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**COMMISSIONERS**

BOB STUMP, Chairman  
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Arizona Corporation Commission

AZ CORP COMMISSION  
DOCKET CONTROL

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SEP 17 2014

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IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER AND SEWER), CORP. FOR APPROVAL OF AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. W-01427A-14-0134

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER AND SEWER), CORP. FOR APPROVAL OF AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WASTEWATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. SW-01428A-14-0180

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE WATER UTILITY SERVICE IN MARICOPA COUNTY, ARIZONA.

DOCKET NO. W-01412A-14-0262

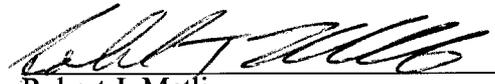
**VALLEY UTILITIES WATER COMPANY, INC.'S NOTICE OF FILING RESPONSIVE TESTIMONY TO STAFF REPORT**

Valley Utilities Water Company, Inc. ("VUWCO"), through undersigned counsel, hereby files its Responsive Testimony to Staff Report, attached hereto as Exhibit A.

DATED this 17<sup>th</sup> day of September, 2014.

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MUNGER CHADWICK, P.L.C.



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Phoenix, Arizona 85016  
Attorneys for Applicant Valley Utilities  
Water Company, Inc.

Original and 13 copies of the foregoing  
filed this 17<sup>th</sup> day of September, 2014, with:

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Copies of the foregoing hand-delivered/mailed  
this 17<sup>th</sup> day of September, 2014, to:

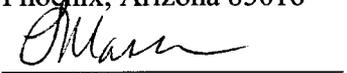
Sasha Paternoster  
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**Exhibit A**

**COMMISSIONERS**

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

IN THE MATTER OF THE APPLICATION  
OF LIBERTY UTILITIES (LITCHFIELD  
PARK WATER AND SEWER), CORP. FOR  
APPROVAL OF AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE WATER  
UTILITY SERVICE IN MARICOPA  
COUNTY, ARIZONA.

DOCKET NO. W-01427A-14-0134

IN THE MATTER OF THE APPLICATION  
OF LIBERTY UTILITIES (LITCHFIELD  
PARK WATER AND SEWER), CORP. FOR  
APPROVAL OF AN EXTENSION OF ITS  
CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE WASTEWATER  
UTILITY SERVICE IN MARICOPA  
COUNTY, ARIZONA.

DOCKET NO. SW-01428A-14-0180

IN THE MATTER OF THE APPLICATION  
OF VALLEY UTILITIES WATER  
COMPANY, INC. FOR AN EXTENSION OF  
ITS CERTIFICATE OF CONVENIENCE  
AND NECESSITY TO PROVIDE WATER  
UTILITY SERVICE IN MARICOPA  
COUNTY, ARIZONA.

DOCKET NO. W-01412A-14-0262

**TESTIMONY**  
**of**  
**Robert L. Prince**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Robert L. Prince. My business address is 6808 N. Dysart Road, Suite 112, Glendale, Arizona 85307.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am the President of Valley Utilities Water Company, Inc. ("Valley" or the "Company").

**Q. PLEASE OUTLINE YOUR RESPONSIBILITIES AS THEY RELATE TO VALLEY.**

A. As the President, I am generally responsible for the managing of all the operational, administrative, financial, and regulatory matters.

**Q. HOW LONG HAVE YOU BEEN INVOLVED WITH VALLEY?**

A. I started as a part-time employee in 1962, and became full-time in 1987.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION?**

A. Yes, on several prior occasions, and most recently in Valley's 2013 rate proceeding, Docket No. W-01412A-12-0195 ("2013 rate case").

**Q. IN A PREVIOUS RATE CASE, DECISION NO. 68309 DATED NOVEMBER 14, 2005, YOU WERE ORDERED BY THE COMMISSION TO PRODUCE A POSITIVE EQUITY POSITION. HAVE YOU HAD SUCCESS WITH RESPECT TO THIS ISSUE?**

A. Valley has made great strides in producing a positive equity position as well as increasing rate base. Valley's equity position has improved from a negative (\$413,442) for the test year ended December 31, 2003 to a positive \$313,720 as of December 31, 2013, an increase of \$727,162. Valley's rate base has increased from a negative (\$169,027) as of test year ended June 30, 2008 to a positive \$1,769,212 as of December 31, 2013 an increase of \$1,938,239.

**Q. WHY DID VALLEY FILE A COMPETING CC&N EXTENSION APPLICATION?**

A. First, Valley did not file a CC&N Extension Application merely as an opportunity to expand; Valley was approached by the developer, Mr. John Wittrock, as to our willingness and ability to provide water service to Marbella Ranch. Second, Valley surrounds the extension area on three sides and is contiguous on two sides. Third, with the addition of the Marbella Ranch customers, the economies of scale for Valley's current and future customers will benefit from this CC&N extension. Fourth, we entered into a Main Extension Agreement, approved by the Commission, with the City of Glendale ("City") on a 16-inch water main that extends from Glendale Avenue north to Northern Avenue in Dysart Road. This main extension was entered into with the City to provide water service to assist in the development of the new Northern Parkway and contemplates, as part of the reimbursement, additional development and growth on both the east and west side of Dysart Road.

**Q. WHEN WERE YOU CONTACTED BY THE DEVELOPER OR ITS REPRESENTATIVES TO PROVIDE WATER SERVICE TO THE MARBELLA RANCH PROJECT?**

A. We had two meetings with Mr. Wittrock, representing TRS 8, LLC and Mr. Ray Jones with Aricor Water Solutions. The meetings were held at Valley's office, on December 3, 2013 and March 10, 2014.

**Q. MR. WITTROCK FILED A LETTER IN THE DOCKET, WHICH STATES HE HAS NOT REQUESTED WATER SERVICE FROM VALLEY, IS THIS CORRECT?**

A. Mr. Wittrock did not make a written request for water service from Valley; however, in the meetings mentioned previously, Mr. Wittrock and Mr. Jones led us to believe that a verbal request for water service was made to Valley.

**Q. WERE YOU AWARE THAT LIBERTY WAS ALSO APPROACHED IN REGARD TO PROVIDING SERVICE TO MARBELLA RANCH?**

A. On January 23, 2014, we were informed by Mr. Jones that he and the developer met with Liberty and that Liberty was willing to provide wastewater service and would not oppose Valley providing water service to Marbella Ranch.

**Q. EARLIER YOU STATED THAT VALLEY IS CONTIGUOUS ON TWO SIDES OF THE PROPOSED EXTENSION AREA. WHERE ARE THE CLOSEST WATER MAINS IN VALLEY'S CURRENT SERVICE AREA?**

A. Valley is not only contiguous on two sides; it also has water mains to the south and to the west of the proposed extension area. We have 8-inch and 12-inch water mains that are 1,490 feet and 1,100 feet, respectively, south of the extension area. Valley also has a 16-inch water main just west of the extension area which provides water to the City of Glendale.

**Q. HOW WOULD VALLEY AND ITS CUSTOMERS BENEFIT FROM ECONOMIES OF SCALE?**

A. The Marbella Ranch development would increase Valley's customer base by 87%, as compared to a 7% increase for Liberty. Valley would be able to allocate its expenses over a much larger customer base resulting in stabilized rates which benefits current and future customers.

**Q. ARE THERE ANY BENEFITS TO THE PUBLIC INTEREST IF VALLEY WAS GRANTED THE CC&N EXTENSION?**

A. As I mentioned previously, Valley has a 16-inch water main in Dysart Road that supplies water to the City of Glendale for the Northern Parkway. As part of the approved Main Extension Agreement, the City will be reimbursed by any growth on both the east and west side of Dysart Road. If Valley is not granted the extension, the likelihood of the east side of Dysart being developed and Valley being the water provider would be greatly diminished which would negatively

impact the City.

**Q. IS STAFF CORRECT IN STATING THAT VALLEY HAS ADEQUATE PRODUCTION CAPACITY TO SUPPORT THE EXISTING CUSTOMER BASE AND GROWTH IN PHASE I OF THE REQUESTED AREA?**

A. No. The proposed Well #1 will provide water to Phase I of Marbella Ranch, not Phase II. The proposed Well #2 will provide water to Phase II of Marbella Ranch and both wells were included in Valley's cost estimate.

**Q. WHY DID VALLEY ADOPT LIBERTY'S ON SITE WATER PLAN AND COST ESTIMATES AS WELL AS ITS CONSTRUCTION SCHEDULE?**

A. Valley sent a registered letter to Mr. Wittrock on June 19, 2014 requesting all available data specific to the water use for Marbella Ranch. Valley did not receive a response and had no choice but to adopt the on-site plans and construction schedule that were provided to Liberty by the developer.

**Q. STAFF STATES THAT VALLEY HAS AN OFF SITE HOOKUP FEE TARIFF. IS THIS CORRECT?**

A. No. Valley does not have an off-site hookup fee tariff. Valley does have an Arsenic Impact Fee that is expected to terminate in 2015.

**Q. DOES STAFF'S RECOMMENDATION TO REQUIRE VALLEY TO FUND THE ENTIRE CONSTRUCTION COSTS WITH EQUITY SEEM REASONABLE?**

A. To require Valley to assume all of the financial risk of construction, typically the responsibility of the developer, is unreasonable and dangerous. Public Service Corporations must not be forced into speculative high risk ventures, irrespective of their debt to equity position. This violates the conservative nature of the water utility industry and unnecessarily jeopardizes the financial wellbeing of any small utility. Furthermore, it is unreasonable to require the shareholders of Valley to make an investment of \$7,450,762, resulting in an investment which would

increase Valley's rate base by **421%, yet only increase Valley's customer base by 87%**. This places companies the size of Valley in an untenable position and sets a precedent for growth that only includes larger multinational companies and excludes smaller companies like Valley.

**Q. STAFF STATES THAT LIBERTY IS LIKELY TO HAVE EFFICIENCIES THAT VALLEY WOULD NOT HAVE. DOES LIBERTY PROVIDE WASTEWATER SERVICE TO ANY OF VALLEY'S CUSTOMERS NOW AND WHAT HAS THAT EXPERIENCE BEEN LIKE?**

A. Currently, 49% of Valley's water customers are provided wastewater services by Liberty. We have worked efficiently with Liberty since the first customer was served in the Dreaming Summit Development in 2001 and we are currently adding new customers for both water and wastewater each month. Valley has been sending and will continue to send monthly reports as needed without any problems. This relationship has not resulted in any complaints by Liberty or customers nor have there been any adverse consequences. There may be small efficiencies by having a single service provider but Staff has not quantified these efficiencies and it seems to be immaterial in relation to the size of the Marbella Ranch Project.

**Q. WHAT WILL THE FINANCIAL IMPACT BE TO VALLEY IF ITS CC&N EXTENSION IS GRANTED?**

A. The growth that Marbella Ranch would bring to Valley would allow Valley to benefit from economies of scale that would include increases to its retained earnings and to provide for capital improvements at a financially healthier pace. This would result in an improved debt to equity ratio, allowing Valley to achieve a better balance of financial resources.

**Q. IS IT POSSIBLE THAT BOTH COMPANIES CAN BENEFIT FROM THE CC&N EXTENSION?**

A. If the Commission grants Valley its CC&N extension request, both companies would increase their customer bases. I have already explained above how such expansion would benefit Valley. However, if the Commission grants Liberty its CC&N extension request for water service, there would be no benefit to Valley or its customers.

**Q. WHAT OPPORTUNITIES CAN BE ACHIEVED BY THE COMMISSION'S DECISION IN THIS MATTER?**

A. This is the Commission's opportunity to allow a small water company to become financially healthier by expansion, which would allow that company to enjoy the economies of scale that are needed for any successful company to thrive. Such expansion will create a financially stronger, larger and more efficient water company, which would benefit all of Valley's customers and ultimately be in the public interest.

**Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes it does.