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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY, INC., AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE OF ITS  
UTILITY PLANT AND PROPERTY AND FOR  
INCREASES IN ITS RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02113A-07-0551

**REPLY BRIEF OF PACIFIC LIFE INSURANCE COMPANY**

1 Pacific Life Insurance Company ("Pacific Life") hereby submits its reply brief in the  
2 above-captioned matter. Pacific Life is the owner of the Eagle Mountain Golf Club, an irrigation  
3 customer of Chaparral City Water Company, Inc. ("Utility"), the applicant in this case.

4 In its initial brief, Pacific Life discussed four reasons why the proposed mammoth  
5 irrigation rate increase should be rejected:

- 6 1. The irrigation rate increase was not properly noticed.
- 7 2. The rate shift could devastate golf course and residential users.
- 8 3. The Commission previously considered and rejected a similar rate shift.
- 9 4. No cost-of-service study supports the rate shift.

10 In its reply brief, Pacific Life responds to Utility's brief, filed January 28, 2009 (Utility's  
11 Brief").<sup>1</sup>

12 **I. WITHOUT A COST-OF-SERVICE STUDY, IT IS MEANINGLESS TO**  
13 **COMPARE COMMODITY RATES FOR IRRIGATION AND RESIDENTIAL**  
14 **CUSTOMERS**

<sup>1</sup> In their briefs, Staff does not provide any reasons for disproportionately increasing irrigation rates and RUCO does not discuss irrigation rates. Therefore, Pacific Life will limit its reply to statements made in Utility's Brief.

1 Utility states: "Presently, the irrigation and construction customer class have the lowest  
2 commodity charge - in fact, lower than the first tier of the 3/4-inch metered residential  
3 customers."<sup>2</sup> This statement is meaningless, because we do not know what it costs to serve  
4 irrigation customers compared to residential customers or any other class of customers. If it  
5 costs less to serve irrigation customers than residential customers, then the irrigation rate should  
6 be lower than the residential rates. However, we cannot determine what it costs to serve any  
7 class of customers, because Utility has not provided a cost-of-service study that would allow the  
8 Commission to make this determination.

9 The Commission does not set rates based on comparisons of rates between customer  
10 classes. Rather, rates for classes of customers are based on the cost to serve that customer class.  
11 The theory behind a cost-of-service study is that each customer class should pay the cost of  
12 serving the class and rates should be developed on equal rates of return, rather than equal rates,  
13 for each class. Without a cost-of-service study, there is no evidentiary basis to increase rates for  
14 one class of customers any more than for another class.

15 **II. A MASSIVE RATE INCREASE FOR IRRIGATION CUSTOMERS WILL NOT**  
16 **PROMOTE CONSERVATION**

17 Utility baldly states: "From a water conservation standpoint, customers using potable  
18 water for irrigating turf and landscaping should be charged more."<sup>3</sup> However, the evidence in this  
19 case is that irrigation customers have already been very successful in conserving water. In fact,  
20 Utility admits: "The parties agree that test year revenues must be adjusted to account for the  
21 reduction in water use by the Company's golf course customers."<sup>4</sup> Obviously, the golf courses  
22 are already successfully conserving their consumption of irrigation water. There is no evidence  
23 that further conservation is needed, or even wise. Yet, while Utility is struggling to deal with

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<sup>2</sup> Utility's Brief at 25:10-12.

<sup>3</sup> *Id.* at 25:12-14.

<sup>4</sup> *Id.* at 25:6-7.

1 major water-use reductions by the golf courses, it is advocating a huge rate increase for these  
2 same customers that will further discourage consumption.

3 Conservation is designed to discourage water waste. It is not designed to throttle water  
4 use that is absolutely needed to remain in business during difficult economic times. Mr. Watkins  
5 discussed the disastrous consequences of a massive rate increase for the golf courses:

6 [T]he golf courses are taking the biggest burden for this increase. And if the golf  
7 courses lose revenue, the value of our properties decrease, you know, so if you  
8 look at the income and value of our property, we can lose from, you know, a  
9 million dollars to half a million dollars just on the value of our property. ... If  
10 the proposed rate is approved, it is likely the golf course conditions will suffer and  
11 force lower quality standards for the community so less people are coming out to  
12 play golf on the golf course. Also the value of the property decreases on the  
13 homes around the golf course.<sup>5</sup>

14 Conservation does not justify a huge rate increase that would devastate irrigation customers.  
15 Utility's proposal would dry-up the golf courses, both literally and as going concerns.

16 **III. Conclusion**

17 Utility has not provided a cost-of-service study that would allow the Commission to  
18 evaluate what it costs Utility to serve any class of customers. Without a cost-of-service study,  
19 there is no evidentiary basis to increase rates for one class of customers any more than for  
20 another class.

21 The evidence in this case is that irrigation customers have already been very successful in  
22 conserving water. There is no evidence that further conservation is needed, or even wise. Yet,  
23 in the name of conservation, Utility would dry-up the golf courses, both literally and as going  
24 concerns.

25 Pacific Life urges the Commission to reject any rate-design for irrigation customers that  
26 would depart from that approved by the Commission in Decision No. 68176.

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<sup>5</sup> Tr. 19:13 – 20:20 (Emphasis added).



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