

ORIGINAL



0000107517

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2010 JAN -5 P 2:14

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

- 2 KRISTIN K. MAYES
CHAIRMAN
- 3 GARY PIERCE
COMMISSIONER
- 4 SANDRA D. KENNEDY
COMMISSIONER
- 5 PAUL NEWMAN
COMMISSIONER
- 6 BOB STUMP
COMMISSIONER

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

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 UTILITY SERVICE BASED THEREON.

Docket No. W-01427A-09-0104

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 \$1,755,000 IN CONNECTION WITH (A) THE CONSTRUCTION OF TWO RECHARGE WELL INFRASTRUCTURE IMPROVEMENTS 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 - 5 2010

DOCKETED BY *MAA*

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

Docket No. W-01427A-09-0120

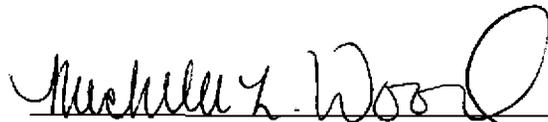
1 GENERATOR INFRASTRUCTURE
2 IMPROVEMENTS AND (2) TO ENCUMBER ITS
3 REAL PROPERTY AND PLANT AS SECURITY
4 FOR SUCH INDEBTEDNESS.

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summaries of William A. Rigsby, CRRA, Matthew Rowell, and Sonn Rowell, CPA, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of January, 2010.


Michelle L. Wood
Counsel

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 5th day of January, 2010 with:

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

COPIES of the foregoing hand delivered/ mailed this 5th day of January, 2010 to:

The Honorable Dwight D. Nodes,
Asst. Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Kevin Torrey, Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 Steve Olea, Director
Utilities Division
2 Arizona Corporation Commission
1200 West Washington
3 Phoenix, Arizona 85007
4 Jay L. Shapiro
Todd C. Wiley
5 Fennemore Craig, PC
3003 N. Central Avenue, Suite 2600
6 Phoenix, AZ 85012
7 William P. Sullivan
Susan D. Goodwin
8 Larry K. Udall
Curtis Goodwin Sullivan Udall
9 & Schwab, PLC
501 East Thomas Road
10 Phoenix, AZ 85012-3205
11 Craig Marks
Craig A. Marks, PLC
12 10645 N. Tatum Blvd.
Suite 200-676
13 Phoenix, Arizona 85028
14 Chad and Jessica Robinson
15629 W. Meadowbrook Avenue
15 Goodyear, AZ 85395
16 Martin A. Aronson
Robert J. Moon
17 Morrill & Aronson, PLC
One East Camelback Road, Suite 340
18 Phoenix, AZ 85012
19 Kristin Mayes, Chairman
Arizona Corporation Commission
20
21 Giancarlo Estrada
Advisor to Chairman Mayes
22 Commissioner Gary Pierce
Arizona Corporation Commission
23
24 John Le Sueur
Advisor to Commissioner Pierce

Commissioner Paul Newman
Arizona Corporation Commission

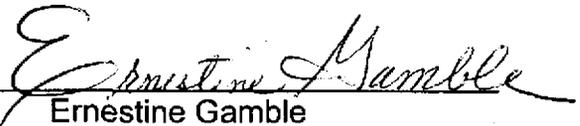
Alan Stephens
Advisor to Commissioner Newman

Commissioner Sandra D. Kennedy
Arizona Corporation Commission

Christina Arzaga-Williams
Advisor to Commissioner Kennedy

Commissioner Bob Stump
Arizona Corporation Commission

Amanda Ho
Advisor to Commissioner Stump

By 
Ernestine Gamble

Litchfield Park Service Company
Docket No. SW-01428A-09-0103 et al.
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, CRRA, on Litchfield Park Service Company's ("LPSCO" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on one of RUCO's rate base adjustments and the cost of capital issues associated with LPSCO's request for a rate increase. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

REQUIRED REVENUE

PVWRF Adjustment – Mr. Rigsby is recommending that \$36,500 associated with the expansion of the PVWRF from 4.1 mgd to 8.2 mgd be excluded from rate base. Per his surrebuttal testimony, RUCO reserves the right to supplement its testimony upon receipt of cost data from the Company or other resources regarding any expansion of LPSCO plant that is not serving current customers.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)

COST OF CAPITAL

Weighted Average Cost of Capital – Mr. Rigsby is recommending that an 8.54 percent weighted average cost of capital be applied to LPSCO's fair value rate base ("FVRB"). Mr. Rigsby's 8.54 percent figure is the result of his recommended capital structure, his recommended cost of long-term debt, and his recommended cost of common equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a capital structure comprised of approximately 18.0 percent long-term debt and 82.0 percent common equity.

Cost of Long-Term Debt – Mr. Rigsby is recommending that the Commission adopt the Company-proposed 6.39 percent cost of long-term IDA debt. The 6.39 percent cost of long-term debt represents the weighted cost of the company's two IDA bond issuances.

Cost of Common Equity – Mr. Rigsby is recommending a 9.00 percent cost of common equity. Mr. Rigsby's 9.00 percent figure falls on the high end within a range of cost of common equity estimates derived from both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

Litchfield Park Service Company
Docket No. SW-01428A-09-0103 et al.
Rate Case

SUMMARY OF THE TESTIMONY OF MATTHEW ROWELL
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness Matthew Rowell, on Litchfield Park Service Company's ("LPSCO" or "Company") application for a permanent rate increase. Mr. Rowell provided testimony on two subjects: the allocation of "central office costs" to LPSCO by its affiliate Algonquin Power Trust ("APT") and the rate treatment of upgrades made to the Palm Valley Wastewater Reclamation Facility ("PVWRF.")

ALLOCATIONS TO LPSCO FROM APT

During the test year APT charged LPSCO Water Division \$291,708 and LPSCO Wastewater Division \$191,850. In Rebuttal Testimony the Company indicated that the amounts allocated during the test year were actually incorrect and proposed to increase the allocated amount to \$310,479 and \$343,688 for the Water and Wastewater Divisions respectively. A review of these allocations revealed that the vast majority of them are inappropriate and RUCO recommends reducing them to \$4,908.50 and \$4,900.50 for the Water and Wastewater Divisions respectively.

RATE TREATMENT OF PVWRF UPGRADES

The Company indicated that \$7 million was spent on plant additions necessary to upgrade the PVWRF. Mr. Rowell interpreted the Company's Direct Testimony

and other documents as indicating that these upgrades were required due to design and construction errors at the PVWRF and thus ratepayers should not be responsible for these costs. RUCO proposed a 50/50 sharing of these costs between ratepayers and shareholders and thus recommended a \$3.5 million disallowance of the plant additions. On Rebuttal the Company contested Mr. Rowell's interpretation of their Direct Testimony and indicated that the upgrades at the PVWRF were not necessitated by design and/or construction errors. On Surrebuttal Mr. Rowell indicated that the Company's explanation for the upgrades lacked clarity on several points:

Operational challenges: Both Mr. Sorensen and Mr. McBride refer to "operational challenges"¹ at the PVWRF. Neither Mr. McBride nor Mr. Sorensen discuss what the source of those operational challenges was. If the operational challenges did not result from design and construction problems what did they result from?

Nature of work performed: Both Mr. Sorensen and Mr. McBride characterize the 2007/2008 upgrades as "additions."² However, Mr. McBride also characterizes some of the upgrades as conversions.³ "Addition" is a fundamentally different concept than "conversion" and this apparent discrepancy is unexplained. Further, LPSCO has contended that the PVWRF did not need any upgrades as a result of increased capacity.⁴ So it is unclear why plant additions were necessary.

¹ Sorensen Rt at 22, McBride Rt at 4.

² Sorensen Rt at 22, McBride Rt at 5.

³ McBride Rt at 5.

⁴ LPSCO response to RUCO MJR 2.11, MJR 3.1, MJR 5.1, MJR 5.4

Nature of changed circumstances: Mr. Sorensen contends that the upgrades were necessary because of “increased customer demand and various changed conditions ... including changed zoning requirements, in-fill residential development, and increased customer demands for more odor control.”

LPSCO’s contention that the PVWRF did not need any upgrades as a result of increased capacity⁵ appears to conflict with Mr. Sorensen’s assertion that increased customer demand was partially responsible for the needed upgrades. Additionally, while RUCO would agree that the company should not be held responsible for changed zoning requirements, it is not clear to what extent the changed zoning requirements were responsible for the “operational challenges” at the PVWRF.

Increases in capacity: Staff’s March 21, 2008 Compliance Filing Per Decision No. 69165 in Docket SW-01428A-06-044 indicates (on page 2) that on March 5, 2008 the PVWRF was “under construction to increase the plant capacity by 1.0 million gallons per day.” This conflicts with the Company’s assertions that no increases in capacity were necessary and that all of the 2008 upgrades were necessitated by “operational challenges.”

⁵ Id.

Litchfield Park Service Company
Docket No. SW-01428A-09-0103 et al.
Rate Case

SUMMARY OF THE TESTIMONY OF SONN S. ROWELL, CPA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness Sonn S. Rowell, CPA, on Litchfield Park Service Company's ("LPSCO" or "Company") application for a permanent rate increase. Ms. Rowell is providing testimony on many of RUCO's rate base and income statement adjustments, the revenue requirement, and rate design associated with LPSCO's request for a rate increase. The underlying theory and rationales for Ms. Rowell's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

WATER REVENUE REQUIREMENT

Revenue Increase – Ms. Rowell recommends a revenue requirement of \$11,555,325 for the water division, which represents an increase of \$4,676,615 over adjusted test year water revenue, or 67.99%.

Operating Expense Items – RUCO recommends several adjustments that decrease test year operating expenses that were reclassified as plant, are non-recurring, inappropriate, or outside of the test year. Expenses recommended to be disallowed as inappropriate include credit card merchant fees, Diamondback

tickets, catered lunches and parties, and large, improperly supported amounts for travel to a related entity only operating in the New York area.

WATER UTILITY PLANT AND RATE BASE

Capitalized Affiliate Profit and Labor – RUCO proposes to reverse all of the Company's adjustments to remove affiliate profit on capitalized labor. RUCO then recommends that all capitalized affiliate labor, including profit, be disallowed due to inadequate source documentation.

Other Unsupported Plant Additions – RUCO proposes to disallow an *unsupported general journal entry* in the amount of \$242,119 from 2004 to Structures and Improvements.

WATER DIVISION RATE DESIGN

In general, RUCO's recommended rate design varies among the classes of customer, with the smallest increase borne by the residential ¾" meter customers at 38.49%. However, the 1.5" meter within the residential class will see a 84.85% increase, and the residential class as a whole increases 57.30%. The commercial increase across meter sizes averages 88.50%, and for the irrigation class the average increase amount is 92.26%.

WASTEWATER REVENUE REQUIREMENT

Revenue Increase – Ms. Rowell recommends a revenue requirement of \$8,741,497 for the wastewater division, which represents an increase of \$2,382,310 over adjusted test year revenue, or 37.46%.

Operating Expense Items – RUCO recommends several adjustments that decrease test year operating expenses that were reclassified as plant, are non-recurring, inappropriate, or outside of the test year. Expenses recommended to be disallowed as inappropriate include credit card merchant fees, Diamondback tickets, catered lunches and parties, and large, improperly supported amounts for travel to a related entity only operating in the New York area. In addition, RUCO recommends disallowance of amounts relating to effluent clean up and oat crop planting, \$11,500 for weed removal, cleaning of sewer lines identified in Gilbert, AZ on the invoice, and bottled water purchases of almost \$6,000 from Culligan.

WASTEWATER UTILITY PLANT AND RATE BASE

Capitalized Affiliate Profit and Labor – RUCO proposes to reverse all of the Company's adjustments to remove affiliate profit on capitalized labor. RUCO then recommends that all capitalized affiliate labor, including profit, be disallowed due to inadequate source documentation.

Other Plant Adjustments – RUCO proposes several adjustments to reclassify plant additions to repairs expense during the test year, or disallow the cost if incurred outside the test year.

WASTEWATER RATE DESIGN

With the exception of effluent customers, all other rate classes will see an increase of approximately 31.50% under RUCO proposed rates. RUCO is recommending an effluent rate of \$1.50 per thousand gallons. The Company argues that the increase is too large; however, this is due to the artificially low "negotiated" rates LPSCO currently charges for effluent. RUCO believes that \$1.50 per thousand gallons, for all gallons, is a fair price for a valuable commodity that is substantially cheaper than potable water.