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AZ CORP COMMISSION
DOCKET CONTROL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 **COMMISSIONERS**

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

Arizona Corporation Commission

DOCKETED

OCT 20 2010

DOCKETED BY *[Signature]*

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**

POST-HEARING BRIEF

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

24
25 Southland Utilities Company, Inc. ("Southland" or "Company") hereby files its
26 post-hearing brief setting forth its final rate schedules and positions on outstanding
27 issues. After reading Staff's Responsive Brief, the Company understands that the
28 positions of both parties have not changed. In the interest of judicial economy, rather

1 than repeating the same arguments the Company made in its initial post-hearing brief, the
2 Company incorporates those arguments herein. Nevertheless, in this reply, the Company
3 will briefly address certain arguments made by Staff relating to revenue requirement, rate
4 design, working capital, and water testing expense.
5

6 **Revenue Requirement**

7
8 In the responsive brief, Staff states more than once that its rate proposal is
9 intended to “minimize the impact to the Company’s ratepayers.” *See id.* at p. 3, ln. 21.
10 Staff further suggests that the Company “ignored the effect of the large increase on its
11 ratepayers.” *See id.* at p. 4, ln. 16-17. Staff seems to be saying that it is reasonable to
12 deny the Company a return of their investment to protect customers from extremely high
13 rates.
14

15
16 To be clear, the Company carefully crafted its proposal knowing the customers’
17 desire for reasonably priced water and the rate for a typical residential customer is not
18 extremely high. For example, in 2009 the average monthly charge for 7,500 gallons in
19 Arizona was \$35.97.¹ *See* Attachment 1 (WIFA 2009 Rate Study). The Company’s
20 proposal is that a typical resident will pay \$35.90 for 5,000 gallons per month. Thus,
21 under the Company’s proposal, price conscious customers can limit their costs to less
22 than \$36.00 per month by implementing reasonable conservation measures, which the
23 Commission encourages.
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¹ This state average is reduced tremendously by the City of Phoenix’s 402,926 customers and the City of Tucson’s 223,614 customers who pay less than \$20.00 per month for 7,500 gallons of water.

1 Rather than comparing the proposed customer costs to what other water users pay
2 today, Staff's argument makes it appear as though the Company's proposal is extreme by
3 focusing on the fact that the rates may increase by 141%. First of all, this is misleading
4 because under the Company's proposal the increase for customers using less than 10,000
5 gallons per month is approximately 25% less than what Staff proclaims. More
6 importantly, the reason the rates will increase more than 100% is not because the
7 Company's proposed rates are abnormally high, but because the Company's current rates
8 are abnormally low. The Company's current rates are set on test year 1997 – nearly 14
9 years ago. Customers now pay a \$10.00 base rate and \$1.33 for a thousand gallons per
10 month. In other words, a customer now spends less than \$20.00 for 7,000 gallons per
11 month. Clearly, Staff's argument that the Company's proposed rates are unreasonably
12 high is simply not true.

13
14 With the theory that the Company's rates will be unusually high dispelled, there is
15 no reason for depriving the Company's owners a return on their investment or a return of
16 their investment. Again Staff does not dispute that under their proposal, out of the
17 \$30,612 that the owners should receive as a return of their investment, the Company
18 owners would get back only \$9,338. That means only 30.5% of the previous capital
19 investment will be returned to the investors. This investor loss of 69.5% of their
20 investment and no return cannot be justified when the rates are not vastly higher than
21 what the average Arizona water user pays.

22
23 The Company's proposal balances both the interest of the customers and the
24 Company. The Company's proposed rates enable a typical residential customer to keep
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1 their water bill under \$40.00 through reasonable conservation measures. The Company
2 will receive a return of their investment and will be able to pay the WIFA loan obligation.
3
4 This approach is reasonable and should be adopted.

5 **Rate Design**

6 The Company believes that the court should recommend the 50% monthly
7
8 minimum rate design and the three tier commodity rates. The Company's rates are being
9 driven by the need to meet its WIFA loan service obligations. This loan payment is fixed
10 and will not increase or decrease depending upon how much water the Company sells.
11
12 Therefore, it is logical to ensure that the revenue stream necessary to pay these fixed
13 costs is also fixed, reliable, and sufficient.

14 More importantly, the Company believes that the three tier system is more
15 appropriate than the four tier system. Staff admits that the purpose behind the four tier
16 system is to encourage more customers to use even less water. *See Staff's Responsive*
17 *Brief at p. 6, ln. 19-20.* While the Company does not object to reasonable conservation
18 designs, the problem with the four tier system is that Staff ignores the logical financial
19 consequence of this approach – people conserving more water means less revenue for the
20 Company. *Tr. at p. 69, ln. 9-20 (Rowell).* The four tier system by design results in less
21 revenue for the Company, and nowhere does Staff dispute this point or explain how this
22 revenue shortfall will be addressed.
23
24
25

26 **Working Capital**

27 The Company recognizes that Staff typically requires Class C water companies to
28 perform a lead/lag study to justify a cash working capital allowance. But this is not a

1 typical matter. During the test year, Southland's revenue was only \$135,000, meaning
2 the Company was a Class D, and is being driven into Class C status primarily due to the
3 need for revenue to meet the WIFA loan obligations. As the Company's witness Mrs.
4 Rowell testified, working capital allowance is necessary for small water companies like
5 Southland to remain viable. *See* Tr. at p. 44, ln. 6-17 (Rowell). Thus, the Company
6 requests that it is reasonable in this case to apply the working capital formula method.
7
8

9 **Water Testing Expense**

10 All reasonable water quality testing actually preformed during the test year should
11 be the basis for establishing ongoing testing expense. There is no question that the
12 Company's testing performed during the test year was reasonable. But Staff is arguing
13 that rates should be set using only the minimum amount of testing and set at the lowest
14 cost available. Still, Staff does not dispute the reasonableness of the Company's testing
15 above and beyond ADEQ regulations to ensure public health standards are being
16 continually met, which the hearing record reflects. *See* Tr. at p. 27, ln. 21-25.
17 Accordingly, the Company believes that its proposal for testing expense in the amount of
18 \$6,087 is appropriate.
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21

22 RESPECTFULLY SUBMITTED this 20th day of October, 2010.
23

24 **MOYES SELLERS & SIMS LTD.**

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27 Steve Wene
28 Attorneys for Southland Utilities Company, Inc.

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Original and 15 copies of the foregoing
filed this 20th day of October, 2010, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Donnelly, Herbert

ATTACHMENT 1

Water Infrastructure Finance Authority of Arizona



2009

Water and Wastewater Residential Rate Survey for the State of Arizona

Water Infrastructure Finance Authority of Arizona

1110 West Washington, Suite 290

Phoenix, Arizona 85007

Telephone: 602.364.1310

Toll Free: 877.298.0425

Website: www.azwifa.gov

EXHIBIT A

**2009 RESIDENTIAL RATE SURVEY
STATISTICAL SUMMARY**



**Comparison of 2006 - 2009
Survey Totals For
Arizona Drinking Water Systems**

Monthly Charges - Varying Levels of Usage

	Average Monthly Charge	Median Monthly Charge	Highest Monthly Charge	Lowest Monthly Charge
Arizona Survey Total - 2009				
5,000 Gallons	\$28.75	\$26.74	\$123.26	\$5.00
7,500 Gallons	\$35.97	\$32.96	\$201.78	\$5.00
10,000 Gallons	\$43.52	\$39.14	\$310.50	\$5.00
Arizona Survey Total - 2008				
5,000 Gallons	\$27.99	\$26.25	\$123.26	\$4.64
7,500 Gallons	\$35.04	\$32.59	\$201.78	\$4.64
10,000 Gallons	\$42.52	\$39.00	\$310.50	\$5.00
Arizona Survey Total - 2007				
5,000 Gallons	\$27.19	\$25.40	\$123.26	\$4.64
7,500 Gallons	\$34.02	\$30.98	\$201.78	\$4.71
10,000 Gallons	\$41.10	\$37.10	\$310.50	\$6.40
Arizona Survey Total - 2006				
5,000 Gallons	\$25.88	\$24.00	\$86.95	\$4.64
7,500 Gallons	\$32.26	\$29.85	\$136.02	\$4.71
10,000 Gallons	\$39.04	\$35.00	\$251.27	\$6.40
% Change from 2008 to 2009	2.66%	1.14%	0.00%	7.76%
% Change from 2007 to 2008	2.99%	5.20%	0.00%	-1.49%
% Change from 2006 to 2007	5.46%	3.79%	48.35%	0.00%



System Name	Number of Users	Total \$ /Month /7,500 Gals
Mescal Lakes Water Systems, Inc.	553	\$42.75
Metropolitan DWID (Tucson)	18,230	\$32.66
Michael's Ranch Water User's Assoc.	24	\$51.53
Mile Post 54 Community Water Well	15	\$20.00
Mirabell Water Company, Inc.	61	\$39.63
Mohawk Utility Company	137	\$29.00
Monte Vista Water Co., L.L.C.	40	\$11.50
Montezuma Rimrock Water Co., LLC	206	\$43.61
Morenci Water and Electric Company	1,275	\$18.73
Mormon Lake Water Co.	140	\$101.73
Morristown Water Company	50	\$32.50
Mountain Dell Water, Inc.	86	\$46.63
Mountain Glen Water Service (consol.)	385	\$44.85
Mt. Lemmon DWID	290	\$97.35
Mt. Tipton Water Co.	691	\$50.00
Naco Water Company, L.L.C.	373	\$76.47
Navajo Water Co., Inc.	318	\$42.44
New River Utilities Company	2,741	\$16.50
Nogales	5,344	\$18.38
North Mohave Valley Corporation	1,883	\$25.30
Northern Sunrise Water Company	353	\$47.87
Oak Creek Public Service Co.	311	\$27.15
Oak Creek Utility Corporation	34	\$56.70
Oak Creek Water Co., No. 1	694	\$21.34
Ojo Bonito Estates DWID	32	\$41.50
Orange Grove Water Company	314	\$21.00
Oro Valley	18,401	\$31.09
Page	2,932	\$20.78
Papago Butte DWID, IWDD	166	\$34.25
Paradise Trails Pioneer Valley	29	\$26.20

System Name	Number of Users	Total \$ /Month /7,500 Gals
Park Valley Water Company	510	\$33.88
Park Water Company, Inc.	129	\$39.30
Parker	1,173	\$23.13
Parker Lakeview Estates HOA, Inc.	40	\$55.10
Patagonia	400	\$19.58
Payson	7,703	\$36.35
Peoples Valley Water Company	218	\$50.08
Peoria	48,234	\$29.53
Phoenix - Spring & Fall Rates	402,926	\$15.74
Phoenix - Summer rates	402,926	\$7.71
Phoenix - Winter Rates	402,926	\$14.21
Picacho Peak Water Company	14	\$44.76
Picacho Water Company	147	\$37.50
Picacho Water Improvement	136	\$22.25
Pima Utility Company	10,150	\$11.68
Pine Valley Water Company	163	\$49.36
Pine Water Assoc. DWID	60	\$100.00
Pinecrest Water Company	37	\$64.50
Pinedale DWID	136	\$24.25
Pinetop Water Comm. Facilities Dist.	1,237	\$39.59
Pineview Water Co.	1,133	\$43.70
Poderosa Utility Company	539	\$45.75
Ponderosa Park DWID	291	\$87.04
Porter Mountain DWID	123	\$33.45
Prescott	22,043	\$34.53
Prescott Valley	17,997	\$29.78
Pueblo Del Sol Water Company	5,062	\$28.40
Q Mountain Mobile Home Park	219	\$27.00
Q Mountain Water	449	\$30.00
Quail Canyon DWID	NR	\$75.85



ARIZONA WATER AND WASTEWATER RESIDENTIAL RATES - 2009

System Name	Number of Users	Total \$ /Month /7,500 Gals
Sun Leisure Estates Utilities Co., Inc.	57	\$21.50
Sun Valley Farms -Unit VI Water Co.	225	\$22.50
Sunizona Water Company	34	\$33.13
Sunland Water Company	73	\$9.63
Sunrise Vistas Utilities Company	666	\$34.95
Sunrise Water Company	1,345	\$32.75
Surprise	13,133	\$31.39
T.K.Water Service	47	\$30.85
Tacna Water Company	143	\$20.36
Tall Pine Estates Water & Imp. Assoc. Inc.	71	\$7.50
Taylor	1,254	\$13.15
Tempe	35,877	\$19.17
Thim Utility Co.	397	\$34.50
Thim Water Corporation	74	\$35.00
Thunderbird Farms WID	570	\$24.00
Thunderbird Meadows	128	\$50.16
Tierra Buena Water Company	126	\$26.50
Tierra Linda Homeowners Assoc.	47	\$44.33
Tierra Mesa Estates Water Company, Inc.	230	\$23.00
Timberland Acres DWID	324	\$39.25
Tolleson	1,563	\$27.48
Tombstone	869	\$38.46
Tonto Creek Utility Co.	71	\$36.13
Tonto Hills Utility Co.	130	\$102.90
Tonto Village Water Company	198	\$12.83
Tortolita Water Co., Inc.	2	\$55.90
Truxton Canyon Water Company, Inc.	1,056	\$31.50
Tubac Water Company, Inc.	NR	\$13.50
Tucson	223,614	\$19.57
Turner Ranches Water & Sanitation	112	\$49.02

System Name	Number of Users	Total \$ /Month /7,500 Gals
Utility Source, LLC	332	\$62.76
Vail Water Company	3,425	\$45.58
Vail Water Company	3,425	\$51.00
Valencia Water Co., Greater Buckeye Div.	652	\$36.63
Valencia Water Company, Inc.	5,302	\$34.45
Valle Verde Water Company	800	\$21.50
Valley Pioneers Water Co., Inc.	2,314	\$38.25
Valley Utilities Water Co., Inc.	1,403	\$31.77
Valley View Water Company, Inc.	NR	\$47.38
Verde Lakes Water Corporation	787	\$20.45
Verde Lee Water Company	182	\$35.25
Verde Santa Fe Water Company, L.L.C.	NR	\$15.00
Vernon DWID	30	\$40.25
Vernon Valley Water Company	19	\$44.50
Villa Grande DWID	99	\$51.23
Virgin Mountain Utilities Corporation	1	\$42.50
Viva Development Corporation	NR	\$10.13
Voyager Water Company	1,027	\$26.00
Walden Meadow Comm. Co-op	297	\$42.00
Walnut Creek Water Company, Inc.	254	\$26.00
Watco, Inc. (prev. Silver Well Svcs)	302	\$49.00
Water Utility of Greater Buckeye, Inc.	616	\$36.63
Water Utility of Greater Tonopah, Inc.	359	\$48.25
Water Utility of Northern Scottsdale	75	\$98.00
Wellton	908	\$22.70
Wenden DWID	228	\$37.99
West End Water Company	233	\$42.60
West Village Water Company	55	\$63.88
Whetstone DWID	372	\$42.88
White Hills Water Co., Inc.	94	\$87.25

