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BEFORE THE ARIZONA CORPORATION COMMISSION

8 IN THE MATTER OF THE APPLICATION  
9 OF ARIZONA-AMERICAN WATER  
10 COMPANY, AN ARIZONA CORPORATION,  
11 FOR A DETERMINATION OF THE  
12 CURRENT FAIR VALUE OF ITS UTILITY  
13 PLANT AND PROPERTY AND FOR  
14 INCREASES IN ITS RATES AND CHARGES  
15 BASED THEREON FOR UTILITY SERVICE  
16 BY ITS ANTHEM WATER DISTRICT AND  
17 ITS SUN CITY WATER DISTRICT, AND  
18 POSSIBLE RATE CONSOLIDATION FOR  
19 ALL OF ARIZONA-AMERICAN  
20 COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission  
**DOCKETED**

MAY -3 2010

DOCKETED BY

21 IN THE MATTER OF THE APPLICATION  
22 OF ARIZONA-AMERICAN WATER  
23 COMPANY, AN ARIZONA CORPORATION,  
24 FOR A DETERMINATION OF THE  
25 CURRENT FAIR VALUE OF ITS UTILITY  
26 PLANT AND PROPERTY AND FOR  
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BY ITS ANTHEM/AGUA FRIA  
WASTEWATER DISTRICT, ITS SUN CITY  
WASTEWATER DISTRICT AND ITS SUN  
CITY WEST WASTEWATER DISTRICT,  
AND POSSIBLE RATE CONSOLIDATION  
FOR ALL OF ARIZONA-AMERICAN  
COMPANY'S DISTRICTS.

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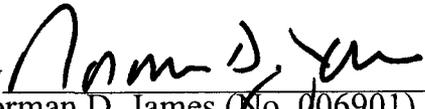
**DMB WHITE TANK, LLC'S  
NOTICE OF FILING DIRECT  
TESTIMONY ON RATE DESIGN**

DMB White Tank, LLC ("DMB") hereby files the Direct Testimony of Daniel T. Kelly pertaining to rate design for the Agua Fria Wastewater District and, more specifically, the establishment of a reasonable rate for the sale of sewage effluent produced by that District for turf irrigation and other non-potable uses.

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RESPECTFULLY SUBMITTED this 3rd day of May, 2010.

FENNEMORE CRAIG, P.C.

By   
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Attorneys for DMB White Tank LLC

An original and 13 copies  
of the foregoing was delivered this  
3rd day of May, 2010, to:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

A copy of the foregoing was  
delivered/mailed this 3rd day of  
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DOCKET NO. SW-01303A-09-0343

22  
23 **DIRECT TESTIMONY OF DANIEL T. KELLY**

24 **(RATE DESIGN)**

25 **MAY 3, 2010**

26

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Daniel T. Kelly. My business address is 7600 E. Doubletree Ranch  
3 Rd., Suite 300, Scottsdale, Arizona 85258.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by DMB Associates, Inc., as Senior Vice President of Arizona  
6 Development. In such capacity I am responsible for land development activities in  
7 Arizona, including the day-to-day operation and financial performance of Verrado  
8 and the subsidiary entities relating to Verrado, including DMB White Tank, LLC  
9 (“DMB”), an Arizona limited liability company. I have been employed by DMB  
10 Associates since 2002.

11 Q. WHAT IS “VERRADO”?

12 A. Verrado is master planned community in the Town of Buckeye, Maricopa County,  
13 located north of Interstate 10. It is generally bounded by McDowell Road on the  
14 south and Tuthill Road on the east, and extends into the foothills of the White Tank  
15 Mountains. Verrado contains approximately 8,800 acres of land. At present,  
16 approximately one-third of Verrado is built, consisting of 3,000 improved lots with  
17 1,600 homes, a commercial core, an 18-hole championship golf course, Verrado  
18 Elementary School, Verrado High School, and multiple park, trail and open space  
19 systems.

20 Q. ARE YOU FAMILIAR WITH THE APPLICANT IN THIS RATE CASE,  
21 ARIZONA-AMERICAN WATER COMPANY?

22 A. Yes. Arizona-American provides water and sewer utility service to customers and  
23 landowners in Verrado, including the 18-hole golf course in Verrado I mentioned  
24 previously, which is called the Raven Golf Club at Verrado.

25 Q. IS DMB A CUSTOMER OF ARIZONA-AMERICAN?

26 A. Yes. Effluent produced by Arizona-American’s wastewater treatment plant in

1 Verrado is sold to DMB and reused for golf course irrigation pursuant to a reuse  
2 permit issued by the Arizona Department of Environmental Quality (“ADEQ”).  
3 We also receive water and sewer utility service from Arizona-American at various  
4 business locations in Verrado and purchase non-potable water for construction  
5 purposes. Consequently, increases in the rates and charges for utility service have  
6 a significant impact on our operations.

7 **Q. WHAT IS DMB’S PRIMARY CONCERN WITH RESPECT TO ARIZONA-**  
8 **AMERICAN’S APPLICATION FOR RATE INCREASES?**

9 A. DMB’s primary concern is the rate charged for effluent. It is my understanding  
10 that the Agua Fria Wastewater District, which produces and is responsible for the  
11 disposal of the effluent, has no rate for effluent in its tariff. Instead, we are being  
12 billed at the rate of \$2.728 per 1,000 gallons for effluent, which is over \$888 per  
13 acre-foot, by the Agua Fria Water District. DMB believes that this rate is  
14 excessive, and asks that the Corporation Commission establish a specific rate for  
15 effluent that is reasonable and encourages its use.

16 **Q. DO YOU KNOW WHY THIS RATE IS NEARLY \$890 AN ACRE-FOOT**  
17 **FOR EFFLUENT?**

18 A. No. I suspect this rate was the result of an oversight by the Corporation  
19 Commission when it approved the current rate for non-potable service in Arizona-  
20 American’s previous rate case, Docket Nos. W-01303A-08-0227 and SW-01303A-  
21 08-0227. That rate case involved the Agua Fria *Water* District. The rates charged  
22 by the Agua Fria Wastewater District were not considered. I doubt that anyone at  
23 the Corporation Commission thought they were setting a rate for sewage effluent  
24 produced by the Wastewater District. In addition, I don’t believe that any of the  
25 parties to the previous rate case actually analyzed the cost of providing non-potable  
26 water service. The rate for non-potable service is not discussed in Decision No.

1 71410 (Dec. 8, 2009).

2 **Q. WHAT DOES EFFLUENT TYPICALLY COST?**

3 A. In Decision No. 71410, the Corporation Commission authorized Arizona-  
4 American's Mohave Wastewater District to charge \$227.79 per acre-foot for  
5 effluent. Arizona-American had requested, at least initially, that the effluent rate  
6 be increased from \$200 to \$250 per acre-foot, according to the direct testimony of  
7 Thomas M. Broderick. A copy of the portion of Mr. Broderick's testimony that  
8 discusses the effluent rate is attached as Exhibit DTK-1. As in this case, Arizona-  
9 American is selling the effluent to a golf course for turf irrigation. Mr. Broderick  
10 explained that \$250 per acre-foot is comparable to the rate charged by other  
11 effluent providers, identifying two private sewer utilities, Woodruff Utility  
12 Company and Gold Canyon Sewer Company, which sell effluent in Pinal County,  
13 and the City of Bullhead.

14 **Q. DO YOU BELIEVE THAT MR. BRODERICK'S PROPOSED RATE FOR**  
15 **EFFLUENT DELIVERIES IS REASONABLE?**

16 A. Yes. Although the rate for sewage effluent varies, most private sewer utilities  
17 seem to be charging between \$150 and \$325 per acre-foot for effluent, which is  
18 consistent with Mr. Broderick's testimony. For example, Litchfield Park Service  
19 Company, which is close to Verrado, is charging between \$55 and \$225 per acre-  
20 foot. A table that provides examples of current effluent rates is attached as Exhibit  
21 DTK-2. So I believe that a rate of \$250 per acre-foot for effluent is reasonable.  
22 Moreover, a higher rate will discourage the use of effluent and encourage the use  
23 of groundwater instead. I don't know the Corporation Commission's views on this  
24 issue, but I doubt that the agency is attempting to discourage effluent reuse by  
25 setting an extremely high rate. As I said earlier, I believe this is an oversight rather  
26 than a deliberate policy decision by the Commissioners.

1 **Q. DOES DMB HAVE ACCESS TO GROUNDWATER?**

2 A. Yes. DMB owns a well located near the Beardsley Canal and Campbell Avenue.  
3 Water is pumped from the well to a small reservoir that we use for water storage,  
4 which we refer to as our construction pond. From that pond, water is pumped to  
5 the golf course. With effluent now priced at nearly \$890 per acre-foot, we will be  
6 forced to rely far more heavily on groundwater for golf course irrigation. Put  
7 simply, groundwater is much less expensive to use, even with our pumping and  
8 maintenance costs.

9 **Q. DOES DMB HAVE ACCESS TO ANY OTHER WATER SUPPLIES THAT**  
10 **CAN BE USED FOR TURF IRRIGATION AND OTHER NON-POTABLE**  
11 **USES?**

12 A. Yes. In the past, we have purchased non-potable water from Arizona-American's  
13 Agua Fria Water District to augment our use of effluent. This water consists of  
14 untreated Central Arizona Project ("CAP") water.

15 **Q. WHY DID YOU SAY "IN THE PAST" IN YOUR PREVIOUS ANSWER?**

16 A. As I mentioned, in Decision No. 71410, the cost for untreated (raw) CAP water  
17 was increased by 340 percent, from approximately \$202 per acre-foot (\$0.62 per  
18 1,000 gallons) to over \$888 per acre-foot (\$2.728 per 1,000 gallons). As a result of  
19 this increase, DMB is phasing out its use of CAP water.

20 **Q. DO YOU BELIEVE THAT THE RATE FOR NON-POTABLE WATER IS**  
21 **UNREASONABLE?**

22 A. The current cost for CAP water sold under a long-term subcontract, as established  
23 by the Central Arizona Water Conservation District, is \$118 per acre foot, as  
24 shown on Exhibit DTK-3 to this testimony. I am informed that the Maricopa  
25 Water District, which transports CAP water to the Verrado area via the Beardsley  
26 Canal, currently charges an additional \$27.40 per acre foot, bringing Arizona-

1 American's total cost to obtain CAP water to \$145.40 per acre foot. Thus,  
2 Arizona-American charges more than six times the cost of obtaining untreated  
3 CAP water for "non-potable" water service in Verrado. This high rate discourages  
4 the use of renewable CAP water.

5 **Q. BUT DOESN'T ARIZONA-AMERICAN WATER HAVE OTHER COSTS**  
6 **AND EXPENSES, AS WELL AS AN INVESTMENT IN PLANT, THAT**  
7 **SHOULD BE TAKEN INTO ACCOUNT IN SETTING A FAIR RATE FOR**  
8 **RAW CAP WATER?**

9 A. Actually, Arizona-American has little investment in plant and incurs few costs in  
10 providing raw CAP water to Verrado. CAP water is turned out from the Beardsley  
11 Canal into the Monthafer Sump, which is a small reservoir located just north of  
12 Sells Road and east of 192nd Avenue. DMB leases this sump. From there, DMB  
13 pumps the CAP water to DMB's construction pond and then to the golf course.  
14 Some of the pipes used to convey the CAP water are owned by Arizona-American,  
15 but otherwise, Arizona-American has little involvement in the delivery of CAP  
16 water. The utility has a booster pump station located near Indian School Road and  
17 197th Lane, but there is a valve that allows us to bypass this facility.  
18 Consequently, DMB pays the cost of delivering the raw CAP water to the  
19 construction pond and golf course, and owns most of the facilities used to store and  
20 transport the water. I estimate that DMB's total cost to use raw CAP water is  
21 approximately \$1,100 per acre-foot due to increase in the non-potable water rate  
22 approved last December and DMB's pumping costs and related expenses.

23 **Q. SO UNTREATED CAP WATER IS NOW THE MOST EXPENSIVE**  
24 **WATER TO USE FOR GOLF COURSE IRRIGATION AND OTHER NON-**  
25 **POTABLE USES IN VERRADO?**

26 A. That is correct. As a consequence of the increase in the non-potable rate charged

1 by Arizona-American's Agua Fria Water District, raw CAP water is over \$200 per  
2 acre-foot more expensive than effluent, while effluent is about \$600 per acre-foot  
3 more expensive than groundwater. We estimate using approximately 550 acre-feet  
4 of water per year for golf course irrigation. Limiting our use of effluent (and even  
5 more expensive CAP water) will save us several hundred thousand dollars  
6 annually.

7 **Q. DO YOU UNDERSTAND THAT THE ADMINISTRATIVE LAW JUDGE**  
8 **HAS RULED THAT THE NON-POTABLE WATER RATE CHARGED BY**  
9 **THE AGUA FRIA WATER DISTRICT IS NOT AT ISSUE IN THIS**  
10 **PROCEEDING?**

11 A. I do. My purpose in discussing the current cost of CAP water as compared to the  
12 rate charged by Arizona-American for non-potable water is to show the disparity  
13 between the costs of using groundwater, effluent and raw CAP water, and explain  
14 why DMB will now rely far more heavily on groundwater for golf course irrigation  
15 and other non-potable uses. This is not what DMB would prefer to do, but we have  
16 no choice due to the relative cost of groundwater, effluent and CAP water.

17 **Q. DO YOU HAVE ANY FINAL COMMENTS?**

18 A. The Corporation Commission should establish a reasonable rate for effluent in  
19 setting rates for the Agua Fria Wastewater District – a rate that encourages, rather  
20 discourages, effluent use. The Wastewater District owns the wastewater collection  
21 and treatment facilities, and is responsible for safely treating wastewater and  
22 disposing of the resulting effluent in accordance with applicable discharge limits.  
23 As a matter of common sense, I would expect the revenue from the sale of effluent  
24 to be used to offset some of the costs incurred by the Wastewater District to  
25 produce the effluent. This would benefit customers receiving residential and  
26 commercial sewer service by reducing their rates, while encouraging the reuse of

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effluent for golf course irrigation. In addition, if effluent can't be reused on the golf course, then not only will the revenue from the sale of effluent be lost, but Arizona-American will incur additional expenses to dispose of the effluent in accordance with ADEQ requirements, leading to higher rates. Setting a price for effluent that encourages its use will benefit everyone.

**Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY IN THIS CASE?**

A. Yes.

2306160

# **EXHIBIT DTK-1**

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
KRISTIN K. MAYES  
GARY PIERCE

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

**REVISED DIRECT TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
JUNE 20, 2008**

**REVISED DIRECT TESTIMONY  
OF  
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ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
JUNE 20, 2008**

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1 **I INTRODUCTION AND QUALIFICATIONS**

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

4 A. My name is Thomas M. Broderick. My business address is 19820 N. 7<sup>th</sup> Street, Suite  
5 201, Phoenix, Arizona 85024, and my business phone is 623-445-2420.

6 **Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?**

7 A. I am employed by American Water as Director, Rates & Regulation for operations in  
8 Arizona, New Mexico and Texas. Arizona-American Water Company ("Arizona-  
9 American" or the "Company") is a wholly-owned subsidiary of American Water.

10 **Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE**  
11 **COMPANY.**

12 A. I am responsible for water and wastewater rate cases and public utility regulation in  
13 Arizona, New Mexico and Texas.

14 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**  
15 **EDUCATION.**

16 A. For more than 20 years before joining the Company in 2004, I held various management  
17 positions in the electric-utility industry with responsibilities for regulatory and  
18 government affairs, corporate economics, planning, load forecasting, finance and  
19 budgeting with Arizona Public Service Company, PG&E National Energy Group and  
20 Energy Services, and the United States Agency for International Development. I was  
21 employed at APS for nearly 14 years as Supervisor, Regulatory Affairs, then Supervisor,  
22 Forecasting, and then Manager, Planning. I was designated APS' Chief Economist in the  
23 early 1990s. For PG&E National Energy Group, I was Director, Western Region-  
24 External Relations. For USAID, I was Senior Energy Advisor to Ukraine.

1 I have a Masters Degree in Economics from the University of Wisconsin – Madison and  
2 a Bachelors Degree in Economics from Arizona State University.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 **A.** Yes, on many occasions.

5 **II PURPOSE OF TESTIMONY**

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

7 **A.** Please see the executive summary of my direct testimony.

8 **III SUMMARY OF RATE CASE**

9 **Q. WHAT ARE ARIZONA-AMERICAN'S REQUESTED REVENUE INCREASES**  
10 **IN THIS CASE?**

11 **A.** Arizona-American's requested revenue increases, rate base and operating expenses are  
12 summarized on Exhibit TMB-1. The total requested revenue increase is \$19,961,632.  
13 This requested rate base for these seven districts is \$198, 272,853.

14 **Q. WHAT ARE ARIZONA-AMERICAN'S OTHER REQUESTS IN THIS RATE**  
15 **CASE?**

16 **A.** Other requests by Arizona-American include approval of various accounting treatments  
17 especially as regards the White Tanks Plant, and various surcharges such as a Tubac  
18 ACRM and a Paradise Valley Public Safety surcharge.

19 **Q. WHAT WITNESSES SUPPORT ARIZONA-AMERICAN'S REQUEST?**

20 **A.** In addition to my testimony, the following witnesses are providing testimony to support  
21 Arizona-American's direct case: Mr. Paul Townsley, Mr. Joseph Gross, Mr. Bradley J.  
22 Cole, Ms. Sheryl Hubbard, Ms. Linda Gutowski, Mr. John C. (Jake) Lenderking, and  
23 external expert witnesses Dr. Bente Villadsen and Mr. Paul Herbert.

1 Valley district customers determined by the Town to have met the program's criteria.  
2 The rate discount would be funded by revenues collected from the system-benefit  
3 surcharge described above. As soon as we have the key program details, the initial  
4 amount of the system-benefit charge can be proposed based on an amount necessary to  
5 help provide residential customers an incentive to convert landscape and based on an  
6 estimate of the size of the target population the Town would like to incent to convert  
7 landscape to reduce water usage. An on-going rate discount is preferable to a one-time  
8 rebate, because rebate programs may tend to benefit free riders (people or developers that  
9 were going to do a landscape conversion without any incentive).

10 Arizona-American looks forward to learning more about this program from the Town of  
11 Paradise Valley and will respond further in its rebuttal testimony.

12 **XI HOOK-UP FEES (HAVASU WATER)**

13 **Q. HAVE PROCEEDS OBTAINED FROM HAVASU WATER DISTRICT'S**  
14 **ARSENIC IMPACT FEE ("AIF") BEEN APPLIED AS CONTRIBUTIONS TO**  
15 **REDUCE HAVASU'S ARSENIC RATE BASE?**

16 **A.** Yes. Through the end of the test year, \$61,805 in AIF proceeds had been collected and  
17 reflected as contributions which reduced test year rate base in Schedule B rate base for  
18 Havasu. This is well short of expectations.

19 **XII WASTEWATER EFFLUENT TARIFF (MOHAVE WASTEWATER)**

20 **Q. WHY IS ARIZONA-AMERICAN ASKING TO INCREASE THE RATE FOR**  
21 **TREATED EFFLUENT IN THE MOHAVE WASTEWATER DISTRICT?**

22 **A.** We are asking to increase the rate for treated effluent from \$200 to \$250 per acre-foot.  
23 Only one customer—a golf course known as Desert Lakes—is on this tariff. Arizona-  
24 American has agreed to provide Desert Lakes all effluent available from wastewater

1 operations. Desert Lakes, in turn, has an agreement with the Mohave Valley Irrigation  
2 and Drainage District to furnish all remaining water needed for golf course irrigation, but  
3 this water must be replaced with reclaimed wastewater by the year 2017. Currently, we  
4 estimate that the effluent being produced and provided is about half of the golf course's  
5 irrigation requirements. We also believe that the cost of treated effluent at the increased  
6 rate will remain below the cost of water from the District. Thus, as the Mohave  
7 Wastewater District's sewage flows grow the golf course should continue to purchase all  
8 of the effluent produced. A rate increase for treated effluent reduces the rate increase  
9 required from other Mohave Wastewater customers at test-year effluent volumes (see  
10 Schedule C-2 income statement adjustment LJG-4).

11 **Q. ARE EFFLUENT RATES ELSEWHERE COMPARABLE?**

12 A. Yes. Woodruff's rate is \$300 per acre foot. Gold Canyon is presently \$256 per acre foot.  
13 The nearby City of Bullhead is presently \$256 per acre foot.

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS CASE?**

15 A. Yes.

# **EXHIBIT DTK-2**

Arizona-American Water Company  
Docket Nos. W-01303A-09-0343  
and SW-01303A-09-0343

**EXAMPLES OF CURRENT EFFLUENT RATES  
CHARGED BY PRIVATELY OWNED SEWER UTILITIES<sup>1</sup>**

<u>Utility</u>	<u>Current Rate (per acre-foot)</u>	<u>Proposed Rate (per acre-foot)<sup>2</sup></u>
Az-American Mohave	\$227.00	N/A
Black Mountain Sewer	\$122.00	\$150.00
Coronado Utilities	\$48.88	\$65.17
Far West Water & Sewer	\$325.85	N/A
Gold Canyon Sewer	\$190.95	N/A
Hassayampa Utility Co.	\$400.00	N/A
Johnson Utilities	\$200.00	\$200.00
Litchfield Park Serv. Co. <sup>3</sup>	\$55.00 - \$225.00	\$55.00 - \$225.00
Pima Utilities	\$188.99 <sup>4</sup>	N/A
Rio Verde Utilities	\$316.08	N/A
Santa Rosa Utility	\$283.49	N/A
Woodruff Utility	\$300.00	N/A

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<sup>1</sup> Based on information that is publicly available on the Arizona Corporation's website, [www.cc.state.az.us/](http://www.cc.state.az.us/).

<sup>2</sup> Proposed rates refer to the rate for effluent requested by the utility in a pending rate case. Such rate may or may not be approved by the Corporation Commission.

<sup>3</sup> Litchfield Park Service Co. is authorized to charge a "market rate" (i.e., a negotiated rate) that may not exceed \$430.00 per acre-foot. No change has been requested in the utility's pending rate case.

<sup>4</sup> There is also a monthly minimum charge of \$180.00, which includes 100,000 gallons of effluent.

# **EXHIBIT DTK-3**

**CENTRAL ARIZONA PROJECT  
PRELIMINARY 2011/2012 RATE SCHEDULE**

**DELIVERY RATES FOR VARIOUS CLASSES OF WATER SERVICE**

Units = \$/ acre-foot

(The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<b><u>Municipal and Industrial</u></b>							
Long Term Subcontract (B+C) <sup>1</sup>	\$ 118	\$ 122	\$ 122	\$ 126	\$ 129	\$ 137	\$ 141
Non-Subcontract (A+B+C)	133	137	137	141	139	142	141
Recharge (A+B+C starting 2011) <sup>2</sup>	133	137	137	141	139	142	141
AWBA Interstate Recharge (A+B+C+F starting 2011) <sup>3</sup>	236	167	163	164	162	166	167
<b><u>Federal</u></b> (B+C)	\$ 118	\$ 122	\$ 122	\$ 126	\$ 129	\$ 137	\$ 141
<b><u>Agricultural</u></b>							
Settlement Pool (D) <sup>4</sup>	\$ 49	\$ 53	\$ 49	\$ 50	\$ 51	\$ 56	\$ 58
<b><u>Agricultural Incentives</u></b> <sup>4</sup>							
Meet Settlement Pool Goals	(6)	(8)	(4)	tbd	tbd	tbd	tbd
Meet AWBA/CAGRDR GSF Goals	(2)	(2)	(1)	tbd	tbd	tbd	tbd
Meet Recovery Goals	(2)	(2)	(1)	tbd	tbd	tbd	tbd

**RATE COMPONENTS**

Units = \$/acre-foot

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<b><u>Capital Charges</u></b>							
(A) Municipal and Industrial - Long Term Subcontract <sup>5</sup>	\$ 15	\$ 15	\$ 15	\$ 15	\$ 10	\$ 5	\$ -
<b><u>Delivery Charges</u></b>							
(B) Fixed OM&R <sup>6</sup>	\$ 69	\$ 69	\$ 73	\$ 76	\$ 78	\$ 81	\$ 83
(C) Pumping Energy Rate <sup>1</sup> <sup>7</sup>	49	53	49	50	51	56	58
(D) Pumping Energy Rate <sup>2</sup> <sup>8</sup>	85	n/a	n/a	n/a	n/a	n/a	n/a
(E) Pumping Energy Rate <sup>3</sup> <sup>9</sup>	122	n/a	n/a	n/a	n/a	n/a	n/a
(F) Property Tax Equivalency <sup>10</sup>	30	30	26	23	23	24	26

**Qualifications for Various Classes of Water Service**

Long-Term Municipal and Industrial (M&I) Subcontract: M&I subcontractors.

Non-Subcontract: M&I users who are not subcontractors and the CAGRDR.

Recharge (AWBA/CAGRDR and M&I Underground Water Storage): The Arizona Water Banking Authority and M&I subcontractors and other Arizona entities who have valid Arizona Department of Water Resources permits and accrue long-term recharge/storage credits from this activity.

**CENTRAL ARIZONA PROJECT  
PRELIMINARY 2011/2012 RATE SCHEDULE**

**DIRECT UNDERGROUND WATER STORAGE**

Units = \$/acre-foot

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<b>Underground Water Storage O&amp;M<sup>11</sup></b>							
Phoenix AMA	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8
Tucson AMA	15	15	15	15	15	15	15
<b>Underground Water Storage Capital Charge<sup>12</sup></b>							
Phoenix AMA	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Tucson AMA	9	9	9	9	9	9	9

**CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ASSESSMENT RATES**

Units = \$/acre-foot

	2009/10	Firm 2010/11	Provi- sional 2011/12	Advisory			
				2012/13	2013/14	2014/15	2015/16
<b>Phoenix Active Management Area</b>							
Water & Replenishment Component <sup>13</sup>	\$ 143	\$ 140	\$ 140	\$ 140	\$ 144	\$ 157	\$ 156
Administrative Component <sup>14</sup>	33	38	42	44	44	44	44
Infrastructure & Water Rights Component <sup>15</sup>	101	131	170	204	245	294	353
Replenishment Reserve Charge <sup>16</sup>	41	47	51	54	54	55	55
Total Assessment Rate (\$/AF)	\$ 318	\$ 356	\$ 403	\$ 442	\$ 487	\$ 550	\$ 608
<b>Pinal Active Management Area</b>							
Water & Replenishment Component <sup>13</sup>	\$ 107	\$ 110	\$ 116	\$ 120	\$ 121	\$ 133	\$ 128
Administrative Component <sup>14</sup>	33	38	42	44	44	44	44
Infrastructure & Water Rights Component <sup>15</sup>	101	131	170	204	245	294	353
Replenishment Reserve Charge <sup>16</sup>	38	45	53	61	60	61	61
Total Assessment Rate (\$/AF)	\$ 279	\$ 324	\$ 381	\$ 429	\$ 470	\$ 532	\$ 586
<b>Tucson Active Management Area</b>							
Water & Replenishment Component <sup>13</sup>	\$ 153	\$ 155	\$ 155	\$ 161	\$ 164	\$ 166	\$ 163
Administrative Component <sup>14</sup>	33	38	42	44	44	44	44
Infrastructure & Water Rights Component <sup>15</sup>	101	131	170	204	245	294	353
Replenishment Reserve Charge <sup>16</sup>	46	53	60	65	61	59	57
Total Assessment Rate (\$/AF)	\$ 333	\$ 377	\$ 427	\$ 474	\$ 514	\$ 563	\$ 617
<b>Contract Replenishment Tax - Scottsdale<sup>17</sup></b>							
Cost of Water	\$ 126	\$ 133	\$ 137	\$ 137	\$ 141	\$ 139	\$ 142
Cost of Transportation	0	0	0	0	0	0	0
Cost of Replenishment	0	0	0	0	0	0	0
Administrative Component <sup>14</sup>	33	38	42	44	44	44	44
Total Tax Rate (\$/AF)	\$ 159	\$ 171	\$ 179	\$ 181	\$ 185	\$ 183	\$ 186

**ENROLLMENT & ACTIVATION FEES**

Units = \$/Housing Unit

Enrollment Fee <sup>18</sup>	\$ 83	\$ 107	\$ 138	\$ 165	\$ 198	\$ 237	\$ 284
Activation Fee <sup>18</sup>	\$ 81	\$ 105	\$ 136	\$ 163	\$ 196	\$ 235	\$ 282

**CENTRAL ARIZONA PROJECT  
PRELIMINARY 2011/2012 RATE SCHEDULE**

**NOTES:**

- 1 Does not include the Capital Charge.
- 2 Rate is equal to M&I rate starting in 2011. This rate applies to all recharge customers. Rules regarding the eligibility for and use of this class are shown on page 1. For 2010, the recharge rate consists of Energy Rate 2 and a contribution toward covering a portion of the Fixed OM&R Rate.
- 3 The 2010 rate is obtained by adding the Fixed OM&R component, the Pumping Energy Rate 3 component, the M&I Capital Charge and an equivalency tax component. Starting in 2011 Pumping Energy Rate 1 replaces Pumping Energy Rate 3 as a rate component.
- 4 Rate is the Pumping Energy Rate 1 component. Incentives may be earned for meeting delivery goals in three areas. Any incentives earned can be applied to Settlement Pool deliveries.
- 5 Capital Charge is paid on full allocation regardless of amount delivered; not included in delivery rates.
- 6 Fixed O&M costs divided by projected total water volumes plus a component to fund capital replacements. This amount is collected on all ordered water whether delivered or not.
- 7 Applies to all water deliveries starting in 2011. For 2010, water volumes were excluded for Recharge, AWBA Interstate and SRP bring-your-own power acre-feet. The calculation is pumping energy costs divided by projected volumes. This amount is collected only for water actually delivered as opposed to scheduled.
- 8 Energy Rate 2 is eliminated starting in 2011 due to new power agreements.
- 9 Energy Rate 3 is eliminated starting in 2011 due to new power agreements.
- 10 The rate is based upon the tax levy for the previous elapsed tax year divided by the average water deliveries (excluding Federal deliveries and water storage credits) for the three previous completed delivery years (e.g., for 2010, the tax equivalency is the levy for the 2008-2009 tax year divided by the average water deliveries for 2006, 2007 and 2008). The Advisory Rates are estimates. Note the 2010 rate has been revised.
- 11 Underground Water Storage O&M is paid by all direct recharge customers using CAP recharge sites.
- 12 Underground Water Storage Capital Charge is paid by all direct recharge customers except AWBA for M&I firming, the CAGRDR, municipal providers within the CAP service area and co-owners of CAWCD recharge facilities using no more than their share of capacity.
- 13 The Water & Replenishment Component is designed to cover the projected annual costs of satisfying replenishment obligations, including the purchase of long-term storage credits (LTSC) and the purchase and replenishment of water and effluent. The total volume of water to be purchased and replenished includes a sufficient volume to offset losses incurred during the replenishment process (generally 1% to 2.5%). For the Phoenix Active Management Area (AMA), replenishment will be accomplished at direct underground storage facilities (USFs) and groundwater savings facilities (GSFs) as well as through the use of LTSCs purchased from others. For the Pinal AMA, replenishment will be accomplished at GSFs. For the Tucson AMA, replenishment will be accomplished at USFs as well as through the use of LTSCs purchased from others.
- 14 The Administrative Component is designed to cover all CAGRDR administrative costs. A \$2/AF has been added to this component to help fund the CAGRDR conservation program.
- 15 The Infrastructure & Water Rights Component is designed to generate funds to purchase long-term rights to water, and construct additional infrastructure facilities as the need arises in the future.
- 16 The Replenishment Reserve Charge is designed to cover costs associated with establishing a replenishment reserve of LTSCs as required by statutes. Water will be stored at a combination of USFs and GSFs in the Phoenix and Tucson AMAs. LTSCs purchased from CAP and others will also be used to help establish the replenishment reserve in the Phoenix and Tucson AMAs. In the Pinal AMA, LTSCs will be purchased from CAP in accordance with Board policy adopted on October 6, 2005. This charge will be levied as provided in ARS Sections 48-3774.01 and 48-3780.01.
- 17 The components of the Contract Replenishment Tax - Scottsdale reflect the provisions in the Water Availability Status Contract to Replenish Groundwater between CAWCD and Scottsdale. The rates reflect the assumption that Non-Subcontract CAP water will be available to meet the associated contract replenishment obligations.
- 18 The Enrollment Fee and Activation Fee reflect the fees established pursuant to the CAGRDR Enrollment Fee and Activation Fee Policy adopted by the Board on May 1, 2008. A \$2 per housing unit is included in the Enrollment Fee to help fund CAGRDR's conservation program.