

ORIGINAL
Sheila Stoell



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Arizona Corporation Commission

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From: Lynnbrendavick [lynnvick@cox.net]
Sent: Monday, March 08, 2010 9:36 PM
To: Kennedy-Web; Utilities Div - Mailbox; Mayes-WebEmail; Newman-Web; Pierce-Web; Stump-Web
Cc: Robertson Larry
Subject: Anthem Water Rate Case - March 8, 2010

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AZ CORP COMMISSION
DOCKET CONTROL

Mr. Thomas Broderick at Arizona-American Water and I had an exchange of emails from March 1, 2010, through March 3, 2010. Jeannie Franz and Karl Wilkins at Arizona-American Water and Deborah Reagan at the Arizona Corporation Commission received copies of our emails. Mr. Broderick did send me a CD containing the most recent testimony of Arizona-American Water. Based on that information, I have reached the following recommendation and conclusions:

RECOMMENDATION:

If the Commission should decide to overrule Anthem's contention that Anthem water users should not have to reimburse the Arizona-American Water Company for the purchase of the Anthem's water and sewer infrastructure, then the following recommendation seems reasonable.

A rate increase of no more than an average of \$8.10 or \$11.20 per month per house serviced by Arizona-American Water in Anthem would be sufficient to amortize a 30 year loan at 6.7 percent for the "balloon" payment of approximately \$20 million made by Arizona-American Water to Pulte.

CONCLUSIONS:

- (1) There is a major conflict between what Mr. Broderick said in his emails and his testimony before the Commission. Mr. Broderick's testimony states that the current rate request increase includes "Anthem developer refunds totaling \$28.1 million (only Anthem Water and Anthem/Agua Fria Wastewater Districts)." However his emails indicate that approximately \$20 million are included in the current rate request. The last payment of approximately \$7 million has not been included in the pending rate case. Why is there is difference of approximately \$8 million?
- (2) Arizona-American Water does not maintain cost and profit accounting records specific to the Anthem water plant and equipment. Therefore, any financial data they provide in support of a rate increase for the Anthem water plant is speculative, flawed, and unreliable.
- (3) The requested rate increase is substantially more than what is required to amortize the approximate \$20 million "balloon" payment at 6.7 percent over a 30 year period.
- (4) There is no evidence that Arizona-American Water issued long term (30 year) debt and/or equity to finance the "balloon" payment of \$20 million made to Pulte.
- (5) Arizona-American Water will make a final "balloon" payment of approximately \$7 million to Pulte this month (March 2010). Mr. Broderick stated that this payment will be financed by "short-term debt." It is extremely poor accounting practice to finance long-term obligations (water plant and equipment) with short-term debt.

Computation of Recommendation:

"Balloon" payment to Pulte - \$20,000,000
Interest rate - 6.7 percent
Repayment period - 30 years

Computed annual payment - \$1,556,000
Less 25 percent for Anthem non-residential use (based on Schedule H-1, page 1 of AAW
(Gutowski) testimony) - \$389,000
Net annual cost to Anthem residential home owners - \$1,167,000

Number of houses in Anthem - 12,000 (my estimate) or 8,678 (AAW testimony)

Annual cost per house - \$97.25 or \$134.47

Monthly cost per house - \$8.10 or \$11.20

The testimony of Arizona-American Water shows a different number of Anthem customers on the different charts, and I have been told that there are about 12,000 houses in Anthem. I am not sure what is the most accurate number of residential houses serviced by Arizona-American Water in Anthem, so I have shown two different estimates.

Some of the numbers are my best guess since I do not have access to more accurate information. I would expect that the Arizona Corporation Commission does have access to more accurate information or at least has the authority and ability to get more accurate information. The above numbers would, of course, need to be adjusted by the more accurate information. However, I would expect that my estimates are reasonably close to the more accurate data.