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AZ CORP COMMISSION
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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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11 **COMMISSIONERS**

12 KRISTIN K. MAYES, CHAIRMAN
13 GARY PIERCE
14 PAUL NEWMAN
15 SANDRA D. KENNEDY
16 BOB STUMP

17 **IN THE MATTER OF THE**
18 **APPLICATION OF SONOITA VALLEY**
19 **WATER COMPANY, FOR**
20 **AUTHORITY TO INCUR DEBT TO**
21 **FINANCE WATER SYSTEM**
22 **IMPROVEMENTS**

Docket No. W-20435A-09-0296
W-20435A-09-0298

RESPONSE TO STAFF REPORT

23 Sonoita Valley Water Company ("Sonoita" or "Company"), hereby responds to
24 the Staff Report for Sonoita Valley Water Company for a Permanent Rate Increase and
25 Financing Approval ("Staff Report").

26 Arizona Corporation Commission

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1 **1.0 Preliminary Statement**

2 This matter probably is one of the most complicated small water company rate
3 cases ever addressed by the Arizona Corporation Commission (“Commission”). During
4 the test year, five different sets of rates applied to different customers at different times.
5 Although the Company has less than 100 customers, it serves customers using five meter
6 sizes. The Company owns three distinct water delivery systems. Many system plant
7 components are distressed, which resulted in at least three emergency outages during the
8 test year. Since the last rate case many years ago, the Company consolidated system
9 ownership, resulting in the need to compile and combine plant data, which was difficult
10 because previous owners had neglected its recordkeeping. With such complications, this
11 situation clearly demanded a substantial amount of time and resources and the Company
12 commends the Arizona Corporation Commission Staff (“Staff”) for its work.
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17 With that in mind, the Company is pleased that there are only a few differences
18 between the positions held by the Company and Staff. First, contrary to Staff’s
19 conclusion, Sonoita believes the interconnection between the Sonoita and Southern Los
20 Encinos systems is “used and useful”, and that the rate base adjustments deducting the
21 interconnection costs, including service costs, is inappropriate. Second, in its Rate
22 Application, the Company had already amortized the total rate and financing proceeding
23 cost over a five-year recovery period, so no additional adjustment was necessary. Third,
24 the plant in service cost should be increased by \$71,117 as calculated by the Company in
25 the amended applications dated November 5, 2009. Finally, the Company offers
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1 miscellaneous points to ensure the conditions that will ultimately govern Sonoita are clear
2 and reasonably achievable.

3
4 To clarify the Company's position and help all parties understand its position, the
5 Company is providing revised rebuttal schedules (all excluding the WIFA Surcharge):

- 6 • Schedule SSR-1 Rate Base/Operating Income;
- 7 • Schedule SSR-2 Utility Plant in Service;
- 8 • Schedule SSR-3 Statement of Operating Income; and
- 9 • Schedule SSR-4 Rate Design.

10 *See Attachment 1.*

11 **2.0 Interconnection**

12 The Staff Report includes several adjustments based upon the erroneous
13 conclusion that the pipeline interconnecting the Sonoita and Southern-Los Encinos water
14 systems is not used and useful. *See Staff Report at p. 6 (plant in service), & p. 7 (outside*
15 *services).*¹ The basis for this conclusion is that Staff has interpreted information received
16 from someone affiliated with the Company to mean that the interconnection does not
17 improve the systems due to pressure problems created by elevation differences and it is
18 not possible to pump water from the Sonoita system to the Los Encinos system. *See*
19 *Engineering Report at p. 9, n. 8.*

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23 However, these facts underlying Staff's conclusion are not true. In fact, during the
24 test year, the interconnection was used at least 3 times. The interconnection provides

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26
27 ¹ Staff decreased plant in service by \$26,113 from \$259,999 to \$233,886 as shown on Schedule GWB-3, Page 1,
28 Adjustment A. Staff's adjustment removes the cost of an interconnection between the Sonoita and Southern/Los Encinos systems. Staff's engineering review concluded that this interconnection was not "used and useful" because it does not improve the operation of the two systems. Staff Report, at p. 6.

1 water to the Los Encinos system anytime there is an issue with Los Encinos' one well,
2 pumping plant, storage, or when repairs need to be made. The Company does not use the
3 interconnection on a continual basis because water pressure is reduced to approximately
4 25 psi when it is in use (the statement that the interconnection cannot move water to the
5 Los Encinos system is wrong). Nevertheless, the interconnection has been — and
6 continues to be — used intermittently and provides the only back-up water supply for the
7 Los Encinos system. Therefore, the interconnection is used and useful.
8
9

10 The adjustments removing the cost of the interconnection line between the Sonoita
11 and Los Encinos systems and removing accumulated depreciation on the interconnection
12 line should not occur. Similarly, the outside services Adjustment A decreasing this
13 account by \$5,700 to reflect management fees incurred and charged to the
14 interconnection line during the test year should be reclassified to account 331 to properly
15 capitalize costs related to the interconnection. *See* Attachment 1, Schedule SSR-2.
16
17

18 **3.0 Rate Case Expense**

19 In the Staff Report, Adjustment D decreases this account by \$2,400, from \$3,000
20 to \$600, to reflect a normalized level of the estimated \$3,000 cost of the rate proceeding
21 over a five-year recovery period. *See id.* at page 7. While not expressly stated in the
22 Application narrative, the Company's regulatory commission expense of \$3,000 during
23 the test year was a normalized level of the total rate and financing proceeding. This
24 estimated cost of \$15,000 was amortized over a five-year recovery period. Therefore, no
25 adjustment to the Company's amount is necessary. The Company's rebuttal Schedule
26 SSR-3 reflects this position. *See* Attachment 1.
27
28

1 **4.0 Plant in Service Cost**

2 The Company's rebuttal adjustment amounts are comprised of three categories.

3
4 First, amended application pages were filed on November 5, 2009, increasing gross plant
5 in service from \$259,999 to \$337,116 (\$71,117) to include all plant additions and
6 retirements for both Sonoita and the old Southern system for the interim years since the
7 last rate case. Second, the Company disputes Staff's disallowance of \$26,113 for the
8 system interconnection. Third, the Company reclassified the \$5,700 from outside
9 services relating to the interconnection, which was disallowed by Staff, and reclassified it
10 to account 331 to property capitalize costs related to the system interconnection. *See*
11 Attachment 1, Schedule SSR-2.
12
13

14 **5.0 Approval of Construction and Loan Deadlines**

15 **5.1 Loan Deadlines**

16
17 In the Staff Report, Staff recommends that any authorization to incur debt should
18 terminate a year after the Commission's decision in this matter. *See* Staff Report at
19 Executive Summary point 6, and p. 15. Staff further recommends that the WIFA loan
20 surcharge mechanism should be rescinded if the Company has not drawn funds from the
21 loan within twelve months of the date of the Decision. *See* Staff Report at Executive
22 Summary point 10, and p. 16.
23

24
25 First, while a year seems to be a reasonable amount of time to initiate the
26 financing, the Company knows that there is a substantial amount of work that must be
27 done, and several approvals that must be given, before WIFA will finalize a loan with the
28

1 Company. Therefore, to be cautious, Sonoita seeks a loan initiation deadline of 18
2 months.

3
4 Second, based upon numerous discussions with engineers and other water
5 providers, the Company believes it may be prudent to make the necessary improvements
6 in stages rather than all at once. Accordingly, the Company anticipates that it may not
7 draw all of the loan funds in the first year of the project. Thus, to ensure that no
8 misunderstandings arise later, the Company asserts that these provisions should be
9 clarified to state the authorization to incur debt and apply the loan surcharge will
10 terminate 18 months after the decision *unless* the Company enters into a WIFA loan
11 agreement within that time.

14 5.2 Approval of Construction Deadline

15 Staff recommends that the Company be ordered to file a Certificate for Approval
16 of Construction (“AoC”) for each project improvement by December 31, 2010. Staff
17 Report, at p. 16, point 11; *see* also Staff Engineering Report Recommendation ¶ 6.

18
19 The Company disagrees with this position. An AoC is granted after the
20 improvement is built. Here, in all likelihood, the Company will not finish all of the
21 improvements in one year. Setting aside the fact that the Company will probably not
22 receive necessary regulatory approvals for financing well into 2010, the Company will
23 have to replace lines, wells, and storage tanks in planned and coordinated stages so that
24 customers are not unreasonably impacted. This will take more than one year. Thus, the
25 Company suggests that this provision be deleted. Alternatively, the Company suggests
26 that a deadline of December 31, 2013 is appropriate.
27
28

1 **6.0 New Well**

2 Apparently, Staff disagrees with the Company's contention that a new production
3 well is warranted. Here, the Sonoita water system has two wells with a combined yield
4 of 17 gallons per minute serving 41 current customers and committed to serve 39 more.
5 The Southern water system has one well with a yield capacity of 30 gallons per minute
6 serving 38 customers and is committed to serving an unknown number of potential
7 customers.
8
9

10 Based upon these facts, the Company believes a new well is warranted. Moreover,
11 the analysis performed by Staff did not include a pump test of the aquifer. To be clear,
12 even if the pumps can produce 17 gallons per minute does not mean that the aquifer will
13 produce 17 gallons per minute on a sustained basis. The Company does not want the
14 decision to preclude the Company from using the loan proceeds to drill a new well if the
15 project hydrologists and engineers believe a new well is needed. Therefore, the
16 Company believes any recommendation to the Commission should include a provision
17 that ensures the Company is not precluded from using the proceeds to drill a new well.
18
19
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21 **7.0 Remaining Minor Corrections**

22 Tier Breakdown. The Rate Design table set forth in Schedule GWB-4, p. 2, does
23 not specify a Tier Breakover for 3/4-inch meters. The Company believes this should be
24 added to the Rate Design.
25

26 Bulk Water Rates. The Staff Report states that the bulk water rate should be
27 \$11.16 per 1,000 gallons. *See, e.g., id.* at p. 1 & 3. However, the Rate Design table states
28 the bulk water rate should be \$10.18 per 1,000 gallons. The Company believes that Staff

1 intended to state that the \$11.16 rate is correct and the \$10.18 is a typographical error.
2 However, the Company believes a rate of \$12.00 per 1,000 gallons is appropriate. See
3 Attachment 1, Schedule SSR-4.
4

5 DATED this 11th day of December, 2009.
6

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ATTACHMENT 1

RATE BASE/OPERATING INCOME EXCLUDING WIFA SURCHARGE

	Staff Adjusted Rate Base ¹	Company Adjustments ²	Company Rebuttal Rate Base
Plant in Service	\$ 233,886	\$ 108,930	\$ 342,816
Less:			
Accumulated Depreciation	133,436	7,066	140,502
Net Plant	\$ 100,450	\$ 101,864	\$ 202,314
Less:			
Plant Advances	\$ -	\$ -	\$ -
Customer Deposits	1,836	-	1,836
Total Advances	\$ 1,836	\$ -	\$ 1,836
Contributions Gross	\$ 5,200	\$ -	\$ 5,200
Less:			
Accumulated Amortization of CIAC	5,200	-	5,200
Net CIAC	\$ -	\$ -	\$ -
Total Deductions	\$ 1,836	\$ -	\$ 1,836
Plus:			
1/24 Power	\$ 255	\$ -	\$ 255
1/8 Operation & Maintenance	6,609	300	6,909
Inventory	-	-	-
Prepayments	-	-	-
Total Additions	\$ 6,864	\$ 300	\$ 7,164
RATE BASE	\$ 105,478	\$ 102,164	\$ 207,642
Rate of Return	11.50%	-	11.50%
Operating Income	\$ 12,130	\$ 11,749	\$ 23,879
Operating Margin	14.33%	8.99%	23.32%

¹ Amounts from GWB-2, Page 1 of 3 and GWB-1.1.

² Plant and Accumulated Depreciation adjustments per Schedule SSR-2. Working capital adjustment due to increase in rate case expense as reflected on Schedule SSR-3 (\$2,400/8). The Company used Staff's recommended rate of return applied to rate base to calculate the Company's rebuttal operating income of \$23,879, an increase of \$11,749 over Staff's recommended amount.

UTILITY PLANT IN SERVICE

Acct. No.	Description	Staff Adjusted Plant ¹	Company Adjustments ²	Company Rebuttal Plant
301	Organization	\$ 62	\$ 137	\$ 199
302	Franchises	-	-	-
303	Land & Land Rights	-	-	-
304	Structures & Improvements	2,036	4,225	6,261
307	Wells & Springs	9,741	48,283	58,024
311	Pumping Equipment	60,914	24,133	85,047
320	Water Treatment Equipment	-	-	-
320.1	Water Treatment Plants	-	-	-
320.2	Solution Chemical Feeders	5,595	(774)	4,821
330	Distribution Reservoirs & Standpipes	-	-	-
330.1	Storage Tanks	22,867	(268)	22,599
330.2	Pressure Tanks	5,918	(78)	5,840
331	Transmission & Distrib. Mains	117,657	31,695	149,352
333	Services	4,783	1,155	5,938
334	Meters & Meter Installations	4,313	422	4,735
335	Hydrants	-	-	-
336	Backflow Prevention Devices	-	-	-
339	Other Plant & Misc Equipment	-	-	-
340	Office Furniture & Equipment	-	-	-
340.1	Computers & Software	-	-	-
341	Transportation Equipment	-	-	-
343	Tools, Shop & Garage Equip.	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	-	-	-
348	Other Tangible Plant	-	-	-
TOTAL WATER PLANT		\$ 233,886	\$ 108,930	\$ 342,816
108	Accumulated Depreciation	\$ (133,436)	\$ (7,066)	\$ (140,502)
Net Utility Plant In Service		\$ 100,450	\$ 101,864	\$ 202,314

¹ Amounts from GWB-2, Page 2 of 3 and Page 3 of 3.

² The Company Rebuttal adjustment amounts are comprised of three categories. First, amended application pages were filed on 11/5/2009 that increased gross plant in service from \$259,999 to \$337,116 (\$71,117) to include all plant additions and retirements for both Sonoita and the old Southern system for the interim years since the last rate case. Second, the Company disputes Staff's disallowance of \$26,113 for the system interconnection. Third, \$5,700 from Outside Services was disallowed by Staff related to the system interconnection, this amount has been reclassified to account 331 to properly capitalize costs related to the system interconnection.

STATEMENT OF OPERATING INCOME EXCLUDING WIFA SURCHARGE

Acct. No.	OPERATING REVENUES	Staff Adjusted Amounts ¹	Company Adjustments ²	Co. Rebuttal Amounts
461	Metered Water Revenue	\$ 84,554	\$ 17,748	\$ 102,302
474	Other Water Revenues	102		102
	TOTAL OPERATING REVENUES	\$ 84,656	\$ 17,748	\$ 102,404
	OPERATING EXPENSES			
601	Salaries and Wages	\$ -		\$ -
610	Purchased Water	-		-
615	Purchased Power	6,125		6,125
618	Chemicals	2,854		2,854
620	Repairs and Maintenance	5,415		5,415
621	Office Supplies & Expense	723		723
630	Outside Services	29,164		29,164
635	Water Testing	2,717		2,717
641	Rents	-		-
650	Transportation Expenses	9,860		9,860
657	Insurance - General Liability	1,541		1,541
659	Insurance - Health and Life	-		-
666	Regulatory Commission Exp-Rate Case	600	2,400	3,000
675	Miscellaneous Expense	-		-
403	Depreciation Expense	11,617	3,599	15,216
408	Taxes Other Than Income	-		-
408.11	Property Taxes	1,910		1,910
409	Income Tax	-		-
	TOTAL OPERATING EXPENSES	\$ 72,526	\$ 5,999	\$ 78,525
	OPERATING INCOME/(LOSS)	\$ 12,130	\$ 11,749	\$ 23,879

¹ Amounts from GWB-1.1 and GWB-3, Page 1 of 3.

² Revenue increased by \$17,748 to attain operating income as calculated on Schedule SSR-1.

Rate Case Expense is increased by \$2,400 so annual expense is \$3,000, which is \$15,000 total estimated cost for this rate case/financing application, amortized over 5 years. The adjustment to depreciation expense is the result of applying proposed depreciation rates to the Company's amended test year end plant, (including Staff's disallowed amount of \$26,113), plus \$5,700 reclassified from Outside Services capitalized as part of the system interconnection costs.

RATE DESIGN EXCLUDING WIFA SURCHARGE

Rates and Charges ¹	Staff		Company	
	Proposed Rates ²		Rebuttal Rates	
Monthly Usage Charges				
5/8" x 3/4" Meter	\$	24.00	\$	35.00
3/4" Meter		36.00		52.50
1" Meter		60.00		87.50
1 1/2" Meter		120.00		175.00
2" Meter		192.00		280.00
3" Meter		384.00		525.00
4" Meter		600.00		875.00
6" Meter		1,200.00		1,750.00
Commodity Rates				
Gallons Included in Monthly Minimum		0		0
Excess of Minimum - Per 1,000 Gallons (5/8" x 3/4" and 3/4" Meters Only)				
Tier 1 1 - 3,000 Gallons	\$	6.20	\$	6.80
Tier 2 3,001 - 10,000 Gallons		9.30		9.75
Tier 3 All Gallons over 10,000		11.16		11.75
Excess of Minimum - Per 1,000 Gallons (All Other Meter Sizes)				
Tier 1 1 - 3,000 Gallons	\$	6.20		
Tier 2 3,001 - 10,000 Gallons		9.30		
Tier 3 All Gallons over 10,000		11.16		
Tier 1 1 - 10,000 Gallons			\$	9.75
Tier 2 All Gallons over 10,000				11.75
Bulk Water - Per 1,000 Gallons ³	\$	10.18	\$	12.00

¹ Sonoita Valley Water and Southern Water are now merged and are seeking, and Staff has recommended, the same rate structure for both companies.

² Staff proposed rates per GWB-4, Page 1 of 3 and Page 2 of 3.

³ The Company is uncertain if Staff is proposing \$10.18 as reflected on GWB-4, Page 2 of 3, or \$11.16 as reflected on pages 1 and 3 of the Staff Report.