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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS PARADISE VALLEY WATER DISTRICT.

DOCKET NO. W-01303A-05-0405

DOCKET NO. W-01303A-05-0910

THE TOWN OF PARADISE VALLEY'S SUBMISSION OF ITS DIRECT TESTIMONY

Arizona Corporation Commission

DOCKETED

MAR 31 2008

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR THE APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB

Pursuant to the Order dated March 14, 2008, the Town of Paradise Valley ("Town") hereby submits its direct testimony of Councilperson Mary Hamway on the Attached Exhibit A.

RESPECTFULLY SUBMITTED this 28th day of March, 2008.

SCHMITT, SCHNECK, SMYTH & HERROD, P.C.

Handwritten signature of Timothy J. Casey
Timothy J. Casey
Attorney for the Town of Paradise Valley

ORIGINAL and 13 copies filed this 28th day of March, 2008, with:

Docket Control
ARIZONA CORPORATION COMMISSION

1 1200 West Washington Street  
Phoenix, Arizona 85004

2 COPIES of the foregoing mailed and emailed  
3 this 4th day of March, 2008, to:

4 Teena Wolf  
5 Chief Administrative Law Judge  
6 Hearing Division  
7 ARIZONA CORPORATION COMMISSION  
8 1200 West Washington Street  
9 Phoenix, Arizona 85004

10 Maureen Scott  
11 Legal Division  
12 ARIZONA CORPORATION COMMISSION  
13 1200 West Washington Street  
14 Phoenix, Arizona 85004

15 COPIES of the foregoing emailed and mailed  
16 this 4th day of March, 2008, to:

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1 In addition, the Town has learned over the past eighteen months some of the  
2 factors that are taken into consideration when rate designs are prepared and can  
3 now better appreciate and respect the complexities of the decisions the  
4 Commission must make. The Town also now better understands its proper role in  
5 rate cases, and further understands that its residents and resorts expect the Town to  
6 be active participants in future rate cases.

7 **Q. WHAT ROLE DID THE TOWN PLAY IN THE RATE DESIGN**  
8 **PROPOSAL SUBMITTED BY THE TOWN MANAGER ON JANUARY 15,**  
9 **2008 (THE "PROPOSAL")?**

10 A. Shortly after the first Surcharge was implemented, Town officials received  
11 comments from frustrated and angry residents who were shocked by the impact of  
12 the first Surcharge and wanted to know what actions could be taken by the Town  
13 in response to their water bill increases. Similarly, the resorts in the Paradise  
14 Valley Service Area had concerns that the new rate structure in Decision No.  
15 68858 did not take into account the significant economic impact on their  
16 commercial properties. Hearing these concerns repeated over many months, the  
17 Town brought the resorts and the residents together and served mainly as a  
18 facilitator between the parties in helping develop a consensus plan, and eventually,  
19 the Proposal.

20 **Q. WHAT IS THE TOWN PROPOSING AS ITS MODEST INTERIM**  
21 **RELIEF?**

22 A. The Proposal rectifies in part: 1) the unintended consequences of placing the  
23 resorts within the Town at a competitive disadvantage when compared to resorts  
24 that are not within the Arizona American Paradise Valley Service Area; and 2) the  
25 significant and unexpected rate increases incurred Town residential users. The  
26 Proposal still retains significant surcharge amounts on the residential and  
27 commercial customers within the Town (thus encouraging conservation by those  
28 who desire to see their monthly bills lower), but spreads out the repayment  
schedule. One advantage of the rate methodology in the Proposal is that spreading

1 out part of the repayment schedule provides a mechanism for ensuring that future  
2 beneficiaries of the fire flow improvements, both residential and commercial, will  
3 also pay for the improvements that provide an incentive for these beneficiaries to  
4 design and implement low water use systems.

5 **Q. WHY DOES THE TOWN BELIEVE THAT A RATE RESTRUCTURING**  
6 **FOR RESORTS IS NECESSARY?**

7 **A.** A review of the water charges incurred by Paradise Valley resorts under Decision  
8 No. 68858 compared to the water charges of Phoenix and Scottsdale resorts  
9 allowed Town officials to conclude that resorts within the Paradise Valley Water  
10 District are paying significantly more for their water than their nearby  
11 competitors. Therefore, the Paradise Valley resorts must increase their room rates  
12 significantly to pay for their significantly increased water bills, which places them  
13 at a significant competitive financial disadvantage. Competitive disadvantages to  
14 resorts within the Town have a direct and substantial impact on the Town.

15 The operational success of the resorts within the Town is an essential element of  
16 the Town's economic viability and sustainability. The Town relies heavily on the  
17 bed and sales taxes paid by its resorts. These taxes provide approximately 40  
18 percent of the Town's total revenues. Without such revenues from the resorts  
19 continuing, the Town will face revenue shortfalls and economic difficulties, which  
20 would then force the Town to reduce its services to its residents or to create new  
21 revenue sources. As a consequence, economic and competitive disadvantages  
22 experienced by the resorts within the Town have a direct economic impact not  
23 only on the Town's resorts, but also on the Town and its residents. Additionally,  
24 while the Town believes rate restructuring is necessary for the vitality of its  
25 resorts, the Proposal does balance rate increases equally and equitably between the  
26 Town's resorts and the Town's residents.

1 Q. **IS THE TOWN AWARE THAT ITS JANUARY 15, 2008 CONSENSUS**  
2 **PROPOSAL PROVIDES FOR A SLIGHT REDUCTION IN THE RATES**  
3 **PAID BY THE "HIGH BLOCK" RESIDENTIAL CUSTOMERS?**

4 A. Yes. The relief provided under the Proposal is fair under the circumstances  
5 because the "high block" non-commercial residents in Paradise Valley perceive,  
6 rightly or wrongly, that the "high block" rate increase was implemented without  
7 sufficient notice and inequitably requires only the "high block" users (consisting  
8 of only 20% of the Paradise Valley customer base) to pay for the bulk of the fire-  
9 flow improvements, while all the Paradise Valley Service Area customers benefit  
10 from the fire flow improvements.

11 Q. **WHAT ROLE DO YOU SEE THE TOWN PLAYING IN REGARDS TO**  
12 **THE WATER CONSUMPTION ISSUE?**

13 A. For meaningful water conservation to occur, the Town submits that education and  
14 incentives are necessary to promote personal responsibility in water consumption.  
15 Interim relief in the form of the Proposal will allow the Town further time to  
16 review, discuss, and implement meaningful water conservation measures intended  
17 to strongly encourage "high block" residential customers to conserve water.  
18 These potential measures can include such items as providing various incentive  
19 measures for increased water conservation, decreased water consumption, and/or  
20 the introduction of rebates for the removal of turf lawns and the installation of  
21 native Sonoran vegetation similar to the rebate program offered by the City of  
22 Scottsdale.

23 *I DECLARE UNDER PENALTY OF PERJURY, PURSUANT TO RULE 80(i),*  
24 *ARIZONA RULES OF CIVIL PROCEDURE, THAT THE FOREGOING IS TRUE*  
25 *AND CORRECT TO THE BEST OF MY KNOWLEDGE. EXECUTED ON*  
26 *MARCH 28, 2008*

27   
28 MARY HAMWAY