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MEMORANDUM
Of Scottsdale House, Inc.

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ARIZONA CORPORATION COMMISSION

120 West Washington
Phoenix, Arizona 85007

2007 MAR 30 P 2: 32

Arizona Corporation Commission
DOCKETED

Attention: Docket Control

AZ CORP COMMISSION
DOCUMENT CONTROL

MAR 30 2007

Docket Nos. W-01303A-05-0405; W-01303A-05-0910

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Dear Commissioners:

Scottsdale house, Inc. (Scottsdale House) a not-for-profit Arizona Corporation, located in the city of Scottsdale, Arizona leases 40 acres of ground on which are located 263 individually owned houses whose owners sublease the ground under their houses from Scottsdale House. This residential community was built in stages a little more than 35 years ago. In addition to leasing the ground, Scottsdale House operates a clubhouse, a restaurant, a heated swimming pool, meeting rooms and an exercise room. Scottsdale house purchases all the water for this residential complex from Arizona American Water Co. (Arizona American Water). During the year period of September 1, 2005 through August 31, 2006 to satisfy the water needs of the 263 residents as well as furnishing water needed for the grounds, the swimming pool, restaurant and other facilities Scottsdale House purchased from Arizona American Water 43,579,000 gallons of water. Included in this gallonage was water used by the 263 residents, the common area, the swimming pool and residential homes, the restaurant the meeting rooms and other facilities. When you divide the total gallonage of water purchased by the number of 263 homes you find that the average use of water by a home was 13,808 gallons. Arizona American Water, when the complex was being built, installed 7 water meters to furnish water for the entire complex. Each month Scottsdale House receives 7 separate invoices for water. The water used by each home is not metered and the cost of the water is part of the monthly maintenance fee charged the homeowners. The monthly maintenance charge for all the services rendered by the sublessor is divided among the homeowners according to the square footage that each residence bears to the total square footage of all the homes.

The September 2006 invoices were the first to contain the High Blockage Surcharge and the charges were almost double the amount charged on the invoices of September 2005. The invoices were the first written notice that anyone in the administration of Scottsdale House had of the High Block Usage Surcharge. A search of the records does not disclose any written notice of the surcharge having been received by Scottsdale House. The management of a residential complex to the west of Scottsdale House, called Casa Del Monte, also claims that they did not receive any notice of the surcharge. When Scottsdale House found out about the high blockage surcharge it immediately contacted the water company. They were told that this high blockage surcharge was not meant for places like

Scottsdale house and that they would look into it and find out if there was some way they could not charge the surcharge to Scottsdale house. Arizona American Water representative contacted Trish Meeter at the Arizona Corporation Commission and told her about the dilemma of Scottsdale house. Scottsdale house was then told that the only relief they could get would be if there would be a request for a rate change and a new hearing.

The seven meters that serve Scottsdale House are located in underground covered vaults and are served by 2 inch water mains. The pipes running from the 7 meters run in a round circuit serving the homes and common areas. Each of the 7 meters serves a different number of homes. The exact location of the water lines to each of the homes is unknown to Arizona American Water and to Scottsdale House. No one has any knowledge or drawings to show where the pipe lines are located that are connected to the homes. Scottsdale House suggested that the main line coming into each of the 7 meters be split and additional meters be installed in each of the seven vaults (6 vaults would require an additional meter and one vault would require the addition of two meters). The pipes coming from the meters would be immediately joined into a single line that would be tied into the existing seven circuits serving the homes and the common area. Arizona American Water agreed that this could be done, thus eliminating the high block surcharge charged to commercial customers whose usage exceeds 400,000 gallons. The cost of this dodge to the surcharge would be costly. Arizona American Water has an installation charge for each 2 inch meter of \$1550.00. The base charge for the 8 meters needed to guarantee that no meter would run over the 400,000 gallons would be \$12,400.00. To connect the lines coming from the meter would be an additional charge from a private plumbing contractor. who would also have to install above ground a back flow valve for each meter installed. For more than three months Scottsdale House has been trying to get the amount that would be charged to connect the meters and install the back flow valves. This is being held up while Arizona American Water is doing the engineering work to see if the same amount of water would flow through the multiple connected meters. The high block surcharge is supposed to be on water usage by a customer. In reality, the surcharge is not on the water usage of the customer, but on the amount of water flowing through a meter.

Scottsdale House urges the Arizona Corporation Commission to have a rehearing on this matter and revoke its Decision 68858 for the following reasons:

The Arizona Corporation Commission states the most compelling reason for a rehearing when it stated in its ORDER Decision No 68303 668858 PUBLIC SAFETY FIRE FLOWS ACCOUNTING ORDER on Exhibit A **"IT IS FURTHER ORDERED That the cost deferral authorization granted herein does not constitute a finding or determination that the deferred cost are reasonable, appropriate or prudent"**. The position of Scottsdale House is that the deferred cost is not reasonable, appropriate or prudent, nor is it equitably applied to all water users who will benefit from the infrastructure improvement. Furthermore, it grants an economic benefit to a monopoly "for profit" corporation that is guaranteed a fair return on all of its capital; investment.

A Scottsdale House monthly water bill (due October 23, 2006) in the amount of \$2,964.00 for water flowing through one of the seven water meters is illustrative of the excessiveness of the surcharge. On this invoice the basic service charge (\$51.00 a month) plus the charge for water used was \$1,477.84. Examining the other charges we find that taxes for the State, City of Scottsdale, Maricopa County and something called Water Use Tax amounted to \$138.85. The water company charged (1) a CAP Surcharge – Non Residential of \$76.05 which is a surcharge that was put on years ago and has never been removed (2) ACC Regulatory Assessment Fee of \$5.55 and (3) a High Block Surcharge of \$1,266.35. The High Block Surcharge on this bill is 91% of the basic bill for water. As a “for profit public utility” with a franchise of being the only supplier in its territory, Arizona American Water, is entitled to a fair return on its investment.

Marylee Diaz Cortez, CPA of the Residential Utility Consumer Office (RUCO), put it very succinctly in her testimony on March 6, 2006 before this Commission when she stated, “As a regulated public utility it is PV Water’s responsibility to provide safe, potable, and reliable water service to the customers within its CC&N, not to fund discretionary infrastructure desired by local governments”. A “for profit” corporation should provide the capital it needs to carry out its responsibilities. When a city or county furnishes water to its residences and needs money for capital improvement it issues municipal bonds, pays interest on the money, and makes the improvements. The cost of the interest is borne by all the taxpayers. Why should only residential high usage water users and commercial high usage water users, who do not have enough meters serving their property, be charged a surcharge to provide capital for infrastructure improvements that supposedly benefits all water users?

The hotels who are now paying the surcharge, point out in their arguments that they are paying a surcharge and yet the developers of the two new hotels to be built in Paradise Valley will not be in business while this surcharge is in effect. These two new developments will be served by the new infrastructure for years to come without paying any surcharge. This surcharge treats present water users and future water users unfairly and unjustly. No private unregulated business can call on its customers to furnish money for the operation of its business. Businesses use loans when they need capital for improvements. Arizona American Water, if it needs capital, should use the ordinary and usual sources for financing, not selected customers to fund improvements. It is not equitable to put the burden on just certain present users to furnish money to provide infrastructure that will benefit all the users of water in the franchised territory.

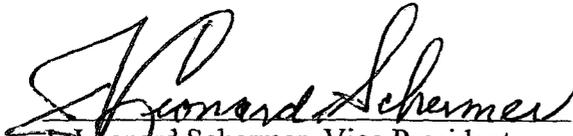
The surcharge on the bill used as an illustration above is 91% of the basic billing for water and basic service program. Arizona American Water stated in its Exhibit S-9 in the docket number W-01303A-05-0405 that, **“The surcharges will have no effect on the median (11,500 gallons) or average (22,193 gallons) residential bills since the surcharge for the 2nd Tier residential starts at 25,000 gallons. Thus the median and average residential users will not be impacted.”** This statement is false as witnessed by the fact that Scottsdale House is rated commercial with seven meters serving 263

homes which use an average of 13,808 gallons per home including the water used by the restaurant, swimming pool and other common use facilities. The present surcharge is not equitably applied. Paradise Valley who requested this surcharge has a limit one acre lots and the surcharge only applies to usage over 40,000 gallons per one acre. Scottsdale House has a density of homes of 15.2 per acre and yet it is paying surcharges.

The installation of additional meters to circumvent the payment of the surcharge is an illustration of the unreasonable way the surcharge has been applied. The surcharge is not on volume usage of a customer be it residential or commercial but on amount of water that flows through a single meter.

For the above reasons Scottsdale House urges the Arizona Corporation to reconsider its order in Decision 68303

Respectfully Submitted
Scottsdale House, Inc


J. Leonard Schermer, Vice President

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