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March 12, 2009

Chairman Kristin K. May  
Commissioners Paul Newman, Gary Pierce, Sandra Kennedy, Bob Stump  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

2009 MAR 18 P 2: 35

Re. Docket W-01303A-08-0227

AZ CORP COMMISSION  
DOCKET CONTROL

5W-01303A-08-0227

Dear Chairman and Commissioners:

We are 1314 Scottsdale homeowners supplied by the Arizona American Water Company (AAW) in the Paradise Valley Water District (PVWD). We very much appreciate your time and willingness to consider our input to the above referenced rate case. We stand ready to respond to any questions you may have of our group either orally or written.

Our basic premise is that we Scottsdale AAW customers have not been treated equitably within the PVWD supply area. We are the minority customer base representing approximately 1,420 of the total 4,883 meters or just under 30% of the total serviced accounts within the PVWD. Moreover, the Town of Paradise Valley (PV) has never asked us, Scottsdale residents, for our point of view on any issue raised by either the AAW or the Town. The Town has exerted influence and pressure on AAW to provide their residents with the most advantageous services and rates. We are requesting that the ACC carefully consider our input to the current rate increase request by the AAW and to insure that we, Scottsdale residents are treated fairly and equitably.

Supporting points:

1. High Block Charge: One good example of the inequity that exists is the High Block Charge that we understand will go away following approval of the current rate increase request. This charge was to provide money to offset the costs associated with the PV requested "Fire flow" project. This charge resulted in Scottsdale customers paying a portion of the costs that primarily benefited PV residents. In fact, this project resulted in higher water pressure for Scottsdale residents than the previous excessive pressure; pressure went from approximately 130 PSI to 150 PSI.

2. Excessive Water Pressure: One of our involved communities has stated that all 55 homes in their community have experienced interior flooding caused by excess pressure. Irrigation systems in all 13 of our HOA's have been and continue to be an expensive repair problem due to excessive pressure blowing pipes and heads. Virtually no consideration has been afforded to Scottsdale residents by AAW or PV. We have addressed this problem directly with AAW with little help or consideration. One solution we suggested was to install large pressure reducing valves before water enters the communities of 7600 Lincoln, Lincoln Place and Casabella; these three HOA's are neighbors. AAW came back to us and stated that the suggestion was workable for the cost of approximately

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\$900 per home owner; no help excepting supervision by AAW would have been provided for completion of this project.

3. Pricing Tiers: Another example of inequity is the AAW original rate increase proposal to increase the number of rate tiers from 3 to 5. PV objected to this proposal and AAW modified their request back to three tier pricing. We Scottsdale residents, however, feel that the move to 7 tiers on our proposal is of benefit to better reflect rates based on consumption volume and encourage conservation which we know is a concern to the ACC. We have attached (Attachment I) our proposal for consideration by both the ACC and AAW. This proposal provides better equity treatment of residents of both Scottsdale and PV.

4. Rate Consolidation Plan: The proposed consolidation of Water Districts including Anthem, Tubac, Havasu, Agua Fria, Sun City, Paradise Valley and Mohave would further erode equity between and within all the proposed districts. Water service areas investments and costs of the Cities of Phoenix and Scottsdale, for example, are not shared. The water districts above should continue as separate entities to insure equitable rates for all parties.

5. Arsenic removal investment costs recapture: AAW has requested to include their arsenic investment costs into the standard rate. We urge the ACC to insure that actual investment costs are depreciated over at least forty years. This is a standard depreciation period for these types of investments.

Chairman Mayes and Commissioners, we truly appreciate your careful consideration of this input.

<u>HOA</u>	<u># Homes</u>	<u>Representative</u>	<u>Signature</u>
7600 Lincoln	113	Richard Alt	<i>Richard Alt</i>
Lincoln Place	56	Judy Zuber	<i>Judy Zuber</i>
Casabella	63	Glenn Smith	<i>Glenn Smith</i>
Woodleaf	20	Linda Messenger	<i>Linda L. Messenger</i>
Las Villas	55	Scott Robertson	<i>Scott Robertson</i>
Privado Village	57	John Olson	<i>John Olson</i>
Scottsdale House	263	Martin Sullivan	<i>Approved but need full board approval</i>
Briarwood IV	72	Tom Ambrose	<i>Tom Ambrose</i>
Briarwood V	36	Thomas Rutilla	<i>Thomas Rutilla</i>
Sands North	51	Mel Harris	<i>Mel Harris</i>
Camelback House	296	Steve Zabel	<i>Steve Zabel</i>
Casa del Monte	193	Nancy Fagan	<i>Approved - absolutely need full board approval</i>
Scottsdale North	39	Pat Carleton	<i>Pat Carleton</i>

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Attachment I

Scottsdale Homeowners' Analysis and Proposed Tiered Water Rates  
In the Matter of Arizona American Water Rate Case  
Docket Number W-01303A-08-0227

March 2009

Tiered water rates are a fixture in the industry – whether municipal or commercially operated. In the current rate case, Arizona American Water Co. (AAW) – Paradise Valley, the tiers proposed have been and remain at issue. AAW originally proposed five tiers to replace the existing three. Although we understand AAW withdrew this proposal, it remains an issue as RUCO has recommended a structure similar to that of AAW.

The AAW and now RUCO proposal appear to be imposing extraordinary burdens on a preponderance of users because the vast majority may be described as small users. Although it has been reported that a family of two consumes about 7,000 gallons per month (GPM) the proposed new tier ending at 4,000 GPM could place the family of two in two tiers and automatically increased their bill (water only) by 34% even using the existing rate structure. Worse, a consumer at the existing margin of 25K GPM would have found themselves using only 4K GPM at the old rate and the remaining 21K GPM in two higher tiers thus increasing their bill by over 72%. The Scottsdale consumers are impacted even more than the average because over 80% of existing 1<sup>st</sup> Tier users reside in Scottsdale<sup>i</sup>. It should be noted also that 28.8% of all user bills (Scottsdale and Paradise Valley) are between 1,000 and 6,000 GPM. At the other extreme, over 96% of 3<sup>rd</sup> Tier users are in Paradise Valley<sup>ii</sup>. These extremes are obvious concerns in the context of general rate increases.

In the following paragraphs and accompanying graphics, we will attempt to demonstrate a more reasonable tier structure. We believe more tiers to be demonstrably more logical and better able to accomplish the dual objectives of allowing AAW to sustain itself through reasonable return on investment and at the same time encourage consumers to be judicious in their use of water by providing incentives in the form of attainable lower rate tiers.

The basic foundation of our proposal is to divide the customer base into quintiles with important variations: The two lower quintiles are further divided approximately in half. The division of the customer base flows from the cumulative usage as found in the Exhibit, Schedule H-5 P1M1a.6.25" (Witness: Gutowski) of the Arizona Corporation/Arizona American Water Co. 2009 rate case. A summary comparison is shown below in Table 1. Table 2 presents the current three-tier breakdown.

**Table 1**

<u>Tiers</u>	<u>Consumption range</u>	<u>Notes</u>
One	Zero to 10,000	One
Two	10,001 to 17,000	Two
Three	17,001 to 25,000	Three
Four	25,001 to 33,000	Four
Five	33,001 to 52,000	Five
Six	52,001 to 85,000	Six
Seven	> 85,000	Seven

Note One: Tier One is the approximate median number of bills based on cumulative customer bills.

Note Two: Tier Two is approximately the breakpoint between the first and second quintiles of customers based on the cumulative consumption.

Note Three: Tier Three is approximately the mid-point of the second quintile of customer consumption and is also the top of the current AAW Tier One.

Note Four: Tier Four is approximately the top of the second quintile based on customer consumption.

Note Five: Tier Five is approximately the top of the third quintile based on customer consumption.

Coincidentally, the existing Tier Two ends at 55,000 GPM compared to our proposed 52,000.

Note Six: Tier Six is approximately the top of the fourth quintile based on customer consumption.

Note Seven: Tier Seven is all remaining customers.

**Table 2**

<u>Current Tiers</u>	<u>Consumption Range</u>
One	Zero to 25,000
Two	25,001 to 55,000
Three	> 55,000

Table three below shows the proportion of bills and usage for each proposed new billing tier. While over 43 percent of the bills are for the proposed tier one it is striking that only about ten percent of the water is used by these customers.

**Table 3**

<u>Tiers</u>	<u>Consumption range</u>	<u>Cumulative Bills</u>	<u>Cumulative Usage</u>
One	Zero to 10,000	43.29%	9.98%
Two	10,001 to 17,000	60.22%	20.29%
Three	17,001 to 25,000	71.91%	31.38%
Four	25,001 to 33,000	79.42%	41.23%
Five	33,001 to 52,000	89.60%	61.28%
Six	52,001 to 85,000	96.40%	80.29%
Seven	> 85,000	100.00%	100.00%

Finally, we believe the disproportionality between the large number of users at the low and the high water usage at the high end provides a foundation for examining a rate reduction for proposed tier one – even a small one to be offset by higher rates for high water users. Further, proposed tier two should experience a minimal, if any increase – again to be offset at the high end where eighty percent of the water is used by less than forty percent of the customers

<sup>i</sup> Information Provided by AAW.

<sup>ii</sup> Information Provided by AAW.