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Transcript Exhibit(s)

Docket #(s): SW-01428A-09-0103

W-01427A-09-0104

W-01427A-09-0116

W-01427A-09-0120

Exhibit #: A1-A3, P1, R1-R3, S1-S3, W1

Arizona Corporation Commission
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ARIZONA CORPORATION COMMISSION
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5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
9 COMPANY, AN ARIZONA
CORPORATION, FOR A
10 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
11 PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES
12 FOR UTILITY SERVICE BASED
THEREON.

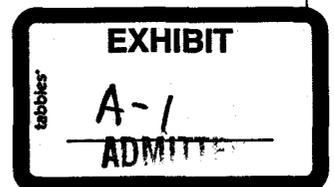
DOCKET NO: SW-01428A-09-0103

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
23 IMPROVEMENTS AND (2) TO
ENCUMBER ITS REAL PROPERTY AND
24 PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116



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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 \$1,170,000
IN CONNECTION WITH (A) THE
CONSTRUCTION OF ONE 200 KW ROOF
MOUNTED SOLAR GENERATOR
INFRASTRUCTURE IMPROVEMENTS
AND (2) TO ENCUMBER ITS REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

DIRECT TESTIMONY
OF
GREG SORENSEN
(Phase 2)
May 11, 2011

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1 **I. INTRODUCTION AND PURPOSE 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. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed by Liberty Water as Vice President of Service Delivery. In that
10 capacity I am responsible for Liberty Water's operations in Texas, Missouri,
11 Illinois, and Arizona, including operation of LPSCO in the areas of customer
12 service, operations, engineering, developer services, conservation, and human
13 resources.

14 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

15 A. Yes, I have testified in Commission proceedings involving all of Liberty Water's
16 subsidiaries in Arizona, including Phase 1 of this rate case.

17 **Q. WHAT IS THE PURPOSE OF THIS DIRECT TESTIMONY?**

18 A. First, to set forth the Company's proposed surcharge to recover the revenue it was
19 forced to forgo when the Commission phased-in rate increases in Phase 1 of this
20 rate case. Second, to request approval of new water and revised wastewater hook-
21 up fee tariffs (HUFs).

22 **II. PHASED RATES SURCHARGE.**

23 **Q. HOW DOES LPSCO PROPOSE TO RECOVER FORGONE REVENUE
24 DURING THE PHASE-IN PERIOD?**

25 A. Through a simple surcharge of 10.98 percent for water service and 8.46 percent for
26 wastewater service.

1 **Q. HOW WOULD THE SURCHARGE BE APPLIED?**

2 A. It would be multiplied against the monthly bill. As shown in the schedule included
3 as Attachment 1, if you are a residential water customer with a 5/8 inch meter and
4 an average monthly bill of \$16.37, you would pay a surcharge of \$1.80. If you are
5 a residential sewer customer with a monthly bill of \$38.99, you would pay a
6 surcharge of \$3.30. Additional samples for residential water customers and a small
7 commercial sewer customer are shown in Attachment 1. This approach means the
8 larger your bill is, the larger the surcharge.

9 **Q. HOW WERE THE SURCHARGE PERCENTAGES DETERMINED?**

10 A. As shown in Attachment 1, the estimated forgone revenue was assumed to be
11 collected over 18 months from all of our water and sewer customers.

12 **Q. HOW DID THE COMPANY ESTIMATE THE AMOUNT OF FORGONE
13 REVENUE?**

14 A. The Company knows exactly how much revenue it has forgone during the phase-in
15 because our billing system can generate that information at any time. But we still
16 had to estimate the total amount because we have over 6 months of phase-in rates
17 remaining. That amount was assumed to be collected over 18 months, with a
18 carrying charge of 7.72 percent accruing from December 1, 2010, the day rates
19 went into effect, and continuing through the end of the surcharge collection period.
20 The 7.72 percent is the weighted average cost of capital (WACC) approved by the
21 Commission in Phase 1. This calculation resulted in the two proposed surcharge
22 amounts, 10.98 percent for water and 8.46 percent for sewer.

23 **Q. HOW MUCH REVENUE HAS LPSCO FORGONE SO FAR?**

24 A. Through April 30, 2011, the shortfall was over \$1.1 million. We will be able to
25 provide a final number at the end of 12 months, or after December 31, 2011.

26

1 **Q. WHAT IF IT TAKES MORE OR LESS THAN 18 MONTHS TO RECOVER**
2 **FORGONE REVENUE?**

3 A. We propose to reconcile the collection of the surcharge amounts with the total
4 amount to be collected after 12 months. If the amount to be collected is recovered
5 faster than 18 months, the surcharge would terminate early, once we have collected
6 the proper amount. Conversely, if it takes more than 18 months, the surcharge will
7 continue until we have recovered all of the revenue to which we were entitled. We
8 would assume that the surcharge may need to be adjusted downward the last month
9 or two to attempt to prevent any potential over-recovery. If any over-recovery does
10 occur, we would refund that difference back to our customers.

11 **Q. WHY DID YOU USE THE WACC?**

12 A. Because the Commission just determined this is our cost of money.

13 **Q. WHY 18 MONTHS?**

14 A. Because 2.5 years to be made whole for the phase-in of rate increases is fair and
15 reasonable in our view, especially given our intent to follow a cycle of rate cases
16 no less than every 3 years.

17 **III. HOOK-UP FEE.**

18 **Q. DOES LPSCO CURRENTLY HAVE A HOOK UP FEE ("HUF") TARIFF?**

19 A. Yes, but only for the wastewater division. In this case, we propose to replace the
20 existing wastewater HUF with a new HUF in a form materially the same as the
21 water HUF.

22 **Q. OKAY, LET'S START WITH THE HUFs THEMSELVES. WHY DOES**
23 **LPSCO WANT A HUF?**

24 A. To assist the Company in equitably apportioning the cost of constructing additional
25 off-site facilities to provide water production, delivery, storage and pressure, and
26 wastewater transmission, delivery and disposal among new service connections.

1 The proposed HUFs provide partial funding of the costs for off-site facilities for
2 new service connections.

3 **Q. WHAT WILL BE THE AMOUNT OF THE HUF?**

4 A. For the Water Division, the HUFs will be based on meter size. As set forth in the
5 proposed Water HUF, the HUFs will be \$1,800 for a 5/8 inch meter, \$2,700 for a
6 3/4 inch meter, and \$4,500 for a 1 inch meter. See Attachment 2.

7 For the Wastewater Division, the HUF will be \$1,800 per Equivalent
8 Residential Unit ("ERU"). See Attachment 3. The current HUF for the
9 Wastewater Division is \$2,450 per ERU.

10 **Q. WHAT FACTORS DID THE COMPANY CONSIDER TO ARRIVE AT
11 THESE AMOUNTS?**

12 A. There are basically three factors that we considered. First, we desire to keep
13 customer rates within a reasonable range, while allowing the Company an
14 opportunity to recover its operating costs and earn a reasonable return on the fair
15 value of its rate base. We considered the historical costs of plant per customer for
16 sewer and water utility service in our system. We also considered our estimated
17 reasonable costs for increased capacity and off-site facilities for new service
18 connections.

19 The second factor is fairness. Ideally, all customers within a class should
20 pay the same amount because each customer is contributing to the same extent to
21 the operating and administrative costs of the utility and each customer is providing
22 a like amount in support of the return on rate base. In other words, each customer
23 within that class is paying his or her cost of service. Hence, each customer (old
24 and new) should have approximately the same amount of utility investment
25 dedicated to its needs, with the balance of the capital required to furnish service
26 funded by the developer.

1 The third factor is responsible management of our capital structure. As
2 stated, we want to maintain a reasonable balance between the different funding
3 sources supporting our infrastructure consistent with good utility practices. We
4 believe that the level of CIAC generated by the proposed HUFs, combined with
5 AIAC, Debt and Equity, will maintain a healthy capital structure, while fairly
6 allocating capital costs and the risk of future growth.

7 **Q. HOW DOES THE REQUESTED HUF DIFFER FROM LPSCO'S**
8 **CURRENT WASTEWATER HUF?**

9 A. In addition to some general changes in language, there are two significant
10 additions. First, we have added another tier for "Active Adult" communities. This
11 was done in cooperation with intervener Pebble Creek. Pebble Creek develops
12 adult communities in our service territory and rightfully pointed out the differences
13 between a typical single family home and an individual dwelling in an active-adult
14 community. As a result, the HUF for the single family home is higher than the
15 HUF for the active-adult home.

16 **Q. WHAT IS THE SECOND DIFFERENCE?**

17 A. We have included the same language recently approved for Bella Vista Water's
18 HUF regarding rate base treatment of HUFs. Simply, this language provides that
19 HUFs are not deducted from rate base while they are sitting in a segregated bank
20 account waiting to be used for one of the HUF's authorized uses.

21 **Q. WHY SHOULD THE COMMISSION APPROVE THIS LANGUAGE?**

22 A. Because it eliminates an unintended consequence of HUF tariffs, detrimental to the
23 utility, yet unnecessary to ensure that the utility does not earn a return on CIAC.

24 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

25 A. Yes.

26

ATTACHMENT 1

Litchfield Park Service Company
Phase-In Surcharge Calculation - Water

Exhibit Page 1 of 2

- [1] Total water rate revenue before increase \$ 6,751,188 (excludes other revenues)
- [2] Water rate increase per Decision \$ 4,388,891 (excludes other revenues)
- [3] Total water rate revenues after rate increase \$ 11,140,079 (excludes other revenues)

- [4] Total monthly rate increase [2]/12 \$ 365,741
- [5] Phase 1 - First 6 months 50%
- [6] Phase 2 - Next 6 months 75%
- [7] Phase 3 - Thereafter 100%

[8] Interest Rate (WACC per Decision) 7.72%

	Yr. 1 Collected	Cummulative Yr. 1 Collected	Cummulative Yr. 1 Uncollected w/o Interest	Cummulative Yr. 1 Uncollected with Interest	Yr. 1 Interest	Cummulative Yr. 1 Interest
Month 1	\$ 182,870	\$ 182,870	\$ 182,870	\$ 182,870	\$ 1,176	\$ 1,176
Month 2	\$ 182,870	\$ 365,741	\$ 365,741	\$ 366,917	\$ 2,361	\$ 3,537
Month 3	\$ 182,870	\$ 548,611	\$ 548,611	\$ 552,148	\$ 3,552	\$ 7,089
Month 4	\$ 182,870	\$ 731,482	\$ 731,482	\$ 738,571	\$ 4,751	\$ 11,841
Month 5	\$ 182,870	\$ 914,352	\$ 914,352	\$ 926,193	\$ 5,959	\$ 17,799
Month 6	\$ 182,870	\$ 1,097,223	\$ 1,097,223	\$ 1,115,022	\$ 7,173	\$ 24,972
Month 7	\$ 274,306	\$ 1,371,528	\$ 1,188,658	\$ 1,213,630	\$ 7,808	\$ 32,780
Month 8	\$ 274,306	\$ 1,645,834	\$ 1,280,093	\$ 1,312,873	\$ 8,446	\$ 41,226
Month 9	\$ 274,306	\$ 1,920,140	\$ 1,371,528	\$ 1,412,755	\$ 9,089	\$ 50,315
Month 10	\$ 274,306	\$ 2,194,446	\$ 1,462,964	\$ 1,513,279	\$ 9,735	\$ 60,050
Month 11	\$ 274,306	\$ 2,468,751	\$ 1,554,399	\$ 1,614,449	\$ 10,386	\$ 70,437
Month 12	\$ 274,306	\$ 2,743,057	\$ 1,645,834	\$ 1,716,271	\$ 11,041	\$ 81,478
Balances at end of 12 Months (Year 1)		[9] \$ 2,743,057	[10] \$ 1,645,834	[11] \$ 1,727,312		[12] \$ 81,478

[13] Total uncollected with interest at end of Year 1 = [11]

[14] Monthly amount to be collected over next 18 months = $PMT([8]/12, 18, -[13])$

[15] Total amount to be collected including interest [14] x 18

[16] Total interest charges [15] - [10]

Computation of Surcharge Rate

[17] Monthly surcharge revenues = [14]

[18] Monthly revenues after rate increase [3]/12

[19] Surcharge rate per dollar of total monthly revenues [17]/[18]

Sample Bills

	5/8x3/4 Inch Residential	3/4 Inch Residential	1 Inch Residential
Gallons	4,661	8,909	8,209
Average Monthly Bill	\$ 16.37	\$ 26.29	\$ 46.20
% Surcharge	10.98%	10.98%	10.98%
Surcharge	\$ 1.80	\$ 2.89	\$ 5.07
Total Average Monthly Bill with Surcharge	\$ 18.17	\$ 29.18	\$ 51.27

ATTACHMENT 2

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO	
(Name of Company)				
	(Name of Service Area)			

WATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Litchfield Park Service Company - Water Division ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Litchfield Park Service Company – Water Division.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfers ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

ISSUED:		EFFECTIVE:	
Month	Day	Month	Day
Year		Year	
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
	12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
	Decision No.		

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)				
	(Name of Service Area)			

III. Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE WATER HOOK-UP FEE TABLE		
Meter Size	Size Factor	Total Fee(a)
5/8" x 3/4"	1	\$1,800
3/4"	1.5	\$2,700
1"	2.5	\$4,500
1-1/2"	5	\$9,000
2"	8	\$14,400
3"	16	\$28,800
4"	25	\$45,000
6" or larger	50	\$90,000

(A) For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Total Fee shall be Two-Thirds (2/3) of the Total Fee shown above, based on an ERU factor of 190 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

- 1) For those requiring a Main Extension Agreement: In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the Hook-Up Fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after

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Month Day Year		Month Day Year	
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	Decision No.		

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Litchfield Park Service Company		Revised	SHEET NO	
(Name of Company)				
	(Name of Service Area)			

receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

- 2) For those connecting to an existing main: In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision/Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as Hook-Up Fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

ISSUED:		EFFECTIVE:	
	Month Day Year		Month Day Year
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
	12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
	Decision No.		

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)	(Name of Service Area)			

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2012, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

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	Month Day Year			Month Day Year
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		12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
		Decision No.		

ATTACHMENT 3

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO.	
(Name of Company)				
	(Name of Service Area)			

WASTEWATER HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Litchfield Park Service Company – Wastewater Division (“the Company”) pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company’s establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission’s (“Commission”) rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

“Applicant” means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions, and industrial or commercial properties.

“Company” means Litchfield Park Service Company – Wastewater Division.

“Collection Main Extension Agreement” means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as “Wastewater Facilities Agreement”.

“Off-site Facilities” means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, force mains, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

“Service Lateral” means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Wastewater Hook-up Fee

For each new residential service lateral, the Company shall collect a Hook-Up Fee of \$1,800 based on the Equivalent Residential Unit (“ERU”) of 320 gallons per day. Commercial and industrial applicants shall pay

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	Month Day Year			Month Day Year
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based on the total ERUs of their development calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 320 gallons per day. For "Active Adult" communities with demonstrated age-restricted zoning and/or CCRs providing for age-restricted living, the Hook-Up Fee shall be \$1,070, based on an ERU factor of 190 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of Off-site Facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs. The Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder within 15 days of execution of a Main Extension Agreement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the Hook-Up Fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide wastewater service to any Developer, Builder or other

ISSUED:		EFFECTIVE:	
	Month Day Year		Month Day Year
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
	12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
	Decision No.		

		Revised	SHEET NO.	
Litchfield Park Service Company		Revised	SHEET NO	
(Name of Company)				
	(Name of Service Area)			

applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant, Developer or Builder is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its reasonable discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's, Developer's or Builder's construction schedule and water service requirements. In the alternative, the Applicant, Developer, or Builder shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 2012, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

ISSUED:		EFFECTIVE:	
Month Day Year		Month Day Year	
	ISSUED BY: Greg Sorensen, Operator Litchfield Park Service Company		
	12725 W. Indian School Road, Suite D-101 Avondale, AZ 85392		
	Decision No.		

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6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
9 COMPANY, AN ARIZONA
CORPORATION, FOR A
10 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
11 PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES
12 FOR UTILITY SERVICE BASED
THEREON.

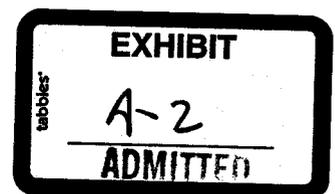
DOCKET NO: SW-01428A-09-0103

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
23 IMPROVEMENTS AND (2) TO
ENCUMBER ITS REAL PROPERTY AND
24 PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116



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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 \$1,170,000
IN CONNECTION WITH (A) THE
CONSTRUCTION OF ONE 200 KW ROOF
MOUNTED SOLAR GENERATOR
INFRASTRUCTURE IMPROVEMENTS
AND (2) TO ENCUMBER ITS REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

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.

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

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

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

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

24
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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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1 MS. WOOD: You are right, Your Honor. That's my
2 question.

3 THE WITNESS: Yes. The problem I have is you
4 said the NARUC requires that. And I don't think that
5 they require it. But I think that they go -- they let
6 each commission decide, you know, the treatment.
7 Because you have it as cost free capital. But they
8 generally are a reduction to rate base.

9 MS. WOOD: Okay. And thank you for that
10 clarification. Thank you.

11 ALJ RODDA: All right. Ms. Mitchell --

12 MS. MITCHELL: I just have --

13 ALJ RODDA: -- waiting patiently there.

14 MS. MITCHELL: I am always patient. Well, some
15 days. I get more patient as I do more of these rate
16 cases. Sometimes you pray for patience and you get
17 something different.

18

19 REDIRECT EXAMINATION

20 BY MS. MITCHELL:

21 Q. I just have a few follow-up questions. On
22 depreciation, you know, there was a long discussion about
23 depreciation methodology. And is it true that the
24 Commission approves depreciation rates, but not
25 necessarily the methodology?

1 A. That's correct.

2 Q. And on the issue of the inadequately supported
3 plant, from a regulatory audit standpoint would it be
4 correct to say that from an audit standpoint there needs
5 to be support for the plant values?

6 A. Yes.

7 Q. And that while -- and is it your understanding
8 that the engineering analysis may be somewhat different
9 than what you may look for in an audit on plant cost?

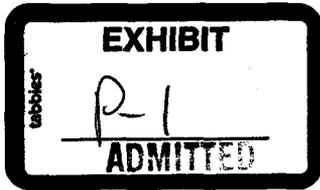
10 A. Yes.

11 Q. And that the engineer's job is mainly to go out
12 and see that plant is there and determine whether the
13 plant is used and useful, and the audit job is to confirm
14 that the plant values are adequately supported?

15 A. Yes.

16 Q. On cost of service, Mr. Shapiro asked you a
17 number of questions concerning the company's cost of
18 service study. And, you know, I thought he was going to
19 keep going on that and pull out some schedules on the cost
20 of service. But, you know, I wanted to give you an
21 opportunity to just further explain the Staff position
22 relative to the company's cost of service study.

23 And it would probably be helpful to look at
24 Mr. Bourassa's schedules. And I just pulled them out
25 and made copies. I don't know if I need to introduce



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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: SW-01428A-09-0103

19 IN THE MATTER OF THE APPLICATION
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DOCKET NO: W-01427A-09-0104

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
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TO ISSUE EVIDENCE OF
INDEBTEDNESS IN AN AMOUNT NOT
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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
5 (1) TO ISSUE EVIDENCE OF
6 INDEBTEDNESS IN AN AMOUNT NOT
7 TO EXCEED \$1,170,000 IN
8 CONNECTION WITH (A) THE
9 CONSTRUCTION OF ONE 200 KW ROOF
10 MOUNTED SOLAR GENERATOR
11 INFRASTRUCTURE IMPROVEMENTS
12 AND (2) TO ENCUMBER ITS REAL
13 PROPERTY AND PLANT AS SECURITY
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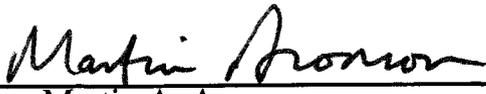
DOCKET NO. W-01427A-09-0120

**NOTICE OF FILING DIRECT
TESTIMONY OF STEVEN
SORIANO**

15 Intervenor PebbleCreek Properties Limited Partnership hereby submits this Notice
16 of Filing Direct Testimony in the above-referenced matter. Filed herewith is the Direct
17 Testimony of Steven Soriano along with supporting attachments.

18 DATED this 7th day of June, 2011.

MORRILL & ARONSON, P.L.C.

19 By 
20 Martin A. Aronson
21 Robert J. Moon
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24 **ORIGINAL** and thirteen (13) copies
25 of the foregoing were filed
26 this 7th day of June, 2011, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

1 **COPY** of the foregoing hand-delivered
this 7th day of June, 2011 to:

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6 **BEFORE THE ARIZONA CORPORATION COMMISSION**
7

8 IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE
9 COMPANY, AN ARIZONA CORPORATION, FOR A
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12 CHARGES FOR UTILITY SERVICE BASED THEREON. DOCKET NO: SW-01428A-09-0103

13 IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE
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15 DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND
16 PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR
17 UTILITY SERVICE BASED THEREON. DOCKET NO: W-01427A-09-0104

18 IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE
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22 CONSTRUCTION OF TWO RECHARGE WELL INFRASTRUCTURE
23 IMPROVEMENTS AND (2) TO ENCUMBER ITS REAL PROPERTY AND
24 PLANT AS SECURITY FOR SUCH INDEBTEDNESS. DOCKET NO. W-01427A-09-0116
25

26

1 IN THE MATTER OF THE APPLICATION
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3 COMPANY, AN ARIZONA
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7 TO EXCEED \$1,170,000 IN
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14 FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

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26
DIRECT TESTIMONY OF STEVEN SORIANO

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**Direct Testimony of Steven Soriano
(Phase 2)**

I. INTRODUCTION

Q. Please state your name, business address, and telephone number.

A. My name is Steven Soriano. My business address is 9532 East Riggs Road, Sun Lakes, Arizona 85248. My business phone is (480) 895-4219.

Q. By whom are you employed and in what capacity?

A. I am a Vice President of PebbleCreek Development Company, which is the General Partner of PebbleCreek Properties Limited Partnership, the developer of the PebbleCreek community affected by this rate case. I am also Vice President and General Manager of the water and sewer utility companies owned directly or indirectly by Edward Robson and his family (the "Robson-Related Utility Companies").

Q. What are your responsibilities as Vice President of PebbleCreek Development Company?

A. My primary responsibilities consist of those of a chief financial officer, such as arranging financing and seeing to the over-all financial well-being of the company and of PebbleCreek Properties Limited Partnership.

Q. What are your responsibilities as Vice President and General Manager of the various Robson-related utility companies?

A. I oversee the day-to-day operations of the utility companies, including managing the financial affairs of the companies.

Q. Please describe your educational and professional experience.

A. I graduated from the State University of New York at Buffalo's registered accounting program with a Bachelor of Science in Business Administration. After

1 graduation, I worked as an auditor and a consultant with the Kenneth Leventhal &
2 Company in New York. I joined Robson Communities, Inc. in 1995 as an
3 Investment Analyst and now serves as Executive Vice President and Chief
4 Financial Officer. I am an officer of many Robson-related companies, including
5 the Robson-Related Utility Companies.

6 **II. PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your testimony in this case?**

8
9 A. My testimony, as discussed more fully below, is in support of the additional Hook
10 Up Fee (“HUF”) tariff proposed by Litchfield Park Service Company (“LPSCO”) for
11 “Active Adult” communities, such as the PebbleCreek community being
developed by Intervenor PebbleCreek Properties Limited Partnership.

12 **III. THE PEBBLECREEK DEVELOPMENT**

13 **Q. Please describe the PebbleCreek development.**

14
15 A. PebbleCreek is an age-restricted, master planned resort community located in the
16 City of Goodyear, Arizona. Upon build-out, it is expected to include in excess of
17 6000 homes. Almost 4000 homes have been build to date. As an age-restricted
18 community, at least one person must be 50 years of age or older in at least 80% of
19 the homes. Most residents are older than 50, and no one under 19 years of age is
permitted to reside in PebbleCreek. Most of the homes in PebbleCreek are
occupied by two or fewer people.

20
21 **Q. Why is the “Active Adult” community tariff proposed by LPSCO appropriate
in this case?**

22
23 A. The Growing Smarter Act adopted by the Arizona legislature in 1998 incorporated
24 the philosophy that growth should pay for growth. The legislature wanted to make
25 sure that development would pay its fair share of the cost of infrastructure required
26 to serve new development. Implicit in the Growing Smarter legislation is not only
that growth should pay for growth, but also that development should not be

1 required to subsidize existing users of infrastructure. The legislature therefore
2 required that, for example, fees for infrastructure must be reasonably related to the
3 burden on the municipality to provide additional necessary public services to the
4 new development. The Court of Appeals confirmed in *Robson Ranch Quail Creek*
5 *v. Pima County*, 215 Ariz. 545, 161 P.3d 588 (App. 2007), that the fees must be
6 reasonable with respect to the particular development, and not just development in
7 general, so that one developer shouldn't be required to subsidize development by
8 another developer.

9
10 **Q. How has the Arizona Corporation Commission applied the Growing Smarter
11 legislation?**

12 A. The Arizona Corporation Commission also has endorsed the concept that growth
13 should pay its fair share of the cost of growth. As with Growing Smarter, that must
14 mean that while growth must pay its fair share, development must be required to
15 pay only its fair share and not more. A development should not be required to
16 subsidize other developers or to subsidize existing utility customers.

17
18 **Q. How do these concepts apply to the "Active Adult" community HUF tariff tier
19 proposed by LPSCO?**

20 A. The existing wastewater HUF is \$2,450, based on the Residential Equivalent Unit
21 of 320 gallons per day. This is based on a calculation of 100 gallons of sewage
22 produced per person per day multiplied by an average of 3.2 people per home.
23 Contrary to Growing Smarter, this HUF requires developers of active-adult
24 retirement communities, which typically have fewer than 2 people per home on
25 average, to subsidize customers and/or developers of conventional housing because
26 houses in active-adult communities do not produce an average of 320 gallons per
day.

The inequities of the current HUF are recognized and corrected with LPSCO's
proposed water and sewer HUF. The current Liberty Development Guide, which
contains the criteria for building water storage, booster and distribution systems in
the LPSCO service area, requires water systems for single family conventional
housing to be designed to a standard of 150 gallons per capita per day and an

1 average of 3.2 people per dwelling unit, for a total average of 480 gallons per
2 home. [See Liberty Development Guide (attached hereto as Exhibit 1), at 23.] The
3 design criteria for active-adult housing established by LPSCO are 160 gallons per
4 capita per day and an average of 1.9 people per dwelling unit, for a total of 304
5 gallons per average home. [Id.] **Thus, the design capacity for water systems for
6 active-adult communities is only 63.33% of the size for conventional single
7 family homes. The proposed water HUF for homes in active-adult
8 communities is 66.66% of the proposed HUF for conventional single family
9 homes.**

8 **Q. What about wastewater usage in "Active Adult" communities?**

9
10 **A. On the wastewater side, LPSCO's design criteria for both conventional and active-
11 adult homes is 100 gallons per capita per day. Again, the design criteria assume an
12 average of 1.9 persons per dwelling unit in active-adult and 3.2 persons per
13 dwelling unit in single family homes. [See Exhibit 1, Liberty Development Guide,
14 at 28.] **Thus, the design capacity for active-adults is 59.38% of the design
15 capacity for conventional homes. The proposed wastewater HUF is 59.44% of
16 the wastewater HUF for a single family conventional home.****

15 The average number of persons per dwelling used by LPSCO in its design criteria
16 is reflective of the actual historical occupancies in Robson Resort Communities.
17 The number of gallons per capita per day used by LPSCO in its calculations seems
18 a bit high but is within reason as compared to single family conventional homes.
19 For this reason, PebbleCreek Properties Limited Partnership believes that any
20 water or wastewater HUF should include an active-adult community tier that in
21 proportion to the tier set forth in LPSCO's proposed HUF schedule.

21 **Q. Does that conclude your testimony?**

22
23 **A. Yes.**

EXHIBIT 1



Liberty Water

Because water matters every day

12725 W. Indian School Rd., Suite D101 Avondale, AZ 85392 623-935-3967

Litchfield Park Service Company (LPSCO) dba Liberty Water

www.libertywater.com

For Maricopa County Properties

Prepared by Development Services

Revised October 22, 2009

All new projects will be subject to an initial deposit prior to review of the master plan (report) and construction plans.

LPSCO dba LIBERTY WATER DEVELOPMENT GUIDE

GENERAL MASTER PLAN (REPORT) CRITERIA FOR WATER STORAGE, BOOSTER, AND DISTRIBUTION SYSTEMS

A spiral bound hydraulic analysis using the current version of Water CAD, or approved equal must be performed for the proposed water distribution system and submitted as part of the Master Plan. The Master Plan shall be prepared in accordance with Liberty Water's master plan outline. 24"X36" color exhibit showing water line locations, sizes, property boundaries, demand nodes, contour elevations, etc. shall be submitted as part of the Master Plan. The Master Plan shall be signed and sealed by a Registered Professional Civil Engineer in the State of Arizona and submitted to Liberty Water for review and approval. Any and all criteria not listed herein shall be in accordance with, but not limited to, the following governmental agency requirements and any such criteria presented in the Master Plan shall be referenced appropriately for Liberty Water review: Environmental Protection Agency (EPA), Arizona Department of Environmental Quality Engineering Bulletin No. 8 and 10 as administered by the Maricopa County Environmental Services Department, Arizona Department of Water Resources, Maricopa Association of Governments, Maricopa County Health Code Chapter V, Uniform Fire Code, Maricopa County Planning and Zoning Requirements, and appropriate municipality regulations, if development is in a municipality serviced by Liberty Water.

All new projects will be subject to an initial deposit prior to review of the master plan (report) and construction plans.

Land Use	Ave Day Demand (gpcd)	Capita/DU	Max Day Peaking Factor	Peak Hour Peaking Factor
Active Adult	160	1.9	1.8	3.0
Single Family	150	3.2	1.8	3.0
Multi Family	110	2.0	1.8	3.0
Commercial	1,700 gpd/acre	n/a	1.8	3.0
Developed Open Space	1,800 gpd/acre	n/a	n/a	n/a

Please contact Liberty Water for Resource

Pressures

Minimum Pressures:

55 psi static and 40 psi @ peak hour, 20 psi @ max day + fire flow In accordance with the Uniform Plumbing Code, any structure experiencing pressures greater than 80 psi shall have an individual pressure reducing valve on the customer side of the meter. Maximum system pressures in excess of 90 psi static shall be approved by Liberty Water in writing prior to submittal of any master plan.

Velocity & Headloss:

8 fps maximum velocity for distribution system; 2 fps minimum and 6 fps maximum velocity. For well transmission lines 5 ft headloss per 1,000 linear feet of pipe for well transmission lines.

Hazen-Williams Coefficient:

for all design instances utilizing the Hazen-Williams coefficient a factor of 130 Shall be used. The Darcy-Weisbach equation must be used for booster station design.

Fire Flows²

One and two-family dwellings < 3,600 sq. ft.: 1,500 gpm for 2 hours
 One and two-family dwellings > 3,600 sq. ft.: In accordance with the 1997 UFC
 All other development: 3,000 gpm for 3 hours (minimum)

²may be subject to jurisdictional Fire Marshall
 A letter from the local Fire Chief/ Marshall having jurisdiction may be required.

LPSCO dba LIBERTY WATER DEVELOPMENT GUIDE

GENERAL MASTER PLAN (REPORT) CRITERIA FOR WASTEWATER COLLECTION SYSTEMS

A hydraulic analysis must be performed for the proposed wastewater collection system and submitted as part of the Master Plan. The design methodology shall be presented and appropriately referenced. The results of this analysis shall be spiral bound presented in tabular form using sewer CAD or excel, with at least the following information presented: pipe number, to/from manhole number, pipe size, pipe slope (slopes which are greater than minimum design shall be noted), average daily flow, peak hour flow, d/D ratio at peak hour, and velocity at peak hour. An analysis of sewer force mains must be performed, including impacts due to pump surge, and submitted as part of the master plan. Force main hydraulic losses shall be performed using the Darcy-Wiesbach equation. A 24"X36" color exhibit showing flow contributing area, sewer line number, and manhole number locations, flow direction, property boundaries, contour elevations, etc. shall be submitted as part of the Master Plan. The Master Plan shall be signed and sealed by a Registered Professional Engineer and submitted to Liberty Water for review and approval.

All new projects will be subject to an initial deposit prior to review of the master plan (report) and construction plans.

Average Daily Flow	100 gpcd
Commercial/Industrial Average Daily Flow	1,500 gal/acre/day
Population Density	
Active Adult	1.9 persons per DU
Single Family	3.2 persons per DU
Multi Family	2.0 persons per DU
Peak Hour Factor	3.0

Sewer Depth of Cover	7'-6" minimum for trunk-lines 5'-0" minimum for all other provided that service lines have 4'.5" minimum cover at the property line.
Rim Elevations	Above 100 year floodplain
Manning's Roughness Coefficient	n = 0.013
Sewer Pipe Material	Epoxy lined D.I.P. or concrete encased PVC SDR 35 at wash crossings. PVC SDR 35 for all other.
Velocities	2.0 fps minimum at peak hour 2.0 fps minimum at average daily flow for trunk lines. 10.0 fps maximum
Manhole Spacing	500 ft maximum for lines less than 18" in diameter. Reference A.A.C. R18-9-E301 for larger diameter lines.
Cleanouts	At end of lines less than 200 ft
Sewer Capacity Ratio	d/D = 0.75 maximum at peak hour
Minimum Pipe Diameter	8", 12" along section lines, 6" for force mains

LITCHFIELD PARK SERVICE COMPANY
PHASE TWO

DOCKET NO. SW-01428A-09-0103 et al.

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA



ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 6, 2011

1

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please state the purpose of your testimony.

8 A. The purpose of my testimony is to present RUCO's recommendations
9 regarding a phased-in rates surcharge and a hook-up fee tariff being
10 proposed by Litchfield Park Service Company ("LPSCO" or "Company") in
11 Phase 2 of the Company's 2009 rate case proceeding.

12

13 Q. Did you file testimony and appear as an expert witness for RUCO in
14 Phase 1 of this proceeding?

15 A. Yes. On November 4, 2009 I filed direct testimony with the Arizona
16 Corporation Commission ("ACC" or "Commission") in Phase 1 of this
17 proceeding. I also filed surrebuttal testimony on December 17, 2009
18 during Phase 1.

19

20 Q. How is your testimony organized?

21 A. My testimony contains four parts: the introduction that I have just
22 presented; a brief background of the case; a section on the Company-

1 proposed phased rates surcharge; and a section on the Company-
2 proposed hook-up fee tariff.

3
4 **BACKGROUND**

5 Q. Briefly explain the background of this case.

6 A. On March 9, 2009, LPSCO, a subsidiary of Liberty Water, filed
7 applications with the ACC seeking permanent rate increases for the
8 Company's water and wastewater utility operations in Maricopa County.
9 The evidentiary hearing on the matter began on January 4, 2009 and was
10 concluded on January 15, 2010. During a Regular Open Meeting held on
11 November 22, 2010, the five sitting ACC Commissioners voted to approve
12 new rates, resulting in Decision No. 72026 which authorized a significant
13 rate increase and adopted phased-in rates to mitigate the effects of rate
14 shock on LPSCO's ratepayers. The Decision also established a second
15 phase of the proceeding to deal with a surcharge to collect the foregone
16 revenues associated with the aforementioned phase-in, and to deal with a
17 proposed hook-up fee tariff for LPSCO's water division. On March 7,
18 2011, LPSCO filed a request to commence Phase 2 of the rate case. A
19 procedural conference was held on May 2, 2011, which provided the
20 parties to the case with an opportunity to discuss a procedural schedule
21 for Phase 2 of the rate case proceeding. On May 11, 2011, LPSCO filed
22 the direct testimony of Mr. Greg Sorenson. Mr. Sorenson's testimony
23 presented the Company's proposed surcharge for collecting the foregone

1 revenue associated with the phase-in, and LPSCO's proposed hook-up
2 fee for the Company's water division.

3

4 **PHASE-IN SURCHARGE**

5 Q. Have you reviewed LPSCO's testimony on the Company-proposed phase-
6 in surcharge?

7 A. Yes, I have reviewed Company witness Sorenson's testimony on the
8 Company-proposed phase-in surcharge.

9

10 Q. Please describe the Company-proposed surcharge.

11 A. The Company is proposing a simple surcharge of 10.98 percent for water
12 service and 8.46 percent for wastewater service to be applied against
13 monthly bills. According to Mr. Sorenson, a residential water customer
14 with a 5/8 x 3/4-inch meter and an average monthly bill of \$16.37 would
15 pay a monthly surcharge of \$1.80. A residential wastewater customer with
16 a monthly bill of \$38.99 would pay monthly surcharge of \$3.30. Based on
17 the Company-proposed surcharge, the larger a customer's monthly bill is
18 the more the customer will pay. The Company has designed the
19 surcharge to collect the total amount of foregone revenue with interest
20 over an eighteen-month period. If it takes less than eighteen months to
21 recover the foregone revenue, LPSCO will terminate the Company-
22 proposed surcharge early. If it takes longer than eighteen months,

1 LPSCO will continue to apply the surcharge to its customers bills until the
2 full amount of forgone revenue is collected.

3

4 Q. What rate of interest is LPSCO using?

5 A. LPSCO is using an interest rate of 7.72 percent which is the rate of return
6 that was adopted in Decision No. 72026.

7

8 Q. Have you analyzed the Company-proposed surcharge?

9 A. Yes. I have had the opportunity to analyze the calculation of the
10 Company-proposed surcharge. The dollar amounts presented by the
11 Company are very close to what I calculated after Decision No. 72026 was
12 issued.

13

14 Q. Does RUCO support the Company-proposed surcharge?

15 A. Yes. RUCO believes the Company-proposed surcharge will recover the
16 forgone revenue as a result of the rate phase-in. RUCO also believes that
17 the eighteen month recovery period is reasonable and mitigates the
18 possibility of intergenerational inequities that can often result when
19 customers choose to leave or connect to a water and wastewater system.
20 An eighteen month time period is a reasonable amount of time to insure
21 that those who were connected to the systems during the phase-in pay for
22 their share of foregone revenues through the surcharge and those who

1 were not on the system when the phase-in began pay as little extra as
2 possible.

3

4 Q. What is RUCO's recommendation on the Company-proposed surcharge?

5 A. RUCO recommends that the Commission adopt the Company-proposed
6 surcharge.

7

8 **HOOK-UP FEE TARIFF**

9 Q. Please describe LPSCO's hook-up fee tariff request.

10 A. LPSCO is requesting that the Commission approve a hook-up fee ("HUF")
11 tariff for the Company's water division and that the Company's existing
12 wastewater HUF be replaced with a new HUF that is identical in form to
13 the aforementioned Company-proposed water HUF. According to Mr.
14 Sorenson's testimony, LPSCO is requesting water HUFs based on meter
15 size that start at \$1,800 for a 5/8 x 3/4-inch meter and increase
16 accordingly. For wastewater connections, the Company is proposing an
17 HUF of \$1,800 per Equivalent Residential Unit ("ERU") which is less than
18 the current wastewater HUF of \$2,450 per ERU. LPSCO is also asking
19 that the Commission approve language in the water and wastewater HUF
20 tariff's that will allow the Company to delay the recognition of amounts
21 collected from HUFs for ratemaking purposes until the plant additions
22 financed by them are placed into service. The Company-proposed

1 language states that any funds collected from HUFs will not be deducted
2 from rate base while they are sitting in a segregated bank account.

3

4 Q. In general, is RUCO opposed to the use of HUFs?

5 A. No. RUCO has supported the use of HUFs in the past.

6

7 Q. Does RUCO support the concept of an HUF in this case?

8 A. Yes.

9

10 Q. Is RUCO opposed to the HUF amounts being proposed by LPSCO?

11 A. No. RUCO's concern is with the language contained in the Company-
12 proposed water and wastewater HUF tariffs.

13

14 Q. What is RUCO's main concern with the language contained in the
15 Company-proposed water and wastewater HUF tariffs?

16 A. RUCO's main concern is that the language contained in the Company-
17 proposed HUF tariffs allow LPSCO to delay the recognition of the HUF
18 funds, which should have been booked as CIAC, as a deduction to rate
19 base until the corresponding plant additions financed by the HUFs, are
20 placed into service. With the exception of a recent case involving Liberty
21 Water's Bella Vista Water Company, Inc. ("Bella Vista") subsidiary in
22 Decision No. 72251, dated April 7, 2011, which I will discuss later in my

1 testimony, this is a departure from the way in which CIAC has been
2 treated for ratemaking purposes.

3

4 Q. Generally speaking, what is the purpose of HUFs?

5 A. Generally speaking, utilities, such as LPSCO, collect HUFs from third-
6 party developers and use them to help cover the costs of off-site facilities
7 for new service connections. This helps to shift risk away from the utility
8 and its ratepayers and on to the third-party developers. Because the third-
9 party developers are providing funds for infrastructure on new
10 development – which may not generate future revenues – the utility's
11 investor supplied capital is not placed at risk. Ratepayers also benefit
12 from the collection of HUFs since they will not have to pay increased rates
13 that would recover the costs for infrastructure that is intended for future
14 customers – who may or may not connect to the system. This is because
15 the HUFs are treated as non-refundable contributions-in-aid-of-
16 construction (“CIAC”) for ratemaking purposes.

17

18 Q. How are HUFs recognized on a utility's financial statements?

19 A. Because funds provided by HUFs represent non-investor supplied capital
20 from third-party developers, they are typically recognized as CIAC on the
21 liability side of a utility's balance sheet, as opposed to being recognized as
22 revenue on a utility's income statement. At the time the funds are
23 received, the utility will credit its CIAC account (a liability account) and

1 debit its cash account (an asset account). Eventually the HUF funds in
2 the cash account are used to finance the plant additions that they were
3 intended for. The accounting procedure to recognize this would be to
4 credit the cash account, on the asset side of the balance sheet, and to
5 debit the utility plant in service account, which is also on the asset side of
6 the balance sheet. Hence, the amount of new utility plant in service,
7 recognized as an asset, is equal to the corresponding amounts that are
8 recorded as CIAC, which are recognized as a liability. For ratemaking
9 purposes the HUFs are recorded as CIAC, which represents non-investor
10 supplied funds, and are treated as a deduction from rate base.
11 Consequently, the utility does not earn any return on the plant additions
12 funded by the HUFs and the utility does not recover the costs of the HUF-
13 funded plant additions through depreciation expense. Furthermore,
14 ratepayers will not have to pay for a return on and a return of the HUF-
15 funded additions in their utility rates.

16

17 Q. How has CIAC been treated for ratemaking purposes in the past?

18 A. Typically CIAC balances recorded on a utility's books during a test year
19 are treated as a deduction from rate base regardless of whether or not the
20 plant additions associated with them have been constructed. This
21 ratemaking treatment was applied to all CIAC funds whether they were
22 collected through HUFs or not. Hook-up fees would be included in a

1 utility's test year CIAC balance because the hook-up fee funds would have
2 been booked by the utility as CIAC upon their receipt from developers.

3

4 Q. Why have CIAC funds, including those collected through HUFs, typically
5 been treated as a deduction from rate base even if the associated plant
6 additions have not been constructed?

7 A. There are public policy reasons as well as accounting reasons for
8 requiring CIAC to be booked upon the receipt of funds. One reason is that
9 the utility has the use of the funds during the time that the funds are
10 collected and the time they are needed to finance the plant additions they
11 were intended for.

12

13 Q. Is the deduction from rate base treatment for CIAC consistent with the
14 treatment of other ratemaking elements?

15 A. Yes. This is true of advances-in-aid-of-construction ("AIAC") and
16 accumulated deferred income taxes as well. In these cases, utilities also
17 have the use of excess funds, collected from third-party developers in the
18 case of AIAC, or from ratepayers in the case of accumulated deferred
19 income taxes, which traditionally have been treated as deductions from
20 rate base during a rate case proceeding.

21

22 ...

23

1 Q. How has the National Association of Regulatory Utility Commissioners
2 (“NARUC”) defined CIAC in its Uniform System of Accounts (“USOA”)?

3 A. The NARUC USOA defines CIAC as follows:

4 “Any amount or item of money, services, or property received by
5 a utility, from any person or governmental agency, any portion of
6 which is provided at no cost to the utility, which represents an
7 addition or transfer to the capital of the utility, and which is
8 utilized to offset the acquisition, improvement or construction
9 costs of the utility’s property, facilities, or equipment used to
10 provide utility services to the public.”
11

12 Q. Do funds collected from HUFs meet this definition?

13 A. Yes.

14

15 Q. Would the Company still have use of the funds collected from HUFs even
16 if they are sitting in a segregated bank account waiting to be used for one
17 of the HUF’s authorized uses?

18 A. Technically, yes. The Company could place the funds collected from
19 HUFs into an interest bearing account and earn money on them while they
20 are sitting idle. Because regulators would not know what the disposition of
21 the funds are between rate case proceedings, it is not unreasonable to
22 assume that the Company can move the funds collected from HUFs into
23 other types of accounts or use them for other purposes, which is the
24 precise reason why these types of funds have traditionally been treated as
25 a deduction from rate base. So the fact that the funds may be in a
26 segregated account during a test year doesn’t mean that a utility couldn’t
27 use them for other purposes if chooses. As ACC Staff explains in its June

1 1, 2011 filing on the issue of unexpended HUFs in a different docket¹,
2 “The unexpended CIAC are funds that can be used by the Company, thus
3 the Company’s rate base should be reduced by the CIAC. Reducing rate
4 base by CIAC preserves the ratemaking balance and removes the
5 possibility of the Company’s earning an excess.”
6

7 Q. What else does ACC Staff say in its recent June 1, 2011 filing on
8 unexpended HUFs?

9 A. ACC Staff also says that CIAC should be booked in the CIAC account
10 upon receipt. In its filing, ACC Staff recites the same NARUC USOA
11 definition as I cited earlier in my testimony. ACC Staff correctly points out
12 that, the characterization of hook-up fees (or CIAC) does not hinge upon
13 whether the fees are spent but whether the funds were (i) provided by
14 someone other than the Company’s owner/investor; (ii) is non-refundable;
15 and (iii) whether the purpose of the CIAC is to fund the plant. Further, the
16 removal of unexpended CIAC from the CIAC account is inconsistent with
17 the NARUC USOA.”²
18
19
20 ...
21

¹ Staff Response to Johnson Utilities Motion to Amend, Docket No. WS-02987A-08-0180, at 7

² Staff Response to Johnson Utilities Motion to Amend, Docket No. WS-02987A-08-0180, at pp.7-8

1 Q. Are there other problems associated with the Company-proposed tariff
2 language?

3 A. Yes. Two problems come to mind. First, ACC Staff and other auditors
4 would now have the added task of insuring that the HUF funds associated
5 with plant additions have been properly recorded as a deduction from rate
6 base during a rate case proceeding. If the auditors do "chase" the CIAC
7 successfully, then it does not result in higher rates. However, even the
8 most diligent of auditors may not be able to successfully track unrecorded
9 CIAC. The second problem that comes to mind is that because utilities
10 choose when to file for rates, it is possible that they would delay
11 construction of HUF funded plant additions in order to avoid having to
12 recognize the CIAC funded by HUFs as a deduction to rate base. Again,
13 ratepayers are the losers under this scenario.

14
15 Q. Has the ACC approved similar HUF language in a prior Decision?

16 A. Yes. As I noted earlier in my testimony, the ACC adopted similar
17 language for an HUF tariff that the Commission approved for Liberty
18 Water's Bella Vista subsidiary.

19
20 Q. Does RUCO agree with the Commission's decision in the Bella Vista
21 case?

22 A. No. RUCO believes that the Commission's adoption of the Company-
23 proposed HUF tariff in the Bella Vista case was misguided. RUCO

1 recommends that the Commission treat its decision in Bella Vista as a
2 "test case" to see how well ACC Staff and the utility are able to properly
3 identify and account for Bella Vista's hook-up fees that would not be
4 treated as a deduction from rate base. RUCO believes that there is no
5 harm to a utility from the traditional accounting and ratemaking treatment,
6 given the fact that the sooner a utility places CIAC on its books, the
7 sooner the utility can get CIAC off its books through the annual
8 amortization process that reduces a utility's CIAC balance over time.

9

10 Q. What is RUCO's final recommendation regarding LPSCO's proposed HUF
11 tariff language?

12 A. RUCO recommends that the Commission reject LPSCO's proposed HUF
13 tariff language to the extent that it provides that 's are not deducted from
14 rate base while they are sitting in a segregated bank account waiting to be
15 used for one of the HUF's authorized uses.

16

17 Q. Does your silence on any of the issues or positions addressed in Mr.
18 Sorenson's direct testimony constitute acceptance?

19 A. No, it does not.

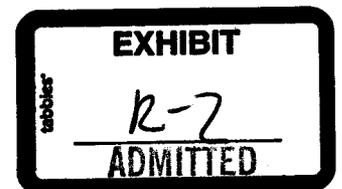
20

21 Q. Does this conclude your direct testimony on Phase 2 of the LPSCO rate
22 case proceeding?

23 A. Yes, it does.

SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JUNE 18, 2010



BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02465A-09-0411
BELLA VISTA WATER COMPANY, INC., 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.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-20453A-09-0412
NORTHERN SUNRISE WATER COMPANY, INC., 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.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-20454A-09-0413
SOUTHERN SUNRISE WATER COMPANY, INC., 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.)

IN THE MATTER OF BELLA VISTA WATER) DOCKET NO. W-02465A-09-0414
COMPANY, INC., NORTHERN SUNRISE WATER) DOCKET NO. W-20453A-09-0414
COMPANY, INC., AND SOUTHERN SUNRISE) DOCKET NO. W-20454A-09-0414
WATER COMPANY, INC.'S JOINT APPLICATION)
FOR APPROVAL OF AUTHORITY TO)
CONSOLIDATE OPERATIONS, AND FOR THE)
TRANSFER OF UTILITY ASSETS TO BELLA VISTA)
WATER COMPANY, INC., PURSUANT TO)
ARIZONA REVISED STATUTES 40-285.)

1 **Operating Income – Property Taxes**

2 **Q. Did Staff make any adjustment to the Property Tax Expense?**

3 A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using
4 Staff's recommended revenues.

5
6 **Operating Income – Income Taxes**

7 **Q. Did Staff make any adjustments to test year Income Tax Expense?**

8 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon
9 Staff's adjusted test year taxable income.

10

11 **HOOK-UP FEE (“HUF”)**

12 Changes to HUF Recommendation

13 **Q. Has Staff made any changes to its HUF recommendation?**

14 A. Yes. Staff is recommending adoption of the HUFs proposed by the Algonquin Companies
15 as discussed in greater detail in the testimony of Staff witness, Marlin Scott, Jr.

16

17 Classification of HUFs

18 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the classification of
19 unexpended HUFs?**

20 A. Yes. The Companies propose that unexpended HUFs not be classified as CIAC.

21

22 **Q. Do the Commission's rules require companies to keep their books and records in
23 accordance with the NARUC USOA?**

24 A. Yes. The Arizona Administrative Code R14-2-411 D.2 requires water companies to
25 maintain their accounting records in accordance with the NARUC USOA. It states, “Each

1 utility shall maintain its books and records in conformity with the Uniform System of
2 Accounts for Class A, B, C and D Water Utilities” (emphasis added).

3
4 **Q. Is the Companies’ proposal consistent with NARUC USOA?**

5 A. No, it is not. The NARUC USOA definition of CIAC does not hinge upon whether or not
6 the CIAC is expended or unexpended but whether or not (1) it was provided by someone
7 other than the owner, (2) it is non-refundable, and (3) the purpose of the CIAC is to fund
8 plant. The NARUC USOA states the following:

9
10 271. Contributions In Aid of Construction

11 *A. This account shall include:*

12 *1. Any amount or item of money, services or property received*
13 *by a utility, from any person or governmental agency, any*
14 *portion of which is provided at no cost to the utility, which*
15 *represents an addition or transfer to the capital of the*
16 *utility, and which is utilized to offset the acquisition,*
17 *improvement to offset the utility’s property, facilities, or*
18 *equipment used to provide utility services to the public.*

19
20 **Q. What is Staff’s recommendation?**

21 A. Staff recommends that the Companies’ proposal that unexpended HUFs not be classified
22 as CIAC be denied.

23
24 **RATE DESIGN**

25 **Cost of Service Study (“COSS”)**

26 **Q. Has Staff reviewed the Company’s rebuttal testimony concerning Staff’s allocation**
27 **of revenue to Bella Vista’s customer classes?**

28 A. Yes.

ORIGINAL

OPEN MEETING AGENDA ITEM

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

Arizona Corporation Commission

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JUN 1 2011

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AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY 

COMMISSIONERS
GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
JOHNSON UTILITIES, LLC, DBA JOHNSON
UTILITIES COMPANY FOR AN INCREASE IN
ITS WATER AND WASTEWATER RATES FOR
CUSTOMERS WITHIN PINAL COUNTY,
ARIZONA.

DOCKET NO. WS-02987A-08-0180

**STAFF'S RESPONSE TO
PETITION TO AMEND**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files its response to the Petition to Amend Decision No. 71854 ("Petition") filed by Johnson Utilities, LLC ("Johnson" or "Company") on February 28, 2011. With the exception of Johnson's request to change the late fee for its sewer customers, Staff urges this Commission to deny Johnson's Petition. Staff would further urge that the proper way to address the Company's concerns would be in the Company's next rate case.

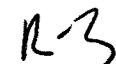
I. THE SETTING OF JUST AND REASONABLE RATES.

A. The Commission's Constitutional Authority.

Article 15, Section 3, of the Arizona Constitution provides, in relevant part, that the Commission "shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges to be made and collected by public service corporations within the State for service rendered therein." In determining just and reasonable rates, the Commission has broad discretion, subject to the obligation to ascertain the fair value of the utility's property and to establish rates that "meet the overall operating costs of the utility and produce a reasonable rate of return."¹ Under the Arizona Constitution, a utility company is entitled to a fair rate of return on the fair value of its properties, "no more and no less."² Arizona law does not

¹ *Scates, et al. v. Arizona Corp. Comm'n*, 118 Ariz. 531, 534, 578 P.2d 612 (App. 1978).

² *Litchfield Park Service Co. v. Arizona Corp. Comm'n*, 178 Ariz. 451, 434, 854 P.2d 988 (App. 1994) (citing *Arizona Corp. Comm'n v. Citizens Utilities Co.*, 120 Ariz. 184 (App. 1978)).

EXHIBIT

ADMITTED

1 The Company complains that the adjustment is overstated because Staff “improperly assumed
2 that all plant recorded on the Company’s books was constructed by affiliates.”²⁶ The Company
3 provided Staff with a copy of an external audit of its financial statements conducted by the public
4 accounting firm of Henry & Horne. The audit was conducted in conjunction with the proposed sale of
5 assets by Johnson to the Town of Florence.²⁷ Note 3 to the financial statements regarding related
6 parties stated that the affiliate contracts to perform substantially all of the water and sewer system
7 construction for the Company.²⁸ Further in Staff’s review of canceled checks and bank statements
8 submitted by the Company in support of payments made for plant, Staff’s review noted payments to a
9 Company affiliate.²⁹ The bank records did not indicate payments made to any other construction
10 entity other than an affiliate. Staff selected the midpoint (7.5) of the range of 5% to 10% mark-up
11 range found in the documentation provided to Staff by the Company.³⁰

12 With respect to the wastewater division, the Company claims that it provided evidence and
13 testimony that affiliate-constructed wastewater plant totaled only \$45,724,508.³¹ However, Staff’s
14 audit of the Company’s bank records was unable to verify this amount.³²

15 **D. Unexpended Water Hook-up fees were properly deducted from Rate Base.**

16 Johnson’s method for collecting hook-up fees is not typical, which the Company even
17 acknowledges.³³ Johnson collects hook-up fees well in advance of providing service to the customers
18 for whom the hook-up fee is credited. Under a typical approach, a utility builds capacity in advance
19 and then collects hook-up fees individually upon each new connection.³⁴

20 Staff contends that the treatment accorded to funds contributed by others does not depend on
21 whether the funds are unexpended. The characterization of hook-up fees (or CIAC) does not hinge
22 upon whether the fees are spent or unexpended but whether or not the funds were: (i) provided by
23 someone other than the Company’s owner/investor; (ii) is non-refundable; and (iii) whether the
24

25 ²⁶ Company Closing Brief at 4; 15.

26 ²⁷ Docket No. WS-02987A- 07-0203.

27 ²⁸ Ex. S-45 at 14.

28 ²⁹ *Id.* at 11.

29 ³⁰ *Id.* at 13.

30 ³¹ Company Closing Brief at 17.

31 ³² Ex. S-45 at 12.

32 ³³ Ex. A-2, Vol. II at 18.

33 ³⁴ Ex. S-39 at 5.

1 purpose of the CIAC is to fund the plant. Further, the removal of unexpended CIAC from the CIAC
2 account is inconsistent with the NARUC USOA.³⁵ NARUC USOA states the following regarding
3 CIAC:

4 271. Contributions in Aid of Construction

5 A. This account shall include:

- 6 1. Any amount or item of money, services or property received by a utility
7 from any person or governmental agency, any portion of which is
8 provided at no cost to the utility, which represents an addition or
9 transfer to the capital of the utility, and which is utilized to offset the
acquisition, improvement or construction costs of the utility's property,
facilities or equipment used to provide utility services to the public.

10 The unexpended CIAC are funds that can be used by the Company, thus the Company's rate
11 base should be reduced by the CIAC.³⁶ Reducing rate base by CIAC preserves the ratemaking
12 balance and removes the possibility of the Company earning an excess.

13 The Company argues that the Staff recommendation would create a mismatch and that
14 existing customers receive a windfall.³⁷ It is precisely the non-typical method that the Company uses
15 to collect hook-up fees that has created the balances of the magnitude that are seen in the instant case.

16 The Commission has addressed the issue of unexpended advances in Decision No. 70011 and
17 Decision No. 70360.³⁸ In both those cases, the utilities contended that it would be unfair to exclude
18 advances from rate base if plant associated with the advance was not in service during the test year.
19 The Commission rejected the utilities' arguments. The Company has not advanced any compelling
20 argument to warrant a departure from normal rate-making treatment.

21 **E. The Hook-up Fee was properly discontinued.**

22 Because of the magnitude of the CIAC balances, Staff recommends that the hook-up fee be
23 discontinued. Staff found that there was little equity in the Company's capital structure. While Staff
24 is supportive of the use of hook-up fees, there should be a balance between the amount of equity the
25 Company is investing in plant and what customers are investing in plant through hook-up fees.³⁹ The

26
27 ³⁵ Ex. S-38 at 18.

³⁶ *Id.* at 18-19.

³⁷ Ex. A-2, Vol III at 21-22.

³⁸ UNS Gas, Docket No. G-04204A-06-0463; UNS Electric, Docket No. E-04204A-06-0783.

³⁹ Ex. S-38 at 35.





BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

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 OT 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

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 OT TO EXCEED \$1,170,000 IN)
CONNECTION WITH (A) THE CONSTRUCTION)
OF ONE 200 KW ROOF MOUNTED SOLAR)
GENERATOR INFRASTRUCTURE)
IMPROVEMENTS AND (2) TO ENCUMBER ITS)
REAL PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)
_____)

DOCKET NO. W-01427A-09-0120

DIRECT
TESTIMONY
OF
MARLIN SCOTT, JR
UTILITIES ENGINEER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JUNE 6, 2011

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission (“Commission”), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Marlin Scott, Jr. who testified on behalf of the Utilities Division for
8 the Litchfield Park Service Company - Phase 1 of this rates/financing proceeding?**

9 A. Yes.

10
11 **Q. What was the purpose of that Phase 1 testimony?**

12 A. My Phase 1 testimony provided the Utilities Division Staff (“Staff”) engineering
13 evaluation of Litchfield Park Service Company – Water and Wastewater Divisions
14 (“Company”) for the rates/financing proceeding.

15
16 **PURPOSE OF PHASE 2 TESTIMONY**

17 **Q. What is the purpose of your Direct Testimony for Phase 2 at this time?**

18 A. Staff’s Phase 2 testimony is in response to the Company’s filing regarding Off-Site Water
19 and Wastewater Hook-Up Fee (“HUF”) Tariffs.

20
21 **HOOK-UP FEE TARIFFS**

22 **Q. Have you reviewed the direct testimony of Mr. Greg Sorensen regarding Off-Site
23 Water and Wastewater Hook-Up Fee Tariffs?**

24 A. Yes.

1 **Q. What was Mr. Sorensen's testimony regarding the Water Hook-Up Fee Tariff?**

2 A. Mr. Sorensen stated that the requested Water HUF Tariff is a new tariff with fees starting
3 at \$1,800 for a 5/8 x 3/4-inch meter and graduated upward for larger meter sizes. Mr.
4 Sorensen also pointed out that the proposed Tariff includes a tier fee for "Active Adult"
5 communities to accommodate the request of intervener Pebble Creek and included the
6 same language approved for Bella Vista Water Company's HUF Tariff regarding rate base
7 treatment of HUFs in Decision No. 72251, dated April 7, 2011.

8
9 **Q. What is Staff's response to this Water HUF Tariff?**

10 A. In the Phase 1 proceeding, Staff requested and obtained data related to how the \$1,800 fee
11 was determined and supporting documents for the tier fee for Active Adult communities.
12 Staff found these requested items to be reasonable.

13
14 The requested Water HUF Tariff is basically the same tariff as the one approved for Bella
15 Vista with one exception; in Section Part IV(F), the Company added the following last
16 sentence, "In the alternative, the Applicant, Developer, or Builder shall post an irrevocable
17 letter of credit in favor of the Company in a commercially reasonable form, which may be
18 drawn by the Company consistent with the actual or planned construction and hook up
19 schedule for the subdivision and/or development." Staff found this additional language
20 reasonable.

21
22 **Q. What is Staff's recommendation regarding the Company's proposed Water HUF
23 Tariff?**

24 A. Staff recommends that the Company's proposed Water HUF Tariff be approved.

1 **Q. What was Mr. Sorensen's testimony regarding the Wastewater Hook-Up Fee Tariff?**

2 A. Mr. Sorensen stated that the Company currently has an approved Wastewater HUF Tariff
3 and is requesting a new tariff in a form materially the same as the Water HUF Tariff. This
4 new Tariff includes fees starting at \$1,800 per Equivalent Residential Unit ("ERU") which
5 is a decrease from the current fees of \$2,450 per ERU. The proposed Wastewater HUF
6 Tariff also includes the Active Adult fee, rate base treatment of HUFs, and the additional
7 language in Section Part IV(F) of the above Water HUF Tariff.

8
9 **Q. What is Staff's recommendation regarding the Company's proposed Wastewater
10 HUF Tariff?**

11 A. Staff's recommends that the Company's proposed Wastewater HUF Tariff be approved.

12
13 **Q. Does this conclude your Direct Testimony?**

14 A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

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

DOCKET NO. SW-01428A-09-0103

IN THE MATTER OF THE APPLICATION OF)
LITCHFIELD PARK SERVICE COMPANY, AN)
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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)
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ARIZONA CORPORATION, FOR AUTHORITY)
(1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN)
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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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01427A-09-0120
 LITCHFIELD PARK SERVICE COMPANY, AN)
 ARIZONA CORPORATION, FOR AUTHORITY)
 (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN)
 AN AMOUNT OT TO EXCEED \$1,170,000 IN)
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 OF ONE 200 KW ROOF MOUNTED SOLAR)
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 FOR SUCH INDEBTEDNESS.)
 _____)

DIRECT
 TESTIMONY
 OF
 MARLIN SCOTT, JR
 UTILITIES ENGINEER
 UTILITIES DIVISION
 ARIZONA CORPORATION COMMISSION

JUNE 6, 2011

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3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
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7 **Q. Are you the same Marlin Scott, Jr. who testified on behalf of the Utilities Division for
8 the Litchfield Park Service Company - Phase 1 of this rates/financing proceeding?**

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20
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19 schedule for the subdivision and/or development." Staff found this additional language
20 reasonable.

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22 **Q. What is Staff's recommendation regarding the Company's proposed Water HUF
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24 A. Staff recommends that the Company's proposed Water HUF Tariff be approved.

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7 language in Section Part IV(F) of the above Water HUF Tariff.

8

9 **Q. What is Staff's recommendation regarding the Company's proposed Wastewater**
10 **HUF Tariff?**

11 A. Staff's recommends that the Company's proposed Wastewater HUF Tariff be approved.

12

13 **Q. Does this conclude your Direct Testimony?**

14 A. Yes.



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION)
OF LITCHFIELD PARK SERVICE)
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

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 \$1,170,000)
IN CONNECTION WITH (A) THE)
CONSTRUCTION OF ONE 200 KW ROOF)
MOUNTED SOLAR GENERATOR)
INFRASTRUCTURE IMPROVEMENTS)
AND (2) TO ENCUMBER ITS REAL)
PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)

DOCKET NO. W-01427A-09-0120

DIRECT
TESTIMONY
(PHASE 2)
OF
JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JUNE 6, 2011

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EXECUTIVE SUMMARY
LITCHFIELD PARK SERVICE COMPANY
DOCKET NO. SW-01428A-09-0103, et al.

This testimony of Staff witness Mr. Jeffery M. Michlik addresses the Litchfield Park Service Company – Water Division (“Company”) proposed method for recovering the forgone revenue and associated carrying charges resulting from the phased-in rate process authorized in Phase 1 of the rate case. The testimony of Staff witness Mr. Marlin J. Scott Jr. presents Staff’s recommendation regarding the hook-up fees.

Phased Rates Surcharge:

Staff is in agreement with the Company’s proposed methodology to recover the forgone revenues and associated carrying charges. The Company’s methodology anticipates collecting surcharges over an 18-month period to begin after December 31, 2011, equal to 10.98 percent of each customer’s regular monthly water bill and equal to 8.46 percent of each customer’s regular monthly wastewater bill. The Company acknowledges that actual recovery may require a period slightly longer or shorter than 18 months and it intends to evaluate the progress after 12 months. The Company also intends to adjust the bills, if necessary, at the end of the recovery period to true-up the collections to equal forgone revenues and carrying charges. The water surcharge for a typical 5/8-inch meter with an average usage of 4,661 gallons is \$1.80, and the total bill is \$18.17 (\$1.80 surcharge + \$16.37 permanent charge). The wastewater surcharge for a residential customer is \$3.30, and the total bill is \$42.29 (\$3.30 surcharge + \$38.99 permanent charge).

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
4 Arizona Corporation Commission in the Utilities Division ("Staff"). My business address
5 is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same analyst who testified in Phase 1 of this case?**

8 A. Yes.

9
10 **Q. What is the scope of your testimony in Phase 2 of this case?**

11 A. I am presenting Staff's analysis regarding Litchfield Park Service Company's ("LPSCO"
12 or "Company") proposed methodology for recovering the forgone revenue and associated
13 carrying charges resulting from the phased-in rate process authorized in Phase 1 of the rate
14 case. The testimony of Staff witness Mr. Marlin J. Scott Jr. presents Staff's
15 recommendation regarding the hook-up fees.

16
17 **BACKGROUND**

18 **Q. Please discuss the background of this application.**

19 A. By way of a Procedural Order, dated November 23, 2009, the case was bifurcated into two
20 phases. According to the Procedural Order, Phase 1 would consider issues related to the
21 rate and finance applications, and Phase 2 would address LPSCO's proposed hook-up fee
22 tariff.

23
24 Decision No. 72026, dated December 10, 2010, concluded Phase 1 of the rate case and
25 held the docket open for Phase 2 consideration of not only the hook-up fee but also the
26 collection of foregone revenues and associated carrying charges resulting from the

1 authorized phase-in of rates. Finding of Fact No. 41 states: "A phase-in of rates that will
2 allow rates reflecting 50 percent of authorized rates for the first six months; an additional
3 25 percent (75 percent of authorized revenues) for the second six months rates are in
4 effect; and the full rates one year after the effective date of the rates in this Decision, is
5 reasonable and shall be adopted. Collection of the foregone revenues and associated
6 carrying charges should be accomplished through separate water and wastewater
7 surcharges through consideration in Phase 2 of this proceeding."
8

9 On May 2, 2011, a procedural schedule was issued for Phase 2 directing the Company to
10 file direct testimony by May 5, 2011, Staff and intervenors to file direct testimony by June
11 6, 2011, and the Company to file rebuttal testimony by June 17, 2011.
12

13 **ANALYSIS**

14 **Q. Have you reviewed the Direct Testimony of Company witness Greg Sorensen, dated**
15 **May 11, 2011?**

16 **A. Yes.**
17

18 **Q. Is Staff in agreement with the Company's proposed methodology for recovering the**
19 **forgone revenue and associated carrying charges resulting from the phased-in rate**
20 **process authorized in Phase 1 of the rate case?**

21 **A. Yes.**

1 **Q. Please provide a summary of the Company-proposed methodology for recovering the**
2 **forgone revenue and associated carrying charges resulting from the phased-in rate**
3 **process authorized in Phase 1 of the rate case.**

4 A. The Company's methodology anticipates collecting surcharges over an 18-month period
5 to begin after December 31, 2011, equal to 10.98 percent of each customer's regular
6 monthly water bill and equal to 8.46 percent of each customer's regular monthly
7 wastewater bill. The Company acknowledges that actual recovery may require a period
8 slightly longer or shorter than 18 months and it intends to evaluate the progress after 12
9 months. The Company also intends to adjust the bills, if necessary, at the end of the
10 recovery period to true-up the collections to equal forgone revenues and carrying charges.
11 The water surcharge for a typical 5/8-inch meter with an average usage of 4,661 gallons is
12 \$1.80, and the total bill is \$18.17 (\$1.80 surcharge + \$16.37 permanent charge). The
13 wastewater surcharge for a residential customer is \$3.30, and the total bill is \$42.29 (\$3.30
14 surcharge + \$38.99 permanent charge).

15
16 **Q. Does this conclude your direct testimony?**

17 A. Yes, it does.
18

EXHIBIT
8-3
ADMITTED

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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

FEB 02 2001

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

DOCKETED BY *jad*

IN THE MATTER OF THE APPLICATION OF
THE AGUA FRIA WATER DIVISION OF
CITIZENS COMMUNICATIONS COMPANY FOR
AN ACCOUNTING ORDER AUTHORIZING A
HOOK-UP FEE FOR RECOVERY OF DEFERRED
CENTRAL ARIZONA PROJECT EXPENSES AND
FOR RELATED ACCOUNTING TREATMENT.

DOCKET NO. E-01032B-00-0205

DECISION NO. 63334

ORDER

Open Meeting
January 30 & 31, 2001
Phoenix, Arizona

BY THE COMMISSION:

On March 29, 2000, the Agua Fria Water Division ("Agua Fria" or "Division") of Citizens Communications Company ("Citizens") submitted a tariff application to the Arizona Corporation Commission ("Commission") seeking approval of the implementation of a hook-up fee to be assessed on builders and developers for recovery of deferred Central Arizona Project ("CAP") capital costs. On October 12, 2000, the Commission's Utilities Division Staff ("Staff") field testimony indicating Staff supported Agua Fria's request for a hook-up fee and accounting order authorizing deferral of CAP expenses, but recommended a different hook-up fee and carrying cost than proposed by Agua Fria. On November 1, 2000, Agua Fria filed a Reply To Staff Testimony. On November 15, 2000, Staff filed a Response to Company's Reply To Staff Testimony. On November 22, 2000, Agua Fria filed a Reply To Staff's Response To Company's Reply To Staff's Testimony.

Background

Citizens entered into CAP water contracts in October 1985 for its Agua Fria, Sun City Water and Sun City West affiliates. As a result, Agua Fria has an annual CAP water allocation of 11,093 acre-feet. Since 1985, Citizens has been incurring and paying holding charges to the Central Arizona Water Conservation District ("CAWCD") to retain the right to use CAP water for current and future customers. In Decision No. 58750 (August 31, 1994), the Commission authorized deferral of the

1 CAP holding charges and allowed Citizens' Sun City and Agua Fria affiliates to request recovery
2 such amounts at a later time. In 1995, Agua Fria, along with other Citizen affiliates, filed a joint
3 application for rate increases, which included a request for approval of the recovery of deferred and
4 on-going CAP water M&I charges by means of a customer surcharge. In Decision No. 60172 (May
5 7, 1997), the Commission found Citizens' decision to obtain CAP water allocations to have been
6 prudent, but denied the request for surcharge. The Commission believed that at that time, the CAP
7 water was not "used and useful" and that Citizens did not have a definite plan to use the CAP water.

8 In October 1998, Citizens' Sun City West and Sun City Water affiliates filed a joint
9 application with the Commission seeking approval of a "groundwater savings fee," a portion of
10 which was intended to enable the two companies to recover their respective deferred CAP M&I
11 charges. Included in that filing was a definitive plan for the use of CAP water. A key element of that
12 plan was for Citizens to begin delivering CAP water to the existing Maricopa Water District
13 ("MWD") Recharge Facility, which it began doing in March 2000. In Decision No. 62293 (February
14 1, 2000) the Commission found that the Groundwater Savings Project was completed, that the C/
15 water allocation for the Sun Cities affiliates was used and useful and thus, recovery of the deferred
16 costs was appropriate.

17 On July 15, 1999, the Arizona Department of Water Resources ("ADWR") issued Agua Fria a
18 permit to allow the storage of up to 11,093 acre-feet of CAP water at the MWD Recharge Facility.
19 Under its agreement with MWD, Agua Fria has begun delivering 2,100 acre-feet of CAP water per
20 year into the MWD Recharge Facility. The agreement provides for the delivery to increase each year
21 by an additional 1,100 acre-feet until the full use of the allocation is achieved in 2008.

22 Proposed Hook-up Fees and Accounting Treatment

23 To date, Agua Fria has paid over \$2.45 million in CAP water M&I charges that are currently
24 recorded on its balance sheet as a deferred cost. Agua Fria has requested to be able to recover these
25 deferred CAP costs through a flat hook-up fee assessed on developers and builders of residential and
26 commercial subdivisions. Agua Fria proposed three different hook-up fees: 1) a \$150 fee for age-
27 restricted dwellings; 2) a \$257 fee for conventional residential housing units, and 3) a \$1
28 Equivalent Resident Unit ("ERU") fee for commercial buildings. Agua Fria determined the fees by

1 adding deferred and on-going CAP charges and dividing by the number of hook-ups documented in
2 the Agua Fria Master Plan. The fee differential reflects the distinctive water usage patterns for the
3 three customer categories and projected future annual number of hook-ups over the next 10 years.

4 Agua Fria proposed that amortization take place monthly so that, after deducting the
5 amortization expense from the actual hook-up fee revenues, the resulting after-tax operating income
6 equals the required return on the deferral balance based on the rate of return approved in Agua Fria's
7 last rate case (i.e. 8.73 percent approved in Decision No. 60172). According to Citizens, and not
8 disputed by Staff, this approach will ensure that Citizens neither over nor under recovers its deferred
9 costs. Any differences between the projected and actual numbers of hook-ups or costs would be
10 automatically offset by a change in the amortization amount computed. Based on current projections,
11 the deferred balance will be fully amortized in approximately 10 years.

12 Staff's Recommendations

13 In its testimony filed on October 12, 2000, Staff stated that it believed that Agua Fria's use of
14 CAP water is identical to the interim plan adopted by Sun City Water and Sun City West, which the
15 Commission had found to comply with the "used and useful" criteria in Decision No. 60172. Staff
16 further believed that MWD's boundaries are in close alignment with Agua Fria's certificated area and
17 thus, Agua Fria will receive a direct and immediate benefit from reduced groundwater pumping by
18 MWD. Staff believed that recovery of Agua Fria's deferred CAP costs is now appropriate. Staff
19 agreed with Agua Fria that the concept of a hook-up fee was appropriate in this case, as the Agua Fria
20 area is only approximately 15 percent built-out, leaving ample opportunity to recover the deferred
21 costs. Further, Staff stated that the use of hook-up fees at least initially, transfers cost responsibility
22 from ratepayers to builders and developers.

23 Staff did not agree with the Division's proposal for an 8.73 percent rate of return as a carrying
24 charge on deferred CAP charges. Staff recommended a 4.365 percent interest component, or 50
25 percent of the request. Staff's recommendation is consistent with the 4.365 percent approved in
26 Decision No. 62293 in the Sun Cities matter. Staff's recommendation reduces the hook-up fee for
27 age-restricted dwellings from \$150 to \$127, for conventional residential housing units from \$257 to
28 \$218, and for commercial buildings from \$150 to \$127.

1 Staff agreed with Agua Fria's proposal to continue to defer CAP costs for water not be
2 used or delivered for recharge. Staff explained that such treatment is consistent with Decision No.
3 59079 (May 5, 1995) regarding CAP charge recovery for Paradise Valley Water Co., where the
4 Commission allowed recovery of CAP M&I charges without CAP water actually being used where
5 Paradise Valley Water Co. showed that both existing and future customers benefited from its CAP
6 allocation.

7 Staff further recommended that: 1) Agua Fria submit an annual informational report to the
8 Director of the Utilities Division showing the amounts collected through deferred CAP hook-up fees,
9 the amounts amortized, and the outstanding balance of CAP deferrals; 2) when the deferred CAP
10 charges are recovered, the corresponding hook-up fees be terminated and that any over-collection be
11 applied to any on-going CAP costs; 3) within the amortization period in the event Agua Fria fails to
12 recharge its full CAP water allocation, the deferred CAP hook-up fee should terminate and Agua Fria
13 should forfeit recovery of the deferred CAP costs; and 4) Agua Fria file with the Commission for an
14 adjustment to the approved hook-up fees to reflect any price fluctuations in the recharge costs
15 billing determinants, as soon as any fluctuation becomes known and measurable, but not less than
16 annually.

17 The Disputed Issues

18 Agua Fria accepted Staff's recommendations that it file an annual report of hook-up fee
19 revenues and an analysis of the deferral account, and that the collection of hook-up fees should cease
20 once all the deferred CAP costs are recovered. The Division disagreed that the appropriate carrying
21 charge should be only 50 percent of its authorized return. Staff's recommended rate of return is
22 based on the carrying charge approved in the Sun City West and Sun City Water case. Staff believed
23 the 4.365 percent rate of return was appropriate because Agua Fria will not use all the CAP water
24 throughout the amortization period. Agua Fria differentiates the Sun City case with the current
25 situation on the fact that the water recharged by Sun City Water and Sun City West would not
26 physically reach the taps of their customers and consequently there was found to be no "direct benefit
27 to customers." Because Agua Fria's wells are located throughout the area where it's CAP water
28 be discharged, Agua Fria argued the recharged water will reach the taps of its customers and there is

1 an immediate, direct benefit. The Division argued that the CAP allocation was determined based on
2 population projections and demand in the year 2035, and that although Agua Fria, has a large service
3 area and is experiencing rapid growth, it currently has a small developed base of customers, and thus,
4 it's unreasonable to expect it to utilize its full CAP allocation throughout the amortization period. In
5 addition, Citizens notes, the amortization period in the Sun Cities case was for five years, while the
6 period in the current situation is 10 years.

7 Agua Fria also disagreed with Staff that the hook-up fees should cease and the remaining cost
8 deferrals forfeited if Agua Fria fails to recharge its full CAP water allocation. The Division stated
9 that the recharge plan is only an interim measure and it will implement a water management strategy
10 that will ultimately include both direct treatment and recharge of CAP water. Agua Fria argued that
11 circumstances beyond the company's control, or the use of CAP water other than recharge, should
12 not automatically require a change to the hook-up fees or warrant the forfeiture of costs already
13 deemed to have been prudently incurred. Citizens proclaimed that it will inform the Commission of
14 any definitive change in the manner or quantity of the projected actual use of CAP water in its annual
15 informational report. Staff could determine at that time what, if any, actions should be taken.

16 Finally, Agua Fria disagreed with Staff's recommendation that the Division should file for an
17 adjustment to the hook-up fees to reflect any changes in the costs of recharge or billing determinants
18 from the projections in the application. The Division explained that the accounting model it
19 developed in its application uses two variable inputs, the actual balance in the deferral account and
20 the actual revenues generated by the hook-up fees. According to Citizens, to the extent that actual
21 deferred costs are lower than the estimates or the number of hook-ups are greater than projected, the
22 amortization rate is correspondingly increased such that the achieved return will not exceed what has
23 been authorized. Once the deferred costs are recovered the hook-up fees will cease. Agua Fria
24 argued that the administrative burden on itself and Staff to file an adjustment to the approved hook-
25 up fees is unwarranted because there is no risk of over-earning. Agua Fria believed that if the actual
26 costs and billing determinants differ sufficiently from projection to warrant a hook-up fee change,
27 Staff would be aware of this situation through Citizens annual information report.

28 ...

Analysis

1
2 In Decision No. 62293, the Commission approved a carrying cost of 50 percent of Citizens
3 authorized rate of return for its Sun City affiliates, because in that case the recharge of CAP water did
4 not provide a "direct benefit to the customers of the Companies." In this case, Staff has recognized
5 that "[b]ecause of the alignment of service areas, Agua Fria will receive a direct and immediate
6 benefit from reduced groundwater pumping by MWD." Consequently, we believe that the current
7 situation is distinguishable from that of the Sun City affiliates where the Commission found there was
8 no direct benefit to their customers. On a going-forward basis, Agua Fria should receive its full
9 authorized rate of return on its deferred CAP costs.

10 Staff has recommended that if the Company fails to recharge its full CAP allocation, the
11 hook-up fees should cease and the remaining unrecovered deferred costs should be forfeited. We
12 believe that there may be many reasons why Agua Fria might not recharge its full CAP allocation and
13 that it is premature at this point to determine that for whatever reason the unrecovered deferred costs
14 should be forfeited. It does not seem unreasonable, given that full amortization of the deferr
15 balance is currently projected to be approximately ten years, and that Agua Fria's recharge agreement
16 with MWD allows delivery of the full CAP allocation in 2008, to require that Agua Fria achieve full
17 use of its CAP allocation either through recharge or direct treatment, or through a combination of
18 both treatment and recharge, within ten years. We will therefore order that if by December 31, 2010,
19 full recovery of the deferred CAP charges has not yet occurred, and if the Agua Fria Division of
20 Citizens has also as of that date failed to achieve full use of its CAP allocation either through direct
21 treatment or recharge, or through a combination of both treatment and recharge, the deferred CAP
22 hoop-up fee shall terminate on that date, absent a showing of good cause.

23 Finally, Citizens disagreed with Staff's recommendation that Agua Fria should file for an
24 adjustment to the hook-up fees to reflect any changes in the costs of recharge or billing determinants
25 from the estimates used in the application. It seems likely that monthly costs or revenues from hook-
26 up fees will differ somewhat from projections, and that Staff's recommendation, literally interpreted
27 could be an unnecessary administrative burden. To address Staff's concerns that a year could p
28 prior to Citizens informing the Commission that actual costs or billing determinants differ

1 significantly from projections, we will require Citizens to notify the Commission whenever it knows
2 with reasonable certainty that on a quarterly basis, actual costs and/or billing determinants have, or
3 are expected, to deviate from the projections in the application by more than 10 percent.

4 * * * * *

5 Having considered the entire record herein and being fully advised in the premises, the
6 Commission finds, concludes, and orders that:

7 **FINDINGS OF FACT**

8 1. Agua Fria provides water service to approximately 9,300 customers in Maricopa
9 County.

10 2. On March 29, 2000, Agua Fria submitted a tariff application to the Commission
11 seeking approval of the implementation of a hook-up fee to be assessed on builders and developers
12 for recovery of deferred CAP capital costs.

13 3. On June 16, 2000, Mr. Marvin Lustiger and the Arizona Utility Investors Association
14 ("AUIA") were granted intervention.

15 4. On October 12, 2000, Staff filed testimony.

16 5. On November 1, 2000, Agua Fria filed a Reply To Staff Testimony.

17 6. On November 15, 2000, Staff filed a Response To Company's Reply To Staff
18 Testimony.

19 7. On November 22, 2000, Agua Fria filed a Reply To Staff's Response To Company's
20 Reply To Staff Testimony.

21 8. To date, Agua Fria has paid over \$2.45 million in CAP water charges that are
22 currently recorded on its balance sheet.

23 9. Agua Fria has an annual CAP allocation of 11,093 acre feet.

24 10. In Decision No. 60172 (May 7, 1997), the Commission found Citizens' decision to
25 obtain CAP water allocations to have been prudent, but denied the pending request for a surcharge
26 because at that time the CAP water was not "used and useful" and Citizens did not have a definite
27 plan to use the CAP water.

28 11. Commencing in March 2000, Agua Fria began recharging a portion of its CAP

1 allocation at the MWD Recharge Facility. Pursuant to its contract with MWD, Agua Fria will deliver
2 2,200 acre feet of CAP water for recharge in the first year, which delivery will increase by 1,10.
3 acre-feet per year, until the full allocation is used in 2008.

4 12. Agua Fria has requested to be able to recover these deferred CAP costs through a flat
5 hook-up fee assessed on developers and builders of residential and commercial subdivisions. Agua
6 Fria has proposed three different hook-up fees: 1) a \$150 fee for age-restricted dwellings, 2) a \$257
7 fee for conventional residential housing units, and 3) a \$150 Equivalent Resident Unit ("ERU") fee
8 for commercial buildings. Agua Fria requested a carrying charge of 8.74 percent be applied to
9 deferred CAP charges.

10 13. Staff recommended that:

11 (a) The Commission approve hook-up fees of \$127 for age-restricted dwellings, \$218
12 for conventional residential housing units, and \$127 per ERU for commercial buildings;

13 (b) The Commission allow the continued deferral of CAP charges until the full
14 allocation of water is either directly used and/or delivered to the recharge facility;

15 (c) The deferred CAP costs shall include a going forward carrying cost of 4.36.
16 percent, or 50 percent of Citizens authorized rate of return of 8.73 percent;

17 (d) Agua Fria submit an annual informational report to the Director of the Utilities
18 Division showing the amounts collected through deferred CAP hook-up fees, the amounts amortized
19 and the outstanding balance of CAP deferrals;

20 (e) When the deferred CPA charges are recovered, the corresponding hook-up fees be
21 terminated and that any over-collection be applied to any on-going CAP costs;

22 (f) within the Amortization period in the event Agua Fria fails to recharge its full
23 CAP water allocation, the deferred CAP hook-up fee should terminate and the Division should forfeit
24 recovery of the deferred CAP costs; and

25 (g) Agua Fria file with the Commission for an adjustment to the approved hook-up
26 fees to reflect any price fluctuations in the recharge costs or billing determinants, as soon as any
27 fluctuation becomes known and measurable, but not less than annually.

28 14. MWD's boundaries are in close alignment with Agua Fria's certificated area and thus,

1 Agua Fria will receive a direct and immediate benefit from reduced groundwater pumping by MWD.
2 15. Because Agua Fria's agreement with MWD allows recharge of the Division's full
3 CAP allocation in 2008, and because Agua Fria intends to implement a water management strategy
4 that will ultimately include both direct treatment and recharge of CAP water, Agua Fria should
5 reasonably be able to achieve full use of its CAP allocation within approximately ten years.

6 **CONCLUSIONS OF LAW**

7 1. Citizens and Agua Fria are public service corporations pursuant to Article XV of the
8 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

9 2. The Commission has jurisdiction over Citizens and Agua Fria and of the subject
10 matter of the application.

11 3. Notice of the application was given in accordance with the law.

12 4. Citizens' decision to obtain CAP water allocations was a prudent planning decision.

13 5. Agua Fria will receive a direct and immediate benefit from the recharge of its CAP
14 water allocation.

15 6. It is in the public interest to limit the recovery period for the deferred CAP charges
16 that are the subject of this proceeding to a reasonable period of time.

17 7. Adoption of the proposed hook-up fees and Agua Fria's proposed accounting
18 treatment of deferred CAP costs as conditioned herein is in the public interest.

19 **ORDER**

20 IT IS THEREFORE ORDERED that the Agua Fria Water Division of Citizens
21 Communications Company shall file within 15 days from the effective date of this Decision, a tariff
22 setting forth the hook-up fees as approved herein.

23 IT IS FURTHER ORDERED that the amortization amount shall be computed monthly as
24 proposed by Citizens Communications Company and that the deferred CAP costs shall include a
25 going-forward carrying cost of 8.73 percent.

26 IT IS FURTHER ORDERED that the Agua Fria Water Division of Citizens Communications
27 Company shall notify the affected parties to existing Line Extension Agreements of the charges
28 authorized herein and the effective date of the same.

1 IT IS FURTHER ORDERED that the Agua Fria Water Division of Citizens Communicati
2 Company shall file with the compliance section of the Utilities Division within 60 days from the
3 effective date of this Decision a copy of the notice it sends to the affected parties to existing Line
4 Extension Agreements.

5 IT IS FURTHER ORDERED that commencing January 31, 2002, the Agua Fria Water
6 Division of Citizens Communications Company shall submit an annual informational report to the
7 Director of the Utilities Division showing the amounts collected through deferred CAP hook-up fees,
8 the amounts amortized and the outstanding balance of CAP deferrals.

9 IT IS FURTHER ORDERED that when the deferred CAP charges are recovered, the
10 corresponding hook-up fees shall be terminated and that any over-collection be applied to any on-
11 going CAP costs.

12 IT IS FURTHER ORDERED that the Agua Fria Water Division of Citizens Communications
13 Company notify the Director of the Utilities Division in writing whenever it knows with reasonable
14 certainty that on a quarterly basis, actual costs and/or billing determinants have, or are expected,
15 deviate from the projections in the application by more than 10 percent.

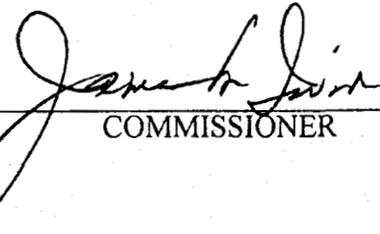
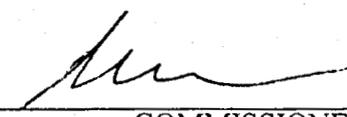
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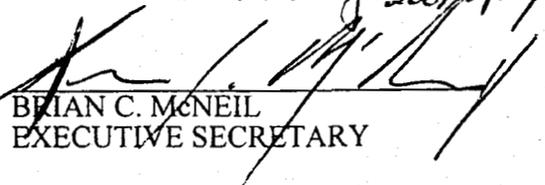
IT IS FURTHER ORDERED that if by December 31, 2010, full recovery of the deferred CAP charges has not yet occurred, and the Agua Fria Division of Citizens Communications Company has also by that date failed to achieve full use of its CAP allocation either through direct treatment or recharge, or through a combination of both treatment and recharge, the deferred CAP hook-up fee shall terminate on that date, absent a showing of good cause.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.


CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 2nd day of February, 2000.


BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

1 SERVICE LIST FOR: THE AGUA FRIA DIVISION OF CITIZENS COMMUNICATIO
2 COMPANY

3 DOCKET NO. W-01032B-00-0205

4 Citizens Communications Company
5 2901 North Central Avenue
6 Suite 1660
7 Phoenix, Arizona 85012

8 Michael Grant
9 Gallagher & Kennedy
10 2575 East Camelback Road
11 Phoenix, Arizona 85016
12 Attorneys for Citizens

13 Ray Jones
14 General Manager
15 Agua Fria Water Division
16 P.O. Box 1686
17 Sun City, Arizona 85372

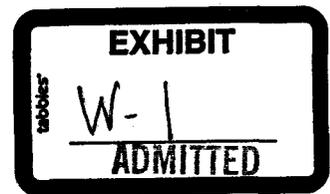
18 Marvin Lustiger
19 5105 North 79th Place
20 Scottsdale, Arizona 85372

21 Walter W. Meek, President
22 Arizona Utility Investors Association
23 2100 North Central Avenue
24 Suite 210
25 Phoenix, Arizona 85004

26 Christopher Kempley, Chief Counsel
27 Arizona Corporation Commission
28 1200 West Washington
Phoenix, Arizona 85007

Deborah R. Scott
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
BRENDA BURNS

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

**REVISED DIRECT TESTIMONY
OF
GARRETT NEWLAND**

1 **I INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Garrett Newland. My business address is 11411 N Tatum Blvd., Phoenix,
5 AZ 85028, and my business phone is (602) 953-6200.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by Westcor as Vice President, Development.

8 **Q. WHAT ARE YOUR RESPONSIBILITIES AS WESTCOR'S VICE PRESIDENT,**
9 **DEVELOPMENT?**

10 A. I manage regional retail development and redevelopment projects for Westcor in the
11 Phoenix Metropolitan area. My recent projects include development of San Tan Village,
12 a ground up, more than 2-million-square-foot, super-regional retail destination in Gilbert,
13 Arizona, and Estrella Falls, a new super-regional retail center in Goodyear, Arizona.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL EXPERIENCE.**

15 A. I received Master of Business Administration and Bachelor of Arts in Government
16 degrees from New Mexico State University in Las Cruces, New Mexico.

17 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

18 A. Before joining Westcor, I served as Economic Development Director for the City of
19 Chandler, Arizona and as Vice President of Business Development for the Greater
20 Phoenix Economic Council. Overall, I have more than 20-years' experience in real
21 estate, economic development and project management in Arizona and New Mexico.

22 **Q. DO YOU HAVE ANY PROFESSIONAL AFFILIATIONS?**

1 A. Yes. I am an active member of the International Council of Shopping Centers and the
2 Valley Partnership, and serve on the Board of Director's as Treasurer for the East Valley
3 Partnership. I am also a Past President of the Board of the Arizona Association for
4 Economic Development.

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

6 A. I am testifying on behalf of Westcor/Goodyear, L.L.C. ("Westcor") and Globe Land
7 Investors, L.L.C. ("Globe"). For simplicity I will refer to Westcor and Globe together as
8 the "Developers."

9 **II PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

11 A. Litchfield Park Service Company ("LPSCO") proposes to implement a new water
12 facilities hook-up fee and a revised wastewater facilities hook-up fee. In accordance with
13 a number of agreements with LPSCO, Developers have already constructed facilities and
14 pre-paid water and wastewater capacity fees for existing and planned residential and
15 commercial construction known as Estrella Falls. LPSCO's proposed new water and
16 revised wastewater hook-up fees should not require Developers or their successors to pay
17 LPSCO any additional funds for development within the Estrella Falls Master Plan.

18 **III THE ESTRELLA FALLS DEVELOPMENT**

19 **Q. WHAT IS THE ESTRELLA FALLS DEVELOPMENT?**

20 A. Developers are working together to develop a project known as "Estrella Falls." Estrella
21 Falls is a 330-acre master-planned, mixed-use, land development north of Interstate 10
22 between Pebble Creek Parkway and Bullard Avenue in the City of Goodyear. I have
23 attached a copy of the Conceptual Master Plan for Estrella Falls to my testimony as
24 Exhibit GN-1.

1 **Q. IS ESTRELLA FALLS WITHIN LPSCO'S CERTIFICATED SERVICE**
2 **TERRITORY?**

3 A. Yes. Three hundred of the 330 acres are located north of McDowell Road and within
4 LPSCO's certificated water and wastewater service area.

5 **Q. WHAT IS THE STATUS OF THE RESIDENTIAL PORTION OF THE**
6 **ESTRELLA FALLS DEVELOPMENT?**

7 A. Globe Land Investors LLC ("GLI") has sold all of the single family, court home and
8 townhouse residential parcels in the Estrella Fall master plan. Currently, GLI and
9 Trammell Crow Residential are joint venturing a multifamily site within the Estrella Fall
10 master plan. This 328-unit project is complete and leasing stands at 93% occupied. The
11 only remaining residential site owned by GLI is another multifamily parcel that is not yet
12 under construction.

13 **Q. HOW IS THE COMMERCIAL PORTION OF ESTRELLA FALLS BEING**
14 **DEVELOPED?**

15 A. Estrella Falls is being developed in phases. Phase I of Estrella Falls is a portion of a 66-
16 acre retail "power center" on the northeast corner of McDowell Road and Pebble Creek
17 Parkway (the "Power Center"). The Power Center will include major tenants, shops and
18 pad buildings, plus hotels. Phase II of the Estrella Falls project involves the remainder of
19 the Power Center, development of a regional center known as the Estrella Falls Mall on
20 the northwest corner of McDowell Road and Bullard Avenue, and additional commercial
21 development. Phase I of the Power Center opened in 2008 and tenants are entering
22 leases. Westcor expects to begin construction of the Estrella Falls Mall in 2013, with
23 completion expected in 2014/15.

1 **Q. HOW WILL LPSCO PROVIDE WATER AND WASTEWATER SERVICE TO**
2 **ESTRELLA FALLS?**

3 A. Because this is a large development, Developers and LPSCO in 2001 entered into four
4 master agreements concerning, among other things, what off-site facilities LPSCO would
5 need to construct to serve Estrella Falls and the amount of funds that Developers would
6 be required to advance or contribute for those off-site facilities. The following table lists
7 each agreement, any off-site facilities for which Developers would be responsible, and
8 any additional funds payable by Developers.

Agreement	Developer-Funding
Residential Water Agreement	Developers paid for two wells each costing \$400,000 (total of \$800,000). Developers or successors constructed and advanced multiple transmission mains, including lines in McDowell Road, Virginia Avenue, Encanto Avenue, and Bullard Road costing hundreds of thousands of dollars.
Residential Wastewater Agreement	Developers paid LPSCO \$2.5 million for wastewater capacity. Developers or successors constructed and advanced multiple transmission mains, including lines in McDowell Road, Virginia Avenue, Encanto Avenue, and Bullard Road costing hundreds of thousands of dollars.
Commercial Water Agreement	Developers advanced \$400,000 to pay LPSCO for a new well. Developers constructed and advanced multiple transmission mains, including lines in Pebble Creek Parkway, McDowell Road, 150th Avenue, Monte Vista and Bullard Roads costing hundreds of thousands of dollars.

Agreement	Developer-Funding
Commercial Wastewater Agreement	For wastewater treatment capacity, Developers paid the following amounts: Phase I Capacity – \$287,640 Phase II Capacity – \$4,844,623 Developers constructed and advanced multiple transmission mains, including lines in Pebble Creek Parkway, McDowell Road, 150th Avenue, Monte Vista and Bullard Roads costing hundreds of thousands of dollars.

1 Developers and LPSCO have also entered into numerous line extension agreements in
2 furtherance of the four master agreements.

3 **Q. I SEE THE PHASE II CAPACITY PAYMENT OF \$4,844,623 FOR**
4 **COMMERCIAL WASTEWATER; IS THIS THE AMOUNT STIPULATED IN**
5 **THE COMMERCIAL WASTEWATER AGREEMENT?**

6 A. No. The parties could not agree on the amount required to be paid in the Commercial
7 Wastewater Agreement for Phase II Capacity. The \$4,844,623 payment was ultimately
8 agreed to in a settlement agreement filed in Complaint Docket No. SW-01428A-08-0234.
9 Developers tendered this amount to LPSCO on November 3, 2008.

10 **IV REQUESTED RELIEF**

11 **Q. WHAT ARE DEVELOPERS ASKING THE COMMISSION TO DO?**

12 A. Simply put, Developers are asking the Commission to honor the existing agreements
13 between them and LPSCO. Developers have constructed or funded almost all required
14 off-site facilities required for LPSCO to provide water and wastewater service to the
15 Estrella Falls Development. LPSCO's proposed new water and revised wastewater hook-
16 up fees should not require Developers or their successors to pay LPSCO any additional
17 funds for development within the Estrella Falls Master Plan.

1 Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A. Yes.



- Retail
- Office
- Hotel
- Residential


Estrella Falls
 Goodyear, Arizona

Conceptual Masterplan

 MACERICH OMNIPLAN