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BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

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

2009 SEP 28 P 3:32  
 AZ CORP COMMISSION  
 DOCKET CONTROL

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

DOCKET NO. W-02304A-08-0590

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

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebittal Testimony  
 of Staff Witnesses Pedro M. Chaves and Jian W. Liu in the above-referenced matter.

RESPECTFULLY SUBMITTED this 28<sup>th</sup> day of September, 2009.

Wesley C. Man Cleve  
 Attorney, Legal Division  
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Original and thirteen (13) copies  
 of the foregoing were filed this  
 28<sup>th</sup> day of September, 2009 with:

Docket Control  
 Arizona Corporation Commission  
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 Phoenix, Arizona 85007

Arizona Corporation Commission  
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1 Copy of the foregoing mailed this  
28<sup>th</sup> day of September, 2009 to:

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**SURREBUTTAL**

**TESTIMONY**

**OF**

**PEDRO M. CHAVES**

**JIAN W. LIU**

**DOCKET NO. W-02304A-08-0590**

**IN THE MATTER OF THE APPLICATION OF  
COMMUNITY WATER COMPANY OF GREEN  
VALLEY FOR A DETERMINATION OF THE  
CURRENT FAIR VALUE OF ITS UTILITY  
PROPERTY AND FOR AN INCREASE IN ITS  
WATER RATES AND CHARGES FOR UTILITY  
SERVICES**

**SEPTEMBER 28, 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 )  
COMMUNITY WATER COMPANY OF GREEN )  
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SERVICES )

DOCKET NO. W-02304A-08-0590

SURREBUTTAL

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 28, 2009

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## SURREBUTTAL SCHEDULES

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**EXECUTIVE SUMMARY**  
**COMMUNITY WATER COMPANY OF GREEN VALLEY**  
**DOCKET NO. W-02304A-08-0590**

The surrebuttal testimony of Mr. Pedro M. Chaves addresses rate base, operating income, revenue requirement and rate design on behalf of Arizona Corporation Commission Utilities Division ("Staff"). Staff recommends rates that would increase operating revenues by \$790,351 to produce operating revenues of \$3,798,428 resulting in operating income of \$569,764, or a 26.27 percent increase over test year revenues of \$3,008,077. Staff continues to recommend a 15.0 percent operating margin. Staff also recommends a revised FVRB of \$6,958,108.

Revenue Requirement

Staff continues to recommend a 15.00 percent operating margin, which results in a rate of return of 8.19 percent.

Rate Base

Staff revised its accumulated depreciation calculation. Further, Staff's recommendation continues to be that Contributions In Aid of Construction associated with Construction Work in Progress are a deduction in the rate base calculation.

Income Statement

Staff continues to recommend the adjustments presented in its Direct Testimony.

Rate Design

Staff continues to recommend the rate design presented in its Direct Testimony.

1     **INTRODUCTION**

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

3     A.     My name is Pedro M. Chaves. I am a Public Utilities Analyst employed by the Arizona  
4            Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business  
5            address is 1200 West Washington Street, Phoenix, Arizona 85007.

6

7     **Q.     Are you the same Pedro M. Chaves that filed Direct Testimony in this case?**

8     A.     Yes, I am.

9

10    **Q.     What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11    A.     The purpose of my surrebuttal testimony in this rate proceeding is to respond to the  
12            Rebuttal Testimony of Community Water Company of Green Valley’s (“CWCGV” or  
13            “Company”) witnesses, Mr. Arturo R. Gabaldón and Mr. Thomas J. Bourassa.

14

15    **Q.     Please explain how Staff’s Surrebuttal Testimony is organized?**

16    A.     Staff’s Surrebuttal Testimony is generally organized to present issues in the same  
17            sequence as presented in Mr. Gabaldón’s and Mr. Bourassa’s Rebuttal Testimonies.

18

19    **RESPONSE TO MR. ARTURO R. GABALDÓN’S REBUTTAL TESTIMONY**

20    **Construction Water**

21    **Q.     Has Staff reviewed Mr. Gabaldón’s rebuttal testimony regarding Construction**  
22            **Water?**

23    A.     Yes.

1 **Q. What is the Company's position regarding Construction Water Meter charges?**

2 A. The Company agrees that it incorrectly charged construction customers a monthly  
3 minimum charge. CWCGV proposes to work with Staff to determine the most efficient  
4 way to resolve the issue; however, the Company expresses its desire not to refund the  
5 overcharge. Further, the Company proposes that going forward it be authorized to charge  
6 a monthly minimum charge for construction customers.

7  
8 **Q. Has the Company provided appropriate justification not to refund this overcharge?**

9 A. No. As indicated in my Direct Testimony (page 9), Staff recommends that the Company  
10 refund any charges collected from customers that were not authorized by the Commission.

11  
12 **Q. Does Staff have any comments to Mr. Gabaldón's testimony that charging minimum  
13 charges to construction customers provides an incentive for the construction  
14 customers to return the construction meters?**

15 A. Yes. Staff is recommending a hydrant meter deposit which provides an incentive for the  
16 construction customers to return the construction meters.

17  
18 **Q. Does Staff have any comments to Mr. Gabaldón's testimony that when construction  
19 customers hold a meter, the Company incurs administrative costs?**

20 A. Yes. Staff recommends charging the highest commodity rate for all construction water  
21 use. Charging the highest commodity rate for all consumption compensates for not having  
22 a minimum charge. It would be inequitable to charge construction customers a minimum  
23 charge and also apply the highest commodity rate to all consumption. No other rate class  
24 is subjected to such rates, and the Company has provided no basis for charging  
25 construction customers higher rates than other rate classes. Further, Staff's  
26 recommendation is consistent with prior Commission decisions where construction

1 customers do not have minimum charges, including the Decision in CWCGV's prior rate  
2 case. There is no reason to deviate from this practice in this case.

3

4 **RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY**

5 **Revenue Requirement**

6 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue**  
7 **requirement?**

8 A. Yes.

9

10 **Q. Please summarize the proposed revenue requirement, revenue increase, and**  
11 **operating margin.**

12 A. The proposed and recommended revenue requirement, revenue increase, and operating  
13 margin are as follows:

14

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Operating Margin</u>	
15				
16	Company-Direct	\$4,026,636	\$1,004,893	15.00
17	Staff Direct	\$3,798,428	\$790,351	15.00
18	Company Rebuttal	\$3,825,058	\$803,315	15.00
19	Staff Surrebuttal	\$3,798,428	\$790,351	15.00

20

21 **Q. Does Staff continue to recommend the same revenue requirement as in Direct**  
22 **Testimony?**

23 A. Yes. Staff continues to recommend the same revenue requirement as in Direct Testimony  
24 as shown in Surrebuttal Schedule PMC-1.

1 **Q. Does Staff continue to recommend an operating margin of 15.00 percent?**

2 A. Yes. Staff continues to recommend a 15.00 percent operating margin, which results in a  
3 rate of return on fair value rate base of 8.19 percent.

4

5 **Rate Base**

6 **Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding rate base?**

7 A. Yes.

8

9 **Q. Would Staff please identify each party's respective rate base recommendations?**

10 A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

11

	<u>OCRB</u>	<u>FVRB</u>
13 Company-Direct	\$7,517,446	\$7,517,446
14 Staff	\$6,636,141	\$6,636,141
15 Company Rebuttal	\$7,502,117	\$7,502,117
16 Staff Surrebuttal	\$6,958,908	\$6,958,908

17

18 **Q. Does Staff have any adjustments to rate base as recommended in its Direct**  
19 **Testimony?**

20 A. Yes. Staff appreciates that Mr. Bourassa's Rebuttal Testimony identified several  
21 miscalculations in Staff accumulated depreciation balance. Staff revised its accumulated  
22 depreciation calculation to use the authorized depreciation rates set by Decision No.  
23 55593, dated June 4, 1987, for the years 2005 and 2006 and to use the depreciation rates  
24 authorized in Decision No. 69205, dated December 21, 2006, for the test year. Staff  
25 further revised its accumulated depreciation calculation to reflect the use of the half-year  
26 convention.

1 **Q. What is Staff's recommendation regarding accumulated depreciation?**

2 A. Staff recommends an accumulated depreciation balance of \$7,132,363, a \$44,691 increase  
3 over the Company's proposed balance of \$7,087,673, as reflected in Surrebuttal Schedule  
4 PMC-5.

5  
6 **Q. Does Staff have any additional adjustments to the rate base it recommended in its  
7 Direct Testimony?**

8 A. No. Aside from revising Staff's accumulated depreciation, Staff continues to recommend  
9 the adjustments presented in its Direct Testimony. Staff's surrebuttal rate base  
10 recommendation and adjustments are presented in Surrebuttal Schedules PMC-2 and  
11 PMC-3.

12  
13 **Q. Does Staff have any comments on Mr. Bourassa's rebuttal testimony regarding  
14 Contributions In Aid of Construction ("CIAC") related to Construction Work In  
15 Progress ("CWIP")?**

16 A. Yes. Staff continues to recommend the inclusion of CIAC associated with CWIP in the  
17 rate base calculation. As indicated in Staff's Direct Testimony, including CIAC in rate  
18 base preserves the ratemaking balance and removes excess earnings potential.

19  
20 **Income Statement**

21 **Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding the income  
22 statement?**

23 A. Yes.

1 **Q. Does Staff have any adjustments to the income statement recommendations in its**  
2 **Direct Testimony?**

3 A. No. Staff continues to recommend the adjustments presented in its Direct Testimony and  
4 as presented in Surrebuttal Schedules PMC-7, PMC-8, PMC-9, PMC-10, PMC-11, PMC-  
5 12 and PMC-13.

6  
7 **Rate Design**

8 **Q. Has Staff modified the rate design recommended in its Direct Testimony?**

9 A. No. Since Staff's revenue requirement is unchanged, its recommended rate design is  
10 unaffected. Staff does not object to the Company's request to change "Turn On/Off Fee"  
11 to "Call Out Charge." Staff's recommended rate design is presented in Surrebuttal  
12 Schedule PMC-14.

13  
14 **Q. Does Staff have any comments on Mr. Bourassa's rebuttal testimony that charging**  
15 **minimum charges to construction customers provides an incentive for the**  
16 **construction customers to return the construction meters?**

17 A. Yes. As indicated above, Staff is recommending a hydrant meter deposit which provides  
18 an incentive for the construction customers to return the construction meters.

19  
20 **Q. Does Staff agree to recommend a reduction to the customer deposit interest rate**  
21 **from 6.00 percent to 2.00 percent, as proposed by the Company?**

22 A. No. As shown in Surrebuttal Schedule PMC-2, the Company did not have any customer  
23 deposits at the end of the test year. Deposit interest expense is insignificant. Accordingly,  
24 continually changing the deposit interest rate in each rate case is not fruitful. Moreover,  
25 since the interest paid is treated as an operating expense, the Company recovers these

1 costs regardless of the rate paid. Staff continues to recommend the 6.00 percent default  
2 deposit interest rate established by Commission Rule R14-2-403.B.

3

4 **Q. Does your silence on any of the issues, matters or findings addressed in the testimony**  
5 **of any of the witnesses for CWCGV constitute your acceptance of their positions on**  
6 **such issues, matters or findings?**

7 A. No. Staff limited its discussion to the specific issues outlined above. Staff's lack of  
8 response to any issue in this proceeding should not be construed as agreement with the  
9 Company's position in its rebuttal testimony; rather where there is no response Staff relies  
10 on its original Direct Testimony.

11

12 **Q. Does this conclude your Surrebuttal Testimony?**

13 A. Yes, it does.

Community Water Company of Green Valley  
Docket No. W-02304A-08-0590  
Test Year Ended December 31, 2007

**SURREBUTTAL TESTIMONY OF PEDRO M. CHAVES**

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**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Fair Value Rate Base	\$ 7,517,446	\$ 6,958,108
2	Adjusted Operating Income/(Loss)	\$ (400,898)	\$ (208,360)
3	Current Rate of Return (L2 / L1)	-5.33%	-2.99%
4	Current Operating Margin	-13.27%	-6.93%
5	Recommended Operating Margin	15.00%	15.00%
6	Required Operating Income (L5 * L11)	\$ 603,995	\$ 569,764
7	Recommended Increase in Operating Income (L6 - L2)	\$ 1,004,893	\$ 778,124
8	Gross Revenue Conversion Factor <sup>1</sup>	1.0000	1.0157
9	Recommended Increase in Operating Revenue (L7 * L8)	\$ 1,004,893	<b>\$ 790,351</b>
10	Adjusted Test Year Operating Revenue	\$ 3,021,742	\$ 3,008,077
11	Recommended Annual Operating Revenue (L9 + L10)	\$ 4,026,635	\$ 3,798,428
12	Required Increase in Revenue (%) (L9 / L10)	33.26%	26.27%
13	Rate of Return (L7/ L1)	8.03%	8.19%

References:

Column [A]: Company Schedules A-1, B-1, C-1  
Column [B]: Staff Surrebuttal Schedules PMC-2, PMC-6

<sup>1</sup> Staff GRCF reflects property taxes.

**RATE BASE - ORIGINAL COST**

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Plant in Service	\$ 37,776,039	\$ 37,798,942
2	Less: Acc Depreciation & Amortization	(7,087,673)	(7,132,363)
3	Net Plant in Service	<u>\$ 30,688,366</u>	<u>\$ 30,666,579</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	\$ 9,677,466	\$ 9,677,466
5	Contributions in Aid of Construction (CIAC)	\$ 14,578,352	\$ 15,115,903
6	Less: Accumulated Amortization	(1,084,898)	(1,084,898)
7	Net CIAC	<u>\$ 13,493,454</u>	<u>\$ 14,031,005</u>
8	Deferred Taxes	\$ -	\$ -
9	Customer Deposits	\$ -	\$ -
<u>ADD:</u>			
10	Allowance for Working Capital	\$ -	\$ -
11	Materials and Supplies	\$ -	\$ -
12	Prepayments	\$ -	\$ -
13	<b>Total Rate Base</b>	<u>\$ 7,517,446</u>	<u>\$ 6,958,108</u>

References:

Column [A], Company Schedule B-1, Page 1  
Column [B]: Surrebuttal Schedule PMC-3  
Column [C]: Column [A] + Column [B]



Community Water Company of Green Valley  
Docket No. W-02304A-08-0590  
Test Year Ended December 31, 2007

Surrebuttal Schedule PMC-4

**RATE BASE ADJUSTMENT NO. 1 - REINSTATEMENT OF CIAC RELATED TO CWIP**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Contributions In Aid of Construction	\$ 14,578,352	\$ 537,551	\$ 15,115,903

References:

Column A: Cooperative Schedule B-2, Page 1  
Column B: Direct Testimony  
Column C: Column [A] + Column [B]

Community Water Company of Green Valley  
Docket No. W-02304A-08-0590  
Test Year Ended December 31, 2007

Surrebuttal Schedule PMC-5

**RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ (7,087,673)	\$ (44,691)	\$ (7,132,363)

References:

Column A: Cooperative Schedule B-1, Page 1

Column B: Surrebuttal Testimony

Column C: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 3 - RECLASSIFICATION OF PLANT**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Wells and Springs	\$ 1,999,899	\$ 10,903	\$ 2,010,802
2	Laboratory Equipment	\$ (246)	\$ 12,000	\$ 11,754
3	Totals	<u>\$ 1,999,653</u>	<u>\$ 22,903</u>	<u>\$ 2,022,556</u>

References:

- Column A: Cooperative Schedule B-1, Page 1
- Column B: Direct Testimony
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

Line No.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS		[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>							
1	Metered Water Revenues	\$ 2,966,812	\$ (13,665)	ADJ. No. 1	\$ 2,953,147	\$ 790,351	3,743,498
2		-	-		-	-	-
3	Unmetered Water Revenues	4,439	\$ -		4,439	-	4,439
4	Other Water Revenues	50,491	-		50,491	-	50,491
5	<b>Total Revenues</b>	<u>\$ 3,021,742</u>	<u>\$ (13,665)</u>		<u>\$ 3,008,077</u>	<u>\$ 790,351</u>	<u>\$ 3,798,428</u>
<b>OPERATING EXPENSES:</b>							
6	Salaries and Wages	\$ 923,207	\$ -		\$ 923,207	\$ -	\$ 923,207
7	Purchased Water	-	-		-	-	-
8	Purchased Power	339,905	(95,000)	ADJ. No. 2	244,905	-	244,905
9	Chemicals	21,432	-		21,432	-	21,432
10	Repairs and Maintenance	118,681	-		118,681	-	118,681
11	Office Supplies and Expense	8,091	-		8,091	-	8,091
12	Outside Services	34,557	-		34,557	-	34,557
13	Water Testing	32,903	(20,744)	ADJ. No. 3	12,159	-	12,159
14	Rents	2,532	-		2,532	-	2,532
15	Transportation Expenses	116,265	-		116,265	-	116,265
16	Insurance - General Liability	21,900	-		21,900	-	21,900
17	Insurance - Health and Life	139,981	-		139,981	-	139,981
18	Regulatory Commission Expense - Rate Case	33,333	-		33,333	-	33,333
19	Miscellaneous Expense	441,287	-		441,287	-	441,287
20	Depreciation Expense	989,839	(96,542)	ADJ. No. 4	893,297	-	893,297
21	Taxes Other Than Income	67,097	-		67,097	-	67,097
22	Property Taxes	131,630	6,083	ADJ. No. 5	137,713	12,228	149,940
23	Income Tax	-	-		-	-	-
24	<b>Total Operating Expense</b>	<u>\$ 3,422,640</u>	<u>\$ (206,203)</u>		<u>\$ 3,216,437</u>	<u>\$ 12,228</u>	<u>\$ 3,228,664</u>
25	<b>Operating Income/(Loss)</b>	<u>\$ (400,898)</u>	<u>\$ 192,538</u>		<u>\$ (208,360)</u>	<u>\$ 778,124</u>	<u>\$ 569,764</u>

References:

- Column (A): Cooperative Schedule C-1, Page 1
- Column (B): Surrebuttal Schedule PMC-8
- Column (C): Column (A) + Column (B)
- Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Construction Revenues ADJ No. 1 Ref: Sch PMC-9	[D] Purchased Power Expense ADJ No. 2 Ref: Sch PMC-11	[E] Water Testing Expense ADJ No. 3 Ref: Sch PMC-12	[F] Depreciation Expense ADJ No. 4 Ref: Sch PMC-13	[G] Property Tax Expense ADJ No. 5 Ref: Sch PMC-14	[H] STAFF ADJUSTED
1	Metered Water Revenues	\$ 2,966,812	\$ (13,665)	\$ -	\$ -	\$ -	\$ -	\$ 2,953,147
2	Unmetered Water Revenues	4,439	-	-	-	-	-	-
3	Other Water Revenues	50,491	-	-	-	-	-	4,439
4								
5	<b>Total Revenues</b>	<b>\$ 3,021,742</b>	<b>\$ (13,665)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,008,077</b>
<b>OPERATING EXPENSES:</b>								
6	Salaries and Wages	\$ 923,207	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 923,207
7	Purchased Water	-	-	-	-	-	-	-
8	Purchased Power	339,905	-	(95,000)	-	-	-	244,905
9	Chemicals	21,432	-	-	-	-	-	21,432
10	Repairs and Maintenance	118,681	-	-	-	-	-	118,681
11	Office Supplies and Expense	8,091	-	-	-	-	-	8,091
12	Outside Services	34,557	-	-	-	-	-	34,557
13	Water Testing	32,903	-	(20,744)	-	-	-	12,159
14	Rents	2,532	-	-	-	-	-	2,532
15	Transportation Expenses	116,265	-	-	-	-	-	116,265
16	Insurance - General Liability	21,900	-	-	-	-	-	21,900
17	Insurance - Health and Life	139,981	-	-	-	-	-	139,981
18	Regulatory Commission Expense - Rate Case	33,333	-	-	-	-	-	33,333
19	Miscellaneous Expense	441,287	-	-	-	-	-	441,287
20	Depreciation Expense	989,839	-	-	(96,542)	-	-	893,297
21	Taxes Other Than Income	67,097	-	-	-	-	-	67,097
22	Property Taxes	131,630	-	-	-	6,083	-	137,713
23	Income Tax	-	-	-	-	-	-	-
24	<b>Total Operating Expenses</b>	<b>\$ 3,422,640</b>	<b>\$ -</b>	<b># \$ (95,000)</b>	<b># \$ (20,744)</b>	<b># \$ (96,542)</b>	<b>\$ 6,083</b>	<b>\$ 3,216,437</b>
25	<b>Operating Income/(Loss)</b>	<b>\$ (400,898)</b>	<b>\$ (13,665)</b>	<b>\$ 95,000</b>	<b>\$ 20,744</b>	<b>\$ 96,542</b>	<b>\$ (6,083)</b>	<b>\$ (208,360)</b>

**OPERATING INCOME ADJUSTMENT NO. 1 - CONSTRUCTION WATER METERED REVENUES**

Line No.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Metered Water Revenue	\$ 2,966,812	\$ (13,665)	\$ 2,953,147

To remove unauthorized minimum charges in construction meters.

References:

Column A: Cooperative Schedule C-1, Page 1  
Column B: Direct Testimony, Surrebuttal Schedule PMC-7  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED POWER EXPENSE**

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Purchased Power Expense	\$ 339,905	\$ (95,000)	\$ 244,905

References:

Column A: Cooperative Schedule C-1, Page 1

Column B: Direct Testimony, Surrebuttal Schedule PMC-6

Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE**

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	\$ 32,903		
2	Reclassification to Wells and Springs		\$ (10,903)	
3	Reclassification to Laboratory Equipment		\$ (12,000)	
4	Normalization of Water Testing Expense		\$ 2,159	
5	Totals	<u>\$ 32,903</u>	<u>\$ (20,744)</u>	<u>\$ 12,159</u>

References:

- Column A: Cooperative Schedule C-1, Page 1
- Column B: Direct Testimony, Surrebuttal Schedule PMC-6
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE

Line No.	Description	[A]	[B]	[C]	[D]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	Depreciation Expense	\$ 989,839	\$ (96,542)	\$ 893,297	

Depreciation Expense

Line No.	Acct. No.	Description	Company Original Cost 12/31/2007	Staff Adjustment	Staff Adjusted Original Cost	Proposed Rate	Depreciation Expense
1	301	Organization	\$ 47,863	-	\$ 47,863	0.00%	\$ -
2	302	Franchises	244	-	244	0.00%	-
3	303	Land & Land Rights	169,578	-	169,578	0.00%	-
4	304	Structures & Improvements	-	-	-	3.33%	-
5	304.1	Structures & Improvements - Pumping	24,640	-	24,640	3.33%	821
6	304.2	Structures & Improvements - Water Treatment	138,396	-	138,396	3.33%	4,609
7	305	Collecting & Impounding Reservoirs	-	-	-	2.50%	-
8	306	Lake, River, Canal Intakes	-	-	-	2.50%	-
9	307	Wells & Springs	1,999,899	10,904	2,010,803	3.33%	66,960
10	308	Infiltration Galleries	-	-	-	6.67%	-
11	309	Raw Water Supply Mains	-	-	-	2.00%	-
12	310	Power Generation Equipment	-	-	-	5.00%	-
13	311	Electric Pumping Equipment	3,459,933	-	3,459,933	12.50%	432,492
14	311.1	Gas Pumping Equipment	122,126	-	122,126	12.50%	15,266
15	320	Water Treatment Equipment	4,373,993	-	4,373,992	3.33%	145,654
16	330	Distribution Reservoirs & Standpipes	1,064,732	-	1,064,732	2.22%	23,637
17	331	Transmission & Distrib. Mains	18,042,745	-	18,042,744	2.00%	360,855
18	333	Services	3,725,465	-	3,725,466	3.33%	124,058
19	333.1	Fire Sprinkler Taps	239,551	-	239,551	3.33%	7,977
20	334	Meters & Meter Installations	711,853	-	711,853	8.33%	59,297
21	335	Hydrants	1,862,371	-	1,862,371	2.00%	37,247
22	336	Backflow Prevention Devices	-	-	-	6.67%	-
23	339	Other Plant & Misc. Equipment	549,839	-	549,840	6.67%	36,674
24	340	Office Furniture & Equipment	150,571	-	150,570	6.67%	10,043
25	340.1	Computers & Software	265,818	-	265,817	20.00%	53,163
26	341	Transportation Equipment	464,094	-	464,093	20.00%	92,819
27	342	Stores Equipment	2,441	-	2,441	4.00%	98
28	343	Tools, Shop & Garage Equip.	110,595	-	110,595	5.00%	5,530
29	344	Laboratory Equipment	(246)	12,000	11,754	10.00%	1,175
30	345	Power Operated Equipment	72,281	-	72,281	5.00%	3,614
31	345.1	Power Operated Equipment - Backhoe	107,179	-	107,179	5.00%	5,359
32	346	Communication Equipment	69,340	-	69,340	10.00%	6,934
33	347	Miscellaneous Equipment	-	-	-	10.00%	-
34	348	Other Tangible Plant	738	-	738	10.00%	74
35		Total	\$ 37,776,039	22,904	\$ 37,798,940		\$ 1,494,355
36		Less: Non-depreciable Accounts			\$ 217,685		
37		Depreciable Plant (L35 - L36)			\$ 37,581,255		
38		Contributions-in-aid-of-Construction (CIAC)				\$ 15,115,903	
39		Composite CIAC Amortization Rate (Col. D, L35 / Col. B, L37)				3.9763%	
40		Less: Amortization of CIAC					\$ 601,058
41		Staff Recommended Total Depreciation Expense (L 35 - L 40)					\$ 893,297

References:

- Column A: Cooperative Schedule C-1, Page 1
- Column B: Direct Testimony
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 3,008,077	\$ 3,008,077
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 6,016,154	\$ 6,016,154
4a	Staff Adjusted Test Year Revenues - 2007	3,008,077	
4b	Staff Recommended Revenue, Per Schedule PMC-1		3,798,428
5	Subtotal (Line 4 + Line 5)	\$ 9,024,231	\$ 9,814,582
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 3,008,077	\$ 3,271,527
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 6,016,154	\$ 6,543,055
10	Plus: 10% of CWIP -	53,755	53,755
11	Less: Net Book Value of Licensed Vehicles	135,661	135,661
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 5,934,248	\$ 6,461,149
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	\$ 1,246,192	\$ 1,356,841
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	11.0507%	11.0507%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 137,713	
17	Company Proposed Property Tax	\$ 131,630	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 6,083	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 149,940
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 137,713
21	Increase/(Decrease) to Property Tax Expense		\$ 12,228
22	Increase to Property Tax Expense		\$ 12,228
23	Increase in Revenue Requirement		\$ 790,351
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.5471%
25	GRCF = (1 / (1-TR)) = 1 / (1-.015471)		1.0157

References:

Col [A]: Company Schedule C-1 Page 3  
Col [B]: Direct Testimony

**RATE DESIGN**

Monthly Usage Charge	Present Rates	Company's Rebuttal Proposed Rates	Staff Recommended Rates
5/8 x3/4" Meter - All Classes	\$ 11.00	\$ 13.21	\$ 13.00
3/4" Meter - All Classes	11.00	13.21	13.00
1" Meter - All Classes	20.00	24.02	24.00
1½" Meter - All Classes	33.00	39.63	40.00
2" Meter - All Classes	55.00	66.06	67.00
3" Meter - All Classes	87.00	105.09	105.00
4" Meter - All Classes	330.00	396.33	400.00
6" Meter - All Classes	550.00	660.55	650.00
8" Meter - All Classes	900.00	1,080.90	1,000.00
Construction Water - All Sized Meters	-	Minimum depends on meter size	-
<b>Commodity Rates</b>			
5/8 x3/4" Meter (Residential)			
From 0 to 3,000 Gallons	\$ 1.25	\$ 1.54	\$ 1.30
From 3,001 to 10,000 Gallons	\$ 1.82	\$ 2.45	\$ 2.50
Over 10,000 Gallons	\$ 2.20	\$ 3.00	\$ 3.42
3/4" Meter (Residential)			
Excess of Minimum - per 1,000 Gallons			
From 0 to 3,000 Gallons	\$ 1.25	\$ 1.54	\$ 1.30
From 3,001 to 10,000 Gallons	\$ 1.82	\$ 2.45	\$ 2.50
Over 10,000 Gallons	\$ 2.20	\$ 3.00	\$ 3.42
5/8" (Commercial/Residential and Commercial)			
From 0 to 10,000 Gallons	\$ 1.82	\$ 2.45	\$ 2.50
Over 10,000 Gallons	\$ 2.20	\$ 3.00	\$ 3.42
1" Meter (Res., Comm., Res/Comm.)			
From 0 to 24,000 Gallons	\$ 1.82	\$ 2.45	N/A
Over 24,000 Gallons	\$ 2.20	\$ 3.00	N/A
From 0 to 21,000 Gallons	N/A	N/A	\$ 2.50
Over 21,000 Gallons	N/A	N/A	\$ 3.42
1½" Meter (Res., Comm.)			
From 0 to 50,000 Gallons	\$ 1.82	\$ 2.45	N/A
Over 50,000 Gallons	\$ 2.20	\$ 3.00	N/A
From 0 to 35,000 Gallons	N/A	N/A	\$ 2.50
Over 35,000 Gallons	N/A	N/A	\$ 3.42
2" Meter (Res., Comm., & Res/Comm)			
From 0 to 100,000 Gallons	\$ 1.82	\$ 2.45	N/A
Over 100,000 Gallons	\$ 2.20	\$ 3.00	N/A
From 0 to 63,000 Gallons	N/A	N/A	\$ 2.50
Over 63,000 Gallons	N/A	N/A	\$ 3.42



Service Charges			
Establishment	\$ 25.00	\$ 35.00	\$ 25.00
Establishment (After Hours)	35.00	35.00	35.00
Reconnection (Deliquent)	25.00	70.00	25.00
Reconnection (Deliquent and After Hours)	35.00	70.00	35.00
Turn On/Off Fee / After Hours	10.00	70.00	10.00
Turn On/Off Fee / Sunday / Holiday	20.00	140.00	20.00
Call out charge -After hours	N/T	70.00	10.00
Call out charge - Holiday	N/T	140.00	20.00
Service Charge during business hours	N/T	N/T	N/T
Service Charge after business hours	N/T	N/T	N/T
Meter Test	20.00	35.00	20.00
Deposit Requirement (Residential)	(a)	2%	(a)
Deposit Requirement (Non Residential Meter)	(a)	2%	(a)
* Hydrant Meter Deposit:			
5/8" x 3/4" Meter	\$ 135.00	\$ 155.00	\$ 155.00
3/4" Meter	215.00	255.00	255.00
1" Meter	255.00	315.00	315.00
1½" Meter	465.00	525.00	525.00
2" Turbine Meter	965.00	1,045.00	1,045.00
2" Compound Meter	1,690.00	1,890.00	1,890.00
3" Turbine Meter	1,470.00	1,670.00	1,670.00
3" Compound Meter	2,265.00	2,545.00	2,545.00
4" Turbine Meter	2,350.00	1,737.00	1,737.00
4" Compound Meter	3,245.00	3,645.00	3,645.00
6" Turbine Meter	4,545.00	3,766.00	3,766.00
6" Compound Meter	6,280.00	6,920.00	6,920.00
8"	Cost	Cost	Cost
10"	Cost	Cost	Cost
12"	Cost	Cost	Cost
Deposit Interest	6.00%	6.00%	6.00%
Re-Establishment (With-in 12 Months)	(b)	(b)	(b)
Re-Establishment (After Hours)	(b)	(c)	(b)
NSF Check	\$ 25.00	35.00	\$ 25.00
Deferred Payment, Per Month	0.00%	1.50%	1.50%
Meter Re-Read (If correct)	10.00	25.00	10.00
Charge of Moving Customer Meter - Customer Requested per Rule R14-2-405B	20.00	Cost	20.00
After hours service charge, per Rule R14-2-403D	10.00	Cost	10.00
Late Charge per month	1.50%	1.50%	1.50%
Meter Tampering Charge	Cost	Cost	Cost
Meter Box "Cut Lock" Charge	Cost	Cost	Cost
Payment via Visa Charge Card (Cost up to 6.00% service charge on bill paid)	Cost	Cost	Cost

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

Less than 6"	\$ 10.00	\$ 10.00	\$ 10.00
Less than 8"	15.00	15.00	15.00
Less than 10"	22.50	22.50	22.50
Less than 12"	33.75	33.75	33.75

Per Commission Rules (R14-2-403.B)

(a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.

\* Shall be refunded in its entirety upon return of the undamaged meter.

(b) Minimum charge times number of months disconnected.

(c) \$100 Plus \$12.50 times months off system.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads and all applicable taxes.

Cost to include labor, materials and parts, overheads and all applicable taxes.

**Typical Bill Analysis**  
5/8" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,898	\$ 18.20	\$ 22.48	\$ 4.28	23.49%
Median Usage	3,500	15.66	19.06	\$ 3.40	21.68%
<b>Staff Recommended</b>					
Average Usage	4,898	\$ 18.20	\$ 21.65	\$ 3.44	18.90%
Median Usage	3,500	15.66	18.15	\$ 2.49	15.90%

**Present & Proposed Rates (Without Taxes)**  
5/8" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.00	\$ 13.21	20.09%	\$ 13.00	18.18%
1,000	12.25	14.75	20.41%	14.30	16.73%
2,000	13.50	16.29	20.67%	15.60	15.56%
3,000	14.75	17.83	20.88%	16.90	14.58%
4,000	16.57	20.28	22.39%	19.40	17.08%
5,000	18.39	22.73	23.60%	21.90	19.09%
3,500	15.66	19.06	21.68%	18.15	15.90%
6,000	20.21	25.18	24.59%	24.40	20.73%
7,000	22.03	27.63	25.42%	26.90	22.11%
8,000	23.85	30.08	26.12%	29.40	23.27%
9,000	25.67	32.53	26.72%	31.90	24.27%
4,898	18.20	22.48	23.49%	21.65	18.90%
10,000	27.49	34.98	27.25%	34.40	25.14%
11,000	29.69	37.98	27.92%	37.82	27.37%
12,000	31.89	40.98	28.50%	41.23	29.29%
13,000	34.09	43.98	29.01%	44.65	30.96%
14,000	36.29	46.98	29.46%	48.06	32.43%
15,000	38.49	49.98	29.85%	51.48	33.74%
16,000	40.69	52.98	30.20%	54.89	34.90%
17,000	42.89	55.98	30.52%	58.31	35.94%
18,000	45.09	58.98	30.81%	61.72	36.88%
19,000	47.29	61.98	31.06%	65.14	37.74%
20,000	49.49	64.98	31.30%	68.55	38.51%
25,000	60.49	79.98	32.22%	85.63	41.55%
30,000	71.49	94.98	32.86%	102.70	43.66%
35,000	82.49	109.98	33.33%	119.78	45.20%
40,000	93.49	124.98	33.68%	136.85	46.38%
45,000	104.49	139.98	33.96%	153.93	47.31%
50,000	115.49	154.98	34.19%	171.00	48.06%
75,000	170.49	229.98	34.89%	256.38	50.38%
100,000	225.49	304.98	35.25%	341.75	51.56%

**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 )  
COMMUNITY WATER COMPANY OF GREEN )  
VALLEY, AN ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE CURRENT FAIR )  
VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR RATE INCREASES IN ITS )  
RATES AND CHARGES FOR UTILITY SERVICE )  
BASED THEREON )  
\_\_\_\_\_)

DOCKET NO. W-02304A-08-0590

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 28, 2009

**EXECUTIVE SUMMARY  
COMMUNITY WATER COMPANY OF GREEN VALLEY  
DOCKET NO. W-02304A-08-0590**

**1. SERVICE LINE AND METER INSTALLATION CHARGES**

Staff would recommend \$155 for meter installation and \$445 for service line installation for the 5/8x3/4-inch meter (the upper of Staff's recommended range of charges) for a total of \$600.

1 **INTRODUCTION**

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

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of  
4 employment is the Arizona Corporation Commission ("Commission"), Utilities Division,  
5 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Are you the same Jian W. Liu who filed direct testimony in this case?**

8 A. Yes, I am.

9  
10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of  
12 Staff, the rebuttal testimony of Community Water of Green Valley ("Community Water"  
13 or "Company") witness, Mr. Thomas J. Bourassa, regarding the Company proposal to  
14 charge \$238 for the 5/8 x 3/4-inch meter (meter installation only) rather than the \$155 the  
15 Company initially proposed in its application. This testimony also responds to the  
16 Company's latest proposal to charge \$683 for a 5/8x3/4-inch meter and service line  
17 installation. Both exceed Staff's recommended range of charges for this size meter.  
18 Community Water has not provided any documentation to support this proposed charge.  
19 Therefore, Staff would recommend \$155 for meter installation and \$445 for service line  
20 installation for the 5/8x3/4-inch meter (the upper of Staff's recommended range of  
21 charges) for a total of \$600.

22  
23 **Q. Did you attempt to address every issue the Company raised in its rebuttal testimony?**

24 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of  
25 response to any issue in this proceeding should not be construed as agreement with the

1           Company's position in its rebuttal testimony; rather where there is no response Staff relies  
2           on its original direct testimony.

3

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

5   **A.   Yes, it does.**