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BEFORE THE ARIZONA CORPORATION C

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ARIZONA CORP COMMISSION
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COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02168A-11-0363

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR APPROVAL OF A REVISION OF THE
COMPANY'S EXISTING TERMS AND
CONDITIONS OF WATER SERVICE.

DOCKET NO. W-02168A-13-0309

IN THE MATTER OF THE APPLICATION OF
TRUXTON CANYON WATER COMPANY, INC.
FOR AUTHORITY TO INCUR LONG-TERM
DEBT.

DOCKET NO. W-02168A-13-0332

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

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby files its witness summaries in the above-referenced docket.

RESPECTFULLY SUBMITTED this 21st day of February, 2014.

Bridget A. Humphrey, Staff Attorney
Charles H. Hains, Staff 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
21st day of February, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85006

Arizona Corporation Commission
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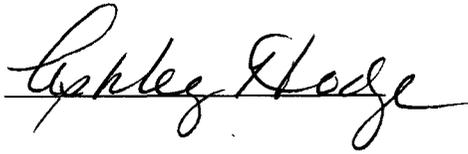
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1 Copy of the foregoing mailed and/or emailed
2 this 21st day of February, 2014 to:

3 Steve Wene
4 MOYES SELLERS & HENDRICKS LTD.
5 1850 North Central Avenue, Suite 1100
6 Phoenix, AZ 85004
7 Attorneys for Truxton Canyon Water Co., Inc.

8 Todd C. Wiley
9 FENNEMORE CRAIG, P.C.
10 2394 E. Camelback Rd., Suite 600
11 Phoenix, AZ 85016
12 Attorneys for Intervenor Valle Vista Property
13 Owners Association, Inc.

14 Michael Neal, Statutory Agent
15 Truxton Canyon Water Company, Inc.
16 7313 E. Concho Drive, Suite B
17 Kingman, AZ 86401

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**TESTIMONY SUMMARY
CRYSTAL S. BROWN
TRUXTON CANYON
DOCKET NO. W-02168A-11-0363 ET AL.**

The testimony of Staff witness Crystal S. Brown addresses the following issues:

Truxton Canyon Water Company, Inc. ("Truxton" or "Company") is an Arizona public service corporation engaged in providing water utility services to approximately 913 residential and commercial customers in the vicinity of Kingman, Mohave County, Arizona. Truxton's current rates were approved in Decision No. 63713, dated June 6, 2001.

The Company proposes a \$300,000, or 53.96 percent revenue increase from \$555,924 to \$855,924; this increase would produce an operating income of \$95,000. The Company proposes an original cost rate base ("OCRB") of a negative \$185,698. As such, the Company is proposing an operating margin of 11.10 percent. The Company's proposed rates would increase the typical residential 3/4-inch meter bill with a median usage of 3,754 gallons from \$24.94 to \$40.39, for an increase of \$15.45 or 61.94 percent, as shown on Surrebuttal Schedule CSB-23.

Staff recommends a \$66,818, or 12.02 percent revenue decrease from \$555,924 to \$489,106; this decrease would produce an operating income of \$50,000. Staff recommends an OCRB of a negative \$249,270 as shown on Surrebuttal Schedule CSB-1. As such, Staff is recommending an operating income derived using the cash flow methodology which would result in an operating margin of 10.22 percent. Staff's recommended rates would decrease the typical residential 3/4-inch meter bill with a median usage of 3,754 gallons from \$24.94 to \$19.41, for a decrease of \$5.53 or 22.19 percent, as shown on Surrebuttal Schedule CSB-23.

**TESTIMONY SUMMARY
DOROTHY H. HAINS
TRUXTON CANYON WATER COMPANY
DOCKET NO. W-02168A-11-0363 ET AL.**

The testimony of Staff witness Dorothy H. Hains addresses the following issues:

Ms. Hains' testimony provides Staff's recommendations regarding the engineering aspects of the rate and financing applications for Truxton Canyon Water Company. Staff's engineering recommendations are as follows:

1. Staff recommends that Truxton use depreciation rates by individual National Association of Regulatory Utility Commissioners category;
2. Staff recommends the meter and service line installation charges described in the Staff engineering report;
3. Staff recommends annual water testing expense of \$5,215.00 be used for this proceeding;
4. Staff recommends that the Company immediately begin to monitor the gallons of water pumped and the gallons of water sold on a monthly basis. The Company should coordinate when it reads the "source" meters each month with when it reads the "customer" meters so that an accurate accounting of the water pumped and the water delivered to customers can be determined. Staff further recommends that the Company file its water usage report for the 2014 year in the Company's 2015 Annual Report filed with the Commission. If the reported water loss is greater than 10%, Staff further recommends that the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If Truxton believes it is not cost effective to reduce the water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall Truxton allow water loss to be greater than 15%;
5. Staff recommends that any increase in rates approved by the Commission not become effective until the Company files documentation from the Arizona Department of Environmental Quality ("ADEQ") that it is now in compliance for the monitoring of chlorine residual and nitrates;
6. Staff recommends that the Company file a curtailment tariff with the Commission's Docket Control as a compliance item in this docket as soon as possible, but no later than forty-five days after the effective date of the final Commission Decision in this matter. The tariff shall be docketed as a compliance item under this docket number for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample standard non-consecutive water system tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make

minor modifications according to its specific management, operational, and design requirements as necessary and appropriate;

7. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least five (5) Best Management Practice (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. Staff further recommends that a maximum of two BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application; and
8. Staff recommends that the Commission approve \$259,800 to fund the installation of a 250 GPM arsenic treatment plant. Staff concludes that the listed system improvements noted in Staff’s engineering report are appropriate and the costs as adjusted by Staff reasonable. No “used and useful” determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2015, a copy of the Certificate of Approval of Construction for installation of the 250 GPM arsenic treatment plant.

Further, Staff provided numerous conclusions with regard to its engineering evaluation as follows:

1. Truxton is not in compliance with Commission orders because ownership of the wells and assets has not been transferred to the Company in Compliance with Decision No. 72386. A check of the Commission’s Utilities Division Compliance Section database indicated that there were no other delinquent compliance items for Truxton (Per status check dated September 4, 2013);
2. Truxton is not compliant with ADEQ operational requirements and has monitoring and reporting deficiencies. ADEQ stated that it cannot determine if the system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4;
3. Truxton is not located in any Arizona Department of Water Resources (“ADWR”) Active Management Area (“AMA”) and is not subject to AMA reporting and conservation rules. ADWR reported that Truxton is currently compliant with department requirements governing water providers and or community water systems; and
4. Staff concludes that the Truxton has adequate production and storage capacities to serve existing customers and reasonable growth if the assets of the Trust are available for Truxton to use to provide water service. If Truxton does not have access to the facilities

of the Trust, Truxton will not have adequate production and storage capacity to serve existing customers and reasonable growth.

Finally, Ms. Hains reviewed the replacement cost study for the Trust assets used to provide water to the Truxton system that was provided as an errata to the rejoinder testimony of Mr. Matt Rowell. Ms. Hains will present the attached reconstruction cost study that Staff performed. The reconstruction cost study produced by Ms. Hains utilized the estimated dates for when the original facilities owned by the Trust were constructed and referenced the Handy-Whitman Index of Public Utility Construction Costs: Trends of Construction Costs to develop an original cost for the Trust assets in light of when the facilities were constructed.

Staff is not recommending the use of any reconstruction study for purposes of valuing the Trust assets. Staff's recommendation regarding the valuation of the Trust's assets is presented in the testimony of Ms. Crystal Brown. However, Staff is providing Ms. Hains' study as an example of what Staff believes would constitute an appropriately representative description of the original cost of the facilities in the absence of documentation provided by Truxton. Staff's reconstruction cost new study does not account for depreciation. Due to the position Staff is taking with regard to depreciation in relation to the application as it has been presented, Staff still recommends a value of \$0 for the Trust assets for the reasons presented in the testimony of Ms. Brown.

Well (active)	Year installed	Estimated original cost (by RCN method)
55-624988 (29 Well) - 16" casing, 593' deep	1943	\$7,653
55-624986 (Davis 1 Well) - 16" casing, 1,072' deep	1962	\$35,165
55-624999 (Walapai 1 Well) - 20" casing, 1,059" deep	1964	\$77,034
Sub-Total		\$119,852
Storage Tank		
500,000 gal concrete tank	1944 (est)	\$673,717
Two 40,000 gal steel tanks in Walapai 1 Well site	1964 (est)	\$8,839
Sub-Total		\$682,556
Transmission Lines		
15 miles of 16" cast iron pipes (assumed)	1943 (est)	\$1,384,077
Sub-Total		\$1,384,077
Total		\$2,186,485