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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Commissioner - Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

AZ CORP COMMISSION
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IN THE MATTER OF THE JOINT) DOCKET NO. W-01656A-98-0577
APPLICATION OF SUN CITY WATER) SW-02334A-98-0577
COMPANY AND SUN CITY WEST)
UTILITIES COMPANY FOR APPROVAL OF)
CENTRAL ARIZONA PROJECT WATER) **NOTICE OF FILING**
UTILIZATION PLAN AND FOR AN) **SURREBUTTAL**
ACCOUNTING ORDER AUTHORIZING A) **TESTIMONY**
GROUNDWATER SAVINGS FEE AND)
RECOVERY OF DEFERRED CENTRAL)
ARIZONA PROJECT EXPENSES.)

Pursuant to the Hearing Division's June 17, 1999, Procedural Order, the Sun City Taxpayers Association ("SCTA") hereby files surrebuttal testimony of Mary Elaine Charlesworth and Dennis Husted in the above-captioned docket.

RESPECTFULLY SUBMITTED this 1st day of October, 1999.

MARTINEZ & CURTIS, P.C.

Arizona Corporation Commission
DOCKETED
OCT 01 1999

DOCKETED BY *MJ*

By *Paul R. Michaud*
William P. Sullivan
Paul R. Michaud
2712 North Seventh Street
Phoenix, Arizona 85006-1090
Attorneys for Sun City Taxpayers Association.

1 **The original and ten (10) copies of**
2 **the foregoing are filed this 1st**
3 **day of October, 1999 with:**

4 DOCKET CONTROL
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 **A copy of the foregoing is mailed**
9 **this 1st day of October, 1999 to:**

10 Jerry Rudibaugh
11 Chief Hearing Officer
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Craig Marks
16 Citizens Utilities Company
17 2901 N. Central Avenue, Suite 1660
18 Phoenix, Arizona 85012

19 Scott Wakefield
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By 

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BEFORE THE ARIZONA CORPORATION COMMISSION

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 _____)

SURREBUTTAL TESTIMONY OF MARY ELAINE CHARLESWORTH

On Behalf of

**SUN CITY TAXPAYERS ASSOCIATION
("SCTA")**

October 1, 1999

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SURREBUTTAL TESTIMONY OF
MARY ELAINE CHARLESWORTH
DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577

Q. Please state your name, title and business address.

A. My name is Mary Elaine Charlesworth. I am the President of the Sun City Taxpayers Association, Inc. (SCTA). My business address is 12630 N. 103rd Avenue, Room 221, Sun City, Arizona 85351-3476.

Q. Are you the same Mary Elaine Charlesworth that filed Direct Testimony in this proceeding?

A. Yes.

Q. What is the purpose of your testimony?

A. I am providing surrebuttal testimony to the rebuttal testimony of Citizens' witnesses Ray Jones, Carl Dabelstein and Terri Sue Rossi.

Q. Would you summarize SCTA's position in this case?

A. SCTA will only support paying for CAP costs to the extent Citizens affirmatively demonstrates direct benefits proportionate to the costs ratepayers are being asked to pay. SCTA recognizes it is important for central Arizona to fully utilize its CAP water supply. This public policy, however, does not justify a for profit company, like Citizens, imposing costs on its ratepayers in excess of the actual benefits received. The foundation of the "used and useful" and "just and reasonable" concepts of ratemaking is that ratepayers receive benefits equal to the costs being imposed.

1 SURREBUTTAL TESTIMONY OF
2 MARY ELAINE CHARLESWORTH
3 DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577
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4 Citizens has never presented evidence of any direct benefits to its ratepayers
5 from the CAP Utilization Plan presented in this proceeding. Rather, Citizens
6 relies on general statements that overdraft will result in increased pump costs,
7 poorer water quality and/or subsidence. Citizens consistently refuses to provide
8 evidence of the direct benefits of its proposal. SCTA believes such a
9 demonstration is necessary before the Commission authorizes Citizens to
10 commence on a course that is estimated to cost Sun City Water ratepayer over
11 58 million dollars over the remaining life of the CAP subcontract, with a similar
12 burden for ratepayers residing in Sun City West.

13 Further, SCTA opposes rewarding Citizens for failing to put CAP water to use
14 for fourteen (14) years. With each passing year, the potential benefits under the
15 CAP subcontracts are diminished. The Commission has steadfastly recognized
16 Citizens' ratepayers do not benefit from the mere existence of CAP
17 subcontracts. Citizens has never presented any credible justification for its
18 inaction. In fact, SCTA believes Citizens would still be simply holding its CAP
19 subcontract but for the Commission's instance that CAP water be utilized as a
20 condition to recovering CAP related costs. Therefore, SCTA opposes Citizens'
21 recovery of deferred CAP costs.

22
23 To the extent Citizens presents evidence of actual benefits to its ratepayers from
24 utilization of CAP water and CAP costs are deemed recoverable, SCTA
25 requests the Commission insist that Citizens present a viable, least cost,
26 alternative for CAP utilization prior to authorizing recovery of any CAP related
costs.

5 To the extent CAP related costs are deemed recoverable, SCTA supports
6 spreading recoverable deferred costs, if any, over the remaining life of the CAP
7 subcontract and collecting CAP related costs through a combination of
8 connection fees and gallonage charges. SCTA generally supports RUCO's rate
9 design for those recoverable CAP costs, not collected as connection fees.

10 **Q. Do you have any general comments on Mr. Jones' and Ms. Rossi's**
11 **characterization of the CAP Task Force and SCTA's participation in the**
12 **Task Force?**

13 **A.** Mr. Jones and Ms. Rossi have misrepresented both the CAP Task Force and
14 SCTA's participation in the Task Force. Mr. Jones admits in his direct
15 testimony that the so called community based Task Force is the creation of
16 Citizens itself. Citizens interviewed individuals and dictated which persons
17 should be allowed to participate in the Task Force. Citizens also controlled the
18 agendas of the meetings, along with the flow of information. As its creator,
19 Citizens mandated that any plans formulated by the Task Force must include
20 provisions that the Sun Cities pay all costs of any recommended CAP
21 utilization plan, including all deferred CAP related costs.

22 At the first meeting of the Task Force, Citizens proposed and secured adoption
23 of a Mission Statement committing the Task Force to: 1) utilizing CAP water;
24 2) collecting all CAP related costs from Citizens' ratepayers; and 3) seeking
25 community support for its recommendation. Thus, from day one, before
26 considering any alternative or the costs related thereto, the CAP Task Force had
adopted Citizens' goals and objectives.

5 Ms. Rossi's contention that the CAP Task Force fully considered
6 relinquishment is not supported by the facts. Ms. Rossi is, however, correct in
7 stating SCTA, throughout the Task Force process, did continue to press for
8 discussion of relinquishment as a viable option. Over the objection of some
9 members of the Task Force, the concept of relinquishment was finally discussed
10 at the April 28, 1999 meeting of the Task Force. In my opinion, the issue of
11 relinquishment was never given serious consideration by the members of the
12 CAP Task Force.

13 **Q. Does SCTA view the CAP Task Force Final Report as a "community
14 consensus" recommendation?**

15 **A.** Because its formation and operation was orchestrated by Citizens, SCTA does
16 not view the CAP Task Force Final Report as a "community consensus"
17 recommendation. Further, it is difficult for a handful of persons to truly
18 represent a consensus of the diversity of opinion in the Sun Cities. This is
19 especially true where the composition of the Task Force, the agendas of the
20 Task Force and the information received by the Task Force were all controlled
21 by Citizens.

22 If the Commission believes this matter is to be determined by a "community
23 consensus" on how best to deal with the CAP water issue, SCTA believes all
24 viable options, including relinquishment, should be presented to all 78,000
25 ratepayers of Sun City and Sun City West. This could be done by a
26 Commission approved ballot mailed to all affected ratepayers. SCTA would
fully honor the outcome of any such election.

4 **Q. Does SCTA agree with any of the recommendations contained in the CAP**
5 **Task Force Final Report?**

6 A. Yes. SCTA agrees with the conclusion of the CAP Task Force that: 1) the
7 benefits from recharge projects outside Citizens' service area are too remote to
8 justify the costs; 2) that delivering treated CAP water is too expensive to be
9 viable; and 3) that of the options to put CAP water to use presented to the Task
10 Force, delivery to the golf courses has the best chance of viability. SCTA
11 differs from the Task Force in the Task Force's apparent unwillingness to
12 consider relinquishment as a viable option and its willingness to recommend an
13 option without requiring Citizens to quantify its benefits or demonstrate the
14 option is both viable and least costly.

15 **Q. Does SCTA believe relinquishment is the only viable option?**

16 A. SCTA is willing to support a golf course use option if the benefits to ratepayers
17 are demonstrated to equal or exceed the costs to ratepayers; and provided
18 further cost recovery is designed taking into account the unique character of our
19 ratepayers. This does not mean SCTA supports recovery of holding costs.

20
21 **Q. Did SCTA attempt to fairly and objectively evaluate the recommendation**
22 **of Citizens and the CAP Task Force?**

23 A. Despite strong reservations regarding the process followed by Citizens to reach
24 its proposed CAP utilization plan, SCTA determined to examine Citizens'
25 proposal fairly and objectively. It hired Mr. Husted for this purpose. As
26 demonstrated by Mr. Husted's testimony, Citizens' proposal is incomplete and
does not represent the least cost alternative to delivering CAP water to the golf

5 courses. Further, Mr. Husted agrees, from an engineering perspective, that a
6 cost/benefit analysis should be performed by Citizens to show the
7 reasonableness of its proposal. Mr. Husted also supports SCTA's position that
8 requiring ratepayers to pay deferred CAP costs improperly rewards Citizens for
9 failing to put CAP water to use for over fourteen (14) years. Finally, Mr.
10 Husted supports collecting any recoverable CAP water costs from new
11 customers and secondarily based upon water usage.

12 **Q. If SCTA believes a cost/benefit analysis is so important, why didn't it
13 perform its own?**

14 **A.** First, SCTA believes this is the obligation of Citizens. Secondly, SCTA has
15 limited funds. Interestingly, the CAP Task Force apparently secured a grant
16 from the Department of Water Resources to review the engineering analysis
17 done by Brown & Caldwell on behalf of Citizens, but did not perform a
18 cost/benefit analysis of the option or explore any of the other options for
19 delivering CAP water to the golf courses. Further, an analysis of the cost and
20 benefits presupposes a viable option. Citizens has not yet presented a viable
21 option.

22 Finally, SCTA was forced to scramble to secure a consultant to perform an
23 engineering analysis of Citizens' proposal. Originally, SCTA had hired
24 Resource Management International, Inc. (RMI) to perform both an engineering
25 and cost/benefit analysis of Citizens' proposal. However, in mid-July, three
26 months after SCTA had identified RMI as its consultant, Citizens complained to
RMI that working for SCTA presented a conflict of interest (because another

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2 MARY ELAINE CHARLESWORTH
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5 division of RMI's parent, Navigent Consulting, Inc., was apparently performing
6 some work in which Citizens was a participant). As a result, with
7 approximately two months left to prepare direct testimony in this proceeding,
8 RMI declared a potential conflict and asked to be relieved of its commitment.
9 Fortunately, SCTA was able to retain the services of Mr. Husted on short
10 notice and complete the engineering analysis.

11 **Q. Do you agree with Mr. Jones' claims that the findings in Decision No.**
12 **61072 indicate that the Commission has already determined that the use of**
13 **CAP water in Sun City is prudent and provides sufficient direct and**
14 **indirect benefits to justify the cost?**

15 **A.** No. As explained by Mr. Husted, SCTA believes Decision No. 61072 leaves
16 these issues open. Importantly, Decision No. 61072 predates Citizens' current
17 plan. Certainly, Decision No. 61072 does not constitute a blank check for
18 Citizens to impose deferred CAP costs, on-going CAP costs and CAP related
19 construction costs on Sun City ratepayers for a plan never considered by the
20 Commission. Decision No. 61072 recognized that the parties "don't necessarily
21 agree on the solution; on who should pay; or how or when payment should be
22 made." The Decision left these questions to be answered later.

23 **Q. Do you agree with Mr. Jones' claim that with respect to costs associated**
24 **with the construction and operation of Citizens' proposed CAP project,**
25 **that the amount of economic burden to be placed on the Sun City**
26 **ratepayers and whether ratepayers receive a direct benefit are irrelevant**
considerations?

1 SURREBUTTAL TESTIMONY OF
2 MARY ELAINE CHARLESWORTH
3 DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577
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5 A. Certainly not. As a matter of fairness to its Sun City ratepayers, Citizens has a
6 duty to demonstrate how its proposed plan will actually and directly benefit
7 these ratepayers will be asked to pay for the plan. Certainly, the Commission
8 should require such a showing before approving Citizens' plan which will
9 impose more than \$58 million dollars of CAP related costs on Sun City
10 ratepayers, and a similar burden on the ratepayers in Sun City West. Citizens,
11 thus far, has performed no cost/benefit study demonstrating that the cost of its
12 proposed CAP utilization project, or any alternative plan, is justified in light of
13 the benefits of the project. Moreover, if it is determined that any proposed plan
14 only indirectly benefits the Sun City ratepayers, then it is only fair that they pay
15 only their pro rata share of that benefit.

16 **Q. Do you agree with Mr. Jones and the Commission that a reason Citizens**
17 **contracted for CAP water was to help Citizens provide sufficient water to**
18 **all of its service areas at ultimate development?**

19 A. Yes. In fact, it appears to SCTA to be a major reason Citizens contracted for
20 CAP water. It is well known that Sun City was built-out well before the
21 adoption of the GMA and the execution of Citizens' CAP subcontracts. The
22 Commission can read Mr. David Chardvoynes 1984 analysis itself and
23 determine whether the driving factor for Citizens' decision to contract for CAP
24 water was to benefit its shareholders by providing an incentive for development
25 in Citizens' yet-to-be developed certificated area. If the Commission agrees this
26 was a driving force behind Citizens' decision to execute its CAP subcontracts,
then, as a matter of fairness, Citizens' shareholders and/or new development in

5 Citizens' certificated area, not Sun City ratepayers, should bear the holding
6 costs of Citizens' CAP subcontracts.

7 **Q. Do you believe Mr. Jones when he says that Citizens was not able to**
8 **propose projects for use of CAP water over the past fourteen years?**

9 A. No. Citizens could have designed a system to deliver CAP water to the Sun
10 Cities fourteen (14) years ago. Citizens, however, opted to do nothing and
11 merely preserve its shareholders' future options rather than move forward with a
12 permanent solution.

13 **Q. Do you agree with Mr. Dabelstein's arguments attempting to justify**
14 **recovery of deferred CAP costs and why the Commission should accept**
15 **Citizens' method of recovering the deferred and on-going CAP costs?**

16 A. No. It is unreasonable and unfair to the ratepayers of Sun City to allow Citizens
17 to recover 100% of its deferred CAP holding charges and Groundwater Savings
18 Fee when the Company' has failed to justify its decisions: 1) to simply hold its
19 CAP water for 14 years; and 2) foregoing the opportunity to require
20 developments (such as Sun City West and Sun City Grand and even more
21 recent, but smaller subdivisions) from contributing to both the holding costs and
22 the costs of building CAP infrastructure.

23 **Q. Are you familiar with the Task Force survey referred to by Ms. Rossi in**
24 **her rebuttal testimony, and if so do you have any comments?**

25 A. I am familiar with the Task Force survey. First and foremost, this was not a
26 scientific survey and holds no statistical significance. Only 103 persons of the

5 78,000 ratepayers in Sun City and Sun City West completed surveys. Further,
6 the survey itself was written in such a way to favor a specific response.

7 As explained above, SCTA believes that if Citizens and/or the Commission
8 truly believe a community consensus should control how Citizens' CAP water
9 subcontracts are handled then the Company should agree to an election, to be
10 supervised by the Commission, allowing all 78,000 ratepayers of Sun City and
11 Sun City West an opportunity to decide this issue once and for all.

12 **Q. Why does SCTA not advocate any specific CAP water use option at this**
13 **time?**

14 **A.** Because it cannot. Citizens has the burden of providing substantial evidence
15 demonstrating that any particular CAP water use option will be used and useful
16 and ratepayers will receive actual tangible benefits equal to or greater than the
17 costs ratepayers must bear. Instead of presenting a viable, least cost option,
18 supported by a cost/benefit analysis, Citizens' strategy seems to be to rely
19 solely on the recommendations of the CAP Task Force Report. Neither
20 Citizens nor the Commission may abdicate their responsibilities to 78,000
21 ratepayers to the nineteen individuals composing the CAP Task Force (two of
22 whom represented Citizens, four of whom represented the recreation centers
23 (potential beneficiaries of the recommended option) and at least one of whom is
24 not even a resident of the Sun Cities or Youngtown).

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SURREBUTTAL TESTIMONY OF
MARY ELAINE CHARLESWORTH
DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577
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Q. What is SCTA's recommendation at this time?

A. SCTA recommends rejecting Citizens' proposal at this time and requiring Citizens to return with a viable, least cost alternative for delivering CAP water to the golf courses. The plan should include binding commitments from all participating golf courses, attempt to maximize use of CAP water in Sun City West, include an examination of a joint project with the Aqua Fria Division and a detailed cost/benefit analysis. All significant engineering details should be resolved. Only then can the Commission and the ratepayers properly weigh the proposal.

Q. Does this conclude your testimony?

A. Yes.

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SURREBUTTAL TESTIMONY OF DENNIS HUSTEAD

On Behalf of

SUN CITY TAXPAYERS ASSOCIATION
("SCTA")

October 1, 1999

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SURREBUTTAL TESTIMONY OF

DENNIS HUSTEAD

DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577

Q. Please state your name, title and business address.

A. My name is Dennis Hustead. I am a Registered Civil Engineer with Hustead Engineering. My business address in 568 W. Moon Valley Drive, Phoenix, Arizona, 85023.

Q. Are you the same Dennis Hustead who filed Direct Testimony in this proceeding?

A. Yes.

Q. What is the purpose of this testimony.

A. I am providing surrebuttal testimony to the rebuttal testimony of Citizens' witnesses Blain Akine, Carl Dabelstein and Ray Jones.

Q. After reviewing Mr. Akine's rebuttal testimony, do you still stand by your assertion that enforceable contracts should be in place with the golf courses before Citizens' plan, or any plan, that is dependant on placing CAP water on golf courses is approved by the Commission?

A. Yes. The financial impact analysis of Citizens' proposed plan (Option 4) and the alternatives presented in my direct testimony assume CAP water can be delivered to the golf courses and incorporate a cost recovery component from the golf courses for CAP water in lieu of pumping. Binding commitments from the golf courses for CAP water, in lieu of groundwater pumping, need to be in place. These commitments should outline the basic terms of delivery of CAP water to the golf courses, including the cost to the golf courses. Solidifying the

1 SURREBUTTAL TESTIMONY OF
2 DENNIS HUSTEAD
3 DOCKET NOS. W-01656A-98-0577 and SW-02334A-98-0577
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5 commitments of the golf courses to take and pay for CAP water may take
6 several months to accomplish, but should be done before proceeding with a
7 plan that may not have any takers for CAP water when the details of delivery
8 and cost are finalized.

9 If Citizens' speculative anticipation of revenues from the recreational center
10 golf courses is inaccurate, the costs to ratepayers would increase by \$131,000
11 annually.

12
13 **Q. Are non-binding resolutions indicating a desire to take CAP water
14 sufficient?**

15 **A.** No. The ratepayers should have no obligation to pay for deferred CAP costs or
16 on-going CAP costs until a viable long-term plan has been presented. Binding
17 commitments must exist with the golf courses in order for the golf course
18 option to be deemed viable.

19 **Q. Do you agree that certain golf courses in Sun City West should be ignored?**

20 **A.** No. Citizens should be proposing engineering solutions that maximize benefits
21 while minimizing costs. This is clearly accomplished by maximizing the use of
22 existing infrastructure. To the extent millions of dollars of infrastructure costs
23 can be avoided, the Commission should require Citizens to pursue the lesser
24 cost alternative.
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5 **Q. Do you agree with Mr. Akine's rationale for ignoring this lower cost**
6 **solution on pages 4 and 5 of his rebuttal testimony?**

7 A. No. Mr. Akine acknowledges that the total demand on all Sun City West golf
8 courses is 5,451 af/yr, but claims the expansion golf courses are prohibited from
9 using CAP water, and that private golf courses should not benefit from use of
10 CAP water because they did not participate in the CAP Task Force.

11 Mr. Akine did not provide a copy of the County prohibition relating to the
12 expansion golf courses. However, even if a prohibition currently exists, it does
13 not mean that the County would not consider amending the prohibition if the
14 same or greater benefits result from the use of CAP water. If, in fact, the
15 expansion golf courses are prohibited from using CAP water, this would only
16 amount to a 970 af/yr reduction in CAP water use in Sun City West leaving
17 4,521 af/yr that could still be used there.

18 As to the use on private courses, it is my understanding that the concern of the
19 CAP Task Force and Citizens is to leave groundwater in the ground. This is
20 accomplished whether the golf courses are private or public. As for the private
21 golf courses non-participation in the Task Force, it is my understanding that
22 Citizens determined which groups participated in the CAP Task Force. Further,
23 if there is an economic advantage to taking CAP water, I believe the private
24 golf courses will be interested in participating. Accordingly, the private golf
25 courses should be contacted and encouraged to participate in the use of CAP
26 water in lieu of pumping groundwater.

5 **Q. Does exceeding Sun City West's 2,372 af/yr allocation concern you?**

6 A. No. Citizens should be designing a CAP use plan to maximize benefits to all of
7 its ratepayers at the least cost. Further, it is my understanding that the
8 allocation between the Sun Cities is not yet accomplished.

9 **Q. Do you believe that the Commission should limit its review to the plan
10 proposed by Citizens for CAP Task Force consideration?**

11 A. Absolutely not. The CAP Task Force considered only three general alternatives
12 for putting CAP water to use:

- 13 (1) Recharging outside its service area (with MWD, CAWCD,
14 McMicken and Citizens' own recharge site);
- 15 (2) Delivery to golf courses; and
- 16 (3) Treatment and direct delivery.

17 Treatment and direct delivery was rejected as too costly, while recharge outside
18 Citizens' service area was rejected as providing only indirect benefits.
19 Therefore, delivery to golf courses was recommended. However, the CAP Task
20 Force was presented with and considered only one option to accomplish
21 delivery of CAP water to the golf courses. It did not consider the options I have
22 proposed in my direct testimony. If an option or options exist that provide
23 substantially the same benefits, but at a significantly lower cost, the least cost
24 alternative should be considered.
25
26

5 **Q. Please comment on Mr. Akine's rebuttal of your recommendation to**
6 **modify Citizens' proposed plan to reduce construction costs.**

7 A. As explained in my direct testimony, my review of Citizens' proposed plan
8 concluded that this plan is far more costly than it needs to be. Specifically, the
9 plan includes extra costs for a pump station and a reservoir, which are simply
10 not necessary. Regarding the pump station, the delivery system should be a
11 closed pipeline from the CAP turnout to delivery at the golf courses. This
12 negates the need for a pump station. This is true because the turnout at the CAP
13 canal at Lake Pleasant Road is at an approximate elevation of 1500 feet, and the
14 golf courses are at elevations ranging from 1300' to 1200'. Thus, the pipeline
15 will be operating with a head of over 200 feet and will produce sufficient
16 pressure to deliver the flow to each golf course without the need for a pump
17 station.

18 Regarding the reservoir, there is no need to store water in a reservoir prior to
19 delivery to the golf courses because the golf courses already have reservoirs on
20 site. These golf reservoirs are designed to store the daily irrigation requirements
21 of the golf course (continuous water flow over 24 hours and irrigate at night
22 during a 12-hour period), plus an emergency supply of water to last one to three
23 days. Thus, the reservoir designed under Citizens' proposed plan is simply not
24 needed.

25 Further, I determined that it would be most cost effective to maximize CAP
26 water deliveries to Sun City West golf courses where a distribution system

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already exists and thereby minimize the installation of a new distribution system in Sun City.

The cost impacts of eliminating the pump station and reservoir and maximizing deliveries to Sun City West, reduces total construction costs from about \$15 million to about \$9 million. Sun City Water Company's costs would be reduced from over 9.6 million dollars to approximately 5.7 million dollars. Importantly, this cost allocation is based on proposed CAP allocations of Citizens allocating 4,189 af to Sun City and 2,372 af to Sun City West. If cost allocations followed the place of use, Sun City Water Company's costs would be even lower, but Sun City West's costs would increase.

Mr. Akine's seems to contradict himself in regard to my recommended modifications to Citizens' proposed plan. For example, on the one hand, he immediately rejects my proposal. But on the other hand, he admits that my proposal may have merit, but needs to be examined closer. As an engineer, I believe that Citizens should have the significant details of its proposed plan worked-out before it asks the Commission to approve the concept.

Q. Did Mr. Akine comment on your alternative plan to build a joint CAP transmission pipeline with the Agua Fria Division?

A. Yes. As explained in my direct testimony, a joint transmission facility could be built with the Aqua Fria Division so all CAP water available to Citizens could be delivered to its certificated area through one transmission pipeline

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5 constructed from the CAP canal at Grand Avenue to the Aqua Fria delivery
6 point at Sarival Avenue. The pipeline would continue along Grand Avenue and
7 the Beardsley alignment to a tie at the Sun City West delivery system at the
8 Hillcrest Golf Course. There may be other, even more cost effective,
9 alignments. The existing Sun City West distribution system would be used to
10 maximize delivery of CAP water to all the golf courses in Sun City West. The
11 remaining CAP supply would be transported to the existing pump station at
12 Beardsley and 107th Avenue and then a new distribution would be constructed
13 to deliver the CAP water to the Willow Brook and Union Hills Golf courses.

14 This alternative joint plan actually costs about \$10 million compared to the \$15
15 million for Citizens' proposed plan or the \$9 million for Option 4 Modified.
16 However, under this alternative the Aqua Fria Division would also be able to
17 deliver its full CAP allocation. Because a significant portion (62.8%) of the
18 construction costs for the joint facilities would be allocated to the Aqua Fria
19 Division and away from Sun City and Sun City West (with certain costs being
20 allocated to the Sun Cities and some costs being assigned to a particular water
21 system), the costs for each system would go down.

22 In summary, by pursuing a joint project with the Aqua Fria Division, rather
23 than Option 4 as currently proposed by Citizens, there is a potential for
24 reducing costs to the ratepayers of Sun City Water by \$23,920,000 over the
25 remaining 42 year life of the CAP subcontract (\$34,362,000 vs. \$58,282,000).
26 This savings is more fully set forth in Attachment DH-5 to my direct testimony.

5 It should be emphasized that this savings will be experienced by the ratepayers
6 of Sun City Water. Similar savings should be experienced by the ratepayers of
7 Sun City West. Further, since more than 37% of the costs of the joint project
8 would be allocated away from the Aqua Fria Division for a pipeline that would
9 deliver its CAP supply, the ratepayers of the Aqua Fria Division also will see a
10 savings.

11 **Q. Did Mr. Akine support a joint CAP use alternative?**

12 A. Although he did not dispute that there may be significant savings from a joint
13 project with the Aqua Fria Division, he rejected the option because "the plan
14 and the timing for required physical delivery of CAP water into the Aqua Fria
15 Division differs from the proposed CAP Task Force Plan."

16 **Q. Do you find this to be a valid reason to reject a joint CAP use plan?**

17 A. No. We are talking about saving potentially millions of dollars and a difference
18 in timing of approximately two years in implementing a project that will be in
19 place for forty or more years. As noted above, these options were never
20 presented to the CAP Task Force. Citizens has hired Brown & Caldwell to
21 complete a master plan for the Aqua Fria Division. The contract should be
22 expanded to incorporate a joint pipeline with the Sun Cities.
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5 **Q. Do you have an opinion on Mr. Akine's statement that the Beardsley Canal**
6 **could be used to transport CAP water to Aqua Fria?**

7 A. Yes. The use of the Beardsley Canal to transport CAP water may have some
8 merit and should be investigated, both for Aqua Fria and the Sun Cities. Use of
9 the canal would likely require a pump station to deliver water to the golf
10 courses and probably Aqua Fria. The cost of the pump station versus the
11 reduction in cost associated with elimination of a portion of the pipeline may
12 result in less expensive capital costs, but increased annual operating costs. If by
13 using the Beardsley Canal costs can be reduced, then use of the Canal should be
14 incorporated into the CAP delivery system to Sun City, Sun City West and
15 Aqua Fria and the cost savings shared by all Citizens' ratepayers in an equitable
16 fashion.

17 **Q. Do you believe Citizens' ratepayers are benefited by designing separate**
18 **delivery systems for the Aqua Fria Division and the Sun Cities?**

19 A. No. My analysis demonstrates that the ratepayers will maximize benefits at the
20 least cost by designing a "joint system." Citizens should have presented a CAP
21 Utilization plan for its entire CAP allocation. By treating the Sun Cities
22 separately, it appears Citizens will be increasing construction costs by millions
23 of dollars. This additional burden should not be placed on Citizens' ratepayers.
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Thus, Citizens' insistence on two separate and expensive plans for putting CAP water to use in the Sun Cities and the Aqua Fria Division, when a single less costly plan may be available, violates least cost principals, especially when the relative timing of both projects is so close.

Q. Do you agree with Mr. Dabelstein's Testimony on page 9, lines 6 and 7 of his Rebuttal Testimony that "the only remaining obstacle for cost recovery [of deferred CAP costs] was meeting the 'used and useful' test that had been imposed"?

A. No. Obviously, the Commission is the best judge of what it intended. However, I believe that Mr. Dabelstein, as well as Mr. Jones at pages 3-4 of his rebuttal testimony, have mischaracterized the Commission's findings in Decision No. 60172. Both Mr. Dabelstein and Mr. Jones have cited certain findings in Decision No. 60172 for the proposition that review of the costs and benefits of the specific proposal now being presented by Citizens and the recovery of deferred CAP costs has been permanently foreclosed.

It should be emphasized that the plan for CAP utilization now presented by Citizens, and for which Citizens' requests Commission approval, was not specifically included in the options presented in the dockets which resulted in Decision No. 60172. Further, the Commission in Decision No. 58750 granted deferral of CAP capital costs expressly contingent upon the following conditions:

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- 5 "A. That the Companies be required in any rate proceeding to
6 demonstrate that the deferred CAP costs were prudent when they
7 were incurred.
- 8 B. That this order not be construed to grant present or future
9 permission for the Companies to amortize or include in rate base
10 any CAP-related costs.
- 11 C. That the Companies be required to prepare and retain accounting
12 records sufficient to permit detailed review of all deferred CAP
13 costs in future rate proceedings.
- 14 D. That each Company's authorization to defer CAP costs cease
15 three years from the date of this order if the Company has not
16 submitted a rate application that requires examination of the
17 deferred costs addressed herein by or before that date or, in the
18 alternative, if the Company has not applied for a renewal of this
19 accounting order."

20 Decision No. 58750 was entered August 31, 1994. At page 10, lines 15-17 of
21 Decision No. 60172, dated May 7, 1997, the Commission extended the time
22 during which CAP capital charges could continue to be accrued "subject to a
23 development of a plan and date of implementation by December 31, 2000. If
24 CAP water is not implemented by December 31, 2000, then Citizens will lose it
25 ability to defer future costs."
26

5 Clearly, the development and implementation of a CAP utilization plan is a
6 necessary condition to Citizens' recovery of deferred CAP charges. However,
7 nothing in the Decision guarantees Citizens the right to recover all, or even a
8 portion, of the deferred costs if a plan is developed and implemented by
9 December 31, 2000. In fact, the Commission, at footnote 8 on page 10 of
10 Decision No. 60172, expressly recognized that "with each passing year, the
11 amount of water ultimately deliverable is reduced by 1/50th, thereby reducing
12 the maximum potential benefits deliverable under the subcontracts." The
13 Commission further pointed out that as of 1997 the Company had held its CAP
14 allocation for more than 11 years "but has not delivered or put to beneficial use
15 any CAP water."

16 In my view, these provisions leave open the questions of the cost/benefits of the
17 specific proposal, as well as whether deferred CAP capital costs should be
18 borne by Citizens' shareholders, Citizens' ratepayers or split in some manner
19 between the two.

20 **Q. Do you believe that the issue of recovery of deferred costs, as well as the**
21 **reasonableness of the plan to put CAP water to use, requires a cost/benefit**
22 **analysis?**

23 **A.** Yes. The Commission, in Decision No. 60172, recognized that merely holding
24 a "CAP allocation by definition is not 'used' and 'useful.'" The test is not
25 simply used, but used and useful. In my opinion, in order to be useful, the
26 various alternatives available to the ratepayers, the concerns sought to be

5 addressed and the costs of various alternatives all must be explored. In order to
6 make this analysis, the costs and benefits of the various alternatives should be
7 fully examined.

8 **Q. Has Citizens performed a cost/benefit analysis with regard to its current**
9 **CAP Utilization Plan (Option 4)?**

10 **A.** No. Although estimated costs for various alternatives have been derived, the
11 benefits have not been quantified. Further, the cost analysis includes improper
12 assumptions. For example, there are no contracts in place with the golf courses.
13 Nor did Citizens examine the options I suggested in my direct testimony, such
14 as proceeding jointly with the Aqua Fria Division.

15 Citizens has not provided a hydrologic analysis demonstrating the benefits
16 derived from putting this volume of water on the golf courses. Citizens appears
17 to have access to one or more groundwater models which could readily reflect
18 the impacts of the golf course proposal. From this analysis, the hydrologic
19 benefits of Citizens' proposal (Option 4), if any, as well as those of my
20 alternatives, would be readily apparent. Of course, such an analysis requires
21 one to know which pumps will and will not be utilized, where the water will be
22 applied, and whether water will be withdrawn at a later date through the use of
23 long-term storage credits.

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Q. Do you believe the Commission should approve the current CAP Plan (Option 4) proposed by Citizens?

A. No. Option 4 does not appear to be the least cost alternative available for bringing CAP water to the golf courses. I agree with ACC Staff that Citizens should be ordered to return to the Commission once its has a complete proposal. Furthermore, Citizens should be required to evaluate the options I have proposed, as well as use of the Beardsley Canal.

Q. Could Citizens have proposed its current plant (Option 4) earlier?

A. Yes. Contrary to Citizens' contentions, use of CAP water on golf courses has been an option since it executed its CAP subcontracts in 1985. It is only the possibility of having the water designated as stored water and securing long-term credits that was first authorized in 1990. Importantly, if long-term storage credits are used to recover groundwater in excess of that which would otherwise be recovered, the benefits of placing CAP water on the golf courses could disappear entirely. In fact, it is my understanding that some of the golf courses currently rely on long-term storage credits generated from stored effluent. If these credits are transferred elsewhere or otherwise utilized to support additional pumping, the benefits to the ratepayers of importing CAP water could also disappear.

5 **Q. Do you have an opinion regarding Citizens' argument justifying recovery**
6 **of deferred cost and on-going CAP cost as the first water used instead of a**
7 **conservation oriented rate structure?**

8 A. In regard to Citizens' rate design for recovery of CAP water related costs, the
9 Company proposes that residential ratepayers be billed based on a flat rate per
10 household. Although SCTA opposes Citizens' recovery of 100% of the
11 deferred water costs, if the Commission were to allow Citizens' recovery of
12 some percentage of the deferred costs, it is my recommendation that any charge
13 for CAP costs should be recovered primarily from customers entering the
14 system. Any charge on existing ratepayers should be recovered through a rate
15 schedule that encourages conservation. The customers who have reduced their
16 water consumption should not have to pay the higher rates associated with
17 importation of CAP water. This method would encourage conservation by
18 placing a greater allocation of the cost burden on those water consumers who
19 use the most water. This method also allows customers on fixed incomes to
20 have some control over how much of the CAP costs they are burdened with. I
21 believe the CAP Task Force was incorrect in its conclusion that CAP water
22 should be treated as the first resource used.

23 **Q. Do you agree that imposing connection fees today is no longer viable?**

24 A. No. Certainly by delaying utilization of CAP water, Citizens has lost the
25 opportunity to collect connection fees from developers on a substantial portion
26 of Citizens certificated area. However, I understand that additional
development is still occurring. Further, customers are constantly leaving and

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entering Citizens water systems. It would be possible to impose a CAP based fee on all new customers as part of the establishment of a new account. This would recognize that those who currently live in the Sun Cities purchased their homes with no expectation that they would have to pay for CAP water.

Q. Do you agree with Mr. Dabelstein's and Mr. Jones' arguments as to why the Commission should accept Citizens' method of recovering the deferred CAP costs?

A. No. Citizens made a business decision to hold the CAP allocation, rather than putting the CAP water to use. As a result, the benefits available under the subcontract have diminished. Further, Citizens has lost the opportunity to collect these costs, as well as infrastructure costs, from developers or new lot owners. I understand Citizens has only sought permission to collect costs from existing ratepayers. It is also my understanding that Citizens has been told that CAP costs are not recoverable from existing ratepayers without a plan to put CAP water to use. To my knowledge, this is the first proceeding Citizens has ever committed to a plan to put CAP water to use.

Q. Do you agree with Mr. Dabelstein's argument that deferred costs should earn a return?

A. No. Again, although I oppose Citizens' recovery of 100% of its deferred water costs, if the Commission were to allow Citizens recovery of some percentage of the deferred costs, I agree with both the ACC Staff and RUCO that under no circumstances should Citizens be allowed to earn any rate-of-return on the

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5 deferred CAP costs because it is contrary to Commission precedent. It is my
6 understanding that Decision No. 60172, on its face, does not authorize recovery
7 of a rate of return on Citizens' deferred CAP costs. Further, Decision No.
8 58750 specifically precluded treating deferred CAP costs as a "rate base" item.
9 This is what Mr. Dabelstein is proposing.

10 **Q. Do you agree with Mr. Dabelstein that any deferred CAP costs should be**
11 **recovered over a 42 month period?**

12 **A.** No. In regard to the length of period for recovery of deferred CAP costs, I
13 reassert the position that if any of the deferred costs are deemed recoverable
14 these costs should be spread over the remaining life of Citizens' CAP
15 subcontracts, as opposed to just 42 months under Citizens' proposal or the 60
16 months proposed by the ACC Staff.

17 **Q. Does this conclude your surrebuttal testimony?**

18 **A.** Yes.
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