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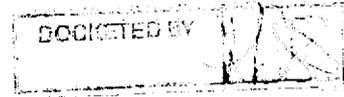
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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED

MAR 11 2010



COMMISSIONERS

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

15 APPLICATION OF ESTATE OF
 16 WILLIAM F. RANDALL DBA VALLE
 17 VERDE WATER COMPANY FOR AN
 18 INCREASE IN ITS WATER RATES

Docket No. W-01431A-09-0360
W-01431A-09-0361

**NOTICE OF FILING OF DIRECT
TESTIMONY AND POTENTIAL
EXHIBITS**

19
20 Valle Verde Water Company ("Company"), hereby gives notice that it is filing the
21 direct testimony of the following witnesses:

- 22 • Bonnie O'Connor (Attachment 1);
- 23 • Sonn Rowell (Attachment 2); and
- 24 • Greg Carlson (Attachment 3).

25
26 The direct testimony of each of these witnesses is being submitted with this notice.
27
28

1 The Company intends to offer the rate and finance applications as evidence, and
2 these applications will be sponsored by appropriate witnesses. The Company reserves
3 the rights to rely on any testimony or evidence offered during the proceedings in this
4 matter.
5

6 RESPECTFULLY SUBMITTED this 11th day of March, 2010.

7 **Moyes Sellers & Sims Ltd.**

8 

9
10 Steve Wene
11 Attorneys for Valle Verde Water Company

12 Original and 15 copies of the foregoing
13 filed this 11th day of March, 2010, with:

14 Docket Control
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 Copy of the foregoing mailed this
19 11th day of March, 2010, to:

20 Janice Alward, Chief Counsel
21 Legal Division
22 Arizona Corporation Commission
23 1200 W. Washington Street
24 Phoenix, Arizona 85007

25 Ernest Johnson, Director
26 Utilities Division
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007



ATTACHMENT 1

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**REBUTTAL TESTIMONY OF
BONNIE O'CONNOR**

19 **Q-1 Please state your name and current employment position:**

20 **A-1** Bonnie O'Conner
21 President, Southwestern Utility Management, Inc.

22 **Q-2 Describe your educational and professional background:**

23 **A-2** I am currently the President of Southwestern Utility Management, Inc., which the
24 Arizona Corporation Commission has appointed as the Interim Manager of the Company.
25 I have worked in an administrative and management capacity for more than 50 Arizona
26 utilities for approximately 30 years.
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Q-3 What is the purpose of your testimony?

A-3 I am responsible for overseeing the rate and finance applications in this matter. I have reviewed the applications and submittals filed on behalf of the Company and I incorporate those documents by reference herein. I can address issues related to the operations and management of the Company. At this point, I have no issues that need to be expressly stated in my testimony, but I concur with the rebuttal testimony filed by Greg Carlson and Sonn Rowell.

Q-4 Does that conclude your testimony?

A-4 Yes.

ATTACHMENT 2

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**REBUTTAL TESTIMONY OF SONN
ROWELL**

19 **Q-1 Please state your name and current employment position:**

20 **A-1** My name is Sonn S. Rowell, and I am a Certified Public Accountant employed as
21 a regulatory consultant for Desert Mountain Analytical Services PLLC ("DMAS"), where
22 I am a managing member.
23

24 **Q-2 Describe your educational and professional background:**

25 **A-2** I have a Bachelor of Science Degree in Accounting from Arizona State University,
26 as well as my CPA certification from the Arizona State Board of Accountancy. I have
27 worked for many years in the practice of public accounting, and have held part-time
28

1 teaching positions at Mesa Community College. After employment with the Utilities
2 Division of the Arizona Corporation Commission for four years, I started DMAS and
3
4 now specialize in regulatory accounting and consulting.

5 **Q-3 What is the purpose of your testimony?**

6 **A-3** The purpose of my testimony is to elaborate on the previously filed financial
7 schedules in the rate application and the financing of the WIFA debt proposed in this
8 case, which includes projections and calculations in support of a rate adjustment for this
9 utility. I have also reviewed Staff's testimony related to their proposed rates and
10 financing and I am prepared to comment upon those proposals as well.
11
12

13 **Q-4 What was your role in developing the Company's proposed rates and
14 financing?**

15 **A-4** I was the person who calculated the Company proposed revenue requirements and
16 rates, including adjustments for financing.
17

18 **Q-5 Have you reviewed Staff's proposed rates and financing as set forth in the
19 Direct Testimony of Pedro M. Chaves and Dorothy M. Hains dated February 11,
20 2010 in this matter?**

21 **A-5** Yes.

22 **Q-6 Do you agree with Staff's proposed rate design methodology?**

23 Generally, yes. While I do believe there are a few revisions that should be made to
24 Staff's proposal, it is very similar to the rate design proposed by the Company. If the
25 revisions discussed below are incorporated into Staff's proposal, then it should generate
26 adequate revenue to meet the Company's ongoing financial needs.
27
28

1 **Q-7 What revisions to Staff's proposal do you believe are appropriate?**

2 First, Staff's complete disallowance of \$187,158 for Purchased Water during the
3
4 Test Year is inappropriate. Although the amounts incurred during the Test Year were
5 determined to be "non-recurring expenses" by Staff, it was indeed a legitimate cost
6 incurred by the Company necessary to provide service to customers. In fact, a substantial
7
8 portion of this amount is still owed to the City of Nogales. Considering the Company's
9
10 tenuous financial situation, I believe disallowance of this legitimate expense without any
11
12 chance of recovery will severely inhibit the Company's ability to repay the amounts still
13
14 due to the City of Nogales.

15 I believe consideration of recovery of the cost of the purchased water via a 10-year
16
17 amortization period as detailed below is appropriate:

18 Cost of Purchased Water during the Test Year	\$187,158
19 Recommended Amortization period (in Years)	10
20 Annual Amortization Expense on Income Statement	\$ 18,716
21 Balance carried in Rate Base	\$168,442

22 This will not result in the Company earning a rate of return on the \$168,442 because the
23
24 current rate base is negative and Staff proposed rates were designed based on operating
25
26 margin instead of rate of return on rate base.

27 Second, if the Company has to construct a 175,000-gallon storage tank, which the
28
29 engineer estimates will cost \$275,000, then Staff should adjust the rates to ensure that the
30
31 Company will generate enough revenue to pay for the additional principal and interest

1 related to the presumed WIFA loan requirements associated with this plant and increase
2 the debt authorization by \$275,000.

3
4 Third, there is a small discrepancy in the rate design. Staff has pointed out to the
5 Company that there was a clerical error in transferring Staff's proposed rates to the
6 schedules in Staff's testimony and that Staff will correct this discrepancy in surrebuttal
7 testimony.
8

9 **Q-12 Does that conclude your testimony?**

10 **A-12 Yes.**

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**REBUTTAL TESTIMONY OF GREG
CARLSON**

19 **Q-1 Please state your name and current employment position:**

20 **A-1** Greg Carlson, PE
21 Managing Member, Greg Carlson Engineering, L.L.C.

22 **Q-2 Describe your educational and professional background:**

23 **A-2** I am a graduate of The University of Arizona, as well as Rensselaer Polytechnic
24 Institute, in the State of New York. I hold a Bachelor of Science Degree in Geology, as
25 well as Geological Engineering. In 1991, I received registration as a Professional Civil
26 Engineer from the Arizona State Board of Technical Registration. I have worked in
27 Arizona for over 25 years and I am very familiar with the region as well as the
28 requirements of utility development.

Q-3 What is the purpose of your testimony?

1 **A-3** The purpose of this testimony is to address proposal improvements to the
2 Company's water system.

3
4 **Q-4** Did you review the Opinion of Probable Costs and determine that the
5 proposed system improvements and related cost estimates are reasonable?

6 **A-4** Yes.

7 **Q-5** Did you review Staff's Engineering Report dated February 11, 2010 and
8 related testimony?

9 **A-5** Yes.

10 **Q-6** Do you believe Staff's recommendation that the Company should construct
11 175,000 gallons of storage is reasonable?

12 **A-6** Yes.

13 **Q-7** How much would it cost to install an additional 175,000 gallons of storage as
14 proposed by Staff?

15 **A-7** Based upon my experience, I estimate it will cost \$275,000 to install a 175,000
16 storage tank and requisite appurtenances.

17 **Q-8** Does that conclude your testimony?

18 **A-8** Yes.
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