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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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5

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

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

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NOTICE OF FILING

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

RESPECTFULLY SUBMITTED this 10th day of July, 2001.

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Attorney

1 AN ORIGINAL AND TEN COPIES
2 of the foregoing filed this 10th day
3 of July, 2001 with:

3 Docket Control
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SUN CITY WATER COMPANY AND SUN CITY WEST UTILITIES COMPANY

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

SUPPLEMENTAL TESTIMONY

OF

MARYLEE DIAZ CORTEZ

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JULY 10, 2001

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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 testified in this docket?

6 A. Yes. I filed direct testimony on September 10, 1999, surrebuttal testimony
7 on October 1, 1999, and testified at a hearing on October 18, 1999.

8
9 Q. Why are you filing supplemental testimony?

10 A. In Decision No. 62293, dated February 1, 2000, the Commission approved
11 the concept of the Groundwater Savings Project (GSP) as a means for
12 Sun City Water Company and Sun City West Utilities Company
13 (Companies) to utilize their CAP water allocations. That decision also
14 required the Companies to file a preliminary engineering report, a
15 feasibility study of a joint facility with the Agua Fria Division, and binding
16 agreements with the golf courses prior to the Commission considering
17 final approval of the GSP. On January 10, 2001 the Sun City Taxpayers
18 Association filed a request for a hearing to resolve issues that were set
19 forth in the preliminary engineering report and in the binding agreements.
20 At a Special Open Meeting on May 11, 2001, the Commission ordered the
21 Hearing Division to schedule a hearing to resolve issues concerning the
22 preliminary engineering report. A Procedural Order was issued on June 5,
23 2001 scheduling a hearing for August 15, 2001 and ordering the parties

1 that oppose the approval of the preliminary engineering report to file
2 comments/testimony no later than July 10, 2001. I am filing supplemental
3 testimony in opposition to the GSP, pursuant to that procedural order.
4

5 Q. What issues will you address in your supplemental testimony?

6 A. First, I will summarize the position RUCO took in the original hearing on
7 this matter. I will then address the preliminary engineering report with
8 respect to the estimated cost of the GSP. Finally, I will discuss how the
9 preliminary engineering report reaffirms that approval of this project should
10 be denied at this juncture.
11

12 **RUCO's POSITION**

13 Q. Please summarize RUCO's position in the first phase of this docket.

14 A. RUCO supported the Companies' plan to utilize their CAP allocation
15 through a groundwater savings project with the Maricopa Water District,
16 and recommended that the long term GSP for the golf courses not be
17 approved at this time.
18

19 Q. Why did RUCO oppose approval of the long term GSP?

20 A. RUCO opposed approval of the plan for several reasons:

21 1) High cost of the project in comparison to other CAP use
22 options;

23 2) Potential for rate shock as a result of the cost of the project;

- 1 3) Potential for lower cost options in the future due to changes
2 in state water statutes and evolving goals and policies; and
3 4) Another division of the Companies (Agua Fria) is utilizing its
4 CAP allocation through a recharge project, at much lower
5 cost than the GSP. RUCO questioned why the Sun City and
6 Sun City West ratepayers were to be condemned to rate
7 shock from the GSP while the Agua Fria customers would
8 benefit from the use of CAP water at a relatively low cost.

9
10 Q. Does RUCO's position remain the same?

11 A. Yes. RUCO opposes the approval of the golf course GSP for the same
12 reasons set forth in its prior testimony in this docket, as well for additional
13 reasons that are set forth in the Companies' recent preliminary
14 engineering report.

15
16 **PRELIMINARY ENGINEERING REPORT**

17 Q. Have you reviewed the preliminary engineering report filed by the
18 Companies on August 1, 2000?

19 A. Yes. The report examines five alternatives to implementing the GSP and
20 concludes that Alternative A via Lake Pleasant Road is the best
21 alternative. The preliminary engineering report also addresses the issue
22 of the joint project with Agua Fria, and concludes that the project should
23 not be pursued because of timing and cost issues.

1 Q. Does information contained in the preliminary engineering report support
2 RUCO's position that approval of the GPS should be denied at this time?

3 A. Yes. The preliminary engineering report identifies the total estimated
4 capital cost of the GSP at \$14,993,000. Information provided in Sun City
5 Water Company's and Sun City West Utilities Company's Response to
6 Comments, dated December 19, 2000, estimated that the net incremental
7 increase in expenses attributable to the GSP was \$133,034 annually.
8 From this information I was able to calculate the amount of rate increase
9 that would be necessary if the long term GSP was approved. For
10 comparison purposes, I also calculated the amount of rate increase to
11 which the Companies may be entitled even in the absence of the GSP.¹
12

13 **CONCLUSIONS**

14 Q. What were the results of your analysis?

15 A. As shown on Schedule MDC-1, page 1, the Companies would require a
16 rate increase of approximately 45% if the GSP were approved. However,
17 if the GSP were not approved it appears that the Companies may be
18 entitled to an increase of approximately 22%, based on year 2000
19 earnings and investment. These calculations are shown on Schedule
20 MDC-1, page 2. Thus, approval of the long term GSP will serve to
21 magnify the level of future rate shock. In a community that is comprised of

¹ Based on information in the Companies' 2000 annual report, both Sun City and Sun City West were under earning. Thus, even in the absence of the GSP the Companies may be entitled a rate increase.

1 primarily customers on fixed incomes, a 45% potential increase is
2 alarming at best.

3
4 Q. If the Commission did not approve the GSP, would the Companies be in
5 compliance with state water policies and goals?

6 A. Yes. The Companies are currently utilizing their CAP allocation through a
7 water exchange agreement with the Maricopa Water District (MWD). The
8 Companies deliver their CAP allocation through an already existing
9 distribution system to farms located in MWD's service area that have
10 historically used groundwater. Every acre foot not pumped by MWD
11 farmers is credited to the Companies. Thus, the Companies are already
12 in compliance with state groundwater conservation policies and goals,
13 without the need for rate shock.

14
15 Q. Should the GSP receive Commission approval?

16 A. No. Implementation of this plan will create rate shock, and for no good
17 reason since the Companies are already utilizing their CAP allocation and
18 contributing to the conservation of groundwater. The preliminary
19 engineering report merely confirms that the price tag on this project is
20 simply too high, given the fact that the current, least-cost CAP utilization
21 plan already is accomplishing groundwater savings.

1 Q. Does this conclude your supplemental testimony?

2 A. Yes.

3

SUN CITY WATER COMPANY & SUN CITY WEST UTILITIES COMPANY
 CALCULATION OF REQUIRED RATE INCREASE WITH APPROVAL
 OF THE GROUND WATER SAVINGS PLAN

DOCKET NOS. W-01656-98-0577 &
 SW-02334-98-0577
 SCHEDULE MDC-1
 PAGE 1 OF 2

LINE NO.	DESCRIPTION	SUN CITY	SUN CITY WEST	REFERENCE
	<u>YR. 2000 RATE BASE</u>			
1	PLANT IN SERVICE	\$37,647,764	29,128,878	2000 ANNUAL REPORT
2	ACCUMULATED DEPRECIATION	(13,054,352)	(5,251,450)	2000 ANNUAL REPORT
3	NET PLANT	24,593,412	23,877,428	LINE 1 + LINE 2
	ADD:			
4	MATERIALS & SUPPLIES	55,084	0	2000 ANNUAL REPORT
	LESS:			
5	ADVANCES	(2,195,311)	(15,130,774)	2000 ANNUAL REPORT
6	CIAC	(1,042,786)	(412,575)	2000 ANNUAL REPORT
7	ITC	(410,525)	(440,506)	2000 ANNUAL REPORT
8	ADIT	(1,794,889)	(228,207)	2000 ANNUAL REPORT
9	TOTAL RATE BASE	19,204,985	7,665,366	SUM LINES 3 TO 8
10	COMBINED RATE BASE	26,870,351		LINE 9 COL. (A) + COL (B)
11	NEW GSP PLANT	14,993,000		PRELIM. ENGINEERING REPORT
12	TOTAL PROFORMA RATE BASE	41,863,351		LINE 10 + LINE 11
13	RATE OF RETURN	8.73%		DECISION NO. 60172
14	REVENUE REQUIREMENT	3,654,671		LINE 12 x LINE 13
15	NET OPERATING INCOME	791,772		NOTE (A)
16	REVENUE DEFICIENCY	2,862,899		LINE 14 - LINE 15
17	REVENUE CONVERSION FACTOR	1.69		
18	REQUIRED INCREASE	4,838,299		LINE 16 x LINE 17
19	YEAR 2000 REVENUE	11,043,129		2000 ANNUAL REPORT
20	PERCENTAGE RATE INCREASE	43.81%		LINE 18/LINE19
	<u>NOTE (A)</u>			
	2000 NET INCOME	628,742	296,064	2000 ANNUAL REPORT
	GSP DEPREC. EXPENSE	(263,110)	(82,734)	DEC. 19, 2000,
	GSP O&M	(65,563)	(21,512)	COMPANY COMMENTS,
	CAP WATER FEES	(423,089)	(239,572)	EXHIBIT D
	INCOME TAXES - NET EFFECT	478,194	208,740	
	GSP REVENUE	155,328	120,284	
	TOTAL PROFORMA NET INCOME	510,502	281,270	
	COMBINED NET INCOME	791,772		

SUN CITY WATER COMPANY & SUN CITY WEST UTILITIES COMPANY
 CALCULATION OF REQUIRED RATE INCREASE
 NO GROUND WATER SAVINGS PLAN

DOCKET NOS. W-01656-98-0577 &
 SW-02334-98-0577
 SCHEDULE MDC-1
 PAGE 2 OF 2

LINE NO.	DESCRIPTION	SUN CITY	SUN CITY WEST	REFERENCE
	<u>YR. 2000 RATE BASE</u>			
1	PLANT IN SERVICE	\$37,647,764	29,128,878	2000 ANNUAL REPORT
2	ACCUMULATED DEPRECIATION	<u>(13,054,352)</u>	<u>(5,251,450)</u>	2000 ANNUAL REPORT
3	NET PLANT	24,593,412	23,877,428	LINE 1 + LINE 2
	ADD:			
4	MATERIALS & SUPPLIES	55,084	0	2000 ANNUAL REPORT
	LESS:			
5	ADVANCES	(2,195,311)	(15,130,774)	2000 ANNUAL REPORT
6	CIAC	(1,042,786)	(412,575)	2000 ANNUAL REPORT
7	ITC	(410,525)	(440,506)	2000 ANNUAL REPORT
8	ADIT	<u>(1,794,889)</u>	<u>(228,207)</u>	2000 ANNUAL REPORT
9	TOTAL RATE BASE	19,204,985	7,665,366	SUM LINES 3 TO 8
10	COMBINED RATE BASE	26,870,351		LINE 9 COL. (A) + COL (B)
11	RATE OF RETURN	<u>8.73%</u>		DECISION NO. 60172
12	REVENUE REQUIREMENT	2,345,782		LINE 10 x LINE 11
13	NET OPERATING INCOME	<u>924,800</u>		2000 ANNUAL REPORT
14	REVENUE DEFICIENCY	1,420,982		LINE 12 - LINE 13
15	REVENUE CONVERSION FACTOR	<u>1.69</u>		
16	REQUIRED INCREASE	2,401,459		LINE 14 x LINE 15
17	YEAR 2000 REVENUE	11,043,129		2000 ANNUAL REPORT
18	PERCENTAGE RATE INCREASE	<u>21.75%</u>		LINE 16/LINE17