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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

CARL J. KUNASEK
CHAIRMAN
JAMES M. IRVIN
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WILLIAM A. MUNDELL
COMMISSIONER

1999 SEP 10 P 12:09

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE JOINT APPLICATION) DOCKET NO.
OF SUN CITY WATER COMPANY AND SUN) W-01656A-98-0577
CITY WEST UTILITIES COMPANY FOR APPROVAL) SW-02334A-98-0577
OF CENTRAL ARIZONA PROJECT WATER UTIL-)
IZATION PLAN AND FOR AN ACCOUNTING ORDER)
AUTHORIZING A GROUNDWATER SAVINGS FEE)
AND RECOVERY OF DEFERRED CENTRAL ARIZONA)
PROJECT EXPENSES.)

NOTICE OF FILING

The Arizona Utility Investors Association hereby provides notice of filing Direct Testimony as required by the Commission's procedural order in the above-captioned matter.

DATED THIS 10TH DAY OF SEPTEMBER, 1999.

WALTER W. MEEK, PRESIDENT

Original and ten (10) copies of the referenced Testimony were filed this 10th day of September, 1999, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

SEP 10 1999

Copies of the referenced Testimony were hand-delivered this 10th day of September, 1999, to:

DOCKETED BY

Paul M. Bullis, Legal Division
Deborah R. Scott, Utilities Division
Lyn Farmer, Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Copies of the referenced Testimony
were mailed this 10th day of September,
1999, to the following parties of record:

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Walter W. Meek

DIRECT TESTIMONY

OF

WALTER W. MEEK

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AZ CORP COMMISSION
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I. Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Walter W. Meek. My business address is 2100 North Central Avenue, Suite 210, Phoenix, Arizona 85004.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the president of the Arizona Utility Investors Association ("AUIA" or "Association"), a non-profit organization formed to represent the interests of shareholders and bondholders who are invested in utility companies based in or doing business in the state of Arizona.

Q. ARE SOME AUIA MEMBERS SHAREHOLDERS OF THE JOINT APPLICANTS IN THIS PROCEEDING?

A. In a manner of speaking, yes. AUIA has approximately 6,000 individual members, including common shareholders of Citizens Utilities Company, the parent company of the applicants.

Q. WHAT IS YOUR BACKGROUND IN REPRESENTING SHAREHOLDER CONCERNS AND INTERESTS?

A. I have been president of AUIA for five years. Prior to that, my consulting firm managed the affairs of the Pinnacle West Shareholders Association for 13 years. During these periods we have represented shareholders in numerous rate cases and other regulatory matters and have published many position papers, newsletters and other documents in support of shareholder interests.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am here to represent the views of the equity owners of Citizens Utilities on the issues which are addressed in the proposed Central Arizona Project (CAP) Water Utilization Plan.

3 **II. Cost Recovery and Water Policy Issues**

4
5 **Q. WHAT ARE THOSE ISSUES?**

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7 **A. There are two broad areas of concern. One has to do with recovering**
8 **Citizens' investments in retaining its CAP allocation. The other has to**
9 **do with state water policy and the need to conserve groundwater.**

10
11 **Q. CAN YOU EXPLAIN AUIA'S INTEREST IN THESE ISSUES?**

12
13 **A. Yes.**

14
15 **Q. FIRST, CITIZENS' INVESTMENT IN ITS CAP ALLOCATION.**

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17 **A. In order to retain CAP allocations for its service areas, Citizens must pay**
18 **an annual reservation fee to the Central Arizona Water Conservation**
19 **District (CAWCD). Citizens' total CAP entitlement is in excess of 17,000**
20 **acre-feet. The allocations that are specific to the Sun City, Sun City West**
21 **and Youngtown service areas total 6,561 acre-feet or about 38 percent of**
22 **the total.**

23
24 **Q. WHAT IS THE FINANCIAL IMPACT OF THE CAP ENTITLEMENT?**

25
26 The company's annual cost for retaining its full entitlement is
27 approaching \$1 million and its cumulative cost will reach \$5 million
28 next year. Current deferrals directly attributable to Sun City, Sun City
29 West and Youngtown total approximately \$882,000.

30
31 **Q. HOW DOES THAT AFFECT SHAREHOLDERS?**

32
33 **A. To date, Citizens has not been able to recover any of its investment in**
34 **CAP entitlements. Although the amount is being carried in a deferred**
35 **collection account, shareholders are at risk for absorbing the deferred**
36 **amount plus any future payments to CAWCD.**

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Q. WHY HASN'T CITIZENS RECOVERED ITS INVESTMENT?

A. Because the Arizona Corporation Commission (the Commission) has not authorized a recovery mechanism.

Q. IS THIS A TYPICAL CIRCUMSTANCE WITH UNUSED CAP ALLOCATIONS?

A. It is for private water companies that are regulated by the Commission as public service corporations. However, the bulk of CAP's municipal and industrial (M&I) water allocations belong to municipalities and they are able to pass through the cost of those allocations to their customers whether they are actually using their CAP entitlement or not.

Q. WHAT IS AUIA'S POSITION WITH REGARD TO RECOVERY?

A. That's simple. If Citizens cannot obtain an order from the Commission authorizing recovery of past and future CAP allocation costs, together with a reasonable return, then the company should relinquish its CAP entitlement.

Q. DOESN'T THAT LEAD TO THE SECOND AREA OF CONCERN?

A. Yes. AUIA and its member companies have a strong interest in successful state and regional water management policies that will enable continued economic growth, including agri-business.

Q. WHAT POLICIES ARE AT ISSUE HERE?

A. The state's water policy, for example, is to reduce our reliance on pumping groundwater and to replace it with assured supplies of surface water, which generally means the CAP. It would be extremely unfortunate for long range water management if Citizens had to give up its CAP allocation.

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Q. WHAT WOULD HAPPEN IN THAT CASE?

A. First, Citizens would be relegated permanently to serving its customers entirely from pumped groundwater. The CAP Task Force, which has intervened in this case, found in its studies that continued pumping to serve West Valley communities could inflict long term damage to the underground aquifer.

Q. ARE THERE OTHER POSSIBLE CONSEQUENCES?

A. Yes. AUIA believes that there is a substantial likelihood that the Secretary of the Interior would appropriate any abandoned M&I allocations to settle outstanding Indian water rights claims. Such settlement amounts could end up leaving the state. Further, if Citizens should give up its entitlement, it could start a chain reaction among private water companies.

Q. WHAT KIND OF CHAIN REACTION?

A. Citizens has the largest entitlement among 31 private water companies that have CAP allocations. Those allocations total approximately 80,000 acre-feet or about 12 percent of the water reserved for M&I use. If Citizens can't obtain Commission approval of a recovery plan and abandons its CAP entitlement, other companies might follow suit.

Q. HAS CITIZENS PREVIOUSLY BEEN DENIED RECOVERY BY THE COMMISSION?

A. Yes. On May 7, 1997 (Decision No. 60172), the Commission rejected a very modest proposal by Citizens to begin recovering its CAP costs.

Q. DID THE COMMISSION GIVE A REASON FOR ITS DECISION?

A. In my view, the Commission's decision was somewhat schizophrenic.

3 On the one hand, the Commission complimented Citizens for its
4 foresight in retaining the CAP allocation, but it found that the allocation
5 is not used and useful because the water isn't being consumed.

6
7 At the same time, the Commission indicated that a firm plan for using
8 the water could be sufficient to justify a recovery mechanism. In fact, the
9 continuing deferral depends on development of a plan and
10 implementation by December 31, 2000. That's part of the basis on which
11 Citizens has brought this matter forward.

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13 **III. The CAP Water Utilization Plan**

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15 **Q. WHAT IS THE PLAN?**

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17 **A.** In very broad terms, it calls for using CAP water to supplement
18 groundwater pumping to irrigate the recreation center golf courses in
19 Sun City and Sun City West. Some new infrastructure is required to
20 transport the CAP water to the delivery points and Citizens has
21 estimated that could require three years of construction. In the interim,
22 the plan is to use the water for direct recharge of the aquifer while the
23 pipelines are under construction.

24
25 **Q. HOW DOES THIS PLAN MEET WATER MANAGEMENT GOALS?**

26
27 **A.** First, it reduces depletion of the aquifer from groundwater pumping. It
28 also applies non-potable water to the golf courses and conserves potable
29 water in the aquifer.

30
31 **Q. HOW WAS THE PLAN DEVELOPED?**

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33 **A.** Several organizations representing homeowners and recreation center
34 users in the Sun Cities area responded to a request from Citizens to study
35 the issue and recommend a solution. They formed the CAP Task Force
36 and evaluated a number of alternatives uses for CAP water.

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Q. IN YOUR OPINION, IS THIS THE BEST ALTERNATIVE?

A. That depends on your definition of what's "best." It is not the cheapest alternative. That would be a permanent recharge strategy. On the other hand, the homeowners and recreation users should know what's best for them. One of the risks in asking consumers for their opinion is that they will actually give you one.

Q. WHAT ABOUT THE IMPACT ON RATEPAYERS?

A. Obviously, water users in Sun City and Sun City West will have to pay slightly higher rates to pay for the delivery system and the use of CAP water on a continuing basis.

Q. DO RESIDENTIAL USERS HAVE AN INTEREST OTHER THAN RATES?

A. Every homeowner in Sun City and Sun City West is a water ratepayer. Those same homeowners also pay yearly fees to support the recreation centers and have a long term financial interest in the successful operation of the golf courses.

Q. DOES THIS TRANSLATE INTO A RESIDENTIAL BENEFIT?

A. It can't be quantified easily, but it follows that if this plan is good for the recreation centers, it also benefits residential users. Clearly, that is what the Task Force concluded.

Q. DOES AUIA SUPPORT THIS PLAN?

A. Yes, although it is fair to say that we would support any reasonable plan that would allow the company to recover its CAP costs.

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IV. Conclusion

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. Yes. It is time to get this issue resolved. Citizens and its shareholders cannot continue to finance regional water policy without compensation. Responding to a clear signal from the Commission, Citizens asked the local community to help craft a solution and their representatives have used their best judgment in doing so. If, for some reason, this plan is not completely acceptable to the Commission, there are alternatives laid out in the CAP Task Force report. We should pick one or a combination and get on with it.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.