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BEFORE THE ARIZONA CORPORATION COMMISSION

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2 COMMISSIONERS

- 3 KRISTIN K. MAYES-Chairman 2010 MAY -3 P 3:44
- 4 GARY PIERCE
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AZ CORP COMMISSION
DOCKET CONTROL

8 IN THE MATTER OF THE)
 9 APPLICATION OF ARIZONA-)
 10 AMERICAN WATER COMPANY, AN)
 11 ARIZONA CORPORATION, FOR A)
 12 DETERMINATION OF THE CURRENT)
 13 FAIR VALUE OF ITS UTILITY PLAN)
 14 AND PROPERTY AND FOR INCREASES)
 15 IN ITS RATES AND CHARGES BASED)
 16 THEREON FOR UTILITY SERVICE BY)
 17 ITS ANTHEM WATER DISTRICT AND)
 18 ITS SUN CITY WATER DISTRICT)

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission

DOCKETED

MAY - 3 2010

DOCKETED BY	<i>mm</i>
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20 IN THE MATTER OF THE)
 21 APPLICATION OF ARIZONA-)
 22 AMERICAN WATER COMPANY, AN)
 23 ARIZONA CORPORATION, FOR A)
 24 DETERMINATION OF THE CURRENT)
 25 FAIR VALUE OF ITS UTILITY PLANT)
 26 AND PROPERTY AND FOR INCREASES)
 27 IN ITS RATES AND CHARGES BASED)
 28 THEREON FOR UTILITY SERVICE BY)
 29 ITS ANTHEM/AGUA FRIA WATER)
 30 DISTRICT, ITS SUN CITY)
 31 WASTEWATER DISTRICT, AND ITS SUN)
 32 CITY WEST WASTEWATER DISTRICT)

DOCKET NO. SW-01303A-09-0343

33 _____

DIRECT TESTIMONY

OF

JAMES C. BACON, PARADISE VALLEY TOWN MANAGER,
ON BEHALF OF THE TOWN OF PARADISE VALLEY, ARIZONA

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1 **EXECUTIVE SUMMARY**

2

3 James C. Bacon testifies that:

4

5 The Town of Paradise Valley opposes water district or rate consolidation. The Town
6 does not find a basis to support consolidation based on public policy goals, public safety
7 rationales, comparisons to other regulated utilities, or purported foreseeable benefits. Rate
8 consolidation could lead to a loss of accountability by Arizona-American Water Company over
9 the necessity for future system improvements and provides more benefit to the water company
10 than it does to customers.

1 **I. INTRODUCTION AND QUALIFICATIONS**

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Q: Please state your name and business address.

A. James Bacon
6401 E. Lincoln Drive
Paradise Valley, AZ 85253

Q. Where are you employed and in what capacity?

A. Town of Paradise Valley
I am the Town Manager

Q. How long have you been employed with the Town of Paradise Valley?

A. 2 years, 4 months

Q. Please describe your educational background and professional experience.

A. I have a bachelor's degree in economics from St. Martin's College and a master's degree in business administration from Seattle University. I have worked at a number of state and local government positions in positions ranging from research and management analyst to city manager, with most of my professional life having been in the position of City or Town Manager in small to middle sized cities. These positions have provided me with experience in the operations of water utilities, both public and private, and the methodologies used to establish appropriate rates for both public and private water utilities. In particular, I was responsible for water related issues, particularly as relates to city and town budget issues, in the following cities:

- Puyallup, Washington
- Decatur, Illinois
- Kent, Ohio
- Colorado Springs, Colorado

Q. What are your current responsibilities as the Town Manager?

1 A. As Town Manager, I provide the overall administrative leadership for the Town
2 necessary for the implementation of Town Council policies, the administration of the
3 organization, and the delivery of services to the community. I also implement the
4 Council's established goals and policies through professional leadership and management
5 practices. Additionally, I administer the Town's contract for fire and emergency medical
6 services and ensure that the Town operations are performed effectively, efficiently, and
7 economically such that Town services are responsive to the needs of the community.

8 **II. PURPOSE OF TESTIMONY**

9
10 **Q. What is the purpose of your testimony?**

11
12 A. I have been selected to provide to the Commission the Town Council's position with
13 regard to rate consolidation.

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

15
16 A. During my first month as Town Manager the Arizona American Water Company issued a
17 notice to the customers in its Paradise Valley district that those customers should not
18 drink the potable water supplied by Arizona American due to contamination by
19 trichloroethylene. I spent much time that week handing out drinking water in the Town
20 Hall parking lot and listening to people's concerns regarding Arizona American. Since
21 that time I have become intimately familiar with a number of issues related to the Town's
22 policy concerns not only with the drinkability of the water supplied by Arizona
23 American, but also with its capability to provide fire flow through its distribution system,
24 rates related to the fire flow, and other rate issues in general. I regularly attend meetings
25 of the Town's Water Utility Committee where Arizona American staff has presented
26 information on both the quality of its water supply system and the impact of such changes

1 on their rates as well, and where the Committee has discussed and recommended to the
2 Town Council that the Town should oppose rate consolidation. I also assisted in making
3 the recommendations to the Committee and the Council on the reasons why the Town
4 should oppose consolidation, including those reasons expressed in my testimony and in
5 Council Resolution No. 1215, which I have appended to my testimony as the Town's
6 formal expression of its position regarding rate consolidation. This same resolution
7 authorizes me to be the witness in this case on behalf of the Town and is attached to my
8 testimony as Exhibit A hereto.

9 **III. RATE CONSOLIDATION**

10
11 **Q. Does the Town Council support the concept of rate consolidation and/or system
12 interconnection? Please describe.**

13 A. No. The Town Council does not believe there is any purpose for consolidating or system
14 interconnecting the Paradise Valley Water District with other Arizona-American Water
15 Districts at this time. The Town believes funding for other water district systems
16 upgrades or infrastructure improvements can be made regardless of consolidation.

17 **Q. Are there any other recommendations that the Town Council would like to make for
18 the PV Water District?**

19 A. Yes. The Town Council would like for the Paradise Valley Water District to remain
20 unconsolidated for its Paradise Valley customers and for an equitable rate design to be
21 established for this District.

22 **Q. Elijah Abinah, Assistant Director of the Utilities Division for the Arizona
23 Corporation Commission, has testified that public policy goals should be a key part**

1 **of the criteria analyzed when recommending rate consolidation. What is your**
2 **response to this?**

3 A. Public policy goals that can purportedly be achieved by rate consolidation, such as
4 increased water conservation by means of multiple “increasing” block tariffs and
5 encouraging a switch from use of groundwater to use of surface water, can be pursued in
6 the individual rate districts and do not need consolidated water districts in order to be
7 advanced.

8 **Q. Arizona Public Service Corporation (APS) has been used by many witnesses as an**
9 **historical example of how rate consolidation can and should work. Do you believe**
10 **that electric and water supply utilities are comparable for the purposes of analyzing**
11 **rate consolidation scenarios?**

12 A. No. Electricity generation and distribution is in no way comparable to treatment and
13 distribution of water. In the case of water, each set of assets is designed to serve a unique
14 entity. Even the treatment varies, depending on the source. There is no “grid” available
15 for balancing load and optimizing generation. Lastly, physically interconnecting the
16 geographically separate facilities of the Arizona-American water districts is not feasible,
17 except perhaps in the Sun City Area, thus any comparison to APS for the purpose of
18 bolstering a proposal for Rate consolidation is flawed.

19 **Q. Do you foresee any business or customer benefits that could result from rate**
20 **consolidation?**

21 A. No. There is no business logic for nor customer benefit from combining the
22 geographically separate and distinct water districts in the Arizona-American system
23 through some form of rate consolidation. The only real business logic is that rate

1 consolidation leads to simplicity for regulators, but it is difficult to see how this will lead
2 to any benefits for the customers of Arizona-American. Rate consolidation basically
3 centralizes and accumulates the rate bases for all the Arizona-American water districts
4 and makes it more difficult for customers to dissect the information discreet to their
5 locality in order to voice their opinions. At the same time, for those so inclined, it invites
6 residents in one water district, such as Sun City for example, to intervene in rate cases in
7 order to oppose capital investments that are proposed in other districts, such as Tubac or
8 Paradise Valley, pitting some sets of customers against the others. Because Arizona-
9 American's water districts are geographically isolated with completely separate water
10 supplies and customers, rates can be easily determined for each district. One must ask
11 whether rate consolidation is good for the customers; or good only for Arizona-American
12 and the Commission.

13 **Q. Others have testified that in order to help fund public safety improvements larger**
14 **water districts should be consolidated with smaller districts so that the cost of the**
15 **improvements can be shared across all of the Company's water customers. What is**
16 **your response to this?**

17 A. Rate consolidation allegedly may promote public safety by combining smaller troubled
18 water districts with larger ones in order to help "fund" the substantial investments needed
19 to alleviate health or public safety issues in the smaller districts. However, those same
20 improvements can be made regardless of consolidation. The only effect of consolidation
21 is to shift those costs to customers in other districts, including those who may have
22 already paid for similar necessary public safety improvements in their current water
23 district, many of which may have been constructed many years before consolidation. The

1 customers in districts that had already paid for the same type of public safety
2 improvements needed in a separate district can and should question the fairness of having
3 to pay (again) for the public safety improvements needed in other districts. Similarly,
4 purchasers of homes and businesses that may have made their decision to purchase and
5 develop property within a particular water district based in part on the complete water
6 treatment and distribution system there and the relatively low cost of water supply for that
7 property could object to the shifting of costs from other separate districts to these
8 purchasers—such shifting upsetting their investment backed expectations that were
9 logically and prudently relied upon.

10 **Q. If rate consolidation were to happen, do you believe it could lead to a loss of**
11 **accountability by Arizona-American? Please explain.**

12 A. Yes. Rate consolidation can lead to a loss of accountability by Arizona-American over
13 the necessity or merit of making certain capital investments in each of the water districts.
14 Capital expenditures that may receive a rigorous examination by the ratepayers when
15 made in one water district will not appear to have a substantial rate impact when spread
16 out over a much larger rate-payer base, thus leading to a less thorough examination of
17 such capital expenditures.

18 **Q. Does this conclude your testimony in this case?**

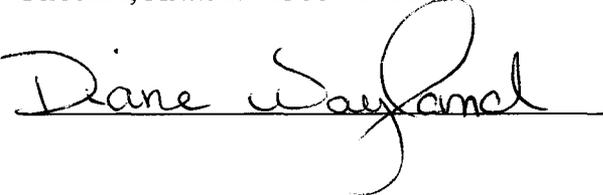
19
20 A. Yes.

1 Michael T. Hallam
2 Lewis & Roca LLP
3 40 North Central Avenue
4 Phoenix, Arizona 85004
5
6

7 Jeffery Crockett
8 One Arizona Center
9 400 E. Van Buren
10 Phoenix, AZ 85004-2202
11 Marshall Magruder
12 PO Box 1267
13 Tubac, Arizona 85646
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15 Joan Burke
16 1650 N. First Ave
17 Phoenix, AZ 85003
18

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20 2200 North Central Avenue, Ste 502
21 Phoenix, Arizona 85004-1481
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RESOLUTION NUMBER 1215

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF PARADISE VALLEY, ARIZONA, RECEIVING THE RECOMMENDATIONS OF THE WATER UTILITY COMMITTEE REGARDING PROPOSALS FOR RATE CONSOLIDATION CURRENTLY BEFORE THE ARIZONA CORPORATION COMMISSION IN THE PENDING ARIZONA-AMERICAN WATER COMPANY RATE CASE, DOCKET NO. W-01303A-09-0343; ADOPTING FINDINGS ON THE ISSUE OF RATE CONSOLIDATION; AND AUTHORIZING THE TOWN ATTORNEY TO FILE TESTIMONY AND A COPY OF THIS RESOLUTION IN THE DOCKET FOR THE RATE CASE

BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE TOWN OF PARADISE VALLEY, ARIZONA THAT:

WHEREAS, the Town of Paradise Valley is a direct customer of the Arizona American Water Company (“Arizona American”), located in Arizona American’s Paradise Valley Water District (“PV District”), and a considerable majority of the PV District is composed of residents and businesses in the Town of Paradise Valley; and

WHEREAS, the Arizona Corporation Commission (“Commission”) requested input from parties to a prior rate case (Commission Docket No. W-01303A-08-0227; the “Prior Rate Case”), including the Town, on a proposal to consolidate the PV Water District with other Arizona American water districts for the purposes of instituting a consolidated water rates structure for the eight Arizona American water districts within the jurisdiction of the Commission (hereinafter “Rate Consolidation”); and

1 WHEREAS, the Town Council previously adopted Resolution #1185 which
2 provided direction to the Town's Attorneys on the Town's position on Rate
3 Consolidation in the Prior Rate Case; the Town's position being as follows:

4 **“Consolidation of Arizona-American Water Systems** – The Town takes no
5 position on the question of consolidation of Arizona-American Water rate
6 districts raised by Commissioner Mayes in her letter to the parties to the docket
7 dated November 10, 2008. The Town can foresee some benefits and some
8 detriments to the Town's residential and commercial users in the event of a
9 consolidation, but it finds that there are too many variables involved in the
10 determination of whether the Town's water users are in a better or worse
11 position in the event of a consolidation.”
12

13 WHEREAS, Decision No. 71410 in the Prior Rate Case required that the issue of
14 Rate Consolidation be taken up in the Company's next rate case with a separate docket in
15 which “a revenue-neutral change to rate design” of all of Arizona American's water
16 districts be considered, that separate docket being Case No. W-01303A-09-0343 (the
17 “Current Rate Case”); and

18 WHEREAS, the Town filed for intervention in Current Rate Case; and
19 intervention was recently granted; and

20 WHEREAS, the Paradise Valley Water Utility Committee was established by the
21 Town of Paradise Valley Town Council on January 22, 2009 with said Committee to be
22 advisory to the Town Council and to make regular reports and recommendations to the
23 Council based on its research and review of matters related to the Town's three water
24 utility companies; and

25 WHEREAS, the Water Utility Committee met on April 14, 2010 to discuss and
26 make a recommendation to the Council on a proposal in the Current Rate Case to
27 institute Rate Consolidation; and

1 WHEREAS, the Water Utility Committee adopted a motion at its April 14, 2010
2 meeting recommending to the Council that the Town oppose Rate Consolidation at this
3 time and requested that the Town Attorney, based on the input of the members of the
4 Water Utility Committee, prepare a set of reasons why the Town should oppose Rate
5 Consolidation; and

6 WHEREAS, that the Council discussed Rate Consolidation at its April 8th, 2010
7 and April 22nd, 2010 Council meetings to obtain background on the arguments for and
8 against Rate Consolidation; and

9 WHEREAS, the Town Council concurs with the recommendation of the Water
10 Utility Committee that the Town should oppose Rate Consolidation;

11 NOW THEREFORE, the Town Council directs and authorizes the Town
12 Attorney and Town Manager to file testimony and a copy of this resolution in the docket
13 of the Current Rate Case opposing consolidation of the PV Water district with any other
14 Arizona American water districts, based on the following findings:

- 15 1. Public policy goals that can purportedly be achieved by Rate Consolidation,
16 such as increased water conservation by means of multiple "increasing" block
17 tariffs and encouraging a switch from use of groundwater to use of surface
18 water, can be pursued in the individual rate districts and do not need
19 consolidated water districts in order to be advanced.
20
- 21 2. There is no business logic for nor customer benefit from combining the
22 geographically separate and distinct water districts in the Arizona American
23 system through some form of Rate Consolidation. The only real business logic
24 is that Rate Consolidation leads to simplicity for regulators, but it is difficult to
25 see how this will lead to any benefits for the customers of Arizona American.
26 Rate Consolidation basically centralizes and accumulates the rate bases for all
27 the Arizona American water districts and makes it more difficult for customers
28 to dissect the information discreet to their locality in order to voice their
29 opinions. At the same time, for those so inclined, it invites residents in one
30 water district, such as Sun City for example, to intervene in rate cases in order
31 to oppose capital investments that are proposed in other districts, such as

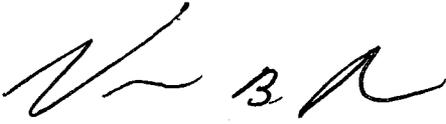
1 Tubac or Paradise Valley, pitting some sets of customers against the others.
2 Because Arizona American's water districts are geographically isolated with
3 completely separate water supplies and customers, rates can be easily
4 determined for each district. One must ask whether Rate Consolidation is good
5 for the customers; or good only for Arizona American and the Commission.
6

- 7 3. Arizona Public Service Corporation (APS) is consistently used as a historical
8 example and comparable model as to how rate consolidation can and should
9 work. It is not. Electricity generation and distribution is in no way
10 comparable to treatment and distribution of water. In the case of water each
11 set of assets is designed to serve a unique entity. Even the treatment varies,
12 depending on the source. There is no "grid" available for balancing load and
13 optimizing generation. Lastly, physically interconnecting the geographically
14 separate facilities of the Arizona American water districts is not feasible,
15 except perhaps in the Sun City Area, thus any comparison to APS for the
16 purpose of bolstering a proposal for Rate Consolidation is flawed.
17
- 18 4. Rate Consolidation allegedly may promote public safety by combining smaller
19 troubled water districts with larger ones in order to help "fund" the substantial
20 investments needed to alleviate health or public safety issues in the smaller
21 districts. However, those same improvements can be made regardless of
22 consolidation. The only effect of consolidation is to shift those costs to
23 customers in other districts, including those who may have already paid for
24 similar necessary public safety improvements in their current water district,
25 many of which may have been constructed many years before consolidation.
26 The customers in districts that had already paid for the same type of public
27 safety improvements needed in a separate district and should question the
28 fairness of having to pay (again) for the public safety improvements needed in
29 other districts. Similarly, purchasers of homes and businesses that may have
30 made their decision to purchase and develop property within a particular water
31 district based in part on the complete water treatment and distribution system
32 there and the relatively low cost of water supply for that property could object
33 to the shifting of costs from other separate districts to these purchasers—such
34 shifting upsetting their investment backed expectations that were logically and
35 prudently relied upon.
36
- 37 5. Rate Consolidation can lead to a loss of accountability by Arizona American
38 over the necessity or merit of making certain capital investments in each of the
39 water districts. Capital expenditures that may receive a rigorous examination
40 by the ratepayers when made in one water district will not appear to have a
41 substantial rate impact when spread out over a much larger rate-payer base,
42 thus leading to a less thorough examination of such capital expenditures.
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1 The Town Attorney is directed to file a copy of this Resolution in the docket for
2 the Current Rate Case as a statement of the Town's position on Rate Consolidation; and
3 to represent the Town's interests in all future hearings in the Current Rate Case involving
4 the issue of Rate Consolidation consistent with the positions outlined above.

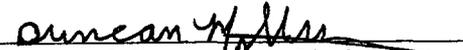
5 ADOPTED by the Town Council this 22nd day of April, 2010.

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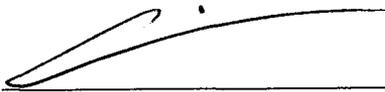
Vernon B. Parker, Mayor

ATTEST:



Duncan Miller, Town Clerk

APPROVED AS TO FORM



Andrew M. Miller, Town Attorney

STATE OF ARIZONA)
 :SS.
COUNTY OF MARICOPA)

CERTIFICATION

I, Duncan Miller, Town Clerk hereby certify that the foregoing is a full, true and correct copy of Resolution Number 1215 duly and regularly passed and adopted by vote of the Town Council of Paradise Valley at a meeting thereof duly called and held on the 22nd day of April, 2010. That said Resolution appears in the minutes of said meeting, and that the same has not been rescinded or modified and is now in full force and effect.

I further certify that said municipal corporation is duly organized and existing, and has the power to take the action called for by the foregoing Resolution.



Duncan Miller
Duncan Miller, Town Clerk