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**BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE APPLICATION  
8 OF BELLA VISTA WATER CO., INC. AN  
9 ARIZONA CORPORATION, FOR A  
10 DETERMINATION OF THE FAIR VALUE  
11 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

12 IN THE MATTER OF THE APPLICATION  
13 OF NORTHERN SUNRISE WATER  
14 COMPANY, INC., AN ARIZONA  
15 CORPORATION, FOR A DETERMINATION  
16 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

17 IN THE MATTER OF THE APPLICATION  
18 OF SOUTHERN SUNRISE WATER  
19 COMPANY, INC., AN ARIZONA  
20 CORPORATION, FOR A DETERMINATION  
21 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  
**DOCKETED**

AUG 11 2010

DOCKETED BY *[Signature]*

1 IN THE MATTER OF THE JOINT  
2 APPLICATION OF BELLA VISTA WATER  
3 CO., INC., NORTHERN SUNRISE WATER  
4 COMPANY, INC., AND SOUTHERN  
5 SUNRISE WATER COMPANY, INC. FOR  
6 APPROVAL OF AUTHORITY TO  
7 CONSOLIDATE OPERATIONS, AND FOR  
8 THE TRANSFER OF UTILITY ASSETS TO  
9 BELLA VISTA WATER CO., INC.  
10 PURSUANT TO ARIZONA REVISED  
11 STATUTES 40-285.

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

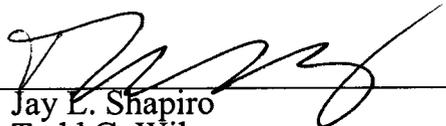
**NOTICE OF FILING**

12 Bella Vista Water Co., Inc. ("BVWC"), Northern Sunrise Water Company, Inc.  
13 ("NSWC"), and Southern Sunrise Water Company, Inc. ("SSWC") (jointly "Applicants")  
14 hereby submit this Notice of Filing in the above-referenced matter. Specifically filed  
15 herewith is the summary of the pre-filed testimony of Peter Eichler.

16 DATED this 11th day of August, 2010.

17 FENNEMORE CRAIG, P.C.

18 By

  
Jay E. Shapiro  
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1 **ORIGINAL** and thirteen (13) copies  
2 of the foregoing were filed  
3 this 11th day of August, 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 11th day of August, 2010 to:

7 Chairman Kristin K. Mayes  
8 Arizona Corporation Commission  
9 1200 W. Washington Street  
10 Phoenix, AZ 85007

10 Commissioner Gary Pierce  
11 Arizona Corporation Commission  
12 1200 W. Washington Street  
13 Phoenix, AZ 85007

13 Commissioner Paul Newman  
14 Arizona Corporation Commission  
15 1200 W. Washington Street  
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16 Commissioner Sandra D. Kennedy  
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- 20 **COPY** of the foregoing emailed/mailed  
this 11th day of August, 2010 to:
- 21 Jane L. Rodda  
Administrative Law Judge
- 22 Hearing Division  
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- 23 400 West Congress  
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- 24
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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**

**Peter Eichler  
Testimony Summary**

Peter Eichler is the Manager of Financial Planning & Analysis for Liberty Water. In his rebuttal testimony, Mr. Eichler provided a detailed explanation of Liberty Water's affiliate cost allocation method in response to the direct testimonies of Ms. Crystal Brown on behalf of Commission Staff and Mr. Timothy Coley on behalf of RUCO relating to Liberty Water's affiliate cost allocations to Bella Vista. In his rejoinder testimony, Mr. Eichler also responds to the surrebuttal testimonies of Ms. Brown and Mr. Coley.

**THE APIF GOOD CORPORATE GOVERNANCE PACKAGE**

To start, Mr. Eichler will testify regarding the corporate structure of Bella Vista Water Company, Northern Sunrise Water Company and Southern Sunrise Water Company (collectively "Bella Vista"), and the package of utility services and benefits that such structure provides to Bella Vista. He will testify that the Bella Vista is a wholly-owned subsidiary of Liberty Water Company, Inc. ("LWC"), which is owned by Algonquin Power Income Fund ("APIF"), now known as Algonquin Power Utilities Corporation ("APUC"). Mr. Eichler explains the package of beneficial services provided to Bella Vista by APIF as publicly traded on the Toronto Stock Exchange, which allows Bella Vista 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 Bella Vista through access to capital markets, strategic management, professional administrative staff, strong corporate governance and financial controls.

**ALLOCATION OF DIRECT AFFILIATE COSTS**

Bella Vista 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 Bella Vista. All operations and engineering labor is directly charged by Liberty Water to Bella Vista. 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 Bella Vista 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 Bella Vista 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.

#### **ALLOCATION OF CENTRAL OFFICE COSTS FROM APT**

In his testimony, Mr. Eichler also addresses the primary cost allocation dispute between Bella Vista 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 Bella Vista. 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 Bella Vista 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, Bella Vista has agreed to allocate the APT costs based on a ratio of 70 total entities, 17 of which are the Regulated Utilities operated by Liberty Water. In turn, 17 of 70 is 24.29%, which means 24.29% of the total Central Office Costs are allocated to the 17 Regulated Utilities operated by Liberty Water. The remaining 75.71% is allocated to APIF and its unregulated affiliates. The second phase is that Liberty Water allocates the Central Office Costs between Bella Vista and the 16 other Regulated Utilities based on customer counts. Bella Vista's total of 9,610 customers is 14.52% of Liberty Water's total number of customers for its 17 regulated utilities.

### **THE SUBSTANTIAL BENEFITS TO BELLA VISTA**

In his testimony, Mr. Eichler responds to claims by Staff and RUCO that the services provided by APT do not benefit Bella Vista or its customers. Mr. Eichler will testify that the services provided by APT are necessary to allow Bella Vista to have access to capital markets for capital projects and operations. Absent consistent access to capital, Bella Vista would not be able to provide a high level of service at the lowest cost. Bella Vista 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 Bella Vista's long term health for a fraction of the price. Put simply, Bella Vista 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.

Mr. Eichler also will address testimony from Staff and RUCO that access to capital markets by Bella Vista provides substantial benefits to Bella Vista's customers. In turn, Mr. Eichler will testify that such access to capital markets is only available to Bella Vista because of the costs and services incurred by APT. 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. Financial control costs incurred by APT are another integrated piece of corporate governance and access to capital markets. The capital and funds obtained from the sale of shares are used by the Regulated Utilities for capital investments. 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 Bella Vista and its ratepayers is

undercut by the very high level of service Bella Vista is providing to customers in this system.

Mr. Eichler also will compare the APT cost allocations to the corporate cost allocations of other Arizona utilities with affiliate holding company structures. Specifically, Mr. Eichler will testify that Liberty Water's cost allocations and methodology are similar to the cost allocation structures of Arizona-American Water Company and Global Water, both of which have been approved by Commission Staff and RUCO.

### **COSTS PER CUSTOMER ARE LOW**

Finally, Mr. Eichler will testify through the use of his rebuttal and rejoinder exhibit schedules that the corporate cost allocations for Bella Vista are extremely low and that Bella Vista's operating costs are low and reasonable when compared to other comparable utilities. This testimony will further the evidence that Bella Vista has provided good service with sufficient access to capacity and strategic management at very low cost. The total monthly cost per customer for the APT cost allocations is \$1.09, which is a more than just and reasonable charge for the substantial benefits provided to Bella Vista's customers through strong corporate governance and access to capital markets.

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