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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

- 3 SUSAN BITTER SMITH - CHAIRMAN
- 4 BOB STUMP
- 4 BOB BURNS
- 4 DOUG LITTLE
- 5 TOM FORESE

ORIGINAL

7 IN THE MATTER OF THE APPLICATION OF
 8 QUAIL CREEK WATER COMPANY, INC.,
 8 AN ARIZONA CORPORATION, FOR A
 9 DETERMINATION OF THE FAIR VALUE OF
 9 ITS UTILITY PLANT AND PROPERTY AND
 10 FOR INCREASES IN ITS WATER RATES
 10 AND CHARGES FOR UTILITY SERVICES
 11 BASED THEREON.

DOCKET NO. W-02514A-14-0343

**NOTICE OF FILING
STAFF'S DIRECT TESTIMONY**

12 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
 13 hereby files Direct Testimony of John A. Cassidy, relating to rate design, in the above-referenced
 14 docket.

15 RESPECTFULLY SUBMITTED this 13th day of May, 2015.

18 Wesley C. Van Cleve
 18 Brian E. Smith
 19 Attorneys, Legal Division
 19 Arizona Corporation Commission
 20 1200 West Washington Street
 20 Phoenix, Arizona 85007
 21 (602) 542-3402

22 Original and thirteen (13) copies of the
 23 foregoing filed this 13th day of May,
 23 2015, with:

24 Docket Control
 24 Arizona Corporation Commission
 25 1200 West Washington Street
 25 Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

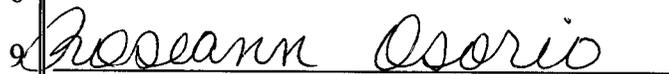
MAY 13 2015

DOCKETED BY

1 Copy of the foregoing mailed this
2 13th day of May, 2015, to:

3 Jay L. Shapiro
4 SHAPIRO LAW FIRM, P.C.
5 1819 East Morten Avenue, Suite 280
6 Phoenix, Arizona 85020

7 Steven Soriano
8 Vice President & General Manager
9 QUAIL CREEK WATER COMPANY
10 9532 East Riggs Road
11 Sun Lakes, Arizona 85248

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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB BURNS
Commissioner
BOB STUMP
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF)
QUAIL CREEK WATER COMPANY, INC., AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANTS AND PROPERTY AND)
FOR INCREASES IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON.)

DOCKET NO. W-02514A-14-0343

(RATE DESIGN)

DIRECT TESTIMONY OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 13, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. W-02514A-14-0343

Quail Creek Water Company, Inc. ("QCW" or "Company") is an Arizona Class "B" utility engaged in the business of providing potable water service in a portion of Pima County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission ("Commission"). In the test-year ended December 31, 2013, Quail Creek served approximately 2,011 customers. The Company's current rates were approved in Decision No. 61611, dated April 1, 1999.

The Company-proposed rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 4,500 gallons, by \$10.29 or 37.28 percent, from \$27.60 to \$37.89.

Staff recommended rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 4,500 gallons, by \$5.40 or 19.57 percent, from \$27.60 to \$33.00.

Staff recommends approval of its recommended rates and charges as shown on the attached schedules.

1 **INTRODUCTION**

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

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

6
7 **Q. Are you the same John Cassidy who previously filed testimony pertaining to rate base,
8 operating revenues and expenses and revenue requirement on behalf of Staff in this
9 docket for Quail Creek Water Company, Inc. (“QCW” or “Company”) permanent rate
10 application?**

11 A. Yes, I am.

12
13 **Q. What is the basis of your testimony?**

14 A. Based on the adjustments and revenue requirement recommended by Staff, I am presenting
15 Staff’s recommended rate design.

16
17 **BACKGROUND**

18 **Q. Please provide a brief description of QCW and the service it provides.**

19 A. QCW is an Arizona Class “B” utility engaged in the business of providing potable water
20 service in a portion of Pima County, Arizona. During the test year, QCW served
21 approximately 2,011 customers. The Company’s current rates were approved by the
22 Commission in Decision No. 61611,¹ dated April 1, 1999, and went into effect as of that date.

23

¹ Docket No. W-02514A-98-0655.

1 **RATE DESIGN**

2 **Q. Did Staff prepare Schedules showing the present, Company-proposed, and Staff-**
3 **recommended rates and charges?**

4 A. Yes. Staff Schedule JAC-1 shows the present monthly minimum charges and commodity
5 rates, the Company's proposed monthly minimum charges and commodity rates and Staff's
6 recommended monthly minimum charges and commodity rates. The Schedule also shows
7 the present, proposed and recommended service charges. Staff Schedule JAC-2 shows the
8 bill impact on a typical 5/8 x 3/4-inch residential customer.

9
10 **Q. What primary characteristic distinguishes Staff's recommended rate structures from**
11 **the present and Company-proposed rate structures?**

12 A. The present rate structure includes a flat rate commodity charge, while the Company-
13 proposed and Staff-recommended rate structures both use multi-tier inverted block
14 commodity rates.

15
16 **Q. Please summarize the present rate design for QCW.**

17 A. The present monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch, \$15.00;
18 3/4-inch, \$20.00; 1-inch, \$25.00; 1 1/2-inch, \$50.00; 2-inch, \$80.00; 3-inch, \$150.00; 4-inch,
19 \$250.00; and 6-inch, \$500.00. No gallons are included in the monthly minimum charge. The
20 flat commodity rate for all meter sizes and classes is \$2.80 per thousand gallons.

21
22 **Q. Please summarize the Company's proposed rate design.**

23 A. The Company's proposed monthly minimum charges by meter size are as follows:
24 Residential 5/8 x 3/4-inch, \$21.23; 3/4-inch, \$28.30; 1-inch, \$35.38; 1 1/2-inch, \$70.75; 2-
25 inch, \$113.20; 3-inch, \$212.25; 4-inch, \$353.75; and 6-inch, \$707.50. Zero gallons are
26 included in the monthly minimum charge. The Company proposes a three-tier inverted-

1 block commodity rate for the 5/8 x 3/4-inch and 3/4-inch residential customers with a \$3.58
2 per thousand gallons first-tier (zero to 4,000 gallons) commodity rate, a \$4.68 per thousand
3 gallons second-tier (4,001 to 10,000 gallons) commodity rate and a \$5.78 per thousand gallons
4 third-tier commodity rate for any consumption over 10,000 gallons. The larger residential
5 and commercial classes' commodity break-over points vary by meter size with a \$4.68 per
6 thousand gallons first-tier commodity rate and a \$5.78 per thousand gallons for any
7 consumption over the first tier.

8
9 **Q. Please summarize Staff's recommended rate design.**

10 A. Staff's recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-
11 inch, \$18.00; 3/4-inch, \$27.00; 1-inch, \$45.00; 1 1/2-inch, \$90.00; 2-inch, \$144.00; 3-inch,
12 \$288.00; 4-inch, \$450.00; and 6-inch, \$900.00. Zero gallons are included in the monthly
13 minimum charge. For the 5/8 x 3/4-inch and 3/4-inch residential customers, Staff
14 recommends a three-tier inverted block commodity rate for the 5/8 x 3/4-inch and 3/4-inch
15 residential customers with a \$3.00 per thousand gallons first-tier (zero to 3,000 gallons)
16 commodity rate, a \$4.00 per thousand gallons second-tier (3,001 to 9,000 gallons) commodity
17 rate and a \$5.42 per thousand gallons third-tier commodity rate for any consumption over
18 9,000 gallons. Staff recommends a two-tier inverted-block rate for larger residential and
19 commercial classes with break-over points that vary by meter size with a \$4.00 per thousand
20 gallons first-tier commodity rate and a \$5.42 per thousand gallons commodity rate for any
21 consumption over the first tier. More details of rate design are shown on Staff Schedule JAC-
22 1.

23

1 **Q. As proposed by the Company, what is the rate impact on a typical 5/8 x 3/4-inch**
2 **meter residential customer?**

3 A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with
4 median usage of 4,500 gallons from \$27.60 to \$37.89 for an increase of \$10.29 or 37.28
5 percent.

6
7 **Q. As recommended by Staff, what is the rate impact on a typical 5/8 x 3/4-inch meter**
8 **residential customer?**

9 A. Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a
10 median usage of 4,500 gallons from \$27.60 to \$33.00, for an increase of \$5.40 or 19.57
11 percent.

12
13 **SERVICE CHARGES**

14 **Q. What did the Company propose for service charges?**

- 15 A. The Company proposed the following:
- 16 a. \$25 Establishment Charge.
 - 17 b. \$25 Reconnection (delinquent) Service Charge.
 - 18 c. \$25 Meter Test (if correct) Charge.
 - 19 d. \$15 Meter Re-read (if correct) Charge.
 - 20 e. \$15 Not Sufficient Funds (NSF) Charge.
 - 21 f. 1.5 % (per month) Deferred Payment Charge.
 - 22 g. \$50 Establishment (After-Hours) Charge.

23
24 **Q. What is Staff's recommendation?**

25 A. Staff recommends the following:
26

- 1 1. Approval of:
- 2 a. \$25 Establishment Charge.
- 3 b. \$25 Reconnection (delinquent) Service Charge.
- 4 c. \$25 Meter Test (if correct) Charge.
- 5 d. \$15 Meter Re-read (if correct) Charge.
- 6 e. \$15 Not Sufficient Funds (NSF) Charge.
- 7 f. 1.5 % (per month) Deferred Payment Charge.
- 8 g. \$50 Establishment (After-Hours) Charge.
- 9
- 10 2. Eliminate:
- 11 a. The words "Establishment/After Hours (R-14-2-403.D.2) - \$45."
- 12
- 13 3. Replace with:
- 14 a. The words "Establishment (After-Hours) Charge - \$50 after regular working
- 15 hours, on Saturdays, Sundays or holidays if at the customer's request or for
- 16 the customer's convenience.
- 17

18 **PURCHASED POWER ADJUSTMENT MECHANISM**

19 **Q. In its Application, does QCW propose the adoption of a cost recovery adjustment**
20 **mechanism for purchased power?**

21 A. Yes, the Company has proposed the adoption of a purchased power adjustment mechanism
22 ("PPAM") in rates.² As proposed, the PPAM will serve as a cost recovery adjustment
23 mechanism for recovery of only the increase (decrease) in purchased power expense caused
24 by an increase (decrease) in power rates charged to QCW by the Company's electric utility
25 provider, Tucson Electric Power ("TEP"). The purchased power expense included in

² See Bourassa Direct, pp. 15-19.

1 operating expenses (expressed in dollars per kwh) will serve as the base figure against which
2 the amounts to be recovered or refunded when increases or decreases in purchased power
3 costs per kwh are incurred in future years. Increases (decreases) to purchased power costs
4 expense resulting from changes in the volume of water pumped will not affect the amount to
5 be recovered (refunded) by the proposed PPAM.

6
7 **Q. Why has the Company proposed the adoption of a PPAM in rates?**

8 A. Because QCW has no control over the rate it is charged for electric power by TEP, the
9 Company's proposed PPAM is intended as a mechanism to pass along any cost increase, or
10 decrease, in purchased power to customers. The Company believes that a closer match
11 between costs and customer bills will reduce regulatory lag, and create a more efficient price
12 signal. Additionally, QCW believes that the presence of a PPAM will help ensure that the
13 Company has the opportunity to earn its authorized rate of return.³

14
15 **Q. What is Staff's recommendation with regard to QCW's request for a PPAM?**

16 A. Staff recommends that the Company file a PPAM tariff and a Plan of Administration for
17 Staff's review and approval.

18
19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does.

³ See Bourassa Direct, p. 19, lines 3-8

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 15.00	\$ 21.23	\$ 18.00
3/4" Meter	20.00	28.30	27.00
1" Meter	25.00	35.38	45.00
1½" Meter	50.00	70.75	90.00
2" Meter	80.00	113.20	144.00
3" Meter	150.00	212.25	288.00
4" Meter	250.00	353.75	450.00
6" Meter	500.00	707.50	900.00
Commodity Rates			
All Meters - Flat Commodity Rate	\$ 2.80		
5/8 x 3/4" & 3/4" Meter - Residential			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 4,000 Gallons		\$ 3.58	
From 4,001 to 10,000 Gallons		\$ 4.68	
Over 10,000 Gallons		\$ 5.78	
From 1 to 3,000 Gallons			\$ 3.00
From 3,001 to 9,000 Gallons			\$ 4.00
Over 9,000 Gallons			\$ 5.42
5/8 x 3/4" & 3/4" Meter - Commercial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		\$ 4.68	
Over 10,000 Gallons		\$ 5.78	
From 1 to 3,000 Gallons			\$ 3.00
From 3,001 to 9,000 Gallons			\$ 4.00
Over 9,000 Gallons			\$ 5.42
5/8 x 3/4" & 3/4" Meter - Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		\$ 4.68	
Over 10,000 Gallons		\$ 5.78	
From 1 to 9,000 Gallons			\$ 4.00
Over 9,000 Gallons			\$ 5.42
1" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 17,000 Gallons		\$ 4.68	
Over 17,000 Gallons		\$ 5.78	
From 1 to 15,000 Gallons			\$ 4.00
Over 15,000 Gallons			\$ 5.42
1½" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 33,000 Gallons		\$ 4.68	
Over 33,000 Gallons		\$ 5.78	
From 1 to 35,000 Gallons			\$ 4.00
Over 35,000 Gallons			\$ 5.42

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 53,000 Gallons		\$ 4.68	
Over 53,000 Gallons		\$ 5.78	
From 1 to 55,000 Gallons			\$ 4.00
Over 55,000 Gallons			\$ 5.42
3" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 100,000 Gallons		\$ 4.68	
Over 100,000 Gallons		\$ 5.78	
From 1 to 80,000 Gallons			\$ 4.00
Over 80,000 Gallons			\$ 5.42
4" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 167,000 Gallons		\$ 4.68	
Over 167,000 Gallons		\$ 5.78	
From 1 to 115,000 Gallons			4.00
Over 115,000 Gallons			5.42
6" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 334,000 Gallons		\$ 4.68	
Over 334,000 Gallons		\$ 5.78	
From 1 to 240,000 Gallons			\$ 4.00
Over 240,000 Gallons			\$ 5.42

RATE DESIGN

	Company Proposed Rates			Staff Recommended Rates			
	Present Rates	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
Service Line and Meter Installation Charges							
5/8" x 3/4" Meter	\$ 350	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter	\$ 400	415	205	620	415	205	620
1" Meter	\$ 470	465	265	730	465	265	730
1½" Meter	\$ 695	520	475	995	520	475	995
2" Turbine Meter	\$ 1,225	800	995	1,795	800	995	1,795
2" Compound Meter	\$ 1,820	800	1,840	2,640	800	1,840	2,640
3" Turbine Meter	\$ 1,735	1,015	1,620	2,635	1,015	1,620	2,635
3" Compound Meter	\$ 2,410	1,135	2,495	3,630	1,135	2,495	3,630
4" Turbine Meter	\$ 2,700	1,430	2,570	4,000	1,430	2,570	4,000
4" Compound Meter	\$ 3,455	1,610	3,545	5,155	1,610	3,545	5,155
6" Turbine Meter	\$ 5,115	2,150	4,925	7,075	2,150	4,925	7,075
6" Compound Meter	\$ 6,650	2,270	6,820	9,090	2,270	6,820	9,090
Service Charges							
Establishment	\$ 25.00			\$ 25.00			\$ 25.00
Establishment (after hours)	45.00			Eliminate			Eliminate
Reestablishment within 12 months	**			**			**
Reconnection/Delinquent	25.00			25.00			\$ 25.00
Meter Test (if correct)	25.00			25.00			\$ 25.00
Meter Re-read (if correct)	15.00			15.00			\$ 15.00
Deposit	*			*			*
Deposit Interest	*			*			*
NSF Check	\$ 15.00			\$ 15.00			\$ 15.00
Deferred Payment, per month	1.5% per month			1.5% per month			1.5% per month
Late Payment Fee (per month)	***			***			***
After-Hours Service Charge	NT			\$ 50.00			\$ 50.00
Monthly Service Charge of Fire Sprinklers							
4" or Smaller	****			****			****
6"	****			****			****
8"	****			****			****
10"	****			****			****
Larger than 10"	****			****			****

* Per Commission Rule A.A.C. R-14-2-403(b)

** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R-14-2-403(D)

*** 1.5% per month or a minimum of \$3.50

**** 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month (requires separate service line)

NT = No Tariff

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,725	\$ 31.03	\$ 43.62	\$ 12.59	40.58%
Median Usage	4,500	27.60	37.89	\$ 10.29	37.28%
Staff Recommended					
Average Usage	5,725	\$ 31.03	\$ 37.90	\$ 6.87	22.14%
Median Usage	4,500	27.60	33.00	\$ 5.40	19.57%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 15.00	\$ 21.23	41.53%	\$ 18.00	20.00%
1,000	\$ 17.80	24.81	39.38%	21.00	17.98%
2,000	\$ 20.60	28.39	37.82%	24.00	16.50%
3,000	\$ 23.40	31.97	36.62%	27.00	15.38%
4,000	\$ 26.20	35.55	35.69%	31.00	18.32%
5,000	\$ 29.00	40.23	38.72%	35.00	20.69%
6,000	\$ 31.80	44.91	41.23%	39.00	22.64%
7,000	\$ 34.60	49.59	43.32%	43.00	24.28%
8,000	\$ 37.40	54.27	45.11%	47.00	25.67%
9,000	\$ 40.20	58.95	46.64%	51.00	26.87%
10,000	\$ 43.00	63.63	47.98%	55.00	27.91%
11,000	\$ 45.80	69.41	51.55%	59.00	28.82%
12,000	\$ 48.60	75.19	54.71%	63.00	29.63%
13,000	\$ 51.40	80.97	57.53%	68.42	33.11%
14,000	\$ 54.20	86.75	60.06%	73.84	36.24%
15,000	\$ 57.00	92.53	62.33%	79.26	39.05%
16,000	\$ 59.80	98.31	64.40%	84.68	41.61%
17,000	\$ 62.60	104.09	66.28%	90.10	43.93%
18,000	\$ 65.40	109.87	68.00%	95.52	46.06%
19,000	\$ 68.20	115.65	69.57%	100.94	48.01%
20,000	\$ 71.00	121.43	71.03%	106.36	49.80%
25,000	\$ 85.00	150.33	76.86%	133.46	57.01%
30,000	\$ 99.00	179.23	81.04%	160.56	62.18%
35,000	\$ 113.00	208.13	84.19%	187.66	66.07%
40,000	\$ 127.00	237.03	86.64%	214.76	69.10%
45,000	\$ 141.00	265.93	88.60%	241.86	71.53%
50,000	\$ 155.00	294.83	90.21%	268.96	73.52%
75,000	\$ 225.00	439.33	95.26%	404.46	79.76%
100,000	\$ 295.00	583.83	97.91%	539.96	83.04%