

RIO RICO UTILITIES, INC.

DOCKET NO. WS-02676A-09-0257

**DIRECT TESTIMONY
(RATE DESIGN)**

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 4, 2010

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1 **INTRODUCTION**

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

3 A. My Name is Timothy J. Coley. 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 state your educational background and qualifications in the utility
8 regulation field.

9 A. Appendix 1 attached to my direct testimony filed on December 23, 2009,
10 describes my educational background and includes a list of the rate cases
11 and regulatory matters in which I have participated.

12
13 Q. Please state the purpose of your testimony.

14 A. The purpose of my testimony is to present RUCO’s recommendations on
15 rate design regarding Rio Rico Utilities, Inc.’s (“RRUI” or “Company”)
16 application for a determination of the current fair value of both its Water
17 and Wastewater utility plant and property and for a permanent increase in
18 its rates and charges based thereon for utility service.

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1 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

2 Q. Have you prepared Schedules presenting your recommended rate
3 designs for Rio Rico Utilities, Inc.'s Water and Wastewater Divisions?

4 A. Yes, as shown on the respective Schedules TJC-RD1 and TJC-RD2, I am
5 recommending rate designs that are consistent with RUCO's
6 recommended revenue requirements for both divisions.

7
8 Q. Please describe your recommended rate designs for the Company's
9 Water and Wastewater Divisions.

10 A. RUCO's rate designs proportionately mirrors the Company's proposed
11 rate designs. For the Water Division, a 5/8 inch meter monthly minimum
12 would increase by \$3.08 to \$9.53, which is an increase of 47.75 percent.
13 The commodity charge is a three-tier inverted rate structure for the
14 residential 5/8 inch meter with break-over points of 4,000 gallons and
15 10,000 gallons as shown on the Schedules. All other meter sizes and
16 customer classifications have a two-tier rate structure with the break-over
17 point at 10,000 gallons as the Company proposed.

18
19 For the Wastewater Division, RUCO recommends a flat rate design for all
20 customers except for the commercial and multi-family classifications.
21 Those customers have a volumetric rate design based on the gallonage of
22 water consumed as shown on the Schedules. A 5/8 inch meter monthly
23 minimum would decrease by \$16.73 from \$56.36 to \$39.63.

1 Q. Did the Company propose any alternative wastewater rate design other
2 than what was approved in the prior decision?

3 A. The Company provided an alternative volumetric wastewater rate design
4 for all customers but did not suggest it be adopted by the Commission.
5

6 Q. Why did the Company suggest that the alternative volumetric rate design
7 should not be adopted in this case?

8 A. The Company stated that the volumetric wastewater rate design was not
9 based on a cost of service study and many subjective assumptions were
10 made to develop it without objective empirical evidence.
11

12 Q. Did RUCO review the Company's alternative volumetric wastewater rate
13 design?

14 A. Yes. RUCO shares the same concerns that the Company expressed in its
15 testimony. The Company already has a volumetric rate design component
16 in its present rate structure for the commercial and multi-family customer
17 classifications. Without a cost of service study to support a full volumetric
18 rate design, RUCO recommends that the Commission not adopt such a
19 rate design structure in this case.
20
21

22 ...
23

1 Q. Have you prepared a Schedule presenting proof of your recommended
2 revenue?

3 A. Yes, I have. Proof that my recommended rate designs will produce the
4 recommended required revenue as illustrated, is presented also on
5 Schedule TJC-RD1 and a typical 5/8 inch meter bill analysis is provided
6 on Schedule TJC-RD2.

7

8 Q. Does this conclude your direct testimony?

9 A. Yes, it does.

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
RUCO RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMIN'TS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
0							
1	4"	61	11	72	\$ 256.28	\$ 18,452	\$ 18,452
	Commodity Usage						
2	First Tier - First 57,000 Gals.	3,063	627	3,690	\$ 2.56	\$ 9,439	
3	Second Tier - Over 57,000 Gals.	14,765	2,805	17,570	\$ 2.91	\$ 51,050	\$ 60,489
4	6"	12	-	12	\$ 474.52	\$ 5,694	\$ 5,694
	Commodity Usage						
5	First Tier - First 125,000 Gals.	1,500	-	1,500	\$ 2.56	\$ 3,837	
6	Second Tier - Over 125,000 Gals.	6,200	-	6,200	\$ 2.91	\$ 18,014	\$ 21,851
7	Total Commercial Customers	<u>2,429</u>	<u>283</u>	<u>2,712</u>			
8	Total Commercial Usage	<u>156,651</u>	<u>5,155</u>	<u>161,806</u>			
9	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 568,376</u>
	Multi-Family						
10	5/8"	117	(9)	108	\$ 9.53	\$ 1,029	\$ 1,029
	Commodity Usage						
11	First Tier - First 4,000 Gals.	433	(33)	400	\$ 2.04	\$ 814	
12	Second Tier - Next 6,000 Gals.	439	(32)	407	\$ 2.56	\$ 1,041	
13	Third Tier - Over 10,000 Gals.	382	(30)	352	\$ 2.91	\$ 1,024	\$ 2,879
14	1-1/2"	12	-	12	\$ 51.26	\$ 615	\$ 615
	Commodity Usage						
15	First Tier - First 20,000 Gals.	89	-	89	\$ 2.56	\$ 228	
16	Second Tier - Over 20,000 Gals.	0	-	0	\$ 2.91	\$ -	\$ 228
17	Total Multi-Family Customers	<u>129</u>	<u>(9)</u>				
18	Total Commercial Usage	<u>1,343</u>	<u>(95)</u>				
19	TOTAL MULTI-FAMILY CUSTOMER REVENUE						<u>\$ 4,751</u>
	PRIVATE FIRE PROTECTION CUSTOMERS						
20	Fire Lines Up to 8"	185	79	264	\$ 13.77	\$ 3,635	\$ 3,635
21	Commodity Usage	0	-	-	No Charge		
22	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 3,635</u>
23	COMPANY TOTAL PROPOSED REVENUE PER BILL DETERMINANTS						\$ 3,859,697
24	Other Revenue						44,672
25	COMPANY PROPOSED TOTAL REVENUES						<u>\$ 3,904,369</u>
26	RUCO TOTAL RECOMMENDED REVENUE PER BILL DETERMINANTS						\$ 2,765,557
27	Other Revenue						44,672
28	TOTAL RUCO RECOMMENDED REVENUE PER TJC-1						<u>\$ 2,810,229</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
TOTAL REVENUES							
1	RESIDENTIAL	\$ 1,440,833	79.66%	\$ 3,067,443	79.29%	\$ 2,188,795	79.14%
2	COMMERCIAL	363,332	20.09%	791,256	20.45%	568,376	20.55%
3	MULTI-FAMILY	3,418	0.19%	7,297	0.19%	4,751	0.17%
	PRIVATE FIRE	1,199	0.07%	2,547	0.07%	3,635	0.13%
	TOTAL	<u>\$ 1,808,782</u>	<u>100.00%</u>	<u>\$ 3,868,544</u>	<u>100.00%</u>	<u>\$ 2,765,557</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 532,661	29.45%	\$ 1,133,658	29.38%	\$ 814,736	29.46%
5	VARIABLE REVENUE	1,276,120	70.55%	2,725,445	70.62%	1,950,821	70.54%
6	TOTAL	<u>\$ 1,808,782</u>	<u>100.00%</u>	<u>\$ 3,859,103</u>	<u>100.00%</u>	<u>\$ 2,765,557</u>	<u>100.00%</u>
RES. G-1 (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 6.45		\$ 13.71		\$ 9.53	
	COMMODITY CHARGE						
		<u>PRESENT</u>	<u>PROPOSED</u>				
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.4400	\$ 2.9300	\$ 2.0367		
9	Second Tier - Next 6,000 Gals.	Second Tier - Next 6,000 Gals.	\$ 1.7000	\$ 3.6800	\$ 2.5580		
10	Third Tier - Over 10,000 Gals.	Third Tier - Over 10,000 Gals.	\$ 1.9000	\$ 4.1800	\$ 2.9055		
RESIDENTIAL BILL COMPARISONS							
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	% OF AVERAGE MONTH USAGE OF 8,548 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,137	\$ 9.53	\$ 13.88	\$ 4.35	45.71%
12		50.00%	4,274	\$ 12.68	\$ 18.38	\$ 5.70	44.98%
13		100.00%	8,548	\$ 19.94	\$ 29.31	\$ 9.37	46.98%
14		150.00%	12,822	\$ 27.77	\$ 41.22	\$ 13.45	48.44%
15		200.00%	17,096	\$ 35.89	\$ 53.64	\$ 17.75	49.45%

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
RUCO PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMIN'TS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	5/8" Commodity Usage	22,848	16	22,864	\$ 39.63	\$ 905,977	\$ 905,977
2	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
3	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
4	3/4" Commodity Usage	98	(2)	96	\$ 45.19	\$ 4,338	\$ 4,338
5	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
6	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
7	1" Commodity Usage	104	2	106	\$ 55.82	\$ 5,896	\$ 5,896
8	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
9	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
10	1.5" Commodity Usage	0	0	0	\$ 82.43	\$ -	\$ -
11	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
12	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
13	2" Commodity Usage	12	0	12	\$ 114.33	\$ 1,372	\$ 1,372
14	First Tier - First 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
15	Second Tier - Over 7,000 Gals.	0	0	0	\$ -	\$ -	\$ -
16	Total Residential Usage	<u>23,062</u>	<u>15</u>	<u>23,077</u>			
17	Total Residential Usage	<u>0</u>	<u>0</u>	<u>0</u>			
18	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 917,583</u>
COMMERCIAL CUSTOMERS							
19	5/8" Commodity Usage	831	105	936	\$ 39.63	\$ 37,089	\$ 37,089
20	First Tier - First 7,000 Gals.	3,681	735	4,416	\$ -	\$ -	
21	Second Tier - Over 7,000 Gals.	5,459	377	5,836	\$ 4.01	\$ 23,429	\$ 23,429
22	1" Commodity Usage	437	55	492	\$ 55.82	\$ 27,465	\$ 27,465
23	First Tier - First 7,000 Gals.	2,079	385	2,464	\$ -	\$ -	
24	Second Tier - Over 7,000 Gals.	4,640	507	5,147	\$ 4.01	\$ 20,662	\$ 20,662
25	1-1/2" Commodity Usage	87	(3)	84	\$ 82.43	\$ 6,924	\$ 6,924
26	First Tier - First 7,000 Gals.	545	(23)	522	\$ -	\$ -	
27	Second Tier - Over 7,000 Gals.	2,970	(122)	2,848	\$ 4.01	\$ 11,434	\$ 11,434
28	2" Commodity Usage	238	2	240	\$ 114.33	\$ 27,440	\$ 27,440
29	First Tier - First 7,000 Gals.	1,511	14	1,525	\$ -	\$ -	
30	Second Tier - Over 7,000 Gals.	24,496	178	24,674	\$ 4.01	\$ 99,056	\$ 99,056
31	3" Commodity Usage	12	0	12	\$ 199.18	\$ 2,390	\$ 2,390
32	First Tier - First 7,000 Gals.	77	0	77	\$ -	\$ -	
33	Second Tier - Over 7,000 Gals.	790	0	790	\$ 4.01	\$ 3,171	\$ 3,171

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
RUCO PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) RUCO ANN'ZED ADJTM'TS	(C) RUCO ADJUSTED DETERMIN'TS	(D) RUCO RECOMND'ED RATES	(E) RUCO PROPOSED REVENUES	(F) RUCO TOTAL REVENUES
1	4" Commodity Usage	48	0	48	\$ 295.23	\$ 14,171	\$ 14,171
2	First Tier - First 7,000 Gals.	336	0	336	\$ -	\$ -	
3	Second Tier - Over 7,000 Gals.	16,015	90	16,105	\$ 4.01	\$ 64,656	\$ 64,656
4	6" Commodity Usage	12	0	12	\$ 561.02	\$ 6,732	\$ 6,732
5	First Tier - First 7,000 Gals.	84	0	84	\$ -	\$ -	
6	Second Tier - Over 7,000 Gals.	7,707	0	7,707	\$ 4.01	\$ 30,940	\$ 30,940
7	Total Commercial Customers	<u>1,665</u>	<u>159</u>	<u>1,824</u>		\$ -	\$ -
8	Total Commercial Usage	<u>70,390</u>	<u>2,142</u>	<u>72,532</u>			
9	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 375,560</u>
Multi-Family							
10	5/8" Commodity Usage	113	(5)	108	\$ 39.63	\$ 4,280	\$ 4,280
11	First Tier - First 7,000 Gals.	660	(35)	625	\$ -	\$ -	
12	Second Tier - Over 7,000 Gals.	528	(20)	508	\$ 4.01	\$ 2,039	\$ 2,039
13	1-1/2" Commodity Usage	12	0	12	\$ 82.43	\$ 989	\$ 989
14	First Tier - First 7,000 Gals.	73	0	73	\$ -	\$ -	
15	Second Tier - Over 7,000 Gals.	18	0	18	\$ 4.01	\$ 72	\$ 72
16	Total Multi-Family Customers	<u>125</u>	<u>(5.00)</u>	<u>120</u>			
17	Total Commercial Usage	<u>1,279</u>	<u>(55)</u>	<u>1,224</u>			
18	TOTAL MULTI-FAMILY CUSTOMER REVENUE						<u>\$ 7,380</u>
23	COMPANY TOTAL PROPOSED REVENUE PER BILL DETERMINANTS						\$ 1,740,668
24	Other Revenue						<u>250</u>
25	COMPANY PROPOSED TOTAL REVENUES						<u>\$ 1,740,918</u>
26	RUCO TOTAL RECOMMENDED REVENUE PER BILL DETERMINANTS						\$ 1,300,523
27	Other Revenue						<u>250</u>
28	TOTAL RUCO RECOMMENDED REVENUE PER TJC-1						<u>\$ 1,300,773</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 1,304,221	71.10%	\$ 1,241,618	71.15%	\$ 917,583	70.55%
2	COMMERCIAL	518,027	28.24%	493,162	28.26%	375,560	28.88%
3	MULTI-FAMILY	10,893	0.59%	10,370	0.59%	7,380	0.57%
	Unreconciled Difference	1,090	0.06%	-	0.00%	-	0.00%
	TOTAL	<u>\$ 1,834,231</u>	<u>100.00%</u>	<u>\$ 1,745,150</u>	<u>100.00%</u>	<u>\$ 1,300,523</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIXED REVENUE	\$ 1,475,564	80.45%	\$ 1,414,966	80.36%	\$ 1,045,063	80.36%
5	VARIABLE REVENUE	357,577	19.49%	345,878	19.64%	255,460	19.64%
	Unreconciled Difference	1,090	0.06%	-	0.00%	-	0.00%
6	TOTAL	<u>\$ 1,834,231</u>	<u>100.00%</u>	<u>\$ 1,760,844</u>	<u>100.00%</u>	<u>\$ 1,300,523</u>	<u>100.00%</u>
RESIDENTIAL 5/8" METER RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 56.36		\$ 53.65		\$ 39.63	
	COMMODITY CHARGE: (Commercial & Multi-Family Only)						
		PRESENT	PROPOSED				
8	First Tier - 0 Gals. To & 7,000 Gals.	\$ -	First Tier - 0 Gals. To & 7,000 Gals.	\$ -		\$ -	
9	Second Tier - Over 7,000 Gals.	\$ 5.71	Second Tier - Over 7,000 Gals.	\$ 5.44		\$ 4.01	
10							