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AZ CORP COMMISSION  
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IN THE MATTER OF RIO VERDE  
UTILITIES, INC. FOR AN INCREASE IN ITS  
WATER AND WASTEWATER RATES FOR  
CUSTOMERS WITHIN MARICOPA  
COUNTY, ARIZONA

DOCKET NO. WS-02156A-00-0321

IN THE MATTER OF THE APPLICATION  
OF RIO VERDE UTILITIES, INC. FOR  
AUTHORITY TO ISSUE PROMISSORY  
NOTE(S) AND OTHER EVIDENCES OF  
INDEBTEDNESS PAYABLE AT PERIODS  
OF MORE THAN TWELVE MONTHS  
AFTER THE DATE OF ISSUANCE.

DOCKET NO. WS-02156A-00-0323

**TESTIMONY OF JOHN P. WILLIAMSON**

**On Behalf of**

**Rio Verde Community Association and Rio Verde Country Club**

**December 27, 2000**

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**TESTIMONY OF JOHN P. WILLIAMSON**

**(Docket Nos. WS-02156A-00-0321 and WS-02156A-00-0323)**

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**I. INTRODUCTION**

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**1.Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS?**

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1.A. My name is John P. Williamson, and my address is 18524 Poco Vista Drive, Rio Verde, Arizona 85263.

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**2.Q. ON WHOSE BEHALF ARE YOU PRESENTING THIS TESTIMONY?**

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2.A. I am testifying on behalf of the Rio Verde Community Association ("RVCA" or "Association") and the Rio Verde Country Club ("RVCC" or "Country Club"), collectively referred to in my testimony as "Intervenors."

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**3.Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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3.A. I will provide some background on both the Association and the Country Club, as well as on the Rio Verde community. I will also present a summary of the Intervenors' position on the proposed water and sewer service rate increases. In this latter regard, I do not claim to be an expert as to Arizona rate making policies and procedures, nor do I represent that I have done a technical analysis of the Rio Verde Utilities Company's ("RVUC" or "Utility") filing. Mr. Dan Neidlinger has been retained by Intervenors to present such an analysis. I am, however, generally familiar with rate making concepts such as "historical test year," "pro forma adjustments," and "used and useful" from my prior experience as Vice President of Finance, and later President, Chairman and CEO of the Toledo Edison Electric Company, a regulated electric utility in the state of Ohio. (I am also a retired Certified Public Accountant in that jurisdiction.) Other members of the Association's

1 Utilities Committee, of which I am Chairman, are also retired utility executives familiar  
2 with regulation and utility rate case matters.

3  
4 **II. SUMMARY OF TESTIMONY**

5 **4.Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

6 4.A. Yes. Both the Association and the Country Club are owned and operated by residents of  
7 Rio Verde. These and other factors described in my testimony serve to sharply distinguish Rio  
8 Verde from subsequent developments in the RVUC service area, including Tonto Verde and other  
9 new developments. The level of rate increases proposed by the Utility, or anything close to that  
10 level, is completely unacceptable to Intervenors. Unacceptable because the size of the increase  
11 far outstrips the increase in numbers of customers and increases, if any, in the cost of capital,  
12 electric power, labor, etc. Neither is the increase related to any discernable improvement in  
13 reliability or quality of service. In addition, it is our inescapable conclusion that the  
14 disproportionately huge increase in the Utility's plant since the last rate proceeding ended in 1994  
15 is due to the developers' real estate ventures in Tonto Verde, Vista Verde, and beyond. In should  
16 be noted that these same developers essentially own and also control the Utility. Mr. Neidlinger,  
17 on the other hand, has presented an alternative that, our Committee believes, will be acceptable to  
18 a majority of current Rio Verde and Tonto Verde residents, and is fair to the Utility.

19  
20 **III. RVCA AND RVCC**

21 **5.Q. WOULD YOU PLEASE DESCRIBE THE ASSOCIATION AND ITS  
22 RELATIONSHIP WITH THE RESIDENTS OF RIO VERDE?**

23 5.A. The RVCA was formed about the same time as the Rio Verde development began in  
24 1972. Its Board of Directors was initially selected and controlled by the developers. We now  
25 have had for many years an independent non-profit Association controlled by the residents of Rio  
26

1 Verde. Board members are now chosen by all property owners in annual elections whereat they  
2 are elected for staggered three-year terms.

3 The Association is responsible for the ownership and maintenance of all roads and  
4 common areas within the community. It also owns and operates the Community Center and  
5 associated recreational and community exercise facilities. The Board of the Association has been  
6 expressly charged by the Articles of Incorporation with promoting the welfare, health and safety  
7 of all owner/residents and occupants of property within Rio Verde.

8 The Board has chosen a standing Electric and Water Utilities Committee ("Utilities  
9 Committee") to represent the Association in dealing with utility matters affecting the community.  
10 It has specifically authorized that Utilities Committee to seek intervention in this proceeding, to  
11 retain counsel, to hire such other experts as are needed, and, if appropriate, to negotiate with  
12 RVUC. The Utilities Committee has five members, several of whom had long careers as  
13 executives in the electric, gas and telephone utility industries.

14 **6.Q. WOULD YOU PLEASE DESCRIBE THE COUNTRY CLUB AND ITS**  
15 **RELATIONSHIP WITH THE RESIDENTS OF RIO VERDE?**

16 6.A. The RVCC is more than just a golf course. Its membership comprises some 90% of the  
17 residents of Rio Verde. It owns and maintains two recreational golf courses and a club house,  
18 which includes the community's only restaurant. The RVCC is managed by a Board of Directors  
19 directly elected by the membership. That same Board has one of its members on the Utilities  
20 Committee and has specifically authorized the Utilities Committee to act on behalf of the  
21 membership in this proceeding, including the filing of intervention and the presentation of  
22 testimony.

1 **IV. DESCRIPTION OF THE RIO VERDE COMMUNITY**

2 **7.Q. PLEASE DESCRIBE RIO VERDE?**

3 7.A. Rio Verde is a development that has grown into an exceptionally close knit village over its  
4 nearly thirty-year history. Rio Verde as projected will have approximately 1000 home sites and is  
5 almost completely built out.

6 Rio Verde is located in the lower Verde Valley on a loop road about half way between  
7 Fountain Hills (on the south) and the Pinnacle Peak/Troon area (to the northwest). It has been  
8 developed upon relatively flat land on the lower east slope of the McDowell Mountains near the  
9 Verde River. Elevation change in the community is very gradual from West to East. Rio Verde  
10 is surrounded by the Tonto National Forest (East), McDowell Mountain Regional Park (West),  
11 Fort McDowell Indian Community (South) and the separate Tonto Verde development (North).

12 Because of the long and relatively slow development of Rio Verde, the community's  
13 housing consists of a broad mix of high density, attached town houses; small single-family  
14 residences, and larger homes and lots in the newer sections. It is a blended community with a  
15 wide range of housing styles, sizes and prices. Its population is dominated by people in their  
16 sixties, seventies, and eighties. A growing list of residents, currently over 150, are widows or  
17 widowers. A growing number are also full-time Arizona residents or are spending an increasing  
18 amount of the year in residence in the community. As an active adult community, the exercise  
19 opportunities provided by the two golf courses, the tennis courts, community pools and other  
20 facilities are considered by most residents as necessities required to maintain their health and  
21 well-being rather than mere recreational luxuries.

22 In keeping with its "village" atmosphere, Rio Verde contains a Community Center, its  
23 own Post Office, a community church (used by all denominations), a village store, and the local  
24 fire station, as well as medical and other offices. As noted above, the clubhouse provides the only  
25 restaurant in Rio Verde, which in many respects is like a small rural community.

26

1 **8.Q. HOW DOES RIO VERDE DIFFER FROM THE NEW DEVELOPMENTS**  
2 **IN TONTO VERDE, VISTA VERDE AND TONTO VISTA?**

3 8.A. Rio Verde has evolved into a village-like community with a wide range of housing styles  
4 and prices, and as mentioned earlier, a wide range of community, public and privately- owned  
5 support facilities. The Boards of both the Association and the Country Club are elected by the  
6 membership, with approximately a 90% overlap between the two. The community is nearly  
7 100% developed, with relatively few lots left for new home construction.

8 In contrast, Tonto Verde is a relatively new development by the same controlling group of  
9 developers, and is still in its marketing stage. All the basic streets and utility infrastructure were  
10 in place by the end of 1999. It is designed to be about three fourths the size of Rio Verde in terms  
11 of water and sewer customers. The Tonto Verde community association and country club boards  
12 of directors are controlled and staffed by representatives of the developers. The developers have,  
13 contrary to the situation in Rio Verde, retained ownership and control of Tonto Verde golf  
14 courses and the clubhouse. The Utilities Committee estimates, based on set meters, that about  
15 40% of the potential water customers were connected to the system by year-end 1999. Somewhat  
16 fewer sewer customers were connected at the end of the test period, indicating that many of the  
17 new water meters had been set for construction purposes, with actual permanent customers to  
18 follow in 2000 or later.

19 Vista Verde is another new development controlled by the same core group of developers  
20 that has proceeded through the planning and governmental approval stages. While no home  
21 construction has begun, the water mains installed to carry water from the existing Utility well  
22 fields to the new Asher Hill storage tank run along the south side of Rio Verde Drive, and we  
23 have been advised by Utility personnel that they would be available for future use for that  
24 community. Presumably, Vista Verde's golf courses and clubhouse will be owned by the  
25 developers. Also, the Vista Verde community association and golf club likely will be developer-  
26 controlled.

1 Tonto Vista is the fourth new development by this same basic group of developers. It will  
2 be about half the size of each of the other three. The land for Tonto Vista has been owned by the  
3 developers for many years. The ponds for its future golf courses are in place and have been filled  
4 and are being refilled with water provided by the Utility. As in the case of Tonto Verde and Vista  
5 Verde, the development will be targeted for a somewhat younger and more affluent (on average)  
6 homeowner than is presently the case in Rio Verde.

7 In summary, these four developments, although physically adjacent, are separate and  
8 distinct. They have different housing densities and styles, and will have residents made up of  
9 different population age mixes and having different lifestyle values.

#### 10 **V. POSITION OF INTERVENORS ON RATE INCREASE**

#### 11 **9.Q. WHAT IS THE POSITION OF THE ASSOCIATION AND THE COUNTRY CLUB** 12 **ON THE UTILITY'S PROPOSED RATE INCREASES?**

13 9.A. Neither the Association nor the Country Club can see any justification for rate increases of  
14 this unexpected and, frankly, startling magnitude. Mr. Neidlinger's analysis would indicate that  
15 the Utility has added vast amounts of new plant primarily for the benefit of future Tonto Verde,  
16 Vista Verde, and even Tonto Vista customers, apparently without anticipating its severe impact  
17 on existing customers. We can not help but believe that if the Utility were separate from the  
18 developers' control, it would have attempted to address future growth in a more gradual and  
19 economical fashion, either by scaling down its planned increments of investment, or asking for  
20 greater developer contributions and/or refundable advances, or both.

21 The unfair and inequitable impact of this rate increase on Rio Verde residents is three-  
22 fold. They will pay significantly higher residential water and sewer rates. They will pay much  
23 higher club membership dues, since the Country Club is a major water and effluent customer of  
24 the Utility. And they will pay higher association dues, since the Association is itself a large water  
25 user of the Utility. If RVUC receives its full request, the Utilities Committee has estimated a total  
26 impact on Rio Verde residents, who are also members of RVCC, and including the state sales tax

1 on the increase, of over \$500 per year. In addition, although Association membership is  
2 mandatory in the Rio Verde community, club membership is not. To the extent higher utility  
3 costs make club membership less affordable, such membership may further decline. This will  
4 cause even higher per member costs for a non-profit club already struggling to maintain  
5 memberships and thus remain financially viable. Thus a facility that most long-time Rio Verde  
6 residents consider as essential to the entire character of the community and one of the driving  
7 forces behind our decision to live in Rio Verde, could become less and less affordable to older  
8 residents on fixed incomes, including that growing list of widows and widowers. Given the  
9 practical necessity of this form of physical activity to the residents' physical and mental well-  
10 being, this would be of great concern to the entire Rio Verde community.

11 **10.A. WHAT HAS BEEN THE PHILOSOPHY BEHIND THE INTERVENORS' RATE**  
12 **RECOMMENDATIONS IN THIS PROCEEDING?**

13 10.A. The two guiding principles have been fairness and balance. There cannot be one without  
14 the other. We have tried to balance the interests of the Country Club versus those of residential  
15 consumers, especially those few that are not members of the RVCC. We have tried to balance the  
16 interests of the Rio Verde community with the existing and future residents of the Tonto Verde  
17 and Vista Verde developments. We have tried to balance the interests of the developer and  
18 affiliated owners of the Utility with those of its customers – present and future. We have done so  
19 through a much more modest level of rate increases that nevertheless allow the Utility to earn a  
20 fair and reasonable return on its entire investment when and as that investment becomes fully  
21 “used and useful.” We have increased connection charges to a level more in line with other  
22 communities and with all of that increase going to offset some of the plant costs temporarily  
23 excluded from rates. Yet we have preserved the benefits to current customers from the existing  
24 connection charge levels that were negotiated by Intervenors and accepted by the Commission in  
25 the Utility's last rate case. We have balanced the interests of residential customers with those of  
26 irrigation customers by retaining an incentive for the latter to use wastewater effluent, which

1 would otherwise have to be disposed of at a much higher cost to the Utility and its residential  
2 customers. And by setting irrigation rates at a level that will help assure the continued  
3 affordability of the Country Club to virtually the entire community, they will also be at a level  
4 which the Utility claimed in its filing as closer to the cost of serving such customers. We have  
5 also tried to improve utility revenue stability through higher minimum bills and improve utility  
6 cash flow through a combination of higher monthly rates and higher water and sewer service  
7 connection charges. The result is, I believe, a package of recommendations that is much fairer to  
8 all concerned than that proposed by the Utility.

## 9 VI. CONCLUSION

### 10 **11.Q. WOULD YOU AGAIN SUMMARIZE YOUR RECOMMENDATIONS TO THE** 11 **COMMISSION?**

12 11.A. Yes. We implore the Commission to reject the Utility's requested rate increase as  
13 excessive and unfair to the existing customers, particularly those in Rio Verde. Intervenors have  
14 put together an alternative that, along with complementary recommendations of RUCO, and after  
15 consideration of certain of Staff's recommended adjustments, will provide the needed balance and  
16 fairness to any increase found appropriate by the Commission.

### 17 **12.Q. DOES THIS CONCLUDE YOUR PREPARED WRITTEN DIRECT** 18 **TESTIMONY?**

19 12.A. Yes.  
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Sky Harbor

Airport

Phoenix

Scottsdale

Paradise Valley

Scottsdale

Mayo Clinic

Fountain Hills

McDowell Mountain

Regional Park

Fort McDowell  
Indian Community

Tonto National Forest

Verde River

RIO VERDE

Tonto Verde

Rio Verde  
Ranch

Horseshoe Road

Rio Verde Drive

Tonto Vista

178th Street

VISION  
VERDE