



0000156420

**BEFORE THE ARIZONA CORPORATION COMMISSION**

RECEIVED

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
RENZ D. JENNINGS  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

MAY 21 9 31 AM '98

558-441-1101

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51

IN THE MATTER OF THE APPLICATION OF )  
CITIZENS UTILITIES COMPANY FOR A (1)  
APPROVAL OF THE AGREEMENT FOR THE  
VILLAGES AT DESERT HILLS WATER/  
WASTEWATER INFRASTRUCTURE,  
AND (2) APPROVAL OF FORMATION OF  
SUBSIDIARIES.

DOCKET NO. W-01032A-97-0599

IN THE MATTER OF THE APPLICATION OF  
CITIZENS WATER SERVICES COMPANY OF  
ARIZONA FOR (1) A CERTIFICATE OF  
CONVENIENCE AND NECESSITY TO  
PROVIDE POTABLE WATER AND WASTE-  
WATER SERVICES TO THE VILLAGES  
AT DESERT HILLS, (2) APPROVAL OF  
THE AGREEMENT FOR THE VILLAGES AT  
DESERT HILLS WATER/WASTEWATER  
INFRASTRUCTURE, AND (3) APPROVAL  
OF THE WATER/WASTEWATER PURCHASE  
AGREEMENT.

DOCKET NO. SW-03454A-97-0599

Arizona Corporation Commission  
**DOCKETED**

MAY 21 1998

DOCKETED BY *AMK*

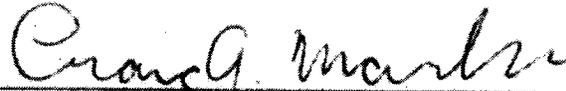
IN THE MATTER OF THE APPLICATION OF  
CITIZENS WATER RESOURCES COMPANY  
OF ARIZONA FOR (1) A CERTIFICATE OF  
CONVENIENCE AND NECESSITY TO  
PROVIDE POTABLE WATER AND WASTE-  
WATER SERVICES TO THE VILLAGES AT  
DESERT HILLS, (2) APPROVAL OF THE  
AGREEMENT FOR THE VILLAGES AT  
DESERT HILLS WATER/WASTEWATER  
INFRASTRUCTURE, AND (3) APPROVAL  
OF THE WATER/WASTEWATER  
PURCHASE AGREEMENT.

DOCKET NO. SW-03455A-97-0599

**NOTICE OF FILING**

1 Citizens Utilities Company hereby provides Notice of Filing Additional  
2 Direct Testimony for Robert L. O'Brien in the above-referenced docket.

3 RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of May, 1998.

4  
5  
6  
7 

8 Craig A. Marks  
9 Associate General Counsel  
10 Citizens Utilities Company  
11 2901 N. Central Avenue, Suite 1660  
12 Phoenix, Arizona 85012  
13  
14  
15

16 Original and ten copies filed  
17 this 21<sup>st</sup> day of May, 1998, with:

18  
19 Docket Control  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007  
23

24  
25 Copies of the foregoing delivered  
26 this 21<sup>st</sup> day of May, 1998, to:

27  
28 Lyn Farmer  
29 Hearing Division  
30 Arizona Corporation Commission  
31 1200 West Washington  
32 Phoenix, Arizona 85007  
33

34 Paul Bullis  
35 Chief Counsel, Legal Division  
36 Arizona Corporation Commission  
37 1200 West Washington  
38 Phoenix, Arizona 85007  
39

APR 10 10 00 AM '00

1 Ray Williamson  
2 Director, Utilities Division  
3 Arizona Corporation Commission  
4 1200 West Washington  
5 Phoenix, Arizona 85007  
6  
7 Teena Ingram Wolfe, Staff Attorney  
8 Residential Utilities Consumer Office  
9 2828 N. Central Avenue, Suite 1200  
10 Phoenix, Arizona 85004

11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44

By Joann Zychlewicz  
Joann Zychlewicz

0100100605

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22

**ADDITIONAL DIRECT TESTIMONY OF**  
**ROBERT L. O'BRIEN**  
**CITIZENS UTILITIES COMPANY**  
**DOCKET NOS. W-01032A-97-0599 ET. AL.**  
**VILLAGES AT DESERT HILLS**

**MAY 21, 1998**

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 Q. Please state your name and business address.

2 A. My name is Robert L. O'Brien, my business address is 3 High Ridge Park,  
3 Stamford, Connecticut, 06905.  
4

5 Q. Are you the same Robert O'Brien who submitted testimony previously in  
6 this proceeding?

7 A. Yes, I am.  
8

9 Q. What is the purpose of your testimony at this time?

10 A. I will update the Arizona Corporation Commission ("Commission") on the  
11 status of the discussions that have occurred between Citizens Utilities  
12 Company ("Citizens" or "Company"), the Commission Staff ("Staff") and  
13 the Residential Utility Consumers Office ("RUCO").  
14

15 Q. Please describe your understanding of the status of those discussions.

16 A. Based on our most recent discussions, the Company and Staff have  
17 reached agreement on the two remaining differences, the monthly  
18 service rate for water and wastewater service to be charged to  
19 residential customers with a 5/8" x 3/4" meter and the Company's  
20 request to amortize one-half of the line extension agreement ("LXA")  
21 between the builders at the Villages of Desert Hills ("Villages") and the

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 distribution and collection company, Citizens Water Services Company of  
2 Arizona ("DistCo").

3  
4 Q. Has RUCO also agreed with the proposed resolution of the two remaining  
5 issues between the Company and the Staff?

6 A. RUCO, as I understand it at this time, is in agreement with the monthly  
7 rate to be charged for water and wastewater services. I do not know  
8 RUCO's position on the Company's request to amortize one-half of the  
9 LXA amounts.

10  
11 Q. Please describe the proposed resolution of the issue regarding the  
12 monthly rate for water and wastewater service.

13 A. The Company, Staff and RUCO have agreed, for purposes of establishing  
14 initial rates, that the monthly charge for a residential customer with a  
15 5/8" x 3/4" meter would be \$16.00 for water service and \$16.00 for  
16 wastewater service. In addition to the monthly charge, the initial rates  
17 would include usage charges of \$2.00 per thousand gallons of water  
18 usage for water service and treatment charges of \$2.00 per thousand  
19 gallons of water usage for the first 7,000 gallons for wastewater service.  
20 The estimated monthly charge for the average residential customer with  
21 a 5/8" x 3/4" meter would be \$70.00.

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 Q. Were there any other differences between the parties on any other rate  
2 or charge to residential or commercial customers of DistCo?

3 A. No. The Company, Staff and RUCO agreed on all of the remaining  
4 charges to the residential and commercial customers of DistCo.  
5

6 Q. Does the agreement on the \$70.00 monthly charge to the average  
7 residential customer have any impact on the payments to be received  
8 from the builders at the Villages?

9 A. Yes, it does. The capacity reservation charge ("CRC") to be paid by the  
10 builders to the treatment company, Citizens Water Resources Company  
11 of Arizona ("TreatCo"), will increase by \$180 to a total of \$1,530 per  
12 equivalent residential unit ("ERU"). This increase will replace the  
13 revenues lost from the reduction of the average residential charges from  
14 \$78.00 per month to \$70.00 per month.  
15

16 Q. Has the CRC changed from the initial application filed by the Company in  
17 this proceeding?

18 A. Yes, it has. The initial application included many provisions that have  
19 been changed during the course of discussions with Staff and RUCO in  
20 this proceeding. The CRC, initially set at \$1,000 per ERU and increasing  
21 in future years to recover the deferred depreciation charges under the

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 procedure included in the application, was increased to reflect the fact  
2 that depreciation would not be deferred. This was the main element that  
3 enabled the parties to retain the monthly charge for the average  
4 residential customer at \$70.00.

5  
6 Q. Is the Company still requesting the approval of the amortization of one-  
7 half of the LXA amounts from the builders to DistCo at the inception of  
8 the LXA?

9 A. No. As part of its agreement with the Staff establishing an initial monthly  
10 charge of \$70.00 for a residential customer, the Company has agreed to  
11 withdraw its request for the amortization of one-half of the LXA's  
12 received by DistCo from the builders at the Villages.

13  
14 Q. What is your understanding of RUCOs position of amortization of LXA's?

15 A. RUCO did not take a position with respect to the Company's request to  
16 amortize DistCo's LXAs.

17  
18 Q. Does the Company's agreement to remove its requested amortization of  
19 DistCo's LXAs have an impact on the \$70.00 average monthly charge to

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 residential customer or the CRC to be paid by the builders resulting from  
2 the initial rates in this proceeding?

3 A. No, it does not.  
4

5 Q. What is the result of the Company's agreement to withdraw its request  
6 for amortization of the LXAs?

7 A. The agreement not to amortize while holding the monthly charges and  
8 CRC constant will result in lower earnings for the Company during the  
9 period that the initial rates are in effect. This will be changed during the  
10 first rate case when the depreciation on the LXA plant is included in  
11 setting rates at that time.  
12

13 Q. Have you prepared a schedule showing the impact of the final agreement  
14 in this proceeding?

15 A. Yes, I have. It is included as Schedule A attached to this testimony.  
16

17 Q. Please describe Schedule A.

18 A. Schedule A consists of three pages. Page 1 shows five-year projected  
19 data for DistCo and TreatCo combined. Page 2 shows five-year projected  
20 data for DistCo and page 3 shows five-year data for TreatCo. Each page

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 shows the revenues, expenses, rate base and earnings projected for the  
2 five-year period 1999 through 2003.  
3

4 Q. Why is the five-year period used for this presentation?

5 A. The parties have agreed that the first rate case following the  
6 establishment of initial rates for DistCo and TreatCo will use a test year  
7 of 2003 or the first year that the DistCo has 3,500 customers, whichever  
8 is earlier. For example, if DistCo has 3,500 customers by December 31,  
9 2002, the Company will file a rate case for DistCo and for TreatCo using  
10 2002 as the test year. If 3,500 customers are not attained by DistCo  
11 until 2004 or later, the Company will file a rate case for DistCo and for  
12 TreatCo using a test year of 2003.  
13

14 Q. Please describe the projections for the combined companies shown on  
15 Schedule A, page 1.

16 A. Line 1 shows revenues for DistCo from line 4 on page 2, and line 2 shows  
17 the revenues for TreatCo from page 3, line 4. Expenses, shown on lines  
18 5 through 10 and Rate Base elements on lines 12 through 18 are the  
19 combination of the same categories for DistCo and TreatCo. The  
20 calculation of the Annual Return on line 19 is the projected overall earned

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 rate of return on original cost rate base for both companies for each  
2 year, with the total for all five years shown on line 20.

3  
4 Q. Please describe Schedule A, page 2.

5 A. Page 2 shows the same information for DistCo. The revenues shown on  
6 lines 1 and 2 are the result of using the rates agreed upon by the  
7 Company, Staff and RUCO, which includes the \$16.00 per month as the  
8 base charge for water service and \$16.00 per month as the base charge  
9 for wastewater service for residential customers with a 5/8" x 3/4"  
10 service line and meter. The total estimated monthly bill for the average  
11 residential customer included in this revenue projection is \$70.00.

12  
13 Q. Please describe Schedule A, page 3.

14 A. Page 3 shows the same information as page 2, for TreatCo. The  
15 revenues for TreatCo include the charges to DistCo for the treatment of  
16 raw water and the treatment and disposal of sewage on line 1. Line 2  
17 shows the revenues from the CRC payments made by the builders at a  
18 rate of \$1,530 per ERU. Other revenues reflect charges for irrigation of  
19 golf courses.

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 Q. The annual return amounts on line 19 of each of the pages show wide  
2 variations for each of the years, is that an unusual result when setting  
3 initial rates for a utility?

4 A. It is a normal result in establishing initial rates. As can be seen by  
5 looking at page 1, the actual rate base in the first year is negative, as is  
6 the operating income. This results in a mathematical return which is  
7 meaningless.

8  
9 Q. Why have you used a five-year period for establishing the initial rates?

10 A. We believe that it will take several years before the utilities will achieve  
11 sufficient growth to enable a meaningful assessment of its operations and  
12 activities.

13  
14 Q. Have Staff and RUCO concurred in this position?

15 A. Yes, they have. As stated earlier, the parties have agreed that the  
16 Company will file its initial rate case using a test year of 2003, or earlier  
17 in the event that DistCo has attained a total of 3,500 customers.

18  
19 Q. Please summarize what the Company is requesting at this time.

20 A. The Company is requesting that the Commission approve initial rates as  
21 agreed to with Staff and RUCO, including establishing initial rates for a

**Citizens Utilities Company  
Direct Testimony of Robert L. O'Brien  
Docket No. W-1032A-97-0599 et. al.  
Villages at Desert Hills**

1 residential customer with a 5/8" x 3/4 " meter of \$16.00 per month  
2 charge for water service and a \$16.00 monthly charge for wastewater  
3 service plus a charge for water treatment at \$2.00 per thousand gallons  
4 of usage and a charge for wastewater collection and treatment at \$2.00  
5 per thousand gallons of water usage up to a maximum of 7,000 gallons.  
6 These charges result in a monthly bill in the amount of \$70.00 for the  
7 average residential customer using 12,000 gallons of water per month. [  
8 \$16.00 + \$16.00 + \$24.00 (12m gallons \* \$2.00/m gallon) + \$14.00  
9 (7m gallons \* \$2.00/m gallon)].

10  
11 In addition, the Company requests that the Commission approve the CRC  
12 at a rate of \$1,530 per ERU to be charged by TreatCo to the builders at  
13 the Villages.

14  
15 Q. Does this conclude your testimony at this time?

16 A. Yes, it does.  
17  
18  
19  
20  
21

**CITIZENS UTILITIES COMPANY --- TREATCO & DISTCO**  
**FINANCIAL PROJECTIONS 1999 to 2003**  
(\$ in Thousands)

SCHEDULE A  
Page 1 of 3  
5/20/98 20:47

LINE #	DESCRIPTION	(1)	(2)	(3)	(4)	
		1999	2000	2001	2002	2003
<b>REVENUES</b>						
1	DISTCO REVENUES	\$ 90	\$ 718	\$ 1,436	\$ 2,158	\$ 2,876
2	TREATCO REVENUES	758	2,053	2,576	3,099	3,622
3	OTHER					
4	<b>TOTAL REVENUES</b>	<u>848</u>	<u>2,771</u>	<u>4,012</u>	<u>5,257</u>	<u>6,498</u>
<b>EXPENSES</b>						
5	OPERATING EXPENSES	240	962	1,649	2,328	3,076
6	OTHER					
7	DEPRECIATION	737	1,057	1,192	1,426	1,667
8	TAXES - OTHER THAN INCOME	328	378	417	533	579
9	INCOME TAXES	(182)	135	253	305	357
10	<b>TOTAL EXPENSES</b>	<u>1,123</u>	<u>2,532</u>	<u>3,511</u>	<u>4,592</u>	<u>5,679</u>
11	<b>NET OPERATING INCOME</b>	<u>\$ (275)</u>	<u>\$ 239</u>	<u>\$ 501</u>	<u>\$ 665</u>	<u>\$ 819</u>
<b>RATE BASE</b>						
12	UTILITY PLANT IN SERVICE	\$ 34,063	\$ 38,362	\$ 42,244	\$ 54,620	\$ 58,373
13	ACCUMULATED DEPRECIATION	(737)	(1,794)	(2,988)	(4,412)	(6,079)
14	<b>NET UTILITY PLANT</b>	<u>33,326</u>	<u>36,568</u>	<u>39,256</u>	<u>50,208</u>	<u>52,294</u>
15	CUSTOMER ADVANCES	(33,161)	(35,009)	(34,662)	(42,538)	(41,878)
16	ACCUMULATED DEFERRED INCOME TAXES	(235)	(376)	(534)	(724)	(947)
17	OTHER					
18	<b>RATE BASE</b>	<u>\$ (70)</u>	<u>\$ 1,183</u>	<u>\$ 4,062</u>	<u>\$ 6,946</u>	<u>\$ 9,409</u>
19	<b>ANNUAL RETURN - ORIGINAL COST RATE BASE</b>	<u>N/A</u>	<u>20.20%</u>	<u>12.33%</u>	<u>9.57%</u>	<u>8.65%</u>
20	<b>AVERAGE 5-YEAR RETURN</b>					<u>9.03%</u>

**CITIZENS ARIZONA WATER SERVICES COMPANY -- DISTCO**  
**FINANCIAL PROJECTIONS 1999 to 2003**  
(\$ in Thousands)

SCHEDULE A  
Page 2 of 3  
5/20/98 20:49

LINE #	DESCRIPTION	[1]	[2]	[3]	[4]	
		1999	2000	2001	2002	2003
<b>YEAR ENDED DECEMBER 31.</b>						
<b>REVENUES</b>						
1	WATER SERVICES	\$ 51	\$ 408	\$ 816	\$ 1,226	\$ 1,634
2	WASTEWATER SERVICES	39	310	620	932	1,242
3	OTHER					
4	<b>TOTAL REVENUES</b>	<u>90</u>	<u>718</u>	<u>1,436</u>	<u>2,158</u>	<u>2,876</u>
<b>EXPENSES</b>						
5	OPERATING EXPENSES	99	671	1,273	1,874	2,513
6	OTHER					
7	DEPRECIATION	19	54	91	133	175
8	TAXES - OTHER THAN INCOME	13	24	37	51	66
9	INCOME TAXES	(17)	(16)	11	36	44
10	<b>TOTAL EXPENSES</b>	<u>114</u>	<u>733</u>	<u>1,412</u>	<u>2,094</u>	<u>2,798</u>
11	<b>NET OPERATING INCOME</b>	<u>\$ (24)</u>	<u>\$ (15)</u>	<u>\$ 24</u>	<u>\$ 64</u>	<u>\$ 78</u>
<b>RATE BASE</b>						
12	UTILITY PLANT IN SERVICE	\$ 1,339	\$ 2,692	\$ 4,068	\$ 5,468	\$ 6,914
13	ACCUMULATED DEPRECIATION	(19)	(73)	(164)	(297)	(472)
14	<b>NET UTILITY PLANT</b>	<u>1,320</u>	<u>2,619</u>	<u>3,904</u>	<u>5,171</u>	<u>6,442</u>
15	CUSTOMER ADVANCES	(1,253)	(2,309)	(3,571)	(4,786)	(5,969)
16	ACCUMULATED DEFERRED INCOME TAXES	(7)	(14)	(26)	(44)	(68)
17	OTHER					
18	<b>RATE BASE</b>	<u>\$ 60</u>	<u>\$ 296</u>	<u>\$ 307</u>	<u>\$ 341</u>	<u>\$ 405</u>
19	<b>ANNUAL RETURN - ORIGINAL COST RATE BASE</b>	<u>-40.00%</u>	<u>-5.07%</u>	<u>7.82%</u>	<u>18.77%</u>	<u>19.26%</u>
20	<b>AVERAGE 5-YEAR RETURN</b>					<u>9.01%</u>

**CITIZENS ARIZONA WATER RESOURCES COMPANY -- TREATCO**  
**FINANCIAL PROJECTIONS 1999 to 2003**  
(\$ in Thousands)

SCHEDULE A  
Page 3 of 3  
5/20/98 20:49

LINE #	DESCRIPTION	[1]	[2]	[3]	[4]	
		1999	2000	2001	2002	2003
<b>REVENUES</b>						
1	TREATMENT CHARGES -- DISTCO	\$ 64	\$ 518	\$ 1,038	\$ 1,558	\$ 2,078
2	CAPACITY RESERVATION CHARGES	622	1,242	1,242	1,242	1,242
3	OTHER	72	293	298	299	302
4	<b>TOTAL REVENUES</b>	<u>758</u>	<u>2,053</u>	<u>2,578</u>	<u>3,099</u>	<u>3,622</u>
<b>EXPENSES</b>						
5	OPERATING EXPENSES	141	291	378	454	563
6	OTHER					
7	DEPRECIATION	718	1,003	1,101	1,293	1,492
8	TAXES - OTHER THAN INCOME	315	354	380	482	513
9	INCOME TAXES	(165)	151	242	289	313
10	<b>TOTAL EXPENSES</b>	<u>1,009</u>	<u>1,799</u>	<u>2,099</u>	<u>2,498</u>	<u>2,881</u>
11	<b>NET OPERATING INCOME</b>	<u>\$ (251)</u>	<u>\$ 254</u>	<u>\$ 477</u>	<u>\$ 601</u>	<u>\$ 741</u>
<b>RATE BASE</b>						
12	UTILITY PLANT IN SERVICE	\$ 32,724	\$ 35,670	\$ 38,178	\$ 49,152	\$ 51,459
13	ACCUMULATED DEPRECIATION	(718)	(1,721)	(2,822)	(4,115)	(5,607)
14	<b>NET UTILITY PLANT</b>	<u>32,006</u>	<u>33,949</u>	<u>35,354</u>	<u>45,037</u>	<u>45,852</u>
15	CUSTOMER ADVANCES	(31,908)	(32,700)	(31,091)	(37,752)	(35,909)
16	ACCUMULATED DEFERRED INCOME TAXES	(228)	(362)	(508)	(680)	(879)
17	OTHER					
18	<b>RATE BASE</b>	<u>\$ (130)</u>	<u>\$ 887</u>	<u>\$ 3,755</u>	<u>\$ 6,605</u>	<u>\$ 9,064</u>
19	<b>ANNUAL RETURN -- ORIGINAL COST RATE BASE</b>	<u>N/A</u>	<u>28.64%</u>	<u>12.70%</u>	<u>9.10%</u>	<u>8.18%</u>
20	<b>AVERAGE 5-YEAR RETURN</b>					<u>9.03%</u>

VEH/INAL:ms  
TREATCO (A81.N120)