



0000110604

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

38
2

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

2010 MAY -3 P 3:29

AZ CORP COMMISSION
DOCKET CONTROL

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, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

Arizona Corporation Commission
DOCKETED

MAY - 3 2010

DOCKETED BY *MS*

DIRECT TESTIMONY OF DAN L. NEIDLINGER

STAND-ALONE RATE DESIGN AND RATE CONSOLIDATION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th
Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting
firm specializing in utility rate economics.

SACKS TIERNEY P.A., ATTORNEYS
4250 NORTH DRINKWATER BOULEVARD
FOURTH FLOOR
SCOTTSDALE, ARIZONA 85251-3693

1 Q2. DID YOU PREVIOUSLY FILE DIRECT AND SURREBUTTAL
2 TESTIMONY IN THE REVENUE REQUIREMENTS PHASE OF THIS
3 PROCEEDING?

4 A2. Yes, I did.

5
6 Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

7 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
8 has intervened in this proceeding on behalf of over 8,800 of its residents that are water and
9 wastewater customers of Arizona-American Water Company ("AAWC" or "Company").

10 Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PHASE OF
11 THE PROCEEDING?

12 A4. My testimony addresses two topics: stand-alone rate design and rate consolidation. I
13 will comment on the recommendations of both the Company and Staff on these subjects.

14
15 I. STAND-ALONE RATE DESIGN

16
17 Q5. HAVE YOU REVIEWED THE RATE DESIGN TESTIMONIES OF
18 COMPANY WITNESS BRODERICK AND STAFF WITNESS MICHLIK WITH
19 RESPECT TO THE ANTHEM WATER DISTRICT AND THE ANTHEM/AGUA
20 FRIA WASTEWATER DISTRICT?

21 A5. Yes. In my view, the current rate designs for both water and wastewater appear to be
22 reasonable but cost of service studies were not filed in this case to validate this conclusion.
23 Absent water and wastewater cost of service analyses, the across-the-board approach
24 recommended by the Company is the only logical rate adjustment mechanism available, in
25 the event that the Commission does not adopt Company-wide rate consolidation in this
26 proceeding. This approach is preferable to Staff's proposed changes to water and
27 wastewater rate designs that recommend changes without adequate foundation or support.

28

1 **Q6. WHAT ARE YOUR COMMENTS REGARDING STAFF'S**
2 **RECOMMENDED RATE DESIGNS FOR ANTHEM WATER?**

3 A6. I have two objections to Staff's proposed stand-alone water rate design. The first
4 pertains to the pricing of higher tiers of the rate structure in relationship to pricing for the
5 first tier. For instance, for the 5/8" x 3/4" meters, Staff recommends that the rate for the first
6 tier, 0-3,000 gallons, be increased from \$1.54 to \$2.00 – an increase of 30%. The
7 recommended rate for the second tier, 3,001-9,000 gallons, is \$5.00 or 207% greater than
8 the current rate of \$2.41. The recommended rate for the third tier, usage over 9,000
9 gallons, is \$7.867 or 255% greater than the current rate of \$3.08. There is no justification,
10 in my view, for this extreme tilting of the rate structure which could create significant
11 revenue stability problems for the Company.

12 The second objection is related to the proposed changes in tier break-points for the
13 larger meter sizes. These are all two-tiered rates. Staff recommends lowering the
14 breakpoint for the first tier by about 67%. For instance, the first tier break-point for a 2"
15 commercial meter in Anthem is 185,000 gallons. Staff recommends lowering the
16 breakpoint for this first tier to 66,000 gallons. These changes in tier break-points coupled
17 with the previously discussed 207% and 255% increases in first and second tier rates would
18 increase the bills for many commercial customers to levels that cannot be logically
19 supported. For instance, the current water bill for a 2" meter commercial customer using
20 200,000 gallons is \$630. Under Staff's proposed rates, the bill jumps to \$1,584 – a 251%
21 increase.

22 **Q7. DID STAFF PROVIDE ANY COST JUSTIFICATION OR OTHER SUPPORT**
23 **FOR THESE PROPOSED AND SIGNIFICANT CHANGES TO THE WATER**
24 **RATE DESIGNS FOR ANTHEM?**

25 A7. No, it did not. Staff did not prepare a cost of service study for the Anthem Water
26 District to support its rate design revisions, nor did it discuss any non-cost factors that it
27 considered in arriving at its rate proposals.
28

1 Q8. IS STAFF ALSO RECOMMENDING A MAJOR REVISION TO THE
2 RESIDENTIAL WASTEWATER RATE FOR CUSTOMERS IN THE
3 ANTHEM/AGUA FRIA WASTEWATER DISTRICT?

4 A8. Yes. The current wastewater rate for Anthem/Agua Fria residential customers is
5 comprised of a fixed monthly charge and a commodity charge based on water usage with a
6 7,000 gallon per month ceiling. Staff's proposed rate design eliminates the fixed monthly
7 charge and recommends a monthly rate based on average monthly water usage in the
8 months of January through March – a purely commodity rate. This proposed change in
9 wastewater rates for Anthem's residential customers should not be accepted, because
10 (i) winter lawns are a requirement in Anthem under various land-use restrictions, and thus
11 (ii) a large percentage of the water use in the months of January through March is turf
12 irrigation that never enters the wastewater collection system. As a result, Anthem
13 residential customers would be required to pay, under Staff's proposed rates, wastewater
14 charges on nonexistent sewerage.

15 Q9. WHAT IS YOUR RATE DESIGN RECOMMENDATION UNDER A STAND-
16 ALONE RATE STRUCTURE WITH RESPECT TO RESIDENTIAL
17 WASTEWATER RATES FOR THE ANTHEM/AGUA FRIA WASTEWATER
18 DISTRICT?

19 A9. I recommend that residential customers be billed a fixed monthly charge for
20 wastewater services. A fixed monthly charge for residential wastewater service is a
21 standard ratemaking practice for most wastewater utilities and is consistent with the
22 wastewater rates currently charged residential customers in the Company's other
23 wastewater districts. Further, as discussed under the rate consolidation section of my
24 testimony, all residential wastewater rates are based on a flat monthly charge.
25 Alternatively, in the event that the Commission does not adopt Company-wide consolidated
26 rates in this proceeding, the current fixed/commodity rate structure could be retained with
27 any rate increases applied on an across-the-board basis.
28

II. RATE CONSOLIDATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Q10. THE COMPANY SUPPORTS RATE CONSOLIDATION BUT THE STAFF RECOMMENDS CONTINUANCE OF THE CURRENT STAND-ALONE CONFIGURATION. WHAT IS YOUR POSITION ON THIS ISSUE?

A10. In my view, the merits of rate consolidation significantly outweigh any adverse consequences of a rate consolidation process. To achieve the benefits of consolidation, however, all of the Company’s water and wastewater districts should be included in the consolidation. The partial consolidation alternatives presented by Staff do not provide for any meaningful improvement over the current stand-alone system. Similarly, the current “mini-consolidation” of the Anthem and Agua Fria Wastewater districts into a single (and isolated) consolidated district makes no sense. If consolidation of all the Company districts is not accomplished in this case, the Commission should de-consolidate these wastewater districts and set separate stand-alone rates.

Q11. WHAT ARE THE MAJOR BENEFITS OF RATE CONSOLIDATION?

- A11. Rate consolidation provides for the following major benefits:
1. Lower administrative costs through unified customer accounting and billing systems;
 2. Reduction in rate cases and associated rate case expenses incurred by the Company, Staff, RUCO and other intervenors;
 3. Elimination of distorted cost allocations among districts in rate filings - these cost imbalances abound in this case as discussed in my direct testimony on revenue requirements;
 4. The implementation of standard customer service policies and related service rates and charges;
 5. Improved rate stability and elimination of rate shock – an issue confronting Anthem customers in this case;
 6. Reduced customer confusion with respect to differing rate schedules under one Company umbrella; and
 7. The development and implementation of a targeted and comprehensive water conservation program for all of its systems.

1 Mr. Marshall Magruder, an intervenor in this case, lists 22 rate consolidation benefits on
2 Table 1, Page 12 of his early-filed rate design and rate consolidation testimony. His list
3 incorporates many of the benefits listed above as well as others that deserve some
4 consideration.

5
6 **Q12. DID THE COMPANY DISCUSS RATE CONSOLIDATION IN DIRECT**
7 **TESTIMONIES SUPPORTING ITS RATE FILING IN THIS CASE?**

8 A12. Yes. The direct testimonies of Company witnesses Thomas Broderick¹ and Paul G.
9 Townsley² support rate consolidation and discuss in some detail the beneficial effects of
10 consolidation. Mr. Townsley discussed one additional benefit not listed above that is
11 worthy of comment and support. Consolidation would allow the Company to acquire small
12 water and wastewater systems that are in disrepair and make needed plant improvements
13 without imposing rate shock on their customers.

14 **Q13. YOU SHOW LOWER ADMINISTRATIVE COSTS AS THE FIRST**
15 **BENEFIT ON YOUR LIST. PRIOR TO APPROVAL OF A CONSOLIDATION**
16 **RATE PLAN, SHOULDN'T THE COMMISSION REQUIRE THE COMPANY TO**
17 **PROVIDE A SPECIFIC COST REDUCTION PLAN THAT WOULD BE**
18 **IMPLEMENTED DURING THE CONSOLIDATION PROCESS?**

19 A13. Yes, I believe it should. It is incumbent on the Company, in my view, to identify and
20 implement tangible cost reduction benefits attributable to rate consolidation. In that regard,
21 the Commission should require the Company to provide, annually, reports describing the
22 progress on its cost reduction activities in its administrative functions.

23 / / /
24 / / /
25 / / /

26 _____

27 ¹ Revised Direct Testimony of Thomas M. Broderick, Pages 15 through 19.

28 ² Direct Testimony of Paul G. Townsley, Pages 14 through 21.

1 **Q14. HAVE YOU REVIEWED TO RATE CONSOLIDATION PLAN DISCUSSED**
2 **IN THE REBUTTAL RATE DESIGN TESTIMONY OF COMPANY WITNESS**
3 **CONSTANCE HEPPENSTALL?**

4 A14. Yes. Ms. Heppenstall has developed a detailed 3-Step plan for consolidating water
5 and wastewater rates for all of the Company's water and wastewater districts. As a starting
6 point for step increases, she has used the Company's rebuttal position on water and
7 wastewater revenue requirements on a non-consolidated basis.³ I am in general agreement
8 with the approach she has taken since it results in the consolidation of all of the Company's
9 systems. Ms. Heppenstall's 3-Step plan, however, produces some very large percentage
10 step increases and decreases that I find undesirable and unacceptable.

11 **Q15. PLEASE EXPLAIN.**

12 A15. Exhibit DLN-1, attached, shows the percentage changes in step water and
13 wastewater revenues under Ms. Heppenstall's 3-step plan compared with the percentage
14 changes under an alternative 5-step consolidation plan. As indicated on Exhibit DLN-1,
15 her 3-step plan results in water step increases as high as 31.82% for Mohave at Step 2 and
16 step decreases as high as 33.53% for Anthem at Step 3. Similarly, under her plan,
17 percentage step increases and decreases exceed 25% for the Sun City (increases) and
18 Anthem/Agua Fria (decreases) wastewater districts. I suggest an alternative 5-step
19 approach that constrains up or down percentage step adjustments to approximately 15%
20 using equal dollar adjustments for each step. Although this plan would admittedly take
21 longer to implement, it would provide for an improved smoothing of year-to-year rate
22 adjustments.

23 **Q16. HAVE YOU DEVELOPED A SPECIFIC SET OF STEP RATES TO**
24 **ACCOMPANY THIS ALTERNATIVE PLAN?**

25 A16. No, I have not as of the filing of this testimony. My plan is conceptual at this stage
26

27
28 ³ Company Rebuttal Water Revenue Requirements are \$71,719,121 and Rebuttal
Wastewater Revenue Requirements are \$29,602,049.

1 but a detailed set of step rates could be developed with Ms. Heppenstall's assistance should
2 the Commission desire to further explore this approach.

3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

**Q17. MS. HEPPENSTALL'S WATER RATE DESIGN CALLS FOR A FIVE TIER
COMMODITY RATE COMPONENT. DO YOU AGREE WITH THIS INCREASE
IN TIERS?**

A17. Yes. The increase in commodity tiers is needed to address the variation in customer
usage patterns among the various water districts. Without this change, large intra-class
revenue subsidies would be experienced.

**Q18. DO YOU AGREE WITH MS. HEPPENSTALL'S PROPOSED FLAT
MONTHLY RATE FOR RESIDENTIAL WASTEWATER SERVICE?**

A18. Yes. As earlier discussed in the stand-alone rate design section of my testimony, a
flat monthly rate is the rate design standard that should be adopted under rate consolidation.

**Q19. DOES THIS CONCLUDE YOUR TESTIMONY ON STAND-ALONE RATE
DESIGN AND RATE CONSOLIDATION?**

A19. Yes, it does.

ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343
ANTHEM WATER & AGUA/FRIA WASTEWATER DISTRICTS

Comparison of Company Rate Consolidation Plan With Alternative Plan

DISTRICT	PERCENTAGE CHANGES IN STEP REVENUES (1)				
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5
WATER:					
Company Phase-In Plan: (2)					
Sun City	15.53%	13.49%	11.87%		
Sun City West	-12.70%	0.00%	0.00%		
Agua Fria	-6.50%	0.00%	0.00%		
Anthem	0.30%	-28.70%	-33.53%		
Tubac	-8.36%	-20.00%	-16.67%		
Mohave	9.00%	31.82%	21.83%		
Havasu	-8.66%	-6.46%	-8.44%		
Paradise Valley	4.81%	5.08%	0.00%		
Alternative Phase-In Plan: (3)					
Sun City	9.34%	8.54%	7.87%	7.29%	6.80%
Sun City West	-2.54%	-2.61%	-2.68%	-2.75%	-2.83%
Agua Fria	-1.21%	-1.22%	-1.24%	-1.26%	-1.27%
Anthem	-10.49%	-11.72%	-13.28%	-15.31%	-18.08%
Tubac	-7.78%	-8.44%	-9.21%	-10.15%	-11.30%
Mohave	15.01%	13.05%	11.54%	10.35%	9.38%
Havasu	-4.35%	-4.55%	-4.77%	-5.01%	-5.27%
Paradise Valley	2.03%	1.99%	1.95%	1.91%	1.87%
WASTEWATER:					
Company Phase-In Plan: (2)					
Sun City	25.73%	30.28%	12.18%		
Sun City West	9.40%	0.00%	0.00%		
Anthem/Agua Fria	-16.81%	-25.11%	-17.79%		
Mohave	-26.18%	-10.50%	-1.81%		
Alternative Phase-In Plan: (3)					
Sun City	16.75%	14.35%	12.55%	11.15%	10.03%
Sun City West	1.88%	1.84%	1.81%	1.78%	1.75%
Anthem/Agua Fria	-9.76%	-10.81%	-12.12%	-13.79%	-16.00%
Mohave	-7.03%	-7.56%	-8.17%	-8.90%	-9.77%

NOTES:

- (1) Step Increases Beginning With Company Total Non-Consolidated Water Revenues of \$71,719,121 and Total Non-Consolidated Wastewater Revenues of \$29,602,049 - Both are Company Rebuttal Revenue Levels.
- (2) Rebuttal Rate Design Testimony of Company Witness Constance Heppenstall - Company Rebuttal Revenues With Rate Consolidation Model v3.
- (3) Assumes Equal Step Adjustments over 5 Steps

1 ORIGINAL and fifteen (15) copies of the
2 foregoing filed this 3rd day of May, 2010, with:

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

7 COPY of the foregoing hand-delivered
8 this 3rd day of May, 2010, to:

9 Thomas H. Campbell
10 Michael T. Hallam
11 Lewis and Roca, LLP
12 40 North Central Avenue
13 Phoenix, AZ 85004-4429

14 COPY of the foregoing mailed
15 this 3rd day of May, 2010, to:

16 Daniel Pozefsky
17 RUCO
18 1110 W. Washington St., Suite 220
19 Phoenix, AZ 85007

20 Janice M. Alward, Chief Counsel
21 Legal Division
22 Arizona Corporation Commission
23 1200 W Washington
24 Phoenix, AZ 85007-2927

25 Steve Olea, Director
26 Utilities Division
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, AZ 85007

Lyn Farmer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

///
///

- 1 Robert J. Metli, Esq.
Jeffrey W. Crockett, Esq.
- 2 Snell & Wilmer LLP
- 3 400 E Van Buren
- 4 Phoenix, AZ 85004-2202
- 5 Attorneys for the Resorts

- 6 Michael Patten, Esq.
- 7 Roshka DeWulf & Patten PLC
- 8 400 E Van Buren Suite 800
- 9 Phoenix, AZ 85004-2262

- 10 Bradley J. Herrema, Esq.
- 11 Robert J. Sperstein, Esq.
- 12 Brownstein Hyatt Farber Schreck, LLP
- 13 21 E. Carrillo Street
- 14 Santa Barbara, CA 93101
- 15 Attorneys for Anthem Golf and Country Club

- 16 Norman D. James, Esq.
- 17 Fennemore Craig
- 18 3003 N. Central Avenue, Suite 2600
- 19 Phoenix, AZ 85012
- 20 Attorneys for DMB White Tank, LLC

- 21 Andrew M. Miller, Esq.
- 22 Town Attorney
- 23 6401 E. Lincoln Drive
- 24 Paradise Valley, AZ 85253
- 25 Attorneys for Town of Paradise Valley

- 26 Marshall Magruder, Esq.
- 27 P.O. Box 1267
- 28 Tubac, AZ 85646-1267

- 29 Dan Neidlinger
- 30 Neidlinger & Associates, Ltd.
- 31 3020 N. 17th Drive
- 32 Phoenix, AZ 85015

- 33 / / /
- 34 / / /
- 35 / / /

1 Joan S. Burke, Esq.
2 Law Office of Joan S. Burke
3 1650 N. First Avenue
4 Phoenix, AZ 85003
5 Attorneys for Mashie, LLC, dba Corte Bella Golf Club

6 Larry Woods, President
7 Property Owners and Residents Association
8 13815 E. Camino Del Sol
9 Sun City West, AZ 85375

10 W.R. Hansen
11 12302 W. Swallow Drive
12 Sun City, AZ 85024

13 Greg Patterson
14 916 W. Adams, Suite 3
15 Phoenix, AZ 85007
16 Attorneys for WUAA

17 Larry D. Woods
18 15141 W. Horseman Lane
19 Sun City West, AZ 85375

20 Philip Cook
21 10122 W. Signal Butte Circle
22 Sun City, AZ 85373

23 
24 _____

25
26
27
28