

**LITCHFIELD PARK SERVICE COMPANY**

**DOCKET NO. SW-01428A-09-0103**

**DOCKET NO. W-01427A-09-0104**

**DIRECT TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRRA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**NOVEMBER 4, 2009**

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1 **INTRODUCTION**

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

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed  
4 by the Residential Utility Consumer Office (“RUCO”) located at 1110 W.  
5 Washington, Suite 220, Phoenix, Arizona 85007.

6  
7 Q. Please describe your qualifications in the field of utilities regulation and  
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During  
10 that period of time I have worked as a utilities rate analyst for both the  
11 Arizona Corporation Commission (“ACC” or “Commission”) and for RUCO.  
12 I hold a Bachelor of Science degree in the field of finance from Arizona  
13 State University and a Master of Business Administration degree, with an  
14 emphasis in accounting, from the University of Phoenix. I have been  
15 awarded the professional designation, Certified Rate of Return Analyst  
16 (“CRRRA”) by the Society of Utility and Regulatory Financial Analysts  
17 (“SURFA”). The CRRRA designation is awarded based upon experience  
18 and the successful completion of a written examination. Appendix I, which  
19 is attached to my direct testimony on the cost of capital issues in the case,  
20 further describes my educational background and also includes a list of  
21 the rate cases and regulatory matters that I have been involved with.

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are  
3 based on RUCO's analysis of Litchfield Park Service Company's  
4 ("LPSCO" or the "Company") application for a permanent rate increase  
5 ("Application) for the Company's water and wastewater operations in  
6 Maricopa County. LPSCO filed the Application with the Arizona  
7 Corporation Commission ("ACC" or "Commission") on March 6, 2009. The  
8 Company has chosen the operating period ended September 30, 2008 for  
9 the test year ("Test Year") in this proceeding.

10

11 Q. Please explain your role in RUCO's analysis of LPSCO's Application.

12 A. I reviewed LPSCO's Application and analyzed the Company's requested  
13 level of required revenue as it relates to excess capacity issues and have  
14 worked in cooperation with RUCO consultants Matthew J. Rowell and  
15 Sonn S. Rowell of Desert Analytical Services PLLC on the remaining  
16 required revenue issues. I have also filed, under separate cover, direct  
17 testimony on the cost of capital issues associated with the case.

18

19 Q. What issues will you address in your testimony?

20 A. I will address excess capacity issues associated with LPSCO's Palm  
21 Valley Water Reclamation Facility ("PVWRF").

22

23

1 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

2 Q. Briefly summarize how your direct testimony is organized.

3 A. My direct testimony is organized into four sections. First, the introduction I  
4 have just presented and second, a summary of my testimony that I am  
5 about to give. Third, I will present the findings of RUCO's audit in regards  
6 to excess capacity. Fourth, I will discuss RUCO's recommendations on  
7 this specific issue.

8

9 Q. Please summarize the recommendations and adjustments that you will  
10 address in your testimony.

11 A. Based on the results of RUCO's analysis of LPSCO, RUCO is making the  
12 following recommendations:

13

14 Expansion Design Costs – RUCO is recommending that the Commission  
15 deny the inclusion of \$36,500 in rate base for design costs associated the  
16 expansion of the PVWRF.

17

18 **EXCESS CAPACITY FINDINGS**

19 Q. Has RUCO reviewed the September 30, 2008 Aquifer Protection Permit  
20 ("APP") for the PVWRF issued by ADEQ?

21 A. Yes. The APP authorizes the PVWRF to operate with a capacity of 4.1  
22 mgd (based on maximum average monthly flow.) Section 2.2.1 of the

1 APP also indicates that an expansion of the PVWRF to 8.2 mgd has been  
2 approved as designed.

3

4 Q. Is the Company seeking to recover costs associated with the design of the  
5 expansion of the PVWRF to an 8.2 mgd capacity?

6 A. Yes. Section 2.2.1 of the APP states that “A WRF<sup>[1]</sup> expansion to 8.2 mgd  
7 **was designed** and shall be constructed as per the design report prepared  
8 by Pacific Advanced Civil Engineers, Inc. dated August 2004.” (**emphasis**  
9 **added**) Invoices from Pacific Advanced Civil Engineers, Inc. (“PACE”) are  
10 included in the back-up provided by LPSCO for their 2004 and 2006 plant  
11 additions. So it is clear that the Company is attempting to add the costs  
12 associated with designing the plant expansion to rate base.

13

14 Q. Is it appropriate to add these design costs to rate base?

15 A. No. This design work does not benefit current customers and is not  
16 necessary to serve current customers. Design work on the plant  
17 expansion serves only to benefit potential future customers. Therefore,  
18 these costs should be excluded from rate base.

19

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21 ...

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<sup>1</sup> Water Reclamation Facility

1 Q. How much did the Company spend on the design of the PVWRF  
2 expansion?

3 A. The invoices relating to the plant expansion indicate that PACE charged  
4 LPSCO \$36,500 for its work on the design report. In its 6th set of data  
5 requests RUCO requested the Company disclose the total amount spent  
6 on the design work and any construction work associated therewith for the  
7 expansion of PVWRF from 4.1 mgd to 8.2 mgd. The Company objected  
8 to the relevant questions in that data request and has not provided the  
9 total amount spent on the design or construction work. In its 6<sup>th</sup> set of  
10 data request, RUCO also requested copies of any and all engineering  
11 reports associated with the expansion from 4.1mgd to 8.2 mgd. In  
12 response, the Company indicated that the engineering reports, including  
13 the PACE report dated August 2004 were not in their records and thus  
14 could not be provided to RUCO.

15  
16 Q. Please summarize RUCO's rationale for the disallowance of the design  
17 costs discussed in your testimony.

18 A. At a minimum, RUCO believes that the \$36,500 paid for the August 2004  
19 PACE design report should be disallowed. Because the August 2004  
20 report relates to the expansion of the PVWRF and the Company cannot  
21 find the design report, it is clearly not benefitting current ratepayers.  
22 RUCO also believes that any other additional sums spent on expansion of  
23 the plant from 4.1 mgd to 8.2 mgd should also be disallowed.

1 **RUCO'S RECOMMENDATIONS**

2 Q. What does RUCO recommend regarding the aforementioned design work  
3 costs associated with the PVWRF expansion 4.1mgd to 8.2 mgd?

4 A. RUCO is recommending that the Commission deny recovery of the costs  
5 described above. RUCO believes that current customers should not be  
6 burdened with the expense of designing plant expansions, which will only  
7 benefit future customers or 100% of the risk of future development.  
8 Because LPSCO has objected to the relevant parts of our 6th set of data  
9 requests we cannot be certain what portion of the Company's plant  
10 additions are associated with the expansion design or construction work.  
11 At a minimum, we believe this is an issue that the Commission should  
12 decide. The issue should not be decided by default because LPSCO has  
13 not provided the necessary information. RUCO is therefore  
14 recommending that the Commission deny rate base treatment for the  
15 costs associated with LPSCO's expenditure on the design or construction  
16 of the expansion of the PVWRF from 4.1 mgd to 8.2 mgd.

17  
18 Q. Has RUCO made the appropriate accounting adjustments to remove the  
19 aforementioned dollar amounts from rate base?

20 A. Yes. As to those costs, which are known, I have made an adjustment in  
21 the direct testimony schedules of RUCO witness Sonn S. Rowell,  
22 removing the \$36,500 paid for the August 2004 PACE engineering design

1 report. To the extent other design or construction costs are discovered, if  
2 any, RUCO will address and adjust for those dollar amounts in surrebuttal.

3

4 Q. Does your silence on any of the issues, matters or findings addressed in  
5 the testimony of any of the witness for LPSCO constitute your acceptance  
6 of their positions on such issues, matters or findings?

7 A. No, it does not.

8

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

10 A. Yes, it does.