

W-01303A-09-0343
SW-01303A-09-0343

ORIGINAL



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ARIZONA CORPORATION COMMISS
UTILITY COMPLAINT FORM

Investigator: Guadalupe Ortiz

Phone:

Fax:

Priority: Respond Within Five Days

Opinion No. 2010 88396

Date: 8/3/2010

Complaint Description: 08A Rate Case Items - Opposed
N/A Not Applicable

Complaint By: First: Lynn Last: Vick

Account Name: Lynn Vick Home: (000) 000-0000

Street: n/a Work:

City: Anthem CBR:

State: AZ Zip: 85086 is: E-Mail

Utility Company: Arizona - American Water Company

Division: Water

Contact Name: Contact Phone:

Nature of Complaint:

EMAIL RECEIVED - OPINION OPPOSED - AAWC ANTHEM WATER DISTRICT:

RE: Docket No. W-01303A-09-0343
SW-01303A-09-0343

Arizona Corporation Commission
DOCKETED

AUG 4 2010

DOCKETED BY

From: Valorie Nimmo On Behalf Of Utilities Div - Mailbox
Sent: Tuesday, August 03, 2010 12:12 PM
To: Guadalupe Ortiz
Subject: FW: Anthem Water Rate Case - Docket No. W-01303A-09-0343

From: [mailto:]
Sent: Sunday, August 01, 2010 12:19 PM
To: Mayes-WebEmail; Stump-Web; Pierce-Web; Newman-Web; Kennedy-Web
Cc: Jerich, Jodi; Utilities Div - Mailbox
Subject: Anthem Water Rate Case - Docket No. W-01303A-09-0343

RECEIVED
2010 AUG -4 P 3:56
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Dear Commissioners,

You have a unique opportunity (1) to correct the "wrong" which was inflicted on the Anthem Community by the some of the previous Commissioners at the last water rate hearing for Anthem and (2) to establish a standard for honesty and openness in the rate making process which seems to have been lacking in the past. The Anthem residents were not adequately represented at the previous water rate hearing for Anthem because (1) Pulte still had control of the Anthem Community Council and (2) the attorney allegedly representing Anthem was paid by Pulte and was actually representing the interests of Pulte, not the Anthem residents.

There was a secret financial arrangement between the utility company (now AAWC) and Del Webb/Pulte which required AAWC to make substantial "balloon" payments to Pulte. I am calling this a secret agreement because the buyers of houses in Anthem were not aware of any such agreement until the utility company began

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requesting hugely outrageous rate increases to cover the payments.

It is my understanding that the Arizona Corporation Commission had never agreed that any such "balloon" payments from a utility company to a developer would or should be included in the rates of the utility customers until the last rate hearing for Anthem. I believe the vote was 3 to 2 in favor of including some "balloon" payments in the rates for Anthem at that hearing even though such unusual financial arrangements had never been approved in the past. It is my understanding that current Chairwoman (then Commissioner) Mayes was strongly opposed to the unusual financing arrangement between AAWC and Pulte and voted against including any "balloon" payments in the water rates for Anthem. The inclusion of the "balloon" payments in the Anthem water rates by the three Commissioners who voted for it is the "wrong" that should be corrected. Any "balloon" payments which were included in previous rates should be removed, and the proposed current rates should not include any "balloon" payments made by AAWC to Pulte.

RECOMMENDATIONS:

The amounts of any "balloon" payments made by AAWC to Pulte should be excluded from any Anthem water rates now and in the future.

If there is some logical, rational, and reasonable reason why those "balloon" payments cannot be excluded from the Anthem water rates, those payments should be financed over the remaining life of the assets (estimated 35 to 40 years) as a separate and distinct "special assessment" and not included in the "normal" water/wastewater rates.

There should be no rate consolidation for the water districts serviced by AAWC. Each water district should be responsible for their own costs.

AAWC should maintain accurate records specific to each separate and distinct water district.

The consolidation of the Anthem/Aqua Fria water, wastewater district should be unconsolidated ASAP. The amounts included in the Anthem water (waste water) rates as a result of that consolidation should be refunded to the Anthem residents. The Aqua Fria water/wastewater facilities were never used and useful for the Anthem residents.

Since I am not an attorney, I don't know what the legal obligations and ramifications may be regarding the current Anthem water rate case. I do think that my 74 years of varied life experiences have given me an understanding of what is "reasonable, fair, and just." My opinions on this matter are provided below.

It was not reasonable, fair, and just for major corporations to make secret back room financial deals which have a major impact on unsuspecting third parties who had no knowledge of such financial arrangements. Those financial agreements could or would have a significant negative impact on the unsuspecting third parties (their customers) at some future date (balloon payments paid by AAWC to Pulte).

It was not reasonable, fair, and just for water rates to be increased without adequate representation at the previous water rate hearing for Anthem. At the previous rate hearing for Anthem, the attorney allegedly representing Anthem was paid by Pulte and was actually representing the interests of Pulte, not Anthem residents. In addition, the Anthem Community Council was still controlled by Pulte.

It was not reasonable, fair, and just to consolidate the Anthem /Aqua Fria water (waste water) district and allocate some of those costs to the Anthem residents. The Aqua Fria water district has never been used and useful for Anthem.

It is not reasonable, fair, and just for AAWC to request an approximate doubling of the water rates for Anthem, especially during these troubled economic times when nearly everyone else is cutting back.

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It is not reasonable, fair, and just for AAWC to attempt recover their "balloon" payments to Pulte in a shorter time frame than the life time of the assets for which the payments were made.

Your favorable consideration of the above recommendations will be greatly appreciated. Please take this opportunity to correct the "wrong" inflicted on the Anthem residents in the past, and to establish a standard for honesty and openness in the rate making process.

Sincerely,

Lynn Vick
Anthem, AZ 85086

8/2/10 Email from Customer:

From: [redacted] tj
Sent: Monday, August 02, 2010 1:50 PM
To: Mayes-WebEmail; Stump-Web; Pierce-Web; Newman-Web; Kennedy-Web
Cc: Jerich, Jodi; Utilities Div - Mailbox
Subject: "Balloon" Payments Made to Pulte - Docket No. W-01303A-09-0343

I don't get very good answers from Mr. Broderick.

I don't know how AAWC can justify any rate increase without knowing what their related costs are.

I sincerely hope that the Commission and RUCO get more specific and accurate answers from AAWC than I do.

Lynn

----- Original Message -----
From: T [redacted] m
To: lynnt
Cc: Linda Gutowski
Sent: Monday, August 02, 2010 11:12 AM
Subject: Re: "Balloon" Payments Made to Pulte

Lynn,

We finance with about 39 percent equity and 61 percent debt. We have many outstanding debt issuances and they are listed in schedule D-2 in the case which Linda can send to you.

We do not fund individual assets or refunds with any specific instruments as the financings are fungible.

Tom

From: [redacted]
Sent: 07/28/2010 06:31 PM MST
To: Thomas Broderick
Cc: "Kollings, Jenna" <jkollings@anthemcouncil.com>; "Noblitt, Jack" <jnoblitt@q.com>; "Willis, Utility Committee Chairman Roger" <roger@willis-home.com>
Subject: "Balloon" Payments Made to Pulte

Dear Mr. Broderick,

ARIZONA CORPORATION COMMISSION

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Please provide the following information:

- (1) The amount of each "balloon" payment made by AAWC to Pulte.
- (2) The date each payment was made.
- (3) The method of financing each payment including the term length (number of years) and interest rate.
- (4) When was each payment included in the Anthem water rates.

Thank you.

Lynn Vick
Anthem, AZ 85086

8/3/10 Email from Customer:

From:
Sent: Tuesday, August 03, 2010 9:36 AM
To: Mayes-WebEmail; Stump-Web; Pierce-Web; Newman-Web; Kennedy-Web
Cc: Utilities Div - Mailbox
Subject: Docket No. W-01303A-09-0343 - Anthem Water Rates - AAWC Plant and Equipment Financing

Dear Commissioners,

Could you please clarify my muddled thinking about the cost and financing of the AAWC water plant and equipment for Anthem.

It seems to me that Anthem may be paying for some of those costs 2 or 3 times.

- (1) It is my understanding that some of the costs were probably included in the price of the house which Pulte received but never remitted to the water utility company.
- (2) I would think that the annual depreciation costs for all of the plant and equipment are included in the water rates. It seems to me that this would be a double payment for the costs of the water equipment which were paid to Pulte by the home purchaser but not remitted to the utility company.
- (3) And now AAWC wants to include the costs of the "balloon" payments to Pulte in the water rates. It seems to me that this would be a triple payment for the costs of the water plant and equipment which were paid to Pulte by the home purchaser but not remitted to the utility company, and a double cost for the total amounts of all of the "balloon" payments made by AAWC to Pulte.

It is my understanding that the total amount of all of the "balloon" payments made by AAWC to Pulte was essentially an interest free loan by Pulte to AAWC until the "balloon" payments were made. I can understand that Anthem should pay the annual depreciation costs of the total plant and equipment each year prior to any "balloon" payments. However, there should be no interest costs for the interest free loan by Pulte to AAWC.

When AAWC made the "balloon" payments to Pulte, the water rates should include the AAWC cost of financing those payments, but not the total amount of the payments since that would be covered by the annual depreciation expenses. In addition, the financing of those "balloon" payments should be for the term of the useful life of the plant and equipment for which the "balloon" payments were paid. This would spread the financing and the depreciation costs over the useful life of the plant and equipment. These are the amounts which should be included in the water rates.

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It seems to me that the only expenses which should be included in the water rates for Anthem are:

- (1) The annual depreciation expenses for the Anthem water plant and equipment. These depreciation expenses would be for the useful life of the related plant and equipment.
- (2) The financing cost (interest rate) of the long term debt used to pay for the plant and equipment. This should be amortized over the term of the related plant and equipment for which the financing was made.
- (3) The annual specified rate of return for the equity used to pay for the plant and equipment.
- (4) Variable expenses such as salaries, supplies, etc.
- (5) I don't understand how or why the repayment of an interest free loan would be an expense item which should properly be included in the water rates for Anthem. Any and all "balloon" payments (payments for an interest free loan) made by AAWC to Pulte should be excluded from the Anthem water rates.

If AAWC kept accurate records which are specific and distinct for each of their water districts, these amounts should be relatively straight forward and fairly easy to obtain for each water district. There would be no need for lengthy (months and months) of rate hearings.

Any comments you may have regarding this matter will be appreciated.

Sincerely,

Lynn Vick
Anthem AZ 85086
End of Complaint

Utilities' Response:

Investigator's Comments and Disposition:

Opinion docketed with the Docket Control Center of the Az Corporation Commission to be made part of the record. CLOSED
End of Comments

Date Completed: 8/3/2010

Opinion No. 2010 - 88396
