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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

SEP 12 2011

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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

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

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

DOCKET NO. W-02031A-10-0184

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

DOCKET NO. W-02327A-10-0185

**COMPANIES' SUMMARY OF
TESTIMONY**

15 The East Slope Water Company, Indiada Water Company, and Antelope Run
16 Water Company ("Companies"), hereby submit this summary of witnesses' testimony.

17 The Companies will offer Sonn Rowell, Bonnie O'Connor, and James Downing as
18 witnesses in its direct case. The Companies will also have available Keith Dojaquez if it
19 becomes necessary to address operational issues.

20 As discussed at the prehearing conference, judicial economy will be served by the
21 Companies and Staff focusing on the disputed issues at the hearing. Accordingly, each
22 Company witness will sponsor their prefiled testimony, and will be available for
23 questioning on any of those issues raised therein. But this summary and the witnesses'
24 direct testimony will focus on the following issues in dispute:
25

- 26 1. East Slope Pumping Equipment
- 27 2. CIAC Amortization
- 28

- 1 3. Emergency Rate Case Expense
- 2 4. WIFA Loan Surcharge Calculation
- 3
- 4 5. Rate of Return
- 5 6. Security Deposits

6 **SONN ROWELL'S TESTIMONY**

7

8 **1. East Slope Pumping Equipment.**

9 The Companies have provided invoices to support the \$3,310 amount Staff
10 adjusted from East Slope's Account 311. This amount should be included in rate base.

11

12 **2. CIAC Amortization**

13 The Companies disagree with the amount of CIAC amortization proposed by Staff
14 and the resulting reduction to depreciation expense. Staff applied a composite rate of
15 7.72% to gross CIAC of \$201,862, which results in a \$15,584 reduction in depreciation
16 expense annually. However, \$194,801 of gross CIAC was fully amortized back in 2001
17 and there is only \$353 of CIAC amortization left to be taken. Therefore, recommending
18 a reduction to depreciation expense of almost \$16,000 per year when only \$353 of
19 amortization remains, is not appropriate.

20 **3. Emergency Rate Case Expense**

21 First and foremost, the Commission granted emergency rates, which shows the
22 Companies' request was reasonable. Here, the emergency rate case expense is treated the
23 same as normal rate case expense. It is a non-recurring expense amortized for a
24 reasonable period of time. Thus, by design both the emergency rate case expense and
25 normal rate case expense are amortized to ensure that there is not an overstatement of
26 regulatory rate case expense.
27
28

1 **4. WIFA Loan Surcharge Calculation**

2 The Companies agree with Staff's proposal to add a surcharge to pay for the
3 WIFA loan expense. However, the surcharge must be set to cover all WIFA debt service
4 expenses, including principal, interests and fees (which are combined), debt service
5 reserves, and repair and replacement reserves required by WIFA. Otherwise, the
6 Companies will not have enough revenue to cover the payments to WIFA.
7
8

9 **5. Rate of Return**

10 The Companies seek an increase of \$153,851 to revenue, resulting in a rate of
11 return of 20.00% and an OM of 12.40% for the combined Companies. The tables below
12 summarize the Companies' position:
13

14 Indiada

15

	ROR	OM	Increase	Increase
Company	16.49%	13.40%	\$6,970	24.77%
Staff	10.00%	8.28%	\$4,559	16.20%

16
17

18 Antelope Run

19

	ROR	OM	Increase	Increase
Company	13.77%	13.34%	\$46,419	94.24%
Staff	10.00%	9.61%	\$40,303	81.82%

20
21

22 East Slope

23

	ROR	OM	Increase	Increase
Company	25.00%	12.00%	\$105,726	51.15%
Staff	10%	4.75%	\$57,207	27.68%

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	ROR	OM	Increase \$	Increase
3 Company	20.00%	12.40%	\$153,851	54.16%
4 Staff	10.00%	6.38%	\$93,854	33.04%

5

6 **6. Security Deposits**

7 A security deposit is not capital and A.A.C. Rule 14-2-403(B)(5) requires the
8 Companies to refund customer deposits in a year unless the customer has been delinquent
9 in payment. The Companies cannot use deposits to make long-term investments in plant.
10 Thus, customer deposits should not be deducted from plant and rate base because the
11 deposits are never put into plant and rate base in the first place.
12

13 **BONNIE O'CONNOR'S TESTIMONY**

14
15 Ms. O'Connor will testify about the condition of the Companies' systems and
16 financial issues. Ms. O'Connor will explain why an emergency rate case was necessary
17 and the costs incurred during that rate case were reasonable. She will also explain why
18 the WIFA surcharge must cover all debt service expenses, including WIFA's reserve
19 requirements. Further, from a management perspective, she will address what happens
20 with security deposits. Finally, she will testify that the Companies' proposed rate of
21 return is reasonable.
22

23 **JAMES DOWNING'S TESTIMONY**

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25 Mr. Downing will testify regarding the condition of the Companies' systems as
26 well as the proposed capital improvement project. Mr. Downing's analysis,
27
28

1 recommended improvements, and cost estimates are set forth in the Pre-Design Report
2 dated May 23, 2011, which will be introduced as evidence.

3
4 RESPECTFULLY SUBMITTED this 12th day of September, 2011.

5 **MOYES SELLERS LTD.**

6 

7

Steve Wene
8 Attorneys for the Companies

9 Original and 13 copies of the foregoing
10 filed this 12th day of September, 2011, with:

11 Docket Control
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

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