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BEFORE THE ARIZONA CORPORATION  
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**COMMISSIONERS**

BOB STUMP - Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

2013 SEP -9 A 10: 22

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
NEW RIVER UTILITY COMPANY FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES  
AND CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO. W-01737A-12-0478

**STAFF'S NOTICE OF FILING  
TESTIMONY SUMMARIES**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Testimony  
Summaries of Crystal Brown, John A. Cassidy, and Del Smith in the above docket.

RESPECTFULLY SUBMITTED this 9<sup>th</sup> day of September 2013.

Brian E. Smith, Attorney  
Scott M. Hesla, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
9<sup>th</sup> day of September 2013 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copy of the foregoing mailed this  
9<sup>th</sup> day of September 2013 to:

Jeffrey W. Crockett  
Brownstein Hyatt Farber Schreck LLP  
One East Washington Street, Suite 2400  
Phoenix, Arizona 85004

Arizona Corporation Commission  
**DOCKETED**

SEP - 9 2013

DOCKETED BY

**SUMMARY OF TESTIMONY  
FOR CRYSTAL BROWN  
NEW RIVER UTILITY COMPANY  
DOCKET NO. W-01737A-12-0478**

Staff recommends a revenue increase of \$463,422 or 36.77% percent increase over test year revenue of \$1,260,428. The total annual revenue of \$1,723,850 produces an operating income of \$500,894 or a 7.80 percent rate of return on a fair value cost rate base of \$6,421,716.

**SUMMARY OF TESTIMONY  
FOR JOHN A. CASSIDY  
NEW RIVER UTILITY COMPANY  
DOCKET NO. W-01737A-12-0478**

The surrebuttal testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff continues to recommend that the Commission adopt a capital structure for New River Utility Company (“Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt an 8.9 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its discounted cash flow (“DCF”) method and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.6 percent for the DCF and 7.9 percent for the CAPM. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points (0.6 percent). Staff’s Direct Testimony recommended a ROE of 8.8 percent.

Cost of Debt – Staff continues to recommend that the Commission adopt a 0.0 percent cost of debt, as the Company has no debt in its capital structure.

Fair Value Rate of Return – Staff recommends that the Commission adopt a fair value rate of return (“FVROR”) of 7.8 percent for the Company. Staff’s Direct Testimony recommended a FVROR of 7.6 percent.

Mr. Jones’ Testimony – The Commission should reject the 10.0 percent cost of equity proposed by Mr. Jones because it is not supported by any market based cost of equity estimation analysis.

**SUMMARY OF TESTIMONY  
FOR DEL SMITH  
NEW RIVER UTILITY COMPANY  
DOCKET NO. W-01737A-12-0478**

**Conclusions**

1. New River Utility Company's ("Company") water system has a water loss of 8.6 percent, which is within the acceptable limit of 10 percent.
2. The Company's current well capacity of 2,485 GPM and storage capacity of 3,000,000 gallons are adequate to serve the present customer base and reasonable growth. In addition, the Company has an emergency interconnection with the City of Peoria.
3. The Maricopa County Department of Environmental Services reported no deficiencies and has determined that the Company's system is currently delivering water that meets the water quality standards required by the Code of Federal Regulations Title 40, Part 141 (The National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
4. The Company is located in the Arizona Department of Water Resources' ("ADWR") Phoenix Active Management Area and ADWR reported the Company's system is in compliance with its requirements governing water providers and/or community water systems.
5. According to the Arizona Corporation Commission Utilities Division Compliance Section, the Company had no delinquent compliance issues.
6. The Company has a Commission approved curtailment tariff.
7. The Company has a Commission approved backflow prevention tariff.
8. The Company's proposed rate base adjustment RB1 proposes to include plant costs in rate base related to recent well motor and well pump replacements and electrical system upgrades. Based on information provided by the Company, Staff concludes that these were legitimate costs that were reasonably incurred.

## **Recommendations**

1. Staff concludes that the requested post-test year plant item – City of Peoria interconnection is used and useful for the provision of service to the Company's customers.
2. Staff recommends the Original Cost and Reproduction Cost New plant costs shown in Table E-1 be used for purposes of this proceeding.
3. Staff recommends an annual water testing expense of \$10,636 be adopted for this proceeding.
4. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a decision in this proceeding, at least seven Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission review and approval. These BMP templates are available on the Commission's website. The Company may request cost recovery of the actual costs associated with the implemented BMPs in its next general rate application.
5. Staff recommends that the Company continue to use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category as shown in Table I-1.
6. Staff recommends approval of the proposed service line and meter installations charges as shown in Table J-1.