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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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2014 JAN 24 PM 3 01

IN THE MATTER OF THE APPLICATION OF LAGO DEL ORO WATER COMPANY, AN ARIZONA CORPORATION, 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-01944A-13-0215

STAFF'S NOTICE OF FILING
DIRECT TESTIMONY

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Direct Testimony of Staff witnesses Mary J. Rimback (rate design) and Michael Thompson (cost of service) in the above-captioned matter.

RESPECTFULLY SUBMITTED this 24th day of January, 2014.

Robin R. Mitchell
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 24th day of January, 2014, with:

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

Arizona Corporation Commission

DOCKETED

JAN 24 2014

Copy of the foregoing mailed and/or emailed on the 24th day of January, 2014, to:

DOCKETED BY

Jay L. Shapiro
FENNEMORE CRAIG
2394 East Camelback Road, Suite 600
Phoenix, AZ 85016
Attorneys for Lago Del Oro Water Co.

Steven Soriano
Vice President and General Manager
Lago Del Oro Water Company
9532 East Riggs Road
Sun Lakes, AZ 85248

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

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Commissioner

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Commissioner

IN THE MATTER OF THE APPLICATION OF)
LAGO DEL ORO WATER COMPANY, AN)
ARIZONA CORPORATION 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-01944A-13-0215

DIRECT

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 24, 2014

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**EXECUTIVE SUMMARY
LAGO DEL ORO WATER COMPANY
DOCKET NO. W-01944A-13-0215**

Lago Del Oro Water Company (“LDO” or “Company”) is an Arizona for-profit C-corporation, that is a Class B public service corporation serving potable water to approximately 6,350 customers. The LDO system provides water service to the unincorporated master planned community of Saddlebrooke, the unincorporated community of Catalina, and a smaller residential community surrounded by Saddlebrooke, known as Loma Serena. The three communities are located off State Route 77, approximately 25 miles north of the City of Tucson in Pinal and Pima Counties, Arizona.

The Company-proposed rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 5,500 gallons, by \$7.94 (42.43 percent), from \$18.70 to \$26.64. Under the Staff-recommended rate design for permanent rates, the monthly bill for a typical 5/8 x 3/4-inch residential customer with a median usage of 5,500 gallons would increase by \$5.61 (29.97 percent), from \$18.70 to \$24.31.

Staff recommends approval of its recommended rates and charges as shown on the attached schedules.

1 **I. INTRODUCTION**

2 **Q. Please State your name, occupation, and business address.**

3 A. My name is Mary J. Rimback. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”).
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Mary J. Rimback who previously filed testimony pertaining to rate
8 base, operating revenues and expenses and revenue requirement on behalf of Staff in
9 this docket for Lago Del Oro Water Company’s (“LDO” or “Company”) permanent
10 rate application?**

11 A. Yes.

12
13 **Q. What is the basis of your testimony?**

14 A. Based on adjustments and revenue requirements recommended by Staff, I am presenting
15 Staff’s recommended rate design.

16
17 **II. BACKGROUND**

18 **Q. Please review the background of these applicants.**

19 A. LDO is an affiliate of Robson Communities, Inc. (“Robson”). Robson is best known as a
20 developer of master planned retirement communities in Arizona and Texas. The
21 ownership of LDO is comprised of a number of shareholders; each shareholder is in the
22 form of a trust. As of the filing, there were 20 shareholders/trusts of LDO, each with
23 various ownership percentages. The LDO water system serves the unincorporated master
24 planned community of SaddleBrooke (“SaddleBrooke”), the unincorporated community of
25 Catalina (“Catalina”), and a smaller residential community, surrounded by SaddleBrooke,
26 known as Loma Serena. The three (3) communities are located off State Route 77 (“SR-

1 77"), approximately 25 miles north of the City of Tucson in Pinal and Pima Counties,
2 Arizona. SaddleBrooke Development Company developed the master planned community
3 of Saddlebrooke, which is also a Robson affiliate. The Company's current rates have been
4 in effect since 1989 with the exception of a commodity rate for Saddlebrooke Golf
5 Course, which has been in effect since March 16, 1992.

6
7 **III. RATE DESIGN**

8 **Q. Did Staff prepare a summary of the present, Company's proposed, and Staff-**
9 **recommended rates and charges?**

10 A. Yes, see attached Schedule MJR W1.

11
12 **Q. Please summarize the Company's present rate design.**

13 A. The present rate design is based on minimum monthly charges that increase by meter size
14 as follows: 5/8 x 3/4-inch \$12.40; 3/4-inch \$12.40; 1-inch \$18.00; 1 1/2-inch \$28.00; 2-
15 inch \$40.00; 3-inch \$62.00; 4-inch \$84.00; 5-inch \$106.00; 6-inch \$128.00; and 8-inch
16 \$150.00. With the exception of Saddlebrooke Golf Course, there is a single commodity
17 charge to all meter sizes of \$1.80 per 1,000 gallons excess of 2,000 gallons. 2,000 gallons
18 are included in the minimum charge. A separate tariff, effective March 16, 1992, charges
19 \$.37 per 1,000 gallons for irrigation provided to Saddlebrooke Golf Course. There are
20 currently five meter sizes serving residential customers, six meter sizes serving
21 commercial customers, seven serving irrigation customers (including Saddlebrooke Golf
22 Course).

23
24 **Q. Please summarize the Company's proposed rate design.**

25 A. The Company proposes a three-tiered rate design for 5/8 x 3/4-inch and 3/4-inch
26 residential meters, a two-tiered rate design for all others except for the Saddlebrooke Golf

1 Course irrigation and hydrants/construction. The Company proposes a single tier for
2 Saddlebrooke Golf Course and hydrant/construction. Minimum Charges increase by meter
3 size as follows: 5/8 x 3/4-inch \$14.80; 3/4-inch \$14.80; 1-inch \$24.67; 1 1/2inch \$49.33;
4 2-inch \$78.93; 3-inch \$157.87; 4-inch \$246.67; 5-inch removed; 6-inch \$493.33; and 8-
5 inch \$789.33. The Company added a minimum monthly charge of \$200.00 for the
6 Saddlebrooke Golf Course. Zero gallons are to be included in the monthly minimum
7 charge going forward. The Company proposes a 3-tier inverted residential commodity
8 rate for the 5/8 x 3/4-inch and the 3/4-inch customer of \$1.80 per thousand for zero to
9 4,000 gallons, \$3.09 per thousand gallons for 4,001 to 10,000 gallons, and \$4.38 per
10 thousand for over 10,000 gallons.

11
12 **Q. Please summarize Staff's recommended rate design.**

13 A. Staff recommends the rates and charges presented in Schedule MJR-W1. Staff's
14 recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch
15 \$14.00; 3/4-inch \$14.00; 1-inch \$23.34; 1 1/2inch \$46.66; 2-inch \$74.66; 3-inch \$149.34;
16 4-inch \$233.34; 5-inch removed; 6-inch \$466.66; 8-inch \$746.66, and a minimum
17 monthly charge of \$200.00 for the Saddlebrooke Golf Course. For residential customers
18 with a 5/8 x 3/4-inch and 3/4-inch meters, Staff recommends an inverted tier rate design
19 that consists of three tiers with commodity rates of \$1.50 per thousand gallons for 0-4,000
20 gallons, \$2.87 per thousand gallons for 4,001 to 10,000 gallons, and \$3.85 per thousand
21 gallons for any consumption over 10,000 gallons. Staff recommends a two-tier inverted
22 block rate structure for all other residential, commercial and irrigation customers. The
23 recommended break-over point for two-tier customers increases with meter size, as shown
24 in Schedule MJR-W1. Under the recommended rate design, the monthly bill at any usage
25 level is higher for a larger meter than for a smaller meter.

1 **Q. Did Staff prepare a typical bill analysis for a 5/8 x 3/4 inch residential customer?**

2 A. Yes. See Schedule MJR-W2

3

4 **Q. What is the rate impact on a 5/8 x 3/4-inch meter residential customer using a**
5 **median consumption of 5,500 gallons?**

6 A. Under Staff's recommended rates, a residential 5/8 x 3/4-inch meter customer consuming
7 the median usage of 5,500 gallons per month will pay \$24.31, which is \$5.61 more than
8 the current \$18.70 for a 29.97 percent increase. By comparison, a residential 5/8 x 3/4-
9 inch meter customer consuming the median usage of 5,500 gallons per month under the
10 Company's proposed rates would be billed \$26.64, which is \$7.94 more than the current
11 \$18.70 for a 43.43 percent increase.

12

13 **Q. What does Staff recommend for other service charges?**

14 A. The Company proposes and Staff recommends removal of service charges for
15 Reestablishment (After Hours) \$30.00 and addition of a single After Hours service charge
16 of \$30.00 for all service calls after hours. The Company's current tariff does not include a
17 late payment charge. The Company proposes and Staff recommends inclusion of a late
18 payment charge of 1.5 percent per month. Recommended service charges are presented in
19 Schedule MJR-W1.

20

21 **Q. What is Staff's recommendation for the water system service line and meter**
22 **installation charges?**

23 A. Staff recommends accepting service line and meter installation charges as determined by
24 Staff witness, Michael Thompson, and reflected in the Engineering Report for LDO.

25

1 **Q. Does this conclude your direct testimony for the rate design for LDO?**

2 **A. Yes, it does.**

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates ¹
Meter Size (All Classes):			
5/8 x 3/4 Inch	12.40	14.80	14.00
3/4 Inch	12.40	14.80	14.00
1 Inch	18.00	24.67	23.34
1 1/2 Inch	28.00	49.33	46.66
2 Inch	40.00	78.93	74.66
3 Inch	62.00	157.87	149.34
4 Inch	84.00	246.67	233.34
5 Inch	106.00	Remove	NT
6 Inch	128.00	493.33	466.66
8 Inch	150.00	789.33	746.66
Golf Course Irrigation	-	200.00	200.00
Construction Hydrant	NT	NT	NT
Gallons in Minimum	2,000	-	-
Commodity Charge - Per 1,000 Gallons All Classes			
5/8" x 3/4" Meter			
All classes over Minimum	1.80	N/A	N/A
First 4,000 gallons	N/A	1.80	1.50
4,001 to 10,000 gallons	N/A	3.09	2.87
Over 10,000 gallons	N/A	4.38	3.85
Commercial, Irrigation (except golf course irrigation)			
First 10,000 gallons			
Over 10,000 gallons			
3/4" Meter			
All classes over Minimum	1.80	N/A	N/A
Residential:			
First 4,000 gallons	N/A	1.80	1.50
4,001 to 10,000 gallons	N/A	3.09	2.87
Over 10,000 gallons	N/A	4.38	3.85
Commercial, Irrigation (except golf course irrigation)			
First 10,000 gallons	N/A	3.09	2.87
Over 10,000 gallons	N/A	4.38	3.85
1" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 17,000 gallons	N/A	3.09	2.87
Over 17,000 gallons	N/A	4.38	3.85
1 1/2" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 34,000 gallons	N/A	3.09	2.87
Over 34,000 gallons	N/A	4.38	3.85
2" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 54,000 gallons	N/A	3.09	2.87
Over 54,000 gallons	N/A	4.38	3.85
3" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 107,000 gallons	N/A	3.09	2.87
Over 107,000 gallons	N/A	4.38	3.85
4" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 167,000 gallons	N/A	3.09	2.87
Over 167,000 gallons	N/A	4.38	3.85
6" Meter			
All classes over Minimum	1.80	N/A	N/A
All Classes except golf course irrigation, hydrant			
First 334,000 gallons	N/A	3.09	2.87
	N/A	4.38	3.85

Over 334,000 gallons			
<u>8" Meter</u>	1.80	N/A	N/A
All classes over Minimum			
All Classes except golf course irrigation, hydrant	N/A	3.09	2.87
First 534,000 gallons	N/A	4.38	3.85
Over 534,000 gallons			
<u>Golf Course Irrigation</u>	0.37	0.85	0.85
All Gallons			
<u>Hydrant/Construction</u>	NT	4.38	3.85
All Gallons			
Monthly Service Charge for Fire Sprinkler Up to 8"	NT	NT	Per Rule*
*2% of monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct for the primary water service line.			
Other Service Charges:			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 30.00	N/T	N/T
Reconnection (Delinquent)	\$ 25.00	\$ 25.00	\$ 25.00
Meter Reread (If Correct)	\$ 15.00	\$ 15.00	\$ 15.00
Meter Test (If Correct)	\$ 30.00	\$ 30.00	\$ 30.00
Deposit	**	**	**
Deposit Interest	**	***	***
Reestablishment (within 12 months)	***	***	***
NSF Check	\$ 10.00	\$ 10.00	\$ 10.00
Late Payment Penalty	N/T	1.5% per annum	1.5% per month
Deferred Payment	15% per annum	15% per annum	15% per annum
Moving Meter at Customer Request	N/T	N/T	N/T
Service Calls - Per Hour/After Hours(a)	N/T	N/T	N/T
After Hours Service Charge			30.00
* Per Commission Rule A.A.C. R-14-2-403(B)			
** Per Commission Rule A.A.C. R-14-2-403(B)			
*** Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.			
(a) No charge for service calls during normal working hours.			
In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).			

Service and Meter Installation Charges

	Total Present Charge	Proposed Service Line	Proposed Meter	Total Proposed Charge	Recommended Service Line	Recommended Meter Installation	Total Recommended
5/8 x 3/4-inch	\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 415.00	\$ 155.00	\$ 570.00
3/4-inch	\$ 275.00	\$ 415.00	\$ 205.00	\$ 620.00	\$ 415.00	\$ 205.00	\$ 620.00
1-inch	\$ 300.00	\$ 465.00	\$ 265.00	\$ 730.00	\$ 465.00	\$ 265.00	\$ 730.00
1-1/2-inch	\$ 450.00	520.00	475.00	995.00	520.00	475.00	995.00
2-inch	625.00	-	-	-	-	-	-
2-inch Turbine	-	\$ 800.00	995.00	\$ 1,795.00	\$ 800.00	\$ 995.00	\$ 1,795.00
2-inch Compound	\$ -	800.00	1,840.00	2,640.00	800.00	1,840.00	2,640.00
3-inch	800.00	-	-	-	-	-	-
3-inch Turbine	-	\$ 1,015.00	\$ 1,620.00	\$ 2,635.00	\$ 1,015.00	\$ 1,620.00	\$ 2,635.00
3-inch Compound	\$ -	1,135.00	2,495.00	3,630.00	1,135.00	2,495.00	3,630.00
4-inch	975.00	-	-	-	-	-	-
4-inch Turbine	-	\$ 1,430.00	\$ 2,570.00	\$ 4,000.00	\$ 1,430.00	\$ 2,570.00	\$ 4,000.00
4-inch Compound	\$ -	1,610.00	3,545.00	5,155.00	1,610.00	3,545.00	5,155.00
5-inch	\$ 1,150.00	-	-	-	-	-	-
6-inch	1,325.00	-	-	-	-	-	-
6-inch Turbine	-	2150	\$ 4,925.00	\$ 7,075.00	\$ 2,150.00	4925	\$ 7,075.00
6-inch Compound	\$ -	2,270.00	6,820.00	9,090.00	2,270.00	6,820.00	9,090.00
8-inch	-	-	-	-	-	-	-
8-inch or Larger	\$ 1,500.00	ICB*	ICB*	ICB*	ICB*	ICB*	ICB*

*ICB Indicates Individual Case Basis Cost.

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,024	\$ 21.44	\$ 31.34	\$ 9.90	46.17%
Median Usage	5,500	18.70	26.64	\$ 7.94	42.43%
Staff Recommended					
Average Usage	7,024	\$ 21.44	\$ 28.68	\$ 7.24	33.74%
Median Usage	5,500	18.70	24.31	\$ 5.61	29.97%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 12.40	\$ 14.80	19.35%	\$ 14.00	12.90%
1,000	12.40	16.60	33.87%	15.50	25.00%
2,000	12.40	18.40	48.39%	17.00	37.10%
3,000	14.20	20.20	42.25%	18.50	30.28%
4,000	16.00	22.00	37.50%	20.00	25.00%
5,000	17.80	25.09	40.96%	22.87	28.48%
5,500	18.70	26.64	42.43%	24.31	29.97%
6,500	20.50	29.73	45.00%	27.18	32.56%
7,500	22.30	32.82	47.15%	30.05	34.73%
8,500	24.10	35.91	48.98%	32.92	36.58%
7,024	21.44	31.34	46.17%	28.68	33.74%
9,500	25.90	39.00	50.56%	35.79	38.17%
10,500	27.70	42.73	54.26%	39.15	41.32%
11,500	29.50	47.11	59.69%	43.00	45.75%
12,500	31.30	51.49	64.50%	46.85	49.66%
13,500	33.10	55.87	68.79%	50.70	53.16%
14,500	34.90	60.25	72.64%	54.55	56.29%
15,500	36.70	64.63	76.10%	58.40	59.11%
16,500	38.50	69.01	79.25%	62.25	61.68%
17,500	40.30	73.39	82.11%	66.10	64.01%
18,500	42.10	77.77	84.73%	69.95	66.14%
19,500	43.90	82.15	87.13%	73.80	68.10%
20,500	45.70	86.53	89.34%	77.65	69.90%
25,500	54.70	108.43	98.23%	96.90	77.14%
30,500	63.70	130.33	104.60%	116.15	82.33%
35,500	72.70	152.23	109.39%	135.40	86.24%
40,500	81.70	174.13	113.13%	154.65	89.28%
45,500	90.70	196.03	116.13%	173.90	91.73%
50,500	99.70	217.93	118.59%	193.15	93.73%
75,500	144.70	327.43	126.28%	289.40	100.00%
100,500	189.70	436.93	130.33%	385.65	103.29%

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DIRECT

TESTIMONY

OF

MICHAEL THOMPSON

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 24, 2014

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EXECUTIVE SUMMARY
LAGO ORO WATER COMPANY
DOCKET NO. W-01944A-13-0215

Michael Thompson's testimony discusses Utilities Division Staff's ("Staff") review of Lago Del Oro Water Company's ("Lago Del Oro" or "Company") Cost of Service Study ("COSS") for the rate case filed with the Arizona Corporation Commission ("Commission"), and presents the results of Staff's analysis.

Based on its review of Lago Del Oro's COSS, Staff's conclusions and recommendations are as follows:

1. It is Staff's conclusion that Lago Del Oro performed the COSS consistent with the methodology generally accepted in the industry, and developed all of the allocation factors appropriately.
2. Staff further concludes that, based on the evaluation of the COSS model utilized by Lago Del Oro, the results of the COSS are satisfactory.
3. Staff recommends that Lago Del Oro's COSS cost allocation factors, and cost allocations modified by Staff as included under G Schedules, be accepted as reasonable in the pending case. The revised Schedules G-1 and G-2 are attached in Exhibit 1.

1 **I. INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Michael Thompson. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Water/Wastewater Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since June 2013.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and
12 evaluate water and wastewater systems, obtain data, prepare reports, suggest corrective
13 action, provide technical recommendations on water and wastewater system deficiencies,
14 and provide written and oral testimony on rate and other cases before the Commission.

15
16 **Q. How many cases have you analyzed for the Utilities Division?**

17 A. To date I have analyzed 8 cases covering various responsibilities for the Utilities Division.

18
19 **Q. What is your educational background?**

20 A. I graduated from the SUNY College of Environmental Science and Forestry ("ESF") at
21 Syracuse, New York, and Syracuse University ("SU") at Syracuse, New York. I have a
22 Bachelor of Science Degree in Pulp and Paper Engineering from ESF and Chemical
23 Engineering from SU. I am registered as a Professional Engineer (Civil) in the State of
24 Arizona, and a Grade 2 Certified Water Treatment Plant Operator, and a Grade 3 Certified
25 Water Distribution System Operator.

26

1 **Q. Briefly describe your pertinent work experience.**

2 A. Prior to my employment with the Commission, I was the Operations Engineer, from 2009
3 to 2012, for the Southwest and Central Districts of Golden State Water Company
4 (“GSWC”), located in Gardena and Santa Fe Springs, California, respectively. As the
5 Operations Engineer, I provided technical assistance and support to the districts’
6 operations departments with primary focus on resolving operational problems and
7 optimizing the efficiency of the water system operations. Prior to my employment with
8 GSWC, I was employed with Chaparral City Water Company (“Chaparral”), from 2002 to
9 2009 as District Operations Engineer. While at Chaparral, I performed all capital, new
10 business, and water quality activities within the district. I served as field
11 engineer/construction manager for all capital and new business projects under
12 construction. I also managed all water quality activities including monitoring, sampling,
13 and reporting as required by 40 CFR (National Primary Drinking Water Regulations) and
14 Arizona Administrative Code, Title 18, Chapter 4.

15
16 From 2000 to 2002, I was employed with the Fountain Hills Sanitary District as
17 Engineering Assistant. I performed plan review of all commercial and residential projects
18 in the Town of Fountain Hills, and managed the district’s construction projects.

19
20 From 1996 to 2000, I was employed as an Environmental Engineering Specialist with the
21 Arizona Department of Environmental Quality (“ADEQ”). During that time period, I
22 performed operations and maintenance site inspections of public water systems in Gila,
23 LaPaz, Mohave, and Southwestern Yavapai Counties.

24
25 Prior to working for ADEQ, I began my career in the pulp and paper industry as a process
26 engineer in 1979. During my 16 year career in the pulp and paper industry, I worked for 3

1 different paper companies (Temple-Eastex, Bowater, Inc., and Champion International),
2 where I advanced from a process engineer to Technical Manager.

3
4 **Q. Did Staff perform an analysis of the application that is the subject of this**
5 **proceeding?**

6 A. Yes, Staff's review of the Company's cost of service study was performed by Staff
7 Engineer Prem Bahl who recently retired.

8
9 **Q. Is your testimony herein based on Mr. Bahl's analysis?**

10 A. Yes, it is.

11
12 **Q. What is the purpose of this Direct Testimony?**

13 A. The purpose is to discuss Staff's review of Lago Del Oro's COSS for the rate case, and
14 present the results of this review.

15
16 **II. COST OF SERVICE STUDY – REVIEW PROCESS**

17 **Q. What does the COSS signify?**

18 A. There are three steps in performing the COSS. They are: 1) Functionalization; 2)
19 Classification; and 3) Allocation. First, the COSS enables us to determine the system cost
20 of service by classifying the utility's costs (investments and expenses) by function, such as
21 commodity-related, demand-related, customer-related, and Direct Fire-related functions.
22 Customer-related functions are further broken down into customers and customer services.
23 Second, the study breaks down these costs by customer classes to reflect as closely as
24 possible the cost causation by respective customer classes. Third, the results of the COSS
25 provide a benchmark for the revenues needed from each customer category by
26 appropriately allocating the revenue requirement for each customer class.

1 **Q. Is there a standard COSS Model?**

2 A. There is no standard methodology for designing a COSS, but it is generally advisable to
3 follow a range of alternatives to identify which allocations are more reasonable than
4 others. For that reason, the COSS should be used as a general guide only and as one of
5 many considerations in designing rates.

6
7 **Q. Did Staff conduct a separate independent COSS?**

8 A. No, Staff did not conduct a separate independent COSS.
9

10 **Q. What was the process Staff used in reviewing the Company's COSS?**

11 A. Staff reviewed the Company's overall COSS methodology, which is the Commodity-
12 Demand methodology as outlined in the American Water Works Association Manual M1,
13 "Principles of Water Rates, Fees, and Charges". The Commodity-Demand Method breaks
14 down the costs of providing water service into four primary cost components: commodity
15 costs (costs that tend to vary with the amount of water used by the customers), demand
16 costs (costs associated with peak use/demand), customers costs (costs not associated with
17 water use, such as billing), and direct fire protection costs. Staff then reviewed the G
18 Schedules reflecting various allocation factors (for Commodity, Demand, Customer, and
19 Direct Private Fire) in COSS. Next, staff reviewed the Test Year ("FYE December 31,
20 2012") rate base, revenues, and expenses in the filed rate case. Staff adjustments to rate
21 base, revenues, and expenses were incorporated in the appropriate G Schedules. The
22 modified G Schedules G-1 and G-2 are attached under Exhibit 1.

1 **III. CONCLUSIONS AND RECOMMENDATIONS**

2 **Q. Based upon your testimony, what are Staff's conclusions and recommendations**
3 **regarding the Cost of Service Study?**

4 **A.** Based on the review of Lago Del Oro's COSS, Staff's conclusions and recommendations
5 are as follows:

6
7 1. It is Staff's conclusion that Lago Del Oro performed the COSS consistent with the
8 methodology generally accepted in the industry, and developed the allocation
9 factors appropriately, in accordance with the Staff recommended and Commission
10 approved allocation factors in the Arizona Water Company's rate case (Docket No.
11 W-01444A-08-0440).

12
13 2. Staff further concludes that, based on the evaluation of the COSS model utilized
14 by Lago Del Oro, the results of the COSS are satisfactory.

15
16 3. Staff recommends that Lago Del Oro's COSS allocations and factors be accepted
17 as reasonable in the pending case. The G-schedules G-1 and G-2 are listed under
18 the attached exhibit 1.

19
20 Staff's conclusions are limited to the specific facts of this case and do not create any
21 precedent regarding Cost of Service Studies generally. Staff may make different
22 recommendations in other cases.

23
24 **Q. Does this conclude your Direct Testimony?**

25 **A.** Yes, it does.

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Cost of Service Study, Using Commodity-Demand Method
Returns at Present Rates by Class

Line No.	Totals	Residential	Commercial	Irrigation	Hydrant
1	\$ 1,864,436	\$ 1,644,415	\$ 112,036	\$ 106,235	\$ 1,750
2	Revenue Annualization	386	(4,624)	1,024	-
3	Misc. Revenues ¹	17,117	12,773	1,169	15
4	Reconciliation H-1 to C-1 ¹	299	223	20	55
5	Total Revenues	\$ 1,882,237	\$ 1,652,788	\$ 117,210	\$ 110,474
6					\$ 1,765
7	Operating Expenses ²	\$ 1,054,284	\$ 888,004	\$ 55,015	\$ 110,478
8	Depreciation and Amortization ²	784,622	682,973	56,997	44,197
9	Property Tax ³	93,668	82,250	5,833	5,498
10	Income Tax ⁴	(45,891)	(32,123)	(2,806)	(11,019)
11	Total Operating Expenses	\$ 1,886,684	\$ 1,621,531	\$ 115,077	\$ 149,236
12	Operating Income	(4,446)	31,257	2,133	(38,762)
13	Interest Expense ⁵	95,459	83,056	6,976	5,371
14	Net Income	\$ (99,905)	\$ (146,518)	\$ (12,799)	\$ (50,258)
15					\$ 259
16					
17	Rate Base ⁶	\$ 7,342,965	\$ 6,388,903	\$ 536,651	\$ 413,166
18	Return on Rate Base ⁷	-0.06%	0.49%	0.40%	-9.38%
19					8.89%
20	Percent of Total Customers				
21		97.80%	1.49%	0.65%	0.06%
22					
23					
24					
25					
26					

¹ Allocated based on customer counts.
² Operating Expenses and Depreciation computations are shown on Schedule MJR-W1 Rev Req.
³ Property Taxes allocation based on Revenues
⁴ Income Tax from Schedule MJR-W9, at present rates. Income Taxes allocated based on taxable income
⁵ Interest Synchronized Interest Expense. Allocation based on Rate Base
⁶ Rate Base computations are shown on Schedule MJR-W3.
⁷ Operating Income Divided by Rate Base

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Cost of Service Study, Using Commodity-Demand Method
Returns at Proposed Rates by Class

Line No.	Totals	Residential	Commercial	Irrigation	Hydrant
1	\$ 2,812,678	\$ 2,342,668	\$ 234,203	\$ 233,390	\$ 2,417
2					
3	\$ 17,117	\$ 16,740	\$ 256	\$ 110	\$ 11
4					
5	\$ 2,829,795	\$ 2,359,408	\$ 234,459	\$ 233,500	\$ 2,428
6					
7	\$ 1,054,284	\$ 888,004	\$ 55,015	\$ 110,478	\$ 787
8					
9	\$ 784,622	\$ 682,973	\$ 56,997	\$ 44,197	\$ 456
10	\$ 109,870	\$ 91,607	\$ 9,103	\$ 9,066	\$ 94
11	\$ 300,707	\$ 161,423	\$ 40,348	\$ 21,524	\$ 424
12	\$ 2,249,484	\$ 1,815,966	\$ 161,685	\$ 184,885	\$ 1,766
13	\$ 580,311	\$ 511,091	\$ 98,244	\$ 55,940	\$ 994
14	\$ 95,459	\$ 83,056	\$ 6,976	\$ 5,371	\$ 55
15	\$ 484,852	\$ 333,316	\$ 83,311	\$ 44,443	\$ 876
16					
17	\$ 7,342,965	\$ 6,388,903	\$ 536,651	\$ 413,166	\$ 4,246
18	7.90%	8.00%	18.31%	13.54%	23.41%
19					
20	Percent of Total Customers	97.80%	1.49%	0.65%	0.06%
21					
22	Indicated Monthly Minimums and Single-Tier Commodity Rates for 5/8 Inch Meter				
23	Sched. G-8, pg 4A	Sched. G-8, pg 4B	Sched. G-8, pg 4C	Sched. G-8, pg 4D	
24	All Classes	Residential	Commercial	Irrigation	Hydrant
25	\$ 13.41	\$ 14.28	\$ 14.13	\$ 14.36	\$ 18.62
26	\$ 2.289	\$ 2.659	\$ 2.580	\$ 1.322	\$ 2.132
27	Single-Tier Commodity Rate				
28					

¹ Allocated based on customer counts.
² Operating Expenses and Depreciation computations are shown on Schedule MJR-W1 Rev Req.
³ Property Taxes allocation based on Revenues
⁴ Income Tax from Schedule MJR-W9, at proposed rates. Income Taxes allocated based on taxable income
⁵ Interest Synchronized Interest Expense. Allocation based on Rate Base
⁶ Rate Base computations are shown on Schedule MJR-W3.
⁷ Operating Income Divided by Rate Base