

LITCHFIELD PARK SERVICE COMPANY

DOCKET NO. SW-01428A-09-0103

DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY

OF

MATTHEW ROWELL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2009

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1 **I. Introduction**

2 Q. Please state your name position and employer address.

3 A. Matthew J. Rowell

4 Member

5 Desert Mountain Analytical Services, PLLC (“DMAS”)

6 PO Box 51628

7 Phoenix, AZ 85076

8

9 Q. Please state your background and qualifications in the field of utility
10 regulation.

11 A. Appendix 1, attached to this testimony lists my educational qualifications and
12 the utility matters in which I have participated.

13

14 Q. Please state the purpose of your testimony.

15 A. My testimony discusses the issue of design and construction problems at the
16 Palm Valley Water Reclamation Facility (“PVWRF”) and the allocation of
17 affiliate operating expenses to Litchfield Park Service Company (“LPSCO” or
18 “the Company”) by its various affiliate entities. The issues of revenue
19 requirement, rate base, plant and expense adjustments, and rate design are
20 discussed in the Direct Testimony of Sonn S. Rowell (also of DMAS.) Cost of
21 capital and issues related to the expansion of the PVWRF are discussed in
22 the Direct Testimony of RUCO witness William Rigsby.

23

1 **II. Background**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures (including
4 an audit of underlying source data) necessary to understand the Company's
5 filing as it relates to the rate base, operating income and revenue
6 requirements. My recommendations are based on these analyses. I relied
7 on the information contained in the Company's rate case application,
8 (testimony and schedules) and responses to RUCO and Commission Staff
9 data requests.

10

11 Q. What issues will you address in this testimony?

12 A I will address RUCO's recommended adjustments based primarily on an audit
13 of underlying source data. I present RUCO's recommended rate base,
14 revenue requirement and rate design. The issue of affiliate expenses and
15 upgrades to the Palm Valley Water Reclamation Facility ("PVWRF") are
16 addressed in the testimony of RUCO witness Matthew Rowell (also of
17 DMAS.) Cost of capital and issues related to the expansion of the PVWRF
18 are discussed in the testimony of RUCO witness William Rigsby.

19

20 **III. Design and Construction Problems at the PVWRF**

21 Q. Please discuss LPSCO's wastewater plant additions since the last rate case.

22 A. The last rate case used the calendar year 2000 as the test year. Since that
23 time, plant additions have been substantial. Table one shows plant additions

1 by year from 2001 to the end of the current rate case test year as submitted
2 by the Company.

3
4 **Table 1. LPSCO Waste Water Plant Additions (adjusted) per LPSCO**
5 **Schedule B2**
6

Year	Add/(ret)
2001	\$2,216,710
2002	\$14,910,039
2003	\$144,272
2004	\$6,696,665
2005	\$5,721,506
2006	\$3,111,106
2007	\$2,285,823
2008 (Through Sep)	\$12,897,735

7
8 The \$14.9 million addition in 2002 results from the Palm Valley Water
9 Reclamation Facility (“PVWRF”) going into service. The PVWRF is a waste
10 water processing plant that went into service with an average capacity of 4.1
11 mgd.

12
13 Q. Has LPSCO needed to expand the capacity of the PVWRF since 2002 due to
14 customer growth?

15 A. According to the Company, no. The initial 4.1 mgd average capacity of the
16 PVWRF has been and is currently sufficient to serve all of LPSCO’s
17 customers. Additionally, LPSCO indicated that they have no plans to begin
18 construction necessary to increase the capacity of the PVWRF until late 2010
19 at the earliest (Response to RUCO Data Request MJR 2.9.)
20

1 Q. What accounts for the substantial plant additions made during the test year
2 portion of 2008?

3 A. LPSCO indicates that a large investment in plant was necessary to remedy
4 deficiencies at the PVWRF. In his Direct Testimony, LPSCO witness Greg
5 Sorensen states: "...in the summer of 2007, the plant had two spill events that
6 confirmed that the plant, *as originally designed and constructed* by our
7 predecessor owners, was lacking certain redundancy capabilities and needed
8 some upgrades to achieve an acceptable level of reliability." (Emphasis
9 added.) Additionally, in response to RUCO data request MJR 2.14 the
10 Company provided excerpts from a report developed by McBride Engineering
11 Solutions, Inc. ("MES") that document several design problems at the PVWRF
12 that resulted in excessive odors, insufficient reliability and a lack of
13 redundancy capability. (The excerpts from the MES report were provided
14 pursuant to a confidentiality agreement so we have not provided direct quotes
15 from the report.)

16
17 Q. So as originally designed and constructed the PVWRF had significant
18 problems?

19 A. Yes. The information provided by LPSCO indicates that there were
20 significant design problems at the PVWRF. Correcting these problems
21 necessitated significant upgrades. The additional plant associated with those
22 upgrades was put into service during the test year.

1 Q. Do you believe it is fair that LPSCO customers should bear the full cost of the
2 upgrades necessitated by the PVWRF's design problems?

3 A. No. Utilities have an obligation to design and build plant that meets
4 acceptable levels of reliability. It is inherently unfair to saddle the customers
5 with the excess and duplicative costs that result when utilities fail in that
6 obligation.

7

8 Q. What do you recommend regarding LPSCO's 2008 waste water plant
9 additions?

10 A. We believe the costs of the PVWRF upgrades necessitated by the PVWRF's
11 design problems should be shared between the shareholders and the
12 customers. At page 7 of his Direct Testimony Mr. Sorenesen states that the
13 Company spent \$7 million on improvements to the PVWRF to correct the
14 deficiencies resulting from the plant's design problems. We propose that the
15 costs of these improvements be split 50/50 between the ratepayers and the
16 shareholders. This results in a disallowance of \$3.5 million of test year plant
17 additions.

18

19 Q. The PVWRF was originally built by LPSCO's former owners not its current
20 owner (Algonquin.) Does this fact affect RUCO's recommendation that a
21 portion of test year plant additions be disallowed?

22 A. No. Prior to making a purchase as substantial as LPSCO, sound business
23 practices would require a thorough review of LPSCO's facilities. Design

1 problems identified at that stage would have provided the purchaser with
2 significant leverage in price negotiations.

3

4 Additionally, allowing for full recovery of the PVWRF redesign costs based on
5 the fact that the facility changed hands would send the wrong signal to the
6 industry. Companies looking to purchase utilities in Arizona would have less
7 incentive to do proper due diligence if they know that the costs of fixing any
8 existing problems could be imposed on the ratepayers. Similarly, if utilities
9 that are building plant know that any problems with the plant can be
10 dispensed with through a sale to another entity their incentive to build the
11 plant properly in the first place will be diminished.

12

13 **IV. Affiliate Operating Expenses allocated to LPSCO**

14 Q. Have you examined the method the Company uses to allocate affiliate costs
15 to LPSCO's water and sewer divisions?

16 A. Yes. The Company has indicated the following: "The new method of
17 allocation is to charge all direct operations labor costs related to LPSCO via
18 timesheets. All customer service and financial related costs are allocated
19 based on customer counts to all AWS-operated utilities, and all administration
20 costs are allocated based on a 4 factor formula to all Algonquin-owned
21 utilities. This allocation is based on a weighted average of rate base,
22 customer counts, wages, and operating expenses for all our utilities.
23 Engineering services have remained allocating their time via the job costing

1 timesheet process but have moved from market chargeable rates to cost
2 recovery rates".¹

3

4 Q. Has the Company used this method of allocation in the past?

5 A. No. This is a new method being used in this and other current Algonquin rate
6 cases.

7

8 Q. What is the effect of this new allocation method on LPSCO?

9 A. In response to RUCO data request MJR 3.3(b) the Company provided a
10 comparison of its old and new allocation methods that indicated that the new
11 allocation method allocates \$250,577 less to LPSCO water and \$505,816
12 more to LPSCO sewer relative to their previous method of allocating affiliate
13 costs.

14

15 Q. Were these changes the result of the reallocation only?

16 A. No. The Company's response to MJR 3.3(b) indicates that in addition to
17 reallocating the affiliate costs, \$136,903 in *additional* affiliate costs were
18 allocated to the various Algonquin owned water and waste water companies
19 under the new allocation method.

20

21

22

¹ Response to RUCO data request MJR 2.4

1 Q. What is the source of this \$136,903 increase in allocated costs?

2 A. I have been unable to determine the source of this \$136,903 increase in
3 allocated costs.

4

5 Q. Do you know how much was allocated to LPSCO in the test year based on
6 LPSCO's new allocation method?

7 A. Table 2 below shows the amount allocated to LPSCO under the new
8 allocation method. This information was provided by LPSCO in response to
9 RUCO data request MJR 3.3(b). The Company provided the following
10 numbers:

11 **Table 2. LPSCO Affiliate Allocations**

12

13

	Allocated to LPSCO Water	Allocated to LPSCO Sewer	Total	Allocation Method
Ops Costs	806,047	924,018	1,730,065	Timesheets
Act/Billing	430,806	477,294	908,100	Customer Count
Overhead Costs	705,667	691,664	1,397,331	4 – factor
Total	1,942,520	2,092,976	4,035,497	

14

15 Q. Were you able to reconcile the allocated amounts as described in response to
16 MJR 3.3(b) with the Company's rate case application?

17 A. The Company has indicated that the amounts allocated by the above
18 described method are booked to expense accounts 636 Contractual Services

1 – Other and 736 Contractual Services – Other for the water and sewer
2 divisions, respectively.

3 The Company did not actually use the above described allocation process to
4 determine and record transactions in these accounts through the test year.
5 Rather, for purposes of the rate case filing, the Company's expenses were
6 trued up to conform with the allocation method by Mr. Bourassa's
7 adjustment(s) number 11 (Mr. Bourassa makes separate adjustments no. 11
8 for the water and for the waste water divisions.)

9
10 Initially, I could not reconcile the affiliate costs contained in accounts 636 and
11 736 with the amounts provided in response to RUCO Data Request MJR
12 3.3(b.) However, reviewing LPSCO's response to Staff Data Request JMM
13 5.3 revealed that the allocation method described in its response to MJR
14 3.3(b) (and summarized in Table 2 above) only pertained to allocations from
15 Algonquin Water Services ("AWS"), not to amounts allocated from Algonquin
16 Power Trust ("APT".) Based on the Company's response to Staff Data
17 Request JMM 5.3 and adjustment(s) number 11 made by Company witness
18 Bourassa, the allocations from AWS contained in accounts 636 and 736 do
19 reconcile with the above described allocation method.

20
21
22

1 Q. What sort of transactions has the Company booked to accounts 636 and
2 736?

3 A. In response to Staff data requests JMM 1.42 and 1.67 the Company provided
4 back-up detailing each transaction booked to these accounts. For purposes
5 of responding to JMM 1.42 and 1.67 the Company broke each of the
6 accounts into four broad categories. Table 3 below summarizes the content
7 of accounts 636 and 736 as provided in the rate case application.

8 **Table 3 Contractual Services - Other**

	Water (636)	Sewer (736)	Total
Central Office Costs - Algonquin Power Trust (APT)			
Management Fees	273,956	182,637	456,593
Accounting fees and costs	2,689	2,747	5,436
HR costs and fees	12,927	5,276	18,203
IT costs	990	427	1,417
General OPS	1,146	764	1,910
Total	291,708	191,850	483,558
Contract Services - Algonquin Water Services (AWS)			
Water/Waste Fee	559,787	538,599	1,098,385
Operating Costs	861,949	613,862	1,475,811
OPS fee	463,158	333,776	796,933
Overhead	85,521	57,014	142,535
To amortize arsenic media proj	8,025		8,025
Accounting Fee	56,843	52,416	109,259
Other (credits)	(58,055)	(100,059)	158,114)
ACC Fee	53,588	35,725	89,313
8600-010008-act	64,764	62,811	127,575
Recon fees to 4 factor reclassified to wtr ops fee	(575,400)	(383,600)	(959,001)
Total	1,520,179	1,260,574	2,780,753
Admin Allocation AWS			

Recon fees to 4 factor	728,574	485,716	1,214,290
Contractual Services Other			
Services provided by outside (non-affiliate) vendors	148,748	431,175	579,923
Grand Total	2,689,209	2,369,315	5,058,525

1

2

3 Q. Are there issues with the costs allocated to LPSCO by AWS?

4 A. Yes. In response to JMM 5.3 the Company provided the operating costs that
5 were allocated to LPSCO's water and sewer divisions by the 4 factor method.
6 These numbers are close to but do not match the operating costs allocated
7 via the 4 factor method as shown in the Company's response to MJR 3.3(b).

8

9 Additionally, the invoices provided to support the AWS allocations (provided
10 in response to Staff data requests JMM 1.42 and 1.67) essentially contain no
11 detail. Thus, it is impossible to audit the transactions between AWS and
12 LPSCO based on those invoices. The same is true concerning the invoices
13 between APT and LPSCO provided in response to Staff's 5th set of data
14 requests.

15

16 Q. What do you recommend regarding the costs allocated to LPSCO by
17 Algonquin Water Services?

18 A. The lack of backup for these costs could support a recommendation that all of
19 these costs be disallowed. However, AWS does actually provide services to

1 LPSCO that are necessary for the provision of utility service. Also, the
2 amounts allocated by AWS (after RUCO's adjustments) when taken on a per-
3 customer basis are not out of line with what is typically charged by
4 management companies to water utilities. Because of this we recommend
5 that these costs be allowed, with one exception. The one exception is the
6 allocations labeled as "Recon fees to 4 factor." The Company has provided
7 no explanation for what these allocations are, they do not appear to be
8 necessary for the provision of utility services, and they cannot be reconciled
9 with the Company's description of how their 4 factor allocation method works.
10 Therefore we recommend disallowance of the allocations labeled "Recon fees
11 to 4 factor" which net to \$153,174 for LPSCO Water and \$102,116 for LPSCO
12 Sewer.

13
14 Q. Do you have concerns with the Central Office Costs charged to LPSCO by
15 Algonquin Power Trust?

16 A. Yes. In its rate case application and in response to several data requests the
17 Company described the allocation of affiliate costs by indicating that operating
18 costs are billed out by time sheets. Accounting and billing costs are allocated
19 based on customer counts and overhead costs are allocated by the 4-factor
20 method. No mention was made of the additional layer of allocated costs from
21 Algonquin Power Trust. It was not until Staff specifically asked about these
22 costs in its Data Request JMM 5.3 that the Company provided any
23 information about this additional layer of affiliate costs allocated to LPSCO.

1 The Central Office Costs charged to LPSCO by Algonquin Power Trust are of
2 concern for several reasons:

- 3
4 • In response to Staff data request JMM 5.3 the Company indicated that
5 \$250,979 and \$267,462 were allocated to LPSCO's water and sewer
6 divisions respectively by Algonquin Power Trust. However, \$291,708 and
7 \$191,850 were actually allocated to LPSCO's water and sewer divisions,
8 respectively, by Algonquin Power Trust.
9
10 • In January of 2008 (during the test year) the management fees charged to
11 LPSCO by Algonquin Power Trust increased from \$13,200 to \$26,040 per
12 month for LPSCO water and \$8,800 to \$17,360 per month for LPSCO sewer.
13 The Company has provided no explanation for this increase in management
14 fees from Algonquin Power Trust.
15
16 • The invoices provided by Algonquin Power Trust essentially contain no detail.
17 Thus, it is impossible to audit the transactions between Algonquin Power
18 Trust and LPSCO based on those invoices.
19
20 • Most importantly, in response to JMM 5.3 the Company provided
21 explanations for the various categories of costs allocated to LPSCO by
22 Algonquin Power Trust. These explanations were insufficient and did not
23 establish that the "services" provided by Algonquin Power Trust are
24 necessary for the provision of water and waste water service.

25 For all of these reasons we recommend that the Central Office Costs
26 allocated to LPSCO by Algonquin Power Trust (\$291,708 for water and
27 \$191,850 for sewer) be disallowed.

28

29 Q. Are there other issues regarding LPSCO's affiliate relations that are
30 concerning?

31 A. There are several other issues that if taken alone would not be extremely
32 concerning but taken together and in light of the above discussion raise to the

1 level of concern. I believe the Commission should be aware of these issues
2 so they are listed here:

- 3 • No manual or contracts: Algonquin does not have and does not plan to
4 produce a manual or other document that details the cost allocation
5 process. (RUCO DR MJR 3.8) Additionally, there are no contracts
6 between LPSCO and any of the Algonquin affiliates. (RUCO DR MJR
7 3.2) Thus, it appears that Algonquin has no safeguards that would
8 prevent the allocation process from taking place on an ad hoc basis.
9
- 10 • Organizational Chart: The organizational chart for the Algonquin
11 organization provided in response to JMM 1.17 is inaccurate and
12 incomplete. For example, APT (the entity that charged LPSCO \$483,558
13 during the test year) does not appear on the organizational chart and
14 AWS and Algonquin Power Systems are portrayed as independent
15 entities.
16
- 17 • Affiliates other than water and sewer: The allocation methods described
18 above allocate parent level costs across Algonquin's water and waste
19 water utilities (located primarily in Arizona, Missouri and Texas.) In
20 addition, to these utilities several electric generation companies fall under
21 the Algonquin umbrella. It is not clear from any of the information
22 provided by the Company (e.g. organizational charts) how these electric
23 generation companies fit into the Algonquin corporate structure and how
24 APT's costs are allocated between its water/waste water holdings and its
25 electric generation holdings. Additionally, the rent invoices for APT
26 provided in response to Staff Data Request JMM 5.5 indicates that an
27 entity called Algonquin Power Property Limited Partnership is APT's
28 landlord (in Ontario.) Algonquin Power Property Limited Partnership is
29 presumably another Algonquin affiliate; but it is not clear how it fits into
30 the Algonquin corporate structure.
31
- 32 • Unusually high bank fees: The banking fees that AWS passes through to
33 LPSCO seem unusually high.
34
- 35 • Convoluted basic accounting system: The accounting system used to
36 track day to day activity seems unnecessarily convoluted. For example,
37 examination of Company provided invoices show that when an AWS

1 employee makes a purchase at Lowe's for material necessary for repairs
2 at LPSCO, that purchase is booked at the AWS level and then allocated
3 down to LPSCO. Conceivably, purchases such as this could be initially
4 booked directly to LPSCO which would eliminate several steps in the
5 cost allocation process.

- 6
- 7 • Name Changes: AWS recently changed its name to Liberty Water.
8 Several years ago the name was changed from New Spring Water to
9 AWS. In spite of several years passing since the name New Spring
10 Water was used officially it still shows up on documents produced in the
11 test year.

12

13 Q. Does your silence on any of the issues, matters or findings addressed in the
14 testimony of any of the witnesses for LPSCO constitute your acceptance of
15 their positions on such issues, matters or findings?

16 A. No, it does not.

17

18 Q. Does this conclude your direct testimony on LPSCO?

19 A. Yes, it does.

20

Qualifications of Matthew Rowell

Professional History

Desert Mountain Analytical Services, PLLC 2007 – Present

Member

Prepare testimony and analysis for utilities regarding regulatory issues. Most recently I prepared and sponsored testimony on behalf of Global Water regarding their multi-system rate case, Docket No. W-20446A-09-0080 and their Notice of Intent to Restructure, Docket No. W-20446A-08-0247.

Arizona Corporation Commission 1996 to 2007

Chief Economist (July 2001 to February 2007)

Was responsible for supervising a staff of nine professionals who analyzed and produced testimony or staff reports on a wide variety of energy and telecommunications issues. Recent cases for which I provided testimony myself include:

APS Rate Case E-01345A-05-0816: Provided testimony on staff's position on APS' proposed Environmental Improvement Charge. I also acted as the overall case manager and was responsible for coordinating all of staff's testimony.

APS Application to acquire a power plant in the Yuma area E-01345A-06-0464: Provided testimony in support of APS' application. Interveners in this case raised a variety of complex issues that needed to be addressed.

Southern California Edison's application to build a high voltage power line linking Arizona to Southern California L-00000A-06-0295-00130: Provided testimony detailing the potential economic effects of SCE's proposed power line.

Accipiter's complaint against Cox Communications regarding the Vistancia development T-03471A-05-0064: Provided written testimony regarding Accipiter's allegations concerning Cox's dealings with the developers of Vistancia.

Significant past responsibilities included managing staff's case (including negotiating a settlement agreement) in APS' 2003 rate case, negotiating the settlement between staff and Qwest regarding three enforcement dockets, supervising the "independent monitor" of APS' and Tucson Electric Power's (TEP) wholesale power procurement, providing testimony on Qwest's noncompliance with the Commission's wholesale rate order, managing staff's case regarding Qwest's alleged noncompliance with the Federal Telecommunications Act, and acting as staff's lead witness in the Commission's reevaluation of the electric competition rules which resulted in the suspension of APS' and TEP's obligation to divest their generation assets.

Economist (October 1996 to July 2001)

Significant responsibilities included supervising the testing of Qwest's operational support systems (OSS), analyzing Qwest's compliance with Section 271 of the Federal Telecommunications Act, providing testimony on the geographic de-averaging of Qwest's Unbundled Network Element prices, and acting as Chairman of the Commission's Water Task Force.

Arizona Department of Transportation, Phoenix, AZ 1996, 1998, and 1999

Research Analyst

Authored research reports on the costs and benefits of traffic demand management policies, the relative merit of various highway-financing techniques, and air pollution reduction technologies.

Arizona State University, Tempe, AZ 1992-1996.

Lecturer-economics 1994-1996

Responsible for teaching microeconomics classes requiring the creation of lectures and tests as well as full responsibility for assigning grades.

Teaching assistant 1992-1994

Responsible for assisting professors in administering tests, grading, and teaching.

Education

Master of Science and ABD Economics, 1995, Arizona State University.

I have successfully completed all course work and exams necessary for a Ph.D. Course work included an emphasis in industrial organization and extensive experience with statistical analysis, public sector economics, and financial economics.

Bachelor of Science Economics, 1992, Florida State University.

Minors: Philosophy, Statistics