

**ORIGINAL**



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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

7 Attorney for Intervenor City of Maricopa

**BEFORE THE ARIZONA CORPORATION COMMISSION**

8 KRISTIN K. MAYES  
9 CHAIRMAN

SANDRA D. KENNEDY  
COMMISSIONER

PAUL NEWMAN  
COMMISSIONER

10 GARY PIERCE  
COMMISSIONER

BOB STUMP  
COMMISSIONER

11 **IN THE MATTER OF THE APPLICATION**  
12 **OF GLOBAL WATER – PALO VERDE**  
13 **UTILITIES COMPANY FOR THE**  
14 **ESTABLISHMENT OF JUST AND**  
15 **REASONABLE RATES AND CHARGES**  
16 **FOR UTILITY SERVICE DESIGNED TO**  
17 **REALIZED A REASONABLE RATE OF**  
**RETURN ON THE FAIR VALUE OF ITS**  
**PROPERTY THROUGHOUT THE STATE**  
**OF ARIZONA**

**DOCKET NO. SW-20445A-09-0077**

18 **IN THE MATTER OF THE APPLICATION**  
19 **OF VALENCIA WATER COMPANY –**  
20 **GREATER BUCKEYE DIVISION FOR THE**  
21 **ESTABLISHMENT OF JUST AND**  
22 **REASONABLE RATES AND CHARGES**  
23 **FOR UTILITY SERVICE DESIGNED TO**  
**REALIZE A REASONABLE RATE OF**  
**RETURN ON THE FAIR VALUE OF ITS**  
**PROPERTY THROUGHOUT THE STATE**  
**OF ARIZONA**

**DOCKET NO. W-02451A-09-0078**

24 **IN THE MATTER OF THE APPLICATION**  
25 **OF WILLOW VALLEY WATER CO. FOR**  
26 **THE ESTABLISHMENT OF JUST AND**  
27 **REASONABLE RATES AND CHARGES**  
28 **FOR UTILITY SERVICE DESIGNED TO**  
**REALIZE A REASONABLE RATE OF**  
**RETURN ON THE FAIR VALUE OF TIS**  
**PROPERTY THROUGHOUT THE STATE**  
**OF ARIZONA**

**DOCKET NO. W-01732A-09-0079**

Arizona Corporation Commission

**DOCKETED**

**AUG 4 2010**

DOCKETED BY

1 IN THE MATTER OF THE APPLICATION  
2 GLOBAL WATER – SANTA CRUZ  
3 WATER COMPANY FOR THE  
4 ESTABLISHMENT OF JUST AND  
5 REASONABLE RATES AND CHARGES  
6 FOR UTILITY SERVICE DESIGNED TO  
7 REALIZE A REASONABLE RATE OF  
8 RETURN ON THE FAIR VALUE OF ITS  
9 PROPERTY THROUGHOUT THE STATE  
10 OF ARIZONA

DOCKET NO. W-20446A-09-0080

11 IN THE MATTER OF THE APPLICATION  
12 OF WATER UTILITY OF GREATER  
13 TONOPAH FOR THE ESTABLISHMENT  
14 OF JUST AND REASONABLE RATES AND  
15 CHARGES FOR UTILITY SERVICE  
16 DESIGNED TO REALIZED A  
17 REASONABLE RATE OF RETURN ON  
18 THE FAIR VALUE OF ITS PROPERTY  
19 THROUGHOUT THE STATE OF  
20 ARIZONA

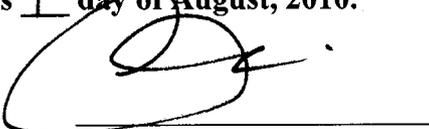
DOCKET NO. W-02450A-09-0081

21 IN THE MATTER OF THE APPLICATION  
22 OF VALENCIA WATER COMPANY –  
23 TOWN DIVISION FOR THE  
24 ESTABLISHMENT OF JUST AND  
25 REASONABLE RATES AND CHARGES  
26 FOR UTILITY SERVICE DESIGNED TO  
27 REALIZED A REASONABLE RATE OF  
28 RETURN ON THE FAIR VALUE OF ITS  
PROPERTY THROUGHOUT THE STATE  
OF ARIZONA

DOCKET NO. W-01212A-09-0082

CITY OF MARICOPA'S EXCEPTIONS  
TO THE RECOMMENDED OPINION  
AND ORDER

RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of August, 2010.

  
\_\_\_\_\_  
Court S. Rich  
Rose Law Group pc

1           **I. Introduction**

2

3           The City of Maricopa is pleased that the Recommended Opinion and Order (the "ROO")

4 issued in the above captioned matter adopts the City's position on the treatment of Infrastructure

5 Coordination and Financing Agreements ("ICFA"). However, the City still believes that the

6 requested increases in utility rates will be devastating to its citizens. The City wishes to

7 underscore that the Applicant stands to collect an unprecedented windfall if the Commission

8 upholds the recommendation for a 545% increase in the rate charged for recycled water. The

9 ROO recommends increasing the rate that approximately 60% of the City's homeowners

10 associations ("HOAs") pay for recycled water from \$0.31 per 1,000 gallons to \$2.00 per 1,000

11 gallons. This 545% increase will be felt by the same rate payers who have protested so

12 vehemently against the Applicant's direct attempts to raise the rates of residential utility

13 customers. This enormous increase to recycled water rates for HOAs acts as a backdoor increase

14 on the residents of Maricopa that must be addressed. The Applicant itself has estimated that up

15 to 40% of all the demand for water in the City is met with recycled water (*See Tr. at 119:24-25*)

16 and increasing the cost of 40% of the water by 554% is a dramatic and destructive measure.

17 These Exceptions ask the Commission to lower the increase to a more reasonable rate , or amend

18 the ROO to delay any consideration of the recycled water rate increase until it can be reviewed in

19 light of a complete and detailed Demand-side Management ("DSM") program to assure that the

20 dramatic increase will not be devastating to the public. lower the increase to a reasonable rate.

21           In addition, the City believes that Commission precedent mandates additional reductions

22 to the rate bases of Palo Verde and Santa Cruz utilities based on the treatment of the ICFA funds

23 as CIAC.

24

25           **II. Analysis**

- 26
- 27           A. Consideration of the recycled water rate must coincide with consideration of the
- 28           Demand-side Management program and consideration of both should be delayed

1 The ROO (at p. 66) concludes that it is preferable if the DSM program come back before  
2 the Commission in six (6) months for further consideration before adoption, however, the ROO  
3 recommends approving today a recycled water rate that is 545% more than the current rate. The  
4 DSM program and the dramatic increase in recycled water rates are inextricably tied together  
5 and should be considered together at a future date. The Applicant routinely mentioned its  
6 proposed 545% increase in charges to users of recycled water in testimony side by side with a  
7 discussion of its DSM program. *See* Rejoinder Testimony of Graham Symmonds at p. 4:26-27.  
8 In fact, the DSM program itself is to be funded entirely out of the revenues generated from the  
9 sale of recycled water at its drastically increased rate. *See*, Symmonds Rebuttal Testimony at  
10 17: 25-27.

11 Given the proposed 545% increase and the interrelation between DSM and the recycled  
12 water rate, it is important that the DSM Program be fully vetted prior to approval of the  
13 corresponding recycled water rate increase. In Mr. Symmonds' Rejoinder Testimony he explains  
14 how the 545% recycled water rate increase will not result in a detrimental impact on the City's  
15 HOAs in part because the DSM program has many facets that will reduce water usage. *See*  
16 Symmonds Rejoinder at 4:26-27. In Mr. Symmonds Rebuttal Testimony he also states that the  
17 DSM program is focused on specially benefitting "HOA customers with large usage, who can  
18 benefit from sophisticated irrigation management and appropriate turf replacement...."  
19 Symmonds Rebuttal at 17: 17-19. Yet approving the 545% increase in recycled water rates  
20 today without fully vetting the corresponding and necessary DSM program will result in  
21 increased burdens to the HOAs with no help on the demand side.

22 What if the DSM program is ultimately rejected or modified in six (6) months? Will the  
23 recycled water rate be similarly modified to account for such changes to the proposed plan?  
24 How would HOAs deal with the dramatic increase in costs without the assistance of the DSM  
25 program? If the DSM program can be effective, is there sufficient reason to so dramatically  
26 increase the cost of recycled water to HOAs? All of these questions should be addressed in one  
27 proceeding where additional time can be spent on this detail.  
28

1 While the City of Maricopa was prohibited from introducing evidence in this matter, the  
2 City believes the Commission could benefit from evidence concerning the specific impact of this  
3 rate increase on specific HOAs. The Applicant testified that it only looked generally at the  
4 issues of impact and did not look at specific impacts on specific HOAs. *See* Tr. at 70: 13.  
5 Amending the ROO to extend the time for further consideration of the DSM and the 545%  
6 recycled water rate increase would give the Commission time to look closely at this important  
7 issue.

8 In addition, the proposed DSM program appears to do little to offset the tremendous  
9 negative impact of the 545% increase in recycled water rates. One need look no further than the  
10 Applicant's own testimony to find proof that the proposed DSM program will not adequately  
11 protect HOAs and the citizens who support and fund them from this huge rate increase. The  
12 Applicant suggests that through the DSM program an HOA would be encouraged to transition a  
13 typical five acre turf area to become a five acre xeriscaped area requiring lower water use. *See*  
14 *Symmonds Rebuttal* at 20: 21-22. Based on the Applicant's numbers, these five acres of turf  
15 require 9,775,530 gallons of water annually. *See Id* at 20: 23. At the current rate of \$0.31 per  
16 1,000, watering five acres with recycled water will cost the HOA \$3,030.41 for the year under  
17 today's water rates. If the proposed 545% rate increase were approved then watering the same  
18 five acres would balloon up to a cost of \$19,551.06.

19 When the impacts of xeriscaping and the proposed 545% rate increase are reviewed it  
20 becomes clear that the DSM program coupled with the dramatic rate increase is not going to  
21 mitigate the tremendous damage to the HOAs. Using the Applicant's own numbers it estimates  
22 that the same five acres would consume 2,463,433 annually if converted to xeriscaping through  
23 the DSM program. *See Id* at 20: 24. The 2,463,433 gallons necessary for xeriscaping at the new  
24 rate of \$2.00 per 1,000 result in a cost to the HOA of \$4,926.87 annually. So, with the proposed  
25 545% rate increase and the Applicant's proposed DSM program in place the HOA would end up  
26 losing five acres of useable turf for recreation while paying the Applicant nearly \$2,000 more  
27 annually than it does today to water the five acres of turf. This analysis does not even include  
28 the costs to the HOAs to actually transition from turf to xeriscaping which would no doubt

1 require labor, reworking of irrigation systems, and acquisition of materials such as rocks and  
2 plants.

3 From this brief examination it is clear that at the very least the ROO's drastic 545%  
4 increase in recycled water rates must be delayed until it can be determined that the DSM  
5 adequately mitigates these drastic impacts.

6  
7 B. There is no evidence to support the notion that charging \$2.00 per 1,000 gallons for  
8 recycled water is the appropriate rate to encourage conservation

9  
10 The Commission should grant additional time to consider the recycled water rate along  
11 with the DSM program and this additional time should be used to try and determine if \$2.00 per  
12 1,000 gallons is actually an appropriate rate for recycled water or if it is merely an arbitrary  
13 number. The Applicant offered no evidence to suggest that \$2.00 was anything more than a  
14 number it arbitrarily picked with the idea that it would potentially motivate customers to change  
15 their recycled water habits. Why wouldn't a smaller rate increase work for that purpose or why  
16 wouldn't better education through DSM work without the increase? These questions should be  
17 answered prior to such a huge increase being approved.

18 The Applicant points out that recycled water represents up to 40% of the demand in the  
19 City of Maricopa. *See*, Tr. at 119:24-25. It appears it would be worth figuring out exactly what  
20 price should be charged to discourage careless over-use instead of approving an arbitrary  
21 number.

22  
23 C. The Commission must further reduce the rate bases of Palo Verde and Santa Cruz  
24 utilities to account for the treatment of ICFA funds as CIAC.

25  
26 The ROO comes to the appropriate conclusion regarding the proper treatment of ICFA  
27 funds as CIAC however, the ROO does not fully reduce the Palo Verde and Santa Cruz rate  
28 bases accordingly. The ROO adopts Staff's analysis and concludes that of the \$49,982,522 in

1 ICFA funds collected from developers in the Maricopa area only \$10,991,128 should be reduced  
2 from Palo Verde's rate base and only \$6,600,076 should be reduced from Santa Cruz's rate base.  
3 See ROO at 17: 2-11.

4 Staff suggested that \$32,391,318 of ICFA funds simply be ignored in this case because of  
5 what the ROO characterized as "voluntary rate base reduction" that the Applicant made based  
6 on "excess capacity." See Id. at 18: 1-5. The "voluntary rate base reduction" however, was no  
7 more than the Applicant not seeking to rate base its \$32,391,318 Southwest Plant which is not in  
8 use and clearly is not used and useful. As a result it must be excluded from rate base for  
9 ratemaking purposes whether or not the Applicant volunteers it.

10 Throughout the hearing the Applicant argued that the Southwest Plant was not built with  
11 ICFA funds but instead with funds from Industrial Development Authority Bonds. The  
12 Applicant intends to attempt to rate base the Southwest Plant once it is used and useful which  
13 would leave \$32,391,318 of ICFA money (CIAC per the ROO) without proper treatment. As a  
14 result, the \$32,391,318 in ICFA fees that were collected and that the ROO concludes should be  
15 treated as CIAC must be reduced from the rate bases of Santa Cruz and Palo Verde today to  
16 avoid unfair ratepayer treatment.

17 Using Staff's own allocation of the ICFA money to the two utilities (50.9% to Palo Verde  
18 and 49.1% to Santa Cruz) the rate base adjustments to Palo Verde and Santa Cruz would result  
19 in the following rate bases for the two companies:

21 **Palo Verde** – reduced by an additional \$16,487,180 to a total fair value rate base of  
22 **\$36,826,903**

23 **Santa Cruz**- reduced by an additional \$15,904,137 to a total fair value rate base of  
24 **\$23,251,555**

25  
26 As a result of these changes it is likely that the ROO needs to be revised in numerous  
27 locations and numbers adjusted accordingly. The City of Maricopa supports a continuation of  
28 the matter to give time for the relevant adjustments to be made and a revised ROO to be

1 published. Nevertheless, the City provides suggested language below to make the general  
2 change as required if the Commission wishes to make the change at the hearing.

3  
4 **III. Conclusion**

5  
6 The City of Maricopa respectfully requests that the Commission modify the ROO as  
7 follows to deal with the issues raised above:

8  
9 **Amendment 1: recycled water issue**

10  
11 At page 83 line 20 insert the following language:

12  
13 IT IS FURTHER ORDERED that the current effluent water rate that Palo Verde Utilities  
14 Company charges and the current non-potable water rate that Santa Cruz Water Company  
15 charges shall not change as a result of this Decision and that Palo Verde Utilities Company and  
16 Santa Cruz Water Company shall, within six (6) months of this Decision, file additional  
17 information with the Commission to seek approval of their Demand-side Management Program  
18 at which time the Commission will consider and rule on the requested rate increases for effluent  
19 and non-potable water requested herein.

20  
21 Make conforming changes to Exhibit E and throughout.

22  
23 **Amendment 2: fair value rate base modifications**

24  
25 On page 82 line 24, delete the number \$53,314,803 and replace with \$36,826,903

26  
27 On page 84 line 5 delete the number \$39,155,692 and replace with \$23,251,555

28  
Make other conforming changes throughout.

1 **Original plus 13 copies of the foregoing**  
2 **filed this 4<sup>th</sup> day of August 2010, with:**

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 W. Washington St.  
6 Phoenix, AZ 85007

7 *I hereby certify that I have this day served the foregoing documents on all parties of record in*  
8 *this proceeding by sending a copy via electronic mail to:*

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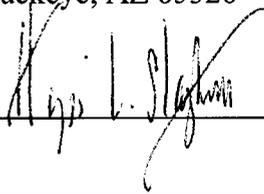
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