 17, 2009

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**EXECUTIVE SUMMARY
SUNRISE WATER COMPANY
DOCKET NO. W-02069A-08-0406**

Staff's surrebuttal testimony is in response to the issues raised by Sunrise Water Company ("Sunrise" or "Company") in its rebuttal testimony. Although the Company has accepted most of Staff's recommended adjustments to its filing, it continues to contest the following issues:

1. Staff's recommendation to deny the Company's proposal to reduce Advances in Aid of Construction (AIAC") with projected post test year refunds.
2. Staff's recommendation to deny the Company's proposal regarding normalization of test year hydrant water sales.
3. Staff's recommendations regarding purchased power, miscellaneous expense, outside services, rental expense and income taxes.

Staff has reviewed the Company's rebuttal testimony and recommends as follows:

1. The Company's proposal to reduce test year AIAC by projected refunds is inconsistent with sound ratemaking principles. Because this is the only rate base issue in dispute, Staff recommends no change to its recommended rate base of \$1,183,834.
2. Based on the additional information provided by the Company, Staff has normalized the Company's hydrant water sales over a five year period, comprised of two years of moderate hydrant water sales and three years of high sales. Staff's normalization results in a decrease of \$33,435 over recorded test year metered revenues. Accordingly, Staff recommends adjusted test year revenues of \$1,318,743.
3. Staff has increased transportation expense by \$4,888 to correct an error in its direct testimony.
4. Staff has revised miscellaneous expense to include \$3,551 for permit and recording fee.
5. Staff has recalculated property tax to reflect the correct assessment ratio and composite property tax rate. This revision results in test year property tax of \$60,875, an increase of \$18,146 over Staff's previous recommendation of \$42,729.

Staff continues to recommend denial of the following:

1. \$27,000 of outside services incurred for political lobbying.
2. \$37,595 lease expense for barn, workshop, storage, field office and yard. The Company has ample storage space at Well No. 7 for storing its properties. Also, Staff has allowed \$1,500 for the continued lease of the Arrowhead Mini Storage for storage of historic records.

3. Staff continues to recommend zero corporate income taxes for Sunrise. The Company's argument for recognition of income taxes in cost of service is negated by its election to be treated as a Subchapter S Corporation by the Internal Revenue Service. As a tax exempt entity, the Company is not subject to corporate income taxes.

In summary, Staff recommends a revenue requirement of \$1,399,838, which results in an operating income of \$118,383 or a 10 percent rate of return on a Fair Value Rate base of \$1,183,834. Finally, Staff recommends adoption of its recommended rate design in this proceeding.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Alexander Ibhade Igwe. My business address is 1200 West Washington
4 Street, Phoenix, Arizona 85007.

5
6 **Q. Are you the same Alexander Ibhade Igwe who on February 27, 2009, filed direct**
7 **testimony on rate base, revenue requirement, cost of capital, and rate design.**

8 A. Yes.

9
10 **PURPOSE OF TESTIMONY**

11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. My surrebuttal testimony presents Staff's position on issues raised by the Company in its
13 rebuttal testimony.

14
15 **REVENUE REQUIREMENT**

16 **Q. Please summarize the Company's proposed revenue requirement.**

17 A. The Company proposes a revised revenue requirement of \$1,522,229, an increase of
18 \$217,866 over its reported adjusted test year revenues of \$1,304,363. The Company's
19 proposal results in an operating income of \$124,801 or a 10.00 percent rate of return on an
20 Original Cost Rate Base ("OCRB") of \$1,248,012.

21
22 **Q. Please state Staff's revised recommendation for revenue requirement.**

23 A. Staff recommends a revised revenue requirement of \$1,399,839, \$81,906 over its adjusted
24 test year revenues of \$1,318,743. Staff recommended revenue requirement results in an
25 operating income of \$118,383 or a 10.00 percent rate of return on Staff's adjusted OCRB

1 of \$1,183,834. Staff's recommended revenue requirement is \$122,390 less than the
2 Company's rebuttal proposal of \$1,522,229.

3

4 **SUMMARY OF ADJUSTMENTS**

5 **Q. Please summarize the adjustments addressed in this testimony.**

6 A. Staff's analysis addresses the following adjustments:

7

8 Test Year Metered Revenues

9 This adjustment reduces Staff adjusted test year metered revenues by \$33,435 to
10 normalize test year hydrant water sales.

11

12 Purchased Power

13 This adjustment reduces operating income by \$4,942 to eliminate pumping power cost
14 relating to excess hydrant water sales.

15

16 Transportation Expense

17 This adjustment increases transportation expense by \$4,888 to correct a linkage error in
18 Staff's direct testimony schedules.

19

20 Miscellaneous Expense

21 This adjustment increases miscellaneous expense by \$3,351 to reflect test year permit and
22 recording fee.

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Property Tax Expense

This adjustment increases test year property tax by \$18,146 to correct for inadvertent errors in Staff's direct testimony and reflect Staff's revision to test year revenue and revenue requirement.

RATE BASE

ADVANCES IN AID OF CONSTRUCTION

Q. Please comment on the Company's revised proposal to reduce Advances in Aid of Construction ("AIAC") by one-half of projected post test year refunds.

A. As fully discussed in Staff's direct testimony, any proposal to reduce test year AIAC by projected refund is inconsistent with sound rate making principles. It creates a mismatch between test year end rate base and revenue requirement. Further, the Company's proposal overstates rate base, and results in a higher than necessary operating income. In other words, this proposal would unduly require the Company's ratepayers to provide a return on non-investor's capital.

Q. Is Staff proposing any revision to its recommended rate base?

A. No. Staff continues to recommend a rate base of \$1,183,834. The only outstanding rate base issue relates to the Company's request to decrease test year AIAC by projected post test year refunds. As discussed above, the Company's proposal is inconsistent with sound rate making principles.

1 **OPERATING INCOME**

2

3 **REVENUES**

4 **Q. Is Staff recommending any revision to its recommended test year operating income?**

5 A. Yes. Staff recommends an adjusted test year operating income of \$37,287, \$54,877 less
6 than its previous recommendation of \$92,165. Staff's revision is attributable to the
7 following adjustments.

8

9 **Operating Income Adjustment No. 1 - Test Year Revenues**

10 **Q. Has the Company discontinued arguing for adoption of its proposed normalized test**
11 **year hydrant water sales?**

12 A. No. The Company in its rebuttal testimony continues to argue for adoption of its
13 normalized test year hydrant water sales. The Company contends that because the Flood
14 Control and the Happy Valley projects have been terminated, post test year, it will no
15 longer derive revenue from both sources.

16

17 **Q. Please comment on the Company's assertions regarding test year hydrant water**
18 **sales.**

19 A. Staff has established that the Company's revenue from 2008 hydrant water sales exceeded
20 test year levels. However, the Company's has provided additional information indicating
21 that its hydrant water sales to the Flood Control and Happy Valley projects have expired,
22 post test year. Based on the current information, Staff finds that it is appropriate to
23 normalize test year hydrant water sales by averaging hydrant water sales between 2004
24 and 2007.

1 **Q. Why is Staff recommending normalization over a five year period?**

2 A. The Company's data shows that it experienced moderate hydrant water sales in 2004 and
3 2005; and high sales in 2006 through 2008. Normalizing hydrant water sales over this
4 five year period is appropriate because it represents two years of moderate hydrant water
5 sales and three years of high sales.

6

7 **Q. Did Staff utilize a normalization method different than the Company?**

8 A. Yes. As fully discussed in Staff's direct testimony, the Company's methodology unduly
9 understates test year hydrant water sales by excluding sales to the Flood Control project
10 from its calculations. Staff's methodology appropriately reflects hydrant water sales over
11 a five-year period that is composed of moderate and high sales.

12

13 **Q. What is Staff recommending for test year meter revenues?**

14 A. As shown on Surrebuttal Schedule AII-5, Staff recommends \$1,310,406 of test year
15 metered revenues, a decrease of \$33,434 to Staff's direct testimony recommendation of
16 \$1,343,840. Staff's recommendation reflects a normalized level of hydrant water sales.

17

18 **EXPENSES**

19 **Operating Income Adjustment No. 2 - Purchased Power**

20 **Q. Is Staff recommending a revision to purchased power expense?**

21 A. Yes. Consistent with Staff's recommendation to eliminate excess hydrant water sales
22 from metered revenues, this adjustment reduces purchased pumping power costs to a
23 corresponding level of Staff adjusted hydrant water sales.

1 **Q. How did Staff derive its recommended adjustment to purchased power?**

2 A. Staff derived its adjustment to purchased power by applying the Company's calculated
3 pumping power cost per 1,000-gallons of \$0.4213 to Staff's calculated excess hydrant
4 water sales of 11,731,470-gallons. Staff's calculation results in an adjustment of \$4,942 to
5 test year purchased power expense.

6

7 **Q. What is Staff recommending for test year purchased power expense?**

8 A. As shown on Surrebuttal Schedule AII-6, Staff recommends a revised purchased power
9 expense of \$171,800, or \$4,942 less than test year recorded costs of \$176,742.

10

11 **Operating Income Adjustment No. 3 - Transportation expense**

12 **Q. Did the Company identify on error in Staff's direct testimony schedules for**
13 **transportation expense?**

14 A. Yes. The Company found that Staff's direct testimony schedules AII-6, AII-7 and AII-15
15 did not reflect the same amount for transportation expense. Staff has acknowledged this
16 error and corrected for it.

17

18 **Q. Please explain Staff's direct testimony recommendation regarding transportation**
19 **expense.**

20 A. As shown on Staff direct schedule AII-15, Staff recommends \$56,477 for transportation
21 expense. However, this amount did not carry forward to Staff direct Schedules AII-6 and
22 AII-7, resulting in a misstatement of Staff's recommendation as \$51,589, or \$4,888 less
23 than \$56,477.

1 **Q. Is Staff proposing an amendment to correct for this error?**

2 A. Yes. Staff's recommendation for transportation expense is correctly reflected as \$56,477
3 on Surrebuttal Schedules AII- 3 and AII-7. The Company has adopted this
4 recommendation in its rebuttal testimony.

5

6 **Operating Income Adjustment No. 4 - Miscellaneous Expense (Permit & Recording)**

7 **Q. Please comment of the Company's argument for inclusion of permit and recording as**
8 **a cost of service in this proceeding.**

9 A. Staff has reviewed the additional information provided by the Company, especially an
10 invoice issued by the Maricopa County, dated December 31, 2007 for permit and
11 recording fee. Staff found that contrary to its previous conclusion, that permit and
12 recording fee is a recurring expense to the Company.

13

14 **Q. Is Staff recommending an amendment to reinstate permit and recording fee as a cost**
15 **of service in this proceeding?**

16 A. Yes. As shown on Schedule AII-8, Staff has reversed its previous adjustment to eliminate
17 permit and recording fee from cost of service. To effect this revision, Staff has increased
18 miscellaneous expense by \$3,551 as being test year cost of permit and recording.

19

20 **Operating Income Adjustment No. 5 - Property Taxes**

21 **Q. What is the Company's contention regarding Staff's calculation of property taxes?**

22 A. The Company has correctly identified that Staff inadvertently reflected a net book value
23 ("NBV") for vehicles and an inaccurate composite property tax rate in its calculation of
24 test year property taxes. Further, the Company noted that Staff reflected 10 percent of
25 Construction Work in Progress ("CWIP") as \$20,865, instead of \$5,709; and reduced

1 property assessment ratio from 23.0 percent to 22.5 percent. The Company has adopted
2 22.5 percent as an appropriate property assessment ration in this proceeding.

3
4 **Q. Please comment of the Company's assertion regarding Staff's calculation of test year**
5 **property taxes.**

6 A. Staff has confirmed the Company's assertions regarding the use of NBV of vehicle,
7 \$20,865 of CWIP and a 7.41614 percent assessment ratio. These errors have been
8 corrected for this filing. Further, Staff's revised property taxes reflect its surrebuttal
9 adjusted test year revenues and recommended revenue requirement.

10
11 **Q. What is Staff recommending for test year property taxes?**

12 A. As shown on Schedule AII-9, Staff recommends \$60,875 for property tax expense,
13 \$18,146 over its previous recommendation of \$42,729.

14
15 **Operating Income - Outside Services**

16 **Q. What is the Company's contention regarding outside services?**

17 A. The Company contends at page 11, line 12 of Mr. Collins testimony that "SRW
18 Consulting assists Sunrise with regulatory compliance by providing regulatory and
19 legislative monitoring and reporting services." Based on this assertion, the Company is
20 proposing 50-50 sharing of the \$27,000 relating to SRW Consulting fees.

21
22 **Q. Please comment of the Company's assertion that the services provided by SRW**
23 **Consulting benefits ratepayers.**

24 A. Staff does not agree with the Company that the services provided by SRW Consulting are
25 necessary for provision of water service. Staff is not aware of any other utility that retains
26 the service of a political lobbying company to monitor regulatory and legislative activities

1 in Arizona. If the Company desires to retain the services of SRW Consulting, the costs
2 should be borne by its shareholder(s), not the ratepayers.

3
4 **Q. Is Staff recommending inclusion of any cost relating to SRW Consulting as cost of**
5 **service in this proceeding?**

6 A. No. For the reasons fully discussed in Staff's direct testimony, the cost incurred for the
7 services of SRW Consulting is neither necessary for provision of water service nor a
8 recurring cost of service. Accordingly, the costs should be disallowed in its entirety.

9
10 **Operating Income - Barn, Workshop, Storage, Field Office and Yard Rental**

11 **Q. What is the Company's argument for inclusion of \$37,595 for barn, workshop, field**
12 **office and yard rental in cost of service?**

13 A. The Company continues to assert that the rental costs relating to these facilities are
14 necessary for provision of service. Mr. Collins argues that Mr. Campbell's residential
15 premises provides a more secured storage for the Company's supplies, material, tools and
16 equipment. Mr. Collins states at page 13 of his rebuttal testimony, beginning at line 6 that
17 "The location has a single source of ingress and egress and is a fenced and occupied, large
18 compound, ranch-style, residential property. These features provide excellent security and
19 protect the items from theft and damages. In addition, Sunrise records are stored in
20 secured containers on the property. The workshop in the barn is used by field crew to
21 make repairs and to perform other equipment functions, and the field office is used for
22 field crew meetings and staging."

1 **Q. Please comment on the Company's argument for allowing the above rental cost in**
2 **cost of service.**

3 A. Well No. 7 provides a secured and sizeable land for storing the Company's supplies,
4 material, tools and equipment. This property is equally secured with a block fence and
5 gate. As indicated in Staff's direct testimony, this property measures approximately 1.83
6 acres and cost \$500,000. This cost is already included in the Company's rate base. In the
7 course of this proceeding, Mr. Campbell indicated to Staff that the Company acquired a
8 1.83-acre for Well No. 7, because there was no smaller sized lot available for the well site.
9 In other words, the well location is larger than required for such a plant item. Staff
10 observed during inspection that there is ample space available at Well No. 7 for storing the
11 company's properties currently stored outside of Mr. Campbell's residential property.
12 Staff's observation corroborates the fact that 1.83-acre is excessive for Well No. 7. Staff
13 recommendation to relocate the Company's properties to Well No. 7 insures that the
14 ratepayers derive some benefit from the excess land purchased for Well No. 7.

15
16 As it relates to storage of the Company's records, Staff has recommended approval of
17 \$1,500 for the Arrowhead Mini Storage. Staff recommends that all Company records
18 should be transferred to the Arrowhead Mini Storage, to avoid duplicative and
19 unnecessary cost to ratepayers. Further, Staff observed during inspection of the storage at
20 Mr. Campbell's residential property, that there were boxes labeled for Westend Water
21 Company, J. D. Campbell Realty and other unmarked boxes. If the Commission approves
22 the Company's request to include the cost of a second storage for Sunrise, the ratepayers
23 will be paying for a facility that is not necessary to provide service and appears is being
24 used for other purposes. Therefore, Staff continues to recommend that the Commission
25 deny the cost relating to this storage facility.

1 The workshop located within the barn has a vice, a tool box and other supplies that may be
2 useful to the Company. Staff does not agree that this workshop is a must have for the
3 Company to continue to provide service. Second, there is no evidence that this workshop
4 is not utilized for the maintenance of Westend Water Company and the maintenance of
5 Mr. Campbell's residence or his other business endeavors. Finally, Staff does not find that
6 the associated cost of \$12,487 represents market rate for this facility. Accordingly, Staff
7 concludes that the workshop is not required for the provision of service, and the related
8 costs is excessive. Staff continues to recommend the disallowance of the related cost of
9 \$12,487.

10
11 **Q. Please summarize Staff's recommendations regarding barn, workshop, field office**
12 **and yard rental.**

13 A. Staff continues to recommend disallowance of the \$37,595 relating to these facilities.
14 There are alternate facilities available for the storage of Company's properties at no
15 additional cost to ratepayers. The facilities are not required for provision of service, and
16 the related rental costs exceed market rates.

17
18 **Operating Income - Corporate Income Taxes**

19 **Q. Does the Company continue to argue for recognition of corporate income taxes as**
20 **cost of service?**

21 A. Yes. Mr. Collins summarizes the Company's position as follows: "In summary, while
22 Sunrise may be technically exempt from corporate income tax, the business enterprise is
23 not exempt from income tax." Mr. Collins at page 16, line 11.

24
25 Also, Mr. Jones argues in the Company's rebuttal testimony that "...the net income of
26 Sunrise creates an income tax liability that is a direct result of providing water service and

1 is appropriately recovered in rates. The Commission has included income tax expense in
2 the rates of Sunrise in the past two cases.” Mr. Jones at page 13, line 7.

3
4 **Q. Please comment of the Company’s arguments for inclusion of income tax expense in**
5 **cost of service.**

6 A. The Company does not dispute that Sunrise is a subchapter S corporation under the
7 Internal Revenue Service (“IRS”) Codes. Second, the Company does not dispute that it is
8 not subject to corporate income tax expense, payable by Sunrise to the IRS. It appears
9 that the Company is arguing for recognition of Mr. Campbell’s tax liability for income
10 earned from the Company’s operations. Finally, the Company seems to argue that
11 because the Commission inadvertently allowed the Company income tax expense in
12 previous rate cases, the error should be perpetuated in this proceeding.

13
14 The Company’s assertions do not justify allowing the Company to recover income tax
15 expense, for which it has no liability. The Company elected to be exempt from income
16 taxes by making appropriate filings for IRS approval. The Company’s argument that Mr.
17 Campbell pays income taxes on the Company’s operating income is no different than
18 shareholders’ inclusion of corporate dividend distributions in personal income tax filing.
19 In fact, the years that an S Corporation incurs losses, the distribution from such losses
20 reduces the taxable income of affected shareholders. Based on these facts, Staff continues
21 to recommend zero income tax expense for Sunrise.

22
23 Finally, the Company argues that if the Commission does not approve income tax
24 expense, its ability to make capital improvements could be impaired. This argument is
25 flawed. Staff has recommended approval of the Company’s appropriate cost of service
26 and the Company’s requested rate of return in this proceeding. Thus, if the Company’s

1 shareholder(s) makes additional capital improvements, the related capital cost will be
2 included in a future rate base and an appropriate rate of return will be provided on the
3 investor's capital. The alternative is for the Company to seek long-term debt, and the
4 related cost will be allowed for recovery after a due diligence review. Staff concludes that
5 the Company's argument relating to prospective capital improvements is irrelevant to the
6 issue of corporate income tax expense.

7
8 **Q. Is Staff recommending any income tax expense for Sunrise?**

9 A. No. The Company has elected to be treated as a Subchapter S Corporation. Therefore, it
10 does not incur any income taxes liability.

11
12 **RATE DESIGN**

13 **Q. Is the Company opposed to any of Staff's recommendation regarding rate design**

14 A. Yes. The Company is opposed to Staff's recommendation to adopt a second breakover
15 point of 13,000-gallons, for 3/4-inch metered residential customers. Second the Company
16 continues to request adoption of its proposed service charges in this proceeding.

17
18 **Q. Please comment on the Company's opposition to Staff's recommended second
19 breakover point for 3/4-inch metered residential customers.**

20 A. Staff's recommended second breakover point of 13,000-gallons, for 3/4-inch metered
21 residential customers, is intended to encourage more efficient use of water. The
22 Company's customers have a very high consumption pattern, with a median usage of
23 13,476-gallons and an average consumption of 17,782-gallons. These consumption
24 patterns are higher than normal for a typical residential customer.

1 As it relates to service charges, Staff continues to recommend adoption of its
2 recommended service charges as appropriate for Sunrise. Sunrise is requesting that Staff
3 adopt Sunrises proposed service charges so that they will be the same as those for
4 Westend Water Company, however, there is no evidence on the record that Sunrise and
5 Westend Water Company have the same cost structure. Therefore, it is not necessary to
6 approve the same service charges for both utilities.

7

8 **Q Please summarize Staff's recommendation regarding rate design.**

9 A. Staff continues to recommend adoption of its rate design in this proceeding.

10

11 **Q. Does this conclude your surrebuttal testimony?**

12 A. Yes.

SUNRISE WATER COMPANY

Docket No. W-02069A-08-0406

Test Year Ended December 31, 2007

SURREBUTTAL TESTIMONY OF ALEXANDER IBHADE IGWE

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AII-9	OPERATING ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL	(B) STAFF SURREBUTTAL
1	Adjusted Rate Base	\$ 1,248,012	\$ 1,183,834
2	Adjusted Operating Income (Loss)	\$ (27,466)	\$ 37,287
3	Current Rate of Return (L2 / L1)	-2.20%	3.15%
4	Required Rate of Return	10%	10%
5	Required Operating Income (L1 * L4)	\$ 124,801	\$ 118,383
6	Operating Income Deficiency (L5 - L2)	\$ 152,267	\$ 81,096
7	Gross Revenue Conversion Factor	1.4308	1
8	Required Revenue Increase (L7 * L6)	\$ 217,866	\$ 81,096
9	Adjusted Test Year Revenue	\$ 1,304,363	\$ 1,318,743
10	Proposed Annual Revenue (L8 + L9)	\$ 1,522,229	\$ 1,399,839
11	Required Increase in Revenue (%)	16.70%	6.15%

References:

Columns [A]: Company Schedules A-1 Rebuttal & Schedule C-1 Rebuttal

Columns [B]: Staff Surebuttal Schedules All-2 & All-3

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF DIRECT & SUREBUTTAL
1	Plant in Service	\$ 10,408,383	\$ -	\$ 10,408,383
2	Less: Accumulated Depreciation	2,492,247	135,964	2,628,211
3	Net Plant in Service	<u>\$ 7,916,136</u>	<u>\$ (135,964)</u>	<u>\$ 7,780,172</u>
<u>LESS:</u>				
4	Net Contribution in Aid of Construction (CIAC)	\$ 263,407	\$ -	\$ 263,407
6	Advances in Aid of Construction (AIAC)	6,256,352	128,356	6,384,708
8	Customer Deposits	91,855	-	91,855
10	Total Deductions	<u>\$ 6,611,614</u>	<u>\$ 128,356</u>	<u>\$ 6,739,970</u>
<u>ADD:</u>				
11	Allowance for Working Capital	\$ -	\$ -	\$ -
12	Deferred Income Taxes	143,632	-	143,632
13	Total Additions	<u>\$ 143,632</u>	<u>\$ -</u>	<u>\$ 143,632</u>
14	Original Cost Rate Base	<u><u>\$ 1,448,154</u></u>	<u><u>\$ (264,320)</u></u>	<u><u>\$ 1,183,834</u></u>

References:
Column [A], Company Schedule B-1
Column [B]: Column [C] - Column [A]
Column [C]: Schedule All-4, Column [H]

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] STAFF DIRECT	[B] STAFF SURREBUTTAL ADJUSTMENTS	[C] STAFF SURREBUTTAL TEST YEAR ADJUSTED	[D] STAFF AMENDMENTS	[E] STAFF SURREBUTTAL
REVENUES:						
1	Metered Water Sales	\$ 1,343,840	\$ (33,435)	\$ 1,310,405	\$ 81,096	\$ 1,391,501
2	Other Operating Revenue	8,338		8,338		8,338
3	Total Operating Revenues	<u>\$ 1,352,178</u>	<u>\$ (33,435)</u>	<u>\$ 1,318,743</u>	<u>\$ 81,096</u>	<u>\$ 1,399,839</u>
4						
OPERATING EXPENSES:						
6	Salaries & Wages	\$ 350,170		\$ 350,170		\$ 350,170
7	Purchased Water	-		-		-
8	Purchase Power	176,742	(4,942)	171,800		171,800
9	Chemicals	14,099		14,099		14,099
10	Repairs & Maintenance	26,549		26,549		26,549
11	Office Supplies Expenses	52,233		52,233		52,233
12	Outside Services	18,163		18,163		18,163
13	Water Testing	4,819		4,819		4,819
14	Rent Expense	21,090		21,090		21,090
15	Transportation Expense	51,589	4,888	56,477		56,477
16	Insurance - General Liability	11,141		11,141		11,141
17	Insurance - Health & Life	50,775		50,775		50,775
18	Regulatory Expense	25,000		25,000		25,000
19	Miscellaneous Expense	8,851	3,351	12,202		12,202
20	Depreciation & Amortization	406,063		406,063		406,063
21	Property Taxes	42,729	18,146	60,875		60,875
22	Income Taxes			-		-
23	Total Operating Expenses	<u>\$ 1,260,013</u>	<u>\$ 21,443</u>	<u>\$ 1,281,456</u>	<u>\$ -</u>	<u>\$ 1,281,456</u>
24	Operating Income (Loss)	<u>\$ 92,165</u>	<u>\$ (54,877)</u>	<u>\$ 37,287</u>	<u>\$ 81,096</u>	<u>\$ 118,383</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule All-9
- Column (C): Column (A) + Column (B)
- Column (D): Schedules All-1 and All-2
- Column (E): Column (C) + Column (D)

SUNRISE WATER COMPANY
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OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] STAFF DIRECT	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] STAFF SURREBUTTAL
1	Metered Water Sales	\$ 1,343,840	(33,435)					\$ 1,310,405
2	Other Operating Revenue	\$ 8,338						8,338
3	Total Operating Revenues	\$ 1,352,178	(33,435)					\$ 1,318,743
4	REVENUES:							
5	OPERATING EXPENSES:							
6	Salaries & Wages	\$ 350,170						\$ 350,170
7	Purchased Power	176,742		(4,942)				171,800
8	Chemicals	14,099						14,099
9	Repairs & Maintenance	26,549						26,549
10	Office Supplies Expenses	52,233						52,233
11	Outside Services	18,163						18,163
12	Water Testing	4,819						4,819
13	Rent Expense	21,090						21,090
14	Transportation Expense	51,589			4,888			56,477
15	Insurance - General Liability	11,141						11,141
16	Insurance - Health & Life	50,775						50,775
17	Regulatory Expense	25,000						25,000
18	Miscellaneous Expense	8,851				3,351		12,202
19	Depreciation & Amortization	406,063						406,063
20	Property Taxes	42,729					18,146	60,875
21	Income Taxes	-						-
22	Total Operating Expenses	\$ 1,260,013	\$ -	\$ (4,942)	\$ 4,888	\$ 3,351	\$ 18,146	\$ 1,281,456
23	Operating Income (Loss)	\$ 92,165	\$ (33,435)	\$ 4,942	\$ (4,888)	\$ (3,351)	\$ (18,146)	\$ 37,287

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Surebuttal Schedule All-5

ENT NO. 1 - TEST YEAR REVENUES

LINE NO.	DESCRIPTION	[A] STAFF DIRECT	[B] ADJUSTMENT	[C] STAFF SUREBUTTAL
1	Metered Water Revenue	\$ 1,343,840	\$ (33,435)	\$ 1,310,405
2	Other Operating Revenues	\$ 8,338	\$ -	\$ 8,338
3	Total Revenues	<u>1,352,178</u>	<u>(33,435)</u>	<u>1,318,743</u>

Calculation of Excess Hydrant Water Sales & Related Revenue

	Gallons	Gallons
4 Test Year Hydrant Water Sales		24,966,230
5 Hydrant Water Sales - 2004	3,640,100	
6 Hydrant Water Sales - 2005	4,759,010	
7 Hydrant Water Sales - 2006	19,574,700	
8 Hydrant Water Sales - 2007	24,965,230	
9 Total Hydrant Water Sales	<u>52,939,040</u>	
10 Average Hydrant Water Sales	<u>13,234,760</u>	13,234,760
11 Excess Hydrant Water Sales		(11,731,470)
12 Commodity Rate Per 1,000 Gallons		\$ 2.85
13 Excess Revenues from Hydrant Water Sales		<u>\$ (33,435)</u>

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Surebuttal Schedule All-6

NO. 2 - PURCHASED POWER EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF DIRECT	[B] ADJUSTMENT	[C] STAFF SUREBUTTAL
1	Purchased Power	\$ 176,742	\$ (4,942)	\$ 171,800
2	Total	\$ 176,742	\$ (4,942)	\$ 171,800

Calculation of Purchased Power Expense Relating to Excess Hydrant Water Sales

	Gallons	Gallons
3	Test Year Hydrant Water Sales	24,966,230
4	Hydrant Water Sales - 2004	3,640,100
5	Hydrant Water Sales - 2005	4,759,010
6	Hydrant Water Sales - 2006	19,574,700
7	Hydrant Water Sales - 2007	24,965,230
8	Total Hydrant Water Sales	52,939,040
9	Average Hydrant Water Sales	13,234,760
10	Excess Hydrant Water Sales	(11,731,470)
11	Test Year Pumping Power Cost Per 1,000 gallons	\$ 0.4213
12	Excess Purchased Power	\$ (4,942)

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Surebuttal Schedule All-7

OPERATING INCOME ADJUSTMENT NO. 3 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF DIRECT	[B] STAFF ADJUSTMENTS	[C] STAFF SUREBUTTAL
1	Transportation Expense	\$ 51,589	\$ 4,888	\$ 56,477
2	Total	\$ 51,589	\$ 4,888	\$ 56,477

Recalculation of Transportation Expense

Description	Company As Filed	Staff Adjustment	Adj. Subtotal	Staff Adjusted
3 01 Chevy Silverado Trent	\$ -	\$ -	\$ -	\$ -
4 01 Chevy Silverado Frank	-	-	-	-
5 02 Chevy Silverado Mimi	4,887			4,887
6 2005 Ford F150 - Frank	8,438	(1,754)		6,684
7 2004 FORD F-250 Trent	8,438	(1,754)	(3,507)	6,684
8 Gas & Oil	23,845	(8,485)	(8,485)	15,360
9 Auto Expense	16,505			16,505
10 Licenses & Fees	12,656	(6,300)	(6,300)	6,356
11 Total	\$ 74,769		\$ (18,292)	\$ 56,477

References:

Column (A), Company Schedule C-2 & Workpapers

Column (B): Testimony All & Schedule All-11 (Adj #13/2)

Column (C): Column (A) + Column (B)

SUNRISE WATER COMPANY
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Surebuttal Schedule All-8

OPERATING ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE

<u>LINE</u> <u>NO.</u>	<u>DESCRIPTION</u>	<u>STAFF</u> <u>DIRECT</u>	<u>ADJUSTMENT</u>	<u>STAFF</u> <u>SUREBUTTAL</u>
1	Miscellaneous Expense	\$ 8,851	\$ 3,351	\$ 12,202
2	Total	\$ 8,851	\$ 3,351	\$ 12,202

References:

Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony All & Schedule All-16 for Adj. #17
Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,318,744	\$ 1,318,744
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 2,637,488	\$ 2,637,488
4	Staff Recommended Revenue	1,399,913	1,399,913
5	Subtotal (Line 4 + Line 5)	\$ 4,037,401	\$ 4,037,401
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 1,345,800	\$ 1,345,800
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 2,691,601	\$ 2,691,601
10	Plus: 10% of CWIP	5,709	5,709
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 2,697,310	\$ 2,697,310
13	Assessment Ratio	22.50%	22.50%
14	Assessment Value (Line 12 * Line 13)	\$ 606,895	\$ 606,895
15	Composite Property Tax Rate - Obtained from ADOR	10.03060%	10.03060%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 60,875	
17	Staff Test Year Adjusted Property Tax Expense (Direct Testimony)	42,729	
18	Staff Surrebuttal Adjustment (Line 16 - Line 17)	\$ 18,146	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 60,875
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		60,875
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ -

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule C-1 Page 2
- Line 21: Line 19 - Line 20
- Line 23: Schedule All-1