

ORIGINAL

OPEN MEETING AGENDA ITEM



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October 19, 2010

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Arizona Corporation Commission
Commissioners:
Kristin K. Mayes, Chairperson
Gary Pierce
Paul Newman
Sandra D. Kennedy
Bob Stump
12 West Washington
Phoenix, AZ 85007

AZ CORP COMMISSION
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Arizona Corporation Commission
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OCT 19 2010

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RE: Public Comment; Litchfield Park Service Company; Docket No. SW-01428A-09-0103, et al

W-01427A-09-0104
W-01427A-09-0116
W-01427A-09-0120

Ladies and Gentlemen:

This letter is from a ratepayer of LPSCO who owns two single family homes in Pebble Creek located in Goodyear, AZ. This ratepayer has been a certified public accountant since 1965 and has completed a 40 year career serving as chief financial officer of small and medium sized privately held for profit companies and is well versed in business and investment matters. Most recently the ratepayer served as Chief Financial Officer of the State Bar of Arizona from June 2002 until his retirement in July 2008.

As a ratepayer and as a seasoned business and financial person I offer my public comments to the commissioners regarding this rate case.

When I first heard of the 72.6% (\$4,913,457) increase in water revenues and the 49.48% increase in sewer revenues I was shocked and decided to review the Recommended Opinion and Order ("ROO") released October 5, 2010, subsequent exceptions to the ROO filed with the commission on October 14, 2010 and various other documents of record. My issues with the ROO and suggestions to the commissioners are as follows:

1. A 72.6% increase in water revenues, implemented over a 18 month time period is unreasonable and unnecessary. If the increase was more reasonable like 10 to 15% that is one thing but this size of increase over 18 months is unreasonable for ratepayers to adjust to. LPSCO has waited 8 years to request an increase which is too long. Surely someone could have seen this increase coming sooner and had a few smaller increases along the way. I suggest the commissioners consider implementing the increase over a 3 to 5 year time period. A five year phase-in period averages annual increases 14.5% per year.
2. The amount of the water revenue increase is exceptionally high and I think a couple of alternatives need to be considered:
 - a. The 8.7% rate of return on the rate base is especially high considering the current and past 2 or 3 years of investment environment. The cost of equity might have been as high a 9.2% in the past but not now. A lower cost of equity should be adopted now and a increase considered in the future if market conditions warrant.
 - b. The 6.39% cost of long term debt is also higher that current debt markets require. We have been in a low interest rate environment for a few years and many companies are refinancing their long term debt a rates below 6.39% and are getting out of their higher costing debt. To what extent has LPSCO reduced their effective interest rate on long term debt?
 - c. From the documents I note that LPSCO has an equity rich capital structure which in unnecessary and is costing the ratepayers more than a better blend of equity and debt would. Why should the ratepayers be paying for so much for a larger equity structure at the above market rate of 9.2%? If the equity debt structure were 50-50 then the average cost of

capital would come down to 7.79% at the stated cost of capital rates.

I suggest the commissioners grant a reduced rate of return on the asset base such as the suggested 7.5% of one party or an 8% or 8.25% rate that I think is adequate.

3. I concur with the Residential Utility Consumers Office's recommendation that only half of the \$7.0 million spent on the PVWRF in 2007-2008 be included in the rate base. There should be an equal sharing of those questionable expenses between LPSCO shareholders and ratepayers.

The ratepayers look to the commissioners of the ACC to protect their interests and not let regulated for profit companies take advantage of the public. I agree that some amount of rate increase over 8 years is expected but the proposed 72.6% increase is unconscionable.

Sincerely,

A handwritten signature in cursive script that reads "Larry C. McVey". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Larry C. McVey