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BEFORE THE ARIZONA CORPORATION



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AZ CORP COMMISSION
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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

JUL 16 2010

DOCKETED BY

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' INITIAL CLOSING BRIEF

The Camelback Inn, Sanctuary on Camelback Mountain, and Intercontinental Montelucia Resort & Spa, collectively (the "Resorts"), through its undersigned counsel, hereby files its closing brief in the above captioned matter.

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I. Effects of AAWC’s Proposed Consolidated Rates on the Resorts.

Under Arizona American Water Company’s (the “Company’s” or “AAWC’s”) Version 4 rate consolidation proposal, the Resorts estimated rate increase would be approximately 32%. (See Resorts’ Notice of Filing Final Schedules, Attachment 2 (“Final Schedules, Attachment 2”). Such an increase would have deleterious effects on the Paradise Valley Water District (PVWD) Resorts who have been excellent conservators of water. (RES-1 at 1-2). Consolidated rates will raise the revenue requirement on the PVWD by about 10 percent, according to Arizona American Water Company’s (“AAWC) rebuttal working papers by comparing AAWC’s rebuttal revenue requirement with current revenues. (RES-1 at 2). Under the Company’s Version 4 rate consolidation proposal, The Camelback Inn’s water bill is expected to rise by about 32 percent; the water bill to the Sanctuary is expected to rise by about 31 percent. (Final Schedules, Attachment 2). These exorbitant increases are far in excess of the 10 percent revenue requirement increase imposed on the PVWD simply because of consolidating rates. (RES-1 at 3).

The average commercial customer in AAWC’s consolidated water districts varies by meter size and is shown below along with the Camelback Inn and Sanctuary resorts average consumption for their mainly used meter sizes:

Meter Size	AAWC Average 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		

(RES-1 at 3-4). The Resorts are not typical commercial customers as the nature of their businesses includes serving the health and safety needs of thousands of people a month.

(RES-1 at 4). The Resorts provide for the health and safety needs for the following number of people per month between guests, employees, and events:

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

(Id.).

The Resorts are unduly harmed by AAWC's Version 4 rate consolidation proposal because although AAWC adopted the Resort's Tier breaks, they increased the commodity charge per thousand gallons, resulting in the significant increases cited above.

II. The Proposed Consolidated Rates Will Violate Rate Spread Relationships Based on Cost-of-Service Models.

During the case, AAWC's proposed consolidated rates did not spread the revenue requirement increase caused by consolidating rates equitably across rate classes in the PVWD. (RES-1 at 9). 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%

(Id.). This unfortunate result in which the commercial class revenue requirement percent increase is almost *ten times* the residential revenue requirement. (Id.).

In addition, according to Bonbright, of his eight criteria for a sound rate structure, the three primary criteria are the following:

- Effectiveness in yielding total revenue requirements under the fair-return standard.
- Fairness of the specific rates in the apportionment of total costs of service among the different consumers.

1
2 ●Efficiency of the rate classes and rate blocks in discouraging wasteful use of
3 service while promoting all justified types and amounts of use:

- 4 a. in the control of the total amounts of service supplied by the company;
5 b. in the control of the relative uses of alternative types of service (on-peak
6 versus off-peak electricity, Pullman travel versus coach travel, single-party telephone
7 service versus service from a multi-party line, etc.).¹

8 (RES-1 at 21-22).

9 The Resorts raised concerns that AAQC's and Staff's system-wide consolidated
10 rate proposals may not meet Bonbright's criteria. (RES-1 at 20). First, the proposals
11 apparently shift revenue requirement from monthly charges to commodity charges. (*Id.*).
12 In the PVWD monthly charges decline even while revenue requirement overall is going
13 up. (*Id.*). This shift to commodity reduces effectiveness in yielding total revenue
14 requirements under the fair-return standard. (*Id.*). Second, there has not been a system-
15 wide (or even PVWD-specific) cost-of-service study in this case so it is unknown whether
16 the proposed rates achieve fairness of the specific rates in the apportionment of total costs
17 of service among the different consumers. (*Id.*). It would appear that the Resorts would be
18 less expensive to serve than a resident though AAWC's and Staff's proposals have
19 common rates between residential and commercial customers. (*Id.*). Third, unnecessarily
20 raising water rates to the Resorts will be economically inefficient because the proposed
21 rates will exceed the costs of providing service in PVWD. (*Id.*). Rather, water rates to the
22 Resorts should promote all justified types and amounts of use that serve our local
23 economy through jobs and tourism revenues. (*Id.*).

24 **III. The Resorts are Engines of Our Local Economy and Deserve Just and**
25 **Reasonable Rates to Protect Jobs.**

26 Traditionally, the Arizona economy has been built on the "four C's": copper,
27 cattle, cotton, and climate. (RES-1 at 19). The climate and our local resorts draw tourism

28 ¹ Phillips, Charles F. Junior; *The Regulation of Public Utilities*, third edition (1993) pages 434-435.

1 dollars from all over the world. (*Id.*). Raising their water bills for no cost-of-service
2 reason will increase their cost basis and they will be less competitive relative to other
3 tourism destinations around the United States. (RES-1 at 19-20). AAWC's proposed
4 consolidated rates impact the PVWD Resorts in the hundreds of thousands of dollars per
5 year and the resort managers have told me that the most likely cost cuts they would
6 consider to offset increased water bills would be in salary expense; i.e. jobs. (RES-1 at
7 20).

8 The total number of resort/hotel visitors estimated for 2008 (the latest available
9 data) was 1,183,146 comprising 6,507,302 room nights, according to the City of
10 Scottsdale Economic Vitality Department report, "The Scottsdale/Paradise Valley
11 Tourism Study —Part II: Visitor Statistics." (RES-1 at 20; see also Exhibit JST-12). Total
12 direct and indirect spending by visitors in Scottsdale in 2008 was approximately 3.6
13 billion dollars and the average Scottsdale/Paradise Valley resort/hotel visitor spends about
14 \$259 per day. (*Id.*). Visitor expenditures in 2008 were estimated at \$193,324,334 in
15 Paradise Valley alone. (*Id.*). Based on the potential effect of the fallout from state Senate
16 Bill 1070, these numbers could decrease significantly.

17 A significant rate increase to Arizona resorts could not come at a more inopportune
18 time. At hearing, the Resorts introduced evidence showing the anticipated effects to the
19 resort industry as a result of the fallout from boycotts associated with opposition to state
20 Senate Bill 1070. (RES-2). Specifically, Scottsdale tourism leaders are uncertain how
21 deeply the city will be hurt by a backlash to Arizona's immigration law. (*Id.*). What is
22 clear is that canceled conventions and vacations will slow Scottsdale's recovery from an
23 unprecedented tourism slump. (*Id.*). Estimates of the impact of the immigration- law
24 boycott place the loss of Arizona hotel and convention business as high as \$90 million
25 over the next five years. (*Id.*). It will never be known how many potential visitors and
26 groups will just cross Arizona off their list without disclosing why they did it. Already,
27 more than a dozen cities, unions and other groups have publicly canceled meetings or
28 prohibited travel to Arizona to protest the immigration law. (*Id.*).

1 **IV. The Resorts Should Be Excluded From Consolidation or Otherwise a**
2 **Resort Class or Commercial Class of Service Should Be Established.**

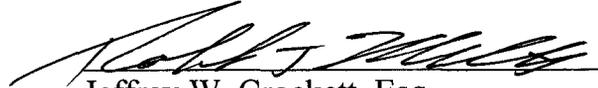
3 Establishing a Resort class of service is appropriate because a limited number (at
4 least four) of resort customers exist out of AAWC's approximate 3,362 AAWC
5 commercial potable water customers across all eight water systems. (RES-1 at 24). In
6 other words, there is no other customer with whom to combine them. (*Id.*). AAWC
7 witness Constance E. Heppenstall testifies in her rebuttal testimony, page 3 at lines 6 to
8 11, that "...certain contracts were due to specific contracts or uniqueness to a specific
9 system or there were no comparable classes in other districts to combine with. (*Id.*).
10 These classes include: C2M3 Arizona Water contract, C5M1 Agua Fria - O W PI
11 Surprise, AM1 Sun City Public Interruptible - Peoria, E7M2 Anthem Wholesale
12 (Phoenix) O W and the apartment classes in Mohave and Havasu. (*Id.*). The rates for
13 these customers would remain stand-alone." (*Id.*). All four resorts are in the PVWD and
14 they are unique to the AAWC systems. Establishing a Resort class of service will result in
15 a sounder rate structure. (*Id.*).

16 **V. Conclusion.**

17 Based on the foregoing, the Resorts oppose rate consolidation. If the Commission
18 is inclined to adopt rate consolidation in this docket, the Resorts' proposal set forth in
19 Final Schedules, Attachment 2, modifies the Company's Version 4 proposal by using
20 commodity rates of \$2.535 and \$3.035 respectively for the first and second commercial
21 tiers (See Final Schedules, Attachment 2). Under Version 4, the Company used
22 residential tiers 3 and 4 for the two commercial tiers. (*Id.*). The Resorts' modified
23 Version 4 uses residential tier rates 2 and 3 for the two commercial tiers (\$2.535 and
24 \$3.035). If modified Version 4 is adopted as proposed by the Resorts, the rate impact on
25 the Resorts would only be 12% (*Id.*).

1 RESPECTFULLY submitted this 16th day of July, 2010.

2 SNELL & WILMER

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11 foregoing have been filed with Docket
12 Control this 16th day of July, 2010

13 A COPY of the foregoing was hand-
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