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6 IN THE MATTER OF THE JOINT  
APPLICATION OF SUN CITY WATER  
7 COMPANY AND SUN CITY WEST  
UTILITIES COMPANY FOR APPROVAL  
8 OF CENTRAL ARIZONA PROJECT  
WATER UTILIZATION PLAN AND FOR  
9 AN ACCOUNTING ORDER  
10 AUTHORIZING A GROUNDWATER  
SAVINGS FEE AND RECOVER OF  
DEFERRED CENTRAL ARIZONA  
11 PROJECT EXPENSES.

Docket No. W-01656A-98-0577  
Docket No. SW-02334A-98-0577

12 NOTICE OF FILING

13 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the  
14 Surrebuttal Testimony of Marylee Diaz Cortez, in the above-referenced matter.

15 RESPECTFULLY SUBMITTED this 1st day of October, 1999.

16  
17 *Karen E. Nally*  
18 Karen E. Nally  
Counsel

19  
20 AN ORIGINAL AND TEN COPIES  
21 of the foregoing filed this 1st day  
of October, 1999 with:

22 Docket Control  
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SUN CITY WATER AND SUN CITY WEST  
DOCKET NO. W-01656A-98-0577  
DOCKET NO. SW-02334A-98-0577

SURREBUTTAL TESTIMONY  
OF  
MARYLEE DIAZ CORTEZ

ON BEHALF OF  
THE  
RESIDENTIAL UTILITY CONSUMER OFFICE

OCTOBER 1, 1999

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Marylee Diaz Cortez.

4  
5 Q. Have you previously filed testimony in this docket?

6 A. Yes. I filed direct testimony in this docket on September 10, 1999.

7  
8 Q. What is the purpose of your testimony?

9 A. In my surrebuttal I will rebut arguments set forth in the Company's rebuttal  
10 testimony. I will show that certain arguments of the Company are incorrect  
11 and/or misleading. I will also demonstrate inconsistencies in the Company's  
12 arguments. My surrebuttal testimony will reaffirm RUCO's recommendations as  
13 set forth in my direct testimony.

14  
15 Q. Please summarize RUCO's position on the Company's CAP water plan.

16 A. RUCO's position is as follows:

17 1) Utilization of the Company's CAP allocation supports state water policy  
18 goals and should be authorized despite the fact use of CAP water is not  
19 the least-cost water supply option. However, this is not to say that use of  
20 CAP water is justified no matter what the cost.

21 2) The Company's proposal to use CAP water through an exchange with the  
22 Maricopa Water District meets state water policy goals and represents the

1 least-cost CAP water use option. Accordingly, the Company should  
2 receive authorization to implement this plan.

3 3) The golf course usage plan is one of the highest cost CAP water usage  
4 options considered by the Company. Implementation of this plan will  
5 require the Company to commit substantial resources to a course of action  
6 which may not be necessary and for which the Company may not be able  
7 to see through to completion. Accordingly, the Company should not  
8 receive current authorization for this project.

9 4) The deferred CAP charges should be recovered over a five year period  
10 however, returns on the deferred charges should not be recovered from  
11 ratepayers.

12 5) The deferred CAP costs (exclusive of late fees and returns) and the  
13 annual CAP costs should be recovered through separate surcharge  
14 mechanisms, based on customer usage.

15  
16 Q. Has the Company agreed with some of your recommendations?

17 A. Yes. The Company appears to agree with RUCO's recommendation to allow  
18 recovery of the CAP costs associated with the MWD water exchange. The  
19 Company also has agreed that the deferred CAP late fees should not be  
20 recoverable from ratepayers.

1 Q. Which recommendations does the Company disagree with?

2 A. The Company believes it should be granted authority at this time to proceed with  
3 the golf course plan of CAP usage, believes it should be allowed to earn a return  
4 on its deferred CAP charges, and believes the CAP surcharges should be based  
5 on a flat fee as opposed to commodity rates as proposed by RUCO.

6

7 **ISSUE #3 - GOLF COURSE PLAN**

8 Q. What arguments does the Company set forth in support of proceeding with the  
9 golf course usage plan at this time?

10 A. In support of current authorization to proceed with the golf course plan, the  
11 Company argues that the Task Force "favored" this option.

12

13 Q. Is the Task Force's opinion of this plan the only criteria the Commission needs to  
14 make its decision?

15 A. No. While public opinion is certainly a factor considered by the Commission in  
16 making its decisions, it is not the controlling factor. The Commission must  
17 consider all aspects of a given proposal in making its decision. Thus, the fact  
18 that the golf course option does not adhere to least-cost principles, will result in  
19 significant rate increases in the future, and may result in a commitment the  
20 Company may well not be around to fulfill, are all factors the Commission will  
21 need to consider in making its decision on this issue. The Company has not  
22 rebutted these important issues.

23

1 Q. Is it RUCO's recommendation that the golf course plan should *never* receive  
2 authorization?

3 A. No. My recommendation is merely that commitment to this course of action at  
4 this time is premature and, as a result, imprudent. The Company needs to first  
5 implement the use of CAP water through its current MWD plan, and see how that  
6 plan works before committing the substantial investment necessary for the golf  
7 course option. Further, Citizens has indicated in the next year or so it plans to  
8 sell off its gas, water, electric, and wastewater companies in Arizona.  
9 Accordingly, Citizens will not be able to see the proposed project through. Since  
10 the CAP water will become used and useful through the MWD plan, it is not  
11 necessary at this time to rush headlong into a long-term project with an estimated  
12 cost of at least \$33 million. Nor is it prudent or necessary at this time to commit  
13 ratepayers to the substantial rate increase this course of action will entail.

14  
15 Q. Does the Company recognize that the Commission must consider factors other  
16 than just public opinion?

17 A. Despite using the Task Force's favorable opinion of the golf course plan as the  
18 Company's sole support of the plan, the Company does appear to realize that  
19 opinion does not bind the Commission's decision. At page 10, of the rebuttal  
20 testimony of Ray L. Jones, the Company states:

21  
22 [T]here is no single correct plan for using CAP water in the  
23 Sun Cities. The Commission is the only elected body with  
24 the authority to make the needed decision. While the Task  
25 Force's plan represents the consensus position of the

1 community, it is not binding. Given the significant costs and  
2 long-term implications to the communities of the selected  
3 CAP option, it is appropriate to have the CAP Task Force's  
4 recommendation approved by the Commission.  
5

6 Q. What other factors will the Commission need to consider?

7 A. The Commission will need to consider if it is appropriate to commit to a long-term  
8 course of action with minimal information regarding the specific costs and  
9 ramifications of that option. The Commission will also need to consider the fact  
10 that ownership will likely change hands prior to implementation of the golf course  
11 plan. Further, the Commission will need to consider the financial impact on the  
12 community of authorizing a plan that will assuredly result in rate shock.  
13

14 **ISSUE #4 - DEFERRED CAP COSTS**

15 Q. Please discuss the Company's objections to your recommendation that the CAP  
16 deferrals not earn a return.

17 A. Company witness Carl Dabelstein argues that the Company should be allowed to  
18 earn a return on its deferred CAP charges. The Company claims that because it  
19 is allowed to accrue AFUDC (carrying charge during the time plant is under  
20 construction) that it should likewise be allowed to accrue carrying charges on the  
21 CAP deferrals.  
22

23 Q. Do you agree with this argument?

24 A. No. The deferred CAP costs represent the expenses the Company incurred for a  
25 non-used and useful item. Accordingly, there are strong arguments and

1 precedent for the disallowance of rate recovery of these expenses in their entirety.  
2 The Commission typically does not allow retroactive recovery of expenses  
3 associated with the period of time an item was non-used and useful. Thus,  
4 RUCO's recommendation to allow rate recovery of the deferred CAP charges is  
5 quite liberal. In making this recommendation, I have attempted to consider the  
6 potential benefit to ratepayers of the Company having preserved the future right to  
7 use CAP water, despite the fact that this recommendation requires ratepayers to  
8 bear non-used and useful costs. Accordingly, I have attempted to balance my  
9 recommendation that customers bear non-used and useful costs with a  
10 recommendation that ratepayers not be required to pay a return on these  
11 deferrals. Disallowance of the return recognizes that the CAP allocation remained  
12 non-used and useful for many years as a result of management decision. My  
13 recommendation, therefore, represents a partial sharing between ratepayers and  
14 shareholders of the non-used and useful deferred CAP charges. Under my  
15 proposal, the Company will receive full reimbursement of these non-used and  
16 useful expenses however, the Company will be precluded from generating profits  
17 on non-used and useful costs.

18  
19 Q. In the recent Paradise Valley order authorizing the use of CAP water and recovery  
20 of prior deferred CAP costs did the Commission allow recovery of returns on the  
21 deferred balance?

22 A. No. Decision No. 61831, authorized the recovery of Paradise Valley's deferred  
23 CAP charges with no return.

1 **ISSUE #5 - RATE DESIGN OF CAP SURCHARGE**

2 Q. Please discuss the Company's rebuttal comments regarding your proposed rate  
3 design of the CAP surcharges.

4 A. The Company disagrees with my recommendation that the CAP surcharges be  
5 based on a commodity rate that assigns the costs of using CAP water to Citizens'  
6 customers based on usage. As discussed in my direct testimony, the purpose of  
7 using CAP water is to reduce the pumping of groundwater. Thus, the incremental  
8 cost of using CAP water should be assigned to those customers responsible for  
9 the excess groundwater pumping (i.e. exceeding Groundwater Per Capita Day  
10 (GPCD) limits).

11  
12 Q. The testimony of Company witness Terri Sue Rossi gives several examples of  
13 how DWR calculates GPCD overages. What bearing do these examples have on  
14 your recommendation that ratepayers pay the incremental cost of CAP water  
15 based on usage?

16 A. None. Both Sun City and Sun City West in each of the last four years have  
17 exceeded their GPCD limits. The current GPCD limits for Sun City allow each  
18 person to consume 272 gallons per day. Multiplying this allowance by the  
19 average number of persons per household and multiplying that result by the  
20 average number of days in a month results in the amount of usage allowed under  
21 the GPCD limits per month, per household. For Sun City the monthly allowable  
22 usage is approximately 15,000 gallons and for Sun City West the monthly  
23 allowable usage is approximately 11,000 gallons. Quite simply, any customer

1 exceeding the monthly GPCD is directly responsible for the need to find other  
2 sources of supply to lessen the groundwater pumpage. In other words, the  
3 excess users of water are the cost causers of the incremental cost of having to  
4 use CAP water.

5  
6 Q. You have recommended that all commercial consumption be subject to the CAP  
7 surcharge. What is the Company's response to your recommendation?

8 A. The Company appears to disagree with my recommendation although it does not  
9 specifically state such. The Company takes exception to my testimony that  
10 commercial customers are in large part responsible for exceeding GPCD limits.  
11 The Company states that my testimony is untrue, and cites other reasons such as  
12 weather, conservation requirements, etc. for exceeding GPCD limits. The  
13 Company further concludes that my recommended rate design places the  
14 incremental cost of CAP primarily on commercial customers.

15  
16 Q. Are the Company's rebuttal comments an accurate portrayal of RUCO's position?

17 A. No. First, I have taken the position that commercial usage is in *part* responsible  
18 for exceeding GPCD limits. I have not stated it is the exclusive reason, as alleged  
19 by the Company. Certainly weather and poorly conceived conservation  
20 requirements have an impact, as cited by the Company. However, from a  
21 practical standpoint, rates cannot be designed to charge mother nature for a  
22 portion of the CAP costs, nor could rates be designed to assign a portion to  
23 Citizens or DWR for poor conservation requirements. Second, the Company's

1 statement that RUCO has assigned the incremental cost of the CAP water  
2 primarily to commercial customers is untrue. Under my proposed rate design,  
3 Sun City commercial customers would bear 42% of the CAP costs, and Sun City  
4 West commercial ratepayers would bear 39% of the costs. The remaining  
5 majority of the incremental CAP costs would be borne by residential customers  
6 that exceed the 15,000 or 11,000 gallons thresholds.  
7

8 Q. The Company appears to take the position that commercial users are not cost  
9 causers of the CAP expenses. What is the Company's basis for this position?

10 A. The Company's rebuttal arguments are not clear on this. The Company provides  
11 several examples of how commercial water usage is reflected in the GPCD  
12 calculations. That testimony serves merely to demonstrate RUCO's point exactly  
13 - that commercial usage plays a part in creating GPCD overages. Further, the  
14 Company's own rate design assigns the CAP water surcharge to every gallon of  
15 commercial usage. Thus, it is unclear why the Company is objecting to my  
16 proposed rate design which does precisely the same thing.  
17

18 Q. At page 24 of Company witness Terri Sue Rossi's testimony, the Company states  
19 your analysis fails to consider the complexity of the components used by DWR to  
20 set GPCD limits. Please comment.

21 A. The Company claims I have failed to consider each component DWR uses in  
22 setting the individual GPCD limits. Ms. Rossi cites lost and unaccounted for  
23 water, building codes, etc. as components that RUCO failed to consider.

1 Q. Are these details pertinent to your recommended rate design?

2 A. No. The individual considerations DWR used to quantify the GPCD limits are not  
3 pertinent to my rate design. The relevant fact is the resultant GPCD limit.  
4 Regardless whether one agrees with the DWR calculations, the prescribed GPCD  
5 limit is the amount of groundwater withdrawal the Company can not exceed on a  
6 per person daily basis. Thus, it is the controlling factor in determining which  
7 customers are contributing to the overage. Any customer exceeding these limits  
8 are cost-causers of the incremental need for CAP water.

9

10 Q. Are there other methods that could be used to assign CAP costs to the cost-  
11 causers other than via the GPCD limits?

12 A. Yes. Conceptually, the same type of rate design could be implemented using  
13 safe yield figures. All monthly usage that exceeded a customer's pro rata share of  
14 safe yield would be subject to the surcharge. The specific figures used to derive  
15 excess usage (i.e. GPCD, safe yield, or some other measure) is less important  
16 than the objective of identifying the customers who are causing the need to use  
17 CAP water.

18

19 Q. The Company claims all customers equally cause the need for CAP water, hence  
20 the recommendation for a flat monthly fee. Do you agree?

21 A. No. It is counterintuitive, if not absurd, to assume that a customer with average  
22 monthly consumption of 4,000 or 5,000 gallons is contributing to the need for CAP

1 water in the same proportion as a customer with average monthly consumption of  
2 20,000 or 25,000 gallons.

3  
4 Q. What other arguments does the Company set forth regarding your proposed rate  
5 design?

6 A. Again, the Company argues that the Task Force favored a flat fee for the CAP  
7 surcharge. As discussed earlier, public opinion certainly is one factor the  
8 Commission may consider in making decisions. However, it is not necessarily the  
9 controlling factor. With all due respect to the Task Force, its members are not  
10 experts on the principles of rate design. The Commission needs to consider  
11 proper rate design principles and objectives in determining the appropriate rate  
12 design for the CAP costs.

13  
14 Q. Are there other merits of your recommended rate design in addition to the fact that  
15 it assigns costs based on cost causation?

16 A. My proposed rate design has the added attraction of promoting conservation.  
17 While I have recommended this specific rate design based on the principle of cost  
18 causation, it has the incidental effect of sending a price signal to excess users of  
19 water. Since the Company continues to exceed its GPCD limits annually, it is  
20 clear that its current conservation programs are not having sufficient impact. The  
21 Company's proposed rate design of assigning a flat fee to customers provides no  
22 incentive for conservation. Under a flat fee rate design, customers will pay the  
23 same amount regardless of how much or how little water they use. My proposed

1 rate design, however, will send a price signal to excess users of water.  
2 Accordingly, my recommended rate design has the added attraction of promoting  
3 conservation.

4  
5 Q. Has a CAP surcharge rate design such as you are recommending here previously  
6 been adopted by the Commission?

7 A. Yes. Paradise Valley recently applied for authorization to put its CAP water to use  
8 and recover the deferred and on-going CAP costs through a surcharge  
9 mechanism. The plan was approved by the Commission in Decision No. 61831.  
10 The rate design approved by the Commission was identical to what I have  
11 recommended here. The Paradise Valley CAP surcharge authorized was based  
12 on usage. The surcharge was applicable to all commercial consumption and  
13 residential usage that exceeded Paradise Valley's GPCD limits. The Commission  
14 specifically ruled:

15  
16 [T]he Company will collect \$0.2124 per 1,000 gallons  
17 surcharge from all residential usage in excess of 45,000  
18 gallons per month and from all non-residential usage.  
19 [Decision No. 61831 at page 5]  
20

21 Q. Company witness Ms. Rossi further states in her rebuttal testimony that CAP  
22 water usage should be rewarded, not punished. What does this mean?

23 A. I do not know. It appears the Company believes for some reason that RUCO's  
24 recommendations are a punishment. RUCO is supporting the cost effective use  
25 of CAP water and is supporting the recovery of the incremental (including prior

1 non-used and useful) costs of using CAP water. RUCO's recommendations  
2 clearly do not represent a "punishment". The Company's characterization of  
3 RUCO's position as such is misguided.  
4

5 Q. In its rebuttal testimony, did the Company revise the amount of its requested CAP  
6 surcharge?

7 A. Yes. The Company continues to recommend the same rate design it proposed in  
8 its application however, it has updated its calculation of the surcharge applicable  
9 to the deferrals. Due to the amount of time that has elapsed since the Company  
10 filed its application, an additional payment was made to CAWCD for Citizens'  
11 semi-annual CAP capital charges. Thus, the CAP deferral balance has increased.  
12

13 Q. Have you updated your calculation of deferred CAP surcharge?

14 A. Yes. On Surrebuttal Schedule MDC-1, I have updated the calculation of my  
15 recommended deferred CAP surcharge to include the additional capital payment  
16 made to CAWCD in 1999. The inclusion of this additional payment is the only  
17 change I have made in my recommended deferred CAP surcharge.  
18

19 Q. What is your revised recommended deferred CAP surcharge?

20 A. As shown on Surrebuttal Schedule MDC-1, as a result of the additional CAWCD  
21 payment the CAP surcharge per 1,000 gallons has increased to \$0.059 for Sun  
22 City and to \$0.102 for Sun City West.  
23

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes.

3

4

5

6

7

SUN CITY WATER CO. & SUN CITY WEST UTILITIES CO.  
 CALCULATION OF CAP DEFERRAL SURCHARGE

DOCKET NO. W-01656A-98-0577 ET. AL.  
 SURREBUTTAL SCHEDULE MDC-1  
 PAGE 1

LINE NO.	DESCRIPTION	TOTAL	SUN CITY	SUN CITY WEST	REFERENCE
1	CAP DEFERRALS	\$3,221,388			DR #JB-4,CWD-1
2	CAP ALLOCATION - ACRE FEET	17,654	4,189	2,372	DR #JB-4,CWD-1
3	% ALLOCATION	37.16%	63.85%	36.15%	RATIOS - LINE 2
4	ALLOCATED CAP DEFERRALS	1,197,209	764,382	432,827	LINE 1 x LINE 3
5	GALLONS SUBJECT TO SURCHARGE	3,448,139	2,599,377	848,762	SCH. MDC-1, PG 2
6	ANNUAL AMORT. OF DEFERRALS - 5 YRS.	239,442	152,876	86,565	LINE 4/5 YRS.
7	SURCHARGE PER 1,000 GALLONS (A)		\$0.059	\$0.102	LINE 6/LINE 5

NOTE (A)  
 APPLICABLE TO ALL COMMERCIAL CONSUMPTION AND ALL RESIDENTIAL  
 CONSUMPTION OVER 11,000 GALS. FOR SUN CITY WEST AND OVER  
 15,000 GALS FOR SUN CITY.