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BEFORE THE ARIZONA CORPORATION COMMISSION

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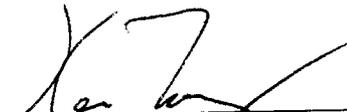
6 IN THE MATTER OF THE APPLICATION OF
 7 VALLEY UTILITIES WATER COMPANY,
 8 INC. FOR AN INCREASE IN ITS WATER
 9 RATES FOR CUSTOMERS WITHIN
 10 MARICOPA COUNTY.

DOCKET NO. W-01412A-08-0586

**NOTICE OF FILING
TESTIMONY SUMMARIES**

9 The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the
 10 Testimony Summaries of Staff witnesses Gary T. McMurry (Exhibit 1), and Marlin Scott, Jr.
 11 (Exhibit 2) of the Utilities Division in the above-referenced matter.

12 RESPECTFULLY SUBMITTED this 11th day of September, 2009.

13 
 14 _____
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 16 Attorney, Legal Division
 17 Arizona Corporation Commission
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 19 Phoenix, Arizona 85007
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19 Original and thirteen (13) copies
 20 of the foregoing were filed this
 21 11th day of September, 2009 with:

21 Docket Control
 22 Arizona Corporation Commission
 23 1200 West Washington Street
 24 Phoenix, Arizona 85007

24 Copy of the foregoing mailed this
 25 11th day of September, 2009 to:

26 Patrick J. Black
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28 

Arizona Corporation Commission
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EXHIBIT 1

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)
VALLEY UTILITIES WATER COMPANY INC)
FOR AN INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN MARICOPA)
COUNTY, ARIZONA)
_____)

DOCKET NO. W-01412A-08-0586

WITNESS

SUMMARY

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 11, 2009

WITNESS SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586

Valley Utilities Water Company Inc. (“VUWC” or “Company”) is an Arizona for profit Class B public service corporation providing water to approximately 1,400 customers in Glendale, Arizona. On December 2, 2008, VUMC filed a general rate application. The application shows that VUWC posted a \$12,012 adjusted operating income for the test year that ended June 30, 2008. VUWC requests a \$323,456 revenue increase to provide a \$229,974 operating income for a 15.0 percent operating margin. The requested operating margin would provide a 13.2 percent rate of return on the proposed \$1,741,355 fair value rate base which is the same as the proposed original cost rate base.

The testimony of Staff witness Mr. Gary McMurry addressed rate base, operating income, revenue requirement and rate design issues.

Revenue Requirement

Staff recommends revenues of \$1,324,266 (excluding \$200,277 ARSM surcharge revenues), a \$117,222 (9.71 percent) increase over test year revenues to provide a 10.0 percent operating margin. Staff’s adjustments resulted in a negative rate base of \$169,027 for which no meaningful rate of return can be calculated. Staff’s recommendation reflects three rate base adjustments and eight operating income adjustments.

Arsenic Treatment Plant (“ATF”)

The Company anticipates that one of its two ATF sites will be operational by the time of the hearing in this case. The Company is willing to accept Staff’s recommendation to exclude the ATF from rate base provided that an Arsenic Remediation Surcharge Mechanism (“ARSM”) surcharge sufficient to service its WIFA debt is adopted in Docket Nos. W-01412A-04-0736 and W-01412A-04-0849 and that the surcharge continues through the next rate case. Staff recommends excluding the ATF from rate base as it is not used or useful. In Docket Nos. W-01412A-04-0736 and W-01412A-04-0849 Staff is recommending adoption of an ARSM surcharge that generates annual revenues of \$200,277 and provides debt service coverage on the ATF related WIFA loan and continuation of the ARSM surcharge through the earlier of the effective date of the rates authorized in a subsequent rate proceeding or August 31, 2013.

Tariff Issues

The Company has proposed to retain the \$10 late fee charged to delinquent customers. Staff has recommended the lowering of late charges to 1.5 percent of the outstanding balance.

The Company has proposed that interest on security deposits be reduced from six percent to two percent. Staff has recommended that interest on security deposits remain at six percent as noted in R-14-403 B 3.

CAP Water Acquisition

The Company asserts that the CAP installment contract is not a legal debt as per ARS § 40-301. Staff recommends requiring the Company file a financing application no later than 30 days subsequent to the effective date of the Commission's Order in this docket.

Operating Margin

The Company states that the operating margin is dependent upon the degree that its recommendations are adopted. Staff agrees that the appropriate operating margin is dependent on factors including cash flow, debt service coverage and income. The ARSM surcharge and EIS impact these factors. Staff's recommended operating margin of 10 percent reflects consideration of these factors.

Revenue Annualization

The Company proposes to increase metered water portion of its downward revenue annualization adjustment from \$24,537 to \$127,503 to reflect the loss of customers subsequent to the end of the test year. Staff recommends recognition of the Company's initial \$24,537 downward revenue annualization adjustment. The Company's incremental adjustment pertains to out-of-test-year customer counts which create a mismatch with test year revenues. Staff continues to recommend elimination of the Company's \$2,660 upward annualization for increases in service charges.

Normalization of Repairs and Maintenance Expenses

The Company continues to use the actual recorded expense of the test year. The Company asserts that the use of averages to normalize expenses is subjective. Staff continues to recommend a normalized expense calculation due to the volatility in the repair expense category.

Rate Design

The Company recommends the same rate structure (adjusted to reflect its rejoinder revenue requirement) as in its initial application. The Company asserts that Staff's rate design will result in more revenue instability due to increases in commodity rates that exceed the overall increase in revenue. Staff's surrebuttal testimony recommends a 9.71 percent overall increase in revenues, and the percentage increase in commodity rates for the first, second and third tiers (5/8 x 3/4-inch and 3/4-inch residential customers) are 6.7 percent, 3.9 percent and 14.6 percent, respectively. The latter two represent the increase in the first and second tiers for larger meters. Thus, Staff's recommended percentage increases for tier rates are not significantly greater than the overall increase in revenue. Furthermore, Staff is recommending recovery of 100 percent of the ARSM surcharge as minimum charges to ensure collection for debt service payment and to provide enhanced revenue stability. The larger percentage increase in the third tier sends an appropriate price signal to large water users to use water efficiently.

Staff's rate design would increase the monthly bill for a 5/8 x 3/4-inch residential customer with median use of 5,500 gallons by \$2.04 (9.46 percent) from \$21.52 to \$23.56.

EXHIBIT 2

**SUMMARY OF TESTIMONY
OF
MARLIN SCOTT, JR.
FOR
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586**

CONCLUSIONS

- A. The Valley Utilities Water Company, Inc. ("Company") has a water loss of 6.0% which is within the acceptable limits.
- B. The Company's current well and storage capacity is adequate to serve the present customer base.
- C. The Company is located in the Arizona Department of Water Resources' Phoenix Active Management Area ("AMA") and ADWR has reported that the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- D. According to the Utilities Division Compliance database, the Company has no delinquent Arizona Corporation Commission ("ACC") engineering compliance items.
- E. The Company has an approved curtailment tariff on file with the ACC.
- F. The Company has an approved backflow prevention tariff on file with the ACC.

RECOMMENDATIONS

- 1. The Company has not submitted the Maricopa County Environmental Service Department ("MCESD") Compliance Status Report for its system. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated MCESD Compliance Status Report indicating that the Company's system has no deficiencies and is in compliance with MCESD requirements. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated MCESD Compliance Status Report indicating that the system is in compliance and delivering safe water.
- 2. Staff recommends an average annual water testing expense of \$8,636 be adopted for this proceeding.

3. The Company reported two post-test year ("PTY") plant items; 1) arsenic treatment facilities and 2) replacement of Well #6. Because the Company did not have the final Maricopa County approval for the arsenic treatment facilities, Staff concluded that is PTY plant item was not used and useful at this time. As for the replacement Well #6, since this well received Maricopa County approval with Staff's confirmation of the well operation, this PTY plant item is now used and useful to the Company's provision of service.
4. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table I-1 of the Engineering Report.
5. Staff recommends the acceptance of the Company's proposed service line and meter installation charges as presented in Table J-1 of the Engineering Report.