

ORIGINAL



0000114531

BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

RECEIVED

DOCKETED

JUL 16 2010

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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

2010 JUL 16 P 12:02

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY
mm

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC., 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-02465A-09-0411

IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., 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-20453A-09-0412

IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., 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-20454A-09-0413

IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC., PURSUANT TO ARIZONA REVISED STATUTES 4-285.

DOCKET NO. W-02465A-09-0414
DOCKET NO. W-20453A-09-0414
DOCKET NO. W-20454A-09-0414

**STAFF'S NOTICE OF FILING
WITNESS SUMMARIES**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the Witness Summaries of Staff witnesses Marlin Scott, Jr., and Pedro M. Chaves in the above-referenced matter.

330

1 RESPECTFULLY SUBMITTED this 16th day of July, 2010.
2
3



4 Robin R. Mitchell, Staff Attorney
5 Kimberly Ruht, Staff Attorney
6 Bridget Humphrey, Staff Attorney
7 Legal Division
8 Arizona Corporation Commission
9 1200 West Washington Street
10 Phoenix, Arizona 85007
11 (602) 542-3402
12

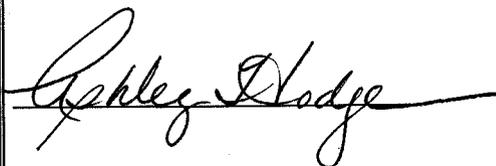
13 Original and thirteen (13) copies
14 of the foregoing were filed this
15 16th day of July, 2010 with:

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

20 Copies of the foregoing were mailed
21 this 16th day of July, 2010 to:

22 Jay L. Shapiro, Esq.
23 Stephanie Johnson, Esq.
24 FENNEMORE CRAIG
25 3003 N. Central Avenue
26 Suite 2600
27 Phoenix, Arizona 85012

28 Michelle L. Wood, Esq.
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007



**SUMMARY OF TESTIMONY
BELLA VISTA WATER COMPANY, INC.
NORTHERN SUNRISE WATER COMPANY, INC., AND
SOUTHERN SUNRISE WATER COMPANY
DOCKET NOS. W-02465A-09-0411 ET AL.**

The Direct Testimony of Staff witness Marlin Scott, Jr. addresses the following issues:

CONCLUSIONS:

- A. Bella Vista Water Co., Inc., Northern Sunrise Water Company, Inc. and Southern Sunrise Water Company, Inc. (all as "BVWC") operate seven independent water systems and all these water systems have adequate well and storage capacities to serve their present customer base and reasonable growth.
- B. The Arizona Department of Environmental Quality ("ADEQ") has reported all of BVWC's seven water systems are currently delivering water that meets the water quality standards.
- C. BVWC is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area. According to the ADWR, BVWC is in compliance with ADWR's requirements governing water providers and/or community water systems.
- D. A check of the Utilities Division Compliance database showed that BVWC had no delinquent Commission compliance items.
- E. All of BVWC's water systems have approved curtailment tariffs.
- F. All of BVWC's water systems have an approved backflow prevention tariffs.

RECOMMENDATIONS:

- 1. At this time, Staff does not know the "true" water loss for BVWC because of the mismatch of the meter reading data. For this reason, Staff recommends that BVWC monitor its seven water systems for a 12-month period to prepare a water loss report. BVWC should coordinate when it reads the production meters each month with customer monthly meter readings so that an accurate accounting can be made. If the reported water loss is greater than 10 percent, BVWC shall submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If BVWC believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall BVWC allow water loss to be greater than 15 percent. The water loss reduction report or the detailed

analysis, whichever is submitted, shall be docketed as a compliance item within 18 months from the effective date of an order issued in this proceeding.

2. Staff recommends an annual water testing expense totaling to \$51,155 (\$43,192 for Bella Vista, \$3,568 for Northern Sunrise and \$4,395 for Southern Sunrise).
3. Staff concludes that the requested post-test year item for the Bella Vista – City System is used and useful for the provision of service to customers. Staff recommends that the post-test year item be adjusted as follows:

Acct. No.	Plant items for Main Relocation	Original Cost
331	Transmission & Distribution Mains - New 250 feet of 8-inch DIP and valves with one air relief. - Installed 22-inch casing sleeve.	\$104,507
331	Transmission & Distribution Mains - Retirement of old 250 feet of 8-inch ACP, installed in 1968.	(\$3,496)
	Total:	\$101,011

4. Staff recommends that BVWC adopt Staff’s typical and customary depreciation rates.
5. Staff recommends the approval of Staff’s proposed Service Line and Meter Installation Charges.
6. Staff recommends approval of the request for an Off-Site Hook-Up Fee (“HUF”) Tariff for BVWC. Staff further recommends the approval of the fee starting at \$1,600 and the adoption of the revised tariff language contained in the HUF Tariff.
7. Staff recommends that if the BVWC water systems are consolidated, BVWC be required to continue reporting the data and information separately for each of its individual systems by ADEQ Public Water System, including but not limited to plant description and water use data, in future Annual Reports and rate case filings.

**SUMMARY OF TESTIMONY
BELLA VISTA WATER COMPANY, INC.
NORTHERN SUNRISE WATER COMPANY, INC., AND
SOUTHERN SUNRISE WATER COMPANY
DOCKET NOS. W-02465A-09-0411, ET AL.**

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

Capital Structure – Staff recommends that the Commission adopt a capital structure for Bella Vista Water Company, Inc., Northern Sunrise Water Company, Inc., and Southern Sunrise Water Company, Inc., (collectively “Applicants”) for this proceeding consisting of 18.7 percent debt and 81.3 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.3 percent return on equity (“ROE”) for the Applicants. Staff’s estimated ROE for the Applicants is based on cost of equity estimates for the sample companies ranging from 9.5 percent for the discounted cash flow method (“DCF”) to 11.1 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 1.0 percent downward adjustment to reflect a lower financial risk in the Applicants’ capital structure compared to that of the sample companies.

Cost of Debt – Staff recommends that the Commission adopt a 6.3 percent cost of debt.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 8.8 percent.

Response to the Rebuttal Testimony of Applicants’ witness Mr. Thomas J. Bourassa – The Commission should reject the Company-proposed 10.9 percent ROE for the following reasons:

Mr. Bourassa’s DCF estimates rely primarily on analysts’ forecasts.

Mr. Bourassa’s DCF constant-growth analysis does not include dividend growth.

Mr. Bourassa’s firm-specific risk adjustment is not consistent with modern financial theory.