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Settlement Agreement Testimony of James Schoemperlen
Goodman Water Company
Docket No. W-02500A-10-0382

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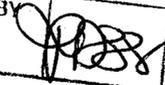
BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE
APPLICATION OF GOODMAN WATER
CORPORATION, FOR (i) A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND (ii) AN INCREASE IN
ITS WATER RATES AND CHARGES
FOR UTILITY SERVICE BASED
THEREON.**

DOCKET NO: W-02500A-10-0382

Arizona Corporation Commission
DOCKETED

OCT 3 2011

DOCKETED BY 

Notice of Filing

James Schoemperlen, an Intervenor, hereby provides notice of filing in support of Settlement Agreement in the above referenced matter.

Respectfully Submitted this 4th day of October, 2011.



James Schoemperlen
Intervenor

Settlement Agreement Testimony of James Schoemperlen
Goodman Water Company
Docket No. W-02500A-10-0382

1 An Original and Fourteen Copies
2 Of the foregoing filed this 4th day
3 Of October, 2011 with:
4
5 Docket Control
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007
9
10 Copies of the foregoing hand delivered/
11 Mailed this 31st day of May, 2011 to:
12
13 Jane L. Rodda
14 Administrative Law Judge
15 Hearing Division
16 Arizona Corporation Commission
17
18 Janice Alward, Chief Counsel
19 Legal Division
20 Arizona Corporation Commission
21
22 Ayesha Vohra
23 Legal Division
24 Arizona Corporation Commission
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27 Utilities Division
28 Arizona Corporation Commission
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Settlement Agreement Testimony of James Schoemperlen
Goodman Water Company
Docket No. W-02500A-10-0382

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BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE
APPLICATION OF GOODMAN WATER
CORPORATION, FOR (i) A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
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THEREON.**

DOCKET NO: W-02500A-10-0382

**DIRECT TESTIMONY IN SUPPORT OF
SETTLEMENT AGREEMENT**

from

JAMES SCHOEMPERLEN

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

October 4, 2011

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I. INTRODUCTION, QUALIFICATIONS AND PURPOSE

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is James M. Schoemperlen. My home address is 39695 South Horse Run Dr. Tucson, AZ 85739

Q2. DO YOU LIVE IN THE EAGLE CREST RANCH SUBDIVISION?

A2. Yes

Q3. WHAT IS YOUR PROFESSION, BACKGROUND AND EDUCATION?

A3. I am a Certified Public Accountant; I am the Corporate Controller for Sargent in Tucson which is an Aerospace Company. I have a BBA in Accounting from the University of Wisconsin. I have a Master's of Science Management from the University of Wisconsin with concentration in Finance.

Q4. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A4. The purpose of this testimony is to support the settlement agreement between Goodman Water Company, the Residential Utility Consumer Office (RUCO) and intervenors Larry Wawrzyniak and James Schoemperlen.

Q5. PLEASE TELL US WHY YOU ARE SUPPORTING THIS AGREEMENT.

A5. Goodman Water Company (GWC), to its credit, realized the degree of resentment within the community concerning the proposed rate increase and on August 19th, approached RUCO and the Intervenors with a settlement proposal and after some negotiation agreement was reached. In my opinion this agreement is fair to all and I believe it has the potential to

usher in a new era of co-operation between the community and GWC. As part of the negotiation process, all parties came to realize that it is in the interest of all to work together to develop the community. As example of what might be possible if GWC achieves its goal of 875 customers, forecasted by the ACC staff, by the end of the rate period, I have included a forecast in Appendix – A. These calculations show a 9.3% average return over the rate period based on the recent \$2,077,253 rate base calculated by ACC staff. It is important to understand that this is only one forecast and other outcomes are certainly possible but the important point is that as the community grows, differences between the GWC position and that of the community tend to naturally disappear and therefore the importance of cooperation in development is underscored.

II. SUMMARY OF SCHEDULES

a. Appendix – A, forecast of outcome of settlement

APPENDIX – A

YEAR

GWC Ave Return at Settlement Agreement and ACC Rate Base and Forecast Growth

	1	2	3	4	5	Increase on Base	
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	Yr-1	Yr-2
Revenue	594,459	715,763	806,906	906,917	1,031,927	Yr-2	5.80%
Total Cost**	519,590	584,511	637,793	696,260	768,956	Yr-3	5.80%
Net Operating Income - After Taxes (Before Interest)	74,869	131,252	169,113	210,657	262,972		
ACC Net Rate Base*	2,077,253	2,077,253	2,077,253	2,077,253	2,077,253		
RATE BASE PER GWC							
0.04 Total Customers	621	670	718	769	875 ^(b)	7.10%	1,546 Total Capacity per Engineer
Average Revenue per Customer	957.26	1,068.30	1,123.82	1,179.35	1,179.35		
Average Rate per Month	79.77	89.03	93.65	98.28	98.28		
Return on Rate Base	4%	6.3%	8.1%	10.1%	12.7%		
Return Requested	7.2%						
Σ of Annualized Returns	773,993						
Average Annualized Return	9.3%						

Operating Expenses (Before Taxes & Interest)	\$ 509,509.00	\$ 542,018.90	\$ 566,445.46	\$ 593,248.68	\$ 626,751.95
Interest Expense	\$ 36,774.00	\$ 36,774.00	\$ 36,774.00	\$ 36,774.00	\$ 36,774.00
Income Before Taxes	\$ 48,176.00	\$ 136,970.19	\$ 203,686.36	\$ 276,893.92	\$ 368,401.27
State Tax Expense	\$ 3,357.87	\$ 9,546.82	\$ 14,196.94	\$ 19,299.51	\$ 25,677.57
Pre Tax Federal Income	\$ 44,818.13	\$ 127,423.37	\$ 189,489.42	\$ 257,594.42	\$ 342,723.70
Federal Taxes	\$ 6,722.72	\$ 32,945.11	\$ 57,150.87	\$ 83,711.82	\$ 116,526.06

Q Since we are interested in the annualized effects of the rate increase (i.e. only the effect of rate increase granted), first year was annualized at requested rate.

* Plant and Equipment supports 825 customers

** Assume total cost per GWC Test Year Adjust w/ adjust for reasonable Prop tax and Wages, Fixed / Variable per below

^(b) Required Compound Growth Rate in Customers to get from 621 to 872 by 2014

Ties to Bourassa Rejoinder Schedule C-1

		Fixed	Variable
Fixed	Salaries and Wages	\$ 40,000.00	\$ 40,000.00
	Purchase Water		
Variable	Purchased Power	\$ 27,642.00	\$ 27,642.00
	Chemicals		
Variable	Repairs and Maintenance	\$ 7,746.00	\$ 7,746.00
Variable	Office Supplies and Expense	\$ 14,855.00	\$ 14,855.00
Variable	Outside Services	\$ 102,925.00	\$ 102,925.00
Variable	Water Testing	\$ 2,783.00	\$ 2,783.00
	Rents		
	Transportation Expenses		
Fixed	Insurance - General Liability	\$ 9,669.00	\$ 9,669.00
	Insurance - Health and Life		
Fixed	Regulatory Commission Expense - Rate Case	\$ 40,000.00	\$ 40,000.00
Variable	Miscellaneous Expense	\$ 378.00	\$ 378.00
Fixed	Depreciation Expense	\$ 241,474.00	\$ 241,474.00
Variable	Taxes Other Than Income	\$ 2,988.00	\$ 2,988.00
Fixed	Property Taxes	\$ 19,049.00	\$ 19,049.00
	Cost before Taxes	\$ 509,509.00	\$ 350,192.00
	Variable/Fixed %	68.7%	31.3%
Variable	Income Taxes	\$ 10,080.59	\$ 10,080.59
	Total Expenses before Interest	\$ 519,589.59	\$ 169,397.59