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COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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 ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

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 ANTHEM/AGUA FRIA WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**NOTICE OF FILING
ELIJAH O. ABINAH'S
DIRECT TESTIMONY
ON RATE DESIGN AND
RATE CONSOLIDATION**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Elijah O. Abinah of the Utilities' Division.

RESPECTFULLY SUBMITTED this 30th day of March 2010.

Maureen A. Scott, Senior Staff Counsel
Robin R. Mitchell, Attorney
Legal Division
Arizona Corporation Commission
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Phoenix, Arizona 85007
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Arizona Corporation Commission

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MAR 30 2010

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2 of the foregoing filed this 30th day
3 of March 2010 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

6 Copies of the foregoing mailed this
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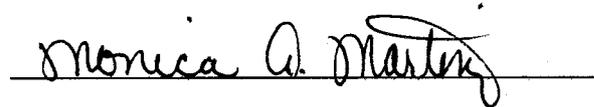
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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

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 INCREASE IN ITS)
RATES AND CHARGES BASED THEREON)
FOR UTILITY SERVICES BY ITS ANTHEM)
WATER DISTRICT AND ITS SUN CITY)
WATER DISTRICT.)

DOCKET NO. W-01303A-09-0343

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 INCREASE IN ITS)
RATES AND CHARGES BASED THEREON)
FOR UTILITY SERVICES BY ITS)
ANTHEM/AGUA FRIA WASTEWATER)
DISTRICT, ITS SUN CITY WASTEWATER)
DISTRICT AND ITS SUN CITY WEST)
WASTEWATER DISTRICT.)

DOCKET NO. SW-01303A-09-0343

(RATE DESIGN)

DIRECT TESTIMONY

OF

ELIJAH O. ABINAH

ASSISTANT DIRECTOR

UTILITES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 30, 2010

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1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Elijah O. Abinah. My business address is 1200 West Washington Street,
4 Phoenix, Arizona, 85007.

5
6 **Q. Where are you employed and in what capacity?**

7 A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission
8 ("ACC" or "Commission") as the Assistant Director.

9
10 **Q. How long have you been employed with the Utilities Division?**

11 A. I have been employed with the Utilities Division since January 2003.

12
13 **Q. Please describe your educational background and professional experience.**

14 A. I received a Bachelor of Science degree in Accounting from the University of Central
15 Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from
16 Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the
17 ACC, I was employed by the Oklahoma Corporation Commission for approximately eight
18 and a half years in various capacities in the Telecommunications Division.

19
20 **Q. What are your current responsibilities?**

21 A. As the Assistant Director, I review submissions that are filed with the Commission and
22 make policy recommendations to the Director regarding those filings.

23
24 **Q. What is the purpose of your testimony?**

25 A. The purpose of my testimony is to address the issue of rate consolidation or system
26 interconnections.

1 **Q. Can you please provide a brief background?**

2 A. Yes. Commission Decision No. 71470 issued on December 8, 2009, in Docket No.
3 W-01303A-08-0227, states the following:

4 While the Commission will defer addressing consolidation in the
5 instant case, we believe this issue is of critical importance and that
6 unnecessary delay does not allow customers to benefit from
7 administrative expediency, economies of scale and other
8 efficiencies which would otherwise occur through consolidation.
9 Accordingly, we will require Commission Staff to propose at least
10 one consolidation proposal in the Company's next rate case which
11 will allow parties and the public ample opportunity to have notice
12 of this issue and participate in that discussion.

13 Decision 71470 at 51:9-14 (issued Dec. 8, 2009)

14
15 116. The rate designs adopted herein are just and reasonable. This
16 docket should remain open for the limited purpose of consolidation
17 in the company's next rate case with a separate docket in which a
18 revenue-neutral change to rate design of all the Company's water
19 districts or other appropriate proposals or all the Company's water
20 and wastewater districts or other appropriate proposals may be
21 considered simultaneously, after appropriate public notice, with
22 appropriate opportunity for informed public comment and
23 participation.

24 Decision 71470, Finding of Fact 116, at 71:26-72:4
25
26

1 IT IS FURTHER ORDERED that this docket shall remain open for
2 the limited purpose of consolidation in the Company's next rate
3 case with a separate docket in which a revenue-neutral change to
4 rate design of all Arizona-American Water Company's water
5 districts or other appropriate proposals or all Arizona-American's
6 water and wastewater districts or other appropriate proposals may
7 be considered simultaneously, after appropriate public notice, with
8 appropriate opportunity for informed public comment and
9 participation.

10 Decision 71470 at 78:14-19
11

12 My Testimony addresses the above.
13

14 **RATE CONSOLIDATION/SYSTEM INTERCONNECTION**

15 **Q. Does Staff support the concept of rate consolidation and/or system interconnection?**

16 A. Yes, in appropriate circumstances. Staff believes where and when it makes sense and
17 where it is technically and financially feasible, rate consolidation and/or system
18 interconnections should be seriously considered by the Commission.
19

20 **Q. Can you please define rate consolidation and system interconnection?**

21 A. Rate consolidation also known as Single Tariff Prices ("STP") is "the use of a unified rate
22 structure for multiple utility systems that are owned and operated by a single utility, but
23 that may or may not be contiguous or physically interconnected." Whereas, system
24 interconnection is when two or more systems or districts owned and operated by a single
25 utility are physically connected or tied together. When a system or district is
26 interconnected, in most instances, they share storage tanks, pipelines, etc.

1 **Q. When a company is physically interconnected, is it appropriate to have a STP?**

2 A. Usually yes. Staff believes that, when a company is physically interconnected an STP is
3 most likely appropriate due to the sharing of facilities and personnel.
4

5 **Q. Does a utility have to interconnect in order to have a rate consolidation or STP?**

6 A. No. Staff believes that in some instances physical interconnection is not technically or
7 financially feasible, while rate consolidation may be.
8

9 **Q. What criteria should be considered in recommending rate consolidation?**

10 A. Staff believes that the following criteria should be utilized at the minimum:
11

12 • Public health and safety – These issues come into play with small, troubled water
13 systems that are not currently a part of a larger system. Small troubled systems often
14 need substantial investment to alleviate health or public safety issues such as water
15 quality. Upgrades to such systems can be significant and substantial, since this may be
16 spread over only a few customers, rates will move up drastically. For example, if a
17 small, 300 customer system needed to make an investment of \$1.0 million each
18 customer would face an increase of roughly a \$50 per month, just to meet the revenue
19 requirement for this investment. If on the other hand, we had a consolidated tariff and
20 could spread that same revenue requirement over 100,000 customers, each customer
21 would face an increase of only \$0.15 per month.
22

23 • Proximity and location – Proximity may help psychologically getting people to accept
24 single tariffs, but it certainly is not a requirement. Physical interconnection should be
25 required when systems/districts are closer and it is technically and financially feasible.

- 1 • Economies of scale/rate case expense – One area where there would be significant
2 economies of scale would be in the preparation of rate cases. Preparing, analyzing and
3 litigating the consolidated cases could be much more efficient than processing with
4 individual cases. Issues which have caused delays and added costs such as allocating
5 shared plant or other costs between districts could disappear as there would be only a
6 single number for rate base or expenses.

- 7
8 • Price shock/mitigation – Price shock is an issue during the transition period and, in
9 reality, is relative to the prices people pay now. It is also important to remember that
10 there will be communities that clearly benefit from this and others that do not.

11
12 For example, if Sun City and Sun City West consolidate, the average price would be
13 roughly \$20 per month. For Sun City customers, this would amount to an increase of
14 roughly \$7 per month which is substantial but not insurmountable. On a relative basis
15 however, this is a 54 percent increase and this figure is bound to garner unfavorable
16 publicity. For the Sun City West residents, this would represent a decrease from
17 current rates and a significant decrease from the proposed average rate of \$35 per
18 month demonstrating the clear benefit these residents would experience.

- 19
20 • Public policy – Public policy will be a key part of tariff consolidation. There are
21 several examples of public policy driving regulatory decisions that differ from a purely
22 theoretical view on regulatory practices. Public policy on water conservation is one of
23 the key drivers behind the increasing block tariffs used to promote conservation even
24 though, in a traditional “cost of service” model, one might expect to see the opposite.
25 Public policy is also behind the push to switch water use from non-renewable ground
26 water to renewable sources like surface water even though ground water may be less

1 expensive in the short term. The key public benefits related to tariff consolidation
2 include:

- 3 1. The opportunity for efficient consolidation of small troubled water
4 companies, some of which may be some distance from other companys'
5 current footprint.
- 6 2. The ability to minimize severe price shocks experienced by one or two
7 communities as a new facility or major upgrade is undertaken.
- 8 3. Improving the effectiveness of certain key programs such as low income
9 tariffs by including resources from across the state.

- 10
- 11 • Other jurisdictions/municipalities – Staff believes that the Commission should
12 examine how and if this issue is being addressed by other jurisdictions.
- 13

14 **Q. Should the Commission establish, at a minimum, a set of criteria in considering rate**
15 **consolidation and/or system interconnection?**

16 A. Yes. Staff believes that, at a minimum, the Commission should establish certain criteria
17 for rate consolidation and/or system interconnection.

18

19 **Q. Does Staff believe that rate consolidation and/or system interconnection is possible**
20 **for all systems/districts?**

21 A. No. Sometimes rate consolidation and/or system interconnection is not technically or
22 financially feasible.

23

24 **Q. Did Arizona-American Water Company (“Company”) propose consolidation in its**
25 **Direct Testimony?**

26 A. No. In its Direct Testimony, the Company did not propose any rate consolidation.

1 **Q. What is Staff's recommendation in this proceeding for the water systems?**

2 A. As stated earlier, Staff supports the concept of rate consolidation and/or system
3 interconnection where appropriate. In this instance Staff recommends that the
4 Commission maintain the status quo by adopting a stand alone rate design. However if
5 the Commission is inclined to implement rate consolidation in this instant case, Staff
6 recommends that the Commission consider rate consolidation on a regional bases or
7 combination of district/system as follows. The Commission could order Arizona
8 American to consolidate the rates of the following systems/districts (Scenario Three in Mr.
9 Michlik's testimony):

- 10 • Sun City and Sun City West system/district.
- 11 • Paradise Valley, Anthem and Agua Fria system/district.
- 12 • Mohave, Lake Havasu and Tubac system/district.

13

14 **Q. What is Staff's rationale for this recommendation?**

15 A. As stated earlier, Staff supports the concept of rate consolidation and/or system
16 interconnection where and when it is technically and financially feasible. As noted, the
17 Company, for ratemaking purposes, has 13 systems/districts, consisting of eight water and
18 five wastewater districts.

19

20 This combination consolidates the rates of the rural or outlying systems (Mohave, Lake
21 Havasu, and Tubac); the Maricopa County systems (Paradise valley, Anthem, and Agua
22 Fria, excluding the Sun Cities); and the Sun City and Sun City West systems.

23

24 Also, Staff believes that the Commission should proceed with caution and be mindful of
25 any unintended consequences of rate consolidation and/or system interconnection.

26

1 **Q. What is Staff's recommendation in this proceeding for the wastewater systems?**

2 A. In this instance Staff recommends that the Commission maintain the status quo by
3 adopting a stand alone rate design. However if the Commission is inclined to implement
4 rate consolidation in this instant case, Staff recommends that the Commission consider
5 rate consolidation as follows (Scenario Two in Mr. Michlik's testimony):

- 6 • Sun City and Sun City West system/district.
- 7 • Mohave, Anthem and Agua Fria system/district.

8
9 **Q. Can you please list these districts?**

10 A. Yes:

- 11
- 12 • Agua Fria Water district
- 13 • Agua Fria Wastewater district
- 14 • Sun City Water
- 15 • Sun City Wastewater
- 16 • Sun City West Water
- 17 • Sun City West Wastewater
- 18 • Anthem Water
- 19 • Anthem Wastewater
- 20 • Mohave Water district
- 21 • Mohave Wastewater district
- 22 • Paradise Valley Water
- 23 • Tubac Water district
- 24 • Havasu Water

25
26 **Q. Does this conclude your Surrebuttal Testimony?**

27 A. Yes it does.