

ORIGINAL



0000097705

BEFORE THE ARIZONA CORPORATION
RECEIVED

COMMISSIONERS

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

2009 JUL 28 P 2:19

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, LLC DBA JOHNSON
UTILITIES COMPANY FOR AN INCREASE
IN ITS WATER AND WASTEWATER RATES
FOR CUSTOMERS WITHIN PINAL
COUNTY, ARIZONA.

DOCKET NO. WS-02987A-08-0180

**STAFF'S REVISED
SURREBUTTAL TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the revised Surrebuttal Testimony of Staff Witness Jeffrey M. Michlik in the above-referenced matter.

RESPECTFULLY SUBMITTED this 28th day of July, 2009.

Ayesha Vohra, Attorney
Robin R. Mitchell, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this 28th day
of July, 2009 with:

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

Arizona Corporation Commission
DOCKETED
JUL 28 2009

DOCKETED BY

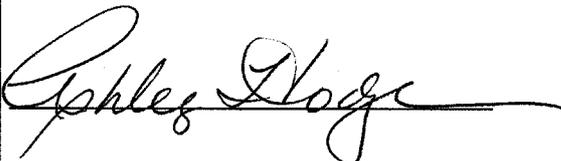
1 Copies of the foregoing mailed this
28th day of July, 2009 to:

2 Jeffrey W. Crockett, Esq.
3 Bradley S. Carroll, Esq.
4 Kristoffer P. Kiefer, Esq.
5 SNELL & WILMER LLP
6 One Arizona Center
7 400 East Van Buren Street
8 Phoenix, Arizona 85004-2202

9 Craig A. Marks
10 CRAIG A. MARKS, PLC
11 10645 North Tatum Boulevard
12 Suite 200-676
13 Phoenix, Arizona 85028

14 Daniel Pozefsky, Chief Counsel
15 RESIDENTIAL UTILITY
16 CONSUMER OFFICE
17 1110 West Washington Street
18 Suite 200
19 Phoenix, Arizona 85007-2958

20 James E. Mannato, Town Attorney
21 TOWN OF FLORENCE
22 775 North Main Street
23 Post Office Box 2670
24 Florence, Arizona 85232-2670

25
26
27
28


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)
JOHNSON UTILITIES, L.L.C., FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR CUSTOMERS)
WITHIN PINAL COUNTY, ARIZONA)
_____)

DOCKET NO. WS-02987A-08-0180

WATER
SECOND SUPPLEMENTAL SURREBUTTAL
TESTIMONY
OF
JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

July 28, 2009

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
3 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
4 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
5

6 **Q. Are you the same Jeffrey M. Michlik who filed surrebuttal testimony in this case?**

7 A. Yes, I am.
8

9 **Q. What is the purpose of your second supplemental surrebuttal testimony in this
10 proceeding?**

11 A. Staff filed its supplemental surrebuttal testimony on April 10, 2009. The purpose of this
12 second supplemental surrebuttal testimony is to modify Staff's recommendation regarding
13 the Arizona Ground Water Replenishment District ("CAGRDR") assessment fee, thereby
14 causing some of Staff's associated conditions to be modified.
15

16 **Q. Does Staff still want to classify this CAGRDR assessment as a pass-through?**

17 A. No, Staff would like to classify this CAGRDR assessment as an adjustor.
18

19 **Q. Why is this CAGRDR assessment more properly classified as an adjustor?**

20 A. A true pass-through, like sales tax for example, is one which is known and measurable and
21 easily calculated and assigned. The CAGRDR assessment fee, on the other hand, entails a
22 complicated calculation involving several variables which are based on prior years' data.
23 Also, more like an adjustor, the assessment represents a significant annual expense for the
24 Company, which is anticipated to progressively increase. In order to keep its membership
25 in CAGRDR, the Company must pay this fee.

1 **Q. Does Staff wish to modify any of the recommended conditions?**

2 A. Yes, Staff wants to modify Condition Nos. 1, 6, and 7, eliminate Condition Nos. 9 and 10,
3 and add a new Condition No. 9.

4
5 **Q. What change does Staff want to make to Condition No. 1?**

6 A. Staff wants to add the following language to Condition No. 1: In order to calculate this
7 initial fee, the Company shall submit the 2008 data, as per Condition No. 6 below, by
8 August 25, 2009.

9
10 **Q. Why does Staff want to modify Condition No. 6?**

11 A. Based on discussions with individuals at CAGR D, Staff's original calculation was
12 incorrect and would result in an over collection of this fee.

13
14 **Q. Does Staff want to modify its methodology for calculating and collecting this fee?**

15 A. Yes, Staff would like to utilize a methodology similar to that proposed by the Company.

16
17 **Q. Please explain the Company's methodology.**

18 A. The Company-proposed method of collecting the CAGR D fee is through a commodity
19 based fee and annual true-up. This information is found on Pages 16-17 of Mr. Bourassa's
20 direct testimony as follows:

21
22 "The commodity based fee would be computed on a per 1,000 gallon basis and
23 billed to customers based on their usage. Using 2007 figures, for example, the
24 commodity based fee would be \$0.489 per 1,000 gallons, computed as follows:

25
26 [1] Total 2007 CAGR D fees \$1,286,148
27 [2] 2007 Gallons Sold (in 1,000's) 2,631,314
28 [3] CAGR D fee per 1,000 gallons ([1] divided by [2]) \$ 0.489
29

30 The average ¾ inch residential customer using 6,931 would pay \$3.39 in CAGR D
31 fees (6.931 units times \$0.489).

1 Obviously, going forward, the base gallons sold for computation of the current
2 years fee will be the prior year gallons sold. To prevent over or under recovery of
3 the CAGR D fees, an annual true-up will be performed. Any over or under recovery
4 would be included in the next years computation.”

5
6 **Q. Does Staff agree with this methodology?**

7 A. Yes, but with one exception. Staff would like to utilize separately calculated fees for the
8 Phoenix AMA and the Pinal AMA because the CAGR D assessment rates are different for
9 these two classes.

10
11 **Q. How should Condition No. 6 now read?**

12 A. The CAGR D adjustor fees shall be calculated as follows: The total CAGR D fees for the
13 most current year in the Phoenix AMA shall be divided by the gallons sold in that year to
14 determine a CAGR D fee per 1,000 gallons. Similarly, the total CAGR D fees for the most
15 current year in the Pinal AMA shall be divided by the gallons sold in that year to
16 determine a CAGR D fee per 1,000 gallons.

17
18 **Q. What changes does Staff wish to make to Condition No. 7?**

19 A. Staff wants to change the due date for proposed fees from July 15th to August 25th of each
20 year, to correspond to the billing date of the CAGR D assessment fee. Additionally, Staff
21 wants to add a requirement for submission of supporting documentation for proposed fees.

22
23 **Q. Why is Staff eliminating the original Condition Nos. 9 and 10?**

24 A. Based on Staff's new methodology, there should not be any over collections.

25
26 **Q. What new condition does Staff wish to add?**

27 A. Staff wants to add, as a compliance item, the submission of an annual tariff.

1 **Q. Please provide a recap of Staff's revised conditions.**

2 A. Staff's revised conditions are as follows:

- 3
- 4 1. The initial adjustor fee shall apply to all water sold after October 1, 2009, or shall
- 5 become effective on the date new rates from this case become effective, whichever is
- 6 later. In order to calculate this initial fee, the Company shall submit the 2008 data, as
- 7 per Condition No. 6 below, by August 25, 2009.
- 8
- 9 2. The Company shall, on a monthly basis, place all CAGR D monies collected from
- 10 customers in a separate, interest bearing account ("CAGR D Account").
- 11
- 12 3. The only time the Company can withdraw money from the CAGR D Account is to
- 13 pay the annual CAGR D fee to the CAGR D, which is due on October 15th of each
- 14 year.
- 15
- 16 4. The Company must provide to Staff a semi-annual report of the CAGR D Account
- 17 and CAGR D use fees collected from customers and paid to the CAGR D, with the
- 18 reports due during the last week of October and the last week of April of each year.
- 19
- 20 5. The Company must provide to Staff, every even-numbered year (first year being
- 21 2010), by June 30th, the new firm rates set by the CAGR D for the next two years.
- 22
- 23 6. The CAGR D adjustor fees shall be calculated as follows: The total CAGR D fees for
- 24 the most current year in the Phoenix AMA shall be divided by the gallons sold in that
- 25 year to determine a CAGR D fee per 1,000 gallons. Similarly, the total CAGR D fees
- 26 for the most current year in the Pinal AMA shall be divided by the gallons sold in that
- 27 year to determine a CAGR D fee per 1,000 gallons.
- 28
- 29 7. By August 25th of each year, beginning in 2010, the Company shall submit for
- 30 Commission consideration its proposed CAGR D adjustor fees for the Phoenix and
- 31 Pinal AMAs, along with calculations and documentation from the relevant state
- 32 agencies to support the data used in the calculations. Failure to provide such
- 33 documentation to Staff shall result in the immediate cessation of the CAGR D adjustor
- 34 fee. Commission-approved fees shall become effective on the following October 1st.
- 35
- 36 8. If the CAGR D changes its current method of assessing fees (i.e., based on the current
- 37 volume of water used by customers) to some other method, such as, but not limited
- 38 to, future projection of water usage, or total water allocated to the Company, the
- 39 Company's collection from customers of CAGR D fees shall cease.
- 40
- 41 9. As a compliance item, the Company shall submit a new tariff reflecting the initial
- 42 adjustor fee as per Condition No. 1 above and shall annually submit a new tariff
- 43 reflecting the reset adjustor fee, prior to the fee becoming effective

- 1 **Q. Does this conclude your second supplemental surrebuttal testimony?**
- 2 **A. Yes, it does.**