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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8
9 **COMMISSIONERS**

10 GARY PIERCE, CHAIRMAN
11 PAUL NEWMAN
12 SANDRA D. KENNEDY
13 BOB STUMP
14 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

AUG 10 2011

DOCKETED BY

15 IN THE MATTER OF THE APPLICATION OF
16 INDIADA WATER COMPANY, INC., FOR
17 APPROVAL OF A PERMANENT INCREASE
18 IN ITS WATER RATES.

DOCKET NO. W-02031A-10-0168

19 IN THE MATTER OF THE APPLICATION OF
20 ANTELOPE RUN WATER COMPANY FOR
21 APPROVAL OF A PERMANENT INCREASE
22 IN ITS WATER RATES.

DOCKET NO. W-02327A-10-0169

23 IN THE MATTER OF THE APPLICATION OF
24 BOB B. WATKINS DBA EAST SLOPE
25 WATER COMPANY FOR APPROVAL OF
26 ITS PERMANENT INCREASE IN ITS
27 WATER RATES.

DOCKET NO. W-01906A-10-0170

28 IN THE MATTER OF THE APPLICATION OF
BOB B. WATKINS DBA EAST SLOPE
WATER COMPANY, INDIADA WATER
COMPANY, INC., AND ANTELOPE RUN
WATER COMPANY FOR APPROVAL OF A
TRANSFER OF ASSETS AND

DOCKET NO. W-01906A-10-0171
DOCKET NO. W-02031A-10-0171
DOCKET NO. W-02327A-10-0171

1 CERTIFICATES OF CONVENIENCE AND
2 NECESSITY.

3 IN THE MATTER OF THE APPLICATION OF
4 BOB B. WATKINS DBA EAST SLOPE
5 WATER COMPANY FOR AUTHORITY TO
6 INCUR LONG-TERM DEBT.

DOCKET NO. W-01906A-10-0183

6 IN THE MATTER OF THE APPLICATION OF
7 INDIADA WATER COMPANY, INC. FOR
8 AUTHORITY TO INCUR LONG-TERM
9 DEBT.

DOCKET NO. W-02031A-10-0184

9 IN THE MATTER OF THE APPLICATION OF
10 ANTELOPE RUN WATER COMPANY FOR
11 AUTHORITY TO INCUR LONG-TERM
12 DEBT.

DOCKET NO. W-02327A-10-0185

**REBUTTAL TESTIMONY OF
BONNIE O'CONNOR**

13
14 **Q-1 Please state your name and current employment position:**

15 **A-1** I am Bonnie O'Conner, President of Southwestern Utility Management, Inc.
16
17 ("SUM").

18 **Q-2 Describe your educational and professional background:**

19 **A-2** I have worked in an administrative and management capacity for more than 50
20
21 Arizona utilities for approximately 30 years. Currently, SUM manages 27 water
22 companies.

23 **Q-3 What is the purpose of your testimony?**

24 **A-3** I am responsible for overseeing the rate and finance applications in this matter. I
25
26 have reviewed the applications and submittals filed on behalf of East Slope Water
27 Company, Antelope Run Water Company, and Indiada Water Company (collectively
28 "Companies"). I incorporate those documents by reference herein. I can address issues

1 related to the operations and management of the Company. However, the primary
2 purpose of my testimony is to address the Arizona Corporation Commission Staff's
3 proposed rates for the Companies.
4

5 **Q-4 Briefly describe the status of the Companies.**

6 **A-4** These Companies are in dire financial stress and they desperately need system
7 repairs and improvements. Antelope Run has not had a permanent rate increase in more
8 than 32 years. Indiada has not had a permanent rate increase in more than 26 years. East
9 Slope has not had a permanent rate increase in more than 21 years. Two years ago, the
10 Commission approved an emergency rate just so the Companies could avoid complete
11 financial failure. Just to keep the systems operating, SUM agreed to charge the
12 Companies only \$9.00 per connection to manage and operate the system until permanent
13 rates are approved by the Commission. SUM has lost money under this rate. Further, the
14 Companies have made the loss even greater because they cannot pay what is owed to
15 SUM on a monthly basis and pay its other financial obligations.
16
17

18 **Q-5 Please comment on Staff's proposed rates.**

19 **A-5** Staff's proposed rates are unreasonable and would result in jeopardizing the health
20 and safety of the public and employees operating the system. The Companies' permanent
21 rates were set on economic conditions existing over a quarter of a century ago. The
22 average residential customer cost for water service based upon permanent rates are as
23 follows: East Slope - \$14.69; Antelope Run - \$18.40; and Indiada \$29.91. Two years
24 ago, the Commission approved emergency rates so the Companies could meet their
25 operating expenses.
26
27
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1 Despite the way it is presented, Staff's recommendations substantially reduce the
2 amount that the average residential customer currently pays for water service. The
3 median uses for each of the Companies are: East Slope - 5,330 gallons; Antelope Run -
4 6,900 gallons; and Indiada - 5,260 gallons. The table below shows the financial impact
5 that Staff's proposed rates would have on an average residential customer of each of the
6 Companies.
7
8

	Average Cost with Surcharge	Staff Proposed Rates	Staff Proposed Change including Surcharge
East Slope	\$22.29	\$16.05	-27.99%
Antelope Run	\$23.98	\$18.40	-23.27%
Indiada	\$37.74	\$15.94	-57.76%

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11
12
13 In other words, Staff's proposal would essentially wipe out the surcharge and basically
14 return the Company to rates set based upon test years during the 1970s and 1980s.
15

16 **Q-6 Please comment of Staff's recommendation that SUM manage the Companies**
17 **for \$9.00 per connection per month on an ongoing basis.**

18 **A-6** The Companies cannot be managed and operated for \$9.00 per customer per
19 month. Currently, the Companies have 995 customers total (there were 1044 customers
20 during the test year). I generally say the Companies have 1,000 customers because the
21 number varies month-to-month. Using that number, Staff is suggesting that the
22 Companies can be managed and operated for \$9,000 per month. As a practical matter,
23 this is impossible.
24

25 Managing and operating a 1,000 customer water system requires a minimum of
26 three full-time employees: an experienced on-site operator; an apprentice on-site
27 operator; and an office staff person. ESARIN is no different (in fact, it requires more
28

1 staff). SUM has filled the experienced on-site operator for a base salary of under
2 \$35,000. But in addition to his salary, SUM has to pay taxes, benefits (health insurance),
3 and transportation costs (gas, truck repairs and maintenance, insurance, etc.; excluding
4 cost of truck depreciation). Thus, the experienced on-site operator costs SUM \$50,000
5 per year to keep employed.
6

7
8 The apprentice on-site operator has a base salary of under \$30,000, but costs SUM
9 approximately \$35,000 once the costs above salary are factored into the equation. Office
10 staff has a salary similar to the apprentice, but the direct costs are lower primarily
11 because there are no transportation costs. Thus, office staff's direct cost is approximately
12 \$35,000 per year.
13

14 Accordingly, direct staffing costs for ESARIN is \$120,000, excluding any
15 overhead attributable to these three employees. In other words, it directly costs SUM
16 \$10.00 per customer per month to manage and operate ESARIN. Again, this does not
17 even include the time that SUM managerial staff spends working on the systems; this is
18 just direct, normal costs.
19
20

21 **Q-7 What would be the consequence if Staff's recommendation on management
22 fees were adopted?**

23 **A-7** First, SUM would have to dismiss the apprentice on-site operator. Besides costing
24 the apprentice his job, our experience operator, who is over 60 years old, will likely quit
25 as well. He understands that it is unsafe to work in trenches and construction sites alone.
26 ESARIN will be left without anyone who knows how to operate the system on a day-to-
27 day basis. I believe this will cause a serious risk to public health and safety. Knowing
28

1 the incredible risks that will be facing both the public and its employees, SUM would
2 likely resign as ESARIN management.
3

4 **Q-8 Why did you agree to manage and operate ESARIN for \$9.00 per customer**
5 **per month when the direct costs alone are at least \$10.00 per customer per month?**

6 **A-8** I agreed to the reduced rate because I saw how bad this situation was and I thought
7 the financial loss to SUM would be temporary. I anticipated that the Commission would
8 offer temporary relief on an emergency basis and permanent relief once the rate case was
9 concluded. I never imagined that SUM would have to absorb such losses for three years
10 only to find that Staff would seek to set rates based upon SUM's rate offered solely to
11 help ESARIN through its financial crisis.
12

13 **Q-9 Do you agree with Staff's conclusion that SUM's rates are not known and**
14 **measurable?**

15 **A-9** No. Staff's testimony that the proposed management fees are not known and
16 measurable makes no sense. In fact, Staff testified what SUM's rates would be: \$14.60
17 per customer per month for the first 200 customers, \$12.40 per customer per month for
18 the next 300 customers, and \$10.20 per customer per month for 500 or more active
19 customers. This is SUM's standard charges. The Companies and SUM have agreed that
20 these rates go into effect the month after the permanent rates are in place. See
21 Attachment 1. This is known and measurable, and more importantly, necessary.
22
23

24 **Q-10 Please comment on Staff's recommendation that ESARIN implement five**
25 **Best Management Practices.**

26 **A-10** I disagree with this recommendation. The Companies are located outside active
27 management areas and these rules do not apply to the Companies.
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1 **Q-11 Does that conclude your testimony?**

2 **A-11 Yes.**

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ATTACHMENT 1

ADDENDUM #1 TO CONTRACT DATED FEBURARY 1, 2009

East Slope Water Company, Inc.
Antelope Run Water Company
Indiada Water Company

WHEREAS, the following is an addendum to the original management agreement's dated September 1, 2008, between East Slope Water Company, Inc., Antelope Run Water Company and Indiada Water Company (hereinafter Water Company's) and Southwestern Utility Management, Inc. (SUM).

NOW, THEREFORE, IT IS AGREED

It is agreed that the services provided as specified in the original agreement, and as stated on Exhibit "A" the third page of the agreement dated February 1, 2009, specifically Item Number's 4(a), 4(b) and 4 (c) shall be reduced to \$9.00 per active connection.

SUM HAS AGREED IT WILL PROVIDE ALL SERVICES AS NOTED IN THE ORIGINAL CONTRACT.

The above noted service will be provided at a rate of \$9.00 per active customer per month.

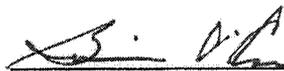
This sum shall be the full compensation for the services described above except or as otherwise provided for in this contract until new rates can be obtained through a rate case via the Arizona Corporation Commission.

After approval of new rates all parties agree that a new contract will be signed which will revert back to the original amounts charged per connection and are as follows:

4(a) 1 – 200 connections \$14.60
4(b) next 300 connections \$12.40
4© 500 connections up \$10.20

Southwestern Utility Management, Inc.

East Slope Water Co.
Antelope Run Water Co.
Indiada Water Company, Inc.



Bonnie L. O'Connor
President

2-1-09
Date: Nathan Watkins Date: 2-1-09
Nathan Watkins, President