

ORIGINAL

OPEN MEETING AGENDA ITEM  
BEFORE THE ARIZONA CORPORATION COMMISSION



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Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION  
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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 of

REQUEST FOR REVIEW AND EXCEPTIONS TO THE  
RECOMMENDED OPINION AND ORDER IN THESE MATTERS OF 3 NOVEMBER 2009

12 November 2009

This filing consists of a request for review of the Recommended Opinion and Order and two proposed Exceptions for consideration by the Commission.

These Exceptions request to

- (1) Consolidate the Miscellaneous Charges and Fees in the Water Districts
- (2) Clarify how Consolidation with Rates to Sends Price Signals to Conserve Water.

**NOTE: An error causes the word DRAFT printed on some pages, Please IGNORE.**

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

Respectfully submitted on this 12<sup>th</sup> day of November 2009

MARSHALL MAGRUDER

By

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Filing for Review and Exceptions to the ROO by Marshall Magruder  
Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227

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1  
2 **REQUEST FOR REVIEW AND EXCEPTIONS TO THE**  
3 **RECOMMENDED OPINION AND ORDER IN THESE MATTERS OF 3 NOVEMBER 2009**

4 1. **Background.** I intervened for many reasons. Most are resolved. A few areas of concern remain  
5 based the Recommended Opinion and Order (ROO) in this case. These are

6 **Exception One.** To consolidate the Miscellaneous Charges and Fees, as requested by this party,  
7 for the Water Districts.  
8

9 **Exception Two.** To clarify the ROO to show that interaction between rate consolidation and  
10 volumetric rates is a means of water conservation.

11 **In addition.** The ROO acknowledges that consolidated rates provide a more "fair and  
12 reasonable" approach for all ratepayers; thus, approving this ROO while knowing that  
13 these rates are NOT fair and reasonable is unusual for this Commission. Therefore,  
14 progress for rate consolidation must be put on a fast-track schedule to accomplish this as  
15 quickly as reasonably possible. This inequality results in small water districts having higher  
16 rate increases compared to large water districts due to the laws of economy of scale.  
17  
18

19 2. **The Exception One Issue Concerning Miscellaneous Fees and Charges.**

20 a. **Discussion.** There are many different charges that my testimony addressed that include  
21 establishment of service or connections, meter re-reads and tests, move customer meters, non-  
22 sufficient funded checks, late payment and deferred payment fees, finance charges, deposit and  
23 interest on deposits, service line charges, and meter installation charges. Different charges and  
24 fees are included for each water district for the same event. These difference, as are most rate  
25 structure differences, are from legacy water companies that have not been totally integrated into  
26 the Arizona-American Water Company (AAWC). The Table 13 below from my Reply Brief provides  
27 a list of these miscellaneous Charges and Fees with a recommendation by this party and the range  
28 of variations provided by various other parties and water districts in this proceeding.  
29  
30  
31

32 Although this issue was submitted several times during these proceedings, it was overtaken by  
33 the larger issue of Rate Structure Consolidation and not included in the ROO. The benefits of  
34 consolidation of Miscellaneous Fees and Charges for the Company are obvious, as it simplifies a  
35 significant difference between these water districts, allows for service center personnel to

1 standardize their discussions for all AAWC customers on this range of issue, and should save the  
 2 company expenses in maintaining many different schedules to account for these differences.  
 3

**Table 13. Present, Proposed, and a Standard for Miscellaneous Charges and Fees.<sup>1</sup>**

Miscellaneous Customer Cost	Company's		Magruder Proposed Charge	Variations in other water districts' charges and fees (present and proposed) including Staff and RUCO
	Present Charge	Proposed Charge		
<u>Establish, Re-establish, Re-connect Fee</u>				
(Regular hours)	\$ 30.00	\$ 30.00	<b>\$ 30.00</b>	\$ 20 to \$40
(Off hours)	\$ 40.00	\$ 40.00	<b>\$ 60.00</b>	\$ 20 to \$ 60
Water Meter Test (if correct)	\$ 10.00	\$ 10.00	<b>\$ 80.00</b>	\$10 to \$81
Meter Re-read (if correct)	\$ 5.00	\$ 5.00	<b>\$ 20.00</b>	\$ 5 to \$25
Move Customer Meter	NA	NA	<b>Actual Cost</b>	NA or Actual Cost
Non-Sufficient Funds Check Charge	\$ 10.00	\$ 10.00	<b>\$ 30.00</b>	\$10 to \$25
Late Fee Charge	1.5%/ month	1.5%/ month	<b>3.0% /month</b>	NA to 1.5%/ month
Deferred Payment Finance Fee	NA	NA	<b>1.5% /month</b>	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	<b>Actual Cost</b>	\$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	<b>Actual Cost</b>	\$130 to \$6,130 to actual costs (plus \$120 for AMR)

19 This Party emphasized this issue. It is an important issue and can be handled separately from  
 20 the others in this case. This will permit focus on miscellaneous fees and charges so that a set be  
 21 determined that is fair and reasonable for all AAWC ratepayers and in these water districts with  
 22 other AAWC districts in their next rate case.  
 23  
 24

25 **Conclusion.**

26 The Company should remove all the fee and charge differences by consolidation  
 27 between these water districts and standardize its Rules and Regulations where they are  
 28 discussed. This will integrate and standardize miscellaneous fees and charges across all  
 29 districts in this case. With implementation in the near future, this benefits these districts  
 30 and provides a basis for the integration of consolidated fees and charges in the company's  
 31 next rate case.  
 32  
 33

34  
 35 <sup>1</sup> Reply Brief by Marshall Magruder, 15 May 2009, Table 13, page 26.

1  
2       **Recommendations.**

3       It is recommended that:

- 4  
5       (1) The company shall file an integrated and consolidated Miscellaneous Charges and Fee tariff  
6       to this docket for all these water districts within 60 days after the resultant ACC Order is  
7       issued. This should also include consolidated Rules and Regulations changes necessary for  
8       their implementation.  
9  
10       (2) All parties will have 15 days for review and to submit comments to the ACC Utilities Director  
11       and other parties.  
12       (3) The ACC Staff will review the proposed tariff and comments and prepare a consolidated  
13       Miscellaneous Charges and Fees Tariff with conforming Rules and Regulation changes for  
14       approval by the Commission at a future Open Meeting.  
15

16   b. **RECOMMENDED CHANGES TO THE ROO.** The following are recommended to the ROO:

- 17       (1) On page 51, between lines 9 and 10, add the following:

18                "There is one area where consolidation can begin at this time. The various  
19       miscellaneous Charges and Fees differ between the water districts as was pointed  
20       out by Mr. Magruder and consolidation of these can be done independent of a full  
21       rate case. We feel this will benefit the company by simplifying its tariffs and  
22       associated rules and regulation; the company will be tasked to provide a filing to  
23       consolidate miscellaneous charges for these water districts and fees 60 days after  
24       implementation of this Order."  
25  
26

- 27       (2) On page 77, after line 24, add the following:

28                "IF IS FURTHER ORDERED that Arizona-American Water Company file a consolidated  
29       Miscellaneous Charges and Fees Tariff with conforming Rules and Regulation  
30       changes for all miscellaneous charges and fees for the water districts within sixty  
31       days of the effective date of this order. The ACC Staff will review and receive  
32       comments for fourteen days after this filing and then present a report with  
33       recommendation to the Commission at a future Open Meeting."  
34  
35

1 **3. Exception Two Issue Concerning Interrelationships between Consolidated Rate Schedules and**  
2 **using Volumetric Rates as a Means of Conserving Water.**

3 a. **Discussion.** The ROO orders the company to file a revenue-neutral change in rate design  
4 that consolidates all its water districts and/or water and wastewater districts. This exception  
5 involves using "water conservation" as an important element in this rate design as presented in  
6 the testimonies and briefs by Mr. Magruder.  
7

8 b. **Water Conservation-Based Rate Schedules.** The key elements of a conservation-based  
9 rate design includes having

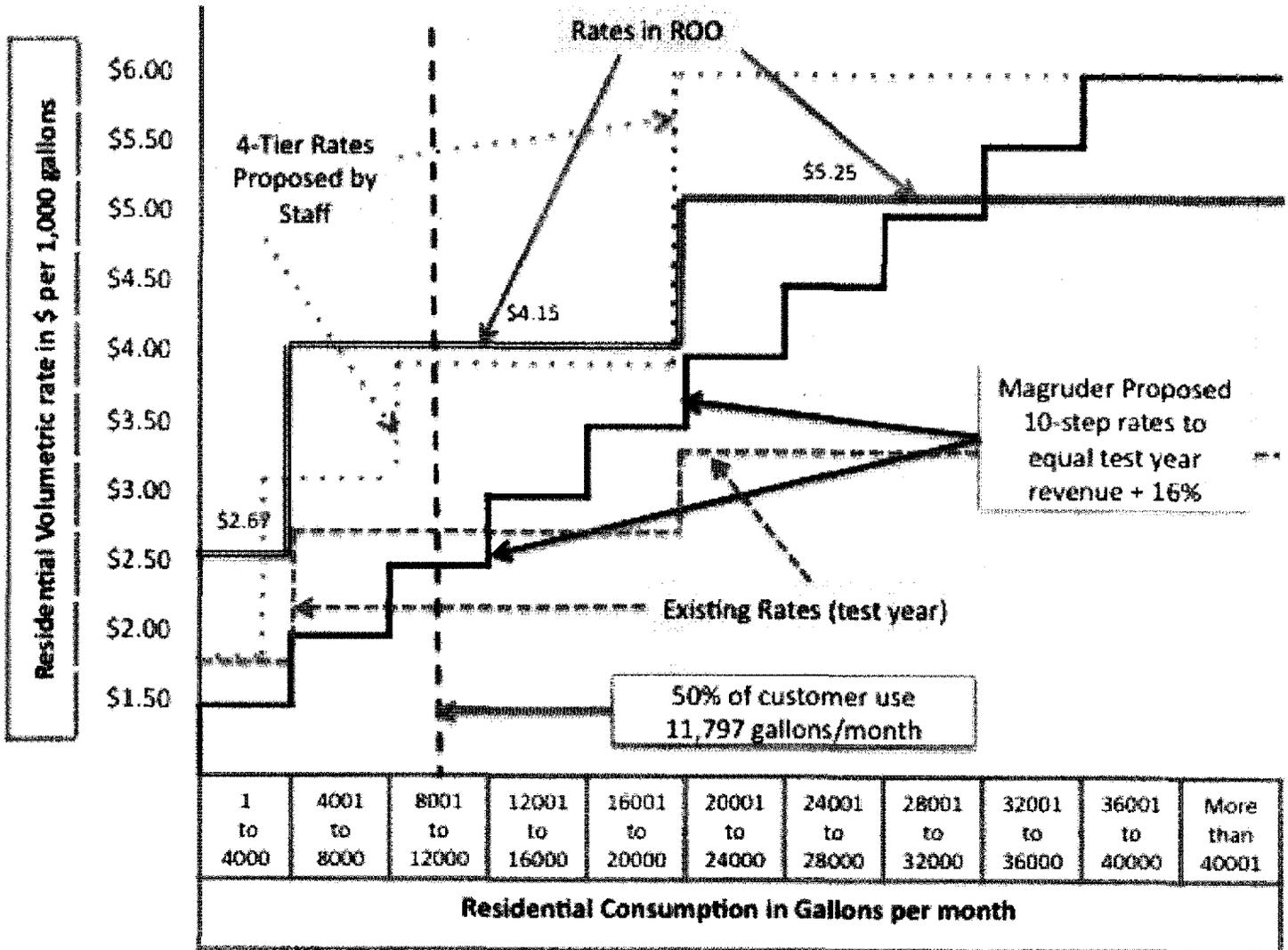
- 10 (1) Significantly lower rates for the lowest volumetric consumers and  
11 (2) Significantly higher rates for the highest volumetric consumers.  
12

13 This widens the "spread" in rates so that lower consuming customers will benefit, as these  
14 usually are the lower income and those on fixed incomes, such as those who are retired. The  
15 monthly consumption figures average a bit over 5,000 gallons per month at Sun City West to over  
16 20,000 gallons per month at Paradise Valley in this case. The company testified that only 300 to  
17 500 gallons per person are needed for human consumption in a month, thus these lower rates will  
18 significantly benefit the low income customers. At present, AAWC does NOT have a low-income  
19 rate schedule but those benefits will occur when there is a wide rate spread between rates. In  
20 general, at least by a factor of three should be the difference between lowest to highest rates in  
21 each customer category will be necessary.  
22

23 c. **Additional Rate Blocks Are Required To Send A PRICE SIGNAL.** Most rate categories have  
24 two or three rate blocks or tiers. With this number of rate blocks, it will be difficult for a customer  
25 to see the impact of conservation. To incentivize water conservation, many rate blocks are  
26 required so customers can move their consumption to a lower level by conserving. As shown in  
27 the below Figure for the Tubac Water District the existing rate blocks are shown, the Magruder  
28 proposed ten-blocks, the Four-Tier ACC proposal, and the ROO rates are shown. Also, the median  
29 (50% of the customers) consumption is 11,797 gallons per month.  
30

31 d. **Using Rates for Water Conservation.** Only the ever increasing, 4,000-gallon blocks by  
32 the Magruder ten-tier rate structure provide customers with clear, obtainable price signals that  
33 can encourage conservation. The ACC Four-tier proposal has steps at 3,000; 8,000; and 20,000  
34  
35

1 gallons. For one to change their consumption habits from 20,000 gallons per month to fewer than  
 2 8,000 gallons will take a major effort that is beyond reasonable expectations. The ROO and  
 3 Existing rate shows steps at 4,000 and 20,000 gallon even more difficult. The Magruder Proposed  
 4 ten-tier proposal has steps at every 4,000 gallons, to 36,000 gallons per month. A ten-step rate  
 5 and 4-Tier schedules give clear "Price Signals" with obvious lower rate benefits. No other rate  
 6 schedule send a "price signal" to trigger customer's behavior to reduce water consumption.  
 7  
 8



31 **Figure 1. Various Rate Schedules Proposed for the Tubac Water District.**

32  
 33 e. **Magruder Testimony.** The testimonies and Briefs presented on this issue by this Party  
 34 obviously were not clearly presented, as the ROO does not follow the intentions concerning using  
 35 price as a way to conserve water, an issue that all Commissioners are well aware. The examples

1 given by this party are for the Tubac Water District only but should be extrapolated to other water  
2 districts. The Magruder Testimony derived ten-steps, in 4,000-gallon blocks, starting at \$1.50/1,000  
3 gallons and increasing by \$0.50 every 4,000 gallons to 36,000 gallons when it then levels off at  
4 \$6.00 per 1,000 gallons. This was computed to meet the Test Year revenue plus another 16% to  
5 account for fewer sales due to water conservation. This approach initially increases the company's  
6 revenue; however, conservation should reduce water consumption. This should be ~~trued-up~~ during  
7 the next rate case.  
8

9  
10 f. **Conservation Rates in Combination with Consolidated Rates.** On page 48, we see the  
11 impact of consolidation without re-defining the block structures according to the data in ROO  
12 Exhibit B (Scenario: All Eight Water Districts Rate Consolidation). Due to low monthly usage in Sun  
13 City, Mohave and Sun City West, the "rate increase" shown (page 48) should greatly decrease for  
14 both low-income and low-consumption ratepayers. Thus, potential rate increases will significantly  
15 decline and maybe negative under a ten-tier structure as these data could be considered as  
16 misleading under this new condition. [I don't have the capability to make these calculations.] Based  
17 on these results, during the "consolidation" process, multiple-tier approaches should be used to  
18 conserve water and mitigate potential rate increases for lower water consumption.  
19

20  
21 g. **Conclusion.** Rate structure scenarios for many tiers (ten or more) need to be considered  
22 when consolidating rates that will benefit all lower-consumption customers as a way to  
23 conserve water with strong price signals being imposed on the highest consumption  
24 customers.

25 h. **Recommendations.** It is recommended that:

- 26  
27 (1) When the company files its consolidate water district rate schedules, that scenarios be  
28 assessed that have many tiers, at least ten, so that clear water conservation price-signals  
29 can be sent to customers.
- 30  
31 (2) These scenarios also need to have a wide spread between the rates for the lowest  
32 consumption customers and the highest consumption customers. A ratio of at least 1:3  
33 should be considered during this process.
- 34  
35 (3) The quantitative results of these scenarios need to be included in this filing to assist the  
Commission in determining the strength of price signals to meet conservation goals.

1 i. **RECOMMENDED CHANGES TO THE ROO.** The following are recommended to the ROO:

2 (1) On page 50, in line 19, add new paragraph to read:

3 "Mr. Magruder' testimonies showed that a revenue-neutral rate design could be  
4 created to send clear price signals to customers to conserve water. He presented  
5 data for the test year with significantly reduced rates for the lowest consumption  
6 customers and by significant rate increases for the greatest consuming  
7 customers. His approach created clear and attainable price signals at 4,000-  
8 gallon increments. This greatly saves costs for the low consuming consumers,  
9 who are also likely to have lower incomes or customers on a fixed-income. This  
10 approach alleviates establishing and maintaining special rates for low-income  
11 customers and the costs associated with managing such a program, usually using  
12 funds from other ratepayers. Further, an analysis of impacts when many tiers  
13 established and with significant differences between the low and highest rates in  
14 each rate category. This should be evaluated during the development of the  
15 consolidated rate structure filings to send clear price signals to customers that is  
16 saves money to conserve water."<sup>2</sup>

17 (2) On page 77, after line 18, add the following:

18 "IT IS FURTHER ORDERED in the above consolidation filing, that the company  
19 consider using at least ten rate blocks with a significant spread between the  
20 lowest and highest rates in each rate category while being rate-neutral. This  
21 should be developed to send price signals to customers to conserve water.  
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35 <sup>2</sup> Ibid, pages 19-25.