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Docket No. W-01303A-08-0227

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, 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 AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, 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 MOHAVE WASTEWATER DISTRICT

Docket No. SW-01303A-08-0227

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CLOSING BRIEF

by

Marshall Magruder

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400 W CONGRESS STE 218 TUCSON AZ 85701

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Respectfully submitted on this 1st day of May 2009,

MARSHALL MAGRUDER

By

Marshall Magruder
PO Box 1267
Tubac, Arizona 85646-1267
(520) 398-8587
marshall@magruder.org

Closing Brief by Marshall Magruder
Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227
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Marshall Magruder

1 May 2009

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CLOSING BRIEF

by

MARSHALL MAGRUDER

1 May 2009

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ACC Docket No. W-01303A-08-0227

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1 **Section 1 – SUMMARY OF THE CASE**

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3 **1.1 Summary of the Case.**

4 This summary provides an overview for each issue presented in pre-filed and oral
5 testimony in this case. Four Issues have continued throughout this case, namely:

- 6 a. **Issue 1 – Conservation as a Significant Driver for Water Volumetric rates.** This concerns
7 using realistic price signals in the rate structure design to encourage water conservation.
8 Using lowest rates for the lowest consuming users and highest rates for highest consuming
9 users with multiple price signals to make obvious higher usage has higher costs. The price
10 signals, at break points between rate blocks, must spread across the high usage part of the
11 consumption curve, with ten or more to make obvious these price change points.
- 12 b. **Issue 2 – Capital Expenses for the Tubac Arsenic Removal Facility.** This issue concerns
13 the high cost of this facility and ways to reduce such costs. The Company's cost estimates
14 appear higher than reasonable comparisons with another comparable facility. Other funding
15 sources are being pursued. The point of use approach is less expensive and is a viable
16 option, especially since one is a single purpose facility compared to versatility for the range of
17 potential pharmaceuticals, toxic minerals and other pollutants found in the local water.
- 18 c. **Issue 3 – Rate Consolidation for All Arizona-American Water Districts.** All customers
19 receive the same product, that is water, but at significant differences in Service Charges,
20 Rates and Rate structures, various fees and charges, and Rules and Regulations. The
21 continuation of the present rate design process is discriminatory, not fair or reasonable.
22 Consolidation is a goal the Company and all parties agree, but it is the implementation details
23 are where differences occur. A solution was presented to start implementation as part of this
24 rate case.
- 25 d. **Issue 4 – Removal of some Rate Case Expenses.** This is a minor rate case cost issue.

26 **1.2 Organization of this Brief.**

27 Each issue is summarized, the evidence presented, followed by conclusions and
28 recommendations for consideration. The Table of Contents is inclusive for prior pre-filed
29 testimonies for ease in locating information. Exhibits (Ex-xx) are located after Section 5 that
30 include selected excerpts from prefiled and evidentiary exhibits and testimonies.

31
32 **1.3 Limitations in this Brief.**

33 References contained herein, are primarily to documents presented during the Evidentiary
34 Hearings. Due of cost considerations and ready availability to the Transcripts, references to any
35 Transcripts cannot be made.

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Section 2

ISSUE NO. 1

CONSERVATION AS A SIGNIFICANT DRIVER OF WATER VOLUMETRIC RATES

2.1 Summary of Issue No. 1.

As is obvious throughout Arizona, there is a serious long-term water shortage. Population growth cannot be sustained at the present water consumption rates, especially for ground water. Conservation of this limited natural resource is critical and all trends point to more water problems in future years, well beyond the scale of those now facing this state. Any resultant rate structure design must demonstrate that the Company will receive its fair and reasonable revenue, determined also during this rate case, so that resultant rate design is no more than a way to distribute costs to customers so the company can earn its pre-determined revenue. Rate structure design, in fact, must be revenue-neutral for the Company.

The Company provides valuable water conservation education in many forms of aids to assist ratepayers make a behavioral decision to use less water;¹ however, an important additional factor is poorly addressed. This involves use of obvious "price" signals so ratepayers can actually make behavior changes required to reduce their water demands.

Our future is bleak if water consumption remains at the present rate for everyone in Arizona. If a 100-year assured water supply cannot be "assured",² my county must restrict construction of future subdivisions, require "dry lots" and/or truck water to homes as a solution.³

As presented, a rate structure that has frequent price changes provides an opportunity for customers to visualize "price signals". A ten-tier inverse rate block structure I proposed, with price-breaks at 4,000-gallon intervals for residential and commercial customers (5/8 & 3/4-inch) and the smallest commercial enterprises. This type of stair-stepped, increasing rate process is necessary for every rate category, including commercial rate categories.⁴ Other water companies nearby with water shortages have significantly higher rates⁵ than Arizona-American.

29 ¹ Exhibit M-4, Magruder Direct Testimony – Cost of Service and Rate Design, 13 at 23 to 14 at 5. [Ex. 2]

30 ² Exhibit M-3, Magruder Direct Testimony – Issues, 8 at 19 to 9 at 16. [Ex. 1]

31 ³ *Ibid.* 26-29, "2005 Santa Cruz County Comprehensive Plan – Water Resources Element" [Ex-1]

32 ⁴ *Ibid.* 9 at 17 to 10 at 27. [Ex. 1]

33 ⁵ *Ibid.* 10, Table 1, "Rate Comparison of Monthly 3/4-inch Residential Rates at Various Volume Levels for AAWC - Tubac Water District and ASPOA, Basic Service Charge and Arsenic Cost Recovery Surcharges (ACRS) and Table 2 "Total Monthly Bill Comparisons between 3/4-inch Residential Rates for AAWC - [Tubac] Water District and ASPOA [from Exhibit MM-2]" and Exhibit MM-2, 25, "Rate Comparisons at Various Volume Levels: American-Arizona Water versus Aliso Springs Property Owners Association [ASPOA]. ASPOA rates are \$20.00/1,000 gallons when consuming 15,000 gallons compared to my proposal with a maximum of \$6.00/1,000 gallons for consumption above 36,001 gallons. [Ex. 1]

1 The principle used by this party is that customers who use the least amount of water should
2 pay the lowest rates and conversely for the highest consuming customers, the highest rates.

3 A significant difference between these extremes is a very important feature, to show the
4 strength of price to influence consumption. Actual rate tables are provided; however, when
5 consolidation (see Issue No. 3) is considered, use of the ten or more rate tier structure can
6 important impacts on *fairness and reasonableness*. (See Section 4, Issue No. 3)

7 Further, this Company has no "low income" rates. In general, those with the least income
8 usually do not have expansive lawns, swimming pools or putting greens. In fact, they use the
9 minimal amount of water they can afford. Thus, this lowest rate tiers, with the lowest rates, also
10 provides a "low income" measure without all the administrative expenses in establishment and
11 operational cost.

12 No other Party presented a rate structure with significant differences between the lowest to
13 highest rate differences; however, the ACC Staff Alternative Rate Design for Tubac⁶ testimony
14 was closest to this party's proposal. None proposed more than two tiers for commercial
15 customers, which means this one break point is ignored as a price signal.

16 2.2 Evidence Presented on Issue No. 1.

17 This issue consists of two parts, the Service Charge and the Consumption (volumetric)
18 rates. Both are discussed below. The Service Charge should be the overall infrastructure fixed
19 costs to customers and with the volumetric rates based on water consumed. The combination of
20 these two must provide the revenue required so the Company receives a fair rate of return on its
21 investment after covering all its expenses.

22 Using this approach, my testimonies have concentrated on determining a reasonable
23 Service Charge with multiple tiers in the rate structure with clear, obvious, observable and
24 attainable "price break points" so customers reduce their costs by reducing their consumption.

25 The Tubac Water District is used throughout as an example; however, all resultant
26 conclusions and recommendations are company-wide, and specifically only for the six water
27 districts in this case.

28 2.2.1 In Magruder Direct Testimony - Issues (Exhibit M-3)

29 A comparison between present and proposed costs by the Company was presented for one
30 water district (Tubac) and compared with a nearby water company that does not have an
31 assured water supply (AWS) and where water costs continue to increase to \$20.00 per 1,000
32 gallons. The resultant total customer cost includes the four different cost elements:
33
34

35 ⁶ Exhibit S-16, Staff's Alternative Rate Design, 4-Tier Alternative Schedule MEM-1, 1. [Ex S-16]

- 1 (1) Basic (fixed) Service Charge,
- 2 (2) Monthly water consumption (volumetric) costs at various tiers and rate categories,
- 3 (3) Miscellaneous Fees and Charges, and
- 4 (4) ACRS⁷ Arsenic Basic (fixed) Charge and ACRS volumetric (consumption) charges.⁸

5 These water cost elements were combined, for various water usages with over a 300% total
 6 water bill increase from the present bill of \$ 30.09 to \$94.15 water bill for using 5,000 gallons
 7 and from a \$72.84 to a \$214.00 water bill for customers using 20,000 gallons a month.⁹ Thus, at
 8 both low and high water usage, the rate increased for both usage levels a bit over 300% without
 9 any "price signal" or cost difference to conserve water by the higher water usage customers.

10 When compared to a low water availability water company, we see Arizona-American rates
 11 increase approximately 140% from 5,000 to 20,000 gallons consumed, approximately the same
 12 for the Arizona-American proposed rates, but it is almost 600% for the water availability-
 13 restricted company.¹⁰ Six hundred percent is a significant change and why I have proposed
 14 rates from \$1.50 to \$6.00, a 400% change between lowest and highest rates.¹¹ At least 100%
 15 difference can be used to send price signals between multiple tiers and still be revenue neutral.

16 **2.2.2 Cost of Service Evidence.**

17 **2.2.2.1 In the Magruder Direct Testimony – Cost and Rate Structure [Exhibit M-4].**

18 In general, it is proposed not to significantly increase the Cost of Service, thus using a
 19 rounded off and an easy-to-understand Cost of Service is proposed for all the rate categories
 20 shown in Table 1. Cost of Service is a fixed charge and is not intended to provide customers a
 21 "price signal" to encourage water conservation. The Company, RUCO, and ACC Staff data, as
 22 shown in Table 1 below, have proposed significant increases in this charge. This table has
 23 illustrative data for Tubac with highest Service Charge. My Proposal is for all water districts.
 24
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27
 28 ⁷ ACRS is the ACC-approved Arsenic Cost Recovery Surcharge process that Arizona-American implements
 29 for the various water districts that requires this treatment. These ACRS charges will be decided based on
 30 later filings by the Company; however, the charges herein are based on a Company briefing to the Tubac
 community in December 2008, and as

Arsenic Basic Cost of Service	\$25.98 per residential customer per month
Arsenic Volumetric Rate	\$ 3.14 per 1,000 gallons

31 [Exhibit M-4, 15 at 10-13] [Ex-2]

32 ⁸ Exhibit M-3, 10, Table 1. [Ex-1]

33 ⁹ *Ibid.* Table 2, 10, "Total Monthly Bill Comparisons between 3/4-inch Residential Rates for AAWC Tubac
 34 Water District and ASPOA (from Exhibit MM-2)" and Exhibit M-4, 15, Table 3-6, "Impact of Arsenic
 Charges on Residential Rates". [Ex. 1, Ex. 2]

35 ¹⁰ Exhibit M-3, 10, Table 2. [Ex-1]

¹¹ Exhibit M-3, 11, Tables 3-1 and 3-2. [Ex-2]

Table 1. Proposed Cost of Service Comparisons (Tubac).¹²

Customer Type	Rate Category		Present	Company Initial	Company Final	RUCO Final	ACC Staff Alternative	Staff Final	Magruder Proposal	Number of Customers	
Residential	5/8 & 3/4-in	F1M1A	\$ 19.68	\$32.50	\$ 31.00	\$ 29.53	\$24.00	\$ 32.50	\$25.00	461	
	1-inch	F1M1B	\$ 29.63	\$ 48.93	\$ 46.67	\$ 44.45	\$72.00	\$ 48.63	\$50.00	41	
	2-inch	F1M1D	\$97.49	\$161.00	\$153.57	\$146.27	\$224.00	\$161.00	\$100.00	3	
	3-inch	F1M1E	\$115.65	\$190.99	\$182.17	\$173.52	\$448.00	\$190.99	\$150.00	1	
	Total Residential Customers									489	
Commercial	5/8 & 3/4-in	F2M1A	\$ 19.68	\$ 32.50	\$ 31.00	\$ 29.53	\$24.00	\$ 32.50	\$ 25.00	47	
	1-inch	F2M1B	\$ 29.63	\$ 48.93	\$ 46.67	\$ 44.45	\$72.00	\$ 48.63	\$ 50.00	16	
	1½-in	F2M1C	\$ 59.26	\$ 97.66	\$ 93.35	\$ 89.91	\$140.00	\$ 97.86	\$ 75.00	2	
	2-inch	F2M1D	\$ 97.49	\$161.00	\$153.57	\$146.27	\$224.00	\$161.00	\$ 100.00	10	
	3-inch	F2M1E	\$115.65	\$190.99	\$182.17	\$173.52	\$448.00	\$190.99	\$ 150.00	4	
Total Commercial Customers									78		
Growth	5/8 & 3/4-in	F1M1A	Same at Residential F1M1A								10
Total Customers									549		

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The Tubac data is illustrative of the wide variation that various proposals have set forth in this case. Further, in general, the Cost of Service rate categories should be based only on size of the interconnection, and should be the same for both Residential and Commercial rate types (with the same sized connection). In general, since the amount of water is determined by the size of the infrastructure capabilities to serve a customer, there should be NO differences in Cost of Service for residential or commercial customers with the same-size meter connection.

It is obvious there are significant Cost of Service differences for customer types proposed by the Company, RUCO or ACC Staff.

There are significant variations in proposed Cost of Service for this water district, varying for small residential/commercial (5/8 & 3/4-inch) at \$24.00 (ACC Alternative) to \$32.50 (ACC Final) from the present cost of \$19.68, for increases between 22% and 65%. This pales compared to the increase of cost of service for 3-inch residential/commercial customers that are proposed to increase from \$115.65 to between \$150 (Magruder) and \$448.00 (ACC Alternative), or between 29.7% and 287.3%. For this 3-inch case, only the ACC Alternative exceeds \$191.00; therefore, this significant variation appears to be an anomaly or possibly an error.

2.2.2.2 In the Magruder Surrebuttal Testimony [Exhibit M-5].

There are significant differences in the basic Cost of Service in each water district shown in Table 2. The cost of service presently varies from \$8.75 (Mohave) to \$19.68 (Tubac), a 150% difference for providing the same product, to meet the same standards, using the same

¹² Exhibit M-3, 12, Table 3.3, "Magruder's Proposed Tubac Cost of Service", modified with Final Schedules from the Company, RUCO and ACC Staff. [Ex. 1, Ex. A-39, Ex. R-Final Schedule, Ex. S-16]

1 engineering and operations staffs, and the same administrative personnel. In addition, the
 2 proposed increases vary from \$0.25 for Mohave (ACC Staff) to \$12.82 for Tubac (Company
 3 Final).

4 **Table 2. Basic Service Charges Proposed and Final Rates with Changes for Residential**
 5 **5/8 and 3/4-inch meters (excluding ARCS charges).¹³**

Company Basic Service Present Rate Design ¹⁴						
Agua Fria	Sun City West	Tubac	Havasu	Mohave Water	Paradise Valley ¹⁵	
					5/8-in	3/4-in
\$ 9.08	\$ 5.87	\$ 19.68	\$ 11.78	\$ 8.75	\$ 9.50	\$ 9.83
Company Basic Service Final Rate Design ¹⁶						
+\$ 3.71	+\$ 5.08	+\$ 11.32	+\$ 4.18	+\$ 1.96	3-Tier	5-Tier
\$ 12.79	\$ 10.95	\$ 31.00 ¹⁷	\$ 15.96	\$ 10.71	\$ 25.00	\$ 20.00
+ 40.8%	+ 86.5%	+ 57.5%	+ 35.5%	+ 22.4%	+ 163.1%	+ 109.3%
RUCO Basic Service Final Rate Design ¹⁸						
+\$ 2.56	+\$ 7.94	+\$ 9.85	+\$ 9.93	+\$ 0.99	3-Tier	5-Tier
\$ 11.64	\$ 13.81	\$ 29.53	\$ 21.71	\$ 9.74	\$ 28.51	\$ 29.50
+ 28.2	+ 135.3%	+ 50.1%	84.3%	+ 12.5%	200.0%	200.0%
ACC Staff Basic Service Final Rate Design ¹⁹						
+\$ 3.05	+\$ 9.43	+\$ 8.32	+\$ 6.10	+\$ 0.25	+\$ 16.50	+\$ 16.17
\$ 12.13	\$ 15.30	\$ 28.00	\$ 24.54	\$ 9.10	\$ 27.00	
+ 33.5%	160.7%	42.3%	+ 108.3%	+ 4.0%	+ 184.2%	+ 175.6%
ACC Staff Alternative Rate Design ²⁰						
		4-Tier			3-Tier	5-Tier
		\$ 24.00			\$ 25.00	\$ 20.00
		+ 19.5%			+ 163.1%	+ 109.3%

20 Section 4 that follows will show that consolidating these unstable fixed charges must be
 21 reviewed for consolidation so that long-term significant leveling is accomplished. This will
 22 eliminate the peaks and valleys in the existing Cost of Service charges, and greatly improve the
 23 public relations for the Company after implementation. These cost swings will continue until
 24 consolidation is completed, as all water districts require major capital improvements.

27 ¹³ Exhibit M-5, Table 4-2 at 24, modified with Final Service Charges, omitted consolidated effects (in Section
 28 4), deleted ARCS charges, and added percentage changes from present Service Charges. ARCS
 29 removed from the Service Charge, because it is not part of this rate case and eliminated in the near-term
 for most water districts. [Ex. 3, Ex. A-Final Schedule, Ex. R-Final Schedule, Ex. S-16]

30 ¹⁴ A-Final Schedule, Schedule H-3. [Ex. A-Final Schedule]

31 ¹⁵ Presently, in the Paradise Valley water district there are categories for 5/8- and 3/4-inch customers. The
 32 Final Schedules combined these into one rate category. The combined rate category in Exhibit A-39 has 3-
 Tier and a 5-Tier rate schedules. The percent changes above are for 5/8-inch rate changes for 3-Tier and
 3/4-inch for 5-Tier for the Final Rate Design. [A-Final Schedule, Ex. A-39]

33 ¹⁶ *Ibid.* and Exhibit A-39 for Tubac and Paradise Valley. [Ex. A-Final Schedule, Ex. A-39]

34 ¹⁷ Exhibit A-39 and Final Schedule H-3. [Ex. A-Final Schedule, Ex. A-39]

35 ¹⁸ Exhibit R-6, Schedule RLM-RD1 for each water district, 1 at 1, as updated in RUCO Final Schedule. [R-6,
 Ex. R-Final Schedule]

¹⁹ Exhibit S-13, Millsap Surrebuttal Testimony, Schedule MEM-1, 3 to 17. [Ex. S-16]

²⁰ Exhibit S-16, Alternate Schedule MEM-1. [Ex. S-16]

1 **2.2.3 Volumetric (Consumption) Rates Evidence.**

2 **2.2.3.1 In Magruder Direct Testimony – Cost and Rate Structure (Exhibit M-4)**

3 This Party’s testimony contained an analysis of the proposed consumption rates base on
 4 lowering the rates for low volume water users and raising the rates for high volume water users.
 5 In order to make this effective, one has to make sure the customers can “see” the benefits of
 6 lower cost with lower water consumption. These “price signals” need to be frequent and
 7 attainable or using the inverse rate block structure has no other major purpose.

8 As shown in Table 3, there are major differences in the various residential rate schedules for
 9 this one water district. The same exists for the others but are not illustrated. There is NO
 10 rationale why, a consumer who would use 4,500 gallons would be charged between \$3.00 and
 11 \$4.85/1,000 gallons compared to \$2.85 under the present schedule.

12
 13 **Table 3. Present and Proposed Tubac Residential Rate Commodity Tiers and Rate Schedules²¹ (per 1,000 gallons)**

Commodity Usage Tiers	Magruder's Proposed Rates	Present Rates	AAWC Initial Proposal	AAWC Final Proposal	AAC Staff Final Proposal	ACC Staff Alternative	RUCO Final Proposal
0 to 3,000 gallons	\$1.50	\$ 1.89	\$ 3.78	\$ 3.400	\$ 2.67	\$ 1.90	\$ 3.4341
3,001 to 10,000 gallons							
First 4,000 gallons	\$1.50	\$ 1.89	\$ 3.78	\$ 3.400	\$ 2.67	\$ 3.00	\$ 3.4341
4,001 to 8,000 gallons	\$ 2.00	\$ 2.85	\$ 4.85	\$ 4.800	\$ 4.15		\$ 4.00
8,001 to 12,000 gallons	\$ 2.50						
10,001 to 20,000 gallons							
12,001 to 16,000 gallons	\$ 3.00	\$ 3.41	\$ 4.95	\$ 5.500	\$ 5.25	\$ 6.00	\$ 4.4971
16,001 to 20,000 gallons	\$ 3.50						
20,001 to 24,000 gallons	\$ 4.00						
24,001 to 28,000 gallons	\$ 4.50						
28,001 to 32,000 gallons	\$ 5.00						
36,001 to 40,000 gallons	\$ 5.50						
40,001 gallons and above	\$ 6.00						

24 Numerous price-break points are required for a wide range of consumption. As shown in this
 25 table, ten tiers or rate blocks were proposed for ALL rate categories. All customers, residential
 26 and commercial, should be able to see and be rewarded with lower water usage costs for
 27 conserving water in our state.

28 This party has an initial rate at \$1.50/1,000 gallons, even lower than the Present Rates
 29 (\$1.89/1,000 gallons) for the lowest level of consumption, and increasing in \$0.50 steps to the
 30 highest consumers at \$6.00/1,000 gallons, for a spread of \$4.50 between lowest and highest
 31 consumer's rates. The ACC Staff spreads are \$2.58 (Final) and \$4.10 (Alternative), compared to
 32 \$2.10 for the Company (Final), and only \$1.063 for RUCO (Final).
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1 **2.2.3.2 In Magruder Surrebuttal Testimony (Exhibit M-5).**

2 The six water districts in this case have the following average monthly consumption for
3 residential customers (5/8- & 3/4-inch) shown in Table 4. Also shown are the present, Company
4 initial and final proposed costs for the first 1,000 gallons in the First Tier.

5 Except for ACC Staff's Alternative Rate Design for Tubac, all other water district rates use
6 the first 4,000 gallons for the First Tier.²²

7 Table 4 provides the average water consumption per residential customers (5/8 & 3/4-inch)
8 by water district. In general, Sun City West has the lowest consumption at 6,704 gallons per
9 customer, and increasing approximately 1,000 gallons a month, for Agua Fria, Mohave, Havasu,
10 and finally Tubac at 11,757 gallons per average customer. These are tightly grouped compared
11 to Paradise Valley with an average customer using almost 20,500 gallons per month.

12 There is no correlation between Average Water Consumption and resultant rate schedules.

13 The proposed rates in Table 4 vary from \$0.88 for Mohave (Staff) to \$4.033 for Havasu
14 (Company Final). The proposed Tubac rates vary between \$1.41 (Staff) and \$3.78/1,000
15 gallons (Company Final). There is no logical reason or has any rationale been provided in this
16 case that would lead to such a wide variance.

17 As shown in Magruder Exhibit MM-6,²³ with the progressive tiers, the higher usage rates of
18 \$6.00 (or capped at \$5.00 for largest commercial users due to economics of scale) provide
19 considerably more revenue for the Company than the present revenue from water usage. This
20 "extra" revenue is included in this rate structure to cushion the anticipated impacts from
21 customer conservation measures in providing inadequate revenue for the Company.

22 There is also second Cost of Service charge that is indirectly included in this rate case
23 planned for Tubac to fund an arsenic treatment plant (discussed in Issue 2) with a capital cost of
24 about \$2.3 million. The Basic Cost of Service charge could increase from the present \$19.68 to
25 Company's proposed \$32.50, shown in Table 5. Added to the Company's proposed Arsenic
26 Service Charge of \$25.98, for a proposed Total Cost of Service of \$68.48 per month. It is
27 doubtful if any Cost of Service exceeds \$68.48 in Arizona for residential customers. This
28 proposed total customer cost is 347% higher than the present rate. This is an excessive final bill
29 rate increase, well beyond the customary rate increases usually approved by the Commission.
30 The most fair and reasonable way for all water districts to above new, expensive and necessary
31 capital improvements is through consolidation that will eliminate unintended consequences for
32 the smallest water districts as discussed in detail in Section 4, Issue 3, that follows.

Table 4 – Average Residential Consumption and Initial Cost Proposals for First, 1,000 Gallons.²⁴

Water District	Average Consumer Water Consumption	Proposed Cost per 1000 gallons for First 1,000 Gallons ²⁵						
		Present ²⁶	Company Initial	Company Final	RUCO Final	ACC Staff Alternative	Staff Final ²⁷	Magruder
Sun City West	6,704 gallons	\$ 1.35	\$ 2.880	\$ 2.8734	\$ 2.6929	Same as Staff Final	\$2.75 ²⁸	\$ 1.50
Agua Fria	7,400 gallons	\$ 1.53	\$ 2.926	\$ 2.9260	\$ 2.2697		\$ 1.84	\$ 1.50
Mohave	8,073 gallons	\$ 0.85	\$ 1.471	\$ 1.3190	\$ 1.1944		\$ 0.88	\$ 1.50
Havasú	9,705 gallons	\$ 1.68	\$ 4.033	\$ 3.4390	\$ 2.2741		\$ 2.26	\$ 1.50
Tubac	10,757 gallons	\$ 1.89	\$ 3.400	\$ 3.7800	\$ 3.4341		\$ 1.90 ²⁹	\$ 1.89
Paradise Valley	20,493 gallons	\$ 1.21	\$ 1.223	\$ 1.2130	\$ 1.3119	\$ 1.200 \$1.050 ³⁰	\$ 1.41	\$ 1.50
Total for 6 water districts	63,132 gallons	\$8.51	\$15.9333	\$15.5504	\$13.1771		\$ 11.0400	\$9.00
Average for 6 water districts	10,522 gallons	\$1.4186	\$ 2.6555	\$ 2.5917	\$ 2.6350		\$ 1.8400	\$ 1.5000

Table 5. Sample Tubac Residential Customer Bill Comparing Company and Magruder Total Service Charge including Arsenic Surcharges.³¹

Billing Item	Present	Company Original Proposal		Magruder Proposal			
		Charge	Change	Charge	Change	Change	
Cost of Service	\$19.68	\$32.50	+ \$12.82	+ 62.8%	\$ 25.00	+ \$5.32	+25.4%
Average Usage	\$ 49.46	\$85.44	+ \$35.98	+72.7%	\$ 26.50	- \$22.96	-53.6%
Total Bill	\$ 69.14	\$117.94	+\$48.80	+ 70.6%	\$ 51.50	- \$17.64	-24.5%

Average Water Usage = 11,797 gallons

2.2.4 Miscellaneous Charges and Fees Evidence.

There appears that no standards used for miscellaneous charges and rates, with significant differences between charges for the same service in different water districts.

There are several miscellaneous customer costs that should be included in this rate case, in Table 6 below. It is highly probable that some new water lines will be rather lengthy in rural areas and purchased by the developer or the one requesting new water service.

This party objects to having existing customers funding ANY such developer's expenses. New customers must fund, and not by today's ratepayers, for the actual cost or line extensions and meters. Service Line and Meter Installation Charges must be borne by the new customer.

Table 6. Present, Proposed, and a Standard for Miscellaneous Charges and Fees.³²

Miscellaneous Customer Cost	Company's		Magruder Proposed Charge	Variations in other water districts' charges and fees (present and proposed) ³³
	Present Charge	Proposed Charge		
Establish, Re-establish, Re-connect Fee (Regular hours)	\$ 30.00	\$ 30.00	\$ 30.00	\$ 20 to \$4 0
	\$ 40.00	\$ 40.00	\$ 60.00	\$ 20 to \$ 60
Water Meter Test (if correct)	\$ 10.00	\$ 10.00	\$ 80.00 ³⁴	\$10 to \$81
Meter Re-read (if correct)	\$ 5.00	\$ 5.00	\$ 20.00	\$ 5 to \$25
Move Customer Meter	NA	NA	Actual Cost	NA or Actual Cost
Non-Sufficient Funds Check Charge	\$ 10.00	\$ 10.00	\$ 30.00	\$10 to \$25
Late Fee Charge	1.5%/ month	1.5%/ month	3.0% /month	NA to 1.5%/ month

Table 6. Present, Proposed, and a Standard for Miscellaneous Charges and Fees.³²

Miscellaneous Customer Cost	Company's		Magruder Proposed Charge	Variations in other water districts' charges and fees (present and proposed) ³³
	Present Charge	Proposed Charge		
Deferred Payment Finance Fee	NA	NA	1.5% /month	NA to 1.5% /month
Residential Deposit	2 x average bill			2 x average bill
Non-Residential Deposit	2.5 x average bill			2.5 x average bill
Deposit Required (residential or commercial), Interest on Deposit	In accordance with ACC Rule 14-2-403(B)			
Service Line Charge (Difference based on size of line)	\$130 to \$6,120	\$156 to \$830, Actual	Actual Cost	\$370 to \$1,620 to actual cost
Meter Installation Charge (Difference based on size of line)	\$370 to \$1,630	\$370 to \$1,890, Actual	Actual Cost	\$130 to \$6,130 to actual costs (plus \$120 for AMR)

Meter Test and Re-reading Meter (when correct) need to account for higher vehicle fuel costs, thus each of these was increased. Also increased were the cost for a bounced check for no specific funds (NSF) to \$30.00, a more commonly used fee. The Late Fee charge is raised to a simple 3.0% per month (36.0% APR), the maximum permissible interest rate. The Deferred Payment Financing fee to 1.5% per month (18.0% APR) and is half of the Late Fee charge because to obtain deferred financing the ratepayer has committed to makeup unpaid bills to the Company and with a lower Deferred Payment Financing fee. This could ensure the Company collects its proper fees and charges by discouraging higher costs for non-payment.

2.3 Conclusions.

The Company's Rebuttal, Rejoinder³⁵ and Final³⁶ rates failed to demonstrate any understanding of the importance of sending small price signals as a way to conserve water. Also in Tubac and the other water districts, residential Service Charges have wide variations with additionally wide differences in proposed rates.

The RUCO and ACC Staff rate proposals have weak price signals compared to that proposed by this party. The ACC Staff's Final (Alternative) Rate Structure, 4-Tier, for Tubac is the closest so far to what is necessary to send price signals. The 5-Tier structure proposed for Paradise Valley still has such large water volume differences between steps (up to 60,000 gallons) that inhibit any customer to lower demand more than one step, in order to lower water rate. This would be close to impossible.

The commercial Cost of Service has increases greater than those for residential customers, and some businesses. All commercial and larger residential customers only have ONE price break signal within their rate structures. As was presented in the Public Comments portion of this case, these companies may be economically challenged to pay these increased water bills.

1 Thus, it is even more important to send "price signals" to all customers so they can be seen and
2 have an opportunity to respond.

3 None of the 2-, 3-, 4- or 5-tiered proposals have adequate tiers to send "price signals" to
4 customers. The ten-tier proposal offered is the only one that could begin to accomplish a way to
5 truly conserve water in our desert environment. The ACC Staff's Final (Alternative) Rate
6 Structure, 4-Tier, for Tubac residences is the closest to what is necessary to send price signals.

7 The large number and variation in the fixed Cost of Service charge must be smoothed out,
8 so that the Company can make all prudent capital expenses without causing violent
9 perturbations to its customers. This will lead to a consolidation recommendation in Section
10 4. The miscellaneous rates and fees are all discombobulated as each retains different
11 "traditional" rates and fees left over from prior water companies rates in the past millennium.
12 Also, leading to a consolidation recommendation in Section 4.

13 The Company's Rebuttal had concern that the proposed highest proposed volumetric rate at
14 \$6.00/1,000 gallons was "very expensive." Since then, the ACC Staff Alternative Rate Design
15 now has a peak rate of \$6.00 and the Company's Final Schedule has a \$5.50 peak rate. In the
16 prior rate case, the Company proposed a \$6.0022 peak rate for usage over 20,000 gallons.³⁷

17 Other testimony by the Company witness also supported a "conservation plan" with the first
18 4,000 gallons at 10% less than the proposed 14.3% rate increase, from 5,000 to 10,000 gallons
19 at 5% higher than the proposed 28.3% rate increase, and above 10,000 gallons at 15% higher
20 than the proposed 31% rate increase.³⁸ This steepens the rate curve, which is exactly what this
21 party has proposed.³⁹

22 In summary, the proposed rate structures, other than Staff Alternative and mine, do NOT
23 promote water conservation, in an Active Management Area, where future growth is limited
24 based on the SCAMA requirements to maintain sustainability in water resources as required by
25 the Santa Cruz Comprehensive Plan, Water Resources Element, where "water supplies are
26 protected and conserved."⁴⁰

27 Water conservation is necessary for a **fair and reasonable** rate structure. The evidence
28 presented remains valid that support this issue, as water conservation and sustainment remain
29 both critical State of Arizona and Santa Cruz County objectives. Water conservation is an
30 objective of Arizona-American and the Commission.

31 **2.4 Recommendations.**

32 To have water conservation as a significant driver of the volumetric water rate, the
33 following are recommended:
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1. That the lowest residential rate tiers be credited as a mechanism to provide low-income rates without additional administrative overhead. This should result in defining the first rate tier also as the “low-income” or the survival rate level.
2. That a minimum of ten tiers be used for all residential and commercial rate categories. This will require only an adjustment of “how” the revenue requirements will be distributed to the customer rate categories when higher users pay more, lower user pay less.
3. That all residential and commercial customers, with the same water connection size, have identical Cost of Service and be in the same rate categories that are designed to account for the infrastructure required for service. This should reduce administrative tasks for the Company and make understanding rates easier.
4. That the Commission-determined fair and reasonable company’s revenue will be collected and the resultant consumption structure must be revenue-neutral for the Company.
5. That the billing statements make obvious the rate per tier and where that monthly bill lies in the multi-tier structure. This is how the “price-breaks” can be observed and how much less water consumed is necessary to reach then next lower tier.
6. That the smallest residential and commercial rate tiers (at least the first several) identical. This will be advantageous to small businesses that the Company’s schedules have shown to typically use less water than the comparable residential rate category.
7. That the fixed Cost of Service variations be minimal and leveled out across all rate payers in each rate category. This will also lead to consolidation of all fixed charges, across all water divisions, to equalize this “fixed” cost.

1 **Section 3**

2 **ISSUE No. 2**

3 **CAPITAL EXPENSES FOR THE TUBAC ARSENIC REMOVAL FACILITY**

4
5 **3.1 Summary of Issue No. 2**

6 The Company has proposed a \$2,300,000 Arsenic Treatment Facility in Tubac to reduce
7 Arsenic naturally in this potable water that exceeds the revised EPA minimum requirements.
8 Evidence presented shows the Company is far from the market estimates for this facility. The
9 Santa Cruz Valley Citizens Council (SCVCC), a Santa Cruz Valley non-profit organization, in
10 coordination with the Company, has submitted a request through Congresswoman Giffords for
11 federal "stimulus" assistance for the funding of this expensive \$2.3 million arsenic removal
12 facility for the 532 customers. If a federal grant is provided, the total Arsenic Treatment Facility
13 cost to ratepayer will also decrease; otherwise, all will have to be paid solely by the Company's
14 customers in Tubac.

15 The Company in coordination with the SCVCC has requested requesting federal stimulus
16 assistance through the Arizona Water Infrastructure Facility (WIFA).

17 The Company's Rebuttal stressed the proposed Arsenic Cost Recovery Mechanism
18 approach, which is contrary to rate consolidation (Issue 3), as addressed in prior testimony by
19 this party.
20

21 **3.2 Evidence Presented on Issue No. 2.**

22 **3.2.1 In Magruder Direct Testimony – issues (Exhibit M-3)**

23 The recent quarterly average Arsenic levels have decreased significantly since the one
24 instance above 36 ppb cited in the EPA letter of July 2008. The Company has reported to all its
25 customers, in letters with bills, that the 3rd Qtr 2008 average arsenic reading was 24 ppb and for
26 the 4th Qtr 2008 25 ppb, both below the EPA cut-off of 35 ppb. Later, during oral testimony, the
27 Company stated these were "averages" and that some well readings exceeded 40 ppb. This
28 party has refrained from requesting an arsenic review by the EPA, as suspicions of anomalous
29 readings now seem mute.⁴¹

30 Second, this plant has not had its design presented to local ratepayers, and discussed in
31 terms of its features, benefits, costs, and architectural landscaping needs that might impact the
32 environment. The Company said in December's meeting it would let us know this information.⁴²

33 Third, this construction project has not yet started, and obviously is well outside the "test
34 year" thus, should not be qualified for rate base treatment. The capital cost of this plant is not
35 known and the probability of actual availability of federal or state funds may not be known before

1 this case has been completed. Any agreements with local developers, such as the one who
2 "might contribute approximately \$1 million toward the facility"⁴³ are doubtful according the Mr.
3 Broderick's oral testimony.

4 Fourth, as is now agreed between the Commission and the Company, the Company will use
5 the ACC-approved Arsenic Recovery Cost Mechanism (ARCM) process, and that all costs will be
6 deemed to be prudent before any Arsenic costs can be recovered from ratepayers.

7
8 **3.2.2 In Magruder Direct Testimony – Cost of Service and Rate Design (Exhibit M-4)**

9 For various monthly water usage, Table 7 illustrates impacts of the proposed Arsenic charge
10 on customer rates including both the Arsenic Cost of Service + volume usage charge in the
11 Tubac water district. It should be very obvious why this is of major concern for the 532
12 customers in the Tubac service area.

13 **Table 7. Impact of Arsenic Charges on Residential Bills.⁴⁴**

14

Monthly Usage	Present Bill	AAWC Proposed Rates + Arsenic Treatment Charges (new bill)	Total Percent Change with Arsenic costs included
5,000 gallons	\$ 30.09	\$ 94.15	312.9%
10,000 gallons	\$ 44.34	\$ 134.10	302.4%
15,000 gallons	\$ 58.59	\$ 174.05	297.1%
20,000 gallons	\$ 72.84	\$ 214.00	293.8%

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20 There remains strong support in Tubac for a less costly Point of Use (POU) method of
21 arsenic removal. The Company has yet to provide a convincing Trade-off Study that compares
22 POU versus a "central plant" for this service area. It is reported that 100 residences already
23 have POU reverse osmosis systems installed.

24 Under cross-examination, the Company's POU witness, the Company appears to not have
25 any experiences with POU systems, as he was not conversant with operational details such
26 systems would impact. The POU systems were pointed out to be rather inexpensive, under
27 several hundred dollars, but were usually used for one kitchen faucet. He said that a typical
28 home needed about 300 to 500 gallons of "arsenic-free" water a month because between 95%
29 and 97% of residential water delivered would not be ingested by humans. This party questioned
30 why should ALL of the water have arsenic removed when it is not required for yard watering, car
31 washing, clothes washing or even in swimming pools. He was concerned about the amount of
32 arsenic in water used for brushing teeth and when showering.

33 This party then introduced the Point of Entry (POE) version that would provide arsenic-free
34 water for all internal faucets, usually installed near a hot water tank that is more expensive,
35 between \$1,100 and \$3,000. Such a POE system overcomes the Company's health concerns.

1 The Company would not recommend a POE/POU approach.

2
3 **3.2.3 In Magruder Direct Testimony – issues (Exhibit M-5)**

4 As shown later in Issue 3 (Rate Consolidation), there should never have been any ARCM
5 cases, any additional charges or assessments because they cause perturbations for small and
6 even large entities. All water districts are similar and periodically require major new capital
7 equipment, none of which is inexpensive. When spread across a large company, these
8 asynchronous capital spikes level out. After reviewing Mr. Hebert's testimony,⁴⁵ it is patently
9 unfair and not reasonable to have ever created a discriminatory funding ARCM.⁴⁶

10 **3.3 Conclusions.**

11 The Company provided a weak defense for its opposition to use of reverse osmosis (RO) in
12 POU or POE systems and continues to recommend a single-element arsenic filtration system
13 for its customers. The much wider-range filtration in RO systems is not considered but only the
14 EPA order to remove arsenic. This party is concerned that longer-term water quality issues
15 concerning other toxic, hazardous and harmful chemical and biological contaminants in our
16 water may have higher human safety impacts than just arsenic removal. As I have prepared for
17 these hearings, the significantly greater safety margins for the 300 to 500 gallons of water used
18 a month potentially ingested by humans, has led me to now believe a POU or a POE system will
19 be the long-term solution for water quality. New homes should be plumbed for POE systems. My
20 home was originally plumbed for a POE system over a dozen years ago at almost no additional
21 cost.

22 The costs of any arsenic treatment plant for Tubac remain doubtful with respect to accuracy
23 and validity compared to a similar capacity system next door.

24 The Staff must assess total system capabilities when looking in the future, as the single-
25 purpose capabilities of a dedicated arsenic treatment plant appear obsolete even before starting
26 construction.

27 The potential for federal and/or state grants and/or loans will reduce capital expenses and
28 resultant, under the present unconsolidated rate scheme, severity of the ratepayer's arsenic
29 basic service cost but not the monthly \$3.15/1,000 gallons consumption costs that will remain.
30 As requested by the Company, a possible 300% rate increase would result if the proposed were
31 fully approved. That's beyond reason.

32 As will be discussed in Section 4, the company's ARCM process is discriminatory and
33 should not be considered as "reasonable and fair", and thus discarded for future arsenic plants.
34
35

1 No prudent decisions concerning the Tubac Arsenic Treatment Facility can be made at this
2 time or during this case.⁴⁷

3
4 **3.4 Recommendations.**

5 Concerning the capital costs of an Arsenic Plant for Tubac, the following are recommended.

- 6 1. That no expenses for an Arsenic Treatment Facility for the Tubac Water District be
7 approved in this case.⁴⁸
- 8 2. That implementation of any ACRM stages or costs is not considered in these
9 proceedings but in another when the supporting facts are known and reviewed.⁴⁹
- 10 3. That the Basis for discontinuing ARCM is presented in the Consolidated Rates (Issue 3),
11 as a single capital project, such as this, is neither fair nor reasonable for a small water
12 district.
- 13 4. That consideration for POU and POE systems remain as viable alternatives for future
14 water filtration.
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1 **Section 4**

2 **Issue No. 3**

3 **RATE CONSOLIDATION FOR ALL WATER DISTRICTS**

4
5 **4.1 Summary of Issue No. 3**

6 Upon review of RUCO's comprehensive approach for Cost of Service and commodity
7 rate consolidation based on present rates, prior American Water Company (AWC) witness
8 reports, and Arizona-American's Rebuttal, there is consensus that customers water districts
9 with the highest rates have much more significant rate reductions than the rate increases
10 experienced by those with lower rates. This party supports full rate and fee consolidations
11 including having the Company, RUCO, and ACC Staff submit a single set of Consolidated
12 Rate Schedules, based on the rates being proposed by each.

13 I recommend Consolidated Rates and Fees be implemented NOW for all five water
14 districts and the next Arizona-American rate case all other water districts should be
15 integrated within revised Consolidated Rates and Fees in order to have *fair and reasonable*
16 rates throughout Arizona.

17
18 **4.2 Evidence Presented on Issue No. 3.**

19 **4.2.1 In Magruder Direct Testimony – issues (Exhibit M-3)**

20 There are many consolidation benefits, including reduced administrative costs, fewer "rates"
21 to manage tariff filings, better company management focus on each rate category, equalization
22 of disparities between different water districts, and fewer rate cases with considerable cost
23 savings to the company, ratepayers and shareholders. There are too many different tariffs used
24 by the company to manage effectively. With fewer tariffs, the company will be able to focus on
25 the remaining rate categories to better serve its customers.⁵⁰

26 One-time costs for smaller districts would be absorbed in larger customer district with much
27 less impact than the same one-time cost for a smaller district. There would be one rate case for
28 these six (and eventually eight) water districts instead of six or thirteen cases now. Additional
29 workloads for the Company, RUCO and ACC Staff would be avoided if only one rate case was
30 being filed.⁵¹

31 Due to fundamental differences between water and wastewater districts, it appears
32 reasonable for the latter wastewater districts to be consolidated but separately from the others.⁵²

33 For an example of equalization of disparities between different water divisions, assume the
34 following two water districts, using hypothetical numbers to show effects of consolidation is in
35 Table 8. In this example, consolidating increased the Large District's rate by \$0.48 and reduced

1 the Tubac District rate by \$19.52. Now, is consolidating "fair and reasonable" or not? In my
 2 opinion, is fair and reasonable. In addition to "cost of service" example, the same impacts would
 3 apply for the water volume rates.⁵³

4 **Table 8. Example of Consolidation Impacts for a Large and a Small District.**⁵⁴

Factor	Tubac District (a)		Large District (b)
1. Number of customers	500		20,000
2. Service Charge	\$40.00		\$20.00
3. Monthly Revenue (fixed) (1 x 2)	\$20,000		\$400,000
		Consolidated	
4. Number of Customers (1a + 1b)		20,500	
5. Service Charge (3a + 3b)/(1a + 1b)		\$20.48	
6. Monthly Revenue (fixed) (4 x 5)		\$420,000	

11 In the recent UNS Electric rate case, the Mohave and Santa Cruz County residential and
 12 small commercial rates were finally consolidated after five decades. The smaller Santa Cruz
 13 County saw an 8% reduction in small business rates while Mohave County rates increased about
 14 2% based just on consolidating. This was the only electric company with dissimilar rates for two
 15 different areas in Arizona.⁵⁵

16
 17 **4.2.2 In Magruder Direct Testimony – Cost of Service and Rate Design (Exhibit M-4)**

18 Specific areas that should be consolidated include:

- 19 1. General & Administrative (completed)
- 20 2. Cost of Service and Volumetric Charges so that more tiers be deployed
- 21 3. Arsenic treatment costs
- 22 4. Taxes, including social security and Medicare
- 23 5. Service Line and Meter Installation Charges (change all to "actual cost")
- 24 6. Establish, Re-establish, and re-connect fees during regular and off hours
- 25 7. Water Meter Test (if correct) and Re-read the Meter (that is good)
- 26 8. Miscellaneous Charges and Fees including Non-Sufficient Funds to check charges
 27 and Late fees, Deferred Payment Finance Charge, Residential and Non-
 28 Residential Deposit Interest on Deposits.⁵⁶

29 In addition, the Company's Rules and Regulations (R&Rs), submitted, as a part of this rate
 30 case, should be consolidated. In respond to a Magruder Data Request, these R&Rs have not
 31 been translated into Spanish.⁵⁷

32 **4.2.3 In Magruder Surrebuttal Testimony (Exhibit M-5)**

33 The Company's response to Camelback Inn and Sanctuary's First Set of Data Request
 34 included prior testimonies by Arizona-American witness, Mr. Paul Herbert's that supported rate
 35

1 consolidation.⁵⁸ This is not a single or a selected group of water districts issue. All water
2 districts should be consolidated into a single tariff for all water districts and one single tariff for all
3 sewage water districts throughout the entire Company.⁵⁹

4 In general, all RUCO, ACC Staff and Arizona-American testimonies all support tiered rate
5 structures and rate consolidation. There were no recommendations against consolidation;
6 however, when and the level or degrees of consolidation are where differences lie. These
7 differences will be the ultimate decision on the Rate Consolidation issue, in my opinion, with the
8 most significant impact on ratepayers than any other issue in this Rate Case.⁶⁰

9
10 **4.2.3.1 In Mr. Herbert's Prior Published Works (Exhibit M-5).**

11 First, Mr. Herbert uses "rate equalization" instead of "consolidation" he defined as follows:

12 "Rate equalization or single tariff pricing is the use of the same rates for the same
13 service rendered by a water company regardless of the customer's location."⁶¹

14 Second, Mr. Herbert made very clear the basis for his definition of "rate equalization"
15 (consolidation) as follows:

16 "Rate equalization is based on the long-term rate stability which results from a single
17 tariff, the operating characteristics of the tariff's groups, the equivalence of services
18 offered, the cost of service on a tariff group basis, and the principle of gradualism."

19 Third, Mr. Herbert explained how rate equalization provided long-term stability for several
20 areas, that also defines the situation here including the arsenic and White Tanks issues in
21 Arizona, as follows:

22 "Utility customer rates are dependent on the total expenses and rate base of the
23 utility and the amount of the commodity which the utility sells. Changes in rate base,
24 particularly, as the result of the Safe Drinking Water Act, have significant potential for
25 adversely impacting the rates for certain areas within a utility.

26 "The ability to absorb the cost of such projects over a larger customer base is a
27 compelling argument in support of rate equalization. Capital programs will never be
28 uniform in the several operating areas, even over periods of 5 to 10 years. The cost of
specific programs should be shared by all customers rather than burdening those of the
affected areas. Rate increases will be more stable and major increases in specific tariff
groups will be avoided."⁶² [Underlined for emphasis]

29 The impacts that Mr. Herbert's approach would have on this case include:

- 30 • Consolidate all capital and other costs into one account, shared equally using one set of
31 rate categories for all customers.
32 • This would "equalize" or level out, the ups/downs in all Arizona-American water districts.
33 • This reduces the rate complexity in these six very divergent, non-coordinated, and
34 discombobulated rate cases to one rate base and case for all customers.
35

- 1 • By combing ledgers into a consolidated ledger, accounting would be easier; the
2 Company's administrative costs lower, and thus reduce long-term ratepayer costs.⁶³

3 In summary, this approach presents a **fair and reasonable** methodology to share capital
4 and other costs across all similar customers. If Consolidated Rates were fully implemented, as
5 recommended by Mr. Herbert, all customers and the Company benefit. The Commission and
6 RUCO also benefit by being able to concentrate on one set of books instead of many.⁶⁴

7 Separation of "water" and "waste water" into two tariffs is assumed.⁶⁵

8 Mr. Hebert's "rate equalization" process considers similarities to consider when handling the
9 various operating characteristics in the various water districts. Mr. Herbert discusses this in
10 terms of similarities, as follows:

11 "There are many similarities in the manner in which the several areas [such as
12 Arizona water districts] are operated. All the systems pump their treated water through
13 transmission lines to distribution areas that include mains, booster pump stations and
14 storage facilities. All of the areas rely on a centralized work force for billing, accounting,
15 engineering, administration, and regulatory matters. All of the areas rely on a common
16 source of funds for financing working capital and plant construction. Inasmuch as the
17 costs of operation are related to functions in which the operating characteristics are the
18 same, the use of equal rates is supported."⁶⁶

19 Mr. Herbert has shown that operational and maintenance activities, in general, are
20 similar for the long-term, thus consolidation is appropriate. In fact, many of these functions are
21 already consolidated by Arizona-American; however, they are then "de-consolidated," using
22 traditional separate company oriented formulae, to allocate these costs back to various Arizona-
23 American water and sewage water divisions⁶⁷.

24 His explanation of how equivalence of offered services supports consolidation by providing
25 directly applicable evidence those noncontiguous service areas, such as the Arizona-American
26 districts, should consolidate rates, by stating:

27 "The use of the same rates in a utility with noncontiguous service areas is
28 supported by the equivalent service rendered in each area. Although there would be
29 considerable debate with respect to the equivalency of the service rendered to different
30 customer classifications, there is no question that the service rendered to a residence in
31 one area is the same as the service rendered to a residence in another area. Residential
32 customers are relatively consistent in their uses of water: cooking, bathing, cleaning and
33 other sanitary purposes, and lawn sprinkling. If customers use water for the same
34 purposes, the service offering is the same and should be priced accordingly. Thus, from
35 this perspective, there is no basis for charging different prices to customers in different
areas."⁶⁸ [Underlined for emphasis]

Mr. Herbert resolves if variances in allocated cost of tariff groups warrant the use of
separate rate schedules as follows:

1 "No, they do not. Charging one group of customers' higher rates because they may be
2 served by a newer plant whose original cost exceeds that of other plants as a result of
3 inflation is *not logical*. The concepts previously discussed outweigh this consideration
4 and justify the goal of moving toward a single tariff. The electric industry reflects such
5 concepts when it serves customers in geographically dispersed areas. A kilowatt-hour
6 delivered in one area has the same price as a kilowatt-hour delivered in another area
7 despite the fact that cost of service studies could be performed to identify differences in
8 the cost of providing service to customers classes in different regions."⁶⁹

9 There is a recent Arizona precedence for Mr. Herbert's comments concerning consolidation
10 of electric rates. In the UNS Electric rate case, the residential and small business rates in
11 Mohave and Santa Cruz County were consolidated, to eliminate five decades of higher rates in
12 the smaller county, as I testified there "is no valid basis for continuing separate rates."⁷⁰

13 This water rate case has exactly the same issue but is compounded by many different tariffs.

14 Other Cost of Service considerations that Mr. Herbert also state support rate consolidation:

15 "The Company [including Arizona-American] has taken a number of steps in recent
16 years to centralize and consolidate its operations. Common costs which must be
17 assigned or allocated to each operating area to establish tariff group revenue
18 requirements include management fees, corporate headquarters costs, office costs,
19 customer service costs, depreciation expense developed on the basis of Company-wide
20 depreciation rates and income tax expense based on total Company financing and tax
21 provisions. The allocation of common costs, while reasonable, are subject to judgment
22 and may not result in the development of tariff group revenue requirements which reflect
23 precisely the cost of serving each area."⁷¹

24 Mr. Herbert discusses how a *single tariff will result in higher rate increases in areas where
25 the rates are lower.*⁷² Conversely, a *single tariff will have smaller rate increases in areas where
26 rates are higher.* This balancing, equalizing or consolidation, makes rates fair and reasonable.

27 In summary, Mr. Herbert summary supports this rate equalization analysis and suggests it
28 be done using gradualism principles, that is, over several rate cases. He specifically stated:

29 "Rate equalization is appropriate for New Jersey-American. Such pricing is supported
30 by considerations of the benefits of sharing the impact of capital programs on a
31 Company-wide basis, the significant majority of common costs, the equivalent service
32 rendered, electric industry precedent and the per capita income of affected communities.
33 The best interests of the customers are served through gradualism by continuing to
34 implement rate equalization during this case and in subsequent cases."⁷³

35 Mr. Herbert is a witness for AAWC and providing his excellent background shows he is one
witness with Company-experience in this matter, and supports consolidation of all financial and
operational aspects for all water districts. Unfortunately, this party missed his testimony during
the evidentiary hearings, and without access to transcripts, confirmation or denial of his publish
works on this subject await reviewing the Company's Opening Brief, thus this party's response
to his prior work, if any, will await the Reply Brief.

1 **4.2.3.2 In Mr. Rodney Moore Direct Rate Testimony.**⁷⁴

2 Mr. Moore calculated consolidated rates based on his comprehensive review of the present
3 and Company's proposed rate structures. He precluded the Paradise Valley Water District's rate
4 structure because it had five breakout points (tiers) while the others all had three tiers.

5 His analysis included adjusting the bill determinates to a common set of tiers and similar
6 break-over points; he used a weighted average calculation to determine a single consolidated
7 rate and to determine a single consolidated customer Cost of Service

8 For each customer class, meter size, and commodity usage tier, his consolidated rate
9 design generated the same aggregate revenue as the combined recorded test-year revenues
10 from each of the five water districts and their distinctive, unconsolidated rate designs. He then
11 refined the single consolidated rate to accurately proportion revenue generated between
12 residential and commercial ratepayers to reflect the test year values. He further created different
13 monthly rates using the same meter size and different commodity charges for the same
14 consumption.⁷⁵ This approach was comprehensive and is directly relevant. |

15 In his single table for consolidated rate design Mr. Moore compares present service charge
16 rates for each district with a calculated Consolidated Service Charge of \$9.59 compared to
17 \$15.59 by the Company as shown in Table 9 below for residential 5/8 and 3/4-inch meters. This
18 difference accounts for Mr. Moore's use of Present and Mr. Broderick's use of Proposed rates.
19 Also, different water districts were used in their analyses.

20 **Table 9. Consolidated and Unconsolidated Basic Service Charges for**
21 **Residential 5/8 and 3/4-inch Meters.**

22	Consolidated Service Charge (RUCO)	AAWC Present Basic Service Charge ⁷⁶					
23		Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley ⁷⁷
24	\$ 9.59⁷⁸	\$ 9.08	\$ 5.87	\$ 19.68	\$ 11.78	\$ 8.75	\$ 9.65
25		RUCO Proposed Basic Service Charge ⁷⁹					
26		\$ 11.87	\$ 13.81	\$ 29.34	\$ 25.66	\$ 10.30	\$ 26.68
27	Consolidated Service Charge (AAWC) ⁸⁰	AAWC Proposed Basic Service Charge ⁸¹					
28		Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley
29	\$ 15.59	\$ 15.00	\$ 15.00	\$ 32.50	\$ 28.00	\$ 12.00	\$28.00
30	Consolidated Service Charge (ACC Staff)	ACC Staff Proposed Basic Service Charge ⁸²					
31		Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley
32	Not calculated	\$ 14.55	\$ 15.30	\$ 28.73	\$ 24.54	\$ 9.10	\$ 28.00
33							

34 Table 9 shows Basic Service Charges with the present rates and proposed RUCO, ACC
35 Staff and Company proposed rates.⁸³ These vary between \$8.75 (present Mohave) to \$ 32.50

(proposed Tubac). As stated above by Mr. Hebert, the highest rates will see the largest decreases and the lowest rates, the smallest increases when consolidating is been borne out here.

Mr. Moore determined a Consolidated Basic Service Charge, using the detailed and comprehensive criteria described above, at \$9.59 based on present rates while Mr. Broderick using proposed rates, different districts, etc.), determine a consolidated service charge, using different criteria than Mr. Moore, at \$ 15.59.

Using the consolidated service charge of \$9.59, for present rates, we see increases and decreases from the present rates in Table 10 below.

Table 10 shows in the inequity in service charges that now exist because the fixed service charge cost are not consolidated, contrary to the benefits of consolidation, with unfair discrimination on customers who receive the same product.

Table 10. Changes due to Consolidation on the Existing Service Charges.⁸⁴

Water District	Change	Difference in Present Rates	Calculation
Sun City West	Increase	\$ + 3.72	(9.59-5.87 = +3.72)
Mohave	Increase	\$ + 0.84	(9.59-8.75) = +0.84)
Agua Fria	Increase	\$ + 0.51	(9.59-9.08 = +0.51)
Paradise Valley	Increase	\$ + 0.07	(9.59-9.65 = +0.07)
Havasu	Decrease	\$ - 2.19	(9.59-11.87 = -.2.19)
Tubac	Decrease	\$ - 10.09	(9.59-19.68 = -10.09)

Mr. Broderick determined a consolidated service charge value was \$15.59 for the proposed rates, we see decreases for Tubac (-\$16.91), Paradise Valley and Havasu (-\$12.41), and increases for Agua Fria and Sun City West (+\$0.59) and Mohave Water (+\$3.59) in Table 11.

Table 11. Changes due to Consolidation on Proposed Service Charges.⁸⁵

Water District	Change	Difference in Present Rates	Calculation
Mohave	Increase	\$ + 3.59	(15.59-12.00) = +3.59)
Sun City West	Increase	\$ + 0.59	(15.59-15.00 = +0.59)
Agua Fria	Increase	\$ + 0.59	(15.59-15.00 = +0.59)
Havasu	Decrease	\$ - 12.41	(15.59-28.00 = -12.41)
Paradise Valley	Decrease	\$ - 12.41	(15.59-28.00 = -12.41)
Tubac	Decrease	\$ - 16.91	(15.59-32.50 = -16.91)

Mr. Moore also consolidated the commodity (volumetric) usage charges by determining a common three-tier rates for residential customers (5/8 & 3/4-inch) and two-tiers for all other customer categories. Table 12 compares this residential rate category using the three rate tiers here derived, for the first 4,000 gallons, next 10,000 gallons, and over 14,000 gallons.

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2 **Table 12. Consolidated and Unconsolidated Existing Commodity Charges for Residential 5/8 and 3/4-inch meters.**

Commodity Usage (at \$/1000 gallons)	AAWC Present Rate Design ⁸⁶					
	RUCO Consolidated Rate	Agua Fria	Sun City West	Tubac	Havasus	Mohave Water
First 4,000 gals	\$1.2443	\$1.5398	\$1.3092	\$1.89	\$1.6802	\$0.85
Next 10,000 gals.	\$2.0757	\$2.2198	\$1.7442	\$2.85	\$2.1852	\$1.30
Over 14,000 gals.	\$2.3270	\$2.6468	\$2.0102	\$3.41	\$2.5000	\$1.50

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9 Table 12 shows that the first tier existing rates range between \$0.85 (Mohave) to \$1.89 (Tubac), second tier between \$1.30 (Mohave) and \$2.85 (Tubac), and third tier between \$1.50 (Mohave) and \$3.41 (Tubac).

10 We observe the changes from tier to tier as follows:

	<u>First Tier</u>	<u>Second Tier</u>	<u>Third Tier</u>
Increases:			
• Mohave	+\$0.3943	+\$0.7757	+\$0.8270
Decreases:			
• Sun City West	-\$0.0651	-\$0.3315	-\$0.3168
• Agua Fria	-\$0.2955	-\$0.1442	-\$0.3198
• Havasus	-\$0.4359	-\$0.1094	-\$0.1720
• Tubac	-\$0.6457	-\$0.7443	-\$1.0830

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19 Again, the water division with the highest rates received the greatest decrease when consolidated, and the water division with the lowest rates the highest rate increases. However, the largest First Tier rate increase (+39.43 cents) is considerably smaller than the rate decrease (-64.57 cents), the Second Tier lowest rate had a slightly higher difference (+3.14 cents), and the Third Tier, the highest rate increase with a significant difference (61.60 cents).

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24 **4.2.3.3 In Mr. Broderick Rebuttal Testimony (Exhibit A-12).**

25 Mr. Broderick also computed a consolidation scenario, with different assumptions when compared to Mr. Moore's analysis. He's analysis used Proposed rate, and several different water districts, including some that are not included in this rate case. Still, this gives a picture of relationships using proposed rates, at the time of his rebuttal, that are not identical to those in the Final Schedules.

26 Table 13 shows consolidated commodity rates compared to the proposed Arizona-American rates; however, Mr. Broderick did not consider the changes from the Final Schedules.

27 The Company's consolidated commodity rate of \$1.50/1,000 gallons is lower for all "first 4000 gallons" except Paradise Valley (+\$0.212) and Mohave (+\$0.29) with decreases for Sun City West (-\$1.380), Agua Fria (-\$1.426), Tubac (-\$2.280) and Havasus (-\$2.522). Again, the

1 water districts with the highest commodity rates, received the greatest rate reductions, while
 2 those with the lowest rates, the smallest rate increases.

Table 13. Consolidated and Unconsolidated Proposed Commodity Charges for Residential 5/8 and 3/4-inch meters.⁸⁷

AAWC Proposed Rate Design ⁸⁸							
Commodity Usage Blocks (at \$/1000 gallons)	AAWC Consolidated Rates ⁸⁹	Agua Fria	Sun City West	Tubac	Havasu Water	Mohave Water	Paradise Valley
First 4,000	\$1.500	\$2.926	\$2.880	\$3.780	\$4.033	\$1.471	\$1.288
4,001-10,000		\$3.463				\$1.625	
4,001-13,000	\$3.463				\$4.196		
4,001-15,000			\$3.171				
4,001-20,000				\$4.850			\$2.233
Over 10,001						\$1.744	
Over 13,001	\$3.670				\$4.555		
Over 14,001							
Over 15,001			\$3.413				
Over 20,001				\$4.950			
20,001-65,000							\$2.796
65,001-125,000							\$3.359
Over 125,001							\$3.879

16 Mr. Broderick's "typical" Consolidated Bills for residential customers are shown in Table 14.

Table 14. Consolidated Proposed Impacts for Typical Residential 5/8-inch meter Bills and Total Revenue.⁹⁰

Water District	Typical Bill	Proposed Changes WITHOUT Consolidated Rates	Total Revenue
Tubac	\$41.01	+47.13% rate INCREASE	\$0.3 million
Havasu	\$35.85	+42.90% rate INCREASE	\$0.6 million
Mohave	\$31.77	+37.22% rate INCREASE	\$1.7 million
Agua Fria	\$30.09	+17.75% rate INCREASE	\$3.5 million
Paradise Valley	\$66.94	+2.95% rate INCREASE	\$0.3 million
Sun City West	\$28.35	-15.69% rate DECREASE	\$1.3 million
Water Districts in the AAWC's Analysis that are NOT in this rate case.			
Sun City	\$32.26	+136.00% rate INCREASE	\$8.4 million
Anthem	\$34.15	+47.74% rate INCREASE	\$44.6 million

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27 It is not feasible to directly compare these two "consolidation" analyses. Mr. Moore did his
28 comprehensive consolidation using the present rates, excluded Paradise Valley, and derived
29 common three-tier commodity blocks, while equalizing Company return with that in the Test
30 Year. Mr. Moore's testimony has indicated he intended to update his comprehensive approach
31 in his Surrebuttal based on the Company's Rebuttal.

32 Mr. Broderick used the Company's proposed rates, different water companies, and other
33 different assumptions that make his analysis not suitable to make any decisions in this rate
34 case. Mr. Broderick's analysis is incomplete and should reflect the current proposed rates.
35

1 Tables 9 to 12 (Moore) and 13 and 14 (Broderick) have differences caused by divergent
2 assumptions made by Mr. Broderick. The variety of "blocks" in Table 13 show how dysfunctional
3 the existing rate and proposed rate schedules are for this Company. There should be only one
4 block structure for all water districts.

5 There is no logic shown when setting the width (gallons) or height (change in cost) limits for
6 the rate blocks. The distribution of the water usage is not a Gaussian (or normal) distribution but
7 more like a chi-squared (X^2) distribution,⁹¹ with a fast rising peak closer to zero and a long tail. A
8 chi-squared distribution has its mean or cumulative 50% distribution nearer to the origin, thus
9 when an average customer consumes between 7,500 to 12,000 gallons.⁹² The rate structure
10 must make cost "signals" for these near-mean usage customers.

11 Second, we see second tiers that start at 3,001 or 4,001 gallons to 10,000, 13,000, 15,000,
12 and 20,000 gallons. The range for this "second" tier extends from 3,000 to 14,000 gallons, which
13 is too wide and challenging for a consumer to see the price signal to reach (or reduce demand)
14 the first tier. The long chi-squared tail extends for tens to hundreds of thousands gallons with
15 price tiers only in the Paradise Valley after 20,001 gallons, with the last starting at 125,000
16 gallons.

17 Third, the Company's Consolidated Rate second tier is 9,000 gallons wide, and still needs to
18 be divided to make obvious and reachable blocks for customers to lower water rates through
19 conservation.

20 Fourth, looking at Table 13, one sees 13 different tiers⁹³ used by six water divisions for the
21 same rate category. I proposed standard 4,000-gallon blocks in the residential and small
22 commercial rate categories.

23 Furthermore, all larger residential and all commercial commodity rate categories have only
24 two tiers. Many small commercial (5/8 and 3/4-inch), such as in the Tubac district, have very
25 similar consumption demands (and a lower average) than their residential counterparts. These
26 commercial categories should parallel the residential rate tiers. Multiple tier blocks for all other
27 rate categories should be in the resultant tariff from this rate case. Just like the residential
28 category that is discussed extensively, commercial enterprises can and will look for ways to
29 lower rates, IF THEY CAN, to a lower tier. As the present and proposed rate structure is now
30 constructed with only two tiers, reaching the first tier rates is nearly impossible unless your
31 consumption is just over the second tier break point and is *utterly useless*.

32 At least five tiers for larger meters is recommended, with two breakpoints below the chi-
33 squared mean for example near the 35% and 45% points, the third at 5% past the mean (55%),
34 and fourth and fifth, near the 65% and 80% points on the tail. The additional breakpoints on the
35 tail will provide significantly more revenue to the company as previously shown in Exhibit M-4.⁹⁴

1 **4.2.3.4 In Mr. Millsap Rate Design Testimonies. (Exhibits S-12, S- Schedules MEM-1).**

2 I listed miscellaneous "charges" and "fees" used by the Company in 6 above and in pre-filed
3 testimonies.⁹⁵ No Company rebuttal made on this recommendation; however, the Millsap
4 Testimony provided these for each water district in his Schedules MEM-1.⁹⁶

5 None of these appear isolated by water district; however, the Company is using different
6 rates/fees for the same service at different water districts. If nothing else happens in this rate
7 case concerning consolidation, this is one easy area to consolidate. Specific areas that should
8 be consolidated include:

- 9
- 10 1. General & Administrative (believed to have been completed)
 - 11 2. Cost of Service and Volumetric Charges with more and standard tiers deployed
 - 12 3. Arsenic treatment costs (service and volumetric) included in 2 above
 - 13 4. Taxes, including social security and Medicare, and other Rate Base Costs
 - 14 5. Service Line and Meter Installation Charge (change all to "actual cost")
 - 15 6. Establish, Re-establish, and Re-connect fees during regular and off hours
 - 16 7. Water Meter Test, (if correct) and Re-read the Meter (that is good)
 - 17 8. Non-Sufficient Funds to check charges and Late fees, Deferred Payment Finance
18 Charge, Residential and Non-Residential Deposit Interest on Deposits

19 In addition, the Company's Rules and Regulations (R&Rs), submitted, as a part of this rate
20 case, should be consolidated into one document. In a response to a Magruder Data Request,
21 these R&Rs are not available to customers in Spanish.

22 **4.2.3.5 In Mr. Abinah Surrebuttal Testimony (Exhibit S-17).⁹⁷**

23 In Mr. Abinah's filing, he states that "proper notice be given to customers affected by a rate
24 application" in accordance with Arizona Administrative Code R14-2-105(A) and that this notice
25 has not been given to "all the Company's customers", Staff recommends that "rate consolidation
26 can not be undertaken in this docket." Further, he states "due process concerns require proper
27 notice be given."⁹⁸

28 This Rate Case Procedural Order required that Notice of these hearing and for this case be
29 placed in newspapers and in billing statement for all customers involved in this rate case. This
30 include customers of six water districts and one waste water district that are impacted by this
31 case and excludes other Arizona-American two water districts and four waste water district
32 customers that are not impacted by this case. Consolidation for the one-wastewater district has
33 not been considered. Therefore, only the six water districts are being considered for
34 consolidation and all their customers were properly "noticed" in accordance with the ACC
35 Regulations.⁹⁹ The Company also has reported compliance with the Rate Case Procedural
Order.

The Notice included the following statements, identical for all six water districts:

1 IT IS FURTHER ORDERED that the Company shall provide public notice of the hearing in this manner, in
2 the following format and style with the heading in no less than 18-point bold type and the body in no less than 10-
3 point regular type:

4 **PUBLIC NOTICE OF HEARING OF THE APPLICATION OF ARIZONA-AMERICAN**
5 **WATER COMPANY FOR RATE INCREASES FOR UTILITY SERVICE IN ITS AGUA FRIA**
6 **WATER DISTRICT, HAVASU WATER DISTRICT, SUN CITY WEST WATER DISTRICT,**
7 **TUBAC WATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT.**

8 **(DOCKET NOS. W-010303A-08-0227 AND SW-010303A-08-0227)**

9 **Summary**

10 On May 2, 2008, Arizona-American Water Company, Inc ("Arizona-American" or "Company") filed an
11 application with the Arizona Corporation Commission ("Commission") for permanent revenue increases for
12 its following Districts: Agua Fria...[same as above]. Under Arizona-American's proposal, the annual
13 percentage rate increase for individual customers would vary depending upon the type and quantity of
14 service provided.

15 **[COMPANY INCLUDE APPROPRIATE PARAGRAPH (S) FROM THE FOLLOWING SEVEN**
16 **PARAGAPHS:]**

17 For its **Agua Fria Water District**, Arizona-American's application request an annual revenue increase of
18 approximately \$9,191,045 or 51.31 percent over current revenues. For average consumption (7,400 gallons per
19 month) residential customers in the Agua Fria Water District, Arizona-American's request would increase
20 monthly rates by 36.02 percent. The actual percentage rate increase for individual customers would vary
21 depending upon the type and quantity of service provided. **The Company can calculate the impact of its rate**
22 **increase proposal on your account.** If you would like the Company to calculate the impact of its proposal on
23 your account, please contact **Todd Walker, Community Relations Manager, at 623-815-3112 or at**
24 **Todd.Walker@amwater.com.**

25 [Repeated for each water district, only name and number changed]

26 The Commission's Utilities Division Staff ("Staff") is in the process of auditing and analyzing the application,
27 and has not yet made any recommendations regarding Arizona-American's proposed rate increase. The
28 Residential Utility Consumer's Office is also a party to this proceeding and will also analyze the application and
29 make recommendations to the Commission. The Commission will determine the appropriate relief to be granted
30 based on the evidence presented by the parties. The Commission is not bound by the proposals made by
31 Arizona-American, Staff, or any intervenors; therefore, the final rates approved by the Commission may be
32 higher or lower than the rates requested by Arizona-American.

33 **How You Can View or Obtain a Copy of the Rate Proposal**

34 Copies of the application and proposed rates are available from.. and at the Commission's Docket Control Center
35 at 1200 West Washington, Phoenix, Arizona, for public inspection during regular business hours and on the
internet via ...

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter...

About Intervention

The law provides for an open meeting public hearing at which, under appropriate circumstances, interested
parties may intervene. Any person or entity entitled by law to intervene..

The granting of motions to intervene...

ADA/Equal Access Information

The Commission does not discriminate ...

IT IS FURTHER ORDERED that Arizona-American shall mail to each of its customers in each effected District
a copy of the above notice that includes the appropriate paragraph(s) regarding the effect of Arizona-American's

1 proposed rate increase for the District(s), as a bill insert beginning with the first billing cycle in **October, 2008**, and shall
2 cause a copy of such notice to be published at least once in a newspaper of general circulation in the service territory of
each of the affected Districts, with publication to be completed no later than **October, 31, 2008**.

3 IT IS FURTHER ORDERED that Arizona-American shall file certification of mailing/publishing as soon as
practicable after the mailing/publication has been completed.

4 IT IS FURTHER ORDERED that notice be deemed complete upon mailing/publication of same, notwithstanding
5 the failures of an individual customer to read or receive the notice....

6 In the double-underlined sentence states: "The Commission is not bound by the proposals
7 made by Arizona-American, Staff, or any intervenors; therefore, the final rates approved by the
8 Commission may be higher or lower than the rates requested by Arizona-American." It appears
9 obvious that the Commission may make any changes it deems appropriate and legal as the final
10 result of any and all rate cases. In my opinion, there is absolutely nothing in this notice that
11 would "prohibit" consolidation of these six water districts in THIS rate case. Further, A.A.C.
12 regulations R14-2-105(A) have been met. Therefore, there is no reason why consolidation
13 cannot be implemented based on Notice for these six water companies, without additional
14 "Notice".

15 Mr. Abinah also performed a consolidation scenario for two water divisions, Sun City (not a
16 part of this rate case) and Sun City West.¹⁰⁰ First, consolidation with a division that is not a part
17 of this case would not meet the above Notice requirements and is not being considered at this
18 time. Second, this kind of consolidation of a few and not all water divisions will not achieve the
19 benefits previously discussed.

20 Mr. Abinah in his oral and pre-filed testimony supported consolidation, in appropriate
21 circumstances, "when and where it makes sense and where it is technically and financially
22 feasible, rate consolidation and system interconnections should be seriously considered."¹⁰¹

23 He defined "rate consolidation", also known as Single Tariff Prices (STP) as

24 "The use of a unified rate structure for multiple utility systems that are owned and
25 operated by a single utility, but that may not be contiguous or physically
26 interconnected."¹⁰²

27 Similar to the above quotes from Mr. Herbert, we see Mr. Abinah also support consolidation
28 even if the water districts are not contiguous or interconnected. In fact, Staff feels that rate
29 consolidation or STP even when not physically interconnected.¹⁰³

30 The Staff recommendation in Mr. Abinah's testimony is that

31 "The Commission order Arizona-American, in its next rate case, to propose detailed
32 rate consolidation and/or system interconnection plans where the Company believes it
33 is technically and financially feasible."¹⁰⁴

34 During Mr. Abinah's oral testimony he suggested that a 12 to 18 month plan be developed
35 leading toward consolidation in one rate case for all districts. Under cross examination, it

1 appears this is a bit optimistic as this party urged not to spend 50 years it took to consolidate his
2 electric company. He is also and rightfully concerned about unintended consequences including
3 analysis of these factors during a consolidation application review, to include as minimum
4 criteria:

- 5 a. Public health and safety.
- 6 b. Proximity and location.
- 7 c. Community of interest.
- 8 d. Economies of scale/rate case expense.
- 9 e. Price shock and mitigation including a low income program
- 10 f. Public policy.
- 11 g. Other jurisdictions and municipalities.¹⁰⁵

12 These criteria are sound and should be evaluated during a consolidation application review.

13 **4.2.3.6 In Mr. Townsley Rebuttal Testimony (Exhibit A-19).**¹⁰⁶

14 Mr. Townsley, the President of Arizona-American Water testified with a definitely yes, with
15 some reservations, about the consolidation issue. He has four pages of testimony going into the
16 merits of Rate Consolidation, including almost every point made by Mr. Hebert in 4.2.3.1 above.
17 Mr. Townsley also discusses the impact of having 13 different rate classes on acquisition of other
18 water companies, and the particular challenges for troubled ones. His future-oriented vision sees
19 past the present tariff situation and the numerous benefits that Rate Consolidation will bring to
20 his Company.¹⁰⁷ He stated:

21 "I strongly support rate consolidation from a philosophical perspective, the practicalities
22 of district consolidation present significant challenges to both the Commission and
23 Arizona-American."¹⁰⁸

24 This party agrees with all of the benefits Mr. Townsley discussed.

25 Mr. Townsley also has some reservation, including he is concerned about completing this
26 rate case on schedule to improve the Company's immediate financial situation as any short-term
27 delays will harm the Company.

28 Second, he is concerned about the disparity in average customer water bills due to customer
29 consumption levels and differences in net-plant investment per customer in different districts.

30 Third, he is concerned about "significant public and political consternation" with a likely
31 consequence being an extension to the rate case schedule.¹⁰⁹

32 He recommends that the Commission "levelize" the net-plant-investment per customer
33 across the districts."¹¹⁰ He suggests that a "surcharge" be created, similar to the electric utilities
34 use of a Systems-Benefit Charge (SBC), to "levelize" differences.
35

1 **4.3 Conclusions.**

2 With respect to his concerns, Mr. Townsely is first and foremost concerned about any short-
3 term delay. As a ratepayer, it is the long-term cost for quality service that impacts us more than
4 meeting some quarterly performance reporting requirements.

5 It is my opinion, that RUCO, ACC Staff, and the Company can produce Consolidated Rate
6 Schedules for review and comparison, as a separate effort, after this case concludes. This
7 provides at least three independent views for review, cross-examination, and full-disclosure in
8 public hearings according to a new rate case schedule. At worst, a few weeks delay might result;
9 with all the benefits in Mr. Townsley testimony coming to his Company, the ACC Staff, RUCO
10 and to ratepayers like myself.

11 His concern is about the public and political impacts of Consolidation are, in my opinion,
12 minor when compared to the proposed rates by the Company. That public relations damage has
13 already occurred. This case has a record number of water company customer complaints. They
14 couldn't be more upset than they are right now.

15 This party considers the word "consolidation" means to equalize or make level, the following
16 elements involved in efficiently running this business. All rate cases end with a determination of a
17 fair and reasonable rate of return for the Company based on a total revenue stream from the
18 ratepayers. The total revenue requirements have to be raised from customers, with fixed (cost of
19 service) and variable (rates) customer charges for different rate classes based on "meter" size.

20 It is concluded that the following are necessary, in my opinion, to most effectively
21 consolidate:

22 1. Consolidate all "fixed" charges into one charge for each customer category, with there
23 being only customer category for each meter class, by combining residential and commercial
24 rate classes.

25 2. Consolidate all "variable" or volumetric rates in to one set of rates for each customer
26 category for each meter class. An inclined reverse block rate structure, with adequate number of
27 blocks be developed to ensure all customers can "see" and have an opportunity to reduce
28 consumption by reaching the next lower rate block. At least ten such blocks should be designed;
29 including much lower rates for the lowest rate block and significantly higher rates for highest
30 consumption customers in each rate category as a water conservation measure. There should
31 be at least a 100% difference between the lowest and highest rates in each rate category. The
32 lowest rate block should be designated (without any additional modifications) for Lower Income
33 customers and publicized as such.

34 3. Consolidate all miscellaneous "charges and fees" into one schedule for all Arizona-
35 American customers.

1 4. Consolidate all "rules and regulations" into one streamlined, easy to read, document
2 in English and Spanish, available for customers during initial interviews, on the web, and in all
3 offices.

4 5. Consolidate all revenue into one consolidated account (retaining water districts is
5 encouraged) when presenting future rate cases. Revenue will be determined for this
6 consolidated account and not be allocated to individual water districts as a rate making measure.

7 6. Consider going through the ISO 9000 (Quality Management) qualification process for
8 all of Arizona-American divisions with an aim to integrate all company policies and practices, and
9 consider also qualifying under ISO 14000 (Environment Management) as a bonus. The
10 additional funds for this are embedded in the "consolidation" incentive part of this rate case.

11 This party does not support the SBC process recommended by the Company as SBC is NOT
12 understood by ratepayers, sets up additional accounting procedures, and finally this Commission
13 has recently resolved a most challenging and grueling experience in eliminating the SBC by a
14 major electric utility. It was an ugly show that neither I nor anyone else who wants Arizona-
15 American to be successful would wish on their worst enemy.¹¹¹ Mr. Townsley recommendation is
16 a just partial solution when a complete "accounting reset" should be accomplished that will
17 improve Arizona-American. The Test Year plus changes provides the Company the solid
18 foundation and basis right now to Consolidate. Don't wait for later, it maybe too late.¹¹²

19 20 **4.4 Recommendations.**

21 I strongly urge the Commission

22 1. To have this rate case review consolidated financial data (Consolidated Rates) and based
23 on results of rate base changes, to order the Company to consolidate all aspects of these six
24 water districts, and

25 2. To require unconsolidated Arizona-American divisions in future rate cases to fully join the
26 new AAWC, as a single fully integrated company instead of individual inefficient smaller,
27 uncoordinated, unconsolidated companies, and

28 3. To Increase the Company's ROI at least 1 to 2 percentage points, as a bonus, above what
29 it would normally award in this case, in order to reflect the higher risk and potential additional
30 benefits to help reward the Company as its reorganizes into a better entity and maybe become
31 ISO 9000 certified.

32 Without #3 above, in my opinion, the energies necessary to respond effectively to these
33 new demands may have less importance to upper management as success has smaller reward.

34 By making bold, objective, and obviously beneficial changes now, consolidation will improve
35 the entire company, and all ratepayers will benefit in the long-term. The present situation is

1 deplorable, almost dysfunctional and is surely not impressive to potential investors, actual
2 shareholders and today's nervous financial community.

3 A strong, united, and more efficient consolidated operation will attract investors, while
4 continuation of the present situation may continue to repel them.

5 I support such action as a result of this rate case with periodic status reports to the
6 Commission as to "lessons learned" so that any mistakes in the consolidation are transparent
7 and the best corrective action, with direct support by the Commission Staff, as necessary, to
8 make Arizona-American Water Company the best in Arizona and the Western United States.
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1 **Section 5**

2 **Issue No. 4**

3 **RATE CASE EXPENSES**

4
5 **5.1 Summary of Issue No. 4.**

6 The Company has removed from its rate case costs the \$10,000 requested for such training
7 but then added another \$10,000 to its Rate Case expenses in order to respond to a routine
8 question from a Commissioner concerning consolidation. Arizona-American should have
9 included Consolidated Rates as its initial approach, based on evidence discussed in Issue 3
10 above, as a routine business practice in preparation for this rate case. This is not a new,
11 unexpected expense.

12
13 **5.2 Evidence Presented on Issue No. 4**

14 Mr. Broderick's Rebuttal stated "rate case expense does not include any expenses for
15 witness training."¹¹³

16
17 **5.3 Conclusions.**

18 This obviously appears like a *quid pro quo* with the above \$10,000 for witness training.

19 Since Rate Consolidation is a known AWC policy, then Arizona-American should always be
20 looking for ways to consolidate rates whenever submitting a rate case. Just because there was a
21 request to look closely at Rate Consolidation, there should be no additional expenses in
22 providing a clear answer to this concern.

23 As a ratepayer, I expect the most efficient businesses processes to always be embedded into
24 company practices and policies¹¹⁴ and, of course, the Company should always be looking
25 forward to provide the best service and cost-effective solutions. As presented in Issue 3, and
26 concurred by AAWC, Rate Consolidation has definite advantages for the Company, the
27 consumer and the Commission.

28 Therefore, adding any additional cost during this rate case to comply with the Company's
29 business practice has no basis.

30 **5.4 Recommendation.**

31 It is recommended that the additional \$10,000 for rate case costs requested to provide a
32 routine response during rate case preparation be denied.

LIST OF EXHIBITS

These exhibits contain **excerpts** from referenced material in this brief. Not all footnote references are included.

<u>Exhibit ID</u>	<u>Title</u>	<u>Date</u>
	<u>Magruder Exhibits</u>	
Ex. 1	Exhibit M-3, Magruder Direct Testimony (issues)	9 January 2009
Ex. 2	Exhibit M-4, Magruder Direct Testimony (Cost of Service and Rate Design)	23 January 2009
Ex. 3	Exhibit M-5, Magruder Surrebuttal Testimony	3 March 2009
	<u>Arizona-American Water Company Exhibits</u>	
Ex. A-31	Exhibit A-31, Herbert Rejoinder, Revised Tubac Rate Design	Note dated
Ex. A-39	Exhibit A-39, Post Hearing Rate Design Changes (Paradise Valley and Tubac)	10 April 2009
Ex. A-Final Schedule	Arizona-American Final Post-Hearing Schedules	10 April 2009
	<u>Residential Utilities Consumer's Office (RUCO) Exhibits</u>	
Ex. R-6	Exhibit R-6, Moore Surrebuttal Testimony	3 March 2009
Ex. R-Final Schedule	RUCO's Final Post-Hearing Schedules	14 April 2009
	<u>Arizona Corporation Commission Staff Exhibits</u>	
Ex. S-16	Exhibit S-16, Alternative Rate Design for Paradise Valley and Tubac Water Districts	27 March 2009
Ex. S-Alternative Schedule	Staff's Corrected Alternative Rate Design	17 April 2009



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- Kristin K. Mayes, Chairman
- Gary Pierce
- Sandra D. Kennedy
- Paul Newman
- Bob Stump

ARIZONA CORP. COM. 400 W CONGRESS STE 218 TUCSON AZ 85704

JAN 8 2009

RECEIVED

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, 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 AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT

Docket No. W-01303A-08-0227

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, 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 MOHAVE WASTEWATER DISTRICT

Docket No. SW-01303A-08-0227

Notice of Filing and Direct Testimony (Issues)

by

Marshall Magruder

This filing has been mailed to known and interested parties shown in the Service List.

Respectfully submitted on this 9th day of January 2009

MARSHALL MAGRUDER

By Marshall Magruder

Marshall Magruder
PO Box 1267
Tubac, Arizona 85646-1267
(520) 398-8587
marshall@magruder.org