

ORIGINAL

BEFORE THE ARIZONA CORPORATIO



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10 IN THE MATTER OF THE APPLICATION
11 OF ARIZONA-AMERICAN WATER
12 COMPANY, AN ARIZONA
13 CORPORATION, FOR A
14 DETERMINATION OF THE CURRENT
15 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

16 IN THE MATTER OF THE APPLICATION
17 OF ARIZONA-AMERICAN WATER
18 COMPANY, AN ARIZONA
19 CORPORATION, FOR A
20 DETERMINATION OF THE CURRENT
21 FAIR VALUE OF ITS UTILITY PLANT
22 AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE 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

REBUTTAL ON CONSOLIDATION & RATE DESIGN

of

W.R. HANSEN

Arizona Corporation Commission

INDIVIDUAL INTERVENER

DOCKETED

APRIL ,7 ,2010

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1 EXECUTIVE SUMMARY

2 The consolidation of water utility rates should presuppose that
3 there is a group of homogeneous characteristics which exist
4 between one or more districts that would place them at a common
5 intersection in terms of reasonably predictable costs of operation
6 and that interconnection is an economically plausible. Rarely
7 does such a scenerio exist.

8 The war chant for water utility consolidation echos mainly from
9 the electrical utility industry where interconnection is common
10 place. The opposite is true in the water utility industry

11 One needs to review the water & wastewater utility infrastru-
12 ure as set forth in the 2008 survey by "Water Infrastructure Finance
13 Authority of Arizona. In it, you will find there are 6 major
14 divisions by which they classify utility operations, with 26
15 different subdivisions under them. The monthly cost in water
16 district varies from \$4.64 to \$201.78, for wastewater- the monthly
17 charge ranges from \$2.00 to \$80.00. These wide variances in monthly
18 charges conclusively reflect the infrastructure and operational
19 cost variables that inevitably flow from the intrinsic diversiy
20 engulfing each unique water district. For these reasons, simple
21 logic conveys the undesireability of consolidation

22 Beyond the logic & economical rationale for rejecting consoli-
23 dation, there is another dimension I will only speak to in passing.
24 That is, the appropriate jurisdiction of the A.C.C. in contemplating
25 this issue.

26 In my mind's eye, the A.C.C. is exceeding their intended authority.
27 More clearly, consolidation, equalization, levelization or Socializa-
28 tion are all synonyms for what such a process would imply. It
stretches well beyond the observations or calculations of return on
investment because of the uneven manifestation it imposes. Some
underinvesting-overspending district could become the beneficiary of a
frugal, efficient-spending district where consolidation would chop the
excessive rates of the profligate district while hiking the rate of
the prudent district. In reality, it is a complex policy issue, well
beyond the ministerial duties of the A.C.C. & belongs within the
legislative arena for policy making.

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 My Name is W.R. Hansen. MY residential address is 12302
5 Swallow Dr., Sun City West, Arizona 85375, and my phone number
6 623-556-9873.

7 **Q. WHAT IS YOUR CURRENT STATUS?**

8 I am a retired individual.

9 **Q. PLEASE DESCRIBE YOUR VOCATIONAL EXPERIENCE & EDUCATION.**

10 I have a Bachelor Degree in Education with a Minor in Business
11 Administration with some additional post graduate education.
12 For 26 years I was a business co-owner with my brother, 15 years
13 in Trade Association management. During my business career, I
14 also spent 12 years in the Iowa STATE Legislature. Following
15 my association work, I spent 6 years on an appointive state
16 commission, serving half of that time as Chairman of the Commission

17 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION ?**

18 Yes, but it was at a Public Hearing they held in Sun City West.
19 However, I was deeply involved in the Rate Hearing last fall &
20 attended some of the formal hearings last March but did not
21 testify.

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

23 To file a rebuttal on Consolidation & Rate Design.
24 "Consolidation" of rates issue, which had not been on the formal
25 docket....in the current case, but lurked constantly in the dim
26 background, and then leapt into the forefront at a precipitous
27 time precluding adequate preparation for it or its style or
28 options in which it makes its appearance.

29 **Q. WHAT BACKGROUND DO YOU HAVE IN A WATER UTILITY CASE?**

30 Beginning in the fall of 2008 through 2009, I spent over 4 months
31 as a member of the Sun City West Homeowners Association(P.O.R.A.)
32 Water Rate Committee studying & preparing testimony for W-01303A-
33 08-0227 & SW 01303A-08-0227, where we met weekly for over 4 months.
34 As stated above, I participated in a Commission Hearing in Sun
35 City West, and attended some of the hearings last March but did
36 not testify.

1 Q 1 WHAT VIEWPOINT DO YOU WISH TO EXPRESS AT THIS TIME?
2 ON THIS PROPOSED CHANGE IN POLICY?

3 I deem it a policy issue inasmuch as it defies the traditional
4 process in the calculation of rates predicated on the individual
5 districts invested capital in its singularly functioning system as
6 well as the revenues and expenses associated with the unique
7 characterizations of that district.

8 Q 2 DO YOU THINK "CONSOLIDATION" IS THE APPROPRIATE NAME FOR THIS
9 ISSUE?

10 No, I do not-in fact I would have characterized it as a classic
11 misnomer. Others have previously spoken of it in various terms,
12 classifying it an "Equalizer," "Levelizer," or "Socialization."
13 In essence, it is a scheme to redistribute burdens predicated
14 on the confiscation of the prudently invested and functioning
15 districts to prop up the under-invested districts who-whether
16 by a variety of circumstances- find themselves in an adverse
17 fiscal position in terms of capital needs or operational
18 excesses for their size.

19 Q 3 WHAT COMPARABLE GAINS MIGHT ONE ANTICIPATE IN THE LEVELIZATION
20 OF THE RATE STRUCTURE?

21 Virtually none! Conceivably at the Commission level, it may be
22 able to eliminate an Administrative Judge and some attendant
23 personnel by virtue of fewer rate cases and perhaps a miniscule
24 reduction at the company level but that would be less likely.
25 Conversely, establishing a while new system and covering a massive
26 layer of districts simultaneously could trigger increased costs.
27 It could reduce the time spent by Commissioners but whether you
28 would ever reduce their compensation is problematic. In sum
total, any cost reduction of staff collectively, in a monopolis-
tic style of business, would more likely result in a trickle and
is unlikely to ever be seen by the rate payor. Potentially,
while it could appear to be time-savings for the A.C.C., the
greater depth and complexity of the case could offset it.
Significant wind-falls would be experienced by 3 districts, i.e.
Anthem, Havasu & Tubac but some would suffer and one particularly-
Sun City.

Q 4 CAN YOU BE MORE SPECIFIC ?

1 Yes, Tubac & Anthem in cases pending could experience a
2 doubling of their current rates, as was asserted by staff
3 at the 2/10/10 Rate Consolidation Seminar¹ whereas according
4 to Exhibit B from Rate Case # W-01303A-08-0227 on page 47 & 48
5 of Docket # 71410 under so-called "consolidation" would be
6 gifted with reductions of 47.74% for Anthem & 47.13% for Tubac
7 while Sun City would be saddled with a 136% increase. This
8 observation is similar to what Broderick expressed on lines 19-2
9 of the same document, and on p. 49, lines 1-8.² Also, on lines
10 9-14 of page 49, PORA suggests their opposition to consolidation
11 and suggests that together with Sun City, they be left out of the
12 consolidation format. RUCO expresses its opposition because not
13 all districts were considered, in line 15-20 on p. 49.³ While
14 staff supports it in concept, not in the instant case and
15 acknowledged on p. 50 with Company Counsel that at least 10
16 deficiencies exist prior to rate consideration.⁴ Only one
17 party recommended consolidation, Magruder of Tubac.⁵

18 **Q 5 WHAT HAS PROMPTED THE INTEREST IN THIS APPROACH ?**

19 It is a hangover from the last rate case that concluded on
20 November 12,2009. It is likely prompted by, and I can only
21 speculate, that it may have fermented into consideration
22 in that it is used sometimes with gas and electric utilities.

23 **Q 6 WOULD THAT NOT SUPPORT ITS CONSIDERATION.**

24 Absolutely not for gas and electric utilities are interconnected
25 in those cases, utilizing common production facilities whereas
26 water utilities in the instant case are not in that type operat-
27 ional mode. They have their own invested facilities, unique to
28 their district and their own unique costs and revenues. While
some common labor and management has been allocated in accord-
ance with accepted accounting practices, production and distri-
bution in most instances remain separated. Some utility dis-
tricts, such as Sun City West, have been combating the arsenic
problem and our rate payors have absorbed the capital and
operational cost. Next door is Sun City & it does not have arsenic

- 29 (1) Staff @ Rate Consolidation Conference on 2/10/10
30 (2) Docket 71410, Schedule B, p 48 Broderick l. 19-25 on p.48,1-8 on
31 (3) Ibid 2, p. 49, lines ,PORA lines 9-14,RUCO 15-20
32 (4) Ibid 2, p. 50,lines 1-15
33 (5) Ibid 2, p. 50, lines 16-19

1 Now we learn that Tubac has arsenic, while Anthem is
2 facing fiscal problems so I can imagine that both would
3 be cheerleaders for consolidation or levelization of
4 rates since it would deposit their extra burdens on the
5 other districts. Fortunately for Tubac, they received a
6 one million dollar stimulus federal grant, something un-
known to Sun City West as we started shouldering the arsenic
costs a few years ago on the backs of our local rate payors.

7 **Q 7 WHAT OTHER ASPECTS MAKE LEVELIZATION DIFFICULT AMONG WATER**
8 **UTILITIES IN TERMS OF EQUITABLY RESPECTING DISTRICT'S**
9 **UNIQUE DIFFERENCES ?**

10 It does give one pause when suddenly a trade association
11 of 100 investor utilities (some as large as 400,000 meters)
12 signs up as an Intervener in a case devoted to 5 small
utility districts, other than to pursue their goal of
statewide water utility rate consolidation.

13 The main problem with water utility districts in Arizona is
14 the lack of homogeneous grouping for a singular rate setting.
15 The Water Infrastructure Finance Authority of Arizona illustrates
16 this fact in their latest survey of 2008, " **WATER & WASTEWATER**
17 **RESIDENTIAL RATE SURVEY for the state of ARIZONA.**" 6 On p. 9
18 they declare there are 426 entries for drinking water districts,
19 varying in rates from @\$4.64 month charge for Phoenix to \$201.78
20 monthly charge for Highland Pines. There are 133 waste water
districts with monthly rates that vary from \$2.00 in Tolleson
to \$80.00 in Kings Ranch. 7

21 The characteristic differences among water district is best
22 illustrated by their 3 major groupings; #1 Pricing of charges
23 with 7 subdivisions/8 #2 Cost factors used for rates with 11
subdivisions/9 # 3 Types of Ownership with 4 subdivisions.10.

24 Thus with 3 major divisions, you add 22 subdivisions, ending
up with 25 different ways to characterize a district.

25 (6) Cover page of Water & Wastewater Survey

26 (7) Ibid # 6, p. 9 Cost variances of districts

27 (8) Ibid # 6, p. 5 & 6, Pricing systems

(9) Ibid # 6, p. 6 & 7, Cost factors for calculating rate

28 (10) Ibid #6, p. 9, Types of Ownership

1 Q 8 ARE THERE OTHER CHARACTERISTIC DIFFERENCES?

2 I'm sure there are more but I'll just mention 2 other differ-
3 ences in water districts that have major implications.
4 Sun City & Sun City West are built-out communities, that is
5 there is no potential for additional customers and as a
6 result its system is somewhat more static than those in
7 expansive areas. Also, costs & revenue tend to be quite static.
8 Additionally, the age of a system can make a significant
9 difference in capital demands. From the attached memo, you
10 can see the age of systems range from 25 years old to 64
11 years old, a span of age difference of 39 years. 11
12 That factor alone has huge expenditure implications.

11 *

12 REBUTTAL TO TESTIMONY OF

13 Jeffrey M. Michlik

14 on

15 CONSOLIDATION vs. MERIT RATES

16 Filed: March 29, 2010

17 Q. DO YOU AGREE WITH STAFF CONSOLIDATION PROPOSALS FOR
18 SUN CITY & SUN CITY WEST, AS SET FORTH ON PAGE 22, COMMENCING
19 WITH LINE 9?

20 Yes, I concur with the rejection of the possible consolidation
21 district by the Staff as shown at the bottom of page 23
22 commencing with line 21. I would, however, offer additional
23 reasons, though Michlik alludes to that possibility in the
24 subsequent testimony of Elijah Abinah.

25 Q. WHAT INDEPENDENT STATEMENTS WOULD YOU OFFER.

26 While there is a proximity factor that could be favorable,
27 it is more than outweighed by other factors.

28 Q WHAT MIGHT THOSE FACTORS BE?

#1. The age disparity in the two systems. Sun City West
is 33 year old, while Sun City is 50 years old resulting in
in a deterioration rate that would not be on parallel paths.

(11) Memo from Bradley Cole of 1/22/09

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Q. ARE THERE OTHER FACTORS?

Yes, a 2nd. would be a differential in system styles which could impact rates. Sun City contracts out at least a portion of its wastewater treatment to another entity, whereas in Sun City West we have a complete treatment of all wastewater.

Q. ANY OTHER FACTORS?

Yes, a differential in special conditions. SCW has arsenic and as a result it has made.....and continue to make, a substantial commitment to accomodate this problem. On the other hand, Sun City does not have arsenic.

Thus, the initial logic of pairing these two cities because of proximity pales in light of greater disparities. Beyond that, in my initial discussion of the subject I think I have set forth a bevy of rational objections to the so-called-"consolidation."

INDIVIDUAL RATE DISCUSSION

Q. DO YOU HAVE QUESTIONS ABOUT HIS RATE RECOMMENDATIONS FOR SUN CITY WEST?

Yes, I do for I note in 2nd. page of the Executive Summary he advances a case for a slightly higher rate for Sun City West than what was asked for & proposed by the company. His rationale for such a proposals has escaped me and rationale hidden in some obscure site. However, it does provoke the discussion of why certain expenditures in the test year 2008 as shown in Exhibit, Schedule C-1Rebuttall ,Page 1 by Witness:Kiger.¹² They could offer substantial basis for lowering the rate.

Q. Specifically, what accounting factors are you alluding to?

The transfer in Management Fees to the Parent Company, according to Foot "12" above, were \$789,604. against cash disbursements of \$4,916,480., equaling 16.1% of their cash costs. This seems Most excessive for an industry that is not labor intensive.

Q. Are there other costs you would challenge?

Yes, the pension area, where \$150,285 is ascribed and amounts to 3.1% of cash disbursements. Added to the transfer amount above, these two costs account for 19.2% of cash disbursements.

(12) Financial record, Schedule C-1Rebuttall, P. 1, Witness -Kiger

1 Q. DO YOU UNDERSTAND THE BASIS FOR CALCULATING TRANSFER FEES?

2 No, I do not for in the SCWest water case, concluded last
3 November 12,2009, Docket # W-01303A-08-0227 in EXHIBIT,
4 Schedule C-1,P. 1 Witness: Hubbard, shy of a million dollars
5 was transferred to Parent Company, amounting to 18.3% of
6 cash disbursements. (13) That was 2.2 points higher than the
7 2008 Test year. I wonder if Staff or RUCO has explored the
8 rationale for this transfer?

9 Q. DO YOU HAVE FURTHER QUESTIONS ON THE PENSION COSTS.

10 In the above mentioned case, under footnote (13) RUCO had
11 disallowed 30% of the pension costs, intimating at least
12 a portion of pension costs should be ascribed to the Parent
13 company rather than the rate payor. (14) In the July 30, 2008
14 Illinois Commerce Commission NEWS (15 reports on a case
15 involving Illinois American Water Company, in which they
16 decided that "no incentive compensation for management employees
17 (along with advertisings costs) should be recovered through
18 rates." Apparently this was not reviewed by STAFF, but
19 should have been, along with the "Transfer" issue-both of
20 which would have resulted in sizeable rate reductions rather
21 than the increased proposed on top of the company rate increase.

22 Q. DOES THIS CONCLUDE YOUR REMARKS AT THIS TIME?

23 Yes.

24 (14) RUCO proposed 30% Disallowance of Pension Costs in prior case

25 (15) NEWS Bulletin from Illinois Commerce Commission on Pensions

EXHIBITS

INDEX to FOOTNOTES & EXHIBITS

Page A.	Footnote/Exhibit	1.	Company Rate Consolidation Conference
Page B.	"	"	2.'09 reference to Consolidation & Broderick
Page C.	"	"	3.PORA,RUCO, STAFF...on Consolidation
Page D.	"	"	4.Ten deficiencies of Consolidation 5.Only one Advocate
Page E.	"	"	6.Cover: Water Infrastructure Finance Authority of Survey of All Systems
Page F.	"	"	8.Pricing System
Page G.	"	"	9.Cost Factors in rate structure
Page H.	"	"	7 & 10. Cost Variances Types of Ownership
Page I.	"	"	11. Age of Systems
Page J	"	"	12. Profit & Loss Statement. Az/Am 2008
Page K.	"	"	13. " " " " " " 2007
Page L.	"	"	14. RUCO comments on Pensions in computations
Page M.	"	"	15. Ill. Commission new ruling on Pensions

1 assumptions and decision points that must be considered.²²⁶ Mr. Broderick attached the results of one
 2 consolidation scenario to his prefiled rebuttal testimony. That scenario is attached to this Decision
 3 and incorporated herein as Exhibit B. Exhibit B includes all eight of the Company's water districts at
 4 the Company's requested revenues in the original application filed in this case, and at the present
 5 rates for the Sun City Water district. Exhibit B shows the typical 5/8 x 3/4 inch meter residential
 6 customer bill on a pre- and post- consolidation basis for each of the water districts, with a
 7 consolidated monthly basic service charge of \$15.59 and three tier commodity rates of \$1.50, \$2.50
 8 and \$3.25. That scenario would result in the following total residential revenue and percentage shifts
 9 (in total changes net to zero) by district:²²⁷

District/Revenue shift increase/(decrease)	Rate increase/(decrease)
Anthem	(\$4.6 million) (47.74 %)
Tubac	(\$0.3 million) (47.13 %)
Havasu	(\$0.6 million) (42.90 %)
Agua Fria	(\$3.5 million) (17.75 %)
Sun City West	(\$1.3 million) (15.69 %)
Paradise Valley	\$0.3 million 2.95 %
Mohave	\$1.7 million 37.22 %
Sun City	\$8.4 million 136.00 %

19 Mr. Broderick stated that he experimented with the residential rate designs, but it did not
 20 change his conclusion that in order to achieve a total residential rate consolidation, the rates in the
 21 Sun City Water and Mohave Water districts would increase significantly, and that the major short
 22 term beneficiaries would be Anthem Water, Tubac Water, and Havasu Water districts, with the only
 23 largely unaffected water district being Paradise Valley Water.²²⁸ The Company's witness Mr.
 24 Townsley further addressed the difficulties and benefits of rate consolidation, and laid out a specific
 25 partial rate consolidation proposal that involves the levelizing of net plant investment per customer
 26

27 ²²⁶ *Id.* at 5-6.
 28 ²²⁷ *Id.* at 7.
²²⁸ *Id.*

1 by means of a systems benefit charge to be assessed on the variable usage rate per gallon.²²⁹

2 Based on its analysis, the Company believes that with the magnitude of revenue shift that
3 would be required, its customers are not yet ready for an eight district consolidation.²³⁰ The
4 Company contends that ordering rate consolidation in this proceeding would be impractical, and
5 could lead to unintended consequences, because at this time, there are more questions than answers,
6 and to get the answers, data must be gathered, informed public input must be received, and difficult
7 policy choices must be made. The Company believes that a subsequent parallel proceeding is needed
8 to provide a forum for all parties, the public and the Commission to consider consolidation.²³¹

9 PORA states that it is unprepared to consider consolidation of rates.²³² PORA agrees with
10 Staff that rate consolidation is a complex issue with both public and policy implications, that public
11 outreach should be undertaken prior to consolidation, and that adequate notice of consolidation
12 should be given to all affected ratepayers.²³³ PORA believes that Sun City West Water and Sun City
13 Water districts have unique attributes which should entitle them to an option to not participate in rate
14 consolidation if and when consolidation is implemented.²³⁴

15 RUCO states that it opposes consolidation of rates in this proceeding because only seven of
16 the Company's thirteen water and wastewater districts are being considered in this proceeding, and
17 because consolidation in this case would result in the inequitable spread of costs over some, but not
18 all, of the Company's water districts.²³⁵ RUCO contends that while there may be good reasons for
19 rate consolidation, the reasons should be thoroughly vetted on the record and then applied evenly to
20 all the districts.²³⁶

21 Staff states that it supports rate consolidation, but urges the Commission to proceed with
22 caution, and does not recommend consolidation in the instant case.²³⁷ Staff states that rate
23 consolidation is a complex issue that has both public and policy ramifications which require careful

24 ²²⁹ *Id.* at 11-18.

25 ²³⁰ *Id.* at 8.

26 ²³¹ Company Brief at 52.

27 ²³² PORA Brief at 4.

28 ²³³ *Id.*

²³⁴ *Id.*

²³⁵ RUCO Reply Brief at 8-9.

²³⁶ *Id.* at 9.

²³⁷ Staff Brief at 20.

1 consideration in order to avoid any unintended consequences.²³⁸ Staff is also concerned that the
2 notice in this case was not adequate to notify affected ratepayers if consolidation were to be
3 accomplished in this proceeding.²³⁹

4 Staff's witness Mr. Abinah agreed with the Company's counsel that several issues need to be
5 addressed prior to rate consolidation, including:

- 6 • How to deal with different numbers of tiers and breakover points across districts;
- 7 • How to account for differing uses of water for residential irrigation across districts;
- 8 • Whether commercial rates should be consolidated at the same time as residential;
- 9 • How cost of service and returns by customer class should be affected;
- 10 • How public input can be maximized;
- 11 • How customers can be educated about the pros and cons of rate consolidation;
- 12 • How parties will participate in the public process;
- 13 • Whether to phase in or immediately implement consolidated rate structures;
- 14 • Whether wastewater rates should also be consolidated; and
- 15 • What economies of scale would be accomplished by consolidation.²⁴⁰

16 Only one party is recommending rate consolidation in this proceeding. Mr. Magruder
17 recommends that consolidated rates be implemented in the water districts at this time, and that in the
18 next Arizona-American rate case all other water districts be integrated into the consolidated rate
19 structure.²⁴¹

20 Staff states that if the Commission wishes to consider rate consolidation, this docket may be
21 left open for the sole purpose of rate design for consolidation purposes, with the possibility of a
22 consolidation of this docket with a future docket for the purpose of considering consolidating rates of
23 Arizona-American's water districts.²⁴² RUCO states, however, that it would not support reopening
24 this docket or the Company's next rate case docket for the purpose of applying a new rate design to

25
26 ²³⁸ *Id.*

27 ²³⁹ *Id.*

28 ²⁴⁰ Tr. at 892-97.

²⁴¹ Magruder Brief at 27; *see also* Magruder Reply Brief at 19-27.

²⁴² Staff Reply Brief at 5.

Water Infrastructure Finance Authority of Arizona



2008

Water and Wastewater

Residential Rate Survey for the State of Arizona

Water Infrastructure Finance Authority of Arizona

1110 West Washington, Suite 290

Phoenix, Arizona 85007

Telephone: 602.364.1310

Toll Free: 877.298.0425

Website: www.azwifa.gov

Report Summary

INTRODUCTION

The Water Infrastructure Finance Authority of Arizona is pleased to provide this 2008 Residential Rate Survey for drinking water and wastewater systems. This survey provides data on the unit rates and total monthly charges assessed by utilities throughout Arizona for water consumed and/or wastewater generated. The 2008 survey presents data as of January 1, 2009; where information as of this date was not available, the most recent provided data was utilized.

This survey is limited only to the monthly base and usage charges assessed by Arizona utilities. No data was collected on other charges involved with the provision of water and wastewater service, such as connection charges, tap fees, impact fees, stand-by charges, late charges, etc. Nor is there any inclusion of sales taxes, sanitation charges, or other fees and surcharges that are sometimes included on a residential monthly water bill.

ARIZONA RATE STRUCTURES

There are many different rate structures for water and wastewater systems currently in effect in Arizona. The type of rate structure employed by a utility can have a significant impact on a customer's usage patterns and monthly bill for service. As noted in the American Water Works Association Manual M-1, an authoritative source for ratemaking throughout the United States, the most common types of rate structures include, but are not limited to:

Uniform Volume Charges - a single charge per unit of volume for all water used.

Declining Block Rates - a schedule of rates applicable to blocks of increasing usage in which the usage in each succeeding block is charged at a lower unit rate than in the previous blocks. Generally, each successive block rate is applicable to a greater volume of water delivery than the preceding block.

EXHIBIT 8. p. 5 & 6

Increasing Block Rates - a schedule of rates applicable to blocks of increasing usage in which the usage in each succeeding block is charged at a higher unit rate than in the previous blocks. Generally, each successive block rate may be applicable to a greater volume of water delivery than the preceding block. The intent of an increasing block rate is to encourage conservation by providing a financial disincentive to consumers for increasing amounts of water use.

Lifetime Rates - rates applicable to usage up to a specified level that are below the cost of service for the purpose of meeting the social goal of providing minimum water requirements to qualified customers at a below-cost price.

Off-Peak Rates - rates charged for usage during designated off-peak periods.

Seasonal Rates - higher rates that may be charged during the summer months when a system peak occurs, which requires facilities generally not needed to meet lower winter loads. These rates are based on the cost of service variations with respect to system seasonal requirements.

Fixed Monthly Charges - usually applicable to wastewater systems; involves the assessment of a single fixed charge for service regardless of the amount of water consumed or wastewater discharged. This charge can also be based several other factors, including the number of drainage fixtures, rooms, or amount of frontal footage of a property.

The type of rate structure implemented by a utility may have significant economic, social, and policy implications for the affected community. For example, a utility that charges for service based on Increasing Block rates will likely have a different total charge for a given level of usage than a utility that charges based on uniform rates. In addition to recovering sufficient revenues to fund operations, specific rate designs can be used to enforce policy goals, such as conservation (Increasing Block rates), system efficiency (Off-Peak rates), or assistance to needy or low-income ratepayers (Lifetime rates).

Furthermore, there are other factors within the type of rate structure implemented that may also have an impact on a customer's monthly charges. For example, some utilities choose to implement a high fixed charge and a lower volumetric rate, while other utilities do the opposite. Certain utilities provide a large allowance of gallons within the monthly minimum charge, others provide a limited allowance, and still others provide no usage allowance at all. On the wastewater side, some utilities charge a volumetric rate based on a "winter average", which sets a maximum usage level at the average of the customer's water usage during the winter months. Other utilities base wastewater charges on a straight percentage of total water volume, while still others use a fixed monthly charge.

Many variables effect the determination of a utility's cost of service and the ultimate rate it implements for its consumers. These variables can result in significantly different total costs and rates between even neighboring utilities. These variables include, but are not limited to:

- **Water Source** - Is the utility using ground water, surface water, or a combination? If ground water is used, what is the depth from which the water must be extracted? How extensive a treatment process is required to convert the raw water into potable water for



end users? Is the utility receiving water as a consequence of a federal project, i.e. dam, that would result in lower rates than if the utility had to incur the cost of constructing its own reservoir?

- **Transportation/Distribution** – Are the utility's customer base primarily rural or urban? Is the customer base densely populated or more widely disbursed?
- **System Age** – Is the system older, requiring more repair/replacement expenditures, or newer, installed to service the state's rapid growth of the past decade?
- **Economies of Scale** – Is the system larger and better positioned to take advantage of the economies of scale inherent in water and wastewater systems?
- **Grant Funding** – Is the utility eligible for state and federal grants to offset some of the costs of system repair and expansion?
- **Use of Tax Bonds** – Is the system able to, and does it choose to, finance a percentage of capital expenditures through the issuance of tax bonds (financed through property or sales taxes) as opposed to revenue bonds (financed through user rates)?
- **General Fund Subsidies** – (particularly applicable to municipal utilities) Are the utility's rates being used to offset a portion of the General Fund through contributions? To the contrary, are the utility's rates not covering its cost of service, thus requiring a subsidy from the General Fund in order to meet all expenses?
- **Return on Investment** – (particularly applicable to private sector utilities) What is the utility's allowed rate of return on investment?

Because of these fundamental cost differences between utilities, a high rate or a low rate does not necessarily reflect the efficiency of the utility's operation. Therefore, the results of this survey alone should not be used to judge the effectiveness of the operation of any specific utility. Instead, this survey will be useful by providing general comparisons between systems and communities.

SURVEY METHODOLOGY AND KEY FINDINGS

This is the first year the survey was available via the internet along with the traditional mail, fax and email versions. The survey was offered through SurveyMonkey, which is an online surveying tool started in 1999 that assists companies and individuals with surveying needs. The online version was very successful for its first year in operation. The online survey appeared to be especially helpful for the companies representing multiple utilities. As a result, 49 water utilities submitted 92 water surveys and 23 wastewater utilities submitted 28 wastewater surveys online. All other submissions were via mail, fax or email. Ease of accessibility is a key contributing factor to the success of a survey such as this, and WIFA will continue to explore new methods for distribution and collection of data.



A total of 426 database entries for drinking water systems in Arizona are presented in this survey. (Some utilities have more than one entry due to seasonal rates or multiple geographic areas.) According to the data collected for these systems, the monthly water charges for 7,500 gallons of water consumption ranged from \$4.64 of the seasonal summer rates for the City of Phoenix, to \$201.78 for the Highland Pines Drinking Water Improvement District. The average monthly charge for 7,500 gallons of water service was \$35.03, up 2.97% from the 2007 survey, and the median monthly charge was \$32.59, an increase of 5.20% over the 2007 survey rates.

A total of 133 database entries for wastewater systems in Arizona are presented in this survey. According to the data collected for these systems, the monthly wastewater charges for 5,000 gallons of wastewater ranged from a low of \$2.00 for the City of Tolleson to a high of \$80.00 for the Kings Ranch Unit II Treatment Plant. The average monthly charge for 5,000 gallons of wastewater service was up 7.45% from the 2007 survey to \$26.08, and the median monthly charge was \$23.00, an increase of 8.18% from the 2007 survey data.

This Report Summary overview section includes a number of tables and graphs that provide a statistical summary for both the Drinking Water Survey (Exhibits A-G) and the Wastewater Survey (Exhibit H & I). Both median and average data are provided by:

- Statewide Total
- Ownership Type
- Annual Revenues
- Number of Connections
- County Served

Data is also presented by Ownership Type for the various rate structuring methods used for Drinking Water Systems.





[Print Message](#) | [Close](#)

From : Joni.McGlothlin@amwater.com
To : jobobaz@cox.net
Cc : Joni.McGlothlin@amwater.com, c.ullman@juno.com, larry@lwoods.com
Subject : AAW MORE ANSWERS
Date : Fri, Jan 16, 2009 05:12 PM

Hi Bob,

Here is the second half of the answers to your questions straight from our director of Operations:

The following is the last piece of information for PORA. The age of our water and wastewater systems are as follows.

- Tubac Water - 1958 and newer**
- Paradise Valley Water - 1946 and newer**
- Agua Fria Water - 1970 and newer**
- Sun City West Water - 1978 and newer**
- Mohave Water (BHC) - 1964 and newer**
- Mohave Wastewater - 1985 and newer**
- Havasu Water - 1970 and newer**

Bradley J. Cole
 Director of Operations, Central Arizona
 Arizona American Water
 15626 N. Del Webb Blvd.
 Sun City, AZ 85351-1602

Arizona American Water Company - Sun City West Wastewater
 Test Year Ended December 31, 2008
 Adjusted Test Year Income Statement

Exhibit
 Schedule C-1 Rebuttal
 Page 1
 Witness: Kiger

Line No.	[A] Test Year Book Results	[B] Total Pro Forma Adjustments	[C] Test Year Adjusted Results	[D] Proposed Rate Increase	[E] Adjusted with Rate Increase	
1	Revenues					
2	Sewer Revenues	\$ 5,660,389	\$ -	\$ 5,660,389	1,426,944	\$ 7,087,332
3	Other Revenues	1,321	-	1,321		1,321
4						
5		<u>\$ 5,661,710</u>	<u>\$ -</u>	<u>\$ 5,661,710</u>	<u>\$ 1,426,944</u>	<u>\$ 7,088,653</u>
6	Operating Expenses					
7	Labor	\$ 766,759	\$ (21,078)	\$ 745,680	-	\$ 745,680
8	Purchased Water	7,156	-	7,156	-	7,156
9	Fuel & Power	388,512	265,325	650,837	-	650,837
10	Chemicals	401,682	-	401,682	-	401,682
11	Waste Disposal	103,272	-	103,272	-	103,272
12	Management Fees	789,604	(34,252)	755,352	-	755,352
13	Group Insurance	267,064	-	267,064	-	267,064
14	Pensions	150,285	9,646	159,930	-	159,930
15	Regulatory Expense	43,794	(9,406)	34,388	-	34,388
16	Insurance Other Than Group	48,786	-	48,786	-	48,786
17	Customer Accounting	123,968	11,299	135,267	419	135,686
18	Rents	38,079	-	38,079	-	38,079
19	General Office Expense	49,950	-	49,950	-	49,950
20	Miscellaneous	243,174	(721)	242,453	-	242,453
21	Maintenance Expense	138,620	-	138,620	-	138,620
22	Depreciation & Amortization	1,238,799	73,903	1,312,702	-	1,312,702
23	General Taxes-Property Taxes	135,172	-	135,172	11,350	146,522
24	General Taxes-Other	58,909	-	58,909	-	58,909
25	Income Taxes	52,682	(118,270)	(65,587)	546,242	480,654
26						
27						
28	Total Operating Expenses	<u>\$ 5,043,267</u>	<u>\$ 176,445</u>	<u>\$ 5,219,712</u>	<u>\$ 558,011</u>	<u>\$ 5,777,723</u>
29	Utility Operating Income	<u>\$ 618,443</u>	<u>\$ (176,445)</u>	<u>\$ 441,997</u>	<u>\$ 868,933</u>	<u>\$ 1,310,930</u>
30	Other Income & Deductions					
31	Other Income & Deductions	-	-	-	-	-
32	Interest Expense	534,638	11,692	546,330	-	546,330
33	Other Expense	9,599	-	9,599	-	9,599
34	Gain/Loss Sale of Fixed Assets	(2)	-	(2)	-	(2)
35	Total Other Income & Deductions	<u>\$ (544,239)</u>	<u>\$ (11,692)</u>	<u>\$ (555,931)</u>	<u>\$ -</u>	<u>\$ (555,931)</u>
36	Net Profit (Loss)	<u>\$ 74,204</u>	<u>\$ (188,138)</u>	<u>\$ (113,934)</u>	<u>\$ 868,933</u>	<u>\$ 754,999</u>
37						
38						
39						
40						
41						
42						
43						
44	Supporting Schedules:			Recap Schedules:		
45	E-2 C-2 Rebuttal			A-1 Rebuttal		
46						
47						
48						
49						
50	\Schedules\2008 Sun City West WW Sch. A-F Rvvd.xls					

Income & Expense Statement for Az/Amer. in SCW

Arizona American Water Company - Sun City West Water
 Test Year Ended December 31, 2007
 Adjusted Test Year Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Hubbard

Line No.		(A) Test Year Book Results	(B) Total Pro Forma Adjustments	(C) Test Year Adjusted Results	(D) Proposed Rate Increase	(E) Adjusted with Rate Increase
1	Revenues					
2	Water Revenues	\$ 4,303,616	\$ 1,357,414	\$ 5,661,030	4,276,305	\$ 9,937,33
3	Other Revenues	1,853,019	(1,812,618)	40,401		40,40
4						
5		\$ 6,156,635	\$ (455,204)	\$ 5,701,431	\$ 4,276,305	\$ 9,977,73
6	Operating Expenses					
7	Labor	\$ 643,462	\$ 59,755	\$ 703,217		\$ 703,21
8	Purchased Water	252,671	(255,361)	(2,690)		(2,69
9	Fuel & Power	725,810	104,264	830,074		830,07
10	Chemicals	95,331	132,558	227,889		227,88
11	Waste Disposal	4,391	-	4,391		4,39
12	Management Fees	996,569	3,334	999,903		999,90
13	Group Insurance	145,525	45,595	191,120		191,12
14	Pensions	72,512	65,187	137,699		137,69
15	Regulatory Expense	9,737	24,065	33,802		33,80
16	Insurance Other Than Group	58,622	-	58,622		58,62
17	Customer Accounting	131,441	2,035	133,476	1,711	135,18
18	Rents	14,331	-	14,331		14,33
19	General Office Expense	57,226	-	57,226		57,22
20	Miscellaneous	243,650	(11,242)	232,408		232,40
21	Maintenance Expense	110,302	137,026	247,328		247,32
22	Depreciation & Amortization	1,371,836	(48,395)	1,323,541		1,323,54
23	General Taxes-Property Taxes	139,898	39,998	179,896	45,150	225,04
24	General Taxes-Other	53,716	12,116	65,832		65,83
25	Income Taxes	(233,528)	(90,531)	(324,059)	1,632,518	1,308,45
26						
27	Total Operating Expenses	\$ 4,893,602	\$ 220,404	\$ 5,114,006	\$ 1,679,379	\$ 6,793,38
28	Utility Operating Income	\$ 1,263,033	\$ (675,608)	\$ 587,425	\$ 2,596,926	\$ 3,184,35
29	Other Income & Deductions					
30	Other Income & Deductions	17,621	(17,821)	-		-
31	Interest Expense	1,033,373	69,549	1,102,922		1,102,92
32	Other Expense	(372)	-	(372)		(37
33	Gain/Loss Sale of Fixed Assets	90,780	-	90,780		90,78
34	Total Other Income & Deductions	\$ (924,600)	\$ (87,170)	\$ (1,011,770)	\$ -	\$ (1,011,77
35	Net Profit (Loss)	\$ 338,433	\$ (762,777)	\$ (424,344)	\$ 2,596,926	\$ 2,172,58
36						
37						
38						
39						
40						
41						
42						
43						
44	Supporting Schedules:				Recap Schedules:	
45	E-2 C-2				A-1	
46						
47						
48						
49						
50	\\Schedules\2007 Sun City West Water Sch. A-F.xls\					

1 Certainly, the Commission should at least allow this plant in service.

2 Exhibit 3 is a proposed amendment to the ROO that would include the Mira Monte plant
3 in rate base.

4 **Exception 4 - Tank Maintenance Expense (All Water Districts)**

5 The Company proposed, and RUCO accepted, a reserve for tank maintenance expense.
6 A reserve for tank maintenance is funded by an annual allowance for tank maintenance costs in
7 the revenues of a utility. The funds collected through rates are recorded on the balance sheet in a
8 deferred liability account – Reserve for Tank Maintenance. As the Company incurs tank
9 maintenance expenses, the Reserve for Tank Maintenance account is charged reducing the
10 balance of funds reserved. In subsequent rate cases, actual tank maintenance expenditures and
11 the reserve account may be reviewed and the annual allowance can be increased, decreased or
12 remain unchanged on a going forward basis as the circumstances warrant.

13 The ROO rejected the Company's proposal for advance funding of a Reserve for Tank
14 Maintenance. This was unfortunate and will result in a dramatic reduction in necessary future
15 spending to paint tanks until a reserve can be established following a future rate case. RUCO
16 acknowledged the benefits of a tank-maintenance reserve and recommended its approval:

17 RUCO believes that the cost estimates obtained from the RFP process are
18 reasonable. RUCO also believes that ratepayers will benefit from regular
19 preventive maintenance and upkeep on large plant assets such as water tanks.
20 RUCO has supported similar programs in the past such as one that Arizona Water
21 Company has in place.⁸

22 Exhibit 4 is a proposed amendment to the ROO that would approve Arizona-American's
23 Reserve for Tank Maintenance.

24 **Exception 5 – Annual Incentive Pay (All Districts) – Clarification**

25 → The ROO states: "RUCO proposes disallowance of 30 percent, or \$5,555, of the
26 Company's \$18,517 Arizona Corporate allocated annual incentive pay ("AIP") management fees

⁸ Exhibit R-12 at 29:12-17.

News from the Illinois Commerce Commission

Voice: Springfield, 217.782.5793 Chicago, 312.814.2850 FAX 217.524.0674 BBS 217.782.9233 <http://www.icc.illinois.gov>

FOR IMMEDIATE RELEASE

July 30, 2008

Beth Bosch
Brian Sterling

ICC Reduces Illinois American Water Company Request by \$9 Million

The Illinois Commerce Commission Wednesday approved approximately \$26 million in additional annual revenue for Illinois American Water Company (IAWC), \$9 million less than the company requested.

35
A
e 74.3
25.7%

Illinois American Water Company filed a request with the ICC August 31, 2007, seeking authorization to increase annual revenue by approximately \$35.4 million. In its order the ICC determined that some estimates of expenses the company proposed to recover through rates were too high and should be cut back while others, such as incentive compensation for management employees and advertising expenses did not benefit customers and should not be recovered through rates.

In a separate action Wednesday, the ICC directed Illinois American Water Company to provide updated demand information for each area it serves and an updated cost of service study to allow for a thorough investigation of how the company allocates costs to various classes of water customers.

The investigation will not change the revenue level, but will provide more detailed information on where costs occur and how they should be assigned within the various water divisions and districts served by Illinois American Water Company. The Commission ordered the investigation when the company failed to provide sufficient cost of service information in the most recent case, even after being ordered to develop it after the last rate case in 2002.

Commissioners indicated it was extremely difficult for staff, intervenors and Commissioners to determine appropriate rate structures without updated cost of service information for each division.

The company revenue request and the Commission decision are as follows:

Southern Division, Peoria, Streator, Pontiac and South Beloit Districts: IAWC proposed 20 percent increase. ICC approved 14.9 percent increase.

Champaign District: IAWC proposed 59.8 percent increase. ICC approved 47.2 percent increase.

Lincoln District water: IAWC proposed 0.76 percent reduction in revenue. ICC approved 0.76 percent reduction.

Pekin District: IAWC proposed 26.7 percent increase in revenue. ICC approved 21.2 percent increase.

Sterling District: IAWC proposed 31 percent increase in revenue. ICC approved 20.7 percent increase.

527 East Capitol Avenue, Springfield, IL 62701