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Arizona Corporation Commission

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JUN 17 2011

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO: SW-01428A-09-0103

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, 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-01427A-09-0104

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
CORPORATION, FOR AUTHORITY (1) TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$1,755,000
IN CONNECTION WITH (A) THE
CONSTRUCTION OF TWO RECHARGE
WELL INFRASTRUCTURE
IMPROVEMENTS AND (2) TO
ENCUMBER ITS REAL PROPERTY AND
PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116

1 IN THE MATTER OF THE APPLICATION
2 OF LITCHFIELD PARK SERVICE
3 COMPANY, AN ARIZONA
4 CORPORATION, FOR AUTHORITY (1) TO
5 ISSUE EVIDENCE OF INDEBTEDNESS IN
6 AN AMOUNT NOT TO EXCEED \$1,170,000
7 IN CONNECTION WITH (A) THE
8 CONSTRUCTION OF ONE 200 KW ROOF
9 MOUNTED SOLAR GENERATOR
10 INFRASTRUCTURE IMPROVEMENTS
11 AND (2) TO ENCUMBER ITS REAL
12 PROPERTY AND PLANT AS SECURITY
13 FOR SUCH INDEBTEDNESS.

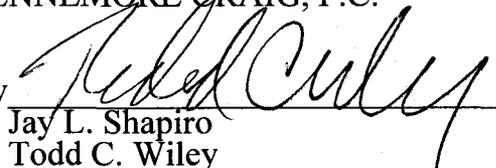
DOCKET NO. W-01427A-09-0120

**NOTICE OF FILING REBUTTAL
TESTIMONY FOR PHASE 2**

8 Litchfield Park Service Company hereby submits this Notice of Filing Rebuttal
9 Testimony in the above-referenced matter. Specifically filed herewith is the Rebuttal
10 Testimony of Greg Sorensen.

11 DATED this 17th day of June, 2011.

12 FENNEMORE CRAIG, P.C.

13
14 By 

15 Jay L. Shapiro
16 Todd C. Wiley
17 3003 North Central Avenue, Suite 2600
18 Phoenix, Arizona 85012
19 Attorneys for Litchfield Park Service Company

17 **ORIGINAL** and thirteen (13) copies
18 of the foregoing were filed
19 this 17th day of June, 2011, with:

19 Docket Control
20 Arizona Corporation Commission
21 1200 W. Washington St.
22 Phoenix, AZ 85007

22 **COPY** of the foregoing hand-delivered
23 this 17th day of June, 2011 to:

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5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
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9 COMPANY, AN ARIZONA
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11 PROPERTY AND FOR INCREASES IN ITS
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12 FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO: SW-01428A-09-0103

13
14 IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
15 CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
16 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
17 WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01427A-09-0104

18
19 IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
20 CORPORATION, FOR AUTHORITY (1) TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
21 AN AMOUNT NOT TO EXCEED \$1,755,000
IN CONNECTION WITH (A) THE
22 CONSTRUCTION OF TWO RECHARGE
WELL INFRASTRUCTURE
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DOCKET NO. W-01427A-09-0116

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IN THE MATTER OF THE APPLICATION
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COMPANY, AN ARIZONA
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DOCKET NO. W-01427A-09-0120

REBUTTAL TESTIMONY
OF
GREG SORENSEN
(Phase 2)
June 17, 2011

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I. INTRODUCTION AND SUMMARY OF TESTIMONY.....1
II. REBUTTAL TO RUCO REGARDING WATER AND WASTEWATER HUF.....2

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1 **I. INTRODUCTION AND SUMMARY OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road,
4 Suite D-101, Avondale, AZ 85392.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant, Litchfield Park Service Company (“LPSCO” or
7 “Company”).

8 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE**
9 **COMPANY IN THIS CASE?**

10 A. Yes. I filed direct, rebuttal, rejoinder and amended rebuttal testimony in Phase 1 of
11 this proceeding. I also filed direct testimony for Phase 2 on May 11, 2011.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. To further support the Company’s proposed phase-in surcharge and request for
14 approval of new water and revised wastewater hook-up fee tariffs (HUFs) by
15 responding to the direct testimony filed by the other parties to this proceeding.

16 **Q. WHOSE DIRECT TESTIMONY DID YOU REVIEW?**

17 A. I reviewed Mr. Newland’s testimony on behalf of Westcor/Globe, developer of the
18 Estrella Falls super-regional retail center, and Mr. Soriano’s testimony on behalf of
19 Pebble Creek, both of which are located in our service territory. I also reviewed
20 the testimony filed by Mr. Michlik and Mr. Scott on behalf of Staff. Finally, I
21 reviewed Mr. Rigsby’s testimony on behalf of RUCO.

22 **Q. ISN’T THE CITY OF LITCHFIELD PARK ALSO AN INTERVENER?**

23 A. Yes, but the City didn’t file any testimony in this phase of this rate case and has
24 since indicated it does not intend to participate.

25
26

1 Q. OKAY, WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TO
2 THE DIRECT TESTIMONY FILED BY THE OTHER PARTIES?

3 A. My direct testimony and the proposed HUF for both water and sewer already
4 reflect LPSCO's cooperation with Pebble Creek to add a lower tier to the HUF for
5 active-adult communities. Not surprisingly then, I don't have any material
6 disagreement with Mr. Soriano's testimony. The same is true of Mr. Newland's
7 testimony. LPSCO's agreements with Westcor/Globe for the referenced project
8 predate the HUFs and the developers have already agreed to substantial funding of
9 the infrastructure we need to extend service. As such, I agree with Mr. Newland
10 that the Estrella Falls project should not be subject to the HUF, if it is approved.

11 Q. WHAT ABOUT STAFF AND RUCO?

12 A. Mr. Michlik testified that Staff agrees with our proposed surcharge and Mr. Scott
13 testifies that Staff supports our proposed HUFs. So, there is nothing for me to
14 rebut. The same is true with Mr. Rigsby, at least with respect to the phase-in
15 surcharge. But, Mr. Rigsby does disagree with the proposed HUF. I will address
16 that dispute in the remainder of my rebuttal testimony.

17 II. REBUTTAL TO RUCO REGARDING WATER AND WASTEWATER
18 HUF.

19 Q. WHY DOES RUCO OPPOSE THE PROPOSED HUF?

20 A. Because it contains language identical to that which was recently approved for
21 another Liberty Water utility, Bella Vista Water, that postpones rate base treatment
22 of HUF funds until such time as they are used for plant.

23 Q. SO THE COMMISSION HAS ALREADY APPROVED THE HUF
24 LANGUAGE RUCO DISPUTES?

25 A. Yes, in Decision No. 72251 (April 7, 2011) over RUCO's objection.
26

1 **Q. THEN WHY IS RUCO OPPOSING THE LANGUAGE THE COMMISSION**
2 **APPROVED?**

3 A. Mr. Rigsby says that HUFs “should” be booked as CIAC as an immediate
4 deduction to rate base.¹

5 **Q. DO YOU AGREE WITH MR. RIGSBY?**

6 A. No, but I will try to explain. HUFs can be treated as revenue or CIAC or anything
7 the Commission says, as past history and the record in the Bella Vista rate case
8 shows. However, as the father of the Commission HUF, Steve Olea, has recently
9 explained to the Commission, HUFs were never intended to be a deduction from
10 rate base while they were just sitting in a bank waiting to be spent. Therefore, I
11 don’t find Mr. Rigsby’s position, which is primarily that only once before was it
12 done the way LPSCO now proposes, to be very persuasive.

13 **Q. IS THERE ANYTHING ABOUT LPSCO THAT DIFFERENTIATES IT**
14 **FROM BELLA VISTA WATER WITH RESPECT TO THE HUF AND THE**
15 **LANGUAGE OPPOSED BY RUCO?**

16 A. No, and I see no reason to treat them differently on this issue. As we demonstrated
17 in Bella Vista, under the prior method of treating unexpended HUF funds as a
18 reduction of rate base, only the utility is harmed.

19 **Q. WHAT ABOUT MR. RIGSBY’S TESTIMONY THAT LPSCO HAS USE OF**
20 **THE HUF FUNDS WHILE THEY ARE SITTING IN A SEGREGATED**
21 **BANK ACCOUNT?**

22 A. Mr. Rigsby claims we “technically” have use of the money because it earns interest
23 and we can move it around somehow.² This is nonsense. The money is sitting in a
24 separate account only to be spent for limited purposes as prescribed in the HUF

25
26 ¹ Direct Testimony of William A. Rigsby, CRRRA (“Rigsby Dt.”) at 6:16-20.
² Rigsby Dt. at 10:15 – 11:5.

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Tariff. I assume if RUCO felt there were improprieties, they would conduct discovery in a rate case to see what we had done with the money during the interval between the time it was collected and time it was spent or when we went in for new rates. Unlike Mr. Rigsby though, I have no basis to believe we're going to violate our tariff and move the money around in some improper manner.

Q. WHAT ABOUT MR. RIGSBY'S WORRY OVER "CHASING THE CIAC"?

A. I think it is more red herring. I assume there will always be utilities that violate rules and tariffs and fail to properly report to the Commission. That's not how we operate, nor does any of this supposed possible inadequate reporting warrant taking away rate base because money is sitting in a bank. Unfortunately, that appears to be exactly what RUCO is opposing—the loss of a one-sided rate base adjustment that lowers rate base and rates. Besides, RUCO's "chasing the CIAC" concern is easily addressed in the context of a rate case.

Staff or RUCO can look at the current Plant Data Sheet which describes system capacity (sewage GPD capacity, or well/booster/storage capacity for water), and compare it to the Plant Data Sheet in the prior rate case, or at the time the HUF was approved, whichever is more recent. Any increase in capacity should then raise the question "Should HUF funds have been used for this capacity expansion?" If Staff or RUCO believes the answer is "yes," then it can request in a data request the computation of the cost of that expansion, and evaluate the impact on ratemaking at that time. For these reasons it continues to be our position that RUCO's position, like the HUFs approved before Bella Vista, unnecessarily harm the utility.

1 **Q. BUT HOW WILL THE HUFs BE BOOKED AND HOW WILL LPSCO**
2 **ENSURE THAT THE COMMISSION HAS THE INFORMATION IT**
3 **NEEDS?**

4 A. The HUF funds will be booked as required in the tariff. The cash is received and
5 placed in a separate ("Restricted" in the G/L) third party, interest bearing bank
6 account. Interest earned on the funds, net of account fees charged by the bank, is
7 credited to the bank account and inures to the benefit of the ratepayers by
8 increasing the HUF funds available. As required each year, we report to the
9 Commission the beginning balance, the HUF funds collected by LXA or address,
10 the HUF funds expended and for what purpose, any other changes in balance
11 (interest/fees), and the ending balance. Again, if Staff or RUCO believes the
12 current reporting requirements are inadequate, we welcome a discussion with them,
13 either as an individual company or as part of an industry discussion involving
14 multiple entities, regarding ways to rationally improve the reporting and controls
15 over HUF funds.

16 **Q. ANY OTHER COMMENTS?**

17 A. Yes, I have heard one other concern expressed in the past related to "what happens
18 if the Utility, in between rate cases, doesn't use the HUF funds when it should be
19 using them." I can understand where on the surface this could be a concern. But,
20 upon further consideration, not using HUF funds is actually a disadvantage to the
21 Utility, which would act as a deterrent against the behavior noted above. The
22 reason is that if the Utility does not use HUF funds to construct capacity assets in
23 between rate cases, it is using its own funds. But if the Utility uses its own funds in
24 between rate cases, there is no corresponding increase in rates to support that
25 equity investment. The Utility would rather use the HUF funds to construct the
26 additional capacity, which is the exact purpose of the HUF to begin with.

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.

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