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BEFORE THE ARIZONA CORPORATION COMMISSION

7 IN THE MATTER OF THE
 8 APPLICATION OF RIO RICO
 UTILITIES, INC., AN ARIZONA
 9 CORPORATION, FOR A
 DETERMINATION OF THE FAIR
 10 VALUE OF ITS UTILITY PLANTS AND
 PROPERTY AND FOR INCREASES IN
 11 ITS WATER AND WASTEWATER
 RATES AND CHARGES FOR UTILITY
 12 SERVICE BASED THEREON.

DOCKET NO: WS-02676A-09-0257

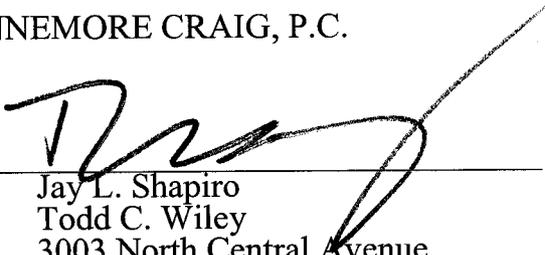
NOTICE OF FILING WITNESS SUMMARY

13
 14 Rio Rico Utilities, Inc. ("RRUI" or "the Company") hereby submits this Notice of
 15 Filing in the above-referenced matter. Specifically filed herewith is the summary of the
 16 pre-filed testimony of Peter Eichler.

17 DATED this 9th day of March, 2010.

18 FENNEMORE CRAIG, P.C.

19
20 By


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1 **ORIGINAL** and thirteen (13) copies
2 of the foregoing were filed
3 this 9th day of March, 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

6 **COPY** of the foregoing hand-delivered
7 this 9th day of March, 2010 to:

7 Chairman Kristin K. Mayes
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10 Phoenix, AZ 85007

10 Commissioner Gary Pierce
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- 19 **COPY** of the foregoing emailed/mailed
20 this 9th day of March, 2010 to:
- 21 Jane L. Rodda
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Rio Rico Utilities Inc.
Docket No. WS-02676A-09-0257

Peter Eichler Testimony Summary

Peter Eichler is the Manager of Financial Planning & Analysis for Liberty Water. In his rebuttal testimony, Mr. Eichler provides a detailed explanation of Liberty Water's affiliate cost allocation methodology in response to the direct testimonies of Mr. Gerald W. Becker on behalf of Commission Staff and Mr. Timothy J. Coley on behalf of RUCO relating to Liberty Water's affiliate cost allocations to RRUI. In his rejoinder testimony, Mr. Eichler also responds to the surrebuttal testimonies of Mr. Becker and Mr. Coley.

THE APIF GOOD CORPORATE GOVERNANCE PACKAGE

To start, Mr. Eichler will testify regarding the corporate structure of RRUI, and the package of utility services and benefits that such structure provides to RRUI. He will testify that RRUI is a wholly-owned subsidiary of Liberty Water Company, Inc. ("LWC"), which is owned by Algonquin Power Income Fund ("APIF"). APIF owns a widely diversified portfolio of 46 electric facilities and 17 water distribution and wastewater treatment facilities in Canada and the United States. Mr. Eichler explains the package of beneficial services provided to RRUI by APIF as publicly traded on the Toronto Stock Exchange, which allows RRUI to provide high quality utility service at a reasonable cost. Mr. Eichler will testify that APIF's structure as a publicly traded income fund provides substantial benefits to RRUI through access to capital markets, strategic management, professional administrative staff, strong corporate governance and financial controls. Utility ownership modeled on strong and sound corporate governance is exactly the type of model that the Commission should encourage.

ALLOCATION OF DIRECT AFFILIATE COSTS

RRUI is operated by Algonquin Water Services, which operates under the name Liberty Water. Liberty Water provides all of the day-to-day operations personnel for RRUI. All operations and engineering labor is directly charged by Liberty Water to RRUI. Liberty Water charges those labor rates *at cost*, which is the dollar hourly rate per employee, grossed up by 35% for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. Engineering technical labor, which is mostly capitalized, is charged on the same basis, plus an allocation of 10% for Liberty Water's corporate overheads such as rent, materials/supplies, etc.

Other necessary services provided by Liberty Water include labor for health and safety, accounting, billing and customer service, human resources, and corporate finance. These costs are allocated based on the relative customer counts of all of the Regulated Utilities. Overhead costs, like rent, insurance, administration costs, depreciation of office furniture and computers, also cannot be directly attributed to specific utilities. These costs are allocated to RRUI and its affiliates by use of a "four factor" methodology that considers relative size through four weighted factors – total plant, total customers, expenses and labor. All costs charged by Liberty Water and allocated to RRUI are based on actual costs, either directly charged or through the allocations described above.

In his testimony, Mr. Eichler establishes that customers of Liberty Water receive significant benefits from this cost allocation model, including lower costs for services that are essential and necessary to the provision of high quality water and wastewater utility service. The benefits of this type of shared service model include savings on labor costs by resource sharing. Essentially, this allocation methodology allows costs to be allocated based on the relative burdens and costs incurred by individual utilities. Further, because it's scalable, the shared services model allows for increased growth with less than proportional cost increases, meaning the Regulated Utilities can grow without a prohibitive increase in the cost of service.

ALLOCATION OF CENTRAL OFFICE COSTS FROM APT— THE COSTS OF STRONG CORPORATE GOVERNANCE

In his testimony, Mr. Eichler also addresses the primary cost allocation dispute between RRUI and Staff/RUCO—the allocation of Central Office Costs incurred by APT. APT is the affiliate that provides financial, strategic management, compliance, administrative and support services to the Regulated Utilities operated by Liberty Water. These costs are a reflection of APIF's structure and benefits from being publicly traded. Mr. Eichler will testify that these costs include professional services like third-party legal services, accounting services, tax planning and filings, management and trustee fees, and required auditing that are done for the benefit of all of the Liberty Water Regulated Utilities, including RRUI. Other corporate administrative costs include costs for licenses, fees and permits, information technology/systems, payroll, and HRIS maintenance contracts, as well as the rent and depreciation of office furniture and equipment and computers in the central office in Oakville, Ontario.

Generally, the services provided by and costs incurred by APT fall into four general categories: (1) Strategic Management, which includes management fees, general legal services and other professional services; (2) Capital Access, which includes licenses/fees/permits, unit holder communications and escrow fees; (3) Financial Controls, which include audit services, tax services and trustee fees; and (4) Administrative/Overhead Costs, which include rent, depreciation and office costs as I testified above.

These indirect administration Central Office Costs are allocated to RRUI in two phases. The first phase involves allocating these costs to each of the facilities, both regulated and unregulated, owned by APIF. That initial allocation is made based on relative size. Specifically, APIF owns and operates 63 total entities, 17 of which are the Regulated Utilities operated by Liberty Water. In turn, 17 of 63 is 26.98%, which means 26.98% of the total Central Office Costs are allocated to the 17 Regulated Utilities operated by Liberty Water. The remaining 73.02% is allocated to APIF and its unregulated affiliates. The second phase is that Liberty Water allocates the Central Office Costs between RRUI and the 16 other Regulated Utilities based on customer counts. RRUI's total of 8,788 customers is 12.7% of Liberty Water's 17 Regulated Utilities' total of 68,783 water and wastewater customers, which means RRUI is allocated 12.7% of the Central Office Cost pool allocations to the Regulated Utilities.

THE SUBSTANTIAL BENEFITS TO RRUI

In his testimony, Mr. Eichler responds to claims by Staff and RUCO that the services provided by APT do not benefit RRUI or its customers. Mr. Eichler will testify that the services

provided by APT are necessary to allow RRUI to have access to capital markets for capital projects and operations. Absent consistent access to capital, RRUI would not be able to provide a high level of service at the lowest cost. RRUI also receives benefits by having strategic direction, corporate governance and financial controls at the parent level. All of these costs ensure that APIF has a long term strategic direction and remains healthy. This benefits RRUI's long term health for a fraction of the price. Put simply, RRUI is part of a structure and model that includes a publicly traded entity at the top. Mr. Eichler will testify that this model provides high quality utility service at a low price. Good business requires good governance, financial planning, strategic management, audits, tax services etc.

Ultimately, Mr. Eichler will testify that most of these costs are associated with good corporate governance and access to capital markets. To start, APT incurs fees to ensure that APIF can participate in the Toronto Stock Exchange. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange. The benefit of these costs is undisputed--the ratepayers and Regulated Utilities have access to capital only so long as APIF is able to access capital markets. These license fees allow APIF to sell units on the Toronto Stock Exchange and, in turn, provide funding for utility operations. These license fees incurred by APT are critical to ensure continuing access to capital. Financial control costs incurred by APT are another integrated piece of corporate governance. The capital and funds obtained from the sale of shares are used by the Regulated Utilities for capital investments. That capital is made available by APT to the Regulated Utilities, including RRUI. Any company that wishes to raise capital at a decent rate must prove proper corporate governance. The less governance, the higher the risk and the cost of capital. Most of these indirect corporate costs in APT relate to proper corporate governance and thus ensuring long term access to the capital markets. Absent the services provided by APT, the Regulated Utilities would be forced to operate as stand-alone utilities with higher costs and operating expenses, not to mention much greater risk. The notion that the costs incurred by APT do not benefit RRUI and its ratepayers is undercut by the very high level of service RRUI is providing to customers in this system.

COSTS PER CUSTOMER ARE LOW

Mr. Eichler will testify through the use of his rebuttal and rejoinder exhibit schedules that not only are labor costs per customer low, but overall costs per customer are some of the lowest in Arizona for RRUI water and in the middle of a range of companies for RRUI sewer. This testimony will further the evidence that RRUI has provided good service with sufficient access to capacity and strategic management at very low cost.

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