

ORIGINAL



0000106555

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

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

2010 JAN -6 P 3:21

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-01428A-09-0103

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UILITY SERVICES BASED THEREON.

DOCKET NO. W-01427A-09-0104

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (2) TO ISSUE EVIDENCE OF INDEBTEDNESS IN CONNECTION WITH (A) THE CONSTRUCTION OF TWO RECHARGE WELL INFRASTRUCTURE IMPROVEMETNS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116

Arizona Corporation Commission

DOCKETED

JAN - 6 2010

DOCKETED BY

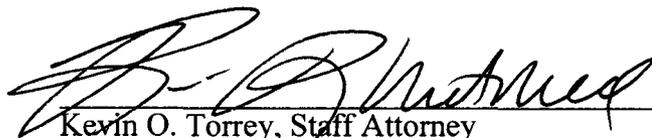
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$1,170,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF ONE 200 KW ROOF MOUNTED SOLAR GENERATOR INFRASTRUCTURE IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

STAFF'S NOTICE OF FILING
WITNESS SUMMARIES

1 Staff of the Arizona Corporation Commission ("Staff") hereby provides the witness
2 summaries for Jeffrey M. Michlik, Pedro M. Chaves, and Juan C. Manrique in the above-referenced
3 matter.

4 RESPECTFULLY SUBMITTED this 6th day of January, 2010.

5
6 

7 Kevin O. Torrey, Staff Attorney
8 Robin R. Mitchell, Staff Attorney
9 Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007
13 (602) 542-3402

14 Original and thirteen (13) copies
15 of the foregoing were filed this
16 6th day of January, 2010, with:

17 Docket Control
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 Copies of the foregoing were mailed
22 this 6th day of January, 2010 to:

23 Jay L. Shapiro
24 Todd C. Riley
25 FENNEMORE CRAIG, PC
26 3003 N. Central Avenue, Suite 2600
27 Phoenix, Arizona 85012
28 Attorneys for Litchfield Park Service Co.

Michelle Wood
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Martin A. Aronson
Robert J. Moon
MORRILL & ARONSON, PLC
One E. Camelback Road, Suite 340
Phoenix, Arizona 85012
Attorneys for Pebblecreek Properties
Limited Partnership

William P. Sullivan
Susan D. Goodwin
Larry K. Udall
CURTIS GOODWIN SULLIVAN
UDALL & SCHWAB, P.L.C.
501 E. Thomas Road
Phoenix, Arizona 85012-3205
Attorneys for City of Litchfield Park

Chad and Jessica Robinson
15629 W. Meadowbrook Avenue
Goodyear, Arizona 85395

Craig A. Marks
CRAIG A. MARKS, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, Arizona 85028
Attorney for Westcor/Goodyear LLC
and Globe Land Investors, LLC

27 
28

The testimony of Mr. Michlik addresses the following outstanding issues:

Rate Base Issues - Water

Deferred Income Taxes (“DIT”) – The Company has changed its DIT calculation several times, its most recent recalculation was done in rejoinder testimony. Staff recommends \$335,487 for the water division, as the Company has not made available to Staff access to records needed to verify the authenticity of the test year DIT number.

Deferred Regulatory Assets – Staff continues to recommend the exclusion of \$82,561 of deferred regulatory assets from rate base. The Company wants to have rate payers pay for pollution costs that were not of their own doing. The accounting order states the Company “shall actively assert the legal remedies available to them from the party or parties responsible for the potential contamination of their water supplies.”

Capitalized Plant – After reviewing information from the Company, Staff recommends expensing some items included as capitalized items and that some other be excluded.

Security Deposits – The Company wants to include in rate base and receive a return on money that is not its own.

Revenue and Income Statement Issues - Water

Corporate Overhead Allocation – Most of the corporate expenses directly benefit Algonquin Power Trust Fund, and should not be passed on to its affiliates. However, Staff acknowledges that their might be some type of secondary or peripheral benefit that the affiliates receive.

Contractual Services - Bonuses – Staff continues to recommend disallowance of bonuses in the amount of \$26,447, as these costs are not necessary for the provision of water services.

Rate Case Expense – Staff continues to recommend a 5-year normalization period.

Rate Base Issues - Wastewater

Deferred Income Taxes ("DIT") – The Company has changed its DIT calculation several times, its most recent recalculation was done in rejoinder testimony. Staff recommends \$335,487 for the wastewater division, as the Company has not made available to Staff access to records needed to verify the authenticity of the test year DIT number.

Capitalized Plant – After reviewing information from the Company, Staff recommends expensing some items included as capitalized items and that some other be excluded.

Security Deposits – The Company wants to include in rate base and receive a return on money that is not its own.

Revenue and Income Statement Issues - Wastewater

Corporate Overhead Allocation – Most of the corporate expenses directly benefit Algonquin Power Trust Fund, and should not be passed on to its affiliates. However, Staff acknowledges that there might be some type of secondary or peripheral benefit that the affiliates receive.

Contractual Services - Bonuses – Staff continues to recommend disallowance of bonuses in the amount of \$26,447, as these costs are not necessary for the provision of water services.

Rate Case Expense – Staff continues to recommend a 5-year normalization period.

**SUMMARY OF TESTIMONY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. SW-01428A-09-0103 ET AL.**

The Testimony of Staff witness Pedro M. Chaves addresses the following issues:

Water Division

Staff's recommended rate design would generate Staff's recommended \$11,781,312 revenue requirement. The typical 3/4-inch meter residential bill with median use of 7,000 gallons would increase by \$5.23, or 34.21 percent, from \$15.29 to \$20.52.

Wastewater Division

Staff's recommended rate design would generate Staff's recommended \$9,398,625 revenue requirement. The typical residential bill would increase by \$12.28, or 45.15 percent, from \$27.20 to \$39.4.

**EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. SW-01428A-09-0103 AND
W-01427A-09-0104**

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Litchfield Park Service Company (“LPSCO” or “Applicant”) for this proceeding consisting of 17.2 percent debt and 82.8 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.2 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.8 percent for the discounted cash flow method (“DCF”) to 10.1 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 0.8 percent downward adjustment to reflect a lower financial risk in the Applicant’s capital structure compared to that of the sample companies

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 8.7 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa - The Commission should reject the Company’s proposals to allow for a firm size adjustment, to selectively eliminate inputs in Staff’s cost of equity estimation with unfavorable outputs resulting in an imbalance in Staff’s cost of equity estimation, and to rely exclusively on analyst’s forecasts for DCF estimates.