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BEFORE THE ARIZONA CORPORATION

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- GARY PIERCE
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ORIGINAL

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
NACO WATER COMPANY, LLC FOR A
PERMANENT INCREASE TO ITS WATER
RATES.

DOCKET NO. W-02860A-13-0399

STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony of Phan Tsan and Dorothy Hains in the above docket.

RESPECTFULLY SUBMITTED this 18th day of August 2014.

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Original and thirteen (13) copies of the foregoing filed this 18th day of August 2014 with:

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Arizona Corporation Commission

DOCKETED

AUG 18 2014

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
NACO WATER COMPANY, LLC. FOR)
APPROVAL OF A RATE INCREASE.)
_____)

DOCKET NO. W-02860A-13-0399

SURREBUTTAL

TESTIMONY

OF

PHAN TSAN

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 18, 2014

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**EXECUTIVE SUMMARY
NACO WATER COMPANY, LLC.
DOCKET NO. W-02860A-13-0399**

Staff's surrebuttal testimony addresses the following issues raised in Naco Water Company, LLC's ("Naco" or "the Company") rebuttal testimony:

1. Rate Base
 - a. Pressure Tanks Account
 - b. Water Trailer
 - c. Removal of 2006 Rate Case and WIFA Grant Application Expense
 - d. Post Test Year Plant Additions

2. Operating Income
 - a. Reclassification of Office Supplies expense and Outside Service accounts.
 - b. WIFA Administrative Fee
 - c. Rate Case Expense

Revenue Requirement- Staff's position on revenue requirement has not changed. Staff continues to support the recommendation in its direct testimony.

1 **INTRODUCTION**

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

3 A. My name is Phan Tsan. I am a Public Utilities Analyst I 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 Phan Tsan who previously submitted direct testimony in this case?**

8 A. Yes, I am.

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. Matthew Rowell, who represents Naco Water Company,
14 LLC (“Naco” or “the Company”).

15
16 **Q. Do you plan to address every issue raised by the Company in its rebuttal testimony?**

17 A. No. I limit my discussion to certain issues as outlined below. My silence on any particular
18 issue raised in the Company’s rebuttal testimony does not indicate that Staff agrees with the
19 Company’s stated rebuttal position on the issue. I rely on my direct testimony unless
20 modified by this surrebuttal testimony.

21
22 **Q. What issues will Staff address?**

23 A. Staff will address the issues listed below that are discussed in the rebuttal testimony of
24 Company witness Mr. Matthew Rowell.

25 Rate Base

26 1. Pressure Tanks Account

1 2. Water Trailer

2 3. Removal of 2006 Rate Case and Water Infrastructure Finance Authority (“WIFA”
3 Grant Application Expense

4 4. Post Test Year Plant Additions

5 Operating Income

6 1. Reclassification of Office Supplies expense and Outside Service accounts.

7 2. WIFA Administrative Fee

8 3. Rate Case Expense

9
10 **STAFF’S RESPONSE TO REBUTTAL TESTIMONY OF MATTHEW ROWELL**

11 **Pressure Tanks Account (Rate Base Adjustment No. 1)**

12 **Q. Does Staff agree with the Company that there should not be a sub-Account for**
13 **Pressure Tanks under Distributions Reservoirs and Standpipes account?**

14 A. No. Distribution Reservoirs and Standpipes Account (Account 300) is broken out to Storage
15 Tanks (Account 330.1) and Pressure Tanks (Account 330.2) with different depreciation rates
16 that were approved by the Commission. Since the investments in these two sub-accounts are
17 subject to different depreciation rates, Staff believes it is appropriate to maintain separate sub-
18 accounts for Pressure Tanks and Storage Tanks.

19
20 **Water Trailer (Rate Base Adjustment No. 2)**

21 **Q. Does Staff still believe that the water trailer was double-counted?**

22 A. Yes. In an email sent to Staff on May 8, 2014, Mr. Matthew Rowell stated that “all of the
23 Prop. Held (sic) for Future Use was applied to T&D mains in 2011 except for the \$32,885
24 for the well No. 4 rehab that went to Wells and Springs and \$300 that went to outside

1 services.” The sub-ledger and invoices provided by the Company show that the cost of the
2 trailer and well No. 4 rehab were included in Property Held for Future Use. However,
3 according to Mr. Rowell’s statement and the reconciliation schedule of Transmission and
4 Distribution Mains provided by the Company, only the cost of the well No. 4 rehab was
5 taken out, not the cost of the trailer, and the cost of the trailer has already been included in
6 Transportation Equipment account.
7

8 **2006 Rate Case and WIFA Grant Application Expense (Rate Base Adjustment No. 2)**

9 **Q. Did the Company accept Staff’s direct testimony position on the removal of a total of**
10 **\$11,748 for 2006 rate case expense and WIFA grant application expense?**

11 A. No. The Company argued that Staff overstated the cost of 2006 rate case expense and the
12 costs associated with the WIFA grant application should be capitalized.
13

14 **Q. Does Staff agree with the Company that 2006 rate case expense Staff removed was**
15 **overstated?**

16 A. No. Staff relied on invoice 32301A from Tierra Dynamics, an Engineering consulting firm
17 which states the services and related costs for the “AZ Corp Com Rate Application” (Page 10
18 to 12 of the invoice).
19

20 **Q. Does Staff agree with the Company that the WIFA Grant Application Expense should**
21 **be capitalized in this case?**

22 A. No. According to the Contributions In Aid of Construction (“CIAC”) schedule provided by
23 the Company, the Company did not actually receive any grants from WIFA (there is no
24 WIFA grant listed in its CIAC schedule). Capitalized costs are expense deferrals that will
25 provide benefits in future accounting periods or that will be utilized in providing service in

1 future accounting periods. Therefore, the costs should not be capitalized since they provide
2 no future benefits for rate payers.

3
4 **Post Test Year Plant Additions (Rate Base Adjustment No. 3)**

5 **Q. Why is Staff's amount of the post-test year plant additions different than the amount**
6 **reported by the Company?**

7 A. Staff witness Dorothy Hains Made adjustments to the post-test year plant additions in Staff's
8 Engineering Report, which resulted in Rate Base Adjustment No. 3.

9
10 **Office Supplies and Expense Account and Outside Services Account (Operating income**
11 **Adjustment No. 2 and No. 3)**

12 **Q. Is Staff still recommending reclassification of the expenses booked to the Office**
13 **Supplies and Expense Account and Outside Services Account to other accounts to be**
14 **in compliance with National Association of Regulatory Utility Commissioners**
15 **Uniform System of Accounts ("NARUC USoA")?**

16 A. Yes. The Commission requires all regulated utility companies to keep their books in
17 compliance with NARUC USoA. Moreover, Outside Services Account is a broad account.
18 Staff believes there are more specific accounts under NARUC USoA to reflect the proper
19 classification of costs incurred for the services not performed by utility employees, such as
20 Contractual Services-Billing, Contractual Service-Professional, Contractual Services-Testing,
21 and Contractual Services-Other. If the Company wishes to create an Office Supplies and
22 Expenses Account as a sub-Account to the miscellaneous expense account, Staff has no
23 objection. Setting this up as sub-Account to the primary miscellaneous expense Account
24 would eliminate the issue between Staff and the Company.

1 **WIFA Administrative Fee (Operating Income Adjustment No. 2)**

2 **Q. Is Staff's surrebuttal position the same as its direct position (to classify \$27,270 WIFA**
3 **Administrative Fee as interest expense)?**

4 **A.** Yes. As stated in Staff's direct testimony, Staff had a discussion with Ms. Patricia Incognito,
5 WIFA's Chief Financial Officer, and Ms. Incognito indicated that the administrative fee is
6 part of the Combined Interest and Fee Rate ("CIFR") for all WIFA loans. For the purposes
7 of this rate case, the CIFR is properly designated as interest expense.

8
9 **Rate Case Expense**

10 **Q. Did the Company propose a new amount for rate case expense in its rebuttal**
11 **testimony?**

12 **A.** Yes, the Company proposed increasing total rate case expense from \$27,690 to \$50,000, to be
13 amortized over 4 years, i.e., \$12,500 per year.

14
15 **Q. What is Staff's recommendation regarding rate case expense?**

16 **A.** Staff is not changing its recommendation from its direct testimony. Staff does not believe
17 that an almost doubling of the rate case expense is reasonable due to the need to respond to
18 Staff's discovery questions to support the company's application. Staff's believes that the
19 Company's past filing record is more accurate than what the Company states it will do in the
20 future; therefore Staff believes five-year normalization is appropriate.

21
22 **REVENUE REQUIREMENT**

23 **Q. Has Staff changed its recommendation regarding Revenue Requirement?**

24 **A.** No. Staff has not changed its recommendation from its direct testimony.
25

- 1 Q. Does this conclude your surrebuttal testimony?
- 2 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

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SUSAN BITTER SMITH

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IN THE MATTER OF THE APPLICATION)
OF NACO WATER COMPANY, LLC)
FOR A PERMANENT INCREASE IN)
ITS WATER RATES AND CHARGES)
_____)

DOCKET NO. W-02860A-13-0399

SURREBUTTAL

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

August 18, 2014

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5

6 Q. Are you the same Dorothy Hains who has previously filed testimony in this Naco
7 Water Company, LLC ("Naco" or "Company") rate proceeding?

8 A. Yes.

9

10 Q. Have you read the Company's Rebuttal Testimony?

11 A. Yes, I did.

12

13 Q. After Staff reviewed the Company's Rebuttal Testimony, did Staff change its position?

14 A. No.

15

16 Q. Please explain why Staff is filing this Surrebuttal Testimony.

17 A. Staff would like to use this opportunity to further explain its position on safety equipment at
18 Site No. 3 and correct a typographical error in Staff's Engineering Report.

19

20 Q. In the Rebuttal Testimony filed by Ms. Bonnie O'Connor, Ms. O'Connor disagrees
21 with Staff's disallowance of the eye wash and safety shower equipment at Site No. 3.

22 Please explain why Staff disallowed this safety equipment from rate base.

23 A. There is no well at Site No. 3. Water transported to the storage tank at Site No. 3 is
24 disinfected at the Well No. 6 Site and Well No. 2 Site. No disinfection is required at Site No.

25 3. The Operator will not handle any corrosive chemicals, such as chlorine bleach at Site No. 3.

1 Therefore, the eye wash and safety shower equipment at Site No 3 serves no purpose and is
2 not needed. Further, the Company has equipped all active wells (Well No. 2, Well 6 and Well
3 No. 4) with eye wash and safety shower equipment.

4
5 **II. CORRECTION OF A TYPOGRAPHICAL ERROR CONTAINED IN**
6 **ENGINEERING REPORT**

7 **Q. What is the correction Staff would like to make?**

8 **A.** Staff mistakenly listed "\$131 for a 5/8 x 3/4 inch size meter charge under Staff's
9 Recommended Meter Charge" in Table 4 on Page 13 in the Engineering Report. The charge
10 listed should have been \$131.50 instead of \$131.

11
12 **Q. Does this conclude your Surrebuttal Testimony?**

13 **A.** Yes, it does.