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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
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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 40-285.	DOCKET NO. W-02465A-09-0414 DOCKET NO. W-20453A-09-0414 DOCKET NO. W-20454A-09-0414 **NOTICE OF FILING**

Bella Vista Water Co., Inc. ("BVWC"), Northern Sunrise Water Company, Inc. ("NSWC"), and Southern Sunrise Water Company, Inc. ("SSWC") (jointly "Applicants") hereby submit this Notice of Filing in the above-referenced matter. Specifically filed herewith are the summaries of the pre-filed testimony of the following witnesses:

1. Greg Sorensen; and
2. Thomas J. Bourassa.

DATED this 19th day of July, 2010.

FENNEMORE CRAIG, P.C.

By ______________________
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ORIGINAL and thirteen (13) copies of the foregoing were filed this 19th day of July, 2010, with:

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COPY of the foregoing hand-delivered this 19th day of July, 2010 to:

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BELLA VISTA WATER COMPANY
NORTHERN SUNRISE WATER COMPANY
SOUTHERN SUNRISE WATER COMPANY
CONSOLIDATED DOCKET NOS. W-02465A-09-0411,
W-20453A-09-0412, W-20454A-09-0413, W-02465A-09-0414,
W-20453A-09-0414 and W-20454A-09-0414

Greg Sorensen
Summary of Prefiled Testimony

Mr. Sorensen is employed by Algonquin Water Services dba Liberty Water as Director of Operations for the Western Group. Liberty Water manages and operates 17 utilities in Arizona, Texas, Missouri, and Illinois. Mr. Sorensen oversees the operations and business management functions for Liberty Water's utility holdings in Arizona, including the applicants, Bella Vista Water Company, Northern Sunrise Water Company and Southern Sunrise Water Company. Mr. Sorensen has the responsibility for the daily operations of all of the Arizona utilities, for the financial operating results for each utility, for capital and operating cost budgeting, for regulatory compliance, planning and oversight as they relate to the operations under his responsibility. Mr. Sorensen has testified before the Commission in several dockets, including several rates cases.

Mr. Sorensen prefiled four volumes of direct testimony, one for each of the applicants that provided an overview of each utility, a summary of significant system improvements and the need for rate relief. Included in the system improvements Mr. Sorensen discussed were the major capital improvements made by Liberty Water in the former McLain systems. As a result of these improvements, Northern Sunrise and Southern Sunrise now operate in full compliance with ACC, ADEQ and ADWR regulation. Mr. Sorensen's direct testimonies also contained proposed tariff changes, including a new hook-up fee (HUF) tariff and a low-income tariff. As discussed further below, one aspect of the proposed HUF tariff remains in dispute. A modified low income tariff adopting changes recommended by Staff was filed with Mr. Sorensen's rejoinder.

In the fourth volume of Mr. Sorensen's direct testimony, he explained the request for consolidation of the three separate water companies into one consolidated public service corporation - Bella Vista Water Company. Mr. Sorensen discussed the administrative, operational and economic benefits of the proposed consolidation, including access to additional water supplies to serve customers in the Bella Vista south system and the amelioration of very large rate increases in the Northern and Southern Sunrise systems.

Mr. Sorensen prefiled one volume of rebuttal testimony because neither Staff nor RUCO opposed the proposed consolidation. In his rebuttal, Mr. Sorensen focused primarily on engineering issues. Mr. Sorensen provided corrected information regarding water testing expenses, which information was accepted by Staff in its surrebuttal. Mr. Sorensen also provided additional information to support the requested HUF tariff, including information on the need for plant in the Bella Vista systems. Staff accepted this information and supported a HUF for all of the consolidated company in its surrebuttal. Mr. Sorensen also disagreed that the applicants have a problem with non-account water, however, subject to clarification, Mr. Sorensen accepted Staff's recommendations. Mr. Scott, Jr. provided that clarification in his surrebuttal.

Mr. Sorensen also addressed one rate base and one operating expense issue in his rebuttal testimony. Mr. Sorensen advanced a proposal for retirements in response to concerns expressed by Staff over the lack of adequate retirement. Staff has accepted the proposed plant retirement amount, if not the methodology itself. Mr. Sorensen also questioned Staff's adjustment to outside services due to the lack of a competitive bid. As Mr. Sorensen explained, Liberty Water employees do not answer help wanted ads by bidding for their jobs. Finally, in his rebuttal, Mr. Sorensen questioned the validity of Mr. Rigsby's proposed hypothetical debt for Northern and Southern Sunrise, if the unopposed consolidation were denied. Specifically, Mr. Sorensen found it incredulous that Mr. Rigsby would suggest that the two small water utilities surviving in the shadow of the McLain mess could ever borrow money at such favorable rates.

Mr. Sorensen prefiled one volume of rejoinder testimony. After confirming resolution of issues with Staff over the HUF, non-account water, retirements and testing expense, Mr. Sorensen addressed the remaining dispute over the HUF. Specifically, Staff and RUCO opposed the inclusion of language in the HUF intended to protect the utility from reductions to rate base before HUF funds are spent. As Mr. Sorensen explained, this language is entirely consistent with NARUC's definition of CIAC and justified where the utility has no beneficial use of HUF funds before they are spent on plant. Finally, Mr. Sorensen further responded to Staff's claim that outside services expense is not reasonable without competitive bidding. Mr. Sorensen described Liberty Water's shared services model as an employee pool, no different than Global Water and the other Liberty Water utilities for which no competitive bid requirement has ever been suggested. Mr. Sorensen also explained that the salary survey produced to Staff and RUCO showed that outside services expense was reasonable. Liberty Water pays its employees at market rates with no profit or other overstatement of cost.

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BELLA VISTA WATER COMPANY
NORTHERN SUNRISE WATER COMPANY
SOUTHERN SUNRISE WATER COMPANY
CONSOLIDATED DOCKET NOS. W-02465A-09-0411, W-20453A-09-0412, W-20454A-09-0413, W-02465A-09-0414, W-20453A-09-0414 and W-20454A-09-0414

WITNESS SUMMARY

Thomas J. Bourassa

Thomas J. Bourassa is a Certified Public Accountant providing consulting services to public utilities. He has testified on numerous occasions before the Arizona Corporation Commission ("the Commission") on behalf of Arizona water and wastewater utilities. In this case he is testifying on behalf of Bella Vista Water Company ("Bella Vista – Stand-Alone"), Northern Sunrise Water Company ("Northern Sunrise – Stand-Alone"), and Southern Sunrise Water Company (Southern Sunrise – Stand-Alone"), collectively Bella Vista Water Company (the "Company" or "Bella Vista – Consolidated"), on the topics of the Applicants' rate base, income statement (i.e., revenue and operating expenses), required increase in revenue and rate design and proposed rates and charges for service. Mr. Bourassa will also testify regarding the Applicants' cost of capital, including the cost of equity.

Overview of the Company's Requested Rate Relief

For Bella Vista – Consolidated, the Company is requesting a gross revenue increase of $1,130,251, which is an increase of approximately 27 percent over test year (March 31, 2009) revenues. If consolidation is not approved, for Bella Vista – Stand-Alone, a gross revenue increase of $699,057 is requested, which is an increase of approximately 19.83 percent over test year revenues. For Northern Sunrise – Stand-Alone, a gross revenue increase of $215,439 is requested, which is an increase of approximately 112.23 percent over test year revenues. For Southern Sunrise – Stand-Alone, a gross revenue increase of $200,038 is requested, which is an increase of approximately 45.04 percent over test year revenues.

The following is a summary of the revenue requirements:

	Bella Vista – Consolidated	Bella Vista – Stand-Alone	Northern Sunrise – Stand-Alone	Southern Sunrise – Stand-Alone
Fair Value Rate Base	$7,857,799	$5,914,568	$ 660,315	$1,320,713
Adjusted Operating Income	$ 80,007	$ 133,247	$ (84,236)	$ 18,435
Current Rate of Return	1.02%	2.25%	-12.76%	1.40%
Required Operating Income	$ 773,993	$ 562,475	$ 73,295	$ 146,599
Required Rate of Return	9.85%	9.51%	11.10%	11.10%
Operating Income Deficiency	$ 693,987	$ 429,229	$ 157,532	$ 128,164
Gross Rev. Conversion Factor	1.6286	1.6286	1.3676	1.5608
Increase in Gross Revenues	$1,130,251	$ 699,057	$ 215,439	$ 200,038
% Increase Over Test Year Revenues	27.16%	19.83%	112.23%	45.04%

An inverted tier rate design is proposed, whether on a consolidated basis or a stand-alone basis, in order to promote conservation and move towards rates that reflect each customer class paying its cost of service. The proposed rate designs balance the risk of not recovering the revenue requirement with risk of revenue loss from conservation (revenue stability).

Although the Applicants have accepted many of the adjustments proposed by Staff and RUCO in order to reduce disputes and simplify the rate case, there are still several issues in dispute. The following is a brief summary of the major unresolved issues.

Rate Base Issues

1. Inadequately Supported Plant – Contrary to Staff's recommendation, the Company believes that adequate evidence exists to support $104,984 of used and useful plant in rate base.

2. Accumulated Depreciation – The Company uses the group depreciation method to re-compute accumulated depreciation. The group depreciation method is an accepted regulatory method. Staff uses the specific asset method which results in $405,143 less accumulated depreciation than the Company. The specific asset method proposed by Staff is inconsistent with regulatory practice and other past and pending Liberty Water rate cases. RUCO also uses the group depreciation method, but because of

computation errors, RUCO's accumulated depreciation balance is $24,052 higher than the Company's.

3. Advances-in-aid of Construction (AIAC) – The Company has identified a small difference (less than $3,000) in the AIAC balance between Staff and the Company which the Company believes to be the result of Staff's inclusion of customer meter deposits in AIAC.

4. Accumulated Deferred Income Taxes ("ADIT"). The Company and Staff are in substantial agreement on the ADIT balance. For Bella Vista – Stand-Alone the Company proposes an ADIT liability of $327,258. For Northern Sunrise – Stand-Alone the Company proposes an ADIT liability of $61,990. For Southern Sunrise – Stand-Alone, the Company proposes an ADIT liability of $144,964. For Bella Vista – Consolidated, the Company proposes an ADIT liability of $572,006. The ADIT balance on a consolidated basis is not equal to the sum of the stand-alone ADIT balances because of the difference in the effective going forward tax rate on a consolidated basis compared to the stand-alone basis. RUCO offers two methodologies, both of which overstate the ADIT balance by more than $2 million. RUCO's primary ADIT recommendation is based on an incomplete ADIT computation, while its secondary recommendation is based on a methodology which allocates the parent company's ADIT to the Company using the assets of other affiliates relative to the Company's assets – a method that has been rejected by this Commission in the past. Both of RUCO's methods fail to meet the requirements of the Statement of Financial Accounting Standards No. 109 ("SFAS 109").

5. Security Deposits – The Company proposes to exclude security deposits of $206,120. The Company does not believe security deposits are like advances and should not be included as a reduction to rate base. Security deposits are short-term liabilities and are more similar to the working capital component of rate base. But none of the parties propose working capital. If working capital is included in rate base, it would more than offset the security deposits. Like the Company, RUCO excludes security deposits from rate base. Staff's assertion that security deposits are non-investor capital is undermined by Staff's failure to include the associated interest expense in the revenue requirement as an operating expense.

Revenue and Income Statement Issues

1. Contractual Services – Central Office Cost Allocation. The Company includes $125,830 of allocated Central Office Costs from Algonquin Power Utility Corp. ("APUC"). Both Staff and RUCO seek to exclude nearly all of the Central Office Costs.

2. Contractual Services – Allocated Liberty Water Employee Costs. The Company includes proposed known and measurable employee payroll cost increases in operating expense totaling $36,038. Staff removes these costs. RUCO does not remove these costs.

3. Rate Case Expense. The Company's requests annualized rate case expense $150,000 ($450,000 amortized over 3 years) which reflects the costs of filing four separate rate applications. Staff recommends annualized rate case expense of $67,439 ($202,316 normalized over 3 years) - a reduction of over 50 percent. RUCO recommends annualized rate case expense of $66,667 ($200,000 normalized over 3 years).

Rate Design and Proposed Rates

The Company proposes an inverted tier rate design which consists of a three tier design for smaller metered residential customers and a two tier design for smaller metered commercial and irrigation customers as well as larger metered customers (all classes). The break-over points are similar among the customer classes and increase with the meter size. Staff and RUCO propose similar designs. The RUCO rate design is similar to the Company's rate design in that it balances the promotion of conservation with both revenue stability and fairness based on cost of service principles. However, RUCO's rate design suffers from the problem of cross-over of bill amounts. That is, customers on larger meters do not pay more than smaller metered customers at all levels of usage. Staff's rate design can be characterized as having relatively low monthly minimums, low first tier commodity rates for small residential customers, and high commodity rates for small commercial and larger metered customers. This is all to the benefit of small residential customers and at the cost of other customer classes.

The Company has used its cost of service study to help design rates which are more reflective of the cost of service. One area of disagreement is that Staff provides a low monthly minimum and first tier commodity rate for the smaller residential customers. This rate design shifts revenue recovery away from the smaller residential customers to the larger metered customers. Further, their designs shift revenue recovery away from the monthly minimums to the commodity rates. Under Staff rate design the 5/8 inch metered residential class (the largest customer class) pays well below its cost of service. The Company believes that the Staff rate design is much less reflective of the cost of service and will result in revenue instability, particularly if conservation occurs.

Cost of Equity and WACC

Mr. Bourassa performed estimates of the cost of equity using the Commission's preferred models, the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). Mr. Bourassa's updated estimate of the cost of equity for the Company is 10.9 percent. The Company also proposes a cost of debt of 6.28 percent. The Company proposes a 22.6 percent debt and 77.4 percent equity capital structure. Accordingly, weighted cost of capital ("WACC") is 9.85 percent. The cost of equity, debt and WACC on a consolidated basis and a stand-alone basis is summarized as follows:

	Bella Vista – Consolidated	Bella Vista – Stand-Alone	Northern Sunrise – Stand-Alone	Southern Sunrise – Stand-Alone
Percent Debt in Capital Structure	22.60%	31.56%	0.00%	0.00%
Percent Equity in Cap. Structure	77.40%	68.44%	100.00%	100.00%
Cost of Debt	6.28%	6.28%	N/A	N/A
Cost of Equity	10.9%	11.0%	11.10%	11.10%
Weighted Cost of Capital	9.85%	9.51%	11.10%	11.10%

Staff recommends a 9.3 percent cost of equity and a 6.28 percent cost of debt. Staff recommends a WACC of 8.8 percent based on an 18.7 percent debt and an 81.3 percent equity capital structure. Staff's unadjusted cost of equity is 10.3 percent and cost of debt is 6.3 percent. Staff proposes a 100 basis point reduction to the cost of equity for financial risk. The Company's primary areas of disagreement with Staff concern its growth estimates for the DCF model and its financial risk adjustment. Staff erroneously uses book values in its Hamada method financial risk adjustment computation. The Company believes Staff's financial risk adjustment is overstated by at least 50 basis points. Further, Staff does not consider the higher business and operational risks associated with smaller firms compared to the larger publicly traded firms which would more than offset any financial risk adjustment.

RUCO, in contrast, proposes a WACC of 8.24 percent using a capital structure consisting of 27.76 percent debt and 72.24 percent equity. RUCO recommends a cost of debt of 6.27 percent and a cost of equity of only 9.00 percent. RUCO used much different inputs to estimate the cost of equity than Staff and the Company. RUCO used different sample water utilities eliminating Connecticut Water Service, Middlesex Water Company and SJW Corporation which are used by both Staff and the Company.

RUCO recommends a hypothetical capital structure consisting of 40 percent debt and 60 percent equity for Northern Sunrise (stand-alone) and Southern Sunrise (stand-alone). RUCO recommends a cost of debt of 6.26 percent and 9.0 percent cost of equity, which produces an overall return on 7.90 percent. The effective overall return on equity is only 6.9 percent when RUCO's fictitious income tax deduction through interest synchronization is considered.

RUCO also used a group of publicly traded gas utilities, which depressed the cost of equity. RUCO's gas utility sample has an average beta of 0.66, while RUCO's water utility sample has an average beta of 0.73. Consequently, the gas utilities have substantially less risk and are not directly comparable to the water utilities. To make the gas utilities comparable, an upward risk adjustment of 110 basis points would need to be added to the gas utilities' cost of equity.

RUCO also uses inputs to its CAPM which depress its indicated cost of equity. RUCO DCF results average 9.92 percent. However, the average of RUCO's CAPM results is approximately equal to the cost of debt at 5.95 percent. The current cost of Baa investment grade bonds is 6.0 percent. Further, RUCO's recommended cost of debt for the Company is 6.27 percent.

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