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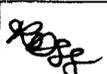
8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9  
10 **COMMISSIONERS**

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

Arizona Corporation Commission  
**DOCKETED**

AUG 30 2010

DOCKETED BY 

16 **IN THE MATTER OF THE APPLICATION**  
17 **OF SOUTHLAND UTILITIES COMPANY,**  
18 **INC. FOR AUTHORITY TO INCUR LONG-**  
19 **TERM DEBT**

DOCKET NO. W-02062A-09-0466  
DOCKET NO. W-02062A-09-0515

20 **AND**

**SUMMARY OF WITNESS  
TESTIMONY**

21 **IN THE MATTER OF THE APPLICATION**  
22 **OF SOUTHLAND UTILITIES COMPANY,**  
23 **INC. FOR A RATE INCREASE.**

24  
25 Southland Utilities Company, Inc. ("Company") hereby files its summary of  
26 witnesses' testimony. The Company will offer Sonn Rowell and Bonnie O'Connor in its  
27 direct case. The Company will also have available Keith Dojaquez if his testimony is  
28 necessary to address operational issues.

1 **Sonn Rowell's Testimony**

2 Mrs. Rowell will offer testimony regarding her analysis and recommendations  
3 concerning the development of the Company gross revenue requirement, taking into  
4 account adjusted rate base, adjusted operating income, working capital requirements,  
5 current rate of return, required operating income, required rate of return for the historic  
6 twelve month period, and other relevant factors. Mrs. Rowell will sponsor certain  
7 exhibits in support of the rate and finance applications, including both applications and  
8 rebuttal testimony offered in this matter.  
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11 **1. Revenue Requirement**

12 The Company's position is that the revenue requirement is \$338,580, which  
13 should result in a net income of \$38,365. The Company believes Staff's proposed  
14 revenue requirement is too low. A comparison of the Company's and Staff's proposed  
15 rates is set forth in Attachment 1.  
16  
17

18 The Company disagrees with Staff setting rates based upon a debt service  
19 coverage (DSC) of 1.25. DSC is measurement tool used by lenders; it is not a rate setting  
20 tool. This requires depreciation cash flow to be used to service the Company's loan  
21 obligations and leaves the Company without enough money to reasonably operate and  
22 maintain the water Company and service the proposed debt. Further, if current cash flow  
23 from depreciation expense for non-loan plant is used to pay the loan, then recovery of  
24 equity investment is lost forever.  
25  
26  
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1 **2. Rate Design**

2 (A) Monthly Minimum – The Company’s proposed rates result in 50% of the total  
3 revenue requirement resulting from monthly minimum charges, and the other 50% of the  
4 revenue requirement is generated from the commodity rates. This is a widely accepted  
5 approach and makes sense here because the Company will have a substantial debt service  
6 obligation which will not change due to operating factors.

7  
8 (B) Number of Tiers – The Company supports using three tiers, which is standard  
9 practice for small water utilities. In light of the administrative hassle and apparent  
10 subsidization of the small meter class by the larger meter sizes, the Company cannot  
11 support a fourth commodity tier.  
12  
13

14 **3. Working Capital** - Working capital should be allowed for Class C utilities.  
15 During the test year, the Company was a Class D - it only becomes a Class C under the  
16 proposed rates - so expecting the Company to perform an expensive lead/lag study is  
17 neither reasonable nor feasible.  
18

19 **4. Taxes** – Apparently, the Company and Staff agree on the method for calculating  
20 taxes, but we disagree on revenue requirement which drives taxes. The proposed  
21 property tax and income taxes are driven by the proposed revenue and taxable income.  
22 As a result, the Company’s higher proposed revenue and income calculate to higher  
23 property taxes and income taxes.  
24  
25

26 **5. Water Testing** – The water testing expense offered by the Company is an actual  
27 audited test year cost, and is reasonable.  
28

1 **Bonnie O'Connor's Testimony**

2 Mrs. O'Connor will offer testimony regarding Company system, operations, and  
3 proposed revenue requirement. She will sponsor certain exhibits in support of the rate  
4 and finance applications, including the rate and finance applications offered in this  
5 matter.  
6

7  
8 **5 (cont.) Water Testing** – The water testing expense offered by the Company is an  
9 actual audited test year cost, and is reasonable. The Company agrees that it tested more  
10 often than what is required by law, and that the test for TTHM's was duplicative (\$830  
11 expense), but Staff's proposal does not cover testing expenses on an ongoing basis.  
12

13 **6. Backflow Tariff** – The Company submitted its application for a backflow tariff  
14 submitted to the Commission on July 21, 2010.  
15

16 RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of August, 2010.

17 **MOYES SELLERS & SIMS LTD.**

18 

19 Steve Wene

20 Attorneys for Southland Utilities Company, Inc.  
21

22 Original and 15 copies of the foregoing  
23 filed this 30<sup>th</sup> day of August, 2010, with:

24 Docket Control  
25 Arizona Corporation Commission  
26 1200 West Washington  
27 Phoenix, Arizona 85007

28 Copy of the foregoing emailed this  
30<sup>th</sup> day of August, 2010, to:

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# **ATTACHMENT 1**

**SOUTHLAND UTILITIES COMPANY, INC.  
COMPARISON OF COMPANY AND STAFF PROPOSED RATES**

**Summary of Revenue from Southland Proposed Rates**

	Current Rates	Southland Proposed	Increase Amount	Percent Increase	Revenue from Monthly Min	Revenue from Commodity	Southland Proposed	% of increase
5/8" by 3/4" residential	\$ 122,678	\$ 293,373	\$ 170,695	139.14%	\$ 146,758	\$ 146,615	\$ 293,373	86%
3" residential	3,033	11,253	8,220	270.99%	3,096	8,157	11,253	4%
<b>Total Residential</b>	<b>\$ 125,712</b>	<b>\$ 304,626</b>	<b>\$ 178,915</b>	<b>142.32%</b>	<b>\$ 149,854</b>	<b>\$ 154,772</b>	<b>\$ 304,626</b>	<b>90%</b>
5/8" by 3/4" commercial	\$ 7,729	\$ 19,792	\$ 12,062	156.06%	\$ 9,697	\$ 10,095	\$ 19,792	6%
2" commercial	1,161	4,456	3,295	283.90%	3,386	1,070	4,456	2%
4" commercial	1,218	5,008	3,790	311.04%	3,870	1,138	5,008	2%
<b>Total Commercial</b>	<b>\$ 10,108</b>	<b>\$ 29,256</b>	<b>\$ 19,147</b>	<b>189.42%</b>	<b>\$ 16,953</b>	<b>\$ 12,303</b>	<b>\$ 29,256</b>	<b>10%</b>
<b>Total Metered Revenue</b>	<b>\$ 135,820</b>	<b>\$ 333,882</b>	<b>\$ 198,062</b>	<b>145.83%</b>	<b>\$ 166,807</b>	<b>\$ 167,075</b>	<b>\$ 333,882</b>	
					49.960%	50.040%	100.000%	
Income Statement	\$ 135,713							
Proposed Revenue		\$ 333,882						
Difference	\$ 107	\$ (0)						
Percentage Difference	0.0789%	0.0000%						

**Summary of Revenue from Staff Proposed Rates**

	Current Rates	Staff Proposed	Increase Amount	Percent Increase	Revenue from Monthly Min	Revenue from Commodity	Staff Proposed	% of increase
5/8" by 3/4" residential	\$ 122,678	\$ 240,542	\$ 117,864	96.08%	\$ 109,216	\$ 131,326	\$ 240,542	82%
3" residential	3,033	11,023	7,989	263.40%	2,880	8,143	11,023	6%
<b>Total Residential</b>	<b>\$ 125,712</b>	<b>\$ 251,565</b>	<b>\$ 125,853</b>	<b>100.11%</b>	<b>\$ 112,096</b>	<b>\$ 139,469</b>	<b>\$ 251,565</b>	<b>88%</b>
5/8" by 3/4" commercial	\$ 7,729	\$ 16,584	\$ 8,855	114.56%	\$ 7,216	\$ 9,368	\$ 16,584	6%
2" commercial	1,161	5,270	4,109	354.01%	4,200	1,070	5,270	3%
4" commercial	1,218	5,638	4,420	362.74%	4,500	1,138	5,638	3%
<b>Total Commercial</b>	<b>\$ 10,108</b>	<b>\$ 27,492</b>	<b>\$ 17,383</b>	<b>171.97%</b>	<b>\$ 15,916</b>	<b>\$ 11,576</b>	<b>\$ 27,492</b>	<b>12%</b>
<b>Total Metered Revenue</b>	<b>\$ 135,820</b>	<b>\$ 279,056</b>	<b>\$ 143,236</b>	<b>105.46%</b>	<b>\$ 128,012</b>	<b>\$ 151,044</b>	<b>\$ 279,056</b>	
					45.873%	54.127%	100.000%	
Income Statement	\$ 135,713							
Proposed Revenue		\$ 279,910						
Difference	\$ 107	\$ (854)						
Percentage Difference	0.0789%	-0.3049%						

(per Surrebuttal Schedule GWB-10)