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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP

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 **NOTICE OF FILING TESTIMONY SUMMARIES**

Sunrise Water Co. ("Sunrise") hereby files testimony summaries for Ray L. Jones and Marvin E. Collins.

RESPECTFULLY SUBMITTED on May 5, 2009.

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Arizona Corporation Commission
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Copies of the foregoing **delivered** on
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SUMMARY – TESTIMONY OF RAY L. JONES

In his direct testimony, Mr. Jones testifies as follows:

Mr. Jones sponsors the required schedules A-H. The test year for Sunrise Water Co. ("Sunrise") is the 12-month period ending December 31, 2007. Mr. Jones calculates Sunrise's rate base, expenses, and revenues after making certain pro-forma adjustments to account for known and measurable changes to rate base, expenses and revenues and to present a normalized and realistic relationship between revenues, expenses and rate base.

Consistent with recent Commission decisions, Mr. Jones recommends an overall cost of capital of 10.0 percent for Sunrise.

Based on his determinations of rate base, operating income, and required rate of return, Mr. Jones calculates that Sunrise is entitled to the following rate increase:

Original Cost Rate Base	$ 1,448,154
Adjusted Operating Income	$ (60,264)
Current Rate of Return -	4.16%
Required Operating Income	$ 144,815
Required Rate of Return	10.0%
Operating Income Deficiency	$ 205,079
Gross Revenue Conversion Factor	1.3942
Increase in Gross Revenue Requirement	**$ 285,932**

Sunrise's current rates consist of a single rate block for all usage. Mr. Jones recommends that Sunrise adopt a conservation-oriented, three-tier, rate design for ¾" meters and a conservation-oriented, two-tier, design for larger meters.

<u>In his rebuttal testimony, Mr. Jones testifies as follows</u>:

Mr. Jones sponsors Sunrise's rebuttal revenue requirement.

Mr. Jones accepts a number of Staff income statement adjustments.

Mr. Jones sponsors rate base and operating income and details Sunrise's rebuttal positing pertaining to remaining points of disagreement with Staff.

- Sunrise proposes to make a pro-forma adjustment for one-half of a developer Advance refund that had accrued and become payable as of the end of the test year. The refund was based on six months of test-year revenue and six months of post-test-year revenue.
- As discussed in detail by Mr. Collins, test-year hydrant-water sales should be normalized.
- As discussed in detail by Mr. Collins, Sunrise proposes to remove 50% of the $27,000 in outside services proposed to be removed by Staff.
- As discussed in detail by Mr. Collins, it is appropriate to include $37,595 in lease expense for workshop, storage and field office space facilities. Staff's adjustment should be rejected.
- Only some of Staff's property-tax adjustments are appropriate.
- As discussed in detail by Mr. Collins, it is appropriate to recognize income-tax expense. Further, this is consistent with the Commission's past allowance of this expense for Sunrise and for other S corporations and LLCs. Finally, disallowing income-tax expense would effectively reduce Sunrise's authorized return from 10% to 7.02%.
- Staff's proposal to increase base charges to yield higher revenues from monthly minimum charges is acceptable. However, it would be unwise to decrease the break-over point between the second and third tier from 18,000-gallons to 13,000-gallons.

Mr. Jones sponsors attached Exhibit RLJ-R1 containing the following updated schedules referenced in his rebuttal testimony.

- Schedule A-1 Rebuttal
- Schedule B-1 Rebuttal
- Schedule B-2 Rebuttal
- Schedule C-1 Rebuttal
- Schedule C-2 Rebuttal
- Schedule H-3 Rebuttal

<u>In his rejoinder testimony, Mr. Jones testifies as follows</u>:

Mr. Jones sponsors Sunrise's rejoinder revenue requirement. Sunrise's rejoinder revenue requirement is shown on Schedule A-1 Rejoinder. Sunrise has slightly increased its requested revenue increase to $222,943. This is an increase of 17.09% over adjusted test-year revenues of $1,304,363.

Mr. Jones responds to Staff's surrebuttal testimony positions regarding rate base and operating income and details Sunrise's rebuttal positing pertaining to remaining points of disagreement with Staff.

<u>Post-Test Year Refunds</u>

Sunrise and Staff continue to disagree on the treatment of post-test-year refunds of Advances in aid of Construction. Sunrise proposes to add that portion of post-test-year refunds attributable to revenues incurred during the test year to rate base. These refund payment made in August of 2008 were required by Commission rules and based on revenues generated during the period July 1, 2007, through June 30, 2008. Since the refund obligation was accrued during the test year, and paid before rates will go into effect in this case, the known-and-measureable refund amount should be included as a pro-forma adjustment to rate base. Further, this practice is consistent with past Commission treatment of post test year refunds.

<u>Hydrant-Water Sales</u>

Staff now agrees that it is appropriate to normalize test year hydrant-water sales. However, Staff's method is still flawed. Staff does not exclude nonrecurring sales for the Flood Control Project from its average. Second, because Staff's average does not include historic low sales, the resulting normalized level of hydrant-water sales significantly overstates expected hydrant-water sales on a going-forward basis.

<u>Outside Services</u>

Sunrise continues to propose a 50-50 sharing of the $27,000 relating to SRW Consulting Fees.

<u>Barn, Workshop, Storage, Field Office and Yard Rental</u>

As explained by Mr. Collins, Staff's proposed adjustments should be rejected.

<u>Income Tax Expense</u>

There is no material difference between how an S corporation pays taxes and how most major Arizona utilities pay taxes. Most major utilities in Arizona—including Arizona Public Service, Tucson Electric Power, Southwest Gas, Arizona-American Water, Arizona Water, and Chaparral City Water—are C-Corps whose taxes are filed on a consolidated basis along with other affiliated companies. There is no reason to discriminate against Sunrise and in favor of APS, TEP, Southwest Gas, Arizona-American Water, Arizona Water, Chaparral City Water, and the numerous other C-Corps that are part of consolidated groups.

Under the Staff recommendation, shareholder(s) will actually earn a substantially reduced after tax rate of return – a 298 basis-point reduction. A shareholder will undoubtedly make an investment decisions based on the substantially reduced, after tax, rate of return. This reality will weaken Sunrise's ability to attract shareholder capital, and contrary to Staff's assertion, this weakened ability to attract shareholder capital has the very real potential to significantly impair Sunrise's ability to make needed capital improvements.

As an alternative proposal, Sunrise recommends that the Commission calculate taxes as if the S-Corp had just one shareholder that derived all of its income from the regulated utility. Using this method, Sunrise's income-tax liability would $55,449, compared to $65,599 at the corporate tax rate.

Rate Case Expense

Through month-end March 2009, Sunrise has expended approximately $64,500 in rate case expenses. To finish the case Sunrise estimates additional expense will be approximately $25,500, for a total rate case expense of $90,000.

Rate Design

Sunrise continues to propose a break-over point between tier 2 and tier 3 of 18,000-gallons for the ¾" meter size. Establishing the break-over point at the average usage for the ¾" meter sends proper conservation price signals to Sunrise's customers without placing undue burden on below-average usage.

Sunrise continues to propose service charges that are consistent with those approved by the Commission for Sunrise's sister company West End Water Co.

Lastly, Sunrise does not believe a meter and service line installation charge is needed for the 5/8" x 3/4" meter size, since due to large lots Sunrise does not offer this meter size.

Mr. Jones sponsors attached Exhibit RLJ-RJ1 containing the following updated schedules referenced in my rebuttal testimony.

- Schedule A-1 Rejoinder
- Schedule B-1 Rejoinder
- Schedule B-2 Rejoinder
- Schedule C-1 Rejoinder
- Schedule C-2 Rejoinder
- Schedule C-3 Rejoinder
- Schedule H-3 Rejoinder

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SUMMARY – TESTIMONY OF MARVIN COLLINS

In his direct testimony, Mr. Collins testifies as follows:

The service area for Sunrise Water Co. ("Sunrise") is located in the northern part of Peoria, Arizona, bounded by Williams Road on the south, Happy Valley Road on the north, 75th Avenue on the east and 99th Avenue on the west. As of December 31, 2007, there were 1,324 water customers; all but two are residential.

All water is provided by groundwater. There are seven existing wells, of which five are in service. One well is currently out of service because arsenic levels exceed current standards, and one well is being used as an observation well. Sunrise operates seven water storage and booster pumping facilities with a total storage capacity of over 1.2 million gallons. The only treatment required for the water is chlorination. The water-distribution system consists of two pressure zones, with 35-plus miles of water mains varying in size from two to 12 inches.

To comply with the new federal arsenic standards, Sunrise decided to temporarily take Well No. 2 out of service and to construct a replacement well and associated facilities. New construction at Well No. 7 consists of a 400 gpm well, a 500,000-gallon storage tank, booster pumps, and related equipment. The total cost of Well No. 7 and the associated facilities was approximately $2.8 million. Sunrise was able to secure participation by several developers planning new subdivisions and commercial properties, reducing Sunrise's cost for the Well No. 7 facilities to $500,000.

Sunrise undertook two additional projects to address the loss of Well No. 2 as a water supply. These projects improve the Sunrise water distribution system by better interconnecting the various booster stations, with the principal benefit of allowing water from the Well No. 7 site to be delivered to areas in the Sunrise water distribution system that were affected by the loss of Well No.2.

Sunrise has ten employees, a President, a Manager, a Field Operation Supervisor, a Controller, a Customer Service Representative, an Accounts Payable Clerk, two full-time and one part-time field laborers, and a shared receptionist.

<u>In his rebuttal testimony, Mr. Collins testifies as follows</u>:

There are a number of recommendations and adjustments proposed by Arizona Corporation Commission Staff ("Staff") that are acceptable to Sunrise Water Co. ("Sunrise").

It is appropriate to normalize hydrant sales as proposed by Sunrise. Test-year sales were inflated for three reasons:

1. Constructions activity and resulting hydrant-water sales peaked in 2006, began to decline in 2007, and has now declined well below 2003 levels;
2. More than one-half of 2007 hydrant water sales were to support a regional flood control project, which is now complete; and
3. Most of 2008 hydrant-water sales were for the flood control project and for Phase I of the Happy Valley Road expansion, which is also now complete.

There are a number of services provided to Sunrise by SRW Consulting. These provide benefits to ratepayers and should be included in Sunrise's expenses.

Sunrise's rent expense should include costs incurred to lease workshop, storage, and field office space. The Well No. 7 site could not be used without significant, expensive construction and a zoning variance. Other existing office space is not adequate.

Staff would not include test-year income tax expense for Sunrise. Failure to include these legitimate expenses would financially harm Sunrise and affect Sunrise's ability to fund future infrastructure projects.

<u>In his rejoinder testimony, Mr. Collins testifies as follows</u>:

Sunrise's proposal to normalize hydrant water sales is updated along with an analysis of Sunrise's 2009 hydrant water sales. Staff's proposed level of normalized hydrant water sales is 13,234,760 gallons and Sunrise's proposed level of normalized hydrant water sales is 8,189,208. Staff's proposal is 62% higher than Sunrise's proposal. Both proposals are many multiples in excess of the 1,000,000 gallons in hydrant water sales projected for 2009 and similar levels of hydrant water sales expected for the next several years in which new rates will be in effect.

SRW Consulting assists Sunrise with regulatory compliance and helps Sunrise to develop communication strategies and issue management. These services directly benefit Sunrise's customers.

The Commission should reject Staff's surrebuttal position regarding rent expense incurred to lease workshop, storage, and field office space. Sunrise cannot store materials at the site or construct any sort of a storage/shop building without obtaining a Special Use Permit or rezoning the site. As previously discussed, successfully obtaining a Special Use Permit or rezoning the site is speculative at best. Further, the process to apply for a Special Use Permit or rezone the site is extensive and will require significant staff time, retaining consultants and legal counsel – all of which come at significant cost. Second, if Sunrise were to successfully obtain a Special Use Permit or rezone the site, Sunrise would need to install improvements necessary for its use of the site and any improvements required by Maricopa County, estimated to cost a minimum of

$150,000. The workshop is used by our field personnel on a regular basis and is necessary for the provision of service. The $12,487 annual cost to rent the facility represents a fair value for the use of the facility.

Not allowing income-tax expense would undoubtedly weaken Sunrise's ability to attract shareholder capital, which has the potential to significantly impair Sunrise's ability to make needed capital improvements.