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BEFORE THE ARIZONA CORPORATION CO

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
LIBERTY UTILITIES (BLACK MOUNTAIN
SEWER) CORP., AN ARIZONA
CORPORATION, FOR AUTHORITY TO
ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$3,400,000.

Docket No. SW-02361A-15-0206

IN THE MATTER OF THE APPLICATION OF
LIBERTY UTILITIES (BLACK MOUNTAIN
SEWER) CORP., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WASTEWATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

Docket No. SW-02361A-15-0207

Arizona Corporation Commission

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RUCO'S NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Direct Testimony of Timothy Coley on Rate Design, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 16th day of December, 2015.

Daniel W. Pozefsky
Chief Counsel

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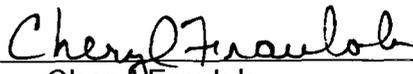
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LIBERTY UTILITIES CORP.
(BLACK MOUNTAIN SEWER)

DIRECT TESTIMONY
OF
TIMOTHY J. COLEY
ON
RATE DESIGN

ON BEHALF OF THE
RESIDENTIAL UTILITY CONSUMER OFFICE

DECEMBER 16, 2015

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Company & RUCO Proposed and Recommended Revenues by Customer Class..... TJC-RD2
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EXECUTIVE SUMMARY

On December 2, 2015, RUCO filed its direct revenue requirement testimony for Liberty Black Mountain Sewer Corporation ("Black Mountain Sewer" or "Company"). In that filing, RUCO recommended total operating revenue of \$1,956,557, a decrease of \$284,244 or a negative 12.68 percent, from the RUCO-adjusted test year revenue of \$2,240,800. RUCO's recommended revenue will provide operating income of \$236,994 and a 7.32 percent return on the \$3,235,735 RUCO-adjusted FVRB / OCRB rate base.

For residential customers, both RUCO and the Company recommend that the current flat monthly minimum charge remain in effect for this customer classification going forward. RUCO recommends that the residential customers' flat monthly rate be decreased by 24-cents from the current \$65.24 to \$65.00. The Company proposed to increase the flat residential rate by \$13.96 from \$65.24 to \$79.20 per month or a 21.40 percent increase.

For commercial customers, the Company's rate Application proposed a substantial change to the commercial customer classification's rate design, which shifts revenues from the commercial to residential ratepayers. The commercial customers had previously been charged according to Arizona Department of Environmental Quality's ("ADEQ") Engineering Bulletin 12, which was designed to be used whenever water usage data was not available. Since water usage data is now available to the Company, ADEQ's Engineering Bulletin 12 will no longer be needed for setting commercial rates going forward. Both RUCO and the Company propose a flat monthly minimum in addition to a commodity charge based on one-thousand gallons of water usage for the commercial customer classification. The Company's proposed commercial rates decrease the commercial revenues by \$301,341 whereas RUCO's recommended commercial rates decrease the commercial revenues by \$274,507. Both parties' commercial rates represent a significant decrease in the commercial customers' rates going forward.

The Company has one effluent customer, Boulders Resort. Both RUCO and the Company propose the same current charge of \$150 per acre foot or \$0.4605 per 1,000 gallons of effluent water produced from the wastewater treatment plant.

1 **I. INTRODUCTION**

2 **Q. Please state your name, position, employer, and address for the**
3 **record.**

4 A. My name is Timothy J. Coley. I am a Public Utilities Analyst V employed by
5 the Residential Utility Consumer Office ("RUCO") located at 1110 W.
6 Washington Street, Suite 220, Phoenix, Arizona 85007.

7
8 **Q. Are you the same Timothy J. Coley that filed direct testimony on**
9 **revenue requirements for Liberty Black Mountain Sewer on December**
10 **2, 2015?**

11 A. Yes.

12
13 **Q. What is the purpose of your direct testimony on rate design?**

14 A. My direct testimony on rate design will address RUCO's recommended rate
15 design for Liberty Black Mountain Sewer ("Black Mountain Sewer" or
16 "Company") and prove that RUCO's rate design will produce its
17 recommended revenue as shown on Schedule TJC-RD2.

18
19 To support RUCO's position in this testimony, I have attached Schedules
20 TJC-RD1 through TJC-RD4 for Black Mountain Sewer.

21
22 **II. PROOF OF RECOMMENDED REVENUE**

23 **Q. Has RUCO prepared a schedule presenting proof of its recommended**
24 **revenue?**

25 A. Yes. RUCO's proof of recommended revenue is provided on Schedule
26 TJC-RD2.

27

1 **III. Rate Design**

2 **Q. Has RUCO prepared a summary schedule of the Company's present,**
3 **proposed, and RUCO's recommended rates for the Company?**

4 A. Yes, see RUCO rate design schedules TJC-RD1 through TJC-RD4 as
5 attached to this testimony. Schedule TJC-RD1 shows the Company's total
6 revenues generated by the present rates. Schedule TJC-RD2 shows both
7 the Company and RUCO's total revenues generated by the Company's
8 proposed rates and RUCO's recommended rates. Schedule TJC-RD2 also
9 provides proof that RUCO's rates produce its recommended revenue
10 requirements as previously filed in its direct revenue requirement testimony
11 on December 2, 2015. Schedule TJC-RD3 shows both the Company's
12 present and proposed rates while also reflecting RUCO's recommended
13 rates for both the monthly minimum and commodity rates in reaching the
14 required level of revenue. Schedule TJC-RD4 shows a typical residential
15 bill under the Company's present and proposed rates while also reflecting
16 a typical residential bill using RUCO's recommended rates.

17
18 **Q. Please explain the elements of RUCO's rate design for a residential**
19 **customer, commercial customer, and the one effluent customer.**

20 A. For a residential customer, RUCO's rate design mirrors that of the
21 Company's present and proposed rate design. RUCO recommends a flat
22 monthly minimum charge of \$65.00 with no commodity charge for water
23 usage. RUCO's recommended \$65.00 flat monthly minimum charge
24 represents a 24-cent reduction from the Company's present charge of
25 \$65.24.

26

1 For a commercial customer, RUCO's rate design mirrors that of the
2 Company's present and proposed rate design. RUCO recommends a
3 combination of a flat monthly minimum charge of \$93.50, which is \$8.50 or
4 10 percent more than the Company's proposed monthly minimum of
5 \$85.00. RUCO's commodity charge of \$5.62 per 1,000 gallons of water
6 usage, which is 49-cents or approximately 10 percent more than the
7 Company's proposed \$5.13 per 1,000 gallons of water usage.

8
9 For the one effluent customer that receives all the treated wastewater from
10 the wastewater plant, both RUCO and the Company's rate design assigns
11 a \$150 per acre-foot of effluent or approximately 46-cents per 1,000 gallons
12 for this customer's classification.

13
14 Both the Company and RUCO's proposed and recommended rates for the
15 monthly minimum and commodity charges are shown on Schedule TJC-
16 RD3 for all three customer classifications.

17
18 **IV. TYPICAL BILL ANALYSIS**

19 **Q. Has RUCO prepared a schedule representing the financial impact of**
20 **its recommended rate design on a typical residential customer?**

21 **A.** Yes. A typical bill analysis for a residential customer has been provided
22 and is illustrated on schedule TJC-RD4, which reflects RUCO's flat monthly
23 minimum charge of \$65.00 per month with no commodity charge for the
24 residential customer.

1 **Q. Did RUCO prepare a typical bill analysis for a residential customer**
2 **based on its direct testimony?**

3 A. Yes. Please see RUCO Schedule TJC-RD4 for a typical residential
4 customer's bill.

5

6 **Q. Does this conclude your direct testimony on rate design?**

7 A. Yes, it does.

Liberty Utilities (Black Mountain Sewer) Corp.
 Docket No. SW-02361A-15-0207
 Test Year Ended December 31, 2014

Schedule TJC-RD1

Meter Size	Class	Company Current with Annualizations	RUCO Current with Annualizations	Difference	Percentage	
Residential		\$ 1,522,310	\$ 1,522,310	\$ (0)	0.0000%	68.63%
Residential HOA (11 Units)		\$ 8,612	\$ 8,612	\$ 0	0.0037%	0.39%
Residential HOA (12 Units)		\$ 9,395	\$ 9,395	\$ 0	0.0047%	0.42%
Residential HOA (25 Units)		\$ 19,572	\$ 19,572	\$ -	0.0000%	0.88%
Apartment (GPD Rate)		\$ 63,950	\$ 63,950	\$ 0	0.0008%	2.88%
Residential Apartment (8 Units)		\$ -	\$ -	\$ -	#DIV/0!	0.00%
Residential Apartment (10 Units)		\$ -	\$ -	\$ -	#DIV/0!	0.00%
Residential Apartment (74 Units)		\$ -	\$ -	\$ -	#DIV/0!	0.00%
Commercial		\$ 578,108	\$ 578,108	\$ 0	0.0001%	26.06%
Effluent		\$ 16,067	\$ 16,067	\$ 0	0.0000%	0.72%
Total		\$ 2,218,014	\$ 2,218,012	\$ 2	0.0001%	100.00%

Meter Size	Class	Company Proposed with Annualizations	RUCO Proposed with Annualizations	Difference	Percentage
Residential		\$ 1,848,053	\$ 1,516,710	\$ 331,343	17.9293%
Residential HOA (11 Units)		\$ 10,454	\$ 8,580	\$ 1,874	17.9262%
Residential HOA (12 Units)		\$ 11,405	\$ 9,360	\$ 2,045	17.9307%
Residential HOA (25 Units)		\$ 23,760	\$ 19,500	\$ 4,260	17.9293%
Apartment (GPD Rate)		\$ -	\$ -	\$ -	#DIV/0!
Residential Apartment (8 Units)		\$ 7,603	\$ 6,240	\$ 1,363	17.9271%
Residential Apartment (10 Units)		\$ 9,504	\$ 7,800	\$ 1,704	17.9293%
Residential Apartment (74 Units)		\$ 70,330	\$ 57,720	\$ 12,610	17.9298%
Commercial		\$ 276,766	\$ 303,601	\$ (26,835)	-9.6959%
Effluent		\$ 16,067	\$ 16,067	\$ 0	0.0000%
Total		\$ 2,273,942	\$ 1,945,578	\$ 328,364	14.4403%

Monthly Usage Charge	Present	Company Proposed Rates	RUCO Recommended Rates
<u>Meter Size (All Classes):</u>			
Residential, per single family unit	\$ 65.2400	\$ 79.2000	\$ 65.0000
Commercial	N/A	85.0000	93.5000
<u>Commodity Charge - Per 1,000 Gallons</u>			
Commercial, per gallon per day	\$ 0.2487	N/A	N/A
Commercial, per 1,000 gals.	N/A	\$ 5.1300	\$ 5.6200
<u>Effluent Sales:</u>			
Per Acre Foot	\$ 150.00	\$ 150.00	\$ 150.00
Per 1,000 Gallons	0.460512	0.460512	0.460512

Typical Bill Analysis
Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	1,436	\$ 65.24	\$ 79.20	\$ 13.96	21.40%
Median Usage	N/A	N/A	N/A	N/A	N/A
RUCO Recommended					
Average Usage	1,436	\$ 65.24	\$ 65.00	\$ (0.24)	-0.37%
Median Usage	N/A	N/A	N/A	N/A	N/A

Present & Proposed Rates (Without Taxes)
Residential

Gallons	Company Proposed			RUCO Recommended		
	Present		%	Recommended		%
	5/8 x 3/4"		5/8 x 3/4"		5/8 x 3/4"	
	Minimum Charge	\$ 65.24		Minimum Charge	\$ 79.20	
	1st Tier Rate	-		1st Tier Rate	-	
	1st Tier Breakover	-		1st Tier Breakover	-	
	2nd Tier Rate	-		2nd Tier Rate	-	
	Incremental Tier 2 Rate	-		Incremental Tier 2 Rate	-	
	2nd Tier Breakover	-		2nd Tier Breakover	-	
	3rd Tier Rate	-		3rd Tier Rate	-	
	Incremental Tier 3 Rate	-		Incremental Tier 3 Rate	-	
	3rd Tier Breakover	-		3rd Tier Breakover	-	
	4th Tier Rate	-		4th Tier Rate	-	
	Incremental Tier 4 Rate	-		Incremental Tier 4 Rate	-	
	4th Tier Breakover	-		4th Tier Breakover	-	
	5th Tier Rate	-		5th Tier Rate	-	
	Incremental Tier 5 Rate	-		Incremental Tier 5 Rate	-	
	5th Tier Breakover	-		5th Tier Breakover	-	
	6th Tier Rate	-		6th Tier Rate	-	
	Incremental Tier 6 Rate	-		Incremental Tier 6 Rate	-	
	6th Tier Breakover	-		6th Tier Breakover	-	
Consumption	Rates		Increase	Rates		Increase
-	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
1,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
2,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
3,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
4,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
5,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
6,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
7,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
8,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
9,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
10,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
11,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
12,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
13,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
14,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
15,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
16,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
17,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
18,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
19,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
20,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
25,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
30,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
35,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
40,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
45,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
50,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
75,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	
100,000	\$ 65.24	\$ 79.20	21.40%	\$ 65.00	-0.37%	