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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

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IN THE MATTER OF THE JOINT APPLICATION
OF SUN CITY WATER COMPANY AND SUN
CITY WEST UTILITIES COMPANY FOR
APPROVAL OF CENTRAL ARIZONA PROJECT
WATER UTILIZATION PLAN AND FOR AN
ACCOUNTING ORDER AUTHORIZING A
GROUNDWATER SAVINGS FEE AND
RECOVERY OF DEFERRED CENTRAL
ARIZONA PROJECT EXPENSES.

DOCKET NO. W-01656A-98-0577
DOCKET NO. WS-02334A-98-0577

DECISION NO. 65655

OPINION AND ORDER

DATE OF HEARING: January 8, 2002 (Pre-hearing Conference), January 9 and 10, 2002.

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

APPEARANCES: Todd C. Wiley and Michael M. Grant, GALLAGHER & KENNEDY, P.A., on behalf of Arizona-American Water Company (formerly known as Citizens Communications Company);

William P. Sullivan, MARTINEZ & CURTIS, P.C., on behalf of the Sun City Taxpayers Association;

Daniel W. Pozefsky on behalf of the Residential Utility Consumer Office;

Walter W. Meek on behalf of the Arizona Utility Investors Association;

William G. Beyer on behalf of the CAP Task Force; and

Janet Wagner, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

I. Introduction

Sun City Water Company ("SCWC") and Sun City West Utility Company ("SCWUC") were formerly subsidiaries of Citizens Communications Company ("Citizens" or "Company"). By

1 Decision No. 63584 (April 24, 2001), the Arizona Corporation Commission ("Commission")
2 approved the transfer of Citizens' water assets and certificates to Arizona-American Water Company
3 ("Arizona-American"), including the assets and certificates for SCWC and SCWUC. The sale
4 transaction closed on January 15, 2002 and, therefore, the application in this proceeding is now
5 sponsored by Arizona-American¹.

6 Before discussing the issues raised during the hearing in this matter, it is necessary to recount
7 the background of the proceeding. SCWC and SCWUC have Central Arizona Project ("CAP")
8 allocations totaling 6,561 acre feet of water. In March 1994, Citizens completed a Water Resources
9 Planning Study that concluded that continuous reliance solely on groundwater could result in
10 decreased water levels, increased pumping costs, well failures, diminished water quality, and land
11 subsidence. The study recommended that Citizens pursue the use of CAP water as an alternative to
12 exclusive reliance on groundwater. In August 1995, Citizens completed a Water Use Feasibility
13 Study to examine various options for the use of CAP water as an alternative to exclusive reliance on
14 groundwater. The study concluded that the best option was a joint recharge project with the Central
15 Arizona Water Conservation District ("CAWCD") along the Agua Fria River.

16 In Decision No. 58750 (August 31, 1994), the Commission approved an accounting order for
17 SCWC that allowed the deferral of CAP charges and permitted SCWC and SCWUC to request
18 recovery of the deferred costs in a future rate case. In August 1995, Citizens filed rate increase
19 applications for SCWC and SCWUC and requested rate recognition for the deferred and ongoing
20 CAP water costs. In Decision No. 60172 (May 7, 1997), the Commission denied the request to
21 include the CAP costs in rates because Citizens was not utilizing CAP water in the provision of
22 service to its customers. The Commission also indicated, however, that Citizens' decision to obtain
23 CAP water was a prudent planning decision, and that the demand of current customers was depleting
24 the aquifer, thereby causing land subsidence and other environmental damage. The Commission
25 determined that Citizens could continue the deferral of CAP costs for future recovery from ratepayers
26 when the CAP allocation was put to beneficial use for Citizens' ratepayers.

27 _____
28 ¹ Because the application was originally submitted by Citizens, and all of the testimony and evidence refers to Citizens, this Order will likewise refer to Citizens as the sponsoring party.

1 Citizens subsequently helped put together a community-based CAP Task Force ("Task
2 Force") to determine how best to use CAP water. The Task Force was comprised of two members
3 each from the Recreation Centers of Sun City, the Sun City Condominium Owners Association, the
4 Sun City Homeowners Association, the Sun City Taxpayers Association, the Property Owners and
5 Residents' Association, the Recreation Centers of Sun City West, and Citizens. The Task Force also
6 included one member from the Town of Youngtown and four at-large members. After a number of
7 meetings, the Task Force concluded that: a) Citizens' CAP allocation should be retained; b) the
8 interim solution, which recommended that SCWC recharge its CAP allotment at the existing
9 Maricopa Water District ("MWD") recharge facility, meets the criteria of used and useful; c)
10 ratepayers would pay for the deferred CAP charges; d) ratepayers would pay for the ongoing CAP
11 costs; e) the long-term solution is to deliver CAP water to the Sun Cities through a non-potable
12 pipeline, where the water would be used to irrigate golf courses that have historically used
13 groundwater; f) the deferred CAP charges and the ongoing CAP costs would be recovered on a per
14 household, per month fee basis for the residential customer class; and g) the deferred CAP charges
15 and the ongoing CAP costs for the commercial class would be recovered based on usage.

16 On October 1, 1998, Citizens filed with the Commission an application to approve the water
17 utilization plan recommended by the Task Force and for an accounting order authorizing a
18 groundwater savings fee and recovery of CAP expenses. In Decision No. 62293 (February 1, 2000),
19 the Commission held that "[w]hile there are clearly less costly options, the Task Force has
20 represented there is general agreement in the Sun City areas for the Groundwater Savings Project. As
21 a result, we will approve the concept of the Groundwater Savings Project and approve the reasonable
22 and prudent costs associated with completion of the preliminary design/updated cost estimate." As
23 part of the design/cost estimate, the Commission required Citizens to address: a) the feasibility of a
24 joint facility with Citizens' Agua Fria Division; the need for all major elements of the plan (e.g.,
25 storage and booster stations); and binding commitments from the golf courses (*Id.* at 16).

26 On August 1, 2000, Citizens filed the Preliminary Engineering Report ("PER") for the
27 Groundwater Savings Project ("GSP"). The Sun City Taxpayers Association ("SCTA"), the
28 Residential Utility Consumer Office ("RUCO"), the Arizona Utility Investors Association ("AUIA"),

1 the Task Force, and Commission Staff filed comments regarding the findings of the PER. On
2 December 18, 2000, Citizens filed responsive comments, including a Supplemental Engineering
3 Report Upon the Effect of the Non Participation of Hillcrest Country Club and an agreement for the
4 exchange of water with the Briarwood Country Club. In their comments, the Task Force, AUIA,
5 Citizens and Staff supported the reasonableness of the PER's findings, while SCTA and RUCO
6 continued to express concerns with the scope and cost of the GSP.

7 On January 10, 2001, SCTA filed a Request for Hearing, arguing that an evidentiary hearing
8 was necessary to resolve the issues raised by the parties disputing the PER and regarding the
9 appropriateness of Citizens' proposal. On February 7, 2001, the Commission held an oral argument
10 on SCTA's request.

11 On March 14, 2001, the Administrative Law Judge issued a Proposed Order recommending
12 approval of the PER and authorization for Citizens to proceed with the GSP. At a Special Open
13 Meeting on May 11, 2001, the Commission directed the Hearing Division to schedule an evidentiary
14 hearing to resolve issues concerning the PER and Supplemental Report. A procedural conference
15 was conducted on May 22, 2001 and, by Procedural Order issued June 5, 2001, a hearing in this
16 matter was scheduled to begin on August 15, 2001.

17 At the request of SCTA, the hearing date was continued several times. The hearing was held
18 on January 9 and 10, 2002. Public comment was taken at the beginning of the January 9, 2002
19 hearing. Post hearing briefs were filed by all parties on February 11, 2002.

20 On May 15, 2002, a Recommended Opinion and Order was issued by the Administrative Law
21 Judge. Exceptions were filed by RUCO and SCTA on May 24 and May 28, 2002, respectively. At
22 the request of the Administrative Law Judge, Responses to the Exceptions were filed by AUIA on
23 June 14, 2002, on June 21, 2002 by Arizona-American, and on June 24, 2002 by Staff.

24 This matter was initially scheduled for consideration at the July 11, 2002 Open Meeting. On
25 July 3, 2002, Chairman Mundell filed a letter in the docket requesting that this case be pulled from
26 the July 11, 2002 Open Meeting agenda in order "to obtain an independent analysis on the issue
27 [raised in SCTA's Exceptions] of whether recharge operations at the Agua Fria facility would
28 ultimately benefit the Sun Cities' aquifer." The letter directed Staff to secure "an independent

1 hydrological analysis on this issue.” The case was pulled from the July 11, 2002 Open Meeting
2 agenda.

3 On July 16, 2002 a Procedural Conference was conducted to discuss how the record would be
4 supplemented in accordance with the Chairman’s letter. At the Conference, Staff was directed to
5 contact the Arizona Department of Water Resources (“ADWR”) with respect to providing an
6 independent hydrological analysis regarding the benefits to the Sun Cities’ aquifer from the Agua
7 Fria Recharge Facility.

8 On July 23, 2002, the Director of ADWR submitted a letter to Chairman Mundell urging the
9 Commission to approve the proposed GSP.

10 On July 26, 2002, Staff filed a Memorandum stating that it believed the questions raised in the
11 Mundell letter could be quickly answered by a witness from either ADWR or CAWCD. However,
12 Staff stated that the letter implicitly raised the additional questions of whether and when any benefit
13 to the Sun Cities’ aquifer could be expected to be substantial. To answer those questions, Staff stated
14 that an independent hydrologist could require as much as a \$100,000 fee.

15 On August 8, 2002, SCTA filed a Response to Staff’s Memorandum. SCTA stated that an
16 independent hydrologist could be retained for under \$15,000 to conduct the analysis contemplated in
17 the Chairman’s letter. SCTA also stated that copies of hydrological models were available from
18 ADWR at no cost. SCTA attached an affidavit from a hydrologist attesting to that claim.

19 By Procedural Order issued August 22, 2002, SCTA was directed to provide to all parties
20 copies of the hydrological models it claimed were publicly available at no cost. The Procedural
21 Order also scheduled an additional Procedural Conference for September 6, 2002.

22 At the September 6, 2002 Procedural Conference, a discussion was conducted regarding what
23 procedural steps should be taken to resolve the allegations raised in SCTA’s Exceptions, specifically
24 regarding the Agua Fria Recharge Facility. At the conclusion of the Conference, Staff was directed
25 to report back on the questions raised in the Mundell letter and SCTA was directed to report back
26 regarding whether it intended to present an expert witness to support its allegations.

27 On September 19, 2002, Staff filed a Memorandum stating that it is not surprising that a
28 hydrologic response is being detected as far as four miles south of the Agua Fria blow-off structure,

1 because the recharge basins where the CAP water is being recharged are located up to five miles
2 south of the blow-off structure. Staff also indicated that the Agua Fria Recharge Facility will
3 ultimately provide a benefit to the Sun Cities' aquifer, but questioned when any benefit could be
4 expected to occur and to what extent the aquifer would benefit.

5 On September 24, 2002, SCTA filed a pleading stating, among other things, that it had
6 decided not to present a witness on the issue of the Agua Fria recharge benefits to the Sun Cities'
7 aquifer.

8 Responses to SCTA's pleading were filed on October 2, 2002 by the CAP Task Force, on
9 October 4, 2002 by Arizona-American, and on October 9, 2002 by Staff. The Responses urged the
10 Commission to reject SCTA's request for further proceedings and to schedule the matter for Open
11 Meeting based on the existing record.

12 On October 24, 2002, Chairman Mundell filed a letter stating that he was satisfied that his
13 effort to slow down the process in this case had given all parties ample opportunity to present
14 evidence supporting their respective positions. The letter further stated that he was "now prepared to
15 schedule an Open Meeting so this matter can be voted on and resolved."

16 **II. The Groundwater Savings Project and the Preliminary Engineering Report**

17 The proposed GSP is a water exchange project that provides for SCWC and SCWUC to
18 exchange their CAP water allotments for groundwater being used by local golf courses. The project
19 includes construction of a water transmission main to bring raw CAP water from the Hayden-Rhodes
20 Aqueduct to the water campus where the SCWUC wastewater treatment plant and effluent recharge
21 basins are located. From the water campus, the raw CAP water will be delivered through a smaller
22 distribution system to participating golf courses in Sun City. Deliveries to participating golf courses
23 in Sun City West would be made through the existing effluent distribution system owned and
24 operated by the Recreation Centers of Sun City West. The transmission pipeline would then branch
25 into a smaller irrigation distribution system, where the raw CAP water will be delivered directly to
26 each participating golf course at a specified delivery point. The golf courses will then curtail their
27 groundwater pumping and instead take the raw CAP water (Ex. A-1, at A-2).

28 Citizens retained HDR Engineering ("HDR") to perform the preliminary design and cost

1 estimate work for the GSP and PER. According to Company witness Ronald Jackson, Citizens and
2 HDR evaluated five possible GSP alternatives, as described below (Tr. 220-225):

3 **A. Alternative A (Lake Pleasant Road)**

4 Alternative A is the recommended GSP option. This alternative involves
5 delivery of CAP water at the CAP canal north of the Sun Cities where the
6 canal crosses Lake Pleasant Road. A pipeline would then convey the CAP
7 water down Lake Pleasant Road/99th Avenue, to be delivered to Sun City
8 West through the existing Sun City West distribution system (which flows
9 east to west) and to Sun City through a newly constructed pipeline.
10 According to the PER, Alternative A has the lowest 50-year life cycle cost
11 of the GSP options at \$16,460,928 (Ex. A-1, at D-1 to D-61 and E-1 to E-
12 5).

13 **B. Alternative B (115th Avenue)**

14 Alternative B would take CAP water from the CAP canal through the
15 Beardsley Canal, and would then cross the Agua Fria River to Citizens'
16 water campus. CAP water would then be delivered westward to Sun City
17 West through the existing Sun City West distribution system and east to
18 Sun City through a newly constructed pipeline. The 50-year life cycle
19 cost for Alternative B is estimated to be \$17,278,912 (*Id.*).

20 **C. Alternative C (El Mirage Road)**

21 Alternative C is similar to Alternative B, except that the pipeline would be
22 constructed farther west along El Mirage Road instead of 115th Avenue.
23 The 50-year life cycle cost is estimated to be \$17,949,879 for Alternative
24 C (*Id.*).

25 **D. Alternative D (Deer Valley Road)**

26 Alternative D would deliver CAP water through the Beardsley Canal to
27 Grand Avenue. The CAP water would then be transported east to connect
28 with the existing Sun City West distribution system and the Sun City
pipeline. This alternative would also require a pumping station to deliver
the water. The estimated 50-year life cycle cost for Alternative D is
\$20,571,684 (*Id.*).

1 **E. Alternative E (Through Sun City West Distribution System)**

2 The Alternative E pipeline would begin at a proposed Beardsley Canal
3 turnout east of Grand Avenue and would ultimately connect to the existing
4 irrigation network owned and operated by the Recreation Centers of Sun
5 City West. This alternative was rejected by HDR because the existing Sun
6 City West distribution system is not hydraulically capable of transporting
7 the full CAP allotment from west to east and because the Recreation
8 Centers of Sun City West would not allow use of the Sun City West
9 system for transport of CAP water from west to east (*Id.* at D-18 to D-19).

10 Pursuant to the directives set forth in Decision No. 62293, the PER also evaluated potential
11 joint projects with Citizens' Agua Fria Division and the City of Surprise (Ex. A-1, at C-1 to C-6).
12 The PER compared three joint pipeline facility arrangements: a joint pipeline project between the
13 Agua Fria Division and the GSP; a joint pipeline facility between the Agua Fria Division, the GSP,
14 and the City of Surprise; and a joint pipeline facility between the GSP and the City of Surprise,
15 without the Agua Fria Division (*Id.* at C-5). The PER concluded that none of these joint facility
16 arrangements is feasible because the timing of the needs for the GSP and the Agua Fria Division and
17 the City of Surprise do not coincide. The PER also indicated that a joint facility project is not the
18 least cost alternative for the GSP (*Id.* at C-6, E-4).

19 **III. Summary of Parties' Arguments**

20 **A. Citizens' Arguments**

21 The Company argues that the scope of the Commission's inquiry in this matter has been
22 limited by prior decisions to three narrow issues: 1) whether the PER satisfies Decision No. 62293 by
23 addressing the feasibility of a joint project with the Agua Fria Division; 2) whether the PER
24 addresses the need for all major elements of the GSP; and 3) whether Citizens provided evidence of
25 binding commitments from the participating Sun City and Sun City West golf courses.

26 The Company contends that the public need would be served by implementation of the GSP
27 because it will reduce the golf courses' reliance on pumped groundwater, and thereby avoid
28 consequences of excessive groundwater withdrawal such as decreased water levels, diminished water
29 quality, well failures, increased pumping costs, and land subsidence (*See*, Decision No. 62293, at 18).

1 **B. SCTA's Arguments**

2 The SCTA argues that a number of issues remain to be resolved. For example, the SCTA
3 claims that the PER does not adequately address the issue of binding commitments from both public
4 and private golf courses and, in any event, Citizens' proposed water exchange does not necessarily
5 equate to water savings because Citizens would be entitled to withdraw an acre foot of groundwater
6 for every acre foot of CAP water delivered to the golf courses. The SCTA is concerned that Citizens
7 will use the ability to continue pumping groundwater as a means of facilitating growth, especially in
8 the area served by the Agua Fria Division. The SCTA also asserts that, as of August 2005, the five
9 participating Sun City West golf courses' General Industrial Use Permits will expire, thereby
10 reducing those courses' groundwater withdrawal rights to 2,329 acre feet per year from the current
11 level of 3,735 acre feet.

12 Other issues raised by the SCTA include its allegations that: there is no limitation on where
13 Citizens may put the exchanged water to use; the terms of the Exchange Agreements may not satisfy
14 Arizona Department of Water Resources ("ADWR") requirements for exchange of Type I water
15 rights; and termination of the agreement to convert CAP water to potable uses could leave the
16 distribution system useless.

17 The SCTA also questions whether the terms of the Water Exchange Agreements are
18 reasonable because the golf courses will be paying less than their current pumping costs. SCTA is
19 also critical of the fact that the participating Sun City West golf courses will acquire Type II water
20 rights from the Recreation Centers of Sun City to address the groundwater deficiency they will face
21 in 2005.

22 The SCTA claims that the PER does not adequately address all major elements of the GSP
23 because the PER does not discuss the degree to which the project increases benefits to the aquifer
24 compared to less expensive alternatives such as delivering CAP water only to Sun City West courses
25 and then recharging excess CAP water at underground storage facilities. The SCTA also alleges that
26 the PER is deficient because its focus was narrowed by the limitations imposed by the Recreation
27 Centers of both Sun City and Sun City West with respect to participation by private golf courses.
28 The SCTA also contends that Citizens has not justified the need for the automated Supervision

1 Control and Data Acquisition ("SCADA") system and such a system is not a necessary component of
2 the project.

3 The SCTA asserts that, because the GSP is an issue of community-wide interest, the need for
4 the project should be decided by a community vote. Instead of approving the GSP as proposed, the
5 SCTA requests that the Commission authorize Citizens to continue to recharge the CAP water, and to
6 do so at the Agua Fria underground storage facility once it is fully operational. If the Commission
7 decides to approve any component of the GSP, the SCTA recommends that the Commission approve
8 only the pipeline along Lake Pleasant Road and interconnection with Sun City West. Finally, the
9 SCTA urges the Commission to ensure that any CAP water paid for by ratepayers not be used to
10 support new growth or increased groundwater withdrawals by Citizens.

11 **C. RUCO's Arguments**

12 RUCO argues that, although it recognizes the Commission has previously approved the
13 concept of the GSP, the Company's proposal should be denied because the high cost of the GSP will
14 result in "rate shock" to ratepayers, and because the United States Environmental Protection
15 Agency's ("EPA's") new arsenic standards make approval of the GSP imprudent at this time.

16 RUCO claims that the proposed GSP would subject the ratepayers in Sun City and Sun City
17 West to a rate increase of approximately 45 percent. According to RUCO, the Commission approved
18 only the "concept" of the GSP, but the costs associated with the project were not approved. RUCO
19 argues that the GSP should be rejected because of what it calls the project's excessive costs.

20 RUCO also contends that the Commission should not approve the GSP because CAP water
21 that would otherwise be committed to the GSP could be necessary as a least-cost solution to the
22 Company's compliance with new arsenic standards. RUCO claims that approval of the GSP could
23 subject the ratepayers of Sun City and Sun City West to unnecessary and avoidable costs.

24 **D. AUIA Arguments**

25 AUIA asserts that the Company, through the PER, is fully in compliance with all directives
26 outlined in Decision No. 62293 and, as such, there are no other issues to be decided in this case.
27 AUIA contends that the SCTA's tactics in this proceeding have the effect of requiring the
28 Commission to study the alternatives forever or to shift the cost burden of implementing the GSP to

1 the residents of Sun City West. AUIA requests that the Commission confirm the Company's
2 compliance with the prior Decision and reject the SCTA's attempt to prolong the review of the GSP.

3 **E. CAP Task Force Arguments**

4 The CAP Task Force argues that the issues raised by Decision No. 62293 have been
5 adequately addressed by the Citizens witnesses and the PER. The Task Force contends that: the
6 Company has adequately addressed the feasibility of modifying the GSP concept as a joint project
7 with the Agua Fria Division; the PER appropriately identifies all major elements needed to
8 implement the GSP; and binding commitments exist with the Recreation Centers of both Sun City
9 and Sun City West, as well as the Briarwood Country Club, such that the GSP is feasible. The Task
10 Force also claims that RUCO and the SCTA have raised a number of issues in this case that have
11 either been addressed in prior hearings or are not relevant to the issues identified by the Commission
12 for resolution in this proceeding.

13 **F. Staff's Arguments**

14 Staff also contends that the Company has complied with the requirements of Decision No.
15 62293. According to Staff, the focus of this proceeding is limited to determining whether the
16 Company's engineering reports comply with the directives of that Decision, rather than conducting a
17 re-examination of the prudence of the GSP concept.

18 Staff asserts that the SCTA's criticism of the GSP is misplaced. Staff claims that the prior
19 Decision's directives were adequately addressed by the PER and, moreover, that the SCTA's
20 suggested deficiencies with the PER are addressed in various parts of the record. Based on the
21 record, Staff requests that the Commission find that the Company's filings comply with the directives
22 of Decision No. 62293, but that no determination should be made at this time as to the ratemaking
23 effect of the proposed GSP.

24 **IV. Scope of Review in this Proceeding**

25 In Decision No. 62293, the Commission stated: "we will approve the concept of the
26 Groundwater Savings Project and approve the reasonable and prudent costs associated with the
27 completion of the preliminary design/updated cost estimate." As part of the "preliminary
28 design/updated cost estimate" Citizens was required to address: "a) the feasibility of a joint facility

1 with the Agua Fria Division including the timeframe for any such joint facility; b) the need for all
2 major elements of its proposed plan (e.g., storage and booster stations); and c) binding commitments
3 from golf courses, public and private, and the terms and conditions related thereto.” (*Id.* at 16).

4 **A. Feasibility of Joint Facility with Agua Fria Division**

5 As discussed above, one of the issues mandated by the Commission for further investigation
6 is the feasibility of a joint project with Citizens’ Agua Fria Division. The PER evaluated three
7 possible joint projects with the Agua Fria Division and/or with the City of Surprise, but rejected these
8 alternatives due to cost and timing considerations (Tr. 350-351).

9 SCTA witness Dennis Husted suggested that the Company did not adequately explore the
10 possibility of combining the GSP with Citizens’ future plans to bring CAP water into the area served
11 by its Agua Fria Division (SCTA Ex. 1, at 28). However, as indicated in the PER, the timing of the
12 Agua Fria and Surprise transmission lines are not consistent with the GSP’s goal of being in service
13 by 2003. For example, the PER stated that “a transmission pipeline to serve the needs of the Agua
14 Fria Division is not currently projected within the 20 year planning horizon through the year 2020”
15 (Ex. A-1, at C-6). Further, the City of Surprise pipeline is not projected to be in service until 2007
16 (*Id.*).

17 In addition to the timing problems, the PER determined that the joint projects are more costly
18 than the recommended Alternative A. According to the PER, the 50-year life cycle cost of
19 Alternative A is \$16,460,928, while the three joint project costs are estimated to range from
20 \$19,196,442 to \$19,866,541 (*Id.* at E-4).

21 Mr. Husted also criticized the PER for failing to consider whether CAP water could be
22 delivered using the existing effluent system in a west to east direction (SCTA Ex. 1, at 28).
23 However, as explained by Company witness Jackson, Alternative E in the PER examined the west to
24 east scenario and concluded that it is not hydraulically possible to deliver the flow rate required by
25 the project through the existing pipeline in a west to east direction (Ex. A-2, at 11). In addition, the
26 owner of the pipeline, Sun City West Recreation Centers, would not permit the use of the pipeline in
27 this manner.

28 Based on the record evidence, we believe that the PER adequately addressed the joint

1 participation scenarios. Accordingly, we find that the requirement set forth in Decision No. 62293, to
2 evaluate the feasibility of a joint project with the Agua Fria Division, has been satisfied.

3 **B. The Need for All Major Elements of the GSP**

4 Decision No. 62293 also required the Company to address all major elements of the project.
5 As described in the PER, the major elements proposed by Alternative A are the construction of a
6 CAP trunk line (\$7,389,787), a Sun City distribution system (\$7,326,884), and a SCADA system
7 (\$1,744,257). The PER contains a similar analysis of the other alternatives that were evaluated.

8 SCTA claims that the distribution system and trunk line are not needed because the GSP
9 could be built using the Beardsley Canal and the existing Sun City West distribution system to
10 deliver CAP water to Sun City or to Sun City West exclusively. Mr. Husted also asserts that the
11 SCADA system is unnecessary because golf course operators could manually operate the CAP
12 delivery system manually (SCTA Ex. 1, at 18-20, 25-27). For the reasons discussed below, we
13 disagree with the SCTA's suggestions.

14 **1. Use of the Sun City West Distribution System**

15 Mr. Husted suggests that Alternative E, the use of Sun City West's existing effluent system,
16 was not fully and properly examined by the PER (*Id.* at 23-25). Although he concedes that there are
17 some hydraulic constraints on the Sun City West system, Mr. Husted believes HDR's analysis
18 should have contained additional hydraulic testing.

19 We disagree with Mr. Husted's suggestions for several reasons. First, as discussed above,
20 the Sun City West distribution system is hydraulically incapable of transporting CAP water from
21 west to east in accordance with the requirements of the GSP. Mr. Buras and Mr. Jackson examined
22 the possibility of transporting water from west to east, including an evaluation of the
23 recommendations made by Mr. Husted. Both witnesses stated that they were unable to make the
24 SCTA proposal work hydraulically, even with Mr. Husted's proposed alternative configurations of
25 the system (Tr. 293-298, 329-334).

26 Second, the owner of the Sun City West system, the Recreation Centers of Sun City West,
27 would not permit Citizens to use the system for transport from west to east for operational reasons.
28 Thus, even if there were a technologically feasible way of using the existing Sun City West system

1 for the delivery of CAP water, the owner of the system would not allow it to be used for that purpose
2 (Tr. 298).

3 Third, although Mr. Husted raised several possible alternatives, he conceded that he did not
4 perform any modeling, engineering, or design work related to the Sun City West system in support of
5 his recommendations (Tr. 50-53).

6 Based on the evidence of record, we believe the PER adequately addressed the issue of using
7 the Sun City West distribution system for purposes of moving CAP water in a west to east direction.

8 **2. Use of the Beardsley Canal**

9 Mr. Husted also contends that the PER failed to adequately examine the use of the Beardsley
10 Canal in lieu of a new CAP trunk line. SCTA argues that the PER improperly rejected the Beardsley
11 Canal option on the basis that the canal does not convey water during four months of the year.
12 According to Mr. Husted, failure to fully consider wheeling of water through the Beardsley Canal
13 represents a flaw in the PER's analysis because the MWD, which operates the canal, may be willing
14 to shorten the "dry-up period" to as little as two weeks per year (SCTA Ex. 1, at 19-20). Mr. Husted
15 claims that the PER's assumed wheeling rate of \$25 per acre foot, for use of the Beardsley Canal,
16 overstates the costs associated with this option because the report does not indicate whether
17 negotiations were conducted regarding that rate (*Id.* at 21). Mr. Husted conceded, however, that he
18 did not contact the MWD about wheeling costs or investigate the MWD's wheeling policy with
19 respect to inflation cost increases or guarantees on delivery of water (Tr. 86). Mr. Husted also
20 asserts that the PER failed to properly consider the life cycle costs for the proposed booster pump
21 station because there is an inconsistency in the PER regarding those costs. Finally, Mr. Husted
22 contends that the PER does not accurately portray costs associated with obtaining rights-of-way,
23 resulting in an understatement of the Alternative A costs (*Id.* at 21-22).

24 Although Alternative A does not use the Beardsley Canal for conveying CAP water, the other
25 four alternatives evaluated in the PER did investigate the possibility of using the canal for
26 transmitting CAP water part of the distance between the CAP Canal and the Sun Cities (Tr. 223-225).
27 The PER indicates that the Beardsley Canal "does not convey water during four months of the year"
28 (Ex. A-1, at D-14). Because of the canal's "dry-up" period, the GSP would have to use its entire

1 CAP allotment during an eight-month period, thereby effectively eliminating the Beardsley Canal
2 option (*Id.*). Moreover, as described in the PER, the alternatives that employed use of the Beardsley
3 Canal were rejected because they were not the least cost options (Ex. A-1, at E-4).

4 With respect to the booster pump costs, Mr. Buras explained that there was an inconsistency
5 in the PER because one section of the report included information from a draft version. However,
6 Mr. Buras indicated that the ultimate calculations set forth on pages E-3 and E-4, which formed the
7 basis of the PER's recommendation, were based on the correct numbers. Mr. Buras also indicated
8 that the original text of the PER contained right-of-way costs based only on the permanent easement
9 land costs. However, the table in the PER also included expenses such as title company services,
10 appraisals, and recording fees. Mr. Buras stated that the right-of-way costs set forth in the tables
11 correctly reflect these costs (Ex. A-4, at 3-4).

12 We agree with the Company that every alternative examined in the PER, including the
13 proposed Alternative A, uses the existing Sun City West effluent delivery system to the fullest extent
14 possible (Ex. A-2, at 14). We believe that the Company's witnesses have explained the
15 inconsistencies in the PER identified by the SCTA witness. Accordingly, we find that the PER
16 properly analyzed the use of the Beardsley Canal utilizing delivery of the entire CAP allotment to
17 every golf course that could or would take the water.

18 3. The SCADA System

19 The proposed GSP provides for telemetry communication to as many as 18 remote sites
20 throughout the participating golf courses in Sun City and Sun City West. Each of the golf course
21 remote sites would have an electronic control valve, water meter, and a level sensor to determine lake
22 water levels. Irrigation water would be delivered to each of the golf courses on a daily cycle with
23 varying delivery times and duration. Each site will communicate via telemetry, with monitoring and
24 control functionality provided from the SCADA control center (Ex. A-1, at D-60).

25 Mr. Husted is critical of the GSP's use of the automated SCADA system for delivery of CAP
26 water to the golf courses. Mr. Husted claims that, because the proposed GSP is a gravity system that
27 operates on a demand basis for golf course turnouts, the telemetry SCADA system is not necessary.
28 He asserts that the golf courses already have personnel on staff that are responsible for monitoring

1 lake levels and operating golf course wells and, thus, the operation of the valving and placing orders
2 is no more complicated and should not require additional employees (SCTA Ex. 1, at 26).

3 Although Mr. Husted assumed that CAP water delivery could be accomplished manually, he
4 did not perform or provide any engineering analysis to support his recommendation. Company
5 witness Jackson testified that the GSP, which is a pipeline network that covers 32 square miles and
6 interconnects 15 bodies of water, needs around the clock control and supervision. Mr. Jackson stated
7 that in order to assure delivery of water to customers, it was determined by the Company that the
8 GSP would not be possible without a SCADA system (Tr. 273-274). Mr. Jackson testified that the
9 major portion of Citizens' properties are on an automated SCADA system, and the Company is in the
10 process of converting the remainder of the properties to such a system (*Id.* at 275).

11 Mr. Jackson also explained that the proposed SCADA system is necessary to coordinate
12 deliveries to the various golf courses. According to Mr. Jackson, some of the courses have small
13 lakes that must be filled more frequently because they are quickly drained by the course's watering
14 requirements. In addition, water deliveries must be coordinated by a computerized system in order to
15 maintain proper pressure and flow rates in the system. Finally, Mr. Jackson stated that the SCADA
16 system is necessary to enforce the Central Arizona Project requirement that no more than two
17 adjustments per day can be made from the CAP canal (Ex. A-2 at 16-17).

18 We agree with the Company that an automated SCADA system is a necessary component of
19 the proposed GSP. Mr. Jackson explained that the Company already relies heavily on an automated
20 SCADA system and that it will soon have the remainder of the system under similar control. From
21 an engineering perspective, it is reasonable that a complex CAP water delivery system, such as that
22 proposed by the GSP, would rely on an automated communication system. Although we recognize
23 that the SCTA has attempted to minimize as much of the GSP's costs as possible, Mr. Husted's
24 recommendation to entirely delete the SCADA does not take into account the potential additional
25 costs associated with manual operation, maintenance, and system safety concerns. We do not believe
26 it is appropriate to delete the automated SCADA system from the GSP as proposed by the SCTA.

27 **C. Binding Commitments from the Golf Courses and Supplemental PER**

28 At hearing, the Company introduced into evidence the Water Exchange Agreements between

1 Citizens and the Recreation Centers of Sun City, the Recreation Centers of Sun City West, and
2 Briarwood Country Club (Exs. A-6, A-7, and A-8). The Operating Agreements with the golf courses
3 were also introduced and admitted (Exs. A-9, A-10, and A-11). Based on these exhibits, we believe
4 the Company has satisfied the directive in Decision No. 62293 for Citizens to address the issue of
5 binding commitments with the golf courses and the terms and conditions related thereto.

6 In the initial PER, it was determined that the GSP would not be operationally feasible without
7 the participation of Hillcrest Golf Club and Briarwood Country Club, the two private courses in Sun
8 City West (Ex. A-1, at A-4). On December 18, 2000, Citizens submitted a Supplemental PER which
9 indicated that "the entire annual Sun City West CAP allocation will be consumed whether Hillcrest
10 Country Club participates or not" (Ex. A-3, at 2).

11 The SCTA claims that the Supplemental Report contradicts the PER, thereby demonstrating
12 the unreliability of the PER. As described above, the PER stated that "without the participation of the
13 two private courses in Sun City West [Hillcrest Country Club and Briarwood Country Club], the GSP
14 will not be operationally feasible" (Ex. A-1, at A-4). However, the Supplemental Engineering Report
15 determined that the participation of Hillcrest Country Club in the GSP was not critical to the
16 operational feasibility of the GSP (Ex. A-3, at 3). The Supplemental Report concluded that although
17 the participation of Hillcrest would give the GSP greater flexibility, it is not necessary for the
18 operation of the GSP. This conclusion is based on the Supplemental Engineering Report's
19 determination that the entire annual Sun City West CAP allocation can be used by the Recreation
20 Centers of Sun City West and Briarwood, and that the Sun City West conveyance system will have
21 adequate volumetric flexibility² to allow for safe and continuous operation of the GSP (*Id.*).

22 We disagree with SCTA that the credibility of the PER is undermined by the Supplemental
23 Engineering Report. Mr. Jackson stated that even without Hillcrest's participation, the engineering
24 data supports the conclusion that the GSP is operationally feasible because the participating Sun City

25 _____
26 ² Volumetric flexibility refers to the ability to store excess water on a temporary basis at a facility in the event of an
27 emergency or unusually heavy rainfall. For example, the participation of Hillcrest would add flexibility to the GSP
28 because it has a large 23.7 acre lake where water could be stored temporarily. The Supplemental Report indicated that,
even without Hillcrest, the GSP would have adequate volumetric flexibility through the use of the other Sun City West
courses' combined 55.7 acres of lakes and the ability to temporarily transfer water to the Sun City lakes, which have a
total of 102.7 acres of lake surface area (Ex. A-3, at 2-3).

1 West courses will be able to consume the entire quantity of CAP water allotted to Sun City West and
2 sufficient volumetric flexibility remains without Hillcrest's participation. Although Hillcrest's
3 inclusion would offer greater flexibility to the plan, we are satisfied with the explanation provided by
4 Mr. Jackson and Mr. Buras that sufficient flexibility remains without Hillcrest's participation to make
5 the proposed GSP viable (Tr. 230, 310).

6 Another issue raised at hearing by SCTA concerns an exhibit (SCTA Ex. 8) which purports to
7 show that Sunland Memorial Park owned certain water rights instead of the Sun City West
8 Recreation Centers. Company witness Larson clarified on redirect examination that the Recreation
9 Centers had a written agreement to use the water rights in question (Tr.436-437). A copy of the
10 contract for the use of the water rights was attached to both the Company's and SCTA's briefs. We
11 believe the agreement discussed by Mr. Larson, and produced with the briefs of the parties, lends
12 adequate support to the Company's contention that the Sun City West Recreation Centers have a
13 valid agreement for use of the Sunland Memorial Park water rights.

14 **V. Other Issues Raised by SCTA**

15 SCTA raised a number of other issues that were not specifically directed to be considered by
16 Decision No. 62293. Although Citizens moved to strike testimony filed by SCTA that was not
17 directly related to the issues identified by the Commission in that Decision, the Administrative Law
18 Judge denied the motions to strike in order to provide the Commission with a full record on all issues
19 raised by SCTA (*See*, August 6, 2001 Tr. 19-20). We will address each of these issues below.

20 **A. Expiration of General Industrial Use Permits**

21 Mr. Husted testified that, because the current General Industrial Use Permits ("GIUPs") for
22 certain of the Sun City West golf courses will expire in 2005, the courses' existing water rights will
23 be insufficient to cover the annual usage anticipated by the participating golf courses on an average
24 year. Mr. Husted claims that, in an average year, the participating courses will have rights to receive
25 only 2,329 acre feet of groundwater, which does not reach the 2,372 acre feet of CAP water available
26 to SCWUC. Mr. Husted states that the PER did not address this alleged deficiency for years after
27 2005 (SCTA Ex. 1, at 8-10).

28 Company witness Larson responded that, even if the GIUPs for certain of the courses are not

1 renewed in 2005 by ADWR, those courses will still have the ability to exchange their groundwater
2 for all but 42 acre feet of SCWUC's CAP allocation. This 42 acre feet shortfall would comprise only
3 1.8 percent of SCWUC's CAP allocation and only 0.6 percent of the combined CAP allocation for
4 Sun City and Sun City West. Thus, even in this worst case scenario, this minimal shortfall will not
5 jeopardize the GSP. Mr. Larson also stated that the Sun City Recreation Center golf courses own a
6 total of 6,609 acre feet of Type II groundwater rights, which exceeds the average annual use of the
7 Sun City golf courses by 1,705 acre feet per year. This surplus would be more than sufficient to
8 make up the minimal water rights deficit incurred by the Sun City West Recreation Centers after
9 2005 (Ex. A-5, at 3-5).

10 We believe that the Company has adequately responded to the concern raised by the SCTA on
11 this issue. CAP water does not replace the GIUPs and, in any event, the Sun City West Recreation
12 Centers are still responsible for securing sufficient groundwater withdrawal rights or other rights for
13 exchange purposes (*Id.* at 7). In fact, according to Mr. Larson, the Sun City golf courses have already
14 secured an alternative supply in the form of effluent water from the SCWUC reclamation plant (*Id.*).

15 **B. Impact on the Aquifer**

16 Mr. Husted also testified that Citizens' characterization of pumped water as CAP water may
17 have no benefit to the aquifer, or may even have a negative impact on the aquifer, depending on how
18 ADWR accounts for CAP water withdrawn by Citizens (SCTA Ex. 1, at 9). Mr. Husted suggested
19 that a complete PER should examine how characterizing Citizens' pumped water as CAP water may
20 adversely affect the aquifer (*Id.* at 10).

21 Mr. Larson responded that Mr. Husted's testimony on this issue has nothing to do with the
22 PER because the PER was not intended to address the issue of benefits to the aquifer. Mr. Larson
23 points out that Decision No. 62293 found that the proposed GSP and CAP water/groundwater
24 exchange will positively benefit the aquifer and, therefore, no reason existed for the PER to further
25 address the issue.

26 We agree with the Company that the GSP will result in benefits to the Sun Cities aquifer and
27 save groundwater regardless of how the water is considered from a regulatory perspective. All water
28 conservation measures remain in effect as long as any portion of the SCWC and SCWUC water

1 deliveries is from groundwater and the golf course conservation requirements are unaffected by the
2 water exchange. Therefore, all of the CAP water delivered to the golf courses will reduce
3 groundwater pumping by a like amount, thereby benefiting the aquifer (Ex. A-5, at 5-6).

4 **C. Ancillary Benefits to Golf Courses**

5 Mr. Husted further alleges that the credibility of the PER is suspect because the construction
6 costs associated with the project will ultimately be borne by Citizens' ratepayers. Mr. Husted
7 suggests that there is no assurance that the parties supporting the PER are attempting to design the
8 least cost alternative. Mr. Husted cites the SCADA system as an example of wastefulness and
9 claims that the PER's acceptance of the entire proposal points out the danger of having facilities
10 designed by parties that are not ultimately responsible for paying the construction and maintenance
11 costs of the project. Mr. Husted also contends that the golf courses benefit from the GSP because
12 CAP water will be provided at 80 percent of their power costs to pump groundwater for the courses
13 (SCTA Ex. 1, at 12-13).

14 We disagree with Mr. Husted's assertions on this issue. Mr. Husted implies that the project
15 is being undertaken solely for the benefit of the golf courses and Citizens, without any corresponding
16 benefit to the aquifer. As Mr. Larson points out, the parameters of the PER were established by the
17 CAP Task Force and by the Commission in Decision No. 62293 (Ex. A-5, at 8). There is no evidence
18 that the consultants who prepared the PER were somehow attempting to "gold plate" the GSP
19 because they were not responsible for paying the costs of the project. Nor is there any evidence that
20 the PER engineers did not attempt to design a least cost project because there was no monetary
21 incentive for the users of the system to do so.

22 We also disagree that the price of the CAP water, which is 80 percent of the golf courses' cost
23 to pump groundwater, undermines the PER. The golf courses must have an incentive to stop
24 pumping groundwater and the lower price will help compensate the courses for the additional costs
25 they will incur for changing over to a new water delivery system (*Id.* at 7). The Commission is
26 concerned that the costs and benefits from the Project be properly aligned. Although the evidence in
27 this case demonstrates that some benefits of the Groundwater Savings Project accrue to all the
28 Company's ratepayers – reduced aquifer consumption, reduced subsidence and increase reliability of

1 water supplies, we feel that all users should bear their proportionate share of the additional costs.
2 Therefore, we direct Staff to re-examine the issue of cost allocation.

3 In the course of its review of the Groundwater Savings Project expenditures during a rate
4 proceeding, Commission Staff shall consider rate design concepts such as implementation of an
5 inverted block rate design. An inverted block rate design would cause high volume users to pay a
6 premium, instead of receiving a volume discount, when usage exceeds established consumption
7 thresholds.

8 **D. Direct Effluent Delivery to Sun City West Golf Courses**

9 Mr. Husted also asserts that, if all the effluent generated in Sun City West was delivered
10 directly to the golf courses, approximately 2,800 acre feet of pumping could be eliminated at no cost
11 to Citizens' ratepayers (SCTA Ex. 1, at 12).

12 There is no record support for Mr. Husted's contention on this point. The amount of water
13 pumped each year from the Sun Cities aquifer would not change regardless of whether effluent is
14 delivered directly to the golf courses or recharged under the current practice. Mr. Larson explained
15 that, currently, approximately 32,500 acre feet of groundwater is pumped for golf course and potable
16 use in the Sun Cities and 2,800 acre feet of effluent is recharged into the aquifer at the Sun City West
17 Reclamation Plant (Ex. A-5, at 8). Therefore, the net depletion of the aquifer is approximately
18 29,700 acre feet. Under Mr. Husted's proposal, the aquifer would be depleted by the same amount,
19 but SCWC and SCWUC customers would not receive the regulatory benefits that are derived from
20 Citizens' use of the effluent credits to meet potable demand. Accordingly, we agree that the current
21 practice of recharging the effluent is preferable to the suggestion made by SCTA.

22 **E. Citizens' Annual Storage and Recovery of Effluent**

23 Mr. Husted contends that, because Citizens relies almost exclusively on groundwater, its
24 decisions to operate particular wells, to drill or abandon wells, and to expand its service territories, all
25 impact the aquifer. Mr. Husted claims that while Citizens is pursuing approval of the GSP to
26 eliminate golf course pumping, it is storing and recovering effluent, but only 20 percent of the
27 recovered effluent is being used to meet the demands of the golf courses. He concluded that this
28 practice does not ensure there will be a net benefit to the aquifer (SCTA Ex. 1, at 13-14).

1 We agree with the Company that its annual storage and recovery program benefits the aquifer
2 in a number of ways. In 2000, Citizens pumped 23,500 acre feet of water from the aquifer, of which
3 approximately 6,600 acre feet was recovered credits for CAP water stored at the Maricopa Water
4 District Groundwater Savings Facility. Thus, the net depletion of the aquifer for potable water
5 demand was 16,900 acre feet, instead of 23,500 acre feet (Ex. A-5, at 9-10). Therefore, we agree
6 with the Company that there is a direct benefit to the aquifer from this practice because water is put
7 back into the ground and there is more water remaining in the aquifer than there would have been if
8 no storage action is taken by Citizens.

9 **F. Hydro-Geological Analysis**

10 SCTA also contends that the PER is deficient because it fails to include a "hydrological"
11 analysis that examines whether the GSP provides greater direct benefits to the Sun Cities aquifer than
12 recharging water four or five miles north of the Sun Cities. Mr. Husted testified that Citizens should
13 be required to substantiate the direct benefits to the aquifer before the Commission approves the
14 Company's proposed GSP (SCTA Ex. 1, at 11).

15 A "hydro-geologic" analysis, which would evaluate the movement of groundwater through an
16 aquifer, is not relevant in this case because all of the CAP water applied to the golf courses will be
17 consumed by the turf grass and will not enter the aquifer (Ex. A-2, at 12). The groundwater savings
18 associated with the GSP comes from replacing water, via CAP water, that the golf courses would
19 have otherwise pumped from the aquifer. As such, the GSP lessens the depletion of groundwater that
20 exists in the aquifer.

21 **G. Restriction of Stored Water and Water Credits**

22 SCTA next argues that Citizens should not be able to recover or transfer any of the water
23 stored at underground storage facilities if doing so increases the amount of pumping that would
24 otherwise be allowed. Mr. Husted stated that Citizens is accounting for all stored water as recovered
25 on an annual basis thereby avoiding the accrual of "water credits" (SCTA Ex. 1, at 17-18).

26 As explained by Mr. Larson, Citizens' annual recovery of storage credits does not result in
27 additional depletion of the Sun Cities' aquifer because physical pumping from the wells in the Sun
28 Cities is not changed by the regulatory label applied to the water (Ex. A-5, at 10-11). When Citizens,

1 changes the legal character of the pumped water to recovered CAP water, the hydrologic benefit to
2 the aquifer is unchanged (*Id.*). We therefore disagree with SCTA's assertions on this issue.

3 **H. Sharing of Booster Pump Station Costs**

4 Mr. Husted also claims that the PER is deficient for failing to consider whether the pump
5 station could be operated as a joint facility thereby reducing the cost of the project (SCTA Ex. 1, at
6 28). Mr. Husted suggests that if the Agua Fria Division or Surprise were required to contribute to
7 the costs of the booster pump station, it would reduce the costs to Citizens' ratepayers.

8 The costs of the booster pump station could not be allocated as part of a joint venture because
9 both the Agua Fria and Surprise joint projects would take CAP water deliveries by gravity flow (Ex.
10 A-2, at 20). Therefore, contrary to Mr. Husted's assertions, it would not be appropriate to require
11 Agua Fria or Surprise to contribute to the costs of a pump station that would not be required for
12 delivery of CAP water.

13 **VI. RUCO's Issues**

14 **A. Rate Shock**

15 RUCO witness Marylee Diaz Cortez testified that the GSP should be rejected because the cost
16 of the project will result in "rate shock" to the Sun City and Sun City West ratepayers. According to
17 Ms. Diaz Cortez, the Companies would require a rate increase of approximately 45 percent if the
18 GSP is approved. She claims that such an increase would be particularly difficult for customers in
19 the Sun Cities because many of those customers are on fixed incomes (RUCO Ex. 1, at 4-5).

20 Although no rate recovery is proposed in this docket, Staff witness John Thornton estimated
21 that adoption of the GSP could eventually require an increase in gross revenues of approximately 25
22 percent for SCWC and approximately 13 percent for SCWUC. However, if the Company's current
23 alleged revenue deficiency is added to the GSP costs, an increase in gross revenue requirements of
24 approximately 50 percent could be required for Sun City. If these total estimated revenue increases
25 were eventually approved by the Commission in a future rate proceeding, and such revenue increases
26 were placed entirely in the monthly minimum charge, Sun City customers' minimum charge could
27 increase from \$5.00 to \$9.95 per month and Sun City West customers' minimum charge could
28 increase from \$2.65 to \$7.65 per month (Ex. S-2, at 2-3). If, on the other hand, the total estimated

1 revenue increase were allocated entirely to commodity charges, the usage rates would increase by
2 approximately \$0.39 per thousand gallons for Sun City and \$0.26 per thousand gallons for Sun City
3 West. However, Staff indicated that, typically, rate increases are spread between the monthly
4 minimum charge and commodity charges (*Id.* at 3), and thus no actual determination of the ultimate
5 rate effect is possible at this time. Mr. Thornton testified that Staff does not consider the estimated
6 increases required to implement the GSP to be "rate shock." He added that approval of the GSP does
7 not necessarily imply that all costs incurred by the Company will be passed on to ratepayers (*Id.* at 4).
8 Rather, the precise revenue effects are not able to be determined outside of a full audit of the
9 reasonableness of the Company's costs and revenues.

10 In Decision No. 62293, we recognized that, although there may be less costly options
11 available, the concept of the GSP should be approved. Although, on a percentage basis, the eventual
12 rate effect may be significant, the actual dollar increases identified by Staff do not appear to be
13 excessive when compared to the substantial benefits that will be derived from reducing the volume of
14 groundwater pumped from the Sun Cities' aquifer. In addition, we agree with Staff's observation
15 (Ex. S-2, at 4) that approval of the PER in this proceeding does not guarantee that all costs incurred
16 by SCWC and SCWUC will be automatically passed on to ratepayers. Rather, the Company's rate
17 application seeking recovery of the GSP costs will be audited by Staff (along with all other costs and
18 revenues), and will likely be examined by other intervenors, prior to disposition by the Commission
19 in a rate recovery proceeding.

20 In the rate case proceeding that considers costs associated with the Groundwater Savings
21 Project, Arizona-American shall propose a tariff that would impose hook-up fees for new service
22 connections in Arizona-American's certificated service areas that benefit from the CAP water
23 exchange between the Recreation Centers and Arizona-American in the Sun City Water Company
24 and Sun City West Utilities Company service areas.

25 In addition to the aforementioned rate case review requirements, we believe it is appropriate
26 to require Arizona-American to propose a low income customers program to help low-income
27 customers pay their share of the costs associated with the Groundwater Savings Project.
28 Accordingly, Arizona-American shall file a low income program proposal in the pending rate case

1 within 60 days of the date of the Order in this case.

2 **B. Arsenic Standards**

3 RUCO also argues that the Commission should not approve the GSP because CAP water that
4 will be committed to the GSP could be necessary as a least-cost solution to the Company's future
5 compliance with the USEPA's new arsenic standards. These rules require that, effective January 23,
6 2006, the maximum arsenic levels for residential water systems must be reduced from 50 to 10 parts
7 per billion.

8 Although RUCO raised this issue in its post-hearing brief, it presented no evidence to support
9 its supposition that it would be less expensive to use the CAP allotment to meet future arsenic
10 standards. In fact, it is likely that converting CAP water to drinking water would require significant
11 capital investment, including the construction of a water treatment plant. Further, if the CAP water is
12 required to meet arsenic standards, the Company would likely need a distribution system for
13 transporting such water and could employ the GSP distribution system as part of that strategy. In any
14 event, RUCO's suggestions on this issue are speculative at this point and lacking in any record
15 support.

16 **VII. Conclusion**

17 As discussed above, the Commission previously held that "[w]hile there are clearly less costly
18 options," "the concept of the Groundwater Savings Project" and "the reasonable and prudent costs
19 associated with completion of the preliminary design/updated cost estimate" will be approved
20 (Decision No. 62293, at 16). As part of the preliminary design/cost estimate, Citizens was required
21 to address the following three issues: " a) the feasibility of a joint facility with the Agua Fria Division
22 including the timeframe for any such joint facility; b) the need for all major elements of its proposed
23 plan (e.g., storage and booster stations); and c) binding commitments from golf courses, public and
24 private, and the terms and conditions related thereto" (*Id.*). Citizens addressed those issues in this
25 proceeding through expert testimony and exhibits supporting the PER and Supplemental Report's
26 recommendations.

27 We believe the Preliminary Engineering Report and the Supplemental Engineering Report
28 satisfactorily addressed these elements, and the Company's and Staff's supporting testimony and

1 exhibits provide adequate record support to approve the proposed Groundwater Savings Project.
2 Although Decision No. 62293 approved the GSP "concept" and provided a limited scope for
3 consideration of additional issues, SCTA and RUCO were permitted to present testimony and
4 evidence on a wide variety of issues. Many of the issues raised by these opposing parties were
5 litigated in the prior phase of this proceeding but, in the interest of allowing a full airing of all
6 possible concerns, SCTA and RUCO were afforded wide latitude to present their cases. Even with
7 this permissive presentation of testimony, we believe that the proponents of the GSP adequately
8 rebutted the opposing parties and explained why the GSP is the best alternative for using Citizens'
9 CAP allotment under the facts and circumstances presented in this case.

10 Accordingly, for the reasons stated above, the Company's proposed Groundwater Savings
11 Project shall be approved. However, in accordance with Staff's recommendation, no ratemaking
12 treatment of the costs associated with the GSP are being addressed by this approval. We will address
13 the reasonableness of the Company's GSP costs in an appropriate ratemaking proceeding.

14 As a final matter, we believe it is appropriate and necessary to require Arizona-American, as a
15 condition of approval of the GSP, to review its current water conservation initiative for customers
16 affected by this Application and revise as necessary. Within 30 days of the date of this Decision,
17 Arizona-American shall develop and submit to the Director of the Utilities Division and to all parties
18 the results of such review.

19 We are aware that the SCTA has appealed the Maricopa County Superior Court's decision
20 dismissing the SCTA's complaint challenging the Water Exchange Agreement between Sun City
21 Water Company and the Recreation Centers of Sun City. *Sun City Taxpayers Association, Inc., et al.,*
22 *v. Sun City Water Company, Inc., et al.*, Case No. CV2001-006415 (Minute Entry November 19,
23 2001); Motion for Reconsideration Denied (Minute Entry January 9, 2002); Judgment Entered
24 Dismissing Complaint and Awarding Attorneys Fees to Defendants (April 9, 2002). The parties have
25 recently filed legal briefs with the Arizona Court of Appeals (Division One) regarding SCTA's
26 appeal of this matter (Case No. 1CACV 02-0575). Because of the ongoing nature of the SCTA
27 appeal process, we believe it is appropriate to make clear that in the event the Court of Appeals or the
28 Arizona Supreme Court overturns the Superior Court's decision, this matter may be reviewed to

1 determine whether additional Commission proceedings are warranted.

2 * * * * *

3 Having considered the entire record herein and being fully advised in the premises, the
4 Commission finds, concludes, and orders that:

5 **FINDINGS OF FACT**

6 1. SCWC and SCWUC have CAP allocations totaling 6,561 acre feet of water.

7 2. On October 1, 1998, Citizens filed an application to approve a Groundwater Savings
8 Project for the use of Citizens' CAP water allotment in the Sun Cities.

9 3. In Decision No. 62293 (February 1, 2000), the Commission approved the "concept" of
10 the GSP but required Citizens to complete preliminary design/cost estimates for the project and to
11 address the feasibility of a joint facility with Citizens' Agua Fria Division, the need for all major
12 elements of the project, and binding commitments from the participating golf courses.

13 4. On August 1, 2000, Citizens filed the Preliminary Engineering Report. A
14 Supplemental Engineering Report was filed on December 18, 2000.

15 5. On March 14, 2001, the Administrative Law Judge issued a Proposed Order
16 recommending approval of the PER and authorization for Citizens to proceed with the GSP.

17 6. At a May 11, 2001 Special Open Meeting, the Commission directed the Hearing
18 Division to schedule an evidentiary hearing to address issues raised by the PER and Supplemental
19 PER.

20 7. The hearing was originally scheduled for August 15, 2001, but was continued several
21 times at the request of the SCTA. The hearing was ultimately held on January 9 and 10, 2002. Post
22 hearing briefs were filed on February 11, 2002.

23 8. The PER examined five alternatives with 50-year life cycle costs ranging from
24 \$16,460,928 to \$20,571,684.

25 9. Alternative A was determined by the PER to be the least expensive alternative and is
26 the recommended GSP option. Alternative A includes delivery of CAP water through a pipeline
27 running along Lake Pleasant Road as well as construction of a distribution system to the Sun City
28 golf courses.

1 project with the Agua Fria Division, examination of all necessary components of the GSP, and
2 submission of binding commitments between Citizens and the golf courses, have been satisfied.

3 5. The GSP is hereby approved, as set forth in Alternative A of the PER.

4 6. Rate recovery of the GSP costs will be considered by the Commission in an
5 appropriate rate recovery proceeding.

6 **ORDER**

7 IT IS THEREFORE ORDERED the Groundwater Savings Project recommended in the
8 Preliminary Engineering Report, as modified and clarified by the Supplemental Engineering Report
9 and testimony from Company witnesses, is approved.

10 IT IS FURTHER ORDERED that recovery of the Groundwater Savings Project costs will be
11 addressed in a subsequent ratemaking proceeding.

12 IT IS FURTHER ORDERED that, within 30 days from the date of this Decision, Arizona-
13 American Water Company shall submit to the Director of the Utilities Division and to all parties an
14 evaluation of its water conservation initiative.

15 IT IS FURTHER ORDERED that, in the course of its review of the Groundwater Savings
16 Project during a rate proceeding, Staff shall re-examine the issue of cost allocation and shall consider
17 rate design concepts such as an inverted block rate design.

18 IT IS FURTHER ORDERED that Arizona-American Water Company shall file a low income
19 program proposal in its pending rate case, within 60 days of the date of the Order in this case.

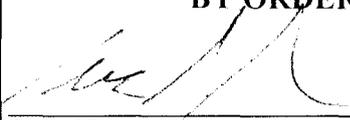
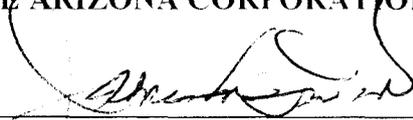
20 IT IS FURTHER ORDERED that in the rate case proceeding that considers costs associated
21 with the Groundwater Savings Project, Arizona-American Water Company shall propose a tariff that
22 would impose hook-up fees for new service connections in its certificated areas that benefit from the
23 CAP water exchange between the Recreation Centers and Arizona-American in the Sun City Water
24 Company and Sun City West Utility Company service areas.

25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that, in the event the Court of Appeals or the Arizona Supreme
2 Court overturns the Maricopa County Superior Court's decision in *Sun City Taxpayers Association,*
3 *Inc., et al., v. Sun City Water Company, Inc., et al.,* Case No. CV 2001-006415, this matter may be
4 reviewed to determine whether additional Commission proceedings are warranted.

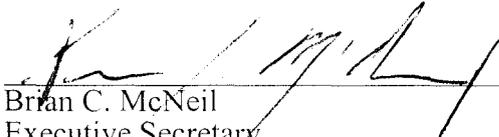
5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6
7 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

8 
9 CHAIRMAN  COMMISSIONER  COMMISSIONER

10
11 
12 COMMISSIONER  COMMISSIONER

13
14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
15 Executive Secretary of the Arizona Corporation Commission,
16 have hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this 20th day of February, 2003.

19 
20 Brian C. McNeil
21 Executive Secretary

22 DISSENT: _____

23 DISSENT: _____

24 DDN :dap

25
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28

1 SERVICE LIST FOR:

SUN CITY WATER COMPANY and SUN CITY
WEST UTILITIES COMPANY

2
3 DOCKET NOS.:

W-01656A-98-0577 and SW-02334A-98-0577

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