



0000150362

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

BOB STUMP  
CHAIRMAN  
GARY PIERCE  
COMMISSIONER  
BRENDA BURNS  
COMMISSIONER  
BOB BURNS  
COMMISSIONER  
SUSAN BITTER SMITH  
COMMISSIONER

2014 FEB 14 P 2:31

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

FEB 14 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY FOR  
A DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASE IN ITS  
RATES AND CHARGES BASED THEREON.

Docket No. W-02113A-13-0118

ORIGINAL

NOTICE OF FILING

The Residential Utility Consumer Office hereby provides notice of filing the Testimony  
Summaries of Jeffrey Michlik and David Parcell, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 14<sup>th</sup> day of February, 2014.

Daniel W. Pozefsky  
Chief Counsel

AN ORIGINAL AND THIRTEEN COPIES  
of the foregoing filed this 14<sup>th</sup> day  
of February, 2014 with:

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

1 COPIES of the foregoing hand delivered/  
mailed this 14<sup>th</sup> day of February, 2014 to:

2  
3 Lyn Farmer  
4 Chief Administrative Law Judge  
5 Hearing Division  
6 Arizona Corporation Commission  
7 1200 West Washington  
8 Phoenix, Arizona 85007

9 Janice Alward  
10 Legal Division  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Steve Olea  
15 Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

19 Michael Hallam  
20 Lewis and Roca LLP  
21 40 N. Central Ave.  
22 Phoenix, Arizona 85004-4429

23 Leonora Hebenstreit  
24 16632 E. Ashbrook Drive, Unit A  
Fountain Hills, Arizona 85268

Leigh Oberfeld-Berger  
16623 E. Ashbrook Drive, Unit #2  
Fountain Hills, Arizona 85268

Tracey Holland  
16224 E. Palisades Blvd  
Fountain Hills, Arizona 85268

Gale Evans  
Patricia Huffman  
16218 E. Palisades Blvd  
Fountain Hills, Arizona 85268

Lina Bellenir  
16301 East Jacklin Drive  
Fountain Hills, Arizona 852168

Andrew McGuire  
David A. Pennartz  
Landon W. Loveland  
Gust Rosenfeld PLC  
One E. Washington, Suite 1600  
Phoenix, Arizona 85004

By Cheryl Frauloh  
Cheryl Frauloh

Chaparral City Water Company  
Docket No. W-02113A-13-0118  
Rate Case

SUMMARY OF THE TESTIMONY OF JEFFREY MICHLIK  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

---

The direct and surrebuttal testimony of Mr. Michlik addresses the following outstanding issues:

**Rate Base Issues**

Post-Test Year Plant – RUCO continues to recommend the use of a shorter period in which to recognize Post-Test Year Plant.

Asset Retirement Obligation (“ARO”) – RUCO recommends that ARO associated with the Fountain Hills Sanitation District agreement in the last rate case be removed.

Central Arizona Project (“CAP”) deferral of Maintenance and Industrial (“M&I”) Charges – RUCO continues to recommend the deferral of these costs (with no carrying costs) for future recovery, until the Company can demonstrate it is using more than 50 percent of its additional CAP allocation of 1,931 acre feet.

Removal of 24 months of Allowance for Funds Used During Construction (“AFUDC”) and Depreciation Expense – RUCO continues to reject the inclusion of an additional 24 months of AFUDC and depreciation expense.

Working Capital – RUCO continues to recommend that bad debt expense and rate case expense be excluded from the Company’s lead/lag study.

**Income Statement Issues**

Declining Usage Adjustment – RUCO continues to reject the Company’s declining usage adjustment based on the Company’s questionable methodology. However, if the Commission is inclined to approve a declining usage adjustment, RUCO recommends that the Company file an annual report showing the increase/decrease in water usage for each customer class using a calendar year starting with the 2013 information.

Excess Water Loss Adjustment – RUCO recommends an excess water loss adjustment for water loss over 10 percent.

Incentive Pay – RUCO continues to recommend a sharing of incentive pay between the shareholders and the ratepayers.

Purchased Water Expense – In lieu of a Sustainable Water Surcharge (“SWS”) Mechanism, RUCO continues to recommend an increase to the CAP M&I charges and capital costs (not related to the additional CAP allocation of 50 percent), and any under or over-collection of future CAP M&I charges will be deferred and trued-up in the next rate case.

Corporate Allocation Expense – RUCO continues to recommend the removal of corporate costs that are not necessary for the day to day operations of a water system.

Conservation Expense – RUCO continues to recommend the denial of the Company’s conservation expense, as this expense is out of the test year. Consistent with prior Commission decisions if this expense is related to the implementation of a BMP, than it can be deferred and recovered in a future rate case.

Tank Maintenance Expense – RUCO continues to recommend the denial of tank maintenance expense, as the estimated costs going out 18 years are not known and measurable.

### **Other Issues**

System Improvement Benefits (“SIB”) Mechanism – RUCO continues to recommend the denial of a SIB in its current form. Even though, RUCO is still opposed to a SIB, RUCO recommends the Commission still approve a depreciation set aside for the SIB, to ensure monies are spent for the replacement of SIB eligible plant.

SWS – RUCO recommends that if the Commission is inclined to recommend a SWS in this case, RUCO recommends the following:

1. The pro-forma adjustment to purchased water expense be removed, as the expense will flow through the adjustor mechanism.
2. That the Commission include a component in the calculation for revenue generated from customer growth, to help off-set the SWS surcharge to ratepayers.
3. A further reduction to the Company’s ROE is given consideration.
4. The establishment of a rate case expense recovery surcharge.

Plant Additions and Deletions – RUCO recommends that EPCOR include in all future rate case applications (for all districts) plant schedules that include plant additions, retirements, and accumulated depreciation balances by year and by plant account number that reconcile to the prior Commission decision.

**SUMMARY OF TESTIMONIES OF DAVID C. PARCELL  
ON BEHALF OF RESIDENTIAL UTILITY CONSUMERS OFFICE  
APPLICATION OF CHAPARRAL CITY WATER COMPANY  
ARIZONA CORPORATION COMMISSION  
DOCKET NO. W-02113A-13-0118**

Mr. Parcell's total cost of capital recommendation in this proceeding is:

<u>Capital Item</u>	<u>Percent</u>	<u>Cost</u>	<u>Wgt. Cost</u>
Debt	40.00%	5.92%	2.37%
Common Equity	<u>60.00%</u>	9.35%	<u>5.61%</u>
Totals	100.00%		7.98%

His 9.35% ROE recommendation is derived from his application of three cost of equity models:

<u>Model</u>	<u>Range</u>	<u>Mid-Point</u>
Discounted Cash Flow	8.7%	8.70%
Capital Asset Pricing Model	7.2-7.3%	7.25%
Comparable Earnings	9.0-9.5%	9.25%

He also demonstrates, in both his Direct Testimony and Surrebuttal Testimony, that the ROE recommendation of Chaparral City witness Pauline Ahern significantly over-states the actual cost of equity for the Company.