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AZ CORP COMMISS
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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

10 COMMISSIONERS

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13 BOB BURNS
14 TOM FORESE
15 DOUG LITTLE

Arizona Corporation Commission

DOCKETED

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16 IN THE MATTER OF THE APPLICATION
17 OF UTILITY SOURCE, LLC, AN
18 ARIZONA CORPORATION, FOR A
19 DETERMINATION OF THE FAIR VALUE
20 OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER AND WASTEWATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-13-0331

COMMENTS TO RECOMMENDED
OPINION AND ORDER

22 Utility Source, L.L.C. ("Company" or "Utility Source"), hereby files its comments
23 regarding the Recommended Opinion and Order ("ROO").

24 **1.0 Preliminary Statement**

25 Utility Sources' financial losses have been staggering. Between 2006 and 2013,
26 the Company has lost \$1,395,000. Tr. at p. 767, lines 19-20. In the last four years alone
27 (2011 and 2014), the Company lost approximately \$600,000.
28

Utility Source <u>Losses</u> By Year			
Year	Water	Sewer	Combined
2011	\$108,797	\$78,849	\$187,646
2012	\$43,363	\$91,285	\$134,648
2013	\$58,652	\$93,314	\$151,966
2014	\$27,634	\$91,364	\$118,998
Total	\$238,446	\$354,812	\$593,258

See Company Annual Reports 2012-14. The Company owners covered these financial shortfalls. Meanwhile, they never took a salary for the work they performed. Likewise, they never took a dividend. The Company has been a cash sinkhole for the owners. Yet, in this rate case Utility Source purposely excluded substantial amounts of used and useful plant from rate base. Why? Because rather than trying to maximize rates, the Company sought to balance the need to pay its costs with the rate impact on its customers.

For the most part, the Company finds the ROO acceptable. While there are numerous minor issues that the Company believes should have been decided differently, Utility Source does not believe arguing over every point would be productive. Therefore, the comments herein will focus on two issues – rate design for the wastewater division and cost of capital.

2.0 Rate Design for Wastewater

Typically, wastewater rate design for residential users is a fixed monthly fee. This

1 approach is logical. First, the amount of water used inside a home does not fluctuate
2 greatly. In a typical day, a family will use about 80 gallons for drinking, washing, and
3 flushing. As long as the home is occupied, the amount of indoor water use will not
4 change much even if the residents are conservation-minded, because people will continue
5 to drink, wash, and flush. Where conservation does have an impact is outside the home.
6 Residences with lawns, gardens, pools and other water features can greatly increase the
7 home water demand. In contrast, homeowners who xeriscape and do not install or
8 remove water features can conserve large quantities of water. The point is that
9 conservation mostly impacts outdoor, not indoor, water use. Consequently, conservation
10 has little impact on sewer demands.
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14 Here, residential rate design is critical because the Company has 320 residential
15 customers and four commercial customers. For the typical residential customer, the
16 Company proposes a \$52.00 minimum and \$4.96 per 1,000 gallons of water use per
17 month. *See Attachment 1.* This will provide the Company revenue stability and retain
18 the link to water use. This approach also provides revenue stability, as approximately
19 70% of revenue will be generated from the fixed monthly minimum.
20
21

22 In contrast, the ROO's rate design provides only 35% of the revenue from the
23 monthly minimum. This means about 65% of the wastewater division's revenues will be
24 driven by the customers' overall water demand. Accordingly, wastewater system
25 revenue will be determined by how much water a customer uses outside the home for
26 water features and landscaping. If homeowners decide to conserve water and remove
27 outside water demands, the Company will suffer a revenue shortfall. Even if the
28

1 customers do not change their water demand at all, the pattern of use (high water demand
2 in the summer and low water demand in the winter) will cause drastic swings in revenue
3 collections.
4

5 In sum, the Company believes when the new water rights are adopted, people will
6 conserve substantial amounts of water. Conservation will cause a significant revenue
7 shortfall for the water division. Tying most of the wastewater revenues to the amount of
8 water used will mean conservation will cause a significant revenue shortfall for the water
9 division as well. Therefore, the Company requests the Commission adopt its proposed
10 rate design.
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13 **3.0 Cost of Capital**

14 Historically, small utility companies have been given a cost of equity (“COE”)
15 equal to or less than the COE granted to large utility companies. This approach is
16 founded upon the thought that a small utility has the same financial risk as a large
17 publicly-traded utility company. While this premise has been repeated and used routinely
18 for decades, it is not true. The idea that a small water company outside Flagstaff has the
19 same financial risk as American Water Works Company or Aqua America defies
20 common sense.
21
22

23 Utility Source believes that a COE of 11% is reasonable. The Company’s position
24 recognizes the significant business and investment risk facing small utilities like the
25 Company. See Bourassa Testimony at p. 156, line 7 – p. 158, line 2. As Bourassa noted,
26 small utility companies often fail to earn their authorized rate of return when compared to
27 large utilities. *Id.* at p. 158, lines 3-11. Therefore, Bourassa recommends a 70 point
28

1 adjustment to recognize the fact that small utilities face far more risk than large utilities
2 and the Commission should recognize this fact. *See* Bourassa Testimony at p. 782, line 8
3
4 – p. 783, line 13.

5 The ROO, however, adopts Staff's position that a COE of 9.8% should apply here.
6 Like Staff and RUCO, the ROO purports to treat Utility Source like a large company or
7 worse. Unlike a large company, a Utility Source cannot sell bonds, receive a bank loan,
8 or access publicly traded equity markets. *See, e.g.,* Mease Testimony at p. 506, line 11 –
9 p. 507, line 16; Cassidy Testimony at p. 601, line 6 – p. 602, line 15. This leaves the
10 owners' pockets as the only source to cover operational shortfalls, which has happened
11 here for years. More importantly, large utility market returns for the last 1-year, 3-year,
12 and 5-year periods range from approximately 12.6% to 11.8%. Bourassa Testimony at p.
13 784, lines 19-23. These large company returns are much higher than those proposed by
14 Staff and RUCO. The Company respectfully suggests that it is a good time to recognize
15 that small utility companies like Utility Source face far more financial risk than large
16 companies and provide such companies with COEs that recognize this fact. Accordingly,
17 the Commission should grant the Company a COE of 11%.

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22 **RESPECTFULLY SUBMITTED** on September 2, 2015.

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25 
26 Steve Wene

27 Original and thirteen (13) copies
28 of the foregoing filed this
2nd day of September, 2015 with:

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Copies of the foregoing mailed
this 2nd day of September, 2015 to:

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ATTACHMENT 1

Utility Source, LLC - Wastewater Division
 Present and Proposed Rates
 Test Year Ended December 31, 2012

Exhibit
 Final Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial)	Present Rates	Proposed Rates
1	Monthly Usage Charge for:		
2	5/8 x 3/4 inch	\$ -	\$ 52.00
3	3/4 inch	-	52.00
4	1 inch	-	130.00
5	1 1/2 inch	-	260.00
6	2 inch	-	416.00
7	3 inch	-	832.00
8	4 inch	-	1,300.00
9	6 inch	-	2,600.00
10			
11	Gallons In Minimum		
12	All Meter Sizes	-	-
13			
14	Rate per 1,000 Gallons of Water Usage		
15	Residential	\$ 5.84	\$ 4.96
16	Commercial and Industrial		
17	Car washes, laundromats, Commercial, Manufacturing	5.71	4.85
18	Hotels, Motels	7.66	6.51
19	Restaurants	9.46	8.04
20	Industrial Laundries	8.39	7.13
21	Waste haulers	171.20	145.52
22	Restuarant Grease	149.80	127.33
23	Treatment Plant Sludge	171.20	145.52
24	Mud Sump Waste	535.00	454.75
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