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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

ORIGINAL

Arizona Corporation Commission

DOCKETED

MAY 30 2014

DOCKETED BY

DOCKET NO. W-01997A-12-0501

IN THE MATTER OF THE APPLICATION OF
ADAMAN MUTUAL WATER COMPANY
FOR A RATE INCREASE.

**NOTICE OF FILING
STAFF'S SURREBUTTAL TESTIMONIES**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimonies of Crystal S. Brown, John A. Cassidy and Katrin Stukov, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 30th day of May, 2014.

Charles H. Hains, 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 30th day of May, 2013, with:

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

Copy of the foregoing mailed this 30th day of May, 2013, to:

David Schofield, General Manager
ADAMAN MUTUAL WATER COMPANY
16251 West Glendale Avenue
Litchfield Park, Arizona 85340

Craig A. Marks
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Phoenix, Arizona 85028

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF)
ADAMAN MUTUAL WATER COMPANY FOR)
APPROVAL OF A RATE INCREASE.)
_____)

DOCKET NO. W-01997A-12-0501

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 30, 2014

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EXECUTIVE SUMMARY
ADAMAN MUTUAL WATER COMPANY
DOCKET NO. W-01997A-12-0501

Staff's surrebuttal testimony responds to Adaman Mutual Water Company's ("Adaman") or "Company") rebuttal testimony regarding Staff's recommendation to require the Company file the schedules prescribed by the Arizona Administrative Code R-14-2-103 for Class C utilities rather than file a short form application as it did in the instant case.

The Company has indicated only two areas of disagreement with Staff. The first is with respect to a Staff recommendation that Adaman file its next rate case using the schedules prescribed for a Class C utility. Adaman's stated position is that it will file schedules appropriate to its classification based on the applicable rule in its next rate proceeding. The second area of disagreement is with regard to Best Management Practices ("BMP") and will be addressed in the surrebuttal Testimony of Katrin Stukov.

Staff Recommends that the Company be ordered to file a permanent rate case no later than May 31, 2016, using a test year ending December 31, 2016, and that such rate case contain schedules in accordance with the applicable rules in place at that time.

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6

7 **Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.

9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff,
13 to the rebuttal testimony of Mr. Ray L. Jones, witness for Adaman Mutual Water Company
14 (“Adaman” or “Company”).

15

16 **Q. What issue will you address?**

17 A. I will address the Company’s response to Staff’s recommendation concerning the schedules
18 to be filed for its 2016 rate application.

19

20 **Q. Is Staff enclosing new schedules?**

21 A. No. Since there are no changes, Staff’s Direct schedules are the final schedules.

22

23 **Q. Does your silence on any particular issue raised in the Company’s rebuttal testimony
24 indicate that Staff agrees with the Company’s stated rebuttal position?**

25 A. No. Rather, where I do not respond, I am continuing to rely on my direct testimony.

26

1 **RECOMMENDED REVENUE**

2 **Q. What is Staff's recommended revenue.**

3 A. Staff recommends no change to the Company's test year revenue of \$423,775 as shown on
4 Surrebuttal Schedules CSB-1 and CSB-9.

5
6 **Q. How does Staff's recommended revenue compare to the recommended revenue in
7 Staff's direct testimony?**

8 A. Staff's recommended revenue is the same as the recommendation made in its direct
9 testimony.

10

11 **RATE BASE**

12 **Q. What is Staff's recommended rate base?**

13 A. Staff's recommended rate base is a \$304,022 as shown on Surrebuttal Schedules CSB-1 and
14 CSB-3.

15

16 **Q. How does Staff's recommended rate base compare to the recommended rate base in
17 Staff's direct testimony?**

18 A. Staff's recommended rate base rate is the same as the recommendation made in its direct
19 testimony.

20

21 **2016 FILING REQUIREMENT RECOMMENDATION**

22 **Q. What was Staff's recommendation in its direct testimony concerning the schedules to
23 be filed for Adaman's 2016 rate application?**

24 A. The original recommendation was as follows:

25

26 Staff recommends that the Company file the schedules prescribed by
27 the Arizona Administrative Code R-14-2-103 for Class C utilities
28 rather than file a short form application as it did in the instant case.

1 **Q. Did Staff review the Company's rebuttal testimony regarding Staff's 2016 filing**
2 **requirements?**

3 A. Yes. The Company noted that the Commission is currently considering changes to R14-2-
4 103 that would reclassify Adaman as a Class D utility. As a Class D utility, Adaman would be
5 eligible to file using the short-form application. Adaman proposes that it file schedules in its
6 next rate case in accordance with the applicable rule in place at the time of the filing.

7
8 **Q. Does Staff agree?**

9 A. Yes.

10

11 **Q. Does this conclude Staff's surrebuttal testimony?**

12 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

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Commissioner

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IN THE MATTER OF THE APPLICATION OF)
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DOCKET NO. W-01997A-12-0501

SURREBUTTAL

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 30, 2014

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EXECUTIVE SUMMARY
ADAMAN MUTUAL WATER COMPANY
DOCKET NO. W-01997A-12-0501

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 Adaman Mutual Water Company (“Adaman” or “Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff continues to recommend that the Commission adopt a 9.1 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the 8.5 percent average of its discounted cash flow method (“DCF”) and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.5 percent for the DCF and 8.4 percent for the CAPM. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points.

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

Overall Rate of Return – Staff continues to recommend that the Commission adopt a 9.1 percent overall rate of return for the Company.

Staff Recommends:

A 9.1 percent overall cost of capital for the Company.

1 **I. INTRODUCTION**

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

3 A. My name is John A. Cassidy. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same John A. Cassidy who filed direct testimony in this case?**

8 A. Yes, I am.

9
10 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this rate proceeding?**

12 A. The purpose of my surrebuttal testimony is to provide a summary for the Administrative Law
13 Judge regarding Adaman Mutual Water Company's ("Adaman" or "Company") cost of
14 capital.

15
16 **Q. Did Staff update its cost of capital analysis for purposes of its surrebuttal testimony in
17 this docket?**

18 A. No. Staff's surrebuttal cost of capital recommendations are identical to those recommended
19 by Staff in direct testimony.

20
21 **Q. Are there any unresolved cost of capital issues remaining between Staff and the
22 Company in this docket?**

23 A. No, not that I am aware of. Both parties agree on a capital structure consisting of 0.0 percent
24 debt and 100.0 percent equity for the Company, and as evidenced by Mr. Jones' rebuttal

1 testimony,¹ the parties appear to agree on Staff's recommended 9.1 percent cost of equity and
2 9.1 percent overall rate of return for Adaman.

3
4 **Q. Does Mr. Jones' rebuttal testimony provide other evidence that the Company is in**
5 **agreement with Staff's recommended 9.1 percent cost of equity and overall 9.1 percent**
6 **rate of return?**

7 A. Yes. In his rebuttal testimony, Mr. Jones acknowledges that (i) both the Company and Staff
8 propose no change to Adaman's \$423,775 revenue requirement, (ii) the Company is in
9 agreement with Staff's proposed adjusted rate base of \$304,022, and (iii) the Company agrees
10 with Staff's adjusted test-year operating income of \$33,725.²

11
12 **III. STAFF RECOMMENDATIONS**

13 **Q. What are Staff's recommendations?**

14 A. Staff recommends the following for Adaman's cost of capital:

- 15 1. A capital structure of 0.0 percent debt and 100.0 percent equity.
- 16 2. A 0.0 percent cost of debt.
- 17 3. A 9.1 percent cost of equity (a figure which includes an upward 60 basis point (0.6
18 percent) economic assessment adjustment).
- 19 4. A 9.1 percent overall rate of return.

20
21 **Q. Did Staff include any schedules with its surrebuttal testimony?**

22 A. No. Staff's direct testimony schedules are its final schedules.

23
24 **Q. Does this conclude your surrebuttal testimony?**

25 A. Yes, it does.

¹ See Jones Rebuttal Testimony, pp. 4-5, lines 19:2.

² See Jones Rebuttal Testimony, p. 4, lines 3-15.

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DOCKET NO. W-01997A-12-0501

SURREBUTTAL

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

MAY 30, 2014

Summary of Recommendations

Staff recommends that the Adaman Mutual Water Company (“Adaman” or “Company”) file with Docket Control as a compliance item in this docket, within 30 days of a decision in this case, a copy of the Arizona Department of Environmental Quality (“ADEQ”) Approval of Construction (“AOC”) for the new Well No. 1C and a copy of the ADEQ AOC for the waterline connecting the new Well No. 1C to Adaman potable water system.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for the 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>. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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1 **INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3 A. My name is Katrin Stukov. My place of employment is the Arizona Corporation
4 Commission (“Commission”), Utilities Division (“Staff”), 1200 West Washington Street,
5 Phoenix, Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Katrin Stukov who submitted Direct Testimony on behalf of the
8 Utilities Division?**

9 A. Yes.

10

11 **Q. What was the purpose of that testimony?**

12 A. My Direct Testimony provided Staff’s engineering evaluation of Adaman Mutual Water
13 Company (“Adaman” or “Company”) water system for this rate case proceeding.

14

15 **Q. What is the purpose of your Surrebuttal Testimony?**

16 A. To provide Staff’s responses to the Company’s Rebuttal Testimony regarding Staff’s
17 Recommendations and confirm the current Recommendations that Staff is making as of this
18 filing. Staff still recommends that the Company file with Docket Control as a compliance
19 item in this docket by May 31, 2014, a copy of the Arizona Department of Environmental
20 Quality (“ADEQ”) Approval of Construction (“AOC”) for the new Well No.1C.

21 Additionally, Staff continues to recommend that the Company be required to file with
22 Docket Control, as a compliance item in this docket, within 90 days of the effective date of
23 this Decision, at least three BMPs in the form of tariffs that conform to the templates created
24 by Staff for the Commission’s review and consideration. The templates created by Staff are

25 available on the Commission’s website at
26 <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost

1 recovery of actual costs associated with the BMPs implemented in its next general rate
2 application.

3

4 **Q. Based on the rebuttal testimony of Ray L. Jones regarding Staff's recommendation**
5 **that the Company file a copy of the ADEQ AOC for the new Well No.1C, does Staff**
6 **make any changes to its recommendation?**

7 A. Yes. Staff recommends that the Company file with Docket Control as a compliance item in
8 this docket, within 30 days of a decision in this case, a copy of the ADEQ AOC for the new
9 Well No. 1C and a copy of the ADEQ AOC for the waterline connecting the new Well No.
10 1C to Adaman potable water system.

11

12 **Q. Based on the rebuttal testimony of Ray L. Jones regarding Staff's recommendation**
13 **that the Company file three BMP tariffs, does Staff make any changes to its original**
14 **recommendation?**

15 A. No. Staff's recommendation is based on Staff's understanding of current Commission policy
16 regarding BMPs and is consistent with that policy. Therefore Staff continues to recommend
17 that the Company be required to file three BMPs in the form of tariffs.

18

19 **Q. Does Staff make any other changes to its engineering recommendations?**

20 A. No.

21

22 **Q. Does this conclude your Surrebuttal Testimony?**

23 A. Yes, it does.