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BEFORE THE ARIZONA CORPORATION COMMISSION



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AZ CORP COMMISSION
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ARIZONA CORP. COMM
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR THE DETERMINATION OF THE CURRENT FAIL 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 THE DETERMINATION OF THE CURRENT FAIL 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 AND ITS SUN CITY WEST WASTE WATER DISTRICT.

Docket Nos SW-01303A-09-0343

Arizona Corporation Commission
DOCKETED

MAY 14 2010

REBUTTAL TESTIMONY OF
MARSHALL MAGRUDER TO

DOCKETED BY

RATE STRUCTURE AND RATE CONSOLIATION TESTIMONIES AND REBUTTALS
AND AN ERRATA TO HIS DIRECT TESTIMONY

14 MAY 2010

Marshall Magruder, a Santa Cruz County Arizona American Water Tubac Water District customer, a Party in Dockets W/SW-010303A-08-0227, approved as an Intervenor in these Rate Design and Consolidation proceedings, submits his rebuttal testimony to the Testimonies and Rebuttals of 3 May 2010.

Rebuttals are included for RUCO's Jodi Jerich, Anthem Golf and County Club's Denise Howe, DMB White Tanks LLC's Norman James, Intervenor Larry Woods and W.R. Hansen, the "Resorts" by John Thornton, Town of Paradise Valley by James Bacon, and Anthem Community by Dan Neidlinger.

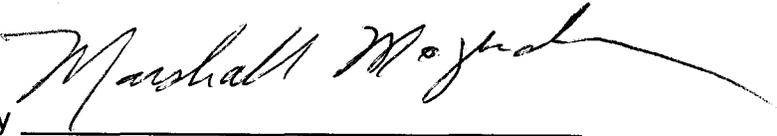
Rebuttal Testimony of Marshall Magruder to Rate Structure and Rate Consolidation Testimonies and Rebuttals with an Errata to the Marshall Magruder's Direct Testimony
Docket Nos. W-01303A-09-0343 and SW-01303A-090343

1 An Errata to the Direct Testimony of Marshall Magruder and two additional Exhibits are
2 included.

3 I certify this filing has been emailed or mailed to the Commission, Company and parties
4 on the Service List.

5 Respectfully submitted on this 14th day of May 2010
6

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Rebuttal Testimony of Marshall Magruder to Rate Structure and Rate Consolidation Testimonies and Rebuttals
with an Errata to the Marshall Magruder's Direct Testimony
Docket Nos. W-01303A-09-0343 and SW-01303A-090343

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4 **REBUTTAL TESTIMONY**
5 **OF**
6 **MARSHALL MAGRUDER**
7 **AND REBUTTAL**
8 **TO**
9 **RATE STRUCTURE AND**
10 **RATE CONSOLIDATION TESTIMONIES AND REBUTTALS**
11 **WITH**
12 **AN ERRATA TO HIS DIRECT TESTIMONY**
13

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16 **14 MAY 2010**
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22 **IN THE MATTER**
23 **OF THE APPLICATIONS OF**
24 **ARIZONA-AMERICAN WATER COMPANY,**
25 **AN ARIZONA CORPORATION,**

26
27 **FOR THE DETERMINATION OF THE CURRENT FAIL VALUE OF ITS UTILITY PLANT AND PROPERTY**
28 **AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS**
29 **ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT**
30 **(ACC Docket No. W-01303A-09-0343)**

31 **AND**

32 **FOR THE DETERMINATION OF THE CURRENT FAIL VALUE OF ITS UTILITY PLANT AND PROPERTY**
33 **AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS**
34 **ANTHEM/AGUA FRIA WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTE WATER DISTRICT**
35 **(ACC Docket No. SW-01303A-09-0343)**

Table of Contents

	Page
Notice of Filing	1
Service List	3
Title Page.....	4
Table of Contents	6

**Rebuttal Testimony of
Marshall Magruder to
Rate Structure and Rate Consolidation Testimonies and Rebuttals
with an
Errata to His Direct Testimony**

Section 1 – Summary of this Rebuttal	7
1.1 Scope of this Rebuttal.....	7
1.2 Contents of Each Rebuttal.....	7
1.3 Recommendations.....	7
1.4 Errata.....	8
Section 2 – Rebuttals to Testimonies of Other Parties.....	9
2.1 Rebuttals.....	9
2.2 Rebuttal to the RUCO’s Direct Testimony of Jodi Jerich.....	9
2.3 Rebuttal to the Anthem Golf and Country Club’s Direct Testimony by Desi Howe	14
2.4 Rebuttal to DMB White Tank LLC’s Direct Testimony by Norman James.....	15
2.5 Rebuttal to the Testimony of Larry Woods, Intervenor.....	15
Table 1 – Arguments in Favor of Single-Tariff Pricing.....	16
Table 2 – Arguments Against Single-Tariff Pricing.....	17
2.6 Rebuttal to the Testimony of W. R. Hansen, Intervenor.....	17
2.7 Rebuttal to the “Resorts” Testimony of John Thornton.....	20
2.8 Rebuttal to the Town of Paradise Valley by James Bacon.....	22
2.9 Rebuttal to the Anthem Community by Dan Neidlinger.....	24
Section 3 – Errata to Marshall Magruder Direct Testimony.....	27
3.1 Errata to Marshall Magruder Direct Testimony of 3 May 2010	27
Magruder Exhibits	28
Exhibit MM-3, Arizona Daily Star editorial, “Lower Priority for Water Won’t Do,” 13 May 2010	29
Exhibit MM-4, Green Valley News & Sun, “No-Irrigation Landscaping is Possible,” 25 April 2010.....	30

1
2 **Section 1 – Summary of this Rebuttal**
3

4 **1.1 Scope of this Rebuttal.** This rebuttal responds to testimonies submitted on 3 May 2010 by
5 various parties including the Residential Utilities Consumer's Office (RUCO), Anthem Golf and
6 Country Club, DMB White Tank LLC, the Resorts and Town of Paradise Valley, Anthem Community
7 Council, and individual Intervenors Larry Woods and W.R. Hansen.

8 **1.2 Contents of each Rebuttal.** Each rebuttal in Section 2 has a short title and a Response
9 statement. Recommendations are also included for some but not all Responses. Some rebuttals did
10 not have any actions necessary as the Response answered the issue raised.
11

12 **1.3 Recommendations.** The following recommendations are in Section 2:

13 a. From the RUCO Testimony in 2.2, the following are recommended:

14 Recommendation No. 1.1. It is recommended that AAWC, in its "next" rate case for the
15 consolidated divisions, include an in-depth analysis for any "fair value" differences between the
16 Company's divisions in the 2007 and 2008 test years. If any inequities result from this analysis, then
17 they must be cured in this "next rate case."

18 Recommendation No. 1.2. From a Rate Consolidation view, it is recommended Commission
19 approval of cost of capital, equity, and debt and operating adjustments for all the districts in the Last
20 Rate Case be included with those districts in the ongoing rate case.

21 Recommendation No. 5.1. The Commission approve the Magruder Rate Structure if water
22 conservation should be the most significant rate-driver with clear price signals for customers.

23 Recommendation No. 5.2: It is recommended that, to the maximum degree feasible, that water
24 and sewage water rates, respectively, be consolidated because the public interest requires rates to
25 be fair and reasonable.

26 Recommendation No. 5.3: It is recommended that the Company to be ordered analyze at its
27 short- and long-term cost of potable water based on its source, in particular, for ground, surface and
28 CAP resources, and AMA applicability. This analysis should be used to develop a water source-
29 oriented Rate Structure with the highest cost for ground water, followed by surface water then the
30 least expensive CAP water.

31 Recommendation No. 6: It is recommended that the Commission accept the Magruder
32 proposed Rate Consolidations and Structures or the Company's proposed Scenarios One.

33 Recommendation No. 8: It is recommended that the Commission order bookkeeping and
34 performance records be maintained at both the present Division- and consolidated Company-levels
35 for costs and other performance factors for future filings and prudence reviews.

1 b. From the Anthem Golf and Country Club Testimony in 2.3, the following is recommended:

2 Recommendation: It is recommended that the Commission and ADWR develop a coordinated
3 approach towards use of non-potable water for golf course irrigation and, in the interim, a "fair and
4 reasonable" approach be determined during this rate case that provides incentives for water
5 conservation when irrigating golf courses balanced with penalties imposed by ADWR when water
6 consumption limitations are exceeded.

7 c. From the DMB White Tank Testimony in 2.4, the following is recommended:

8 Recommendation. It is recommended that the Commission determine "fair and reasonable"
9 rates for various classes of wastewater reuse including effluent, untreated (raw) CAP water,
10 untreated (raw) sewage water, and others, as recommended by Mr. James's Testimony. This may
11 have to be accomplished after this case; however, an interim rate for various water reuse options
12 should be in all sewage water cases including this one. This party refers to others for resolution.

13 d. From the Resorts Testimony in 2.7, the following are recommended:

14 Recommendation No. 1: It is recommended that the Commission either exclude "the
15 Resorts" and other such commercial enterprises from the commercial rate structure or establish an
16 interim consolidated Resort Class (such as in Exhibit JST-14) while a study is conducted by the
17 Company to design an appropriate rate structure for these organizations. Also, see
18 Recommendation No. 2 below.

19 Recommendation No. 2: It is recommended that the Commission order the Company
20 propose a WDSM program specifically targeted for "resorts" whereby a certain percentage decrease
21 in the volumetric charge is allowed based on a verified performance oriented water conservation
22 program. Further, a trend from water consumption rates up to ten years prior should be allowed
23 when determining the starting point for such an initial decrease in volumetric charges.

24 e. From the Anthem Community Testimony in 2.9, the following are recommended:

25 Recommendation No. 1: The Commission should consolidate all water and wastewater
26 districts and if not, then de-consolidate the Anthem and Agua Fria Wastewater districts.

27 Recommendation No. 2. The Commission support consolidation of fees and miscellaneous
28 charges into one schedule and consolidated Rules and Regulations for customer service policies.

29 Recommendation No. 4. The Commission should require annual reports to include cost
30 reduction benefits attributable to rate consolidation.

31 Recommendation No. 5: The Commission should consider implementing more rate steps.

32
33 **1.4 Errata.** The Errata to the Magruder Direct Testimony of 3 May 2010 is in Section 3.

1 **Section 2 – Rebuttals to Testimonies by Other Parties.**

2 **2.1 Rebuttals.**

3 **Q. What testimonies are used in this rebuttal and why where they chosen?**

4 **A.** The following rebuttals are included herein:

- 5 a. RUCO Direct Testimony on Rate Consolidation of Jodi Jerich in 2.2 below.
- 6 b. Anthem Golf and Country Club Direct Testimony by Desi Howe in 2.3 below.
- 7 c. DMB White Tank, LLC's Direct Testimony by Norman James in 2.4 below.
- 8 d. Intervenor Testimony of Larry Woods in 2.5 below.
- 9 e. Intervenor Testimony of W. R. Hansen in 2.6 below.
- 10 f. Resorts Direct Testimony of John S. Thornton in 2.7 below.
- 11 g. Town of Paradise Valley Testimony of James Bacon in 2.8 below.
- 12 h. Anthem Community Council Testimony of Dan Neidlinger in 2.9 below.

13
14 **2.2 Rebuttal to RUCO's Direct Testimony of Jodi Jerich.**

15 In the RUCO filing on 3 May 2010, Direct Testimonies from Jodi A. Jerich and Rodney L.
16 Moore were received. In general, RUCO did not support Rate Consolidation and also did not submit a
17 consolidated rate proposal. The testimony by Rodney Moore did not cover Rate Consolidation.

18 Ms. Jerich summarized that RUCO's position to oppose Rate Consolidation in this docket for
19 seven numbered and other reasons discussed in the Response(s) and Recommendation(s) below:

- 20 (1) Potential legal infirmity to consolidate some systems whose fair value rate base was
21 calculated using a 2007 test year while others are based on a 2008 test year. (Jerich,
22 3:15-17; 8:17-11:14)

23 **Response No. 1: Multiple Test Years**

24 This is understood by all parties but circumstance to have all 8 water and 5 sewage water
25 companies in one rate case would be required has high cost for the Company, Staff, RUCO and other
26 parties. It is due to this complexity that Rate Consolidation will reduce in future cases. This is
27 equivalent of accomplishing 13 stand-alone water and sewage water rate cases in one proceeding.
28 The difference between the consecutive years of 2007 and 2008 from the sense of significant impacts
29 on the Company appear minimal due to low interest rates, a recession that has slowed growth and
30 system expansion to a minimum, and nearly a constant number of customers in all the districts. If this
31 would cause revenue loss, the Company would have submitted a series of revenue compensation
32 issues related to the two test years involved but none have been presented in these Phase 2
33 proceedings. There appear to be no or insignificant "fair value" issues.

34 "RUCO does not believe it is legal to mix test years when asserting the fair value of property."
35 (Jerich, 9:5-6) This is an important issue; however, the Company, Commission and RUCO all

1 understood this during the Last Rate Case and that the ongoing rate case would include Rate
2 Consolidation proposals. These years are consecutive, use the same company administrative staffs,
3 and any "fair value" differences might be considered as minor due to the ongoing economic
4 conditions in Arizona.

5 Recommendation No. 1.1. It is recommended that AAWC, in its "next" rate case for the
6 consolidated divisions, include an in-depth analysis for any "fair value" differences between the
7 Company's divisions in the 2007 and 2008 test years. If any inequities result from this analysis, then
8 they must be cured in this next rate case.

9
10 **Response No. 1.2: Cost differences between two test years.**

11 RUCO indicated that Decision No. 71410 approved weighted cost of capital, equity, and debt in
12 the Last Rate Case and will need to make similar approvals in this case (Jerich 10:6-10). Also,
13 several operating adjustments in Decision No. 71410 for these districts were included

14 Recommendation No. 1.2. From a Rate Consolidation view, Commission approval of cost of
15 capital, equity, and debt and operating adjustments for all the districts in the Last Rate Case needs to
16 be included with those districts in the ongoing rate case.

17
18 (2) "Inability to design consolidated rates that provide a "revenue neutral change to the
19 rate design of all the company's water districts..." (Jerich, 3:19-20, 11:116-12:12)

20 **Response No. 2: Revenue Neutral.**

21 RUCO asserts that Decision No. 71410 requires the Commission to consider "a revenue
22 neutral change to rate design of all the Company's water districts or other appropriate proposals...
23 may be considered." (Jerich, 11:20-21). I read this differently, in that the "revenue neutral change" is
24 the "total revenue" requirement for the Company to operate must remain the same, e.g., "revenue
25 neutral" and not that for each district. Obviously, as pointed out by RUCO, if "revenue neutral"
26 pertained to each district, then rate consolidation would be impossible.

27 Recommendation No. 2. No action.

28 (3) Strong opposition against rate consolidation by customers who would have to
29 subsidize rates of ratepayers in other districts. (Jerich, 4:1-2; 12:14-13:3)

30 **Response No. 3: Strong Sun City Opposition.**

31 RUCO indicated that Sun City opposition has been very strong in this case; however, much of
32 these comments are based on misleading and information that has been changed. Reducing the
33 impacts on Sun City Residents by this "one time" Rate Consolidation adjustment was a key factor in
34 determining the proposed Magruder Rate Consolidation and Rate Structures that show an overall
35

1 decrease of 4% for Sun City residential customers. (Magruder Table 6 at 24) Unfortunately, this
2 information has not been publicized and if so, such opposition should be greatly decreased.

3 Recommendation No. 3. No action.

4
5 (4) Lack of interest in rate consolidation by customers who would immediately benefit
6 from rate consolidation. (Jerich, 4:4-5; 13:4-20)

7 **Response No. 4: Lack of Interest by Rate Consolidation Beneficiaries.**

8 RUCO comments that only one person during public comments in Anthem supported rate
9 consolidation. Unfortunately, the Company has held public outreach sessions in all districts
10 concerning the issue of Rate Consolidation; however, this issue is a complex concept and hard to
11 understand by the public. In Tubac, all the public comments during the Company's outreach session
12 were supportive of Rate Consolidation. There is no opposition in Tubac other than concerns about
13 impacts by the Tubac Golf and County Club, which are similar to those by similar establishments that
14 this party will address separately.

15 The Anthem concern about cost for Agua Fria wastewater system is a separate issue that
16 needs further explanation by the Company.

17 Recommendation No. 4: No action.

18
19 (5) Stark distortion of price signals that work against the Commission's important goal of
20 water conservation. (Jerich 4:7-8; 14:1-15:12)

21 **Response No. 5.1: Distortion of Price Signals.**

22 RUCO states, "by distorting the price signals, customers no longer will have the incentive to
23 use their water wisely." (Jerich 14:11-12)

24 The proposed Magruder Rate Structures have a basic, life-line, allowance of 4,000 gallons for
25 each residential at \$0.83/1000 gallons or \$3.32 for the First Tier 4,000 gallons plus the monthly
26 service charge. During the last rate case, the Company testified that one person needs about 10
27 gallons a day for sanitary, health and food purposes, or about 300 gallons per month, thus the
28 "lifeline" should provide the basic needs for over 10 people in a household. It also is a very low rate
29 that eliminates any need for "low income" rates and the cost associated with managing low-income
30 customer-billing services. For water consumed in the Second Tier, the rate is \$1.90/1000 gallons;
31 Third Tier at \$2.96/1000 gallons, Fourth Tier at \$4.50/1000 gallons, and Fifth Tier at \$6.00/1000
32 gallons. These are much higher rates for the higher tier consumers who will definitely see the
33 resultant price signals on their monthly bills. Tiers Two through Five rates are also applicable to
34 commercial ratepayers.

35 RUCO asserts that 130 customers in Paradise Valley have average monthly water
consumption of 130,811 gallons. (Jerich 14:17-19) Under the Magruder proposed Rate Schedule, if

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1 they use ¾-inch service, their Service Charge is \$15.00 plus a volumetric charge of \$779.16 or a total
2 \$794.19 per month. This should be a very clear "price signal".

3 The Sun City West average customer at 6,702 gallons would have a Service Charge of
4 \$15.00 plus a volumetric charge of \$4.76 or a total of \$19.76.

5 The Company's rate study for its Anthem customers shows that customers did notice rate
6 increases, and their analysis showed a 5% reduction in water use 12 months after a rate increase.

7 Recommendation No. 5.1. The Commission approve the Magruder Rate Structure if water
8 conservation should be the most significant rate-driver with clear price signals for customers.

9
10 **Response No. 5.2: Different Challenges in different Districts.**

11 RUCO states that different systems have different challenges with water quantity and quality
12 issues (Jerich 14:6-7) This is true but neither water quantity or quality are constants and vary over
13 time, with unexpected or predictable customer cost consequences that can have significant impacts
14 on the cost of service. These issues are everywhere and when a larger number of customers are
15 involved, the impact of these significant costs become "less per ratepayer" due to the larger number
16 of customers. The product is the same for all customers, that is water for consumption or for sewage
17 water disposal. Rate Consolidation is both fair and reasonable.

18 **Q. Should customers who live near a water plant be charged less than those who need
19 more water pipe who live farther away?**

20 **A. Of course the answer is no.**

21 **Q. Should customers in the same district who use pump no. 3 that needs arsenic treatment
22 pay more than his neighbor across the street that is connected to pump no. 1 that does
23 not have any arsenic?**

24 **A. No. "Balkanization" of rates by location is absurd, and not fair or reasonable.**

25 **Q. Should a customer who lives in a district of 100 customers pay 100 times that for a
26 similar customer in another district of 10,000 customers for installing the same piece of
27 infrastructure required equipment?**

28 **A. No. This kind of rate discrimination is neither fair nor reasonable.**

29 Recommendation No. 5.2: It is recommended that, to the maximum degree feasible, that
30 water and sewage water rates, respectively, be consolidated because the public interest requires
31 rates to be fair and reasonable.

32
33 **Response No. 5.3: Different Water Delivery Challenges.**

34 RUCO indicated that some water districts have different water delivery challenges due to
35 differences between ground, surface and CAP water resources and some are inside ADWR Active
Management Areas (AMAs). (Jerich 14:21-14:6) These different water sources are the exact reasons

1 why a water-conservation Rate Structure is essential is our desert state that can lose CAP water in
2 2012, has depleting ground water resources, and very limited surface water.

3 Ground water tables are lowering at up to 4-feet a year, ground water is being over-drafted in
4 all AMAs, and "CAP recharge" is inadequate. ADWR will NOT meet the 2025 sustainability
5 expectations of the 1980 Arizona Water statutes. Only the Santa Cruz AMA, which uses surface
6 water, is sustaining its water resources, as I presented in the Last Rate Case. As quoted in Magruder
7 **Exhibit MM-3**, Herb Guenther, Director of the Department of Water Resources stated

8 "[T]he state won't meet a 2025 deadline to reach safe yield – not pumping more than
9 is returned by rainfall and treated effluent – in its groundwater use."¹

10 Recommendation No. 5.3: It is recommended that the Company be ordered to analyze at its
11 short- and long-term cost of potable water based on its source, in particular, for ground, surface and
12 CAP resources, and AMA applicability. This analysis should then be used to develop a water source-
13 oriented Rate Structure that will have the highest cost for ground water, followed by surface water
14 then the least expensive CAP water.

15
16 (6) Lack of a sufficiently attractive public policy reason to deviate from cost of service
17 rate design. (Jerich 4:10-11)

18 **Response No. 6: Public Policy Reasons**

19 First, the policy of ensuring that rates are both fair and reasonable should dominate the
20 design of the rates that is fair to both the Company and the customer. Serious inequalities now exist
21 between customers in various districts for the same service needs resolution. Only by a one-time rate
22 adjustment, as proposed via Rate Consolidation and a revised Rate Structure, can this be achieved.

23 Second, of the three proposals, Staff's Scenarios One, AAWC's Scenarios One, and
24 Magruder's, the fairest and most reasonable proposal is this party's; however, acceptance of the
25 Company's Scenarios One can be agreed. All the Staff's proposals are too shallow and are not, in my
26 opinion, fair nor reasonable.

27 Recommendation No. 6: It is recommended that the Commission accept the Magruder-
28 proposed Rate Consolidations and Rate Structure Design or the Company's proposed Scenarios
29 One.

30 (7) Existence of certain contractual rates for certain ratepayer classes in certain districts
31 makes rate consolidation complex if no impractical. (Jerich, 4:13-14; 15:14-22)

32 **Response No. 7: Some Rate Categories have Contractual Issues that preclude Consolidation.**
33
34
35

¹ *Arizona Daily Star*, editorial "Lower Priority for Water Won't Do", 13 May 2010, page A9.

1 There are several rate categories where consolidation is not recommended by the Company,
2 due to contracts with other entities that would require renegotiation in other venues than during this
3 rate case. The Company requested that these few exceptions, in my estimate, impacting less than
4 5% of the Total Revenue, remain as proposed by the Company.

5 Recommendation No. 7. No action.

6
7 (8) Other RUCO Concerns About Books and Record keeping. (Jerich, 16:1-23)

8 **Response No. 8: Record keeping**

9 RUCO is concerned that rate consolidation “eliminates the need to maintain books for
10 individual systems”. (Jerich, 14:2-3) RUCO then recommends that the Commission still order the
11 Company to maintain “system-specific” bookkeeping. (Jerich 14:16-17

12 Sending price signals to support the Commission’s goal of water conservation was a key
13 driver for the Magruder Rate Structure proposals. His proposed Water Demand Side Management
14 program and Water Leak Management Program, for example, would both use “divisions” for
15 monitoring performance.

16 Recommendation No. 8: It is recommended that the Commission order bookkeeping and
17 performance records be maintained at both the present Division- and consolidated Company-levels
18 for costs and other performance factors for future filings and prudence reviews.

19
20 **2.3 Rebuttal to Anthem Golf and Country Club Direct Testimony by Desi Howe.**

21 In the Anthem Golf and County Club Direct Testimony filing of 3 May 2010, a Direct Testimony
22 on Rate Structure and Rate Consolidation by Desi Howe was received. In general, this testimony is
23 primarily concerned with the rate charged by the Company for non-potable water used for such
24 irrigation. The present and proposed rate structure does not represent the cost of water or induces
25 water conservation. (Howe 2:8-10)

26 **Response: Cost for Non-Potable Water used for Irrigation.**

27 Golf courses have water use limits set by the Arizona Department of Water Resources
28 (ADWR) with punitive penalties if these limits are exceeded. There should be a coordinated approach
29 by ADWR and the Commission for the use of non-potable water used for irrigation. This is beyond the
30 scope of this rate case but needs resolution for application by all golf courses statewide.

31 Recommendation: It is recommended that the Commission and ADWR develop a
32 coordinated approach towards use of non-potable water for golf course irrigation and, in the interim, a
33 “fair and reasonable” approach be determined during this rate case that provides incentives for water
34 conservation when irrigating golf courses balanced with penalties imposed by ADWR when water
35 consumption limitations are exceeded.

1 **2.4 Rebuttal to DMB White Tank, LLC's Direct Testimony by Norman James.**

2 In the DMB White Tank, LLC, filing of 3 May 2010, a Direct Testimony on Rate Design by
3 Norman James was received. In general, this testimony is primarily concerned with the rate charged
4 by the Company for effluent. (James 2:9)

5 **Response: Long-Term Non-Potable Water Rates**

6 This is an important issue with long-term impacts for the future of non-potable water rates in
7 our state. By using incentives for use of various classes of wastewater, water conservation can be
8 enhanced and wastewater reuse encouraged with lower rates for effluent than for untreated CAP
9 water (raw). Unfortunately, the opposite appears to have resulted in Commission Decision No. 71410,
10 as untreated CAP water is more expensive to than effluent. (James 6:23-26) The Company and Mr.
11 James appear to be in agreement as to how to proceed on this critical issue.

12 Recommendation. It is recommended that the Commission determine "fair and reasonable"
13 rates for various classes of wastewater reuse including effluent, untreated (raw) CAP water,
14 untreated (raw) sewage water, and others, as recommended by Mr. James's Testimony. This may
15 have to be accomplished after this case; however, an interim rate for various water reuse options
16 should be in all sewage water cases including this one. This party refers to others for resolution.
17

18 **2.5 Rebuttal to Testimony of Larry Woods, Intervenor.**

19 The Intervenor filing on 3 May 2010, Testimony from Larry D. Woods, Sun City, Arizona, was
20 received. In general, Mr. Woods opposed water and wastewater Rate Consolidations. He provides a
21 partial list from an EPA-NARDC document titled *Consolidated Water Rates: Issues and Practices in*
22 *Single-Tariff Pricing*, of September 1999.² This referenced table is completed in Table 1 below:

23 **Response No. 1: Beneficial Arguments for Rate Consolidation.**

24 As shown in Table 1, Mr. Woods stated that "only the first four aspects relate to this case"
25 where these "first four" as numbered 1 to 4 in the third column. In the second column are the number
26 (out of 21) survey responses that mentioned an argument. It is important to realize that these four
27 arguments, selected by Mr. Woods, omits or does not list other important benefits from Rate
28 Consolidation and Rate Structure design being proposed in this case. He selected four and listed only
29 11 of 17 arguments in favor of Consolidation from the referenced document.

30 In particular, in the Magruder Testimony of 3 May 2010, Tables 1 for Rate Consolidation and
31 Table 3 for Rate Structure Design were presented with a preponderance of rationale for additional
32 benefits than the four deemed "applicable" [in bold] by Mr. Woods for this ongoing rate case. Without
33

34 ² Joint Publication of the U.S. Environmental Protection Agency and the National Association of Regulatory
35 Utility Commissioners, www.epa.gov/safewater/utilities/stptitle.pdf and as Exhibit A to Jodi Jerich Rate
Consolidation Testimony of 3 May 2010, Summary, page viii.

repeating my Testimony, Mr. Woods' short list of beneficial arguments is inadequate as all of these arguments can be made to support Rate Consolidation and Rate Structure Designs in this case. He also missed the significant benefit in my Testimony that future rate changes will be smaller and less volatile to accommodate major infrastructure changes that are necessary for the older water districts, such as will exist in the near term for Sun City.

Recommendation No. 1: No action.

Table 1 – Arguments in Favor of Single-Tariff Pricing

Arguments in Favor of Single-Tariff Pricing	See Note	Priority on Woods List
Mitigates rate shock to utility customers	17	1-applicable
Lowers administrative costs to utilities	16	4-applicable
Provides incentives for utility regionalization and consolidation	15	5-not applicable
Physical interconnection is not considered a prerequisite	13	Not included
Addresses small-system viability issues	13	8-not applicable
Improves service affordability for customers	12	7-not applicable
Provides ratemaking treatment similar to that for other utilities	10	3-applicable
Facilitates compliance with drinking water standards	9	9-not applicable
Overall benefits outweigh overall costs	9	Not included
Promotes universal service for utility customers	8	6-not applicable
Lowers administrative cost to the commission	8	2-applicable
Promotes ratepayer equity on a regional basis	6	Not included
Encourages investment in water supply infrastructure	5	Not included
Promotes regional economic development	3	10-not applicable
Encourages further private involvement in the water sector	2	11-not applicable
Can be consistent with cost-of-service principles	1	Not included
Found to be in the public interest	1	Not included
Total number of survey responses	148	

Note: Represents the number of mentions out of 21 applicable Public Utility Commission survey responses.

Response No. 2: Negative Arguments for Rate Consolidation.

As shown in Table 2 below, Mr. Woods stated that all of the negative arguments in his list were applicable for this case. He selected 13 of 16 negative arguments from the referenced document. His arguments (Woods 4:7-10) against Rate Consolidation and Rate Structure Design indicate that there will be less incentive to conserve if rates are lowered. The Magruder Rate Structure proposed in his Testimony will either make lots of money for the Company if water conservation is not observed by customers or groups of customers but specifically the much higher price signals will be clear, as shown in the Company's Anthem Report. The proposed Magruder Water Demand Side Management programs with Water Leak Management are to be designed to improve water efficiency and use for all the Company's customers.

It should also be noted that there were a total of 148 responses for Rate Consolidation and only 84 responses against.

1 Recommendation: No action.

2 **Table 2 – Arguments Against Single-Tariff Pricing**

Arguments in Against of Single-Tariff Pricing	See Note	Priority on Woods List
Conflicts with cost-of-service principles	14	6-applicable
Provides subsidies to high-cost customers	12	1-applicable
Not acceptable to all affected customers	10	Not included
Considered inappropriate without physical interconnection	8	11-applicable
Distorts price signals to customers	7	2-applicable
Fails to account for variations in customer contributions	6	8-applicable
Justification has not been adequate in a specific case (s)	6	12-applicable
Discourages efficient water use and conservation	4	3-applicable
Encourages growth and development in high cost areas	4	4-applicable
Undermines economic efficiency	3	5-applicable
Provides unnecessary incentives to utilities	3	9-applicable
Not acceptable to other agencies or governments	2	Not included
Insufficient statutory or regulatory basis or precedents	2	13-applicable
Overall costs outweigh overall benefits	2	Not included
Encourages overinvestment in infrastructure	1	7-applicable
Total number of survey responses	84	
Note: Represents the number of mentions out of 21 applicable Public Utility Commission survey responses.		

17
18 **2.6 Rebuttal to the Testimony of W. R. Hansen, Intervenor.**

19 The Intervenor filing of Consolidation & Rate Impact from W. R. Hansen, Sun City West,
20 Arizona, was received. In general, Mr. Hansen opposes Rate Consolidations.

21 **Response No. 1: Rate Consolidation Assists some Districts.**

22 Mr. Hansen states that Rate Consolidation “assists some districts in short-term stained
23 circumstances at the expense of hurting others.” (Hansen A:14-23) He then quotes from Decision
24 No. 71410 that the Company has stated the rates for Sun City and Mohave

25 “would increase significantly, (136% & 37.22%) and that the short term beneficiaries
26 would be Anthem water (-47.74%) and Tubac (-47.13%) and Havasu (-42.90%) with
27 the only largely unaffected area being Paradise Valley.” (Hansen A:19-22)

28 This quote is prior to Consolidation and Rate Structure Design actions in Phase II and prior to
29 the Company providing its model. The Magruder proposal has significantly different results.

	<u>Residential</u>	<u>Commercial</u>
Sun City	decrease 4%	increase 22%
Sun City West	decrease 21%	decrease 3%
Agua Fria	decrease 8%	increase 5%
Anthem	decrease 5%	increase 15%
Tubac	decrease 3%	decrease 10%
Mohave	increase 2%	increase 17%
Havasu	decrease 8%	insignificant
Paradise Valley	increase 32%	increase 29%
Total	Decrease 3%	Increase 13%

30 Rebuttal Testimony of Marshall Magruder to Rate Structure and Rate Consolidation Testimonies and Rebuttals
31 with an Errata to the Marshall Magruder’s Direct Testimony
32 Docket Nos. W-01303A-09-0343 and SW-01303A-090343

1 Recommendation No. 1: No action.

2
3 **Response No. 2: Increased levels of Service are not guaranteed.**

4 Mr. Hansen states

5 “[T]he increase level of service is not guaranteed where the invested capital of one
6 community is confiscated in order to enhance the service level of another district.
7 Meanwhile, the benefactor district enjoys no gain in service level but is inflicted with a
8 higher rate extracted for the sole purpose of benefiting another district.” (Hansen A:27-
9 B:5)

10 All communities have to invest in their infrastructure and this is not a steady function. It has a
11 high initial startup capital cost, lower initial operational and maintenance costs that increase with
12 age, then re-investment starts with high capital costs. All systems go through this cycle; with peaks
13 and valleys (commonly called rate shock) for major system costs. The Company invests its capital to
14 meet the service requirements and when consolidated, these “peaks and valleys” will be smoother
15 for all customers. There is no “welfare” system involved as the Commission is required to ensure all
16 capital investments are prudent and that infrastructure is both “used and useful” during rate cases.

17 Recommendation No. 2. No action.

18 **Response No. 3: Incentives for Inefficient or Capital-troubled districts.**

19 Mr. Hansen states

20 “[Rate Consolidation] incentives any inefficient or capital-troubled district to seek to join
21 an existing consolidated amalgamation of water districts for the purpose of transferring,
22 or subsequently lessening the burden of its ratepayers while imposing an economic
23 burden on members of the consolidated group. (Hansen B:6-11)

24 Mr. Hansen seems to forget that there is one company that owns all these water districts and any
25 responsible company (and AAWC has had no negative complaints in this area) will not let any district
26 be inefficient or not prudent is its expenditures. The Company has ownership, as no Districts are
27 owners, but each district is a work element of an integrated company. The Company can't bail out
28 itself.

29 Recommendation No. 3: No action.

30 **Response No. 4: Trolling for disadvantaged Districts.**

31 Mr. Hansen states

32 “[Rate Consolidation] likewise incentives corporate bodies to troll for such
33 disadvantaged districts...recognizing that a utility commission that has initially
34 embraced the rate payer welfare system will subsequently welcome any troubled
35 sojourner.” (Hansen B:12-15)

 This comment has no validity or basis, especially when considering Tables 1 and 2 in this Rebuttal.

Recommendation No. 4. No action.

1 **Response No. 5: Interconnection for water districts.**

2 Mr. Hansen states

3 "[C]onsolidation is usually resonated for the electric & gas utility camps where
4 "interconnection" is more plausible and economically rational. Water district are
5 traditionally independent. To pursue interconnection, as a service benefit, within
6 Arizona American could easily approximate over 892 miles of heavy piping making it
7 astronomical economic implausibility." (Hansen B:16-21)

8 My Testimony herein and during the Last Rate Case evidence was presented by this party using the
9 Company's witness that no interconnections are necessary for the benefits of consolidation of rates.
10 In my electric company's last rate case, residential and small business rates were consolidated
11 between two "districts" in Santa Cruz and Mohave Counties, obviously not interconnected. For the
12 last half-century small businesses in Nogales paid over 8% higher electric rates compared to those
13 in Mohave County, obviously a violation of "fair and reasonable" rates for identical services without
14 any interconnection.

15 Recommendation No. 5. No action.

16 **Response No. 6: Lack of Homogeneous Character in 426 water districts.**

17 Mr. Hansen states

18 "As one reviews that Water Infrastructure Finance Authority of Arizona's 2008 survey of
19 the states' 426 water districts and 133 wastewater districts, you can quickly focus on
20 the extreme lack of homogenous characteristics among these districts. (Hansen B:22-
21 C:8)

22 This party concurs with this statement. Obviously, there are maybe by an order of magnitude too
23 many water and wastewater districts to operate efficiently in our State. Only through consolidation
24 will the "mom and pop" water companies be absorbed, run more efficiently, to benefit all citizens.
25 This AAWC case should be the first of a series of consolidations that will make significant
26 improvements, outlined in Table 1 above or in Tables 1 and 3 of my Testimony.

27 Recommendation No. 6. No action.

28 **Response No. 7: Discrimination in Rates.**

29 Mr. Hansen claims, "that consolidation would constitute "discrimination" against a district
30 adversely impacted in order to benefit another district." (Hansen C8-25) He also quotes from the
31 Arizona Constitution Article 15, Sec. 12,

32 "All charges made for services rendered, or to be rendered, by public service
33 corporations within this state shall be just and reasonable, and no discrimination in
34 charges, service, or facilities shall be made between persons or places for a like
35 and contemporaneous service." (Hansen C10-21, emphasis added)

Finally, we are in total agreement on this issue. Since all water is required to be alike and
meet the same standard and that service should be the same for all customers, then the same just

1 and reasonable rates should not discriminate between persons or places. Only by meeting this
2 charge, by having the same rates for the same service, can the Commission meet this explicit
3 Constitutional requirement. Having separate rates for the same service is neither just nor reasonable
4 and is clearly discriminatory and in violation of the state's Constitution. Unfortunately, this is my
5 opinion and only a legal opinion can make this a fact.

6 Recommendation No. 7: No action.

7
8 **2.7 Rebuttal to the Resorts Direct Testimony of John Thornton.**

9 The Camelback Inn and Sanctuary on Camelback Mountain, collectively "the Resorts", Direct
10 Testimony by John S. Thornton, filing on Rate Design and Rate Consolidation of 3 May 2010 was
11 received. In general, Mr. Thornton Testimony is concerned about establishment of a Resort Class of
12 service with realistic tiers and breakpoints.

13
14 **Response No. 1: Rate Structures do not support Commercial tariffs applicable to Resorts.**

15 The existing Commercial service charges, shown in Exhibit JST-2 in the Paradise Valley
16 Water District (PVWD), are proposed by both the Company and Staff consolidated rates to
17 decrease. Further, the commodity charges have four tiers under the Company's proposal but only
18 two tiers by the Staff's. Further, the breakpoints are not near the consumption rates used by the
19 Resorts and result in an approximately 55% increase in water bills while the Company's proposal for
20 PVWD only increased by about 10.1 percent. (Thornton 2:7-3:25; Exhibit JST-2) There are other
21 "resorts" in the total consolidated Company, such as the Anthem Golf and Country Club and the
22 Tubac Golf and County Club, all with similar characteristics. The Resorts and others could be
23 combined into one rate category under Rate Consolidation, with a Rate Structure design applicable
24 for these unique operational facilities. The Resorts recommends that such a rate category either be
25 excluded from the ongoing Rate Consolidation, similar to other excluded rate categories, or a unique
26 Rate Category be developed that would reflect the anticipated 10.1% rate increase anticipated for
27 the PVWD under consolidation proposed by the Company. The Magruder proposal has a higher
28 overall commercial rate increase for PVWD of 29%. (Magruder Testimony Table 6 at 25). The
29 Resorts has proposed a rate tariff for a Resort Class in Exhibit JST-14; however, it only has two tiers
30 when four or five tiers would be necessary to give realistic breakpoints for larger/smaller Resort
31 Class establishments.

32 Recommendation No. 1: It is recommended that the Commission either exclude "the
33 Resorts" and other such commercial enterprises from the commercial rate structure or establish an
34 interim consolidated Resort Class (such as in Exhibit JST-14) while a study is conducted by the
35

1 Company to design an appropriate rate structure for these organizations. Also, see
2 Recommendation No. 2 below.

3
4 **Response No. 2: Rewards for Water Consumption Decreases.**

5 The Testimony by the Resorts contains impressive results of a serious water conservation
6 programs implemented at the Resorts. (Thornton 12:16-22:9; Exhibits JST-4 to JST-10) Based on
7 this data and prior progress, the Resorts consumption rates should account for the progress already
8 made and documented by the Resorts, such as shown by the declining consumption trend in Exhibit
9 JST-6. This prior performance should be considered when adjusting rates to account for prior
10 effective water conservation programs implemented. It might be realistic for a 25-50% decrease in
11 volumetric rates to be allowed.

12 Recommendation No. 2: It is recommended that the Commission order the Company
13 propose a WDSM program specifically targeted for "resorts" whereby a certain percentage decrease
14 in the volumetric charge is allowed based on a verified performance-oriented water conservation
15 program. Further, a trend from prior water consumption rates up to ten years prior should be allowed
16 when determining the starting point for such an initial decrease in volumetric charges.

17
18 **Response No. 3: Cross-Subsidization.**

19 Testimony by the Resorts indicates a concern about cross-subsidization of profits from one
20 water system to support another. (Thornton 9:2-11:21) As summarized in the table on page 11 of his
21 testimony, the commercial consolidated rates in the PVWD increase by about ten times that for the
22 rate increase for residential customers. Under the Magruder rate consolidation proposal, PVWD
23 residential customers could see a 32% rate increase while commercial see a 29% rate increase.
24 (These also are the highest Magruder-proposed Consolidated Rate increases). These are primarily
25 due to the much higher consumption rates in the PVWD than any other and it is the higher rates for
26 higher tiers. If the Magruder proposal is adopted, then the argument by the Resorts on this issue
27 about cross-subsidization within the PVWD becomes mute.

28 Recommendation No. 3: No action.

29
30 **2.8 Rebuttal to the Town of Paradise Valley Direct Testimony of James Bacon.**

31 The Town of Paradise Valley filing by James C. Bacon, Town Manager, on water district or
32 Rate Consolidation of 3 May 2010 was received. In general, Mr. Bacon's Testimony opposes district
33 or Rate Consolidation because the "Town does not find a basis to support consolidation based on
34 public policy goals, public safety rationales, comparisons with other regulated utilities, or purported
35 foreseeable benefits." (Bacon 3:5-10)

1
2 **Response No. 1: Town does not support rate consolidation and/or system interconnection.**

3 Mr. Bacon states:

4 "The Town Council does not believe there is any purpose for consolidating or system
5 interconnections the Paradise Valley Water District with other Arizona-American Water
6 Districts at this time." (Bacon 6:11-15)

7 Throughout these proceedings there have been no plans presented to interconnect any of
8 the Company's water districts, and testimony presented in the Last Rate Case indicated that such
9 interconnections are an immaterial factor when consolidating rates. This party and others have not
10 presented any proposals for Rate Consolidation to interconnect water systems.

11 Recommendation No. 1: No action.

12 **Response No. 2: Public Policy Goals.**

13 Mr. Bacon states:

14 "Public policy goals that can purposely be achieved by rate consolidation, such as
15 increased water conservation by means of "increasing" block tariffs and encouraging a
16 switch from use of groundwater to use of surface water, can be pursued in the
17 individual rate districts and do not need consolidated water districts in order to be
18 advanced." (Bacon 7:1-7)

19 Water conservation is critical for the State of Arizona, not just for any one water district. The
20 most effective means for reducing water consumption is to ensure that "free" water costs more
21 when used in excessive amounts. The Paradise Valley district has more than twice the
22 consumption of any other district. Since water is common product, there should be no difference in
23 its costs based on location, as required by the Arizona Constitution Article 15 Section 12, *op cite*.
24 With consolidated or common rates for ALL customers, we will see higher monthly bills for those
25 who live in Paradise Valley than in any other water district, based on this higher consumption. Thus,
26 fair and reasonable "rates" may require higher bills for customers in this district. It is the public
27 policy of the Corporation Commission and many other agencies to conserve water in our state, due
28 to limited and ever decreasing water resources, thus having one set of rates for all of this
29 Company's customers is equitable.

30 Recommendation No. 2. No action.

31 **Response No. 3: APS is a historical example of how rate consolidation should work.**

32 This party has not seen any citations concerning APS in this case concerning rate
33 consolidation; however, the comment that there is no "grid" for water systems is valid for balancing
34 or optimization. Again, there is no push by the Company or in any water district to interconnect any
35

1 water districts. Two intervenors, one from Sun City and the other from Sun City West both oppose
2 any interconnection between their systems. (Bacon 7:8-18)

3 Recommendation No. 3. No action.
4

5 **Response No. 4: Rate Consolidation benefits the Company and Commission, not Customers.**

6 Mr. Bacon seems to not understand the benefits for customers found in Table 1 of this
7 Rebuttal and in Tables 1 and 3 of the Magruder Testimony. As stated in prior recommendations
8 herein, records and bookkeeping will remain at the district-level so "visibility" can be maintained for
9 local customers. The allocation of total revenue requirements for the Company to customers will be
10 equal, based on rate class and category. Allocation of smaller pockets by district has and will
11 continue to lead to peaks and valleys in rates while consolidation will lead to smoother, less
12 changes in rates that will have less impacts than the significant differences in rates for the same
13 product. Paradise Valley has some of the lowest rates and also uses the highest per person water
14 consumption that depletes this valuable natural resource.

15 Recommendation No. 4: No action.
16

17 **Response No. 5: Public Safety Improvements to share costs between districts.**

18 Mr. Bacon seems to believe that only smaller water districts have high capital costs;
19 however, all water districts have similar costs to delivery safe water to their customers. A Company-
20 wide water testing and treatment program, using economies of scale, is vastly superior to
21 establishing a dozen or so independent and non-integrated testing and treatment organizations. All
22 benefit by consolidation by having more to work with that leads to more cooperation and
23 collaboration with mutual customer benefits. This year arsenic is an issue; will pharmaceutical
24 pollution be an issue next year that will require significant capital expenses? In my water district,
25 we were told that we needed a \$2,300,000 arsenic treatment plant for our 542 customers (or \$4,236
26 per customer). We first investigated less expensive options (in Bangladesh, there is an arsenic
27 treatment system for less than \$2/month/customer) and delayed this cost several years. Next we
28 obtained a low interest loan, with Commission support, from the Arizona Water Infrastructure
29 Finance Agency, then a stimulus grant for \$1,000,000. We worked with the Company and found
30 lower construction and equipment costs could be obtained. In the final analysis, we reduced the
31 burden to less than \$500,000, as a community effort. We would still do this, even after
32 consolidation, because there is no reason to have anything cost more than it is worth.

33 In my last electric rate case, after 50-years, I got residential and small business rates
34 consolidated between Santa Cruz and Mohave Counties, obviously not contiguous. Businesses in
35 Nogales now have 8% lower electric rates but both counties finally have the same rates for all rate

1 classes and categories. An \$80 million power plant was recently constructed in Mohave County that
2 will never serve my county but I will pay an equal share. Should I complain? No, because a few
3 years earlier, we added a \$20 million gas turbine in Nogales that Mohave County is also paying
4 their equal share. We are planning a \$40 million transmission line from Tucson to Nogales, that
5 those in Mohave County will also pay their equal share. Should we all complain about unequal
6 costs? No, as EVERY utility has significant asymmetric costs that can be planned but many, such
7 as a failed or polluted water well, need urgent and costly replacements. I could complain all day
8 about the inequality between Santa Cruz and Mohave Counties, but it is useless since their new
9 cost this year might be mine next year. This "attitude" should also prevail with water customers as it
10 does with other utility customers.

11 Recommendation No. 5: No action.

12
13 **Response No. 6: Rate Consolidation Leads to a Loss of Accountability by the Company.**

14 Mr. Bacon states:

15 "Rate consolidation can lead to a loss of accountability by Arizona-American over the
16 necessity or merit of making certain capital improvements in each of the water districts.
17 Capital expenditures that may receive a rigorous examination by the ratepayers when
18 made in one water district will not appear to have a substantial rate impact when
19 spread over a much larger rate-payer base; thus leading to a less thorough
20 examination of such capital expenditures." (Bacon 9:10-17)

21 This comment needs to understand that the Commission reviews all capital expenditures
22 during rate case prudence reviews. Further, each capital expense has to be shown to be "used and
23 useful" during this process. As indicated earlier, records and bookkeeping should remain at the water
24 district level in order to monitor and conduct audits a "connected" system. The size difference
25 between water districts should have no impact or a "less thorough examination" of capital expenses.

26 Recommendation No. 6: No action.

27 **2.9 Rebuttal to the Anthem Community Direct Testimony of Dan Neidlinger.**

28 The Anthem Community Direct Testimony by Dan L. Neidlinger, filing on Rate Design and
29 Consolidation of 3 May 2010 was received. In general, Mr. Neidlinger Testimony supports Rate
30 Consolidation when compared to Stand-Alone rates.

31
32 **Response No. 1: Rate Consolidation Benefits ALL water and wastewater districts.**

33 Mr. Neidlinger states:

34 "the merits of rate consolidation significantly outweigh any adverse consequences of a
35 rate consolidation process. To achieve the benefits of consolidation, however, all of the
Company's water and wastewater districts should be included in the consolidation. The

1 partial consolidation alternatives presented by Staff do not provide any meaningful
2 improvement over the current stand-alone system.” (Neidlinger 5:3-13)

3 He continues and then recommends that the Anthem and Agua Fria Wastewater districts be
4 de-consolidated if Rate Consolidation as stand-alone districts is not approved.

5 Recommendation No. 1: The Commission should consolidate all water and wastewater
6 districts and if not, then de-consolidate the Anthem and Agua Fria Wastewater districts.
7

8 **Response No. 2: Rate Consolidation provides seven Major Benefits.**

9 Mr. Neidlinger states:

10 “Rate consolidation provides the following major benefits:

- 11 1. Lower administrative costs through unified customer accounting and billing
12 system;
- 13 2. Reduction in rate cases and associated rate case expenses incurred by the
14 Company, Staff, RUCO, and other intervenors;
- 15 3. Elimination of distorted cost allocations among districts in rate filings – those cost
16 imbalances abound in this case as discussed in my direct testimony on revenue
17 requirements;
- 18 4. The implementation of standard customer service policies and related service
19 rates and charges;
- 20 5. Improved rate stability and elimination of rate shock – an issue confronting
21 Anthem customers in this case;
- 22 6. Reduced customer confusion with respect to differing rate schedules under one
23 Company umbrella; and
- 24 7. The development and implementation of a targeted and comprehensive water
25 conservation program for all of its systems.

26 “Mr. Marshall Magruder, an intervenor in this case, lists 22 rate consolidation benefits
27 on Table 1, Page 12 of his early-filed rate design and rate consolidation testimony. His
28 list incorporates many of the benefits listed above as well as others that deserve some
29 consideration.” (Neidlinger 5:15-6:4)

30 There appears to be close agreement with these benefits by Mr. Neidlinger and myself. He
31 also supports Magruder Issue No. 4. “Proposed Consolidation of Fees and Miscellaneous Charges”
32 (Magruder Testimony pages 31:33-33:4) under his fourth point and Magruder Issue No. 5, “Proposed
33 Consolidated Rules and Regulations (Magruder Testimony 33:5-17) under this point as “standard
34 customer service policies”.

35 Recommendation No. 2. The Commission support consolidation of fees and miscellaneous
charges into one schedule and consolidated Rules and Regulations for customer service policies.

Response No. 3: The Company supports Rate Consolidation.

Mr. Neidlinger states:

“The direct testimonies of Company witness Thomas Broderick [pages 15 through 19]
and Paul G. Townsley (pages 14 through 21) support rate consolidation and discuss in
some detail the beneficial effects of consolidation. Mr. Townsley discussed one

1 additional benefit not listed above that is worthy of comment and support.
2 Consolidation would allow the Company to acquire small water and wastewater
3 systems that are in disrepair and make needed plant improvements without imposing
4 rate shock on their customers." (Neidlinger 6:6-12)

5 These additional benefits should be considered, especially in light of the over 400 water and
6 over 300 wastewater districts throughout the state of Arizona, many of which are poorly operated
7 and have to be taken over by the Commission.

8 Recommendation No. 3: No action.

9 **Response No. 4: Company should submit a Cost Reduction Plan.**

10 Mr. Neidlinger states:

11 "It is incumbent on the Company, in my view, to identify and implement tangible cost
12 reduction benefits attributable to rate consolidation. In that regard, the Commission
13 should require the Company to provide, annually, reports describing the progress on
14 its cost reduction activities in its administrative functions." (Neidlinger 6:14-22)

15 This is important, and similar to benefits are in Magruder Issue No. 6, Proposed Water
16 Demand Side Management Program and Issue No. 7, Proposed Water Loss Incentives and
17 Disincentives (Magruder Testimony 33:19-34:32)

18 Recommendation No. 4. The Commission should require annual reports to include cost
19 reduction benefits attributable to rate consolidation.

20 **Response No. 5: Company should use smaller step increases/decreases in its 3-step plan.**

21 Mr. Neidlinger discussed the Rate Design 3-step process in Ms. Heppenstall's Rebuttal
22 Testimony and feels that smaller percentages should be used as "some very large percentage step
23 increases and decreases that I find are undesirable and unacceptable." (Neidlinger 7:8-10) His
24 approach would be to use an additional step that is more than 3, with either constant dollar or
25 percentage changes for each step.

26 Recommendation No. 5: The Commission should consider implementing more rate steps.
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Section 3 – Errata to Marshall Magruder Direct Testimony of 3 May 2010

3.1 Errata.

In order to correct errors, the following changes should be made to the Marshall Magruder Direct Testimony of 3 May 2010.

1. In the Executive Summary, on page 7, lines 9 to 13, the Mohave Water District was erroneously omitted, the Sun City residential rate decrease should have been 4% instead of 3%, and the total for residential and commercial changes omitted, thus this should read as follows:

	<u>Residential</u>	<u>Commercial</u>
Sun City	decrease 4%	increase 22%
Sun City West	decrease 21%	decrease 3%
Agua Fria	decrease 8%	increase 5%
Anthem	decrease 5%	increase 15%
Tubac	decrease 3%	decrease 10%
Mohave	increase 2%	increase 17%
Havasu	decrease 8%	insignificant
Paradise Valley	increase 32%	increase 29%
Total	Decrease 3%	Increase 13%

2. On page 25, Table 6 erroneously omitted the Mohave Water District and the total for residential and commercial changes omitted, thus Table 6 should now read as

Table 6 – Consolidated Revenue Changes from Present Revenue for Residential and Commercial Rate Classes by Water District

<i>Water District</i>	<i>Residential Revenue</i>	<i>Commercial Revenue</i>
Sun City	Decrease 4%	Increase 22%
Sun City West	Decrease 21%	Decrease 3%
Agua Fria	Decrease 8%	Increase 5%
Anthem	Decrease 5%	Increase 15%
Tubac	Decrease 3%	Decrease 10%
Mohave	Increase 2%	Increase 17%
Havasu	Decrease 8%	Insignificant
Paradise Valley	Increase 32%	Increase 29%
Total Change	Decrease 3%	Increase 13%

Appendix – Magruder Exhibits

Exhibit MM-3.

Arizona Daily Star, editorial, "Lower Priority for Water Won't Do", 13 May 2010, p. A9.

Exhibit MM-4.

Green Valley News & Sun, "No-Irrigation Landscaping is Possible", 25 April 2010, p. C2.

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EXHIBIT MM-3

SERVING TUCSON SINCE 1877

A LEE ENTERPRISES NEWSPAPER

John M. Humenik, PUBLISHER & EDITOR Bobbie Jo Buel, EXECUTIVE EDITOR

Sarah Garrecht Cassen, EDITORIAL WRITER Jane See White, EDITORIAL WRITER David Fitzsimmons, EDITORIAL CARTOONIST

Lower priority for water won't do

OUR VIEW: Closing Tucson's regional Water Resources office will harm area

More disheartening news about Arizona's future: Budget cuts have decimated the state Department of Water Resources, and plans to end overpumping of groundwater won't be completed on deadline.

The department's budget was cut by 58 percent by the GOP-dominated Legislature and Gov. Jan Brewer, the Star's Tony Davis reported on Wednesday. With only 95 of its formerly 225-person staff still employed, it will close its five regional offices, including Tucson's.

If you're thinking, "Oh good. Fewer bureaucrats means fewer impediments to business," think again.

The private sector in Southern Arizona will in fact face more impediments because developers who need permits for water use will be forced to go to Phoenix. Given the much smaller staff to process permits, developers can expect more delays, as well.

Davis quoted a letter written by Sarah Evans, chair of Tucson's water advisory committee, who warned that this would create "a drag on economic development and revitalization of Southern Arizona that will result from inadequate and delayed accessibility."

The department's regulatory efforts also are likely to suffer, Davis reported, so that users may be able to avoid cutting back water use or to slip past the requirement that new developments have a 100-year assured water supply.

Finally, because the Tucson office will be closed, Phoenix officials will be setting water-use rules for Southern Arizona cities, golf courses and businesses.

We believe it is imperative that a state with vast swaths of desert be able to enforce its water rules and, in a reasonable period of time, assure a sustainable water source. Just for starters, if Ari-

zona cannot do these things, businesses aren't going to risk moving here.

The state's massive budget deficits prompted the cuts; Water Resources took the third-largest cut of any state agency.

Paul Senseman, Brewer's spokesman, said the deficits forced Brewer to focus in budgeting on core services — education, health care and prisons.

"I understand how important our Water Resources office is to Southern Arizona," Rep. Vic Williams, R-Tucson, told Davis. "But to put it in front of public safety or the K-12 system, I don't think I'd be willing to do that."

We disagree. There is no question that education, including the state universities, is a vital economic engine. And public health and safety must be a priority as well.

That's why we support Proposition 100, the three-year, 1-cent-per-dollar sales-tax increase that would be funneled into those programs. Please vote "yes" on Tuesday.

But enforceable, sustainable water policies must also be a priority to preserve our state's future.

Arizona's 1980 water law was "the flagship groundwater regulatory law in the country, and we have essentially gutted the system," Steve Weatherspoon, a private water attorney in Tucson, told Davis.

Herb Guenther, director of the Department of Water Resources, said the state won't meet a 2025 deadline to reach safe yield — not pumping more than is returned by rainfall and treated effluent — in its groundwater use. He said there aren't funds to buy water rights owned by farms, which use 74 percent of Arizona's water supplies.

Water planning and regulation of its use should be near the top of Arizona's priorities, not on the chopping block.

No-irrigation landscaping is possible

This is the time that departing winter visitors often ask, "Can my plants survive without being watered until I return?" The answer depends on a number of factors.

GV

Gardeners

MARY KIDNOCKER



What kind of plants? How much water are they accustomed to? Which direction do they face?

Are they in containers or the ground? Are they newly-planted or established?

Are they in a particularly windy area? Do they receive shade during the day?

These questions can all be answered. There are also a number that cannot be answered.

How hot will it be this summer? How much rain will the monsoon season bring? How low will the summer humidity be?

How many sunny days will there be? How many 100-degree days?

A common solution has

been to install a drip irrigation system to handle routine watering, especially when the gardener is absent.

However, there is a trend to move away from this method by beginning to install plants that can survive without automatic watering.

Tucson Landscape Designer Greg Cornman is now concentrating on conversion of elaborate water-using gardens into those that require no drip irrigation.

His theory is that in a few short years, potable water will not be allowed or available for outdoor watering use, so new plants should

be selected to survive with minimal moisture.

Look into the desert and note the variety of plants that grow, flourish, and bloom with only rainfall as a water source.

So is it possible to have a presentable no-drip landscape at home?

One of the biggest challenges is adjusting expectations of how we believe the yard should look.

Without regular irrigation, the yard will resemble the surrounding desert, rather than photographs from a "Home & Garden" type publication.

Do not expect a no-drip garden to always be full of flowers.

Instead, like in the desert, there will be periods of bloom, often coinciding with rainfall; and there will be times of dormancy with little or no color. How vivid your landscape

looks, will depend on the frequency and amount of rainfall plus any hand-watering you choose to do.

With a shovel you can create swales and berms to direct rain water into basins you have made around the plants.

This will slow down runoff and allow the precious rainfall to soak into the ground around the vegetation.

Another trick to no-drip gardening is to start with small plants.

This will give the plant more roots than top growth, thereby making it better able to take in enough water to survive.

Also install plants in early spring or autumn to better avoid immediate drought stress.

Do not ignore the all-important first year after planting. This is when all plants

require periodic watering, especially during the hot, dry summer.

If you will not be here, consider a battery-powered timer set up to temporary above-ground tubing.

This can work until plants become established, after which it can be easily removed.

Plants that best adapt to no irrigation are cacti and succulents.

For example, barrel cactus, saguaro, ocotillo, agave, and prickly pear can be used.

If you don't like thorns, this method of gardening may not be for you.

But remember that cacti are seasonally colorful and prolific bloomers.

Among low-water plants that can flower beautifully are desert marigold, red or yellow chuparosa, desert pineleaf milkweed, desert zinnia, paperflower, verbena

and everyone's springtime favorite, Parry's penstemon. Without a permanent irrigation system, the yard will look a lot like the natural desert.

Go for a drive or a hike, and be sure you would like that look in your landscape.

Check out the potential beauty of native and desert-adapted, low-water-use plants at your local nursery.

Without drip system maintenance, you will save work, inconvenience, and money.

Perhaps most important, think about the water being saved by depending more on rainfall to keep your landscape alive and well. With good planning, it can be done.

Mary Kidnocker is a Master Gardener who lives in Green Valley. Her columns are featured each Sunday.

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