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BEFORE THE ARIZONA CORPORATION

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

COMMISSIONERS

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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, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission
DOCKETED

MAY - 3 2010

DOCKETED BY *MW*

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 WATER DISTRICT, ITS SUN CITY WASTEWATER DISTRICT, AND ITS SUN CITY WEST WASTEWATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. SW-01303A-09-0343

RESORTS' NOTICE OF FILING DIRECT TESTIMONY OF JOHN S. THORNTON

The Camelback Inn and Sanctuary on Camelback Mountain, collectively (the "Resorts"), through its undersigned counsel, hereby provides notice that it has this day filed the written direct testimony of John S. Thornton in connection with the rate design and rate consolidation portion of the above-captioned matter.

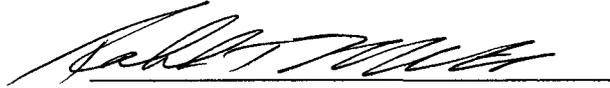
Snell & Wilmer

LLP
LAW OFFICES
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Phoenix, Arizona 85004-2202
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1 RESPECTFULLY submitted this 6th day of May, 2010.

2 SNELL & WILMER

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4 

5 Jeffrey W. Crockett, Esq.
6 Robert J. Metli, Esq.
7 One Arizona Center
8 Phoenix, Arizona 85004-2202
9 Attorneys for the Resorts

10 ORIGINAL and thirteen (13) copies of the
11 foregoing have been filed with Docket
12 Control this 6th day of May, 2010

13 A COPY of the foregoing was hand-
14 delivered this 6th day of May, 2010, to:

15 Teena Wolfe
16 Administrative Law Judge
17 Hearing Division
18 ARIZONA CORPORATION
19 COMMISSION
20 1200 West Washington St.
21 Phoenix, Arizona 85007

22 Janice Alward, Chief Counsel
23 Legal Division
24 ARIZONA CORPORATION
25 COMMISSION
26 1200 West Washington St.
27 Phoenix, Arizona 85007

28 Steve Olea, Director
Utilities Division
ARIZONA CORPORATION
COMMISSION
1200 West Washington St.
Phoenix, Arizona 85007

A COPY of the foregoing was
mailed this 6th day of May, 2010, to:

W. R. Hansen
12302 W. Swallow Dr.
Sun City, AZ 85024

Larry Woods
PROPERTY OWNERS AND
RESIDENTS ASSOCIATION
13815 E. Camino Del Sol
Sun City West, AZ 85375

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Phoenix, AZ 85007

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P.O. Box 1267
Tubac, AZ 85646-1267

Joan S. Burke
LAW OFFICE OF JOAN S. BURKE
1650 N. First Avenue
Phoenix, AZ 85003

Witness Qualifications Statement

NAME: JOHN S. THORNTON, JR.

ADDRESS: 7929 E Joshua Tree Lane, Scottsdale AZ 85250-7967

EDUCATION: Master of Science Degree from the University of London, having completed the graduate program in economics at the London School of Economics and Political Science (1986)

Graduate Diploma in Economics from the London School of Economics (1985)

Bachelor of Arts degree, major in economics, from Willamette University (1984)

Certified Rate of Return Analyst, past member of the Society of Utility and Regulatory Financial Analysts

1998 passed level I of the CFA

1995 PaineWebber Seminar on Corporate Finance for the Utility Industry

1990 MIT/Harvard Public Disputes Resolution Program seminar

1990 National Association of Regulatory Utility Commissioners (NARUC) Advanced Regulatory Studies Program

1988 NARUC Annual Regulatory Studies Program

EXPERIENCE: **Thornton Financial Consulting - Principal, 2004 to present**

Docket No. W-01303A-08-0227 re: *In the matter of the application of Arizona-American Water Company for approval of a rate increase for utility service by Agua Fria Water and Agua Fria Wastewater District, Anthem Water and Anthem Wastewater District, Havasu Water District, Mohave Water and Wastewater District, Paradise Valley Water District, Sun City West Water District and Tubac Water District.* Represented the Camelback Inn and the Sanctuary on Camelback Mountain in analysis of rate proposals affecting resort users.

Docket No. W-01303A-08-0227 re: *In the matter of the application of Arizona-American Water Company for approval of a rate increase for utility service by Agua Fria Water and Agua Fria Wastewater District, Anthem Water and Anthem Wastewater District, Havasu Water District, Mohave Water and Wastewater District, Paradise Valley Water District, Sun City West Water District and Tubac Water District.* Analyzed case (2,000 pages of documents) and presented its effects on customers on Paradise Valley before the Paradise Valley Town Council.

Docket No. E-01933A-07-0402 re: *In the matter of the application of Tucson Electric Power Company for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of its operations throughout the State of Arizona.* Handicapped rate case outcomes for investors.

Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2008)

Docket No. W-01303A-05-0405 re: In the matter of the application of Arizona - American Water Company Inc. for approval of 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 Paradise Valley Water District. Provided revenue requirement and rate spread/rate design analysis related to High Block Usage Surcharge and Public Safety Surcharge to resort customers and proposed alternative surcharges. Forecasted seasonal resort consumption and bills and documented conservation efforts. (2007)

Docket No. W-01445A-06-0200 et alia re: Arizona Water Company vs. Global Water Resources, Inc. Filed testimony on behalf of Arizona Water Company. Analyzed Global Water Resources' financial structure, affiliated interest issues, and use of Infrastructure Coordination and Financing Agreements. (2007)

Docket No. 06-11022 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2007)

Docket No. E-01345A-05-0816 re: In the matter of the application of Arizona Public Service Company for a hearing to determine the fair value of the utility property of the company for ratemaking purposes, to fix a just and reasonable rate of return thereon, to approve rate schedules designed to develop such return, and to amend Decision No. 67744. Provided analysis and commentary to Wall Street hedge fund clients on ACC decision process and procedures and likely outcome of the ACC vote. (2007)

Docket No. E-01933A-05-0650 re: application of Tucson Electric Power Company to amend Arizona Corporation Commission (ACC) Decision No. 62103. Provided analysis and commentary to GLG clients on ACC decision process and procedures and likely outcome of the ACC vote. (2005-2006)

Case No. 200500151 re: application of Oklahoma Gas and Electric Company for authority to increase its electric rates. Rate-of-return witness for intervenor Oklahoma Industrial Energy Consumers. (2005)

Docket No. E-01933A-04-0408 re: in the matter of the filing of general rate case information of Tucson Electric Power Co. pursuant to Decision No. 62103. Provided analysis on process & procedure, likely positions to be taken by parties, and revenue requirement analysis after impacts of potential or likely disallowances. Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2004-2005)

Docket No. E-04230A-03-0933 re: in the matter of the reorganization of UniSource Energy Corporation. Analyzed proposed acquisition of UniSource by KKR through Saguaro Acquisition Corp. Provided analysis and commentary on Arizona Corporation

Commission (ACC) decision process and procedures and likely outcome of the ACC vote. Analysis provided to a number of Wall Street investment firms through The Gerson Lehrman Group. (2004)

Docket No. UM 1121 re: application of Oregon Electric Utility Co., LLC, et alia for authority to acquire Portland General Electric Co. Analyzed the proposed acquisition of Portland General Electric Co. by the Texas Pacific Group from the Enron bankruptcy estate on behalf of the Industrial Customers of Northwest Utilities. (2004)

Case Nos. AVU-E-04-01 and AVU-G-04-01 re: application of Avista Corporation for authority to increase its electric rates. Rate-of-return witness for intervenor Potlatch Corporation. (2004)

Docket Nos. 03-10001 and 03-10002 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2004)

Docket Nos. 01-10001 and 01-10002 re: application of Nevada Power Co. for authority to increase its annual revenue requirement for general rates charged to all classes of electric customers and for relief properly related thereto: Rate of return witness for intervenor MGM-Mirage. (2002)

Docket No. UE 010395 re: application of Avista Corporation d/b/a Avista Utilities request for recovery of power costs through the deferral mechanism. Corporate finance witness for the Industrial Customers of Northwest Utilities. (2001)

Docket Nos. 99-4001 and 99-4005 re: Sierra Pacific Power Co. compliance filing Docket No. 99-4001 and Nevada Power Co. compliance filing Docket No. 99-4005. Rate of return witness for intervenors Mirage Resorts, Inc., Park Place Entertainment Corp., and the Mandalay Group. (2000)

Application Nos. 98-05-019, 021, & 024. Presented beta adjustment and distribution risk discount testimony on behalf of the Division of Ratepayer Advocates of the California Public Utility Commission. (1998)

Speaker—US Agency for International Development's Conference on Private Sector Participation in the Colombian Power Sector. (1991)

Chief, Financial & Regulatory Analysis Section, Utilities Division, Arizona Corporation Commission, 2001 to 2004

Testified or provided reports in the following dockets:

- W-01656A-98-0577 & WS-02334A-98-0577—Sun City Water Co. and Sun City West Utilities Co.’s request for approval of the Central Arizona Project water utilization plan. Testimony on the effect of the Groundwater Savings Project on Sun City Water Co. and Sun City West Utilities Company’s revenue requirement.
- E-01345A-02-0707—Arizona Public Service Co.’s application for authority to incur \$500,000,000 of debt and to acquire a financial interest in an affiliate by lending \$500,000,000 to Pinnacle West Capital Corp. or Pinnacle West Energy Corp. Alternatively, APS’ application to guarantee \$500,000,000 of PWCC or PWEC debt. Testimony on the appropriateness of the affiliate transactions and seven conditions under which the loan could be made.
- E-01345A-02-0840—Arizona Public Service Co.’s application for authority to loan \$125,000,000 of debt to an affiliate. (Staff report regarding four conditions under which the affiliate transaction would be appropriate.)
- E-01345A-02-0403—Arizona Public Service Co.’s application for approval of adjustment mechanisms. Testimony on a power supply adjustor earnings test.
- E-01032-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-1032C-02-0914, G-01032A-02-0914—Consolidated dockets of UniSource, Citizens Communications Arizona Gas Division (AGD), & Citizens Communications Arizona Electric Division (AED); general rate case for the AGD, PPFAC adjustment for AED, and sale of AGD and AED to UniSource. (Staff report section on analysis of the financing of the sale and transfer of utility assets.)
- W-01445A-02-0619—Arizona Water Company’s application for rates and charges for eight systems. Testimony on implementing lifeline rates and using marginal cost pricing in rate design.

Senior Analyst with the Public Utility Commission of Oregon, 1988-2001

Testified or provided rate of return analyses in the following dockets:

- UE 102—PGE disaggregation/general rate case (chief rate of return witness).
- UE 94—PacifiCorp general rate case (chief rate of return witness).
- UE 93 (UM 592, UM 694)—Portland General Electric Co. excess power cost/Coyote/BPA filing.

- UE 92—Idaho Power general rate case.
- UE 88—Portland General Electric Co. general rate case (chief rate of return witness).
- UE 85/UM 529—Portland General Electric Co. Earnings test for Trojan Shutdown Cost Adjustment Account.
- UE 84—Idaho Power Co. deferred account earnings benchmark.
- UE 82/UM 445—Trojan Outage Cost Adjustment Account earnings test benchmark.
- UE79—Portland General Electric Co. general rate case (chief rate of return witness).
- UG 104/UG 105/UG 106—LDC deferred account earnings test benchmarks.
- UG88—Cascade Natural Gas Co. general rate case (chief rate of return witness).
- UG81—Northwest Natural Gas Co. general rate case (chief rate of return witness).
- UT 125—US WEST Communications, Inc general rate case (chief rate of return witness).
- UT 113—GTE Northwest general rate case (chief rate of return witness).
- UT101—United Telephone Co. of the Northwest general rate case (chief rate of return witness).
- UT85—US WEST general rate case (capital structure and debt cost witness).
- RP95-409—Northwest Pipeline general rate case (FERC).
- RP93-5—Northwest Pipeline general rate case (FERC).

Responsibilities also included the following:

- Analyses and recommendations in over fifty financing dockets involving instruments such as first mortgage bonds, medium-term notes, debentures, preferred stock, QUIDS, TOPRs, common equity, shareholder rights plans (poison pills), and derivative securities including caps, collars, and floors.
- UM 903— Northwest Natural, cost of capital analysis for purchased gas adjustment mechanism.
- UM 21—Cost of capital analysis for avoided cost calculations.
- UM 351—Cost of capital analysis for long-run incremental-cost studies.

- UM 573—Analysis of purchased power on the utility's cost of capital.
- UM 773—Cost of capital analysis for long-run incremental-cost studies.
- UM 814—Enron's application to acquire Portland General Electric Co.
- UM 918—Scottish Power plc's application to acquire PacifiCorp.
- UM 967—Sierra Pacific Resource's application to acquire Portland General Electric Co.

Paradise Valley Water District Commercial Rates
Monthly Charges

<u>Meter Size</u>	<u>Current Rates</u>	<u>AAWC Rebuttal</u>	<u>Staff Direct</u>
5/8 x 3/4	\$25.15	\$16.97	\$14.00
3/4	\$26.16	\$16.97	\$14.00
1	\$50.30	\$42.43	\$35.00
1 1/2	\$90.54	\$84.85	\$70.00
2	\$140.84	\$135.76	\$112.00
3	\$276.65	\$254.55	\$210.00
4	\$462.76	\$424.25	\$350.00
6	\$930.00	\$848.50	\$700.00

Paradise Valley Water District Commercial Rates

Current Commodity Rates (all meter sizes)

0-400,000	\$1.95
Over 400,000	\$2.30

Proposed Commodity Rates (by meter size)

<i>AAWC Proposal</i>		<i>Staff Proposal</i>	
5/8" by 3/4" & 3/4"		5/8 by 3/4" & 3/4"	
0 - 10,000	\$2.29	0-10,000	\$2.2500
10,001 - 35,000	\$2.79	10,001 +	\$3.4821
35,001 - 60,000	\$3.29		
60,001 +	\$3.79		
1"		1"	
0 - 10000	\$2.29	0-40,000	\$2.2500
10,001 - 35000	\$2.79	40,001 +	\$3.4821
35,001 - 60,000	\$3.29		
60,001 +	\$3.79		
1.5"		1.5"	
0-100,000	\$2.29	0-80,000	\$2.2500
100,001 - 200,000	\$2.79	80,001 +	\$3.4821
200,001 - 300,000	\$3.29		
300,001 +	\$3.79		
2"		2"	
0-100,000	\$2.29	0-100,000	\$2.2500
100,001 - 200,000	\$2.79	100,001 +	\$3.4821
200,001 - 300,000	\$3.29		
300,001 +	\$3.79		
3"		3"	
0-100,000	\$2.29	0-200,000	\$2.2500
100,001 - 200,000	\$2.79	200,001 +	\$3.4821
200,001 - 300,000	\$3.29		
300,001 +	\$3.79		
4"		4"	
0 - 200,000	\$2.29	0-300,000	\$2.2500
200,001 - 300,000	\$2.79	300,001 +	\$3.4821
300,001 - 400,000	\$3.29		
400,001 +	\$3.79		
6"		6"	
0 - 200,000	\$2.29	0-500,000	\$2.2500
200,001 - 300,000	\$2.79	500,001 +	\$3.4821
300,001 - 400,000	\$3.29		
400,001 +	\$3.79		

XERISCAPE

Landscapes for Life in the Desert

Whether you have lived here all your life or you have just moved from across the country, creating a landscape in the desert can be a challenging and exciting experience. A beautiful, easy care yard can bring you hours of enjoyment and can provide you with a lovely place to relax, entertain and spend time with family and friends.

Warm, sunny days and a year-round growing season provide gardeners with the opportunity to use a wide array of plants. You can achieve different looks to suit your taste, and your yard can serve a variety of functions that match your lifestyle. Landscaping can also help to decrease some of the harsh effects of our desert climate, as plants and other landscape components provide shade, increase the energy efficiency of our homes and extend our living space from *the indoors to the outdoors*.

However, the same climate that offers many choices also presents us with a special challenge. Because we live in the Sonoran Desert, we must use water wisely. Selecting low water use plants and



using water efficient irrigation techniques will help you get the most from the water used to establish and maintain your landscape.

In the Sonoran Desert, many people call water efficient, creative landscapes Xeriscapes. This term comes from the Greek word xeros, which means dry, and refers to seven horticultural principles which help to ensure that landscapes, wherever they are located, reflect a sensitivity to the local environment and its climate. By using the Xeriscape principles, you can identify landscape options, express your creativity and, at the same time, be mindful and respectful of our unique desert environment.

This guide will provide the kind of information needed to plan, install and care for a Xeriscape. It is filled with ideas, instructions, tips and illustrations to help you create a landscape that will

beautify your home and meet your recreational needs. The guide is organized into four sections, each covering a different aspect of the Xeriscape process. You can read the guide all at once or refer to specific sections as needed. An extensive list of resources is located at the end of the guide. It provides suggested reading material, websites, telephone numbers for organizations that offer information on Xeriscape, and places to visit to learn more about Xeriscape.

You may already have an established landscape and are reading this guide with the idea of converting your water intensive landscape to a Xeriscape or of modifying your existing Xeriscape to enhance its beauty, functionality or water efficiency. This guide is for you too. All of the steps included in the guide can be directly applied or modified to plan and incorporate changes into existing landscapes.

Opposite: Outdoor living in the Sonoran Desert – native plants provide shade, color and texture. (Pala Verde tree – by chair, Ocotillo – center, Desert Marigold – yellow/foreground, Blanket Flower – orange and yellow/foreground and Penstemon – dark red to right of Ocotillo)

Xeriscape: The Process at a Glance

Planning and Designing a Great Yard

- Make a Drawing of Your Site
- Make a Wish List
- Look at Your Site
- Learn About Plants and Other Landscape Materials
- Draw Your Preliminary Landscape Design and Irrigation Plan
- Pre-Shop for Landscape Materials and Services
- Prepare a Cost Estimate
- Draw Your Working Design

Installing a Xeriscape

- Prepare Your Site
- Measure, Mark and Install Hardscape Areas
- Prepare the Soil
- Mark Plant Locations
- Purchase and Install Irrigation Materials
- Purchase and Install Plants
- Purchase and Install Decomposed Granite and Other Mulches
- Assess Your Accomplishments

Xeriscape Maintenance: Healthy Landscapes for Lasting Beauty

- Watering Schedules Tailored for Our Desert Climate
- General Guidelines for Landscape Watering
- Plant Care
- Irrigation System Care

Revisiting the Landscape

- Additions
- Conversions
- Improvements



Using the Xeriscape Principles to Create Beautiful, Healthy, Water Efficient Gardens

The Xeriscape Principles

1. Good Landscape Planning and Design

Creating a plan will help you get the most out of your landscape while considering issues like cost, function, aesthetic preferences, maintenance requirements, water efficiency and energy efficiency. You can tailor the plan to suit your taste, your needs and your checkbook. The plan will serve as a guide throughout the landscaping process. It will help you stay focused and can help to avoid time consuming and costly mistakes. When developing a plan, think long term. You may decide to complete your landscape all at once or in stages. *Regardless of your approach, take the time to develop a complete plan for your yard.*

2. Low Water Use Plants

There are hundreds of water thrifty native or desert adapted plant species available at local nurseries. Some varieties have been available for many years, while others are new on the market. They come in all shapes and sizes and serve a variety of purposes from shade to seasonal color to screening unsightly areas. Many low water use plants have beautiful flowers or interesting forms. They will help you create a

XERISCAPE PRINCIPLES



colorful, low-maintenance yard without taxing our limited water resources.

3. Appropriate Turf Areas

Although turf generally requires more water and more maintenance than low water use plants, sometimes only grass will do, especially if you are sports minded or if there are children or pets at home. Small turf areas can be incorporated successfully into a Xeriscape if they are properly planned, installed and maintained.

4. Efficient Irrigation

In the Sonoran Desert, almost all new plants should be watered regularly to get them established; and most plants, low water use or not, need some kind of irrigation even after they become mature. The trick is to find out how much water your plants require and to apply only that much. When you design your irrigation system, try to put trees, shrubs, groundcovers and turf areas each on different valves so you can time their irrigations separately. Most plants will need more frequent irrigations dur-

ing their first year. Usually, you can cut back on watering during the second and subsequent years, after the plants have become established. Also remember that plants need less water during the cooler months. Adjust your irrigation schedule at least four times each year.

5. Soil Improvements

Most low water use plants thrive naturally in our desert soils, so amendments such as fertilizers and soil supplements are usually not necessary. They do prefer good drainage, and soil should be loosened at planting time to encourage healthy root growth. Soil amendments most likely will be needed for turf areas and areas where more water thirsty plants are installed. Because there is quite a variation in soil quality and composition across the Sonoran Desert, soil amendments may be needed when unusual conditions exist. For more information about your specific soil type and about the possible need for soil improvements, contact your County Cooperative Extension office.

6. Use of Mulches

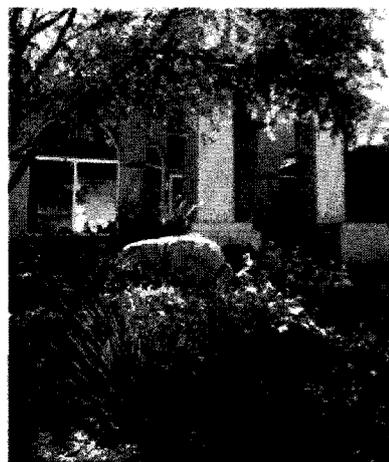
Mulches cover the soil and reduce evaporation from planted areas. They cool the soil beneath and also help to inhibit weed growth and erosion. There are organic mulches and inorganic mulches. The most popular organic mulches in our area are bark chips and wood grindings. These are often used in planting beds and other small areas. The natural

drop of leaves, flowers and fruit can also be left on the ground as mulch.

Decomposed granite and crushed rock are two of the most popular inorganic mulches.

7. Appropriate Maintenance

When properly designed and maintained, Xeriscapes save water, time and money through reduced plant water needs and lower maintenance requirements. But low water use and low maintenance do not mean no water use and no maintenance. All landscapes need some care and most plants need supplemental water in our desert environment. Proper pruning techniques can keep your yard beautiful and natural looking and save you trips to the landfill. A well-maintained irrigation system can keep plants healthy and water use low. Prudent use of fertilizers will help to avoid excessive plant growth which, in turn, will reduce water use and the need for excessive pruning.



A beautiful mix of colors - Lantana (purple and yellow), Cherry Sage (red plants by windows), Desert Spoon (foreground)

WELCOME

Thank you for choosing Camelback Inn as your home away from home. I have personally cleaned, prepared and inspected your room.

First paragraph after the initial welcome and thank you relates to water conservation

Our resort is committed to doing our share to protect the environment through water conservation and clean air.

As a standard, your bed linens will be changed every third day. We are delighted to change your linens upon request by placing this card on your pillow.

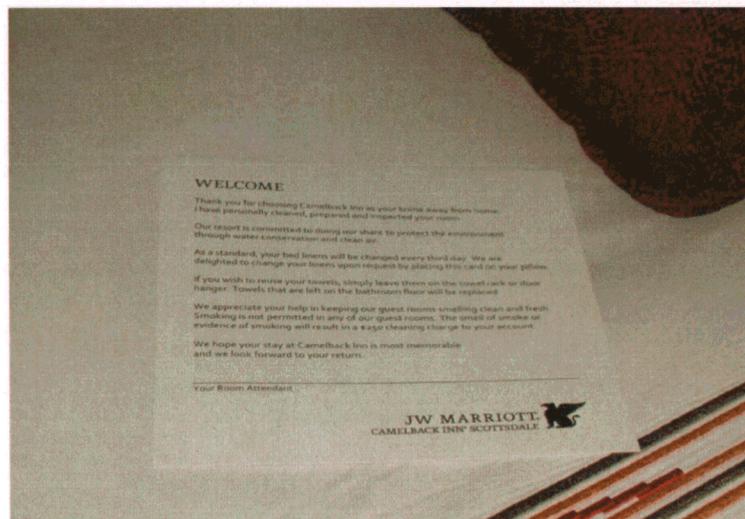
If you wish to reuse your towels, simply leave them on the towel rack or door hanger. Towels that are left on the bathroom floor will be replaced.

We appreciate your help in keeping our guest rooms smelling clean and fresh. Smoking is not permitted in any of our guest rooms. The smell of smoke or evidence of smoking will result in a \$250 cleaning charge to your account.

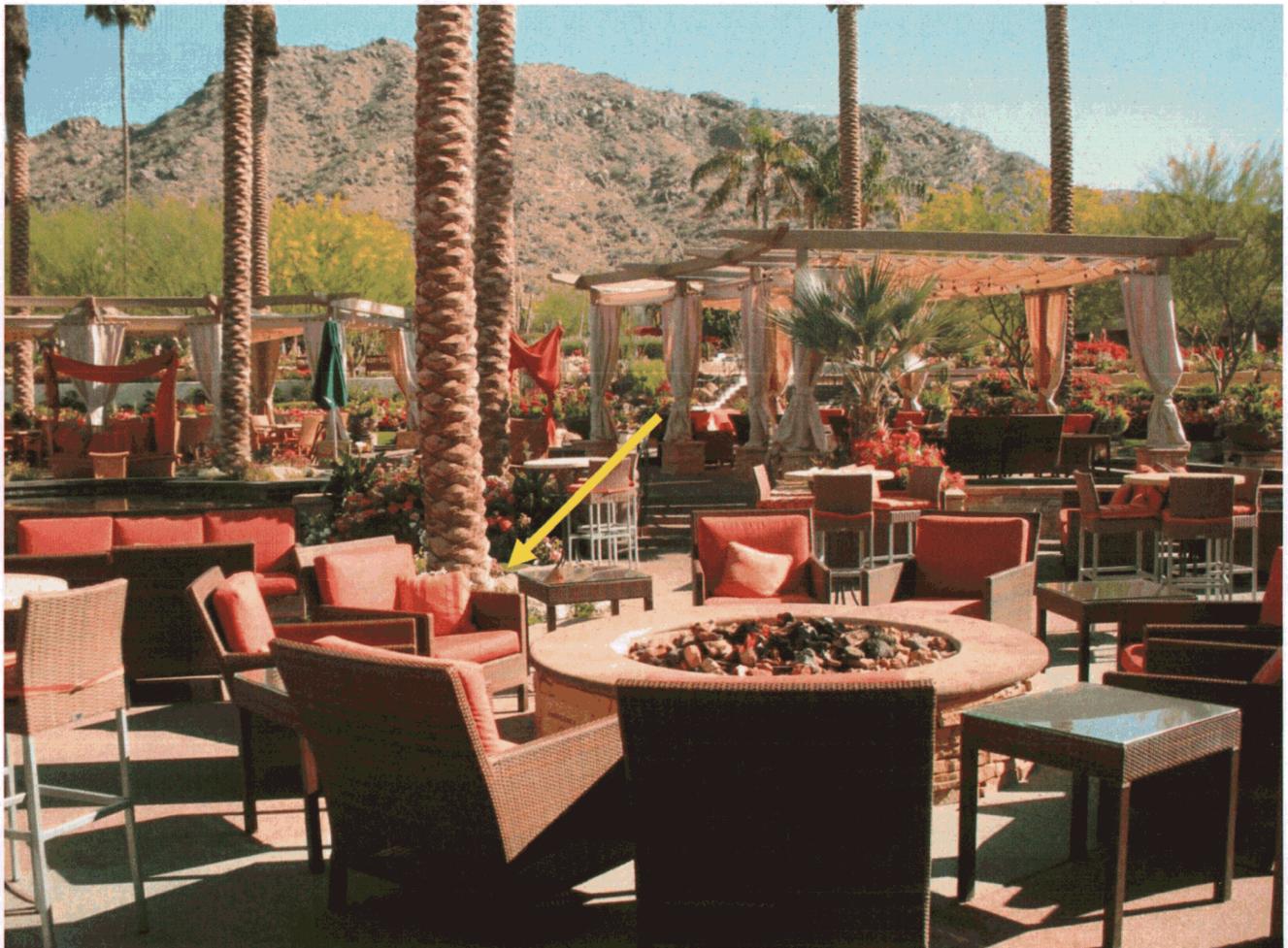
We hope your stay at Camelback Inn is most memorable and we look forward to your return.

Your Room Attendant

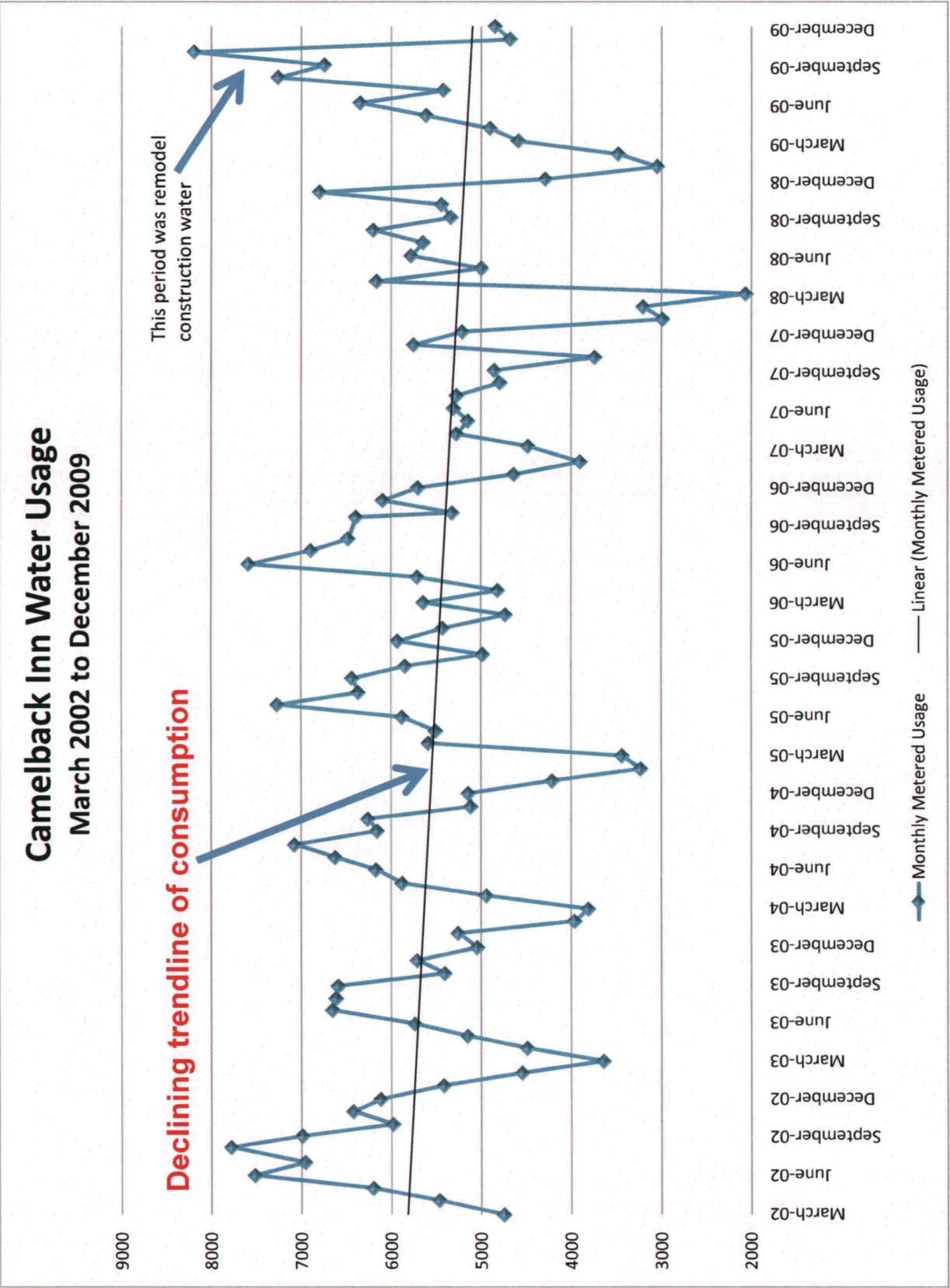
JW MARRIOTT. 
CAMELBACK INN® SCOTTSDALE



The Welcome card with water conservation message is conspicuously displayed on the bed



This area used to have a 65,000-gallon pool. The area was converted to hardscape patio and approximately 10,000 gallons of reflecting ponds and water features. The yellow arrow indicates the small amount of lawn currently in place that will be replaced by cement.



conserve water.
dream sweet.

Washing bed linens daily contributes to excessive water consumption and the effluence of detergents into the environment.

Our Sanctuary Green practice is to change bed linens every other day in occupied guest rooms. Should you prefer a daily linen change, please press the housekeeping button on your phone.



The Sanctuary's bedside card is purely related to water conservation and its encouragement



Sanctuary Green Team

A natural setting as beautiful as Camelback Mountain is a constant reminder of the importance of protecting the environment. At Sanctuary, we show our concern for the earth in a variety of ways.

CONSERVATION

- Resort-wide thermostat control
- Photocell or timers on all outdoor lights
- Restaurant and bar lit by daylight as extensively as possible
- Bamboo trees in spa to reduce heating and cooling costs
- Low-flow toilets resort-wide, including guest rooms
- Low water-use drip irrigation on 95% of the property
- Desert landscaping and drought-tolerant plants
- Crushed-rock mulch to reduce water evaporation from the soil
- Electric golf carts resort-wide

RECYCLING

- Cloth napkins, glass cups and ceramic dishes throughout the resort
- Linen re-use program at guests' discretion
- Paper and plastic recycling throughout the resort, including guest rooms
- Rechargeable, battery-powered blowers to reduce noise pollution
- Recycling cardboard, batteries and tires used by maintenance team
- Staff incentive program to encourage environmental friendliness

PRODUCTS/PURCHASING

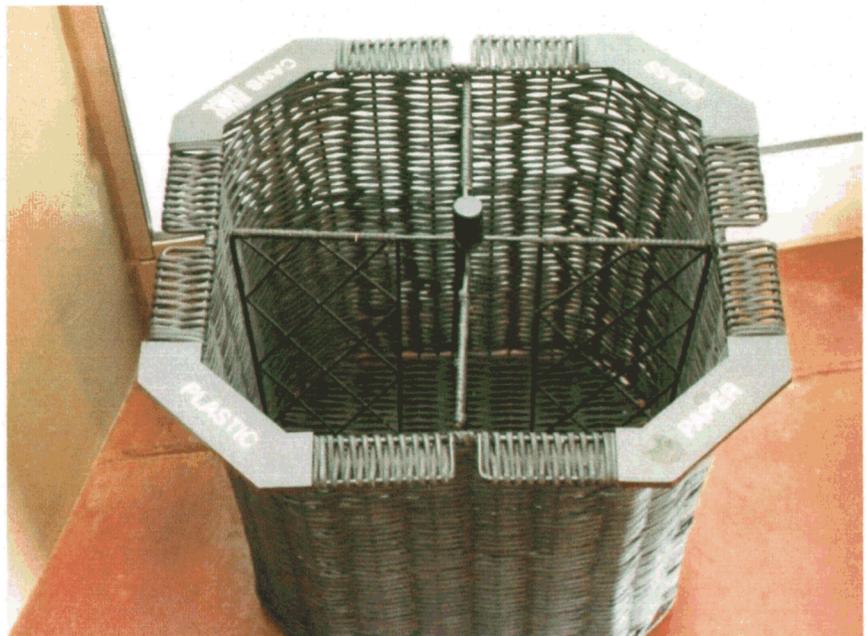
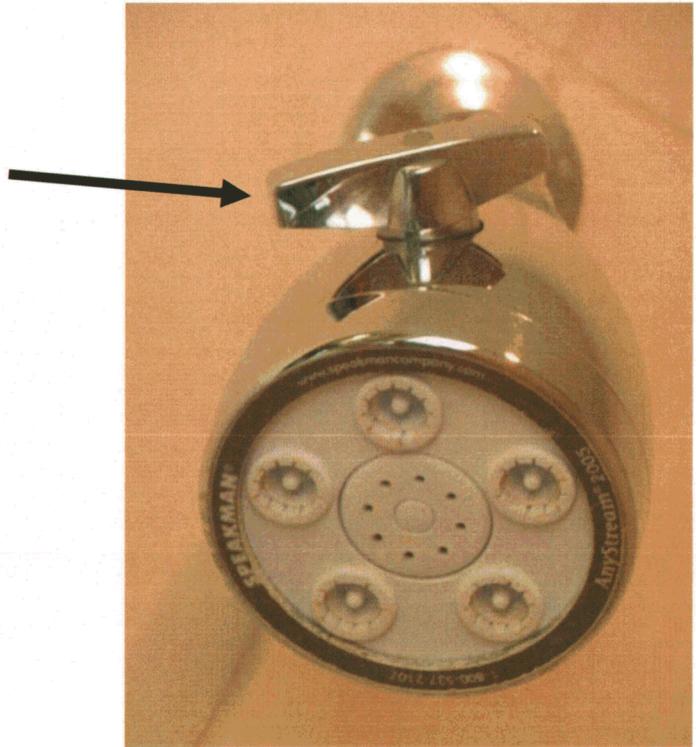
- Organic, paraben-free red flower amenities in guest rooms
- Use of ceramic mugs and glassware in guest rooms
- Organic-based janitorial service in the spa
- Buying from local vendors wherever possible to reduce "food miles"
- Organic food and beverage purchasing
- Printed materials on 30-100% recycled paper certified by the Forest Stewardship Council



sanctuaryaz.com



Showerheads feature shut-off valves



Recycling bins in rooms for plastic, paper, cans and glass

Frontage greenery irrigated by recycled/recaptured water



Example of lawn area replaced by Astro Turf



Typical xeriscape throughout the Sanctuary's property



New banquet extension reduced turf area on wedding lawn



Citrus trees to be removed and replaced by xeriscape and hardscape

SANCTUARY®

camelback mountain
resort and spa

SUBMISSION FOR SCOTTSDALE GREEN BY DESIGN 2009 AWARDS

OVERVIEW

The Sanctuary Green Team and the entire Sanctuary community are proud to be a part of Arizona and the Valley of the Sun. We believe that a setting as beautiful and natural as Camelback Mountain deserves special care and attention and is a constant reminder of the importance of protecting the environment.

We started our Green Team committee just over a year ago and have developed a variety of initiatives resort-wide, both behind the scenes, and in our guest rooms and public areas, that serve to connect us to the preservation of our resort, the mountain and the stunning desert areas of Scottsdale and Paradise Valley.

NEED/OPPORTUNITY/INTENDED AUDIENCE

Although our resort team has always had interest in preserving our environment through recycling and low water use landscaping techniques as well as a variety of "behind the scenes" green practices, we realized that our guests were not aware of most of our initiatives and that there was much more that we could be doing. With that, our small recycling committee grew into the Sanctuary Green Team and our course was set with the following Mission Statement:

We lead as environmental stewards by teaching and promoting sustainable practices as an integral part of our resort operations; reducing waste, recycling, conserving energy, and protecting the native environment in our community.

We have held monthly meetings and each committee member is focused in a specific area for on-going research and new initiatives and projects. This team has had a tremendous impact on the entire property as others see what is being done and are excited to join in and help as projects are announced. We have also developed in-room programs and collateral for our guests and have received numerous guest surveys thanking us for our commitment to sustainability practices.

Our corporate, leisure and group guests are the obvious audience for our green initiatives and we expanded this to include our vendors and employees as well. Our vendors work closely with us to keep us updated as new items become available and many of our employees help us stay current by sharing information and practices for their departments.

GOALS AND OBJECTIVES

Our main goal in setting up our Green Team and establishing green practices was to participate in the global community awareness of this initiative and insure that we are doing as much as possible to protect the earth and our environment. We also wanted to be sure that our guests and vendors were aware that we are working toward as many affordable and prudent initiatives as possible.

The "Big Picture" objective is to communicate our involvement in this issue in a way that shows we care, and by making our involvement obvious, we open the door to ideas and discussions from locals and from guests who come from around the world.

SOLUTION/OVERVIEW

Our solution was to provide an overview and summary of our initiatives on a single sheet for our guest room directory and to also include this information on our website. In addition, we have a card beside the bed in each guest room that allows the guest to choose whether or not they want fresh linens by simply placing the card on their pillow in the morning. This program alone has cut our laundry labor and supply costs by almost 7% and has saved the environment from countless loads of water being wasted and chemicals being used and expelled into the environment.

I have included a PDF file with our Green Initiatives page that is in our Guest Directory. You can also see this information on our website at www.sanctuaryaz.com : on the right side of the home page select resort and you will then see a selection for Green Initiatives.

IMPLEMENTATION AND CHALLENGES

The biggest challenge in this project is that there is a lot of information available and many, many items for guest rooms are still very expensive and are not all tried and true. We implemented several pieces of the program by testing them in a few rooms and soliciting guest feedback. For example, we found a recycle basket that fits our room décor very well and allows for the guest to dispose of paper, plastic and glass in separate compartments. This saves us some labor dollars as we do not have to separate the items when they come down to the Site Services recycle area. We found that less than 50% of our guests made use of the basket even though the majority of them praised us for having them. We do think that as green awareness continues to build we will see greater use of this item.

The ongoing challenge for our industry is the current recession as it relates to the return on investment in implementing additional programs. Our Green Team is committed to our regular meetings and to looking for solutions that make sense for the environment without negatively impacting the guest experience and profitability of the resort.

MEASUREMENT/EVALUATION

Several of our initiatives have been easy to measure and have shown significant savings over the last year, a few of those are listed below:

- 1) Property wide thermostat control. All guest and public areas have temperature guidelines that are checked daily as security makes their rounds. These are logged and reported on the daily report. Guest rooms and private homes also have established guidelines and are monitored by our engineering and housekeeping departments. We have been able to maintain our energy costs over the last year in spite of some rate increases.
- 2) Food Products/Purchasing. Buying from local vendors to get fresh ingredients and reduce food miles has allowed us to maintain our food costs in most areas at or below industry averages.
- 3) Water conservation. The resort has low-flow toilets property wide and 95% of the property is on a low water drip irrigation system, this system works very well due to the fact that we have native vegetation that is drought tolerant.
- 4) Recycling. Paper, plastic, cardboard, glass, tires, and batteries are all recycled at Sanctuary. In addition, our printed materials are all done on 30-100% recycled paper that is certified by the Forest Stewardship Council. The administrative teams at Sanctuary are committed to running their departments as paperless as possible and the majority of our forms and information are available on the property's shared drive.
- 5) Cleaning products. Our housekeeping team uses many organic-based cleaning solutions that are less harmful to the environment and healthier for them to be in contact with on a daily basis.
- 6) Electronic customer survey system. Our previous system was a paper comment card system that we gave the guests upon departure, they would write their comments and mail the cards back to us. In early 2008 we changed to an online survey that saves paper and postage and gives us immediate feedback as well as a high return rate and an excellent tool for identifying trends and opportunities.

An overall evaluation of what we have accomplished at Sanctuary during the last year would be that we have been able to find significant savings in energy and other costs which have helped offset the higher cost of some of the green chemicals and other initiatives we have undertaken. We have had a very positive response from our guests and vendors who continue to share ideas with us as they become aware of our commitment. Our entire team is focused on moving the current programs forward and looking for cost effective ways to implement additional programs.



The Scottsdale/Paradise Valley Tourism Study — *Part II: Visitor Statistics*



September 2009
Economic Vitality Department



Part II: Visitor Statistics

September 2009

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I. STUDY OVERVIEW

Part I: Lodging Statistics

Part I of the Scottsdale/Paradise Valley Tourism Study analyzes trends relating to the lodging industry in the Scottsdale/Paradise Valley tourist market area. The study looks specifically at trends in local transient occupancy tax (bed tax) collection, room inventory, average room rates, occupancy rates, and other factors relating to lodging trends. The Lodging Statistics study is designed to provide necessary data relating to the lodging industry for developers, local hoteliers, tourism marketing representatives, financing agencies, and others with an interest in hospitality industry trends.

The Scottsdale/Paradise Valley Tourism Study, Part I: Lodging Statistics report is prepared annually and is available at no charge from the City of Scottsdale Economic Vitality Department, or at www.scottsdaleaz.gov/economics.asp.

Part II: Visitor Statistics

Part II of the Tourism Study analyzes trends relating to tourists themselves. It examines the total number of tourists, their spending patterns and socio-demographic profiles, and the overall economic impact of the tourism industry in the study area. The Visitor Statistics study is designed to provide data that gives a profile of the type of tourist that comes to the area, and to evaluate the economic impact tourism has on the community.

The Scottsdale/Paradise Valley Tourism Study, Part II: Visitor Statistics report is prepared once a year, and is available at no charge from the City of Scottsdale Economic Vitality Department, or at www.scottsdaleaz.gov/economics.asp.

The Economic Vitality Department welcomes your input and suggestions for changes and additions in future issues of this publication, and is pleased to grant permission to use excerpts from this material when credit is given to the City of Scottsdale.

II. THE SCOTTSDALE/PARADISE VALLEY TOURISM STUDY

Introduction

The purpose of *The Scottsdale/Paradise Valley Tourism Study: Parts I and II* is to provide assistance, through collected industry data, to entities evaluating tourism, retail, or hospitality opportunities in the study area; to provide market information to tourism, retail, and hospitality operations located in the study area; and to provide information to elected officials, city management, and the general public regarding the tourism and hospitality markets.

Study Limitations

The information contained in this study is based on tax collection figures, previous studies, local estimates based on Metro area figures, and other data sources. The City believes these figures provide the best available data.

Definition of Terms

Throughout this study, the following terms will be used in describing visitor statistics:

Areas

Scottsdale – Within the corporate limits of the City of Scottsdale

Paradise Valley – Within the corporate limits of the Town of Paradise Valley

Other – Within the Scottsdale/Paradise Valley market area; including portions of East Phoenix, North Tempe, Carefree, Cave Creek, and Fountain Hills (see *Map 1*, p. 9)

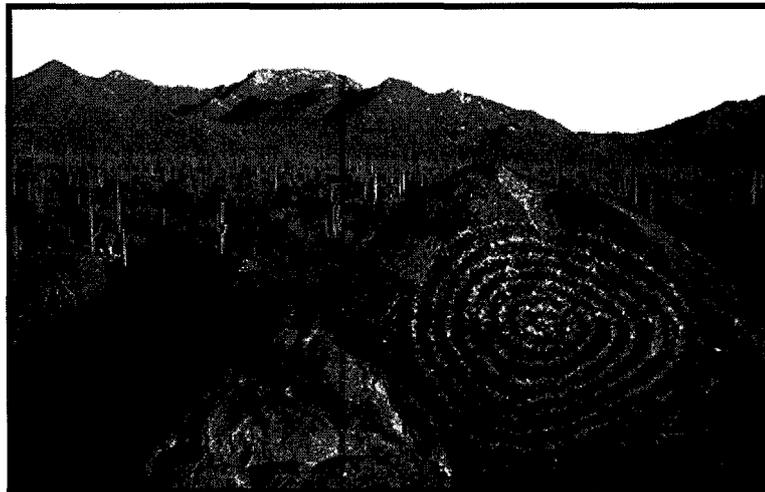
Visitors

Hotel Visitor – Visitor occupying a transient lodging room in the market area

Day Visitor – Visitor not staying overnight in the market area

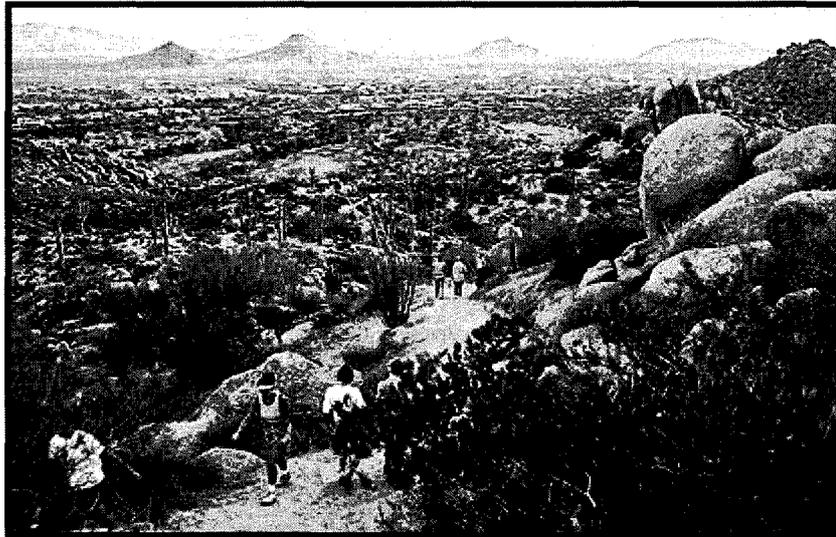
III. EXECUTIVE SUMMARY

- ◇ Scottsdale hosted an estimated 8.1 million visitors in 2008, with an economic impact of \$3.6 billion.
- ◇ The City of Scottsdale was visited by nearly 6.9 million day visitors in 2008.
- ◇ The typical overnight leisure traveler to Scottsdale is 57 years old with a median household income of \$101,600. These visitors come primarily from the West, the Midwest, and the Northeastern regions of the United States.
- ◇ Tourists to the Scottsdale area have a tremendous impact on revenue for the City. Privilege tax collections attributable to visitors for FY08/09 totaled an estimated \$29.4 million.
- ◇ The top ten activities participated in by Scottsdale visitors are (in order): shopping, day trips, art galleries & museums, Native American arts & culture, Western culture & attractions, outdoor desert activities, special events, nightlife, sporting events, and spas.
- ◇ The total number of visitor-nights spent in Scottsdale hotels in 2008 was 6.5 million.
- ◇ The average room rate for market area hotels in 2008 was \$172.26, and occupancy was 61.0 percent.
- ◇ Scottsdale received a fiscal return of about \$1.20 from visitors for every \$1 spent in operating costs in 2008/09. This is significantly lower than in previous years, primarily due to the national economic downturn.



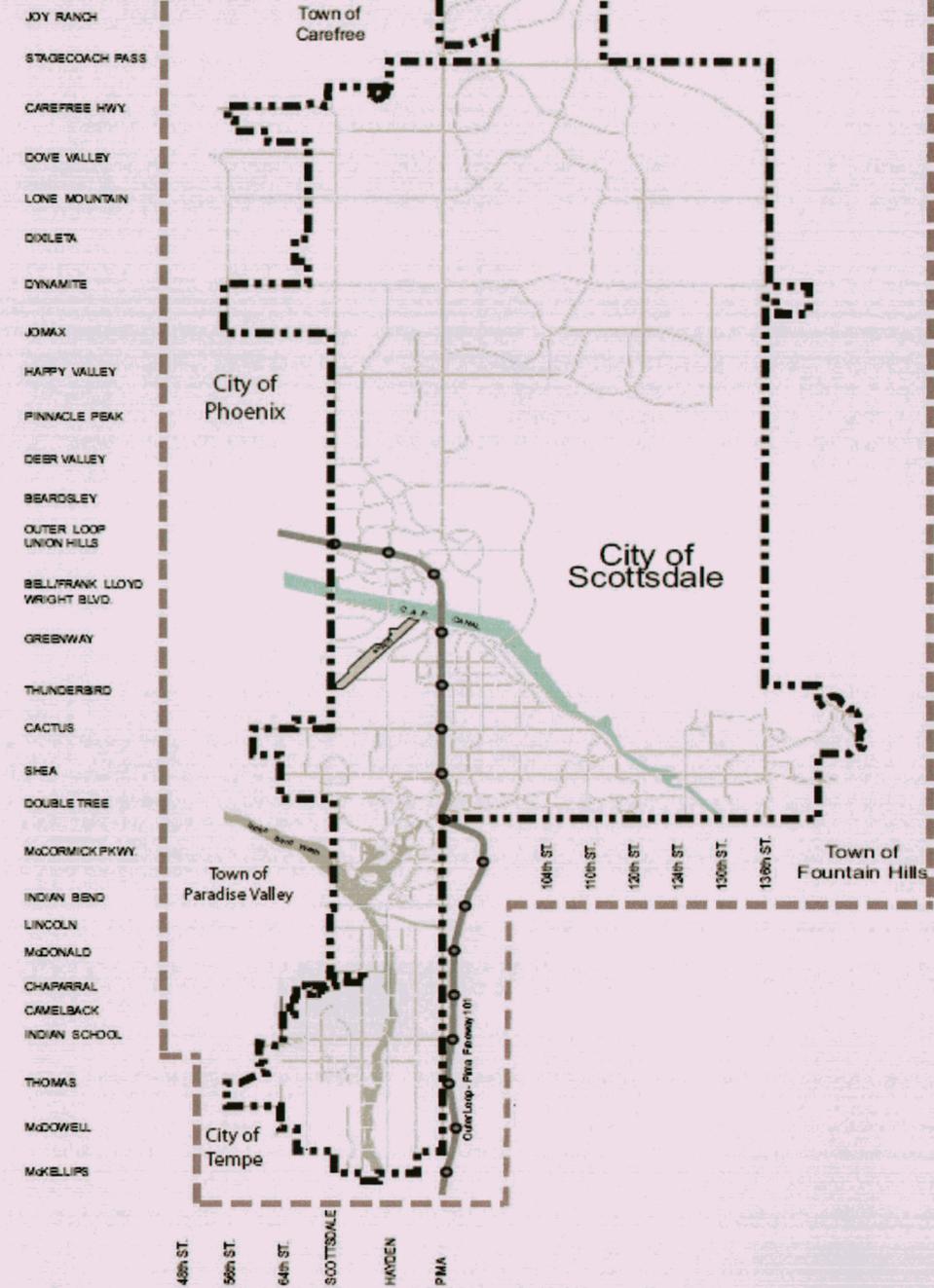
IV. THE SCOTTSDALE/PARADISE VALLEY MARKET AREA

The market area map (p. 9) shows the boundaries of the Scottsdale/Paradise Valley market area. This area contains all of the City of Scottsdale and the Town of Paradise Valley; portions of the cities of Phoenix and Tempe; and parts of the towns of Carefree, Cave Creek, and Fountain Hills.



**Map 1
MARKET AREA**

City Limits
 Market Area



V. ATTRIBUTES OF THE SCOTTSDALE TOURISM MARKET

Scottsdale Tourism Industry

The hospitality industry, represented by premier desert resorts and specialty shopping, has characterized Scottsdale's lifestyle for decades. The growth of this industry has kept pace with Scottsdale's overall economic growth.

The evolution of the lodging industry in Scottsdale has paralleled that of the Southwest. In the early days of Scottsdale's hospitality industry, dude ranches and health spas flourished. In the 1960's, the local art industry and specialty shopping districts blossomed as the resort hotel industry expanded. This ultimately gave way to the full service, amenity-laden, recreation properties that have made the resort business in Scottsdale unique, attractive, and successful.

Today, Scottsdale is an internationally recognized tourism destination community widely known for its spectacular golf courses, recreational amenities, climate, five-star resorts, emerging Downtown with its urban "boutique" hotels, exciting nightlife scene, numerous events and attractions, the Sonoran desert, world-class restaurants, and art galleries. All of these factors contribute to positioning the Scottsdale market to emerge strongly as the current economic downturn eases.

Did you know?

In a 2009 survey, 93% of all visitors surveyed rated their Scottsdale experience as excellent or good!



VI. VISITORS TO THE SCOTTSDALE / PARADISE VALLEY MARKET AREA

The methodology used to determine the impacts of the estimated number of visitors to the City of Scottsdale is as follows: the total number of visitors and visitor-nights by category are determined, the respective expenditure patterns and values appropriate to each visitor category are applied and aggregated, and then the total value of visitor economic impact is determined.

Number of Visitors

Table 1-A (p. 12) presents the total occupied hotel room-nights for the Scottsdale/Paradise Valley market area in 2008. The total number of available rooms in each of the three sub-areas (the City of Scottsdale, the Town of Paradise Valley, and the additional properties considered to be part of the Scottsdale/Paradise Valley market area) is multiplied by 365 in order to determine the number of available room-nights. The number of room-nights is then multiplied by the occupancy rate to determine the total number of occupied room-nights. Based on the 2008 average occupancy of 61.0 percent, the total number of occupied room-nights in 2008 was 3,615,168.

Table 1-B (p. 12) shows the total number of visitors to the market area. To determine the total number of visitors, the total number of occupied room-nights is multiplied by the average number of persons per room, providing a figure for total visitor nights (one visitor night equals one person staying one night). The figure for total visitor nights is then divided by the average length of stay. The Behavior Research Center's 2009 *City of Scottsdale Visitor Inquiry Study* reports the median length of stay for Scottsdale hotel guests in 2008 was 5.5 days.

Using these calculations, the total number of hotel visitors in the Scottsdale/Paradise Valley market area in 2008 was 1,183,146.

Table 2-A (p. 13) shows the total number of visitors in the Scottsdale/PV market area in 2008. The "day visitor" category is difficult to determine because there is no accurate way to measure this group. The number of visitors to the metro Phoenix area in 2008 was approximately 15.0 million. The total number of hotel visitors to the Scottsdale/PV market area (1.2 million) was subtracted from this number and a capture ratio of 50 percent was applied to the balance (using the Behavior Research Center's 2000 "Metropolitan Arizona Visitor Study" findings that 63 percent of metro Phoenix visitors frequent Scottsdale/PV; and discounting 20 percent of that to eliminate those visitors who went only to Paradise Valley), making the number of estimated Scottsdale day visitors to be about 6.9 million in 2008.

Table 2-B (p. 13) shows the total number of overall visitor-nights for 2008 in the Scottsdale/Paradise Valley market area, including both hotel visitors and historical data for houseguests and seasonal visitors (categories which are no longer tracked).

Table 1-A					
2008 Hotel Room-Nights					
<i>Scottsdale/Paradise Valley Market Area</i>					
	Number of Rooms Available		Days	=	Available Room-Nights
Scottsdale	9,444	x	365	=	3,447,060
Paradise Valley	1,865	x	365	=	680,725
Other Market	4,928	x	365	=	1,798,720
Area Properties					
TOTAL	16,237	x	365	=	5,926,505
	Available Room-Nights		2008 Occupancy	=	Occupied Room-Nights
Scottsdale	3,447,060	x	61.0%	=	2,102,707
Paradise Valley	680,725	x	61.0%	=	415,242
Other Market	1,798,720	x	61.0%	=	1,097,219
Area Properties					
TOTAL	5,926,505	x	61.0%	=	3,615,168

Source: City of Scottsdale, Economic Vitality Department; Smith Travel Research
*Scottsdale/Paradise Valley "Tourism Study, Part 1: Lodging Statistics", Feb. 2009

Table 1-B					
2008 Number of Hotel Visitors/Visitor Nights					
	Occupied Room-Nights		Visitor Nights	=	Visitor Nights
Hotel Visitors					
Scottsdale	2,102,707	x	1.8	=	3,784,872
Paradise Valley	415,242	x	1.8	=	747,436
Other Market	1,097,219	x	1.8	=	1,974,995
Area Properties					
Total Visitor Nights	3,615,168	x	1.8	=	6,507,302
	Total Visitor Nights		Average Length of Stay	=	Total Hotel Visitors
Hotel Visitors					
Scottsdale	3,784,872	/	5.5	=	688,159
Paradise Valley	747,436	/	5.5	=	135,897
Other Market	1,974,995	/	5.5	=	359,090
Area Properties					
Total Hotel Visitors:	6,507,302	/	5.5	=	1,183,146

Source: City of Scottsdale, Economic Vitality Department

Table 2-A
Total Number of Market Area Visitors

Year	Hotel Visitors	Day Visitors*	Total Visitors	% Change
2002	1,076,721	6,042,926	7,119,647	3.2%
2003	1,216,846	6,108,638	7,325,484	2.9%
2004	1,249,492	6,049,732	7,299,224	-0.4%
2005	1,304,968	6,122,295	7,427,263	1.8%
2006*	1,299,233	6,928,416	8,227,649	10.8%
2007	1,243,405	7,107,053	8,350,458	1.5%
2008	1,183,146	6,894,877	8,078,023	-3.3%

***Note=** "Day Visitors" calculation is based on regional overnight visitation from the Arizona Office of Tourism. The physical boundaries for the Phoenix region were slightly expanded in 2006 from previous years resulting in an increase in the regional overnight visitation total.

Source: City of Scottsdale, Economic Vitality Department; Arizona Office of Tourism

Table 2-B
Total Number of Market Area Visitor Nights

Year	Total Hotel Visitor Nights*	% Change
2002	5,921,964	14.3%
2003	6,327,599	6.8%
2004	6,497,357	2.6%
2005	6,785,820	4.4%
2006	7,015,856	3.4%
2007	6,714,389	-4.3%
2008	6,507,302	-3.1%

*Refer to Table 1-B

Source: City of Scottsdale, Economic Vitality Department



Visitor Spending Patterns

Table 3 (p. 15) details visitor spending patterns by category and type of visitor. The total dollar amounts spent per person per day are based on bed tax and sales tax revenues, and on previous research. This data has been updated and modified for Scottsdale based on local tax collection data.

Scottsdale visitors staying in hotels allocated their expenditures in the following manner: lodging 37 percent, food and beverage 25 percent, retail 14 percent, local transportation 9 percent, and entertainment 15 percent. Additionally, estimates were made as to what portion of each of these categories was *actually spent* in the City of Scottsdale, in order to determine total expenditures in Scottsdale.

Table 3 also provides estimates of daily spending by hotel guests and day visitors. These figures are based on previous research and estimates that take into consideration existing conditions in Scottsdale and the types of visitors typically attracted to Scottsdale. Hotel guest spending per person per day in 2008 was \$258.65, while the average day visitor spent \$51.73 per day.

Did you know?

The total direct and indirect spending by visitors in Scottsdale in 2008 was approximately \$3.6 billion.



Table 3		
2008 Visitor Spending in Scottsdale		
<i>Scottsdale/Paradise Valley Market Area</i>		
	Scottsdale Hotel Visitor	Scottsdale Day Visitor
Total Spent per Person per Day	\$258.65	\$51.73
Lodging		
% of Total Spent	37%	-
\$ Spent	\$95.70	-
% spent in Scts.	100%	-
\$ spent in Scts.	\$95.70	-
Food & Beverage		
% of Total Spent	25%	40%
\$ Spent	\$64.66	\$20.69
% spent in Scts.	89%	100%
\$ spent in Scts.	\$57.55	\$20.69
Retail Goods		
% of Total Spent	14%	50%
\$ Spent	\$36.21	\$25.87
% spent in Scts.	83%	100%
\$ spent in Scts.	\$30.06	\$25.87
Local Transportation		
% of Total Spent	9%	3%
\$ Spent	\$23.28	\$1.55
% spent in Scts.	50%	100%
\$ spent in Scts.	\$11.64	\$1.55
Entertainment/Attractions		
% of Total Spent	15%	7%
\$ Spent	\$38.80	\$3.62
% spent in Scts.	75%	100%
\$ spent in Scts.	\$29.10	\$3.62
TOTALS		
% of Total Spent	100%	100%
\$ Spent	\$258.65	\$51.73
% spent in Scts.	87%	100%
\$ spent in Scts.	\$224.04	\$51.73

Source: City of Scottsdale, Economic Vitality Department

Total Visitor Expenditures

Table 4 (p. 17) summarizes total visitor expenditures in Scottsdale in 2008. The daily expenditure rate per person from *Table 3* is multiplied by the percentage of those expenditures that are actually made in the City of Scottsdale. The figure is then multiplied by the total number of visitor nights, from *Table 2*, to determine the total expenditures made by Scottsdale visitors.

The total direct expenditures by visitors in the City of Scottsdale in 2008 amounted to over \$1.4 billion. By applying a multiplier of 1.5 in additional indirect expenditures, the total direct and indirect spending by visitors in Scottsdale in 2008 was approximately \$3.6 billion.

Did you know?

The visitor industry provides an estimated \$29.4 million (approximately 20 percent) of total privilege tax collections



Table 4					
2008 Total Visitor Expenditures					
<i>Scottsdale/Paradise Valley Market Area</i>					
	Day Expenditure Rate/Person	x	Nights Spent Per Person	=	Total Market Area Expenditures
Scottsdale					
Hotel Visitor	\$258.65	x	3,784,872	=	\$978,957,112
Day Visitor	\$51.73	x	6,894,877	=	\$356,671,987
Paradise Valley					
Hotel Visitor	\$258.65	x	747,436	=	\$193,324,334
Other Market Area					
Hotel Visitor	\$258.65	x	1,974,995	=	\$510,832,343
TOTAL	-		-		\$2,039,785,776
	Total Market Area Expenditures	x	% Spent in Scottsdale**	=	Total Scottsdale Expenditures
Scottsdale					
Hotel Visitor	\$978,957,112	x	87.0%	=	\$851,692,687
Day Visitor	\$356,671,987	x	100.0%	=	\$356,671,987
Paradise Valley					
Hotel Visitor	\$193,324,334	x	37.0%	=	\$71,530,004
Other Market Area					
Hotel Visitor	\$510,832,343	x	28.0%	=	\$143,033,056
	Direct Expenditures			=	\$1,422,927,734
	Indirect Expenditures*			=	\$2,134,391,601
	TOTAL			=	\$3,557,319,335

Source: City of Scottsdale, Economic Vitality Department

*Using a multiplier of 1.5 (Indirect expenditures = Direct expenditures x 1.5)

**From Table 3

VII. TOURISM IMPACTS ON SCOTTSDALE

The tourism industry is an integral part of economic activity in the City of Scottsdale, generating almost \$3.6 billion in total economic activity within the community in 2008. The tourism industry is one of the most significant sources of revenue for the City of Scottsdale's operations.

Visitor Fiscal Contributions

The visitor industry is a substantial revenue source for the City of Scottsdale's operations, primarily through bed tax and sales tax. Bed taxes (3 percent in Scottsdale) are paid directly on room rates. With sales tax, visitor expenditures are directly related in a variety of areas, including hotels, restaurants, miscellaneous retail, rentals, and automotive.

This section looks at the actual collections by the City of Scottsdale and assigns the proportions directly ascribed to visitors.

Table 5 (p. 19) provides a breakdown of all the sales taxes paid in FY08/09 by major category and total bed tax paid. By applying an estimate for each of these categories as to the percentage of the tax received from visitors, total privilege tax collections attributable to the visitor industry is determined. The percentages are estimated based on comparison of increases in sales tax revenues during peak season versus off-season.

Visitor Fiscal Contributions (Cont.)

The visitor industry provides an estimated \$29.4 million (approximately 20 percent) of total privilege tax collections. Additionally, secondary revenue sources can be attributed to the visitor (property tax, fees for services, etc.); however, these amounts are not considered to be significant.



Table 5 Direct Revenues from Visitor Expenditures <i>City of Scottsdale</i>			
Privilege Tax Industry Sectors	2008/09 Taxable Privilege & Use Tax Collections	% Tax Attributable to Visitors*	2008/09 Collections Attributable to Visitors
Hotels/Motels	\$7,220,809	94%	\$6,787,560
Restaurants	\$11,390,061	25%	\$2,847,515
Department Stores	\$14,515,207	20%	\$2,903,041
Misc. Retail	\$19,715,677	22%	\$4,337,449
Other Taxable	\$10,161,591	15%	\$1,524,239
Rental	\$20,548,168	10%	\$2,054,817
Food Stores	\$10,382,802	5%	\$519,140
Construction	\$22,229,702	0%	\$0
Utilities	\$7,291,788	0%	\$0
Fees/Penalties/Interest	\$2,569,286	0%	\$0
Auto Related	\$15,802,056	5%	\$790,103
SUBTOTAL	\$141,827,147	15%	\$21,763,864
Bed Tax	\$7,623,120	100%	\$7,623,120
GRAND TOTAL	\$149,450,267	20%	\$29,386,984

Source: City of Scottsdale, Financial Services Department and Economic Vitality Department

* Percentage based on sales tax data



Fiscal Costs Related to Visitors

Once the fiscal contributions have been determined, the next step is measuring the direct and indirect costs borne by the City of Scottsdale as a result of the visitors.

The most significant costs incurred by the City as a result of the visitor industry are the operating expenses from the City's General Fund, including police and fire protection, parks and recreation, infrastructure, maintenance, etc. For this study, these operating expenses have been allocated among the various resident/visitor sub-groups to determine the annual municipal costs attributable to visitors.

Table 6 uses an allocation formula, based on the number of individual "person-days" spent by each group in the community (residents, hotel visitors, and day visitors), and assumes each person in the community uses City services on an equal basis. For example, Scottsdale residents demand services 365 days per year, while visitors to Scottsdale demand services (on average) five and a half days per year. These percentages are then applied to the municipal operating costs of the General Fund, as shown in Table 7 (p. 21). In FY08/09, the City of Scottsdale spent over \$240 million on these services. Based on the allocation of costs, just over \$24 million of Scottsdale's municipal operating costs were used to serve its annual visitor population.

Table 6						
2008 Visitor/Resident Duration of Stay						
<i>City of Scottsdale</i>						
	Number	x	Duration of Stay (Days)	=	Person-Days	Percent of Total
Residents	242,337	x	365	=	88,453,005	89.9%
Hotel Visitors	1,183,146	x	5.5	=	6,507,302	6.6%
Day Visitors	6,894,877	x	0.5	=	3,447,439	3.5%
Total	8,320,360		-		98,407,746	100%

Source: City of Scottsdale, Economic Vitality Department

Table 7				
Municipal Operating Costs Attributable to Visitors				
<i>City of Scottsdale: 2008/2009</i>				
	% of Total*	Resident Share	Visitor Share	Total***
Resident	89.9%	\$216,213,447	-	-
Hotel Visitor	6.6%	-	\$15,906,371	-
Day Visitor	3.5%	-	\$8,426,877	-
Total	100%	\$216,213,447	\$24,333,247	\$240,546,694

Source: City of Scottsdale, Economic Vitality Department

*Refer to Table 6

**FY 2008/09 General Fund adopted budget for direct public service City departments (i.e., police, fire, community service, and municipal services) totaled \$240,546,694.

***Resident Share plus Visitor Share

Cost/Benefit Analysis

Scottsdale visitors make a significant contribution to the community's economy. Even with the difficult economic environment that strongly affected tourism worldwide, direct expenditures by visitors to Scottsdale totaled an estimated \$1.4 billion for 2008 (refer to *Table 4*). Using a 1.5 multiplier, the total economic contribution (direct and indirect expenditures) of visitors to the community is approximately \$3.6 billion.

Sales tax and bed tax payments by Scottsdale visitors in FY08/09 amounted to about \$29.4 million. These are actual dollars that go into the City treasury. Visitor sales tax and bed tax represented approximately 20 percent of Scottsdale's total sales, use, and bed taxes.

In FY08/09, the City of Scottsdale spent an estimated \$24,333,247 million in operation costs to support its visitors (refer to *Table 7*). The cost of supporting market area visitors is substantially less

than the tax revenues received by the market area from visitors (refer to *Table 5*). In fact, it is estimated that the Scottsdale treasury received about \$5 million more than it expended in support of visitors, resulting in a benefit/cost ratio of \$29,386,984 to \$24,333,247 or 1.2:1.

The Scottsdale visitor is a cost-effective addition to the community because for every \$1 the City spends in operating costs to serve its annual visitor population, it receives \$1.20 in return. Historically, this ratio has been significantly higher, but the 2008 recession impacted Scottsdale resorts and hotels especially hard. However, despite the recession, tourism remains a key Scottsdale economic component with a strong return on investment to the city.

**Resort Class of Service
Option 1**

Applicability:
Applicable to all hotel properties with 50 or greater rooms.

<u>Monthly Charge</u>	
<u>Meter Size</u>	<u>Charges</u>
5/8 x 3/4	\$25.15
3/4	\$26.16
1	\$50.30
1 1/2	\$90.54
2	\$140.84
3	\$276.65
4	\$462.76
6	\$930.00

<u>Commodity Rates</u>	
0-400,000	\$1.95
400,001 +	\$2.30

**Resort Class of Service
Option 2**

Applicability:

Applicable to all hotel properties with 50 or greater rooms.

Monthly Charge

<u>Meter Size</u>	<u>Charges</u>
5/8 x 3/4	\$27.70
3/4	\$28.81
1	\$55.40
1 1/2	\$99.71
2	\$155.11
3	\$304.68
4	\$509.64
6	\$1,024.21

Commodity Rates

0-400,000	\$2.15
400,001 +	\$2.53

**Resort Class of Service
Option 3**

Applicability:

Applicable to all hotel properties with 50 or greater rooms.

Monthly Charge

<u>Meter Size</u>	<u>Charges</u>
5/8 x 3/4	\$27.70
3/4	\$28.81
1	\$55.40
1 1/2	\$99.71
2	\$155.11
3	\$304.68
4	\$509.64
6	\$1,024.21

Commodity Rates

5/8 by 3/4" & 3/4"

0-10,000	\$2.447
10,001 +	\$2.886

1"

0-40,000	\$2.447
40,001 +	\$2.886

1.5"

0-80,000	\$2.447
80,001 +	\$2.886

2"

0-400,000	\$2.447
400,001 +	\$2.886

3"

0-3,00,000	\$2.447
3,000,001 +	\$2.886

4"

0-4,000,000	\$2.447
4,000,001 +	\$2.886

6"

0-5,000,000	\$2.447
5,000,001 +	\$2.886

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Kristin K. Mayes
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

Direct Testimony of

John S. Thornton
On Behalf of The Camelback Inn And
The Sanctuary on Camelback Mountain
(the "Resorts")

MAY 3, 2010

SNELL & WILMER
ONE ARIZONA CENTER
PHOENIX, ARIZONA 85004-2203
602.1982-6000

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EXECUTIVE SUMMARY

The Paradise Valley Water District (PVWD) Resorts are at the forefront of sound water use and conservation and they are drivers of our local economies of Scottsdale and Paradise Valley through the jobs they employ and the tourism dollars they bring.

Arizona American Water Company's (AAWC) rate consolidation proposal would raise the Resorts' water bills by almost 60% (through monthly minimum charges and commodity rates only), resulting in rate shock.

The Resorts deserve just and reasonable rates to efficiently operate, including their use of water. The Resorts are clearly a differentiated class of customer compared to the average commercial class user and as such the Resorts should have their own tariff. Arizona American Water Company serves potable water to at least four resorts out of its approximate 3,362 commercial class customers and these four resorts are in the Paradise Valley Water District. The consolidated rate proposals by the Arizona American Water Company and staff of the Arizona Corporation Commission do not account for the Resorts' uniqueness.

This testimony discusses concerns with consolidation and it presents three options to mitigate undue harm to the Resorts:

- (1) The Commission could exclude the four PVWD Resorts from the rate consolidation that AAWC proposes just as AAWC has excluded a number of other similarly unique AAWC customers whose tariffs or usage characteristics make them poor candidates for consolidation. This solution would essentially entail establishing a Resort Class of Service that is same as the current PVWD commercial tariffs.
- (2) The Commission could establish a Resort class of service that comprises the current commercial tariffs but raise them by the overall revenue requirement increase in the PVWD imposed by consolidation (about 10%).
- (3) The Commission could establish a Resort Class of service with tariffs and tier break points that relate to the Resorts' consumption but raise Resorts' bills by the overall revenue requirement increase in the PVWD imposed by consolidation (about 10%). The third option is likely the best solution if consolidated rates are adopted.

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I. Witness Identification

Q. WHAT IS YOUR NAME, EMPLOYER AND OCCUPATION?

A. My name is John S. Thornton. I am an independent consultant in utility finance and economics.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I hold a Master of Science degree from the University of London, having completed the Master's program (economics with specialty in corporate finance) at the London School of Economics and Political Science ("LSE"). I also hold a Graduate Diploma from the LSE. I have participated as a cost of capital expert in numerous electric utility, local gas distribution, and telephone cases in the states of Oregon, Washington, California, Nevada, Oklahoma, and Arizona, and I participated in gas pipeline cases before the Federal Energy Regulatory Commission. I worked at the Public Utility Commission of Oregon for thirteen years and left as a Senior Economist and its chief rate-of-return and finance witness. Subsequently, I became Chief of the Financial and Regulatory Analysis Section of the Arizona Corporation Commission's ("Commission") Utility Division.

I now consult independently for investors and consumers on utility matters. My background is described further in my Witness Qualifications Statement found on Exhibit JST-1.

II. Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to address the deleterious effects of the proposed consolidated rate structures on the Paradise Valley Water District (PVWD) Resorts who have been

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excellent conservators of water. I discuss the rate spread problems that the consolidated rates proposals would cause.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR REBUTTAL TESTIMONY?

A. Yes, I am sponsoring Exhibits JST-1 to JST-14 to my direct testimony.

III. Proposed Commercial Class Rate Changes in PVWD As a Result of Consolidation

Q. PLEASE DESCRIBE THE EXISTING COMMERCIAL CLASS TARIFFS IN PVWD AND PROPOSALS UNDER AAWC'S REBUTTAL AND ACC STAFF'S DIRECT TESTIMONIES.

A. The existing commercial class rates and the proposals by AAWC and Staff are compared in Exhibit JST-2. As you can see, both AAWC's and Staff's proposals have their lowest rates (\$2.29 and \$2.25 respectively) at close to the highest rate currently (\$2.30). Currently, AAWC's PVWD second tier begins at 400,000 but as you can see from Exhibit JST-2, both AAWC's and Staff's proposals generally have tier breakpoints significantly lower than the current second tier of 400,000 gallons. So, not only are proposed rates higher but they kick in at fewer gallons and they result in significant (greater than 50 percent) bill increases to the Resorts.

IV. Effects of AAWC's Proposed Consolidated Rates on the Resorts

Q. WHAT IS THE EFFECT OF RATE CONSOLIDATION ON THE PARADISE VALLEY WATER DISTRICT?

A. Consolidated rates will raise the revenue requirement on the PVWD by about 10 percent, according to AAWC's rebuttal working papers by comparing AAWC's rebuttal revenue requirement with current revenues for the PVWD.

1 **Q. WHAT IS THE EFFECT OF AAWC'S PROPOSED (REBUTTAL)**
 2
 3 **CONSOLIDATED RATES ON THE RESORTS?**

4 A. The Camelback Inn's water bill is expected to rise by about 56 percent and the Sanctuary's
 5 water bill is expected to rise by about 55 percent:

Resort	Water Bill Current Rates	Water Bill AAWC Rebuttal Rates	\$ Increase	% Increase
Camelback	\$172,534	\$268,945	\$96,411	56%
Sanctuary	\$97,896	\$151,488	\$53,592	55%

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9 Monthly minimum and commodity charges only.

10 These exorbitant increases are far in excess of the approximate 10.1 percent revenue requirement
 11 increase imposed on the PVWD simply because of consolidating its rates with rates in higher-cost
 12 systems.

13
 14 **Q. WHAT IS THE EFFECT OF STAFF'S PROPOSED CONSOLIDATED RATES ON**
 15 **THE RESORTS?**

16 A. The Camelback Inn's water bill is expected to rise by about 43 percent and the Sanctuary's
 17 water bill is expected to rise by about 42 percent:

Resort	Water Bill Current Rates	Water Bill Staff Direct Rates	\$ Increase	% Increase
Camelback	\$172,534	\$247,062	\$74,528	43%
Sanctuary	\$97,896	\$139,101	\$41,205	42%

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21 Monthly minimum and commodity charges only, Staff system-wide consolidation proposal.

22 Staff's proposed consolidated rates are also in excess of the approximate 10.1 percent revenue
 23 requirement increase imposed on the PVWD simply because of consolidating its rates with rates in
 24 higher-cost systems.

25
 26 **Q. WHY ARE THE RESORTS SO UNDULY HARMED BY THE PROPOSED**
 27 **CONSOLIDATED RATE STRUCTURES?**
 28

1 A. The Resorts are unduly harmed because AAWC's proposed tiered rates are steep, tier breaks
2 are low and the Resorts' consumption would largely fall into the top tier. The proposed commercial
3 tariffs are likely more relevant to average commercial-type business like florists or bakeries or even
4 restaurants, or other smaller commercial firms. Consequently, the tier breaks are low and likely
5 related to average or median consumption. The Resorts' water demands are more like an industrial
6 consumer than a typical commercial business. Resorts can serve the health and safety needs of
7 thousands of people a day.
8

9
10 **Q. WHAT IS THE AVERAGE MONTHLY CONSUMPTION FOR AN AAWC**
11 **COMMERCIAL CUSTOMER COMPARED TO THE RESORTS?**

12 A. The average commercial customer in AAWC's consolidated water districts varies by meter
13 size and is shown below along with the Camelback Inn and Sanctuary resorts' average consumption
14 for their primary meter sizes:

Meter Size	AAWC Average Commercial Usage ¹	Resorts' Usage
2"	137,585	378,000
3"	158,533	3,105,000
6"	1,553,458	5,139,000
Calculated from AAWC's working paper Commercial v3 step 3		

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20 As you can see, the Resorts are not typical commercial customers. Statistically, we would likely
21 say that the Resorts are a different population compared to the average commercial customer. The
22 nature of their businesses in serving health and safety needs of thousands of people a month is also
23 a distinguishing feature.
24

25 **Q. FOR HOW MANY PEOPLE DO THE RESORTS EXPECT TO PROVIDE HEALTH**
26 **AND SAFETY NEEDS?**
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A. The Resorts expect to provide for the health and safety needs for the following number of people per month between guests, employees, and events:

Resort	No. of Rooms	Total People Days Per Month (in 2009)
Camelback Inn	453	55,270
Sanctuary	105	19,223

As you can see, the Resorts serve the health and safety needs of tens of thousands of people per month.

V. The Proposed Consolidated Rates Will Result in Rate Shock

Q. WILL THE PROPOSED CONSOLIDATED RATES RESULT IN RATE SHOCK?

A. Yes, AAWC's and Staff's proposed consolidated rates will likely result in rate shock to the Resorts and potentially numerous other customers not directly represented in this proceeding.

Q. WHAT IS RATE SHOCK?

A. Rate shock is the psychological effect on a consumer who faces a bill increase far in excess of what they expected. The term does not inherently imply any particular percentage increase in bills but a Commissioner should be concerned with an increased likelihood of rate shock when bills increase by more than 10 percent.

VI. The Proposed Tiered Consolidated Commercial Rates Will Not Promote Conservation At the Resorts But They Will Punish Businesses Who Have Conserved

Q. WHY DO TIERED (INVERTED BLOCK) RATES EXIST?

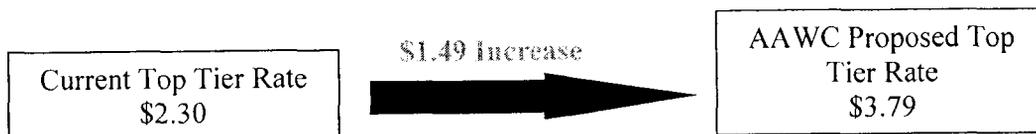
A. I understand that the only reason inverted block rates exist is to promote conservation by sending increasingly more expensive price signals to customers as they consume increasing amounts of water.

1 Q. WILL AAWC'S PROPOSED TIERED CONSOLIDATED RATES PROMOTE
2 WATER CONSERVATION AT THE RESORTS?
3

4 A. No, the tiered rates will not promote conservation, but rather they will simply penalize the
5 Resorts because the tiers have no relation to the Resort's consumption patterns. Ostensibly, the
6 purpose of inverted block rates ("tiered rates") is to promote conservation by providing the financial
7 incentive to lower the marginal cost of water by reducing consumption and thereby falling into a
8 lower-priced tier. However, the proposed tier breaks are so low relative to the Resorts'
9 consumption that they could never reasonably lower their consumption to fall below a lower tier
10 break.
11

12 Q. WHAT IS AAWC'S PROPOSED TIER BREAK FOR A 6" METER AND HOW
13 DOES THAT RELATE TO THE CAMELBACK INN'S ABILITY TO LOWER
14 CONSUMPTION AND FALL INTO A LOWER TIER?
15

16 A. AAWC's proposed top tier break for a 6" commercial meter consumption is 400,000
17 gallons per month. However, the Camelback Inn draws approximately 5,139,000 gallons on
18 average per month from that meter¹ so the second tier kicks in after the first 8% of consumption.
19 The Camelback has done (and continues to do as new technology becomes available) all it can to
20 conserve water but it cannot reduce its consumption by 92%. Currently, the Camelback Inn pays
21 \$2.30 in the top tier but under AAWC's proposed consolidated rate the top tier would be \$3.79 or a
22 \$1.49-per-1,000 gallons increase in the commodity rate:
23



27 ¹ The Camelback Inn actually has two meters, a 1.5" meter and a 6" meter whose readings AAWC
28 combines for billing purposes.

1 Based upon the Resorts' unique characteristics, they have certain minimum water needs that far
2 exceed 400,000 gallons per month. For example, The Camelback Inn can host approximately 300
3 families a night. In contrast, AAWC proposes the residential conservation maximum tier to be
4 60,000 for a 5/8" by 3/4" and 1" meters. I don't believe anyone in this case would argue that 6.66
5 residential properties equals one resort ($60,000 \times 6.66 = 400,000$). To provide some additional
6 perspective, the Camelback Inn covers 118 acres, while a typical residential home in Paradise
7 Valley covers one acre. At a minimum, tier breaks should take into consideration the unique water
8 needs of the Resorts including their relative acreage, number of rooms and amenities. An arbitrary
9 tier breakpoint serves no conservation purpose and it arbitrarily penalizes the Resorts despite their
10 efforts made towards conservation as I will discuss below.

11
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13 **Q. HOW MORE FORMALLY WOULD AN ECONOMIST VIEW THE TIER BREAKS**
14 **AND PRICES?**

15 A. An economist might call the tier price points marginal costs and the tier break points the
16 quantities at which those marginal costs become effective. Economists view behavior affected by
17 marginal signals: producers react to marginal costs and marginal price, consumers react to marginal
18 price and marginal utility, consumer/investors have a marginal propensity to consume, etc. The
19 problems is that the tier breaks occur so early for the Resorts that the marginal price signal sent to
20 them is the top tier and it always will be. Therefore, the tier prices and breaks cannot be altered at
21 the margin through conservation and, therefore, the tier prices and breaks send no manageable
22 signal. The Resorts are effectively at a flat (the highest) marginal rate and cannot adjust their
23 consumption to seek a different price signal.

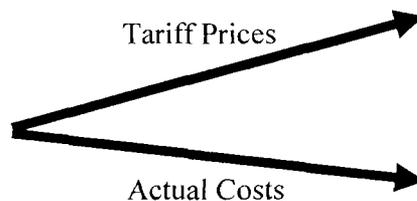
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26 **Q. AAWC PROPOSES FOUR INVERTED BLOCK RATE TIERS FOR THE**
27 **CONSOLIDATED COMMERCIAL CLASS. ARE AAWC'S ACTUAL MARGINAL**
28

1 **COSTS OF PROVIDING WATER SERVICE LIKELY TO INCREASE OR DECREASE**
2
3 **WITH SERVING COMMERCIAL CUSTOMERS LARGER VOLUMES OF WATER?**

4 A. Generally, the costs of serving larger amounts of a utility service to a class result in
5 diminishing marginal and average costs. For example, electricity costs generally decline in serving
6 a large industrial electricity consumer because fixed costs are spread out over larger numbers of
7 kilowatts compared to serving a residential consumer. The same is likely true for water utility
8 service.

9
10 **Q. WOULD YOU BE CONCERNED IF THE COSTS OF SERVING A COMMERCIAL**
11 **CUSTOMER DECLINED WITH USAGE BUT TARIFF PRICES INCREASED WITH**
12 **USAGE?**

13 A. Yes, I would be concerned if the actual costs of serving a commercial customer declined
14 with usage, implying traditional (declining) block rates, but the approved tariffs reflected inverted
15 (increasing) block rates because tariff prices and costs would be diverging in a V-like fashion:



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21 My concern, more clearly, would be that the tariffs were not just and reasonable because they
22 would not reflect cost. In utility regulation, price should generally reflect cost.

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25 **VII. Rate Consolidation and Cross-Subsidization**

26 **Q. ARE YOU CONCERNED THAT RATE CONSOLIDATION WILL RESULT IN**
27 **CROSS-SUBSIDIZATION?**

28

1 A. Yes, I am concerned that rate consolidation will result in cross-subsidization.

2
 3 **Q. WHAT IS CROSS-SUBSIDIZATION?**

4 A. Cross-subsidization is the practice of using profits generated from one product or service to
 5 support another provided by the same operating entity.² In our case, cross-subsidization is the
 6 proposed practice of generating excess profits from one water system to offset the losses in another
 7 water system.

8
 9 **Q. SHOULD CROSS-SUBSIDIZATION GENERALLY BE ENCOURAGED OR**
 10 **AVOIDED IN RATE MAKING?**

11 A. Cross-subsidization is generally to be avoided in rate making rather than encouraged. Let
 12 me present a simple example. Consider a restaurateur who owns three restaurants, a fast food, a sit-
 13 down, and a 3-star. Each serves two customer classes: kids who eat hamburgers and adults who eat
 14 steak and each class has its own menu (tariff):

Unconsolidated Menus				
	Fast Food	Sit Down	Three Star	Total
Kids	\$4	\$5	\$6	\$15
Adults	\$10	\$20	\$30	\$60
Total revenue				\$75

Consolidated Menus				
	Fast Food	Sit Down	Three Star	Total
Kids	\$5	\$5	\$5	\$15
Adults	\$20	\$20	\$20	\$60
Total revenue				\$75

27 ² From the Organization of Economic Co-operation and Development,
 28 <http://stats.oecd.org/glossary/detail.asp?ID=4968>.

1 Notice that that by consolidating menus, the fast-food restaurant subsidizes the three-star restaurant,
 2 violating the cost-of-service underlying the unconsolidated menus. Notice also that consolidation
 3 results in distortion of the relative costs of serving the two classes. The table below depicts the
 4 relative costs of serving the two classes before and after the menu consolidation:
 5

Relative Costs of Serving Adults and Kids			
	Fast Food	Sit Down	Three Star
<i>Pre-Consolidation</i>			
Kids	\$4	\$5	\$6
Adults	\$10	\$20	\$30
Relative costs Adults/Kids	2.5:1	4:1	5:1
<i>Post-Consolidation</i>			
Kids	\$5	\$5	\$5
Adults	\$20	\$20	\$20
Relative costs Adults/Kids	4:1	4:1	4:1

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 14 Only in the case of the sit-down restaurant is the 4:1 relative price of serving adults/kids preserved.
 15 In the case of the fast food restaurant the relative price of serving adults/kids has risen (adults are
 16 subsidizing kids in the fast-food restaurant) and in the case of the three-star restaurant the relative
 17 price of serving adults to kids has fallen from 5 to 4 (kids are subsidizing adults in the three-star
 18 restaurant). The inherent problem of the cross-subsidization between restaurants and within the
 19 classes at each restaurant reduces economic efficiency and rates under consolidated menus wouldn't
 20 reflect the outcome under competition. One of utility regulation's goals is to replicate prices under
 21 competition (while at the same time garnering the economic benefits of a monopoly provider). We
 22 allow a monopoly provider to serve customers resulting in declining average costs but we regulate
 23 those costs consistent with sound economic and legal principles.
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VIII. The Proposed Consolidated Rates Will Violate Rate Spread Relationships Based on Cost-of-Service Models

Q. DO AAWC'S PROPOSED CONSOLIDATED RATES EQUITABLY SPREAD THE REVENUE REQUIREMENT INCREASE OF CONSOLIDATING RATES ON THE PVWD ACROSS RATE CLASSES EQUITABLY?

A. No, AAWC's proposed consolidated rates do not spread the revenue requirement increase caused by consolidating rates equitably across rate classes in the PVWD. The commercial class bears an inequitable increase (31.5 percent) compared to the residential class (3.3 percent) as shown in the table below:

AAWC's Revenue Requirement by Class for PVWD Pre- and Post-Consolidation			
Class	Pre-Consolidation	Post-Consolidation	% Increase
Residential	\$7,108,793	\$7,344,558	3.3%
Commercial	\$1,954,299	\$2,570,457	31.5%
OPA	\$21,806	\$41,664	91.1%
Sale For Resale	\$33,843	\$36,930	9.1%
Private Fire	\$7,648	\$57,326	649.5%
Total	\$9,126,389	\$10,050,935	10.1%

This unfortunate result in which the commercial class revenue requirement percentage increase is almost *ten times* the residential revenue requirement percentage increase is similar to my restaurant example above for the fast-food restaurant: the kids price increased to \$5 from \$4, or 25% but the adults price increased to \$20 from \$10, or 100%.

IX. Programs by the Resorts to Preserve and Conserve Water

Q. PLEASE DESCRIBE THE RESORTS WATER CONSERVATION PROGRAMS DURING THE PAST SEVERAL YEARS.

1 A. Programs to conserve and preserve water already made by the Resorts generally include the
2 following: replacing high water use plants and grass with xeriscape landscaping; upgrading and
3 improving irrigation management systems and infrastructure; minimizing water use through
4 efficient delivery systems and prudent water conservation policies; and seasonal and climactic
5 adjustment to landscape irrigation.
6

7 **Q. WHAT IS XERISCAPE LANDSCAPING?**

8 A. Xeriscape landscaping is landscaping that minimizes supplemental irrigation. The Arizona
9 Department of Water Resources ("ADWR") has identified seven principles of xeriscaping that the
10 Camelback Inn and the Sanctuary incorporate wherever possible into their properties' landscaping,
11 including good planning, extensive use of low-water-use plants, appropriate and minimized turf
12 areas, efficient irrigation, and excellent maintenance, amongst others. A copy of ADWR's
13 principles is attached as Exhibit JST-3.
14

15
16 **Water Conservation at The Camelback Inn**

17 **Q. PLEASE DESCRIBE THE CAMELBACK INN'S EFFORTS TO CONSERVE**
18 **WATER.**

19
20 A. The Camelback Inn has integrated water conservation measures into all aspects of the resort
21 that use water. I document them below.

22 •Guests receive a Welcome card on their beds. The next three paragraphs after the room
23 attendant's introduction all relate to and encourage water conservation.
24

25 "Our resort is committed to doing our share to protect the environment through water
conservation and clean air.

26 As a standard, your bed linens will be changed every third day. We are delighted to change
your linens upon request by placing this card on your pillow.

27 If you wish to reuse your towels, simply leave them, on the towel rack or door hanger.
Towels that are left on the bathroom floor will be replaced."
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I attach the Welcome card as Exhibit JST-4.

- In addition, back in 1996, The Camelback Inn was the first resort in the industry to remove the standard 4 gallon flush toilets and replace them with power flush toilets that use compressed air and 1.6 gallons of water per flush saving 3.4 gallons per flush (gpf). Rooms currently have low-flow 1.6 gpf power flush systems but they will be replaced by 1.2 gpf power flush systems.

- The Camelback Inn has also installed recirculation pumps in all rooms at the resort. These pumps provide hot water at first opening of the tap without having to waste water down the drain waiting for it to get hot. Measurements taken at The Camelback Inn indicate a savings of approximately 1 1/2 gallons of water every time a faucet is turned on for hot water.

- The Camelback Inn also installed new showerheads that regulate the water flow while enabling guests to enjoy an adequate high pressure shower. A test run shows that these new heads save approximately 20 to 25 gallons of water per 10 minutes of shower time as compared to the old-style shower heads. The total savings is estimated at 1.2 million gallons per year.

- The Camelback Inn also installed Perlator economy flow aerators that regulate the flow of sink water in guest rooms to 1.5 gallons per minute (gpm).

- A 2010 renovation included removing a 65,000-gallon pool and replacing it with 10,000-gallons of reflecting ponds. I attach a picture of the former pool now deck area as Exhibit JST-5. The small patch of grass in the renovation (barely visible and just at the base of the palm trees) will be converted to decking as well.

- The Camelback Inn has invested in a Rain Bird Stratus Golf Central Control System, which is a state-of-the-art electronic irrigation system that is the most advanced irrigation system in the world. The Camelback Inn's system has distributed valves that water different vegetation

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differently. For example, older trees are irrigated once every two weeks while other plants are watered according to their minimum needs. This gives The Camelback Inn the ability to regulate water flow to all of our plant life to prevent over watering in areas that don't require water on a regular basis. Without this system all vegetation would receive the same amount of water, resulting in excess water use. In addition, the landscape manager can control the entire irrigation system remotely by laptop from anywhere in the world so that if any leaks are detected at the resort, the personnel can contact her and she can immediately shut off valves to conserve water. The landscape manager also has the ability to shut down the entire system via laptop when rain is detected in the area. This upgrade saved an approximate 9.4 million gallons per year.

- The Camelback Inn has already upgraded its water delivery systems to feature 100% drip irrigation to plants, 100% bubblers to flowers, and then sprinklers minimized to the increasingly limited turf areas. These systems minimize, to the extent possible with current technology, water delivery to the various plant species (by age) on the property. Hoses are used in rare emergencies.

- The Camelback Inn installed pressure reducers in 2006 on the water system entering the property to reduce pressure and subsequent irrigation blowouts and leaks, saving an estimated 4,800,341 gallons per year.

- One full-time employee is currently tasked to monitor and correct landscaping leaks. The Chief Engineer also conducts a weekly walk around to look for any leaks or dripping faucets that need repair to avoid wasting water.

- The spa's Thalasootherapy baths were removed to eliminate their high-volume use. The total savings is estimated at 120,000 gallons per year.

- The restaurant serves table water only upon request.

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- The Camelback Inn also replaced the main kitchen Hobart dish washer with a Champion dish washer, which saves approximately 55% in water and energy usage and it is ENERGY STAR³ compliant.

- Decks and paving are now power washed as opposed to hosed down.
- Kitchens are now mopped down as opposed to hosed down.
- A reverse osmosis system was removed from the restaurant's glass washer during the 2006-2007 renovation.

- The Camelback Inn has a stringent weigh-in process for laundry to ensure that the proper pounds are put into washers to maximize the useful life of the equipment and maximize the efficiency of water used per cycle.

- Appliances purchased now are all ENERGY STAR rated where applicable, such as in housekeeping's linen spreader-folder.

- All public space restrooms are equipped with Toto or American Standard auto-flow sensor urinals and toilets to avoid unnecessary water waste. Public toilets are 1.6 gpf.

- All public space restrooms are equipped with auto-flow sensors. The total savings is estimated at 45,000 gallons per year.

- A cover was installed on the 80,000 spa lap pool to reduce evaporation and reduce heating expense. This Olympic-sized pool is so large that the cover is in cut into three sections.

³ ENERGY STAR employs strategies that in the aggregate use a minimum of 20 percent less potable water than the indoor water use baseline calculated for a building, after meeting the Energy Policy Act of 1992 fixture performance requirements. In addition, ENERGY STAR promotes the use of efficient landscaping and irrigation strategies, including water reuse and recycling, to reduce outdoor potable water consumption by a minimum of 50% over that consumed by conventional means as well as employs design and construction strategies that reduce storm water runoff and polluted site water runoff.

1 •A central chiller was converted to a soft-water system, thereby increasing cooling cycles
2 and reducing water use by two-thirds or saving approximately 1,500 gallons of water per month.
3

4 •Turfed area in front of units 100-106 was converted to xeriscape.

5 **Q. HAVE THE CAMELBACK INN'S EFFORTS TO CONSERVE WATER RESULTED**
6 **IN LOWER WATER USE OVERALL?**

7 A. Yes, the Camelback Inn's efforts to conserve water have resulted in a declining trend line of
8 consumption as shown in the graph in Exhibit JST-6.⁴
9

10 **Q. WHAT FUTURE WATER CONSERVATION EFFORTS ARE PLANNED BY THE**
11 **CAMELBACK INN?**

12 A. The Camelback Inn is constantly planning capital expenditures to reduce its water use.
13 Those capital expenditures and water conservation programs include the following:

14 •Hot water heaters are planned to be upgraded in 2011, delivering hotter water more
15 quickly, thereby reducing wait time and wasting water in the line before hot water is delivered.
16

17 •Appliances purchased will be Energy Star rated.

18 •A planned 2012 spa renovation will include more effective shower valves that reduce
19 water use.

20 •A planned \$6.8 million golf course renovation will "naturalize" 80 to 100 acres of existing
21 turf and reduce water features to one remaining.

22 •Poly pipe replacements are proactively planned to ensure that water leaks are avoided.

23 •The state-of-the-art Rain Bird Stratus Golf Central Control System is anticipated to be
24 upgraded with the Rain Bird weather station and smart weather system to automatically turn off
25 irrigation if rain is present.
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28 ⁴ Data from previous cases and AAWC Response to Resorts' Data Request No. 1.5.

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- The children’s recreation area is slated for xeriscape.
- Low-flow 1.6 gpf room toilets will be replaced with new-technology 1.2 gpf toilets.
- Square footage of color annuals will be reduced and replaced by boulders, for an expected annual water savings of 15,000 gallons.
- Replace small grassy area in Rita’s back patio with cement.
- Institute policy of turning kitchen equipment off or putting on standby when not in use to conserve water.

Q. PLEASE DESCRIBE THE CAMELBACK INN’S EFFORTS REPLACE HIGH-WATER-USE PLANTS AND GRASS WITH XERISCAPE LANDSCAPING.

A. The Camelback Inn extensively employs xeriscape planting around its 128 acre resort property to avoid watering in those areas. Of The Camelback Inn’s 128 acres, 115 acres is in xeriscape or native landscaping. Less than 4% of the acreage (or less than 5 acres) is in grass. During remodeling at The Camelback Inn in 2003 and 2007, grassy areas were converted into xeriscape landscaping wherever possible. The end result was that over 2 acres of grass was converted into xeriscape landscaping, a reduction in turf of approximately 29%.

Q. DOES THE CAMELBACK INN ADJUST ITS WATERING PRACTICES BASED UPON CLIMATE CHANGES?

A. Yes. The Camelback Inn’s landscape manager tailors its irrigation use specifically for seasonality and daily weather conditions. For example, cacti are not watered at all from November to May and irrigation is shut off remotely with a call to the landscape manager if rain is present.

Q. COULD THE CAMELBACK INN EMPLOY ANY OTHER SIGNIFICANT TECHNOLOGIES TO REDUCE ITS WATER USE?

1 A. The Camelback Inn is constantly looking at new technologies to conserve water as those
2 technologies become available, for example the new 1.2 gpf toilets and the Rain Bird weather
3 station and smart weather system including the Rain Check Automatic Rain Shutoff feature I
4 mentioned above.
5

6 **Q. WHAT IS DRIVING THE CAMELBACK INN TO CONSERVE WATER?**

7 A. The Camelback Inn's water conservation efforts have two key drivers. First, the Camelback
8 Inn is owned by the Marriot Corporation who has imposed on the Camelback Inn a 2 percent annual
9 utilities expense reduction mandate. The Marriot Corporation has tasked a unit called The
10 Americas Energy Group whose focus and function is to find, analyze and have properties
11 implement green solutions throughout the Corporation. Water conservation is specifically listed as
12 one of the Group's functions. The Marriot Corporation also has a proprietary Energy Conservation
13 Manual that states, "Energy conservation has been a company priority for several years and
14 continues to result in substantial cost savings, in addition to fulfilling our company's Green
15 Vision." The Manual is a detailed business action plan on reducing water use in all resort
16 operations, in addition to other utilities.
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19
20 **Water Conservation at the Sanctuary on Camelback Mountain**

21 **Q. ARE YOU FAMILIAR WITH THE SANCTUARY'S EFFORTS AND PROGRAMS**
22 **TO CONSERVE WATER?**

23 A. Yes, I am familiar with the Sanctuary's water conservation efforts and programs. The
24 Sanctuary has implemented many programs to conserve water (including some removal of turf) and
25 including desertification of remaining landscaped areas wherever possible. The following
26 summarizes programs and efforts initiated at the Sanctuary:
27
28

1 ●Guests receive a bedside card titled “Conserve Water Dream Sweet” that alerts guests to
2
3 the Sanctuary’s policy of not changing bed linens every day. That card says, in part,

4 “Washing bed linens daily contributes to excessive water consumption and the effluence of
5 detergents into the environment.
6 Our Sanctuary Green practice is to change bed linens every other day in occupied guests rooms.
7 Should you prefer a daily linen change, please press the housekeeping button on your phone.”

8 I include the bedside card as Exhibit JST-7.

9 ●The guest packet in each room also contains a flyer by the Sanctuary Green Team
10 discussing the Sanctuary’s conservation, recycling, and products/purchasing practices that are
11 green, including conservation of water. I include the Green Team flyer as Exhibit JST-8.

12 ●Robes are only laundered at checkout.

13 ●Showerheads in guest rooms are low flow and feature shut off valves. I include a photo of
14 one such showerhead in Exhibit JST-9. Rooms have recycling baskets, also shown in Exhibit
15 JST-9.

16 ●All rooms have hot water recirculating pumps so that water isn’t wasted at taps and
17 showerheads waiting for hot water to arrive.

18 ●Toilets are dual flush (66 percent) or low flow (34 percent).

19 ●The Sanctuary invested approximately \$500,000 between 2005 and 2006 to upgrade its
20 water infrastructure, including more efficient irrigation systems, despite the fact that it is almost
21 entirely xeriscaped. The Sanctuary sits on 53 acres or 2,308,680 square feet of property. Of this
22 2,308,690 square feet, only 6,500 is in lawn or 0.3 percent. The property is largely landscaped with
23 native plant life or xeriscape. Greater than 50% of the landscaping is indigenous and has no
24 irrigation at all. I include an example of the Sanctuary’s landscape in Exhibit JST-10.
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●The irrigation system limited to the non-indigenous plant life is controlled by an Irritrol timed system with multiple controllers governing multiple valves and tailored to feed water sparingly based on the age and specie of the plant.

●All staff is trained to spot and report irrigation leaks on a constant basis and any such leaks are repaired swiftly.

●A 2008 upgrade replumbed the Sanctuary's centrifugal water booster pump (water pressure is inadequate from AAWC to the property) such that waste water that was previously used to lubricate the pump and disposed of as wastewater is now recycled to irrigate the frontage landscaping, shown in Exhibit JST-10.

●A 2008 renovation project replaced approximately 600 square feet of lawn areas under two signage areas with Astro Turf. I include a photo of an area as Exhibit JST-10.

●A 2010 renovation featured an expansion and upgrade to the banquet and dining facilities that further reduced lawn area and included new Rinnai tankless instant hot water heaters and new water-efficient dishwashers and glass washers.

●The 2010 kitchen renovation included new dishwashers that reuse water and the new HT25 glass washer that is the lowest water-using model on the market, using 0.85 gallons per load and even reusing some of that water for subsequent loads. Neither the dishwashers nor the glass washer have reverse-osmosis systems feeding them that would otherwise waste water.

●Wet mop bucket systems have been replaced by damp mop Swifter-style systems, thereby conserving water by eliminating buckets of water in the cleaning process.

●Laundry facilities are water efficient and much laundry is sent to commercial launderers who can more efficiently use water through economies of scale and more efficient and precise loadings.

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•Water is offered to guests in the restaurant only upon request, eliminating water waste through unused table water.

•Water bottles are given to guests only upon request after hikes and activities and bottles have been switched to an easily refillable model. This water is not AAWC water, but it still reflects on the Sanctuary's commitment to conserving water, whatever its source.

Q. DOES THE SANCTUARY HAVE FUTURE CAPITAL EXPENDITURE PLANS TO REDUCE ITS WATER USE?

A. Yes, the Sanctuary is planning to implement the following programs to reduce its water use:

•Remove all olive trees on the property and replace with low-water-use species and hardscape/boulders/landscape.

•Prohibition against planting of any further citrus trees on the property.

•Remove seven citrus trees to west of parking lot steps and replace with indigenous species.

I include a picture of the trees in Exhibit JST-11.

The Sanctuary is constantly looking at new technologies to conserve water.

Q. WHAT IS DRIVING THE SANCTUARY TO CONSERVE WATER?

A. The Sanctuary's water conservation efforts have the same two key drivers as the Camelback Inn's drivers: cost reduction and green public image. A 2009 cost reduction initiative, implemented when the recession was hitting destination resorts hard, mandated cost reductions in all areas of expense, including utilities expenses. The Green initiative appears to me to be central to the Sanctuary's high-end modern high-design corporate image. The landscaping, while almost entirely xeriscape, is both luxurious and green (as in protects the earth). The Sanctuary even submitted for the 2009 Scottsdale Green by Design Awards. I include a copy of the submission as Exhibit JST-12.

1 **Q. WHAT DO YOU CONCLUDE REGARDING THE RESORTS' WATER**
2 **EFFICIENCY INVESTMENTS AND PRACTICES?**
3

4 A. These efficiency investments and practices all translate into being better stewards of our
5 precious water resource as well as being wise business decisions. The Resorts are a class of
6 customer at the forefront of prudent and conservative water usage. The Resorts, as large
7 businesses, have access to, information about, and deployment abilities for water conservation
8 programs that are make them efficient and effective conservators of water.
9

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11 **X. The Resorts are Engines of Our Local Economy and Deserve Just and Reasonable**
12 **Rates to Protect Jobs**

13 **Q. DO THE RESORTS PLAY AN IMPORTANT ROLE IN PROVIDING JOBS IN THE**
14 **LOCAL ECONOMIES OF PARADISE VALLEY AND SCOTTSDALE?**

15 A. Yes, they certainly do play an important role in providing jobs. The Camelback Inn directly
16 employs 800 people and the Sanctuary directly employs 300 people. Traditionally, our Arizona
17 economy has been built on the "four C's": copper, cattle, cotton, and climate. The climate and our
18 local resorts together draw tourism dollars from all over the world. Raising their water bills for no
19 cost-of-service reason will increase their cost basis and they will be less competitive relative to
20 other tourism destinations around the US. The Resorts cannot simply raise their room rates in a
21 competitive environment. An economist would call the resorts price-takers. AAWC's proposed
22 consolidated rates impact the PVWD Resorts in the hundreds of thousands of dollars per year. The
23 increases in water bills put the Resorts in a competitive disadvantage compared to other Scottsdale
24 and Phoenix resorts and they might result in cost cuts such as in salary expense; i.e. jobs.
25 Economists call the effect of a dollar spent on the rest of the economy the multiplier effect and
26 fewer tourism dollars and fewer jobs will have a negative multiplier effect on the local economy.
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Q. WHAT IS THE SIZE OF THE LOCAL SCOTTSDALE/PARADISE VALLEY RESORT/HOTEL VISITOR MARKET?

A. The total number of resort/hotel visitors estimated for 2008 (the latest available data) for the Scottsdale/Paradise Valley region was 1,183,146 comprising 6,507,302 room nights, according to the City of Scottsdale Economic Vitality Department report, "The Scottsdale/Paradise Valley Tourism Study —Part II: Visitor Statistics." I include this report as Exhibit JST-13. Total direct and indirect spending by visitors in Scottsdale in 2008 was approximately 3.6 billion dollars and the average Scottsdale/Paradise Valley resort/hotel visitor spends about \$259 per day. Visitor expenditures in 2008 were estimated at \$193,324,334 in Paradise Valley alone.

Q. DOES AAWC'S RATE CONSOLIDATION PROPOSAL IMPROVE OR HARM THE RESORTS' BOTTOM LINE AND POTENTIALLY PUT THEM AT A COMPETITIVE DISADVANTAGE TO LURE TOURISM DOLLARS.

A. The increased rates under the consolidation proposals by AAWC and Staff would harms the Resorts' bottom line and they could lead to putting the Resorts in a competitive disadvantage in luring tourism dollars to our economy. Corporate and retail shoppers can and do shop for their vacation dollars using the Internet and the competition for tourism can be fierce. The Resorts' room rates cannot simply be raised because they operate in a competitive environment, competing with other destination resorts around the country.

XI. The Resorts Should Be Excluded From Consolidation Or Otherwise A Resort Class of Service Should Be Established

Q. WHY IS A RESORT CLASS OF SERVICE, OR OTHERWISE EXCLUDING RESORTS IN GENERAL FROM CONSOLIDATING RATES, PARTICULARLY APPROPRIATE?

1 A. Establishing a Resort class of service is appropriate because a limited number (at least four)
2 of resort customers exist out of AAWC's approximate 3,362 AAWC commercial potable water
3 customers across all eight water systems. In other words, there is no other customer with whom to
4 combine them. AAWC witness Constance E. Heppenstall testifies in her rebuttal testimony, page 3
5 at lines 6 to 11, that "...certain contracts were due to specific contracts or uniqueness to a specific
6 system or there were no comparable classes in other districts to combine with. These classes
7 include: C2M3 Arizona Water contract, C5M1 Agua Fria - O W PI Surprise, AM1 Sun City Public
8 Interruptible - Peoria, E7M2 Anthem Wholesale (Phoenix) O W and the apartment classes in
9 Mohave and Havasu. The rates for these customers would remain stand-alone." All four resorts are
10 in the PVWD and they are unique to the AAWC systems. Establishing a Resort class of service
11 will result in a sounder rate structure.

12
13
14 **Q. WHAT DOES BONBRIGHT SUGGEST ARE THE CRITERIA FOR A SOUND**
15 **RATE STRUCTURE?**

16 A. Bonbright suggests that, of his eight criteria for a sound rate structure, the three primary
17 criteria are the following:
18

- 19 •Effectiveness in yielding total revenue requirements under the fair-return standard.
20 •Fairness of the specific rates in the apportionment of total costs of service among the
21 different consumers.
22 •Efficiency of the rate classes and rate blocks in discouraging wasteful use of service while
23 promoting all justified types and amounts of use:
24 a. in the control of the total amounts of service supplied by the company.
25 b. in the control of the relative uses of alternative types of service (on-peak versus
26 off-peak electricity, Pullman travel versus coach travel, single-party telephone service versus
27 service from a multi-party line, etc.).⁵

28 **Q. DO AAWC'S AND STAFF'S SYSTEM-WIDE CONSOLIDATED RATE**
PROPOSALS MEET BONBRIGHT'S THREE PRIMARY CRITERIA?

⁵ Phillips, Charles F. Junior; *The Regulation of Public Utilities*, third edition (1993) pages 434-435.

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A. I am concerned that AAWC's and Staff's system-wide consolidated rate proposals do not meet Bonbright's criteria. First, the proposals apparently shift revenue requirement from monthly charges to commodity charges. In the PVWD, monthly charges decline even while revenue requirement overall is going up. This shift to commodity reduces effectiveness in yielding total revenue requirements under the fair-return standard. Second, we do not have a system-wide cost-of-service study in this case so we do not know if the proposed rates achieve fairness of the specific rates in the apportionment of total costs of service among the different consumers. I would expect that the Resorts would be less expensive to serve than a resident though AAWC's and Staff's proposals have common rates between residential and commercial customers. Third, I have thoroughly documented the efficiency of the Resorts in using water and their inherent built-in incentives to conserve for both budgetary and sales/public image reasons, as well as their own corporate values. Unnecessarily raising water rates to the Resorts will be economically inefficient because the proposed rates will exceed the costs of providing service in PVWD. Rather, water rates to the Resorts should promote all justified types and amounts of use that serve our local economy through jobs and tourism revenues.

Q. WHAT DOES THE AMERICAN WATER WORKS ASSOCIATION (AWWA) MANUAL M1 *PRINCIPLES OF WATER RATES, FEES, AND CHARGES* SAY ABOUT ESTABLISHING CUSTOMER CLASSES AND THEIR BREAKDOWN?

A. The AWWA manual M1 says, in part,
"Many systems, particularly larger ones, have customers with individual water use characteristics, service requirements, or other factors that differentiate them from other customers with regard to cost responsibility. **These customers should have a separate class designation.** Such classes may include hospitals, universities, military establishments, and other such categories."
(AWWA Manual M1, Fifth edition, page 64; emphasis added)

1 In this case, we are unfortunately without a system-wide cost of service study which should be the
2 starting point for system-wide rates. A cost of service study would more formally look at classes
3 and sub-classes of customers.
4

5 The Resorts are differentiated because they are unique in their nature, and in their
6 consumption patterns and in their requirements to serve the health and safety needs of tens of
7 thousands of people per month. They are also drivers of local jobs and the local economy. The
8 Camelback Inn employs 800 people and the Sanctuary employs 300 people, as I mentioned earlier.
9

10 XII. Proposed Rate Solutions

11
12 **Q. WHAT RATE SOLUTIONS DO YOU PROPOSE TO ADDRESS THE CONCERNS**
13 **OF JUST AND REASONABLE RATES FOR THE RESORTS?**

14 A. I propose three solutions. (1) The Commission could exclude the four PVWD Resorts from
15 rate consolidation as AAWC proposes for a number of other similarly unique AAWC customers
16 whose tariffs or usage characteristics make them poor candidates for consolidation. Excluded
17 unique customers in this case include apartment classes in Mohave and Havasu. This solution
18 would essentially entail establishing a Resort Class of Service that is same as the current PVWD
19 commercial tariffs. I present Option 1 on page 1 of Exhibit JST-14.
20

21 (2) The Commission could establish a Resort class of service that comprises the current commercial
22 tariffs but raise them by the overall revenue requirement increase in the PVWD imposed by
23 consolidation. AAWC's proposed revenue requirement burden on the PVWD is approximately 10
24 percent as a result of consolidation. Therefore, the Commission could raise the current commercial
25 monthly minimums and commodity rates by 10 percent and thereby establish Resort tariffs. I
26 present Option 2 on page 2 of Exhibit JST-14.
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(3) The Commission could establish a Resort Class of service with tier break points that relate to the Resorts' consumption and whose rates result in the same expected 10 percent bill increase imposed on them by consolidating rates. I present Option 3 on page 3 of Exhibit JST-14. Options 2 and 3 inherently accept an equitable (negative) impact on the Resorts as would be imposed on the PVWD as a result of consolidating rates.

XIII. Conclusion

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATION.

A. The Commission should exclude the Resorts from rate consolidation or otherwise provide more just and reasonable tariffs for these economic engines of our local economy and who have been at the forefront of best water management practices long before tiered rates were established in the PVWD. The likely best solution is to establish a Resort Class of service with tariffs and tier break points that relate to the Resorts' consumption patterns (Option 3).

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes, it does.

EXHIBITS

JST-1	Witness Qualifications Statement
JST-2	Present vs. AAWC & Staff Proposed Rates for the PVWD
JST-3	ADWR's Xeriscape Principles in <i>Landscapes for Life in the Desert</i>
JST-4	Camelback Welcome Card
JST-5	Camelback Pool Removed and Replaced By Patio
JST-6	Camelback Historical Usage Chart
JST-7	Sanctuary Bedside Card
JST-8	Sanctuary Green Flyer
JST-9	Example of Sanctuary Conservation and Recycling
JST-10	Example of Typical Sanctuary Landscape and Astro Turf
JST-11	Citrus Trees to be Removed
JST-12	Sanctuary Submission for Scottsdale Green By Design Awards
JST-13	Visitor Statistics
JST-14	Tariff Options for the Resort Class

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