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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR THE DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICES 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

Arizona Corporation Commission

DOCKETED

MAY 15 2009

DOCKETED BY	<i>MM</i>
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AAMERICAN 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 CLOSING BRIEF
BY
CAROLE MCHALE HUBBS FOR PORA
SUN CITY WEST WATER DISTRICT

RESPECTFULLY SUBMITTED on May 15, 2009.

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INTRODUCTION

Residents of the Sun City West Water District, (SCWWD), are very alarmed by the magnitude of Arizona-American Water Company's, (AZ-AM), proposed rate increase request. AZ-AM originally requested a 78.05% increase of rates for residential users in SCWWD with 5/8" – 3/4" meters. (Revised Schedule H-2 by Ms Gutowski). On Schedule A-1 Rejoinder of AZ-AM Final Schedules, dated April 10, 2009, AZ-AM lowered their rate increase request for the same meter users to 70.82%, which is still an alarmist rate for most SCWWD residents.

A review of documents submitted by AZ-AM, Arizona Corporation Commission Staff,(Staff), and Residential Utility Consumers Office, (RUCO), indicates many differences between the entities in establishing an equitable and reasonable rate increase for all water districts involved in the rate case and SCWWD in particular.

RATE OF RETURN, SCWWD.

AZ-AM is requesting a Rate of return, (ROR), of 8.4% in all water districts involved in the rate case. STAFF argues in their **CLOSING BRIEF**, Cost of Capital, Section B, that no disparity exists among all parties on the Cost of Debt. It is 5.463%. Thus, STAFF is recommending a 7.34% ROR. STAFF'S ROR is based on a Cost of Equity of 10%. RUCO recommends a 7.0% ROR based on Cost of Equity of 8.8%. PORA, speaking for the SCWWD, has researched a number of Fortune 500 companies whose ROR does not exceed 6.5%. Thus PORA requests that AZ-AM'S ROR be restricted to 6.5%, yielding an increase of rates for 5/8" – 3/4" meter users in SCWWD of 52% maximum. PORA'S position is further fortified by STAFF'S consideration of the present economic environment which many economists say will persist for the next three to four years. A quote from STAFF'S **CLOSING BRIEF** Page 13, Lines 15 – 20 follows:

"Finally Staff's recommendation takes into account the state of the nation's economy, where there is rising unemployment, the declining growth in the gross domestic product and industrial production, indicative of a recession. Based on the voluminous public comment in this docket, Arizona-American customers are suffering from the effects of the recession. Certainly this is no environment in which to increase the profit levels for a regulated monopoly such as Arizona-American".

STAFF further says on page 15, lines 4 – 7 of the same Brief: "One of the major impacts of a recession is to depress the profits of most enterprises. As a result, it is to be expected that capital costs will decrease if a significant recession occurs. There is no justification for increasing the profit level of a regulated utility such as Arizona-American at the same time that other enterprises are experiencing low profits".

Finally STAFF says on page 15, lines 15 – 16 of the same Brief: "In this environment, it would be counter-productive to make any claim that Arizona-American should have a higher return at this time because of the current market turmoil".

PORA agrees with all of STAFF'S evaluation of the current economic conditions and feel that PORA'S recommended rate increase of 52% maximum for 5/8" – 3/4" meters in the SCWWD is fair and extremely equitable in these trying economic times.

COST SAVING MEASURES.

AZ-AM has a number of ways to increase ROR in addition to increasing rates. AZ-AM'S **NOTICE OF FILING POST HEARING BRIEF** Dated May 1, 2009, page 5, lines 5 – 12 enumerates a list of changes that will decrease expenses and increase ROR, in addition to rate increases. STAFF also contends that other corrections i.e.: reduce water loss to 10% or below, implement accurate water use data and accounting measures that do not overstate expenses viz: tank maintenance amounts and reasonable depreciation write-downs. These are just some of the measures that can be taken by AZ-AM to increase ROR to mitigate an excessive burden on rate payers.

CONSOLIDATION OF RATES.

SCWWD is unprepared to consider Consolidation of Rates and agrees with STAFF'S consideration as stated in STAFF'S **CLOSING BRIEF** Page 20, lines 10 – 20. Wherein STAFF says: "Rate consolidation is a complex issue that has both public and policy ramifications. STAFF recommends that before undertaking rate consolidation, the Commission establish certain criteria regarding public health and safety, proximity, economies of scale and rate shock. For a utility such as Arizona-American, with differing rates among its districts, rates for some customers will decrease while rates will surely increase for others. Before undertaking consolidation, the Company would have to undertake significant public outreach to educate its consumers on the issue, something that did not happen within the confines of the instant case. Staff was concerned that the notice in the instant case was not adequate to notify affected ratepayers, particularly those customers of the districts that were not included, that a rate increase (or decrease) was possible".

SCWWD and Sun City Water District, (SCWD), the latter is not involved in this rate case, are unique districts in the AZ-AM Company. Both districts are built-out with no undeveloped acreage and the residents are restricted to 55 years of age and over. Both districts have an average age residency of 78 years. Many are on fixed incomes. The communities are static and represent a low risk category in payment defaults. For these and many other unstated reasons, SCWWD and SCWD should have an option to not participate in rate consolidation, if and when rate consolidation is implemented.

CAP WATER

SCWWD, SCWD, AGUA FRIA WATER DISTRICT, (AFWD), and PARADISE VALLEY WATER DISTRICT, (PVWD), are in pending rate schedules or in surcharges to pay for CAP water under the title of Groundwater Savings Fee. SCWWD'S 5/8" – 3/4" meter users are charged \$1.60 monthly for the Groundwater Savings Fee which is used to

reimburse AZ-AM for CAP charges. Each of the four water districts listed above have a CAP allotment but the water is not necessarily used in the district. The allotments are:

SCWWD: 2372 Acre Feet.

SCWD: 4189 Acre Feet

AFWD: 11093 Acre Feet

PVWD: 3231 Acre Feet

SCWWD and SCWD users have paid the Groundwater Savings Fee since 2001 but have not used any of the CAP water and have not received any direct benefit from the CAP water. Those who promote continuation of the Groundwater Savings Fee argue that there are indirect benefits to the aquifers from recharge stations. This is a moot claim at best for there is not a trace system in place to determine where recharge water migrates. If recharge of aquifers from input stations were true, then the water districts paying for CAP water used in recharge stations are paying for water utilized by users outside the boundaries of the water district since aquifers do not terminate at water district boundaries.

AFWD utilizes their CAP allotment to diminish aquifer use. The White Tanks Plant, a plant to treat surface water for residential use is located in the AFWD. The plant is scheduled for completion of Phase 1 (a) in 2009 and according to AZ-AM'S **NOTICE OF FILING POST HEARING BRIEF** Dated May 1, 2009, the first phase will be capable of treating 13.5 million gallons per day, (MGD). Thus, the treatment of AFWD'S allotment of 11,093 acre feet of CAP water will only utilize 73.35% of the plant's capacity in Phase 1 (a). AZ-AM states that completion of Phase 1 (b) will provide the capacity to treat 20 MGD. This second stage development will have the capacity to treat the total allotment of 20,885 acre feet of CAP water allotted collectively to the four water districts.

SCWWD requests that when Phase 1 (b) is completed and if SCWWD'S allotment of 2372 acre feet of CAP water is treated by the White Tanks Plant, SCWWD will receive direct use of the treated water that they have been paying for since 2001 or alternatively, SCWWD will be repaid for all amounts the consumers have paid in since 2001 in Groundwater Savings Fees.

CONCLUSION.

For the reasons detailed above, SCWWD requests the ALJ and Commissioners to favorably consider PORA'S request to limit the percentage of rate increase to 52 % which will include stage one and two ACRM. Also PORA requests that serious consideration be given to SCWWD and SCWD to opt out of rate consolidation if they elect to due to their unique circumstances. Finally, PORA requests that special attention be given to the request of the SCWWD to receive direct treated water when possible or be repaid for the monies paid in, since the water district has not received any direct benefits from the Groundwater Savings Fee.