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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- KRISTIN K. MAYES, Chairman**
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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.)

DOCKET NO. W-01303A-09-0343

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 AN ARIZONA CORPORATION, FOR A)
 DETERMINATION OF THE CURRENT FAIR)
 VALUE OF ITS UTILITY PLANT AND)
 PROPERTY AND FOR INCREASES IN ITS)
 RATES AND CHARGES BASED THEREON FOR)
 UTILITY SERVICE BY ITS ANTHEM/AGUA)
 FRIA WASTEWATER DISTRICT, ITS SUN CITY)
 WASTEWATER DISTRICT AND ITS SUN CITY)
 WEST WASTEWATER DISTRICT.)

DOCKET NO. SW-01303A-09-0343

Arizona Corporation Commission
DOCKETED

MAY 18 2010

DOCKETED BY	<i>[Signature]</i>
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**SUMMARY OF DIRECT TESTIMONY
OF DAN L. NEIDLINGER**

STAND-ALONE RATE DESIGN AND RATE CONSOLIDATION

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EXECUTIVE SUMMARY – DIRECT TESTIMONY

Dan L. Neidlinger testifies that:

The Anthem Community Council (“Anthem”) represents over 8,800 of its residents that are water and wastewater customers of Arizona-American Water Company (“AAWC” or “Company”). In connection with AAWC’s application to permanently increase rates for certain of the Company’s water and wastewater districts in Arizona, the Arizona Corporation Commission’s staff (“Staff”) has recommended a stand-alone rate design and AAWC has recommended a consolidated rate design. The focus of my testimony addresses these recommendations.

Stand-Alone Rate Design

I have two objections to Staff’s proposed stand-alone water rate design for the Anthem Water District. First, there is no justification for the extreme tilting of the rate structure which could create significant revenue stability problems for the Company. For instance, for the 5/8” x 3/4” meters, Staff’s recommended rate (i) for the first tier, 0-3,000 gallons, results in an increase from \$1.54 to \$2.00 – or 30%, (ii) for the second tier, 3,001-9,000 gallons, is \$5.00 or 207% greater than the current rate of \$2.41, (iii) for the third tier, usage over 9,000 gallons, is \$7.867 or 255% greater than the current rate of \$3.08. Second, the proposed changes in tier break-points for the larger meter sizes, when coupled with Staff’s proposed 207% and 255% rate increases will increase the bills for many commercial customers to levels that cannot be logically supported. For instance, the water bill for a 2” meter commercial customer using 200,000 gallons would increase 251%. Staff did not prepare a cost of service study for the Anthem Water District to support its rate design revisions, nor did it discuss any non-cost factors that it considered in arriving at its rate proposals.

The current wastewater rate for Anthem/Agua Fria Wastewater District residential customers is comprised of a fixed monthly charge and a commodity charge based on water usage with a 7,000 gallon per month ceiling. Staff’s proposed rate design eliminates the fixed monthly charge and recommends a monthly rate based on average monthly water usage in the months of January through March – a purely commodity rate. This proposed change should not be accepted because it would require Anthem wastewater customers to pay wastewater charges on nonexistent

1 sewerage. Instead, I recommend that residential customers be billed a fixed monthly charge for
2 wastewater services which is a standard ratemaking practice for most wastewater utilities and is
3 consistent with the wastewater rates currently charged to residential customers in the Company's
4 other wastewater districts.

5 Alternatively, in the event that the Commission does not adopt Company-wide consolidated
6 rates in this proceeding, the current fixed/commodity rate structure could be retained with any rate
7 increases applied on an across-the-board basis. Absent water and wastewater cost of service
8 analyses, this across-the-board approach recommended by Company witness Thomas Broderick is
9 the only logical rate adjustment mechanism available and it is preferable to Staff's proposed
10 changes to water and wastewater rate designs that recommend changes without adequate
11 foundation or support.

12 Consolidated Rate Design

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

21 In addition to the benefits articulated by Company witnesses Thomas Broderick and Paul
22 Townsley and by intervenor Marshall Magruder, the major benefits of rate consolidation, include
23 (i) lower administrative costs through unified customer accounting and billing systems; (ii)
24 reduction in rate cases and associated expenses; (iii) elimination of distorted cost allocations
25 among districts in rate filings; (iv) the implementation of standard customer service policies and
26 related service rates and charges; (v) improved rate stability and elimination of rate shock; (vi)
27 reduced customer confusion with respect to the Company's currently differing rate schedules; (vii)

1 the development and implementation of a targeted and comprehensive water conservation program
2 for all of its systems.

3 Company Witness Constance Heppenstall developed a three-step plan for consolidating
4 water and wastewater rates for all of the Company's water and wastewater districts. While I am in
5 general agreement with her approach since it results in the consolidation of all of the Company's
6 systems, her plan produces some very large percentage step increases and decreases that I find
7 undesirable and unacceptable. I suggest an alternative five-step approach that constrains up or
8 down percentage step adjustments to approximately 15% using equal dollar adjustments for each
9 step. Although this plan, which is conceptual at this stage, would admittedly take longer to
10 implement, it would provide for an improved smoothing of year-to-year rate adjustments.

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1 ORIGINAL and fifteen (15) copies of the
2 foregoing filed this 18th day of May, 2010, with:

3 Docket Control
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7 COPY of the foregoing mailed
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