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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORP. COMM
400 W CONGRESS STE 218 TUCSON AZ 85704

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR THE 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

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR THE 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 AND ITS SUN CITY WEST WASTE WATER DISTRICT.

Docket Nos. SW-01303A-09-0343

FILING OF THE REPLY BRIEF OF MARSHALL MAGRUDER IN THE RATE CONSOLIDATION AND RATE STRUCTURE (PHASE II)

6 August 2010

Marshall Magruder submits this Reply Brief concerning Rate Consolidation and Rate Structure.

This Brief includes replies to parties Opening Briefs and evidence that support my issues:

- a. Rate Consolidation for all water districts and for all non-exempt rate categories.
- b. Consolidated Rate Structure design.
- c. Rate Consolidation for all wastewater districts.
- d. Consolidation for all "Fees and Miscellaneous Charges".
- e. Consolidation for the Company's "Rules and Regulations".
- f. "Water Demand Side Management (DSM)" programs including Water Loss Management DSM

I certify this filing has been emailed or mailed to the Commission, Company and parties on the Service List. My contact information and addresses are provided below.

Respectfully submitted on this 6th day of August 2010

MARSHALL MAGRUDER

By *Marshall Magruder*

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Arizona Corporation Commission
DOCKETED

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**REPLY BRIEF
OF
MARSHALL MAGRUDER
IN THE RATE CONSOLIDATION AND RATE STRUCTURE
(PHASE II)**

6 August 2010

IN THE MATTER
OF THE APPLICATIONS OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION,

FOR THE 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
(ACC Docket No. W-01303A-09-0343)

AND

FOR THE 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 AND ITS SUN CITY
WEST WASTE WATER DISTRICT
(ACC Docket No. SW-01303A-09-0343)

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1
2 **Brief Summary, Conclusions and Recommendations**

3 This party has proposed Rate Consolidation for all water districts with a new Rate Structure. The
4 consolidated revenue will be slightly less than Target Revenue based on the Company's model.
5 Residential revenue is essentially unchanged and commercial increased by 7%. A water LIFELINE
6 and conservation-oriented Rate Structure are proposed for all customers in all districts.

7 The monthly rate impacts in terms of Dollars and percent for a Median residential user's bill below.

8 **Table ES-1 – Impact of Magruder Consolidated Rates on Median (Mean) Consumption Customers.**

9

Water District	5/8 and 3/4-inch Residential Service			1-inch Residential Service		
	Impact	Dollars	Percent	Impact	Dollars	Percent
10 Agua Fria	Decrease	\$ 1.66	6.25%	Decrease	\$20.94	38.72%
11 Anthem	Decrease	\$33.33	55.56%	Decrease	\$65.91	65.91%
12 Havasu	Decrease	\$13.44	37.46%	Decrease	\$15.93	31.64%
13 Mohave-Bullhead	Increase	\$ 8.56	61.64%	Increase	\$ 9.48	54.90%
14 Mohave-Rio	Increase	\$10.87	65.61%	Increase	\$ 1.04	3.26%
15 Paradise Valley-5/8"	Increase	\$ 0.04	0.11%	Increase	\$54.89	24.12%
16 Paradise Valley-3/4"	Decrease	\$ 2.72	7.22%			
17 Sun City	Increase	\$11.98	77.47%	Decrease	\$ 2.59	6.82%
18 Sun City West	Decrease	\$ 5.46	17.80%	Decrease	\$25.55	42.00%
19 Tubac	Decrease	\$14.96	35.38%	Decrease	\$69.16	67.74%

20 (Note: Of Sun City's \$11.98 increase, \$8.55 is from the rate case + \$3.43 from consolidation)

21 The residential Consolidated Customer Charge is \$14.50 for 5/8 & 3/4-inch services and \$20.00
22 for 1-inch service. Water LIFELINE service for 3,000 gallons is \$17.96 or \$22.96. Consolidated
23 Rates are standard in all rate classes. The volumetric residential and commercial rates, by Tier, are

24 **Tier 1 \$0.98/1000 gallons** (this a water "LIFELINE" rate only for first 3,000 gallons)

25 **Tier 2 \$2.50/1000 gallons** (First Tier for commercial 1.5-inch and larger rate categories)

26 **Tier 3 \$3.00/1000 gallons**

27 **Tier 4 \$3.50/1000 gallons**

28 **Tier 5 \$4.00/1000 gallons.**

29 For residential 5/8-inch through 1-inch rate categories, the Tier breakpoints are at 3,000; 10,000;
30 25,000; and 45,000/55,000 gallons. This is over 90% of the customers. Customer Charge and Tier
31 breakpoints are higher for larger service rate categories.

32 Commercial and other rate classes are higher to reduce a \$1,089,829 revenue shortfall from the
33 recently approved decrease in the non-potable water rate from the Last Rate Case.

34 A five-year phase-in of all rate changes is proposed with the Company's "5 Step" process.

35 Consolidated Wastewater rates, unchanged from the Company's proposal, are accepted.

Consolidated Miscellaneous Charges and Fees and a new meter change fee are proposed.

Consolidated and reader-friendly Rules and Regulations are proposed.

The establishment of Water Demand Side Management (WDSM) programs is proposed
including an incentive-driven Water Loss Management DSM program to reduce water leakage.

All of the above are based on **fair and reasonable** considerations for the Company and
ratepayers, without discrimination based on their location, as required by the Arizona Constitution.

This Reply Brief responds to each Opening Brief, mostly with respect to the Rate Consolidation
issue, and to Rate Structure issues in these Briefs. Unfortunately, it is disappointing to report that
NO Opening Briefs responded to the Rate Structure described above in the Magruder

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2 **Consolidated Rate Schedules for the eight water districts**; however, Opening Briefs by most
3 parties provided positions on Rate Consolidation and some specific proposals for their clients.

4 **Specific Recommendations from the Magruder Opening Brief [with minor modifications]:**

- 5 1. That all Water District rates be consolidated in 5-Steps over a 5-year period.
- 6 2. That a low First Residential Tier, at less than \$1.00/1000 gallons, be created for first 3,000
7 gallons as water LIFELINE for all customers (or \$17.96 for first 3,000 gallons) and that all "low
8 income" programs be cancelled. [*modified*, see 3.4.3 for a new Sun City condo unit program]
- 9 3. That Five Residential and Four Commercial Tiers are used with at least a 4:1 ratio between the
10 Last and First Tier rate with meaningful breakpoints. [*modified*]
- 11 4. That the Magruder Consolidated Rates be considered for implementation, and if not, then the
12 Company's Scenario One, as modified herein. [*modified*]
- 13 5. That all Wastewater District rates be consolidated in 5-Steps over a 5-year period.
- 14 6. That all Miscellaneous Charges and Fees be consolidated into one schedule for all districts and
15 submitted to the Commission within 45 days of approval of this case.
- 16 7. That a new \$500 fee be established for changing a water meter to a smaller size and that a
17 Safety Certification be recorded on the deed for such customers with fire sprinklers and that
18 this process be included with the Consolidated Charges and Fees submission. [*modified*]
- 19 8. That the Company's Rules and Regulations be consolidated and reviewed for readability by a
20 Citizens Advisory Committee (CAC) and submitted to the Commission within 180-days after
21 completion of this case. The approved R&Rs to be published on the Company's website.
- 22 9. That the Company be ordered to provide five or more Water DSM projects, in several Rate
23 Classes including both residential customers and large hotels/resorts and golf courses, with
24 significant incentives by a Water DSM rate adjustment not to exceed 2% within 90 days.
- 25 10. That the Company provide in its composite tariffs including an increasing rates for
26 effluent/non-potable water, then CAP water, and then ground water. [*new*]
- 27 11. That the Company provide a Water Loss Management program as a WDSM program with
28 financial disincentives if leakage exceeds 10% in any district and incentivized when less.
- 29 12. That the Company (a) activate a Citizens Advisory Committee (CAC) with at least one person
30 per small district (less than 5,000 customers) and at least two for larger districts representing
31 different Rate Classes, (b) meet at least semi-annually, (c) establish a regular "Town Hall"
32 schedule, (d) publish a multi-page newsletter as a way to receive customer feedback and
33 review Rules and Regulations, and (d) inform the public of Water DSM programs and ongoing
34 project or company changes that impact customers. [*modified*]
- 35

1
2 **Section 1**

3 **The Issues and the Parties Briefs**

4
5 **1.1 The Issues.**

6 Seven issues were identified for this case. These are as follows:

7 • Issue 1 – **Should Water District Rates be Consolidated?**

8 The Commission Staff, RUCO, Company, Intervenors Woods and Hansen, Anthem
9 Community Council, Town of Paradise Valley, Anthem Golf and Country Club, DMB White Tanks,
10 and Magruder Briefs responded to this issue.

11 • Issue 2 – **Should Rate Structure be Conservation Oriented?**

12 The Commission Staff, RUCO, Company, Intervenors Woods and Hansen, Anthem
13 Community Council, Town of Paradise Valley, and Magruder Briefs responded to this issue. Specific
14 rate classes or categories were in the Anthem Golf and County Club, The Resorts, DMB White Tank
15 and Corte Bella Briefs. There was only one direct comment in these briefs that concerned the
16 Magruder Consolidated Rate Structure.¹

17 • Issue 3 – **Should Wastewater District Rates be Consolidated?**

18 The Commission Staff, RUCO, Company, Intervenors Woods and Hansen, Anthem
19 Community Council, Town of Paradise Valley, and Magruder Briefs responded to this issue.

20 • Issue 4 – **Should All Fees and Miscellaneous Charges be Consolidated?**

21 The Company has responded in its Rebuttal that it has no objections to consolidating fees and
22 miscellaneous charges. No Briefs responded to this issue other than the Magruder Opening Brief.

23 • Issue 5 – **Should the Rules and Regulations be Consolidated?**

24 No other Briefs responded to this issue other than the Magruder Opening Brief. No negative
25 positions were taken on the Magruder recommendations.

26 • Issue 6 – **Should a Water Demand Side Management (DSM) Program be established?**

27 No other Briefs responded to this issue, other than the Magruder Opening Brief. No negative
28 positions were taken on the Magruder recommendations.

29 • Issue 7 – **Should Water Loss be an incentive or disincentive?**

30 No other Briefs responded to this issue, other than the Magruder Opening Brief. No negative
31 positions were taken on the Magruder recommendations.

32 **1.2 Replies to Parties Opening Briefs' in this Reply Brief.**

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35 ¹ Magruder Consolidated Rate Schedules filed 25 June 2010, hereafter "Magruder Consolidated Rates" and the Errata in the Opening Brief of Marshall Magruder in the Rate Consolidation and Rate Structure (Phase II) with Errata to the Marshall Magruder Consolidated Rates and Rate Structure of 28 June 2010 filed 16 July 2010, hereafter "Magruder Opening Brief." The corrected Magruder Consolidated Rates from this 28 June 2010 filing are in Attachment A, herein.

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2 The following are various parties and associated Briefs that this Reply Brief responds:

- 3 a. Staff's Initial Post-Hearing Brief of 16 July 2010, hereafter "Staff Brief"
4 b. RUCO Closing Brief of 16 July 2010, hereafter "RUCO Brief"
5 c. Arizona-American Water Company (AAWC) Post-Hearing Brief of 16 July 2010, hereafter
6 "AAWC Brief"
7 b. Anthem Community Council Brief, hereafter "Anthem Council Brief"
8 c. Larry Woods Final Brief Phase II Rate Consolidation, hereafter "Woods Brief"
9 d. W. R. Hansen Post-Hearings/Opening Briefs of 16 July 2010, hereafter "Hansen Brief"
10 e. Town of Paradise Valley Initial Post-Hearing Brief of 16 July 2010 and Errata filed 19 July
11 2010, hereafter "Paradise Valley Brief"
12 f. Corte Bella's Opening Brief of 16 July 2010, hereafter "Corte Bella Brief"
13 g. DMB White Tank, LLC's Closing Brief of 16 July 2010, hereafter "DMB Brief"
14 h. Anthem Golf and Country Club Testimony of 30 April 2010
15 i. Resorts' Initial Closing Brief of 16 July 2010, hereafter "Resorts Brief"
16

17 **1.3 References.**

18 Due to the inability to have access or to use the Transcripts of the evidentiary hearings
19 because of the self-funded cost of a transcript at \$1.00 per page and the long travel distance to
20 Phoenix to review, the references herein are to the filed documents in this docket that were entered
21 into the record for this case. Whenever a quote is included from another document, such as a Brief, it
22 is referenced in the text block at the end of the quote. Other references are in footnotes.
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Section 2

Replies to Issue 1 - Should Water District Rates Be Consolidated?

In the First Rate Case, the Magruder Testimony and the Company's witness and testimonies provided evidence that supports Rate Consolidation that was incorporated into the Marshall Magruder Direct Testimony,² hereafter, Magruder Testimony, as Exhibit MM-1 and in the Marshall Magruder Rebuttal Testimony.³ Understanding the factors involved in Rate Consolidation were considerations in the Magruder Testimony that were essential to resolving this issue. The guiding principle for rate consolidation used by this party is directly from the words in the Arizona Constitution.

2.1 Arizona Constitutional Requirements Concerning Charges for Service.

2.1.1 Charges for Like and Contemporaneous Services Must is Just and Reasonable.

The Rate Design directly impacts the "just and reasonable" decision considerations in all rate cases, as quoted in the Magruder Rebuttal, Section 12 of Article 15 of the Arizona Constitution:

"Sec. 12. All charges made for services rendered, or to be rendered, by public service corporations within this state shall be just and reasonable, and no discrimination in charges, service, or facilities shall be made between persons or places for a like and contemporaneous service..."

[AZ Constitution, Article 15, Section 12, emphasis added]

2.1.2 Charges for Like and Contemporaneous Service Shall NOT Discriminate Between Persons or Places.

This section prohibits rate discrimination between customers in different places or locations, for the "same" and contemporaneous services rendered. The "services rendered" are the same for all water (and wastewater) district customers and contemporaneous. Imposing different charges in different districts for the same service fails to meet the intent of this section, and appears potentially unconstitutional.

This Constitutional section, in my opinion, clearly supports Rate Consolidation in all water and in all wastewater districts for this Company. The existing rate structure situation with different customer charges for the same rate classes and categories, by district, appears to not conform to this

² "Direct Testimony of Marshall Magruder in Rebuttal to Rate Structure and Rate Consolidation Testimonies b the Commission Staff and Arizona-American Water Company" filed 3 May 2010, hereafter "Magruder Testimony" which was entered into the record as Magruder Exhibit-1 or "Magruder Ex-1."

³ "Rebuttal Testimony of Marshall Magruder to Rate Structure and Rate Consolidation Testimonies and Rebuttals and an Errata to His Direct Testimony," filed 14 May 2010, hereafter "Magruder Rebuttal" which was entered into the record as Magruder Exhibit 2 or "Magruder Ex-2."

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2 Constitutional requirement. There is no "district loophole" for anything less than the entire system
3 operated by a public service corporation in Arizona.

4 Further, there is no disconnect between Constitutional Section 12 and Section 14 that requires
5 cost of service to be used in determination of the revenue required for a public service corporation.
6 The public service corporation revenue requirement is based on the total cost of service, not by
7 smaller, legacy-derived, subsystems, which is then allocated to customers through a fair and
8 reasonable rate structure. Some of the Briefs violate Section 12 as replies herein show.

9
10 **2.2 Magruder's Reply to the Commission Staff's Brief on Rate Consolidation.**

11 The Staff's Brief covers the standalone case (Phase I) and rate consolidation and rate
12 structure (Phase II) issues. This reply pertains to Phase II issues; however, some Phase I issues
13 impact Phase II.

14 **2.2.1 Staff's Position in the Last Rate Case.**

15 The Commission Staff opposed rate design consolidation for the water and wastewater
16 districts in this case and in the Last Rate Case.⁴ However, the Last Rate Case Decision No. 71410,
17 states:

18 "Staff states that it supports rate consolidation, but urges the Commission to proceed with
19 caution, and does not recommend consolidation in the instant case.⁵" [Decision 71410 at
20 49:21-22, emphasis added]

21 This same Decision states:

22 "Staff states that if the Commission wishes to consider rate consolidation, this docket may
23 be left open for the sole purpose of rate design for consolidation purposes, with the
24 possibility of a consolidation of this docket with a future docket for the purpose of
25 considering consolidating rates of Arizona-American water districts.⁶" [Decision 71410 at
26 50:20-22]

27 Furthermore, in the same Decision, the Company agrees with Staff where it states:

28 "The Company agrees with Staff's approach, and states that it would be appropriate for
29 this Decision to order that the docket be left open for the limited purpose of future action
30 on revenue neutral rate consolidation.⁷" [Decision 71410 at 51:2-4, emphasis added]

31 **Magruder Reply.**

32 In the Magruder Testimony, there were two Exhibits⁸ repeated in his Reply Brief, that
33 summarize the key points in the Last Rate Case concerns in the Staff Testimony:

34 ⁴ This was ACC Docket Numbers W-01301A-08-0227 and WS-01303A-08-0227, that resulted in ACC Decision and
35 Order No. 71410 (8 December 2008, hereafter "Last Rate Case". It is noted that the ALJ took judicial notice of these
two dockets.

⁵ Decision No. 71410 footnote 237 that reads: "Staff Brief at 20."

⁶ *Id.*, footnote 242 that reads: "Staff Reply Brief at 5."

⁷ *Id.*, footnote 245 that reads: "Company Reply Brief at 7."

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- Exhibit MM-1, an excerpt from the Marshall Magruder Reply Brief in the Last Rate Case, Section 4, 'Rate Consolidation for All Water Districts' and
 - Exhibit MM-2, excerpt from the Marshall Magruder Reply Brief in the Last Rate Case, Section 2, "Conservation as a significant Driver of Water Volumetric Rates."
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5 We can see in Exhibit MM-1 details concerning the Commission's Staff positions during the Last Rate
6 Case. The Staff did not perform a comprehensive rate analysis, determine a comprehensive Service
7 (or Customer) Charge or determine a comprehensive Volumetric Rate analysis.
8

9 **2.2.2 Initial Comments by the Commission Staff.**

10 In the preamble before its introduction, the Staff Brief has a broad comment:

11 "In this brief, any issue not specifically addressed in this brief, Staff maintains its position
12 as represented in its testimony." [Staff Brief, 1:20-21]

13 Magruder Reply:

14 In a similar manner, this party considers any issue or any positions or testimony not
15 specifically addressed in this Magruder Reply Brief to be as originally testified in the Magruder Direct
16 and oral Testimony, Magruder Rebuttal, and Magruder Opening Brief and the final Magruder
17 Consolidated Rate Schedules of 25 June 2010 and its Errata of 16 July 2010. This reply is important
18 because the Staff Brief did not cover many of the Phase II issues raised in its prior Direct Testimonies
19 and its Rebuttals where various responses had been previously filed.

20 **2.2.3 Staff Considers Compliance with ACC Decision No. 71410 an Issue.**

21 The Staff complied with this Decision to provide at least one consolidated rate design for the
22 Company. The Staff provided three consolidated water district and two wastewater district rate
23 designs. Staff Scenario One consolidated all water districts (and wastewater districts), Scenario Two
24 consolidated Sun City and Sun City West in one district and the remaining water districts (and
25 wastewater districts) into another district. Scenario Three consolidated Sun City and Sun City West in
26 one water district; Agua Fria, Anthem, and Paradise Valley in a second water district; and Tubac,
27 Mohave and Havasu in a third water district.
28

29 Magruder Reply.

30 There is no issue concerning "compliance" by the Staff with Decision No. 71410; however, the
31 results for all five of these scenarios were rejected by all parties, with Scenario One being the only
32 one that any party could possibly accept because it would at least "consolidate rates" but its structure
33 was not ideal. Further, these five Scenarios were not updated during the course of the testimonies
34

35 ⁸ Marshall Magruder Testimony, Exhibits MM-1 and MM-2, are excerpts from the Marshall Magruder Reply Brief of 15 May 2009 in Commission Dockets No. W/SW-01303A-09-0227 (the Last Rate Case) of 15 May 2009, Section 4 at 19-41 and Section 2 at 8-14.

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2 and hearings to reflect changes in Company and other parties positions, such as for lower rates in the
3 first tier, five tiers for residential customers, four tiers for commercial customers, or to reflect changes
4 in total revenue agreed by the Company. The Staff never indicated there was any merit in its rate
5 design and did exactly what was required by ACC Decision No. 71410, and no more.

6
7 **2.2.4 Staff Found the Company's Rate Consolidation Model is Reliable.**

8 The Brief states:

9 "The Staff used the Company's rate consolidation model to develop its various
10 consolidated rate design scenarios. Staff performed various trials testing the formula links
and calculations and found that the model itself was reliable." [Staff Brief, 21:15-17]

11 **Magruder Reply.**

12 These comments confirm that the Company's Consolidation model was reliable. Further,
13 verification and validation of the model was also concurred by the Staff's witness during cross-
14 examination by this party. This model was used to determine the Magruder Consolidated Rates.

15
16 **2.2.5 Staff Considers the Company's Position on Rate Consolidation an Issue.**

17 The Staff Brief states:

18 "While the Company appears to favor statewide consolidation, the Staff is concerned by
19 the Company's failure to put forth a rate consolidation in its Direct Testimony. Because
20 the Company did not put forward any direct case, it did not address many of the factors
21 set forth in the testimony of Staff witness Abinah that should be considered with any
consolidated rate design proposal." [Staff Brief at 22:5-9, emphasis added]

22 **Magruder Reply.**

23 The Staff appears confused as to the Company's position. Earlier in the Staff Brief it stated:

24 "Company President Paul Townsley testified that the Company's financial position is poor
25 and that Arizona-American has lost over \$31 million since American Water purchased the
26 water and wastewater assets of Citizens Utilities in 2002.⁹ According to Mr. Townsley,
27 Arizona-American experienced a net loss of \$1.8 million in 2008.¹⁰ The company also
28 proposed that the Commission consider state-wide rate consolidation, citing among other
29 considerations, improved rate case efficiency, improved ability to make needed capital
30 improvements in small districts and a desire to bring the tariff structure of water and
31 wastewater utilities more in line with those of other regulated utilities in Arizona.¹¹ [Staff
32 Brief at 2:4-11, emphasis added]

33 The above from this brief shows that the President of this Company proposed state-wide
34 consolidation in his Direct Testimony [Ex. A-3] submitted prior to Mr. Abinah's Direct Testimony.
35 Further, ACC Decision No. 71410 ordered the Staff to submit a consolidated rate design and then the

⁹ Staff Brief footnote 2 that reads: "Townsley Direct (Ex. A-3) at 3. Also see Magruder Rebuttal at 25:32-26:8 and Broderick Direct Testimony at 16-19."

¹⁰ *Id.*, footnote 3 that reads: "*Id.*"

¹¹ *Id.*, footnote 4 that reads: "*Id.* at 4."

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2 other parties would submit a rebuttal.¹² That is when the Company submitted its detailed
3 Consolidated Rate and Rate Structure design.

4 There is no question that this Company wants rate consolidation; however, the Company can
5 only do so much. As stated by other parties below, it is

6 "[T]he Commission's discretion as to whether consolidation should be order in this case."¹³

7 The Company can only propose, which it has. The Commissioners will decide.
8

9 **2.2.6 Staff Testimony Concerning Six Factors from Mr. Abinah's Testimony.**

10 The Staff Brief states:

11 "Because the Company did not put forward any direct case, it did not address many of the
12 factors set forth in the testimony of Staff witness Abinah that should be considered with
any consolidated rate design proposal. Mr. Abinah identified the following factors:

- 13 (1) public health and safety;
14 (2) proximity and location;
15 (3) economies of scale/rate case expense;
16 (4) price shock/mitigation;
17 (5) public policy and
18 (6) how other jurisdictions/municipalities are addressing this issue."

[Staff Brief at 22:6-11, emphasis added, format modified to list the subparagraphs]

19 **Magruder Reply.**

20 Due to the sequence ordered by the Commission in Decision No. 71410 and various
21 Procedural Orders separating the present rate case into two phases, it is obvious why the Company's
22 "direct" case and its pre-filed testimonies did not go into depth on these six "factors". The Company's
23 oral testimonies and cross-examination did go into depth on each of these factors. The Magruder
24 Direct Testimony¹⁴, Rebuttal¹⁵ and Opening Brief¹⁶ all covered these factors and many others.
25 Further, the Last Rate Case when into depth for all these Factors that was also presented in the
26

27 ¹² ACC Decision and Order No. 71401 at 51:9-18 states:

28 "While the Commission will defer addressing consolidation in the instant case, we believe this issue is of critical
29 importance and that unnecessary delay does not allow customers to benefit from administrative expediency,
30 economies of scale and other efficiencies which would otherwise occur through consolidation. Accordingly, we will
31 require Commission Staff to propose at least one consolidated proposal in the Company's next rate case which
32 will allow parties and the public ample opportunity to have notice of this issue and participate in that decision. We
also believe the Company should commence a dialogue with its customers as soon as practicable, and will
require it to initiate town hall-style meetings in all of its service territories to begin communicating with its
consumers the various impacts of system consolidation in each of those service territories and to collect feed-
back from consumers on such consolidation."

33 ¹³ Direct Testimony Regarding Rate Structure and Rate Consolidation of Desi Howe on Behalf of Anthem Golf and County
Club, 3 May 2010, hereafter "Anthem G&CC Testimony" at 6:15-16, emphasis added.

34 ¹⁴ Magruder Testimony paragraph 1.1.1 at 9:28-13:31 with Tables 1 and 2; paragraph 1.2.1 at 15:6-19:26 with Tables 3
and 4; paragraph 3.1 (response to Abinah Testimony) at 35:3-38:1; and in Attachment A, Exhibit MM-1 at 43:26 to
35 44:32; 51:16-59:23.

¹⁵ Magruder Rebuttal at 23:17-24:11.

¹⁶ Magruder Opening Brief paragraph 2.2 Factors that Influence Support for Rate Consolidation at 13:28-17:22 with
Tables 1 and 2.

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2 Magruder Testimony in this case. In a summary a reply with references for numerous details not
3 included herein,

4 (1) Public health and safety are not an issue. All districts comply with the same standards
5 imposed by various health and safety-oriented organizations. The Company has to comply.¹⁷

6 (2) Proximity and location are not an issue. Every witness stated that an interconnection
7 between systems is not a factor for consolidation. The Company has no interest in connecting any of
8 the districts.¹⁸

9 (3) Economies of scale/rate case expense are one of the Commission's reasons for including
10 consolidation in ACC Decision No. 71401 [at 51:11], discussed several times by the Company and
11 other parties. To reduce the rate case expenses, from over \$1,100,000 for the Last Rate Case and
12 this case considerably will lower customer's rates.¹⁹

13 (4) Price Shock/Mitigation has been reduced by the Company and Magruder's low First
14 Residential Tier rates of \$1.00 and \$0.98 per 1,000 gallons up to 3,001 gallons. Future rate shock will
15 be significantly lower in the future since there is a much larger consumer base, a use of the
16 Company's Five-Step implementation process does lower the impacts to customers. Magruder
17 Opening Brief shows that high water usage by Mohave consumers are impacted due the water
18 conservation-oriented rate structure included in the Magruder Consolidated rates with median
19 5/8&3/4-inch customers paying between \$22.44 and \$27.44 per month, considerably less than 5 of
20 the other 7 districts.²⁰ In the same brief in paragraph 3.5.2, the extremely low rates in Sun City were
21 proposed by the Company to be increased \$8.55 for the median consumer and increased to \$11.98
22 under the Magruder Consolidated Rates, or \$3.43 per month.²¹ The Sun City rate shock will be cost
23 for its 5-year infrastructure replacements of at least \$7.5 million in the next five years.²²

24 (5) Public Policy concerns water conservation are a key design factor in the five tier residential
25 and four tier commercial rate structures proposed by Magruder. The Company agreed until its final
26 Rate Schedules when it adopted a two-tier commercial structure that does not promote water
27 conservation.²³

28 (6) How other jurisdictions/municipalities address this issue is not directly relevant because
29 these public funded utilities are operated as "enterprise" organizations with different economic factors
30 that with an investor-owned utility company. Municipal utilities do not have to be cost-based.
31

32
33 ¹⁷ Magruder Rebuttal at 19:1-13.

¹⁸ *Id.* 13:18-29.

¹⁹ *Id.* 25:8-30. The RUCO Brief at 12:7-16 shows the Last Rate Case had rate case expenses of \$456,275 and this case
34 \$678,425 for a total of \$1,134,700.

²⁰ Magruder Opening Brief in paragraph 3.5.1 at 34:7-18, Table 6 at 30, Table 8 at 33, and Attachment B at 56.

²¹ *Id.*, in paragraph 3.5.2 at 34:19-35:10, Table 6 at 30, Table 8 at 33, and Attachment B at 52-53.

²² AAWC Brief at 40:16-18. The Magruder Opening Brief at

²³ Magruder Rebuttal 11:20-13:29; and 22:12-29.

1
2 It is noted that the Commission Staff's comments in the Last Rate Case also included these
3 six issues, as shown in Exhibit MM-1 in this Reply Brief.

4 **2.2.7 Is Cost/Benefit Analysis an Issue?**

5 The Staff Brief states:

6 "Staff is also concerned with the Company's failure to do any sort of quantifiable
7 cost/benefit analysis.²⁴ While Staff asked the Company in discovery to submit a
8 cost/benefit analysis, Staff has not had an opportunity to review what the Company
9 ultimately filed." [Staff Brief at 22:12-14]

10 **Magruder Reply.**

11 Without a Staff response, it is expected that this Staff review will be in the Staff Reply Brief.

12 **2.3 Magruder's Reply to the RUCO Brief on Rate Consolidation.**

13 It should be noted that RUCO did not do any rate consolidation analysis in this case. Further,
14 RUCO performed no analysis on any of the proposed Rate Schedules other than that of the
15 standalone rates proposed by the Company and Commission Staff and only cursory analysis of the
16 consolidated rates proposed by the Company and Commission Staff.

17 There was NO RUCO analysis of the Magruder Consolidated (Issue 1) or Rate Schedule
18 designs (Issue 2) or to the rates proposed by other parties during Phase II (Rate Consolidation) of
19 these proceedings or Issues 3 to 7.

20 **2.3.1 RUCO's Position in the Last Rate Case.**

21 The RUCO Brief covers the standalone case (Phase I) and the rate consolidation and rate
22 structure (Phase II) issues. Please see Magruder Exhibit MM-1 for details concerning the RUCO
23 consolidated rate analysis in the Last Rate Case.²⁵ This Reply only pertains to Phase II issues;
24 however, some Phase I issues impact Phase II. RUCO opposed rate design consolidation for the
25 water and wastewater districts in both this case and in the Last Rate Case. However, in the Last Rate
26 Case, ACC Decision No. 71410, states:

27 "RUCO states that it opposes consolidation of rates in this proceeding because only seven
28 of the Company's thirteen water and wastewater districts are being considered in this
29 proceeding, and because consolidation in this case would result in the inequitable spread
30 of costs over some but not all, of the Company's water districts.²⁶ RUCO contends that
31 while there may be good reasons for rate consolidation, the reasons should be thoroughly

32
33 ²⁴ Staff footnote 130 that reads: "Phase II, Tr. 1407:21-1408:1."

34 ²⁵ Decision No. 71410 footnote 235 that reads: "RUCO Reply Brief at 8-9."

35 ²⁶ Exhibit MM-1, provides RUCO, the Company and Magruder computations during the Last Rate Case for consolidated rates. These values have all been changed since then but the general comments remain mostly unchanged. In particular, with this party asked RUCO witnesses during Cross-Examination about their analysis concerning rate consolidation in the Last Rate Case, they denied ever having conducted such an analysis, thus this party was not able to review this issue with RUCO further in this case.

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2 vetted on the record and then applied evenly in all the districts.²⁷ [Decision 71410 at
3 49:15-20]

4 The ACC Decision continues with RUCO's position concerning the Staff's proposal that states:
5 "RUCO states, however, that it would not support reopening this docket or the Company's
6 next rate case docket for the purpose of apply a new rate design to rates in a prior
7 proceeding.²⁸ RUCO believes that the issue of rate consolidation should be considered
8 when all the districts are the subject of a rate case.²⁹ [Decision 71410 at 50:23-51:2]

8 The following are replies to issues raised in the RUCO Brief.

9 However, RUCO did a fairly extensive analysis of Rate Consolidation in the Last Rate Case.
10 This party tried to determine if that analysis pertained to these Phase II hearings but RUCO's witness
11 denied he did that analysis. Please see Magruder Exhibit MM-1 that contains a summary of the rather
12 extensive RUCO consolidation analysis from the Last Rate Case.

13 **2.3.2 RUCO's Standalone Rates versus Consolidated Proposed by the Company.**

14 In the RUCO Summary of issues, this Brief states:

15 "Departing from cost of service to a consolidated rate design was well-discussed mater at
16 hearing. Given the high rate for some districts and the Company's request to increase all
17 districts on a stand alone basis, it has been suggested that the rates of the Company's
18 districts be consolidated. On this, it appears that the Company, Staff and RUCO agree - the
19 Commission should not approve rate consolidation of the Company's districts at this
20 time." [RUCO Brief at 4: 15-20, emphasis added]

21 Magruder Reply:

21 The above statement by RUCO appears confused and misleading.

22 The Company was required to submit rates on a standalone basis, and it did so, just like
23 RUCO and the Staff but that submittal does not mean that standalone rates are what is best for the
24 Company. The Company also submitted several Consolidated Rate proposals, including changes
25 recommended by various parties. The Company responds to the Commission, which has asked for
26 both so comparisons can be made. Also, to consolidate, one needs to determine the total revenue
27 requirements for the Company, which is the sum of the individual district's standalone Company
28 revenue requirements.

29 As a party to these hearings, I have not read anywhere that the Company agrees with RUCO
30 and the Staff that rate consolidation should not be approved a this time in the Phase II proceedings.

31 **2.3.3 RUCO Considers Rate Consolidation is Illegal in this Case.**

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34
35 ²⁷ Decision No. 71410 footnote 236 that reads: "*Id* at 9."

²⁸ *Id.*, footnote 243 that reads: "RUCO Reply Brief at 8."

²⁹ *Id.*, footnote 244 that reads: "*Id.*"

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2 RUCO states that Decision No. 71410 determined the fair value "revenue requirements" for
3 five water and two wastewater districts using a 2007 test year³⁰ and the remaining two water and
4 three wastewater districts using a 2008 test year.³¹ RUCO further quotes from this decision that:

5 "We believe that the issue of consolidation merits thorough vetting, discussion and
6 public participation. In the instant proceeding, parties have argued that further
7 development of the issue is needed. Accordingly, we find it reasonable to defer this issue
8 in the instant rate case but keep this docket open for the limited purpose of consolidation
9 discussion.

10 "While the Commission will defer addressing consolidation in the instant case, we
11 believe this issue is of critical importance and that unnecessary delay does not allow
12 customers to benefit from administrative expediency, economies of scale and other
13 efficiencies which would otherwise occur through consolidation. Accordingly, we will
14 require Commission Staff to propose at least one consolidated proposal in the Company's
15 next rate case which will allow parties and the public ample opportunity to have notice of
16 this issue and participate in that decision. We also believe the Company should commence
17 a dialogue with its customers as soon as practicable, and will require it to initiate town
18 hall-style meetings in all of its service territories to begin communicating with its
19 consumers the various impacts of system consolidation in each of those service territories
20 and to collect feed-back from consumers on such consolidation.

21 "Decision No. 71410 at 51" [RUCO Brief at 53:3-13, emphasis added]

22 Magruder Reply.

23 In the Last Rate Case, the Commission was aware that "unnecessary delay will not allow
24 customers to benefit from ... which would other wise occur through consolidation." The deferral of
25 this issue to the next rate case was considered as the Commission as it kept the "instant rate case
26 docket open" for the "limited purpose of consolidation discussion". The Commission then ordered
27 the Commission Staff to propose at least one "consolidated proposal in the next Company's rate
28 case" to continue the consolidation discussions.

29 Reading these words, the Commission expected and the parties understood that the Last
30 Rate Case would be consolidated into the next rate case.

31 **2.3.4 RUCO Considers Fair Value Determination an Issue.**

32 RUCO then continues with a discussion concerning fair value determination:

33 "In short, consolidating rates for all or part of the systems in both cases, using different
34 test years with different revenue requirements would render the fair value requirement
35 meaningless since ultimately the Commission would be applying revenue requirements to
two different test years." [*Id.*, at 54:17-20]

Magruder Reply.

³⁰ RUCO Brief at 53:19-23.

³¹ *Id.*, at 54:16-17.

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2 In the Last Rate Case, the fair value requirements were met for eight different districts and in
3 the present rate case, for the other five remaining districts.³² Therefore, fair value requirements
4 have not been violated but followed for each different district and the revenue requirements for each
5 district individually determined. This is the normal process used by the Commission. See the title of
6 the Application for this and the Last Rate Case.

7 The result from the Last Rate Case was an annual revenue requirement for each year based
8 on the fair value for those districts. The present rate case determines the annual revenue
9 requirement for the five additional districts. The revenue requirements for the districts from the Last
10 Rate Case do not impact by the revenue requirements for the five districts in the present rate case.

11 Thus, there is no impact on the total revenue to be received by the Company with or without
12 consolidation, as the Company receives the total revenue that is the sum of the annual revenue for
13 each district. The fair value requirements are unchanged with or without consolidation.

14 **2.3.5 RUCO Considered Rate Consolidation is a Rate Design Issue.**

15 RUCO then continues:

16 "Consolidation should be a rate design issue." [*Id.*, at 54:21]

17 **Magruder Reply.**

18 Thus, RUCO understands that consolidation only impacts rate design and that consolidation
19 has no impact on the determination of annual revenue. Annual revenue is the starting point for rate
20 design. The Design of the Rate Structure issue (Issue 2) is in the Reply in the next section of this
21 Reply Brief.
22

23 **2.3.6 RUCO Considers Different Test Years an Issue.**

24 RUCO then continues:

25 "The problem with using two different test years and then applying a consolidated rate
26 design is that consolidation not only consolidates revenues, but it consolidates the fair
27 value rate bases of the two cases and it also consolidated the fair value rates of return for
two cases.

28 "To consolidate rates using two different test years, different cost of equity, different
29 WACCs and different cost of debt conflicts with the constitutional requirement to set rates
30 based on the fair value of the utility's property - not the average of different fair value
findings. To do so, renders the fair value determination in both cases meaningless.

31 **Magruder Reply.**

32 RUCO is concerned about consolidation of the various fair value determination factors, such
33 as rate base, rates of return, cost of equity, etc. that result in the annual revenue for the Company.
34
35

³² ACC Decision No. 71410 at 33:11-18.

1
2 As presently proposed, these factors are included in the resultant annual revenue for the Last Rate
3 Case and the present rate case, as discussed in 2.3.4 above. In each of these cases, a rate base,
4 rate of return, cost of equity, cost of debt, etc. is determined for each district and then a total annual
5 revenue determined in that case, i.e., the rate of return, cost of equity, etc. are identical for all
6 districts in each of these two cases. The Company's total annual revenue received is the proportion
7 for each district. If, for example, the rate of return was X for the Last Rate Case and Y for the
8 present, when consolidate the total annual revenue is the resultant dollar amount of the rate of
9 return is the sum of that for the Last Rate Case and for the present case. Fair value is determined
10 based the "fair value of the utility's property" and not on its components.

11 When designing its rate structure, the total of this fair value is considered, not its individual
12 components, which are summed to determine the Company's annual revenue requirement.

13 **2.3.7 RUCO Considers Fair Value Determination for the Company an Issue.**

14 RUCO then continues:

15 "The Arizona Constitution charges the Commission to 'ascertain the fair value of
16 property' of a utility when setting rates. (Ariz. Const. Art. XV, § 14). RUCO-14 at 9. There is
17 no way around it; the Commission must ascertain the fair value of the Company's
18 property. As our Supreme Court said: ' It is clear, therefore, that under our constitution as
19 interpreted by this court, the Commission is required to find the fair value of the
20 Company's property and use such finding as a rate base for the purpose of calculating
what is just and reasonable rates.'" [*Id.*, at 54:21-55:10, emphasis added]

21 **Magruder Reply.**

22 Consolidation has no impact as individual districts, having the "fair value of their property"
23 summed is the Company's bottom line, and thus is fair and reasonable without discrimination
24 between persons or places³³ Each district is neither an individual company nor a public service
25 corporation. The customers do not own nor manage their district. AAWC is the Company with these
26 responsibilities.

27 To meet the above Supreme Court quote, fair value should be determined at the company-
28 level. The Company's Application in this and the Last Rate Case is for the "determination of the
29 current fair value of its utility plant and property and for increases in rates and charges based thereon
30 for utility service" to its respective water districts. [quote from page 1 above, "in the matter of the
31 Application..."]

32 **2.3.8 RUCO Considers Test Years used for Consolidation an Issue.**

33 RUCO then continues:
34
35

³³ Arizona Constitution, Article XV, Section 12. See 2.1 above.

1
2 “The present situation [two different test years] has not occurred in the past, since every
3 time the Commission has approved rate consolidation all the affected systems were
4 before the Commission at the same time had the same test year.” [*Id.*, 56:3-5]

5 Magruder Reply.

6 The Commission ordered the Last Rate Case to remain open so that all the AAWC districts
7 could be consolidated, or at least considered for consolidation. The Company complied with this
8 order that also conserved rate case funds and efforts at RUCO and Staff levels with the present filing.
9 Each of the 13 water districts will have had their annual revenue requirements determined by the
10 Commission, in consecutive years. This, in my opinion, is not a “piecemeal approach” and the
11 minimal time differences and very slow economic changes, simply negate any unfairness in this
12 approach.

13 **2.3.9 RUCO Considers Matching Rate Case Elements for Different Test Years an Issue.**

14 RUCO then continues:

15 “The Furthermore, the time delay between these finding regarding WACC, ROE, debt and
16 operating income adjustments in Decision No. 71410 and the current rate case may result
17 in new economic or marketplace forces that compel the Commission to make finding for
18 these ratemaking elements that differ from those made in its earlier Decision. *Id.* There is
19 no matching of these integral rate case elements and in the end what is left is a revenue
20 requirement that is based on an arbitrary fair value finding.” [*Id.*, 57:12-18, emphasis
21 added]

22 RUCO then continues:

23 “RUCO believes that allowing a utility to set rates using two test years will result in much
24 mischief in the future. If consolidation can occur using two test years, why not three years
25 or even more.” [RUCO 57:22-58-2]

26 Magruder Reply.

27 RUCO presented no arguments to support forces that “may” result in finding these ratemaking
28 elements different from those made in Decision No. 71410. Since this is not expected to be a
29 significant impact on the total revenue requirements, then if the Company, Commission Staff and
30 RUCO were all ordered to review these “new economic or marketplace forces” in terms of the
31 differences in the Last Rate Case and the present rate case factors in the next rate case. This
32 difference, if any, can then be evaluated in the next rate case. This review should save considerable
33 funds and effort if compared to over \$1 million in rate case expenses now incurred. The Magruder
34 Rebuttal included this as Recommendation 1.1.³⁴

35 **2.3.10 RUCO Considers Unlawful to use Different Test Years an Issue.**

³⁴ Magruder Rebuttal at 9:23-10:8.

1
2 RUCO then continues:

3 "RUCO further finds rate consolidation unlawful because the Company has failed to
4 comply with Commission Rule that requires the Company to select a single test year (ACC
5 R-14-2-103(A)()3(p))." [*Id.*, 57:19-21]

6 Magruder Reply.

7 The Company selected a single test year for each district in the Last Rate Case and a single
8 test year in the present rate case to determine annual revenue. As noted above, in 2.3.5, rate
9 consolidation is a rate structure issue. The test year is used to determine annual revenue, the step
10 prior to determining rate structure.

11 **2.3.11 Test Year Mischief as an issue.**

12 RUCO then continues:

13 "RUCO believes that allowing a utility to set rates using two test years will result in much
14 mischief in the future. If consolidation can occur using two test years, why not three years
15 or even more." [RUCO 57:22-58-2]

16 Magruder Reply.

17 RUCO is worried about precedent setting with this case. Rate Consolidation is a one-time
18 event for a utility to make long-term beneficial changes for customers, the Commission including
19 RUCO and the Company. This case is a bit unique to due to the large number of "districts" being
20 consolidated by the largest water utility company in Arizona. No mischief has been cited by RUCO in
21 this case, which has been very transparent on this issue.

22 **2.3.12 RUCO Considers Revenue Neutrality is a Public Interest issue.**

23 RUCO then continues:

24 "RUCO believes that the consolidation proposals under consideration in this case are
25 inconsistent with what the Commission decided in Decision No. 71410. The Commission
26 in Decision No. 71410 stated,

27 'This docket should remain open for the limited purpose of consolidation in the
28 Company's next rate case with a separate docket in which revenue neutral
29 change to rate design of all the Company's water districts or other appropriate
30 proposals... may be considered.'

31 "Emphasis added, Decision No. 71410 at 71-72.

32 "This language implies a consolidation proposal that is revenue neutral for each of the
33 Company's water districts. If the Commission has intended this requirement to apply
34 Company-wide, it would have made clear that the revenue neutrality requirement applied
35 to the *Company's* revenue requirement and **not** to the requirement 'of *all* the Company's
water *districts*". RUCO-14 at 12. Until that happens, the language speaks for itself and as
far as consolidation does, each individual system should be revenue neutral.

"Given that each system must retain its individual revenue requirement as per Decision
No. 71410, it is mathematically impossible to create a consolidated rate design for all
water districts and maintain revenue neutrality. *Id.*" [RUCO 58:8-24]

1
2 Magruder Reply.

3 The logic of the above argument is faulty. It is obvious that the Commission wanted to see a
4 consolidation proposal and it would not deliberately make it mathematically impossible. The Magruder
5 Rebuttal responded to this issue in that the "revenue neutral change" is to the total revenue
6 requirement and not the individual revenue requirement at the district-level.³⁵

7
8 **2.3.13 RUCO Considers Ratepayer Opposition to Rate Consolidation an issue.**

9 RUCO then continues:

10 "Second, there has been an extraordinary amount of response from the public on the
11 issue of consolidation. All totaled, RUCO has received more correspondence opposed to
12 consolidation than in favor of consolidation. Not surprisingly, most of the opposition has
13 been from the ratepayers in the Sun City system. When the Commission held a public
14 comment meeting in Sun City, over 1,200 ratepayers appeared unanimously voicing their
15 disapproval of consolidation. Transcript at 1096. When the Commission held a public
16 meeting at Anthem, Sun City residents traveled all the way across the Valley in order to
17 attend and to voice their opposition to rate consolidation. Id. at 12-1 3. Clearly, the Sun
18 City ratepayers strongly object to subsidizing Anthem's costs. Id." [RUCO 59:2-10]

19 Magruder Reply.

20 The public, especially those in Sun City, have been misled throughout this process. Their
21 many erroneous public comments, contrary to known facts, show this frequently. For example,

22 The Commission's own accounting has also been erroneous. As shown in Tables 1 and 2,
23 mistakes have been made when categorizing complaints received by the Commission. These Tables
24 summarize the recent ACC "Utility Complaint Form" in this Docket filed since 1 June 2010 so that
25 customers could use information from the evidentiary hearing. Each Utility Complaint Form includes
26 the date of the Complaint, a "opinion" or Complaint Number, the city address of the complaint filer
27 (SC=Sun City, SCW=Sun City West, ANT=Anthem), and a Complaint Description.

28 The Complaint Descriptions include the following options:

- 29 08A – Rate Case Items –
30 08G – Consolidation –

31 Each of these Complaint Descriptions are described in terms of "Support," "Opposed," or "NA"
32 for not applicable.

33 The annotated "08A" complaint descriptions are recorded in Table 1 from these Utility
34 Complaint Forms to summarize each form as "for" (e.g., support) or "opposed" based on the actual
35 comments on the form and as assessed by the ACC on the Utility Complaint Form. Some of the
36 "complainer's" positions were "Clear" while others had less than direct comments or did not discuss
37 "rates" and are annotated as NA. For example, Opinion Number 85708 (second in Table 1) only

³⁵ Magruder Rebuttal at 10:19-26.

discussed the Rate of Return issue. In two instances (in the two shaded cells in Table 1), the ACC Comment Form Assessment indicated that the Complainer's position was "for" or supported the Rate Increase while the words on that form was clearly opposing the increases proposed in rates. Other than these two errors, every Utility Complain Form showed opposition to the rates. In my oral testimony, I commented that no ratepayers want increased rates, as this is a universal opinion of all ratepayers. Table 1 supports that comment. There were two who would support a small rate increase but not that being proposed. Thus, Table 1 supports the Magruder oral testimony.

Table 1 – Commission Complaints Concerning RATES since 1 June 2010

Date	Opinion Number	Address	Complaint Description for Rate Case (code 08A) Items by location								Comment (clarity of the Complainer's position)
			Sun City or SCW District		Anthem District		Other Districts		ACC Comment Form Assessment		
			For	Opposed	For	Opposed	For	Opposed	For	Opposed	
100716	87933	SC		21						X	Clear, petition
100709	87679	SC		X						X	Clear
100616	85708	ANT				X				X	Rate of Return issue
100621	87512	SC		X						X	Clear
100618	87487	ANT				X				X	Clear
100618	87486	ANT				X				X	Clear
100618	87485	ANT				X				X	Clear
100618	87484	ANT				X				X	Clear
100618	87483	ANT				X				X	implied
100618	87482	ANT				X				X	Clear
100617	87478	ANT				X				X	Clear
100616	87443	SC		X						X	Clear
100616	87441	ANT				X				X	Clear
100615	87425	ANT				X				X	Clear
100615	87431	ANT				X				X	Clear
100615	87428	ANT				X				X	Clear
100614	87409	ANT				X				X	Clear
100615	87432	ANT				X				X	Clear
100615	87431	ANT				X				X	Clear
100615	87430	ANT				X				X	Clear
100615	87429	ANT				X			X	X	Clear
100615	87428	ANT				X				X	Clear
100615	87423	ANT				X				X	Clear
100615	87426	ANT				X				X	Clear
100615	87421	ANT				X				X	Clear
100615	87424	ANT				X				X	Clear
100615	87425	ANT				X				X	Clear
100614	87401	ANT				X				X	Clear
100614	87405	ANT				X				X	Clear
100614	87409	ANT				X			X	X	Clear
100614	87416	ANT				X				X	Clear
100614	87408	SC		X						X	Clear
100614	87395	ANT				X				X	Clear
100614	87396	ANT				X				X	Clear
100609	87339	ANT				X				X	Clear
100607	87339	SC				X				X	Clear
100607	87279	SC		X						X	Clear
100607	87289	SC		X						X	Clear
100607	87298	SC		X						X	Clear
100608	87317	SC		X						X	Clear
100608	87318	SC		X						X	Clear
100607	87299	SC		X						X	Clear

Table 1 – Commission Complaints Concerning RATES since 1 June 2010

Date	Opinion Number	Address	Complaint Description for Rate Case (code 08A) Items by location								Comment (clarity of the Complainer's position)
			Sun City or SCW District		Anthem District		Other Districts		ACC Comment Form Assessment		
			For	Opposed	For	Opposed	For	Opposed	For	Opposed	
100716	87933	SC		21						X	Clear, petition
100607	87300	SC		X						X	Clear
100607	87284	SC		X						X	Clear
100607	87290	SC		X						X	Clear
100604	87277	SC		X						X	Clear
100603	87246	SC		X						X	Clear
100603	87245	SC		X						X	Clear
100603	87244	SC		X						X	Clear
100602	87193	SC		X						X	Clear
100602	87199	SC		X						X	Clear
100602	87203	SC		X						X	Clear
100602	87202	SC		X						X	Clear
100602	87191	SC		X						X	Clear
100601	87187	SC		X						X	Clear
100601	87186	SC		X						X	Clear
100601	87189	SC		X						X	would approve small incr
100601	87183	SC		X						X	Clear
100601	87183	SC		X						X	Clear
100601	87183	SC		X						X	Clear
100601	87166	SC		X						X	Clear
100528	87057	ANT				X				X	Clear
100521	87042	SC		X						X	Clear
100521	87043	SC		X						X	Clear
100521	87048	SC		X						X	would approve small incr
100520	87038	SC		X						X	Clear
100520	87037	SC		X						X	Clear
100520	87029	Tubac		X						X	Clear

The annotated Consolation "08G" complaint descriptions are recorded in Table 2 from the same Utility Complaint Forms in Table 1.

There are many more instances of different ACC Complaint Form Assessments differences between the words on the actual form and the assessment by the Commission Staff. These differences are in the shaded cells in Table 2. These assessment differences for the Anthem customers were 8 marked as "Opposed" and another 2 marked as "NA" when the comments were clearly "For" Consolidation. Further, Sun City customer comments were assessed, as "NA" but these comments were more supportive of Consolidation than opposed.

When a comment was not clear a question mark was shown in the "For" column for Anthem and in the "Opposed" column for Sun City/Sun City West, to match the consensus for those districts.

Table 2 – Commission Complaints Concerning CONSOLIDATION since 1 June 2010

Date	Opinion Number	Address	Complaint Description for Consolidation (code 08G) by location								Comment (clarity of the Complainer's position)
			Sun City or SCW District		Anthem District		Other Districts		ACC Complaint Form Assessment		
			For	Opposed	For	Opposed	For	Opposed	For	Opposed	
100716	87933	SC		21						X	Clear
100709	87679	SC		X						X	Clear
100616	85708	ANT									Rate of Return issue
100621	87512	SC		X						X	Clear
100618	87487	ANT			X					X	Ambivalent but lower
100618	87486	ANT			?				NA		Not clear, wants lower
100618	87485	ANT			X				X		Clear
100618	87484	ANT			X					X	Clear
100618	87483	ANT			X				NA		Clear
100618	87482	ANT			?				NA		Not clear, wants lower
100617	87478	ANT			?				X		Not clear, wants lower
100616	87443	SC		X						X	Clear
100616	87441	ANT			?				NA		Not clear, wants lower
100615	87425	ANT			?					X	Not clear, wants lower
100615	87431	ANT			?				X		Not clear, wants lower
100615	87428	ANT			X				X		Clear
100614	87409	ANT			X					X	Clear
100615	87432	ANT			X				X		Clear
100615	87431	ANT			X					X	Clear
100615	87430	ANT			X					X	Clear
100615	87429	ANT			X				X		Clear
100615	87428	ANT			X					X	Clear
100615	87423	ANT			X				X		Clear
100615	87426	ANT			X				X		Clear
100615	87421	ANT			X					X	Clear
100615	87424	ANT			X				X		Clear
100615	87425	ANT			?					X	Not clear, wants lower
100614	87401	ANT			X				X		Clear
100614	87405	ANT			?				NA		Not clear, wants lower
100614	87409	ANT			?				X		Not clear, wants lower
100614	87416	ANT			X					X	Review statewide consol
100614	87408	SC		X						X	Clear
100614	87395	ANT			?				NA		Not clear, wants lower
100614	87396	ANT			?				NA		Not clear, wants lower
100609	87339	ANT			?				NA		Not clear, wants lower
100607	87339	SC		X						X	Clear
100607	87279	SC		X					NA		Clear, statewide rates
100607	87289	SC		X						X	Clear
100608	87317	SC		X					NA		Clear
100608	87318	SC		X					NA		Clear
100607	87299	SC		X					NA		Clear, same as 87297
100607	87300	SC		X						X	Clear
100607	87284	SC		X						X	Clear
100607	87290	SC		X					NA		Clear
100604	87277	SC		X					NA		Clear
100603	87246	SC		X						X	Clear
100603	87245	SC		X						X	Clear
100603	87244	SC		X					NA		Clear
100602	87193	SC		X						X	Clear
100602	87199	SC		X						X	Clear
100602	87203	SC		?						X	Not clear, wants lower
100602	87202	SC		X						X	Clear
100602	87191	SC		?					X		Not clear, wants lower
100601	87187	SC		X						X	Clear

Table 2 – Commission Complaints Concerning CONSOLIDATION since 1 June 2010

Date	Opinion Number	Address	Complaint Description for Consolidation (code 08G) by location								Comment (clarity of the Complainer's position)
			Sun City or SCW District		Anthem District		Other Districts		ACC Complaint Form Assessment		
			For	Opposed	For	Opposed	For	Opposed	For	Opposed	
100601	87186	SC		X						X	Clear
100601	87189	SC		X						X	Clear
100601	87183	SC		X						X	Clear
100601	87184	SC		X						X	Clear
100601	87166	SC		X					NA		Clear
100528	87057	ANT			X					X	Clear
100521	87042	SC		X						X	Clear
100521	87043	SC		X						X	Clear
100521	87048	SC		?					NA		No comment
100520	87038	SC		X						X	Clear
100520	87037	SC		X						X	Clear
100520	87029	Tubac					X		X		Clear

If only looking at the ACC Complaint Form Assessments, the results are misleading on the Rate Consolidation issue but they closely agree with comments concerning changes in rates.

When totaling up this subset of Complaint Forms, based on this party's reading the actual comments, there were 19 from Anthem and one from Tubac who are "for" Consolidation and 11 in the "?" category and from Sun City/Sun City West there were 50 who opposed and there are 3 in the "?" category. It is noted the number of residential customers in Sun City/Sun City West is about four times that in Anthem and over 50 times if compared to Tubac.

Second, these complaints have also contained very erroneous statements, for example.

"We wish to express our adamant position against consolidation Anthem and Tubac water with Sun City's. We are on a fixed income, the recession is hard enough and we do not feel adding these communities with our water would be beneficial or prudent for Sun City. Other communities are closer to them - Flagstaff, Cave Creek, Blank Canyon City, Scottsdale, and even Phoenix." [Complaint 2010-87284, emphasis added]

This complaint shows some believe the Rate Consolidation is connecting outlying cities not in the existing Company into one system. Another states a similar comment:

"We do not want you to pass the water service consolidation currently being proposed by American Water Company. As you are aware, American Water is looking to consolidate Sun City's water district with other outlying cities including Anthem and Tucson. This will increase our water rates approximately 400% and those funds will go to support other cities. Most Sun City residents are on a low, fixed incomes and cannot afford these kind of needless cost increases." [Complaint 2010-87297, emphasis added]

The Magruder Consolidate Rate Schedule has Sun City's median residential (5/8 & 3/4-inch) user rates increasing by is only \$3.43 is from consolidation. Yes, this is less than 400% and Sun City 1-inch residential customers rates decrease \$2.59 or 6.82%³⁶

³⁶ Magruder Opening Brief at 9, Table ES-1 and Attachments A and B; and Attachment A, herein.

1
2 Other of these Complaints include serious erroneous or misleading comments that have
3 been generated by others who oppose ANY rate increase, with consolidation being an issue to
4 complain about. See the Magruder Testimony³⁷, Magruder Rebuttal³⁸ and Magruder Opening
5 Brief³⁹ for additional comments concerning errors being propagated in Sun City.

6
7 **2.3.14 RUCO Considers Ratepayer Interest in Rate Consolidation an Issue.**

8 RUCO then continues:

9 "At the Anthem public comment meeting, Anthem residents strongly opposed the
10 Company's proposed rate increase. But there were very few comments about rate
11 consolidation. Most customers asked the Commission to deny recovery of the Pulte
12 "balloon" payment. From the public comment meeting, RUCO was also left with the
13 impression that many of Anthem's ratepayers may even be unsupportive of the general
14 concept of rate consolidation, since many Anthem residents voiced their objection to their
15 wastewater system being consolidated with the Agua Fria wastewater system. Id. They
16 clearly did not like the fact a portion of the Northwest Treatment Facility is included in
17 their wastewater rates when Anthem is not connected to that wastewater treatment
18 plant. That plant, located within the boundaries of the Sun City West system, provides
19 service to Agua Fria residents. Id. However, after RUCO filed its testimony noting its
20 impression of the Anthem public comment meeting, RUCO has received many letters and
21 emails in strong support for rate consolidation. [RUCO 59:11-23, emphasis added]

18 **Magruder Reply.**

19 The public, when given an opportunity for a rate decrease, usually is rather soft spoken so at
20 to not lose such an opportunity. The Anthem Water District has a serious long-term problem
21 concerning the Pulte balloon payment, as cited, and is understood by many of its residences. The
22 consolidated rate issue is new and second issue that may significantly impact Anthem water rates
23 and, as with Sun City/Sun City West, discussed previously, not well understood. This is further
24 discussed in the Magruder Rebuttal.⁴⁰ The above quote also is slightly contradictory, by first stating
25 there are very few comments from Anthem residents supporting consolidation and later stating RUCO
26 has received many letters and emails in strong support for rate consolidation.

27
28 **2.3.15 RUCO Considers Ratepayer Opposition to Subsidizing Another District an issue.**

29 RUCO then continues:

30 "When the Commission held a public meeting at Anthem, Sun City residents traveled all
31 the way across the Valley in order to attend and to voice their opposition to rate
32 consolidation. Id at 12-1 3. Clearly, the Sun City ratepayers strongly object to subsidizing
33 Anthem's costs. Id. [RUCO 59:7-10, emphasis added]

34
35 ³⁷ Magruder Testimony at 40:30-41:3.

³⁸ Magruder Rebuttal at 10:30-11:3.

³⁹ Magruder Opening Brief at 15:15-21.

⁴⁰ Magruder Rebuttal at 11:7-17.

1
2 Magruder Reply.

3 The Sun City ratepayers are not subsidizing Anthem's costs. The Magruder Rebuttal
4 discusses this subsidization "issue" in several places.⁴¹

5 In the Magruder Testimony, the Company's witness in the First Rate Case is quoted:
6 "The cost of specific programs should be shared by all customers rather than burdening
7 those of the affected areas. Rate increases will be more stable and major increases in
8 specific tariff groups will be avoided."⁴² [Emphasis in the Testimony]

9 and

10 "... there is no basis for charging different prices to customers in different areas... there 'is
11 no valid basis for continuing separate rates.'"⁴³ [Emphasis in the Testimony]

12 Thus this subsidization issue is not an issue because

13 "Sec. 12. All charges for services rendered, or to be rendered by public
14 service corporations within this state shall be just and reasonable and
15 not discrimination in charges, service, or facilities shall be made
16 between persons or places for a like and contemporaneous service..."
[Arizona Constitution Article XV Sec. 12, emphasis added]

17 After reading this quote several times and understanding these words, it is remarkable that
18 there are any issues concerning consolidation in our state.

19 **2.3.16 RUCO Considers Proper Notice for Consolidation an issue.**

20 RUCO continues

21 "...At the hearing, RUCO was critical of the quality of information the Company provided to
22 all ratepayers regarding the impact of rate consolidation. At least in terms of notice, the
23 Anthem Community Council claims that it has received requisite public notice. Transcript
24 at 1064."⁴⁴ [RUCO Brief at 59:24-60:2]

25 Magruder Reply.

26 I am sure RUCO, Commission Staff and all parties realize that the Company provided the
27 required printed notice in each ratepayer's bill concerning this case and that town halls were held. I
28 attended the one in Tubac last spring along with about 20 other ratepayers (about 5% of the total
29 ratepayers in Tubac). The information provided was relevant, questions were answered and overall
30 the local reaction was that this town hall provided information relevant to the community and to the
31 issue of consolidation. The 1,200 who attended in Sun City also represented about 5% of that
32 district's ratepayers. More than 5% at any such meeting to discuss any utility rate case issues

33
34 ⁴¹ Magruder Rebuttal at 12:10-13:14; 17:21-18:1 (note, Magruder Opening Brief updated these rates); 19:27-20:6; 21:18-
28.

35 ⁴² Magruder Testimony at 56:23-26.

⁴³ *Id.*, at 57:18-24 and at 57:1.

⁴⁴ *Id.*, at 57:18-24 and at 57:1.

1
2 would be remarkable. This means that 95% of the ratepayers are not interested, have other
3 commitments, didn't read the notice in their billing statement, or don't care. No Company's efforts
4 can keep ALL their customers fully informed; however, the legal notices were in newspapers.

5 **2.3.17 RUCO Considers Sun City versus Anthem Disagreements an Issue.**

6 RUCO continues

7
8 "[T]he Company has revealed that it expects to spend approximately \$25 million in plant
9 and improvements in the Sun City district over the next five years. From the evidence in
10 this record, it does not appear that the Company has adequately informed neither the
11 people of Sun City or of Anthem of this fact. The Sun City ratepayers oppose rate
12 consolidation because it will result in higher rates to offset the impact of the Anthem rate
13 increase. If the people of Sun City are aware of the expenses that the Company expects to
14 incur over the next five years on the infrastructure related to their systems, consolidation
15 may appear more favorable to them. On the other hand, if the Anthem ratepayers are
16 informed of the anticipated expenses related to Sun City's infrastructure improvements
17 over the next five years, a portion of which they would have to bear, then the Anthem
18 ratepayers may not see consolidation as favorable.

19 "The unfortunate reality of this case is that it pits one group of ratepayers against another.
20 [RUCO Brief at 60:2-15, emphasis added]

21 **Magruder Reply.**

22 The misunderstandings by some Sun City and Anthem ratepayers is a classic "divide and
23 conquer" tactic employed by some utility companies; however, in this case, Arizona-American did not
24 instigate the 'mud slinging' that has resulted from a proposed rate increase for Sun City and a rate
25 decrease for Anthem. Each district has diverse situational factors that result in these differences. The
26 ongoing series of insults between some districts has been awful and a disgrace to their residents,
27 especially those in *The Arizona Republic's* blog after a recent story that publicized these differences.

28 Sun City's unique rate issues are discussed in Magruder Opening Brief.⁴⁵ Anthem's, including
29 the Anthem/Agua Fria wastewater and Citizens/Arizona-American/Del Webb/Pulte issues has no
30 impact on Sun City's needs for much higher rates in the future necessary to replace elements of and
31 keep its aging infrastructure operational. Consolidation is a long-term, not short-term issue.

32 This RUCO comment misses the obvious psychological characteristic of a rate increase when
33 compared to a rate decrease. Ratepayers object to rate increases, as verified by Table 1 and rarely, if
34 ever, object to rate decreases. The Last Rate Case had 1,832 written public comments filed, almost
35 100% in opposition to the Company's requested rate increase.⁴⁶

⁴⁵ Magruder Opening Brief paragraph 3.5.2 at 34:19-35:10.

⁴⁶ ACC Decision No. 70140 Finding of Fact 90 at 70:11-12.

During the oral evidentiary hearings, this party asked Commission Staff and RUCO witnesses if the Commission had ever received a ratepayer objection for a rate decrease or ratepayer support for a rate increase. None disagreed with these customer attitudes towards rate changes.

2.3.18 Highest Present Rates Receive Greatest Decreases under Consolidation.

Further, the Magruder Testimony stated:

"[T]he water division with the highest rates received the greatest decrease when consolidated, and the water division with the lowest rates the highest rate increases." ⁴⁷
 [Emphasis in original]

A review of the Magruder Opening Brief confirms this in terms of the ratepayers' impact in of **Dollars**, as shown from its Table ES-1 below.⁴⁸ The "percent" shows impacts that are not absolute and only is relevant to the existing rates. Impacts of change measured in Dollars is a better measure.

This Table 3 (also ES-1) shows, based on the Magruder Consolidated Rates, the resultant residential impact due to changes from the present to consolidated rates. Anthem may have a \$33.33 dollar decrease, while Sun City (5/8 & 3/4) has an \$11.98 dollar increase, nearly a three-to-one difference in the impact from consolidation. In this service class, larger impacts were rate decreases of \$14.96 in Tubac and \$13.44 in Havasu.

Table 3 – Impact of Consolidated Rates on Median (Mean) Consumption Customers.

Water District	5/8 and 3/4-inch Residential Service			1-inch Residential Service		
	Impact	DOLLARS	Percent	Impact	DOLLARS	Percent
Agua Fria	Decrease	\$ 1.66	6.25%	Decrease	\$20.94	38.72%
Anthem	Decrease	\$33.33	55.56%	Decrease	\$65.91	65.91%
Havasu	Decrease	\$13.44	37.46%	Decrease	\$15.93	31.64%
Mohave-Bullhead	Increase	\$ 8.56	61.64%	Increase	\$ 9.48	54.90%
Mohave-Rio	Increase	\$10.87	65.61%	Increase	\$ 1.04	3.26%
Paradise Valley-5/8"	Increase	\$ 0.04	0.11%	Increase	\$54.89	24.12%
Paradise Valley-3/4"	Decrease	\$ 2.72	7.22%			
Sun City	Increase	\$11.98	77.47%	Decrease	\$ 2.59	6.82%
Sun City West	Decrease	\$ 5.46	17.80%	Decrease	\$25.55	42.00%
Tubac	Decrease	\$14.96	35.38%	Decrease	\$69.16	67.74%

The dollar changes are magnified for the 1-inch service customer, due to higher consumption. Sun City has a rate decrease of \$2.59 while Anthem's is \$65.91.

The RUCO concern that Anthem ratepayers will object to the \$25 million in Sun City's infrastructure replacement programs for its 50-year old infrastructure should not be an issue.

In the Magruder Testimony is a case involving two distant electricity districts that did not have consolidated rates. The Commission consolidated these in the last UNS Electric rate case.⁴⁹ This was

⁴⁷ Magruder Testimony at 19:30-31.

⁴⁸ Magruder Opening Brief Table ES-1 at 9 and Table 8 at 33.

⁴⁹ Magruder Testimony at 17:9-12 and at 34:30-34.

1
2 discussed in this party' Opening Comments during the evidentiary hearings. In a manner similar to
3 Sun City's above, an \$80 million generation plant is being built in the other county that cannot serve
4 my county. There were no objections from my county. The other county's ratepayers also did not
5 object to a \$40 million transmission line upgrade in my county. These examples are infrastructure
6 projects that have to be developed to make the utility a viable business asset. Without "sharing" such
7 costs, an extra barrier will be placed in front of the AAWC in the future to recover these expenses.

8
9 **2.3.19 RUCO Considers Back-to-Back Rate Increases an issue.**

10 RUCO continues

11 "There is very bad timing here because just a few months ago most of Arizona-American's
12 water systems just got a rate increase. Some districts had rate increases that went up as
13 high as 66 percent, and those were increases based on their own cost of service. And now
14 some of those districts are going to be asked to have an increase in rates in order to
15 subsidize and mitigate the cost of service for other districts." [RUCO Brief at 60:20-61:2]

16 The impact of consolidation on the cost of service in dollars is more significant than
17 percentage. As agreed during the evidentiary hearing, the "median" (or mean) consumption is
18 preferable and more accurate than "average" consumption. Table 6 in the Magruder Opening Brief
19 shows both Average and Median consumption changes from the Present rates to the Magruder
20 Consolidated Rates.⁵⁰

21 Based on ACC Decision No. 70140 where "average" consumption change impacts are
22 noted, Table 4 below shows their impact from before the Last Rate Case (LRC) to the LRC in ACC
23 Decision No. 70140 to the proposed Magruder Consolidated Rates for the districts in the LRC.

24 The RUCO concern appears to be an over state this issue. Four of the six water districts in
25 the LRC will have their "average" user's rates decrease from their present monthly billing. One of
26 the two with a high rate increase, Paradise Valley, feels the impact of the water conversation-
27 oriented Magruder Consolidated rates reflected in that district's extremely high consumption. The
28 Mohave district from the LRC also has a high total percentage change but its overall rates are
29 slightly below the average dollar amount in the other districts. Sun City West has a decrease from
30 the LRC but remains at \$12.28 higher or 84.6% more than prior to the Last Rate Case.

31 See paragraph 2.3.15 for the Magruder Reply to the last sentence in the RUCO quote
32 concerning subsidizing or mitigating the cost for other districts.
33
34
35

⁵⁰ Magruder Opening Brief paragraph 3.4.2 (Median [or Mean] Consumption and Average Consumption Bill Issues), at 28:23-29:13 and Table 6 at 30.

Table 4 – Change in Customer Costs from Prior to Last Rate Case to Consolidated Rates

District	Average Consumption ⁵¹	Average Consumption Cost			Total Change	Percent Change
		Prior to LRC ⁵²	LRC Order No. 70140 ⁵³	Magruder Consolidated		
Agua Fria	7,400	\$24.16	\$30.42	\$29.14	+\$4.98	+20.2%
Havasu	9,705	\$36.59	\$50.09	\$34.43	-\$2.16	-5.9%
Mohave	8,073	\$17.44	\$18.08	\$30.12	+\$12.68	+72.7%
Paradise Valley	20,493	\$49.20	\$54.90	\$79.80	+\$30.60	+62.2%
Sun City West	6,704	\$14.51	\$32.42	\$26.70	+\$12.28	+84.6%
Tubac	11,797	\$50.24	\$58.90	\$40.16	-\$10.08	-20.1%

9
10 **2.3.20 RUCO Considers Timing for Consolidation an issue.**

11 RUCO continues

12 “Contrary to what the Company asserts, now **is not the best time** to approve rate
13 consolidation for this company. [RUCO Brief at 60:14-15. emphasis in original]

14 and RUCO continues

15 “RUCO cannot say when is the best time, if there ever is a good time, to approve rate
16 consolidation for this Company. However, a better time than the present will be when
17 there is:

- 18 (1) one application;
19 (2) that includes all of the districts;
20 (3) based on one test year and
21 (4) one revenue requirement;
22 (5) when the public has had adequate notice and all of the facts; and
23 (6) when there is more support from the public.” [RUCO Brief at 61:13-18]

24 **Magruder Reply.**

25 Each of the above is discussed in order.

- 26 (1). There is one application in this rate case, and there is a recent (eight months ago) ACC
27 Decision No. 71140 that sets the revenue requirements for eight districts.
28 (2) All districts are included. Options to exclude any district are not recommended.
29 (3) One test year was used for those districts that had their fair market value assessed and the
30 remaining districts in the following test year. See Reply in 2.3.6, 2.3.8 to 2.3.11 above.
31 (4) There is one revenue requirement, the sum of those for each water or wastewater district. See
32 Reply in 2.3.12 above.
33 (5) The proscribed public notice has been given in this case. The public will never be completely
34 satisfied for reasons cited. See Reply in 2.3.16 above.

35 ⁵¹ ACC Decision No. 70140 Findings of Fact 100 to 113 at 70:24-71:23. Only average consumption for residential 5/8 & 3/4-inch service is provided.

⁵² *Id.*

⁵³ *Id.*

1
2 (6) Public support is routine, with any customer, including golf courses, resorts, etc. that has a rate
3 increase complaining and very little comments for those who have rate decreases. This is
4 human nature. Misinformation has been a problem but consistent correct information with an
5 honest open, transparent approach will resolve this area of concern. See 2.3.13 to 2.3.15.

6 Therefore, now is the best time to consolidate. No time will ever be perfect; however, the
7 expenses incurred in this and the last case on this issue should not have to be spent more than once.
8 Rate consolidation is a one-time event with long-term benefits. The Magruder Testimony has
9 additional comments concerning timing for rate consolidation.⁵⁴

10 **2.3.21 RUCO Considers Distorted Price Signals is Contrary to Water Conservation.**

11 RUCO continues

12
13 “The third reason to reject rate consolidation in this case is rate consolidation can have
14 the unfortunate, negative consequence of contradicting the Commission’s important goal
15 of water conservation. RUCO-14 at 14. Rate consolidation is arguably “at odds with water
16 conservation.” Id. Water is not the same everywhere in the state. Different systems have
17 different challenges with water quality or water quantity issues. Full rate consolidation
18 ignores the harsh reality of the difficulty of delivery of adequate and safe water in certain
19 areas in Arizona. Id. By consolidating rates and allowing a district with high costs to enjoy
20 subsidized rates, the Commission distorts the true price of water delivery service for
21 those customers. By distorting the price signals, customers no longer have the incentive to
22 use their water wisely. Id.

23 “Within the Arizona-American water systems, there are vastly different water
24 consumption patterns among residential ratepayer. Id. For example, the average 5/8 x
25 3/4 inch monthly water consumption ranges from 6,702 gallons in Sun City West to a
26 whopping 20,406 gallons in Paradise Valley! In Paradise Valley, there are 130 **residential**
27 customers who have an average monthly water consumption of 130,811 gallons! Id.
28 [RUCO Brief at 61:20-62:11, bold emphasis in original, underlined emphasis added]

29 **Magruder Reply.**

30 RUCO seems to have forgotten that rate discrimination is not permitted based on customer or
31 location. This issue was previously responded in the Magruder Rebuttal to this specific RUCO
32 concern.⁵⁵ This party strongly disagrees with the entire premise of this RUCO concern.

33 The primary driver for rate structure in the Magruder Consolidated Rates is conservation.

34 The low-priced First Residential Tier ensures all ratepayers have a water LIFELINE.⁵⁶ Then as
35 rates increase with consumption in multiple tiers, “price signals” become apparent at breakpoints.
Initially, this party requested ten tiers. That degree of “price signal” visibility appears beyond anyone’s

54 Magruder Testimony, Exhibit MM-1, paragraph 4.2.9, “How and When to Consolidate,” at 54:23-58:21.

55 Magruder Rebuttal at 11:20-13:14.

56 Magruder Opening Brief at 25:11-19. It is noted that the term “water LIFELINE” is not used by the Commission Staff and is a term this party has used to describe the low rates in the First Residential Tier to ensure lower-income customers always can afford water without the administrative expenses of a low income rate, low participation, and elimination of the “pride” factor involved with older persons requesting “low income” rates. Also see Magruder Rebuttal at 11:24-34 and Magruder Testimony at 27:12-21.

1
2 imagination by the parties in this case. The Company's use of five tiers with a low-priced First
3 Residential Tier follows the philosophy embedded into the Magruder Consolidated Rates.

4 Without being redundant, RUCO must not have reviewed my Testimony or Rebuttal in these
5 proceedings. One section is titled "Issue 2 - Should Rate Structures be Conservation Oriented?"⁵⁷
6 The answer is a strong affirmative. The Magruder Opening Brief discussed Issue 2 from pages 23 to
7 37 (14 pages). There is no question in this party's mind that **water conservation increases with**
8 **higher rates for those with the highest consumption**. This is why Paradise Valley has a higher
9 dollar amount rate increase in Table 3 herein. Shown in more detail is Table 6 herein and the
10 Magruder Opening Brief for Average and Median (mean) consumers for 5/8 & 3/4-inch and 1-inch
11 services, the Present, Proposed (in this rate case) and Magruder Consolidated rates with dollar
12 differences.⁵⁸ The average Paradise Valley customer with 130,811 gallons consumption may have a
13 \$499.66 bill. That might send a price signal to some of these high using 130 residential customers.⁵⁹

14 Further, in the Company's Rebuttal is a copy of a report that shows that "price signals" were
15 observed in the Anthem Water District that resulted in a 5% decrease in water consumption.⁶⁰

16 **2.3.22 RUCO Considers Different Water Delivery Challenges an Issue.**

17 RUCO continues

18 "These systems not only have different water consumption patterns, they have different
19 water delivery challenges. Id. Some systems are on ground water while others take
20 surface water. Some systems are inside an Active Management Area and others are not. Id.
21 at 15." [RUCO Brief at 62:12-14.

22 **Magruder Reply.**

23 Referring to Section 12 of Article 15 of the Arizona Constitution, does RUCO really mean that
24 the Commission should deliberately charge different rates due to location for the same services? This
25 is doubtful because this is one company, not 13 "districts" from legacy parts of other companies.

26 This party knows of no difference in delivery costs because one is in an Active Management
27 Area after assured water supply (AWS) has been certified. These AWS costs should always be born
28 by the developer because a subdivision building permit cannot be issued without an AWS
29 certification.

30
31
32
33 ⁵⁷ Magruder Testimony at 15:20:13.

⁵⁸ Magruder Opening Brief Table 6 30.at 24:33-25:10.

34 ⁵⁹ *Id.*, using the Magruder Consolidated Rates in Attachment A, for a 1-inch service, at \$20.00, First tier 3000 gallons for
\$4.96, Second tier 7000 gallons for \$17.50, Third tier 15,000 gallons for \$45.00, Fourth tier 30,000 gallons for \$105.00
35 and in the Fifth tier 51,811 gallons for \$303.20 for a total of \$494.66.If the service was 2-inch an additional \$90.00
would be added.

⁶⁰ "AAWC Anthem Water District: The Effects of Tiered Water Rates on Water Consumption" of 7 April 2010. Also see
Magruder Opening Brief at 24:33-25:10.

1
2 Most agree there should be different rates based on the source of water; however, this is not a
3 factor in any of the existing water district rates, other than an independent CAP recharge or storage
4 cost that is negotiated separately by the Company with the Commission.

5 There is no cost for water (other than an AWS certification) that, in reality, is "free." The cost to
6 deliver water is what the rates are based. Consolidation is an independent exercise from creating a
7 new way to charge for water. In fact, only the rate structure is involved, as the "cost of service" issues
8 are subsumed into the total revenue requirement, determined prior to designing the rate structure.

9
10 **2.3.23 RUCO Considers Water Conservation with Consolidation an Issue.**

11 RUCO continues

12 "The Commission has stated time and time again that water conservation is one of its top
13 priorities. Some of the above factors are common to every case, but in this case,
14 consolidated rates include a consolidated commodity rate. RUCO does not believe that the
15 benefits of consolidation justify water prices that do not accurately reflect the cost of
16 water among these diverse systems." [RUCO Brief at 62:14-19]

17 **Magruder Reply.**

18 RUCO seems again confused. It is Rate Structure that implements rate consolidation based
19 on fair and reasonable and no discrimination in charges shall be made between persons or places for
20 a like and contemporaneous service, as paraphrased from the Arizona Constitution. There is ONE
21 system with 13 subsystems, 8-water and 5-wastewater, owned by this Company. The total cost of
22 water delivery for each rate class, rate category, and appropriate tier structure are not related to the
23 cost of water for any one subsystem. The cost of water is reflected in the total revenue. How that
24 revenue is collected from the customers must not discriminate and must be fair and reasonable.
25 RUCO maybe needs to rethink its policy for the entire consolidation issue.

26 In the big picture, Arizona has at least an order of magnitude too many water and wastewater
27 companies to efficiently manage water resources and delivery in our state. Maybe 30 or so water and
28 25 or so waste water companies could be much more cost effective than all the "mom and pop" water
29 companies that are poorly managed, and may have safety and health issues unknown by their
30 customers.

31 A long-term goal for the Commission and RUCO should be to reduce the number of these
32 small companies, through consolidation, as the words state in Section 12, so that the services
33 rendered are fair and reasonable, efficiently managed and operated, without discrimination between
34 customers or places.

35 **2.3.24 RUCO Considers Sun City West Rate Decrease an Issue.**

RUCO continues

"If full rate consolidation were approved, Sun City West would enjoy a decrease in rates.

1
2 Their rates would be below their cost of service. Sun City West is inside an Active
3 Management Area and receives its drinking water from groundwater. It has a known
4 subsidence issue. RUCO does not believe it is good public policy to send a price signal to
5 Sun City West customers that encourages water consumption. [RUCO Brief at 62:20-24]

6 Magruder Reply.

7 As shown in Table 4 [p. 35], the "average" Sun City West customer would see a reduction from
8 \$32.42 to \$26.70 from the Last Rate Case to the Magruder Consolidated rates. Unfortunately, RUCO
9 seems to have forgot that the Last Rate Case raised this customer's rates from \$14.51 to \$32.42, a
10 123.4% rate increase that was effective on 1 December last year. It is doubtful that Sun City West
11 customers would find the new rates of \$26.70 compared to last years \$14.51 to "send a price signal
12 to Sun City West customers that encourages water consumption." Those who have had an 84.0%
13 rate increase in the last year would not consider this as a "price signal" that encourages more water
14 consumption. The RUCO issues concerns of Sun City West because is in an Active Management
15 Area, groundwater's use and subsidence issues are not related to rate consolidation.

16 **2.3.25 RUCO Considers Existing Contracts for Some Water Classes an Issue.**

17 RUCO continues

18 "Yet another concern with consolidation, as pointed out by Staff, is that "Certain classes of
19 customers are unique to specific systems or may have special contracts that apply to their
20 rates." S-I 5 at 18. According to Staff, classes that are affected by these contracts could not
21 be consolidated. Id. Some of these contracts apply to residential users, such as residential
22 ratepayers living in apartments in the Mohave - Bullhead system. Id. It would be less than
optimal to have a consolidated rate design that excludes certain sub-classes of
ratepayers." [RUCO Brief at 63:1-7]

23 Magruder Reply.

24 The Company Exhibit A-50 states these excluded customer categories total 1.5% of its
25 revenue, thus 98.5% of the revenue is being considered for Rate Consolidation. During the time
26 between this rate case and the next, as these contracts expire or through negotiations, the Company
27 should move these customer categories to the Consolidated Rate schedules or propose to set rates
28 equal to the consolidated rates for similar customers. New customer classes might be necessary. The
29 Magruder Rebuttal estimated these customers were 5% of the total revenue,⁶¹ now corrected by
30 Exhibit A-50, to 1.5%.

31 **2.3.26 RUCO Considers Bookkeeping an Issue.**

32 RUCO continues

33 "Finally, rate consolidation will eliminate the need to maintain books for individual
34 systems. This could lead to the Company over-building a system or not maintaining
35

⁶¹ Magruder Rebuttal at 13:32-14:5.

1
2 prudent costs.

3 'If rates were to be consolidated, there would be no reason to maintain
4 separate books and records for each of the [systems]. . . However, this loss of
5 operation and financial data would destroy the ability to evaluate the
6 effectiveness and efficiency of the Company's operation of the [systems].

7 'As a result, the [public utility commission] would lose its ability to exercise
8 regulatory oversight and control as it pertains to these systems.'

9 "RUCO-14 at 16, Direct Testimony before the New Hampshire Public Utilities Commission
10 in DR 97-058, Pennichuck Water Works, Inc. (1997).

11 "The Commission could eliminate this concern by ordering the Company to maintain
12 system-specific bookkeeping should the Commission believe consolidation is appropriate.
13 RUCO believes that such an order would be helpful for Staff, RUCO and others to
14 determine if costs were appropriately and prudently incurred in future rate cases. [RUCO
15 Brief at 63:8-21]

16 Magruder Reply.

17 The Magruder Rebuttal also responded to this issue with a recommendation that the
18 Commission might order designated bookkeeping for costs and specific performance records be
19 maintained at the subsystem (district) level.⁶²

20 Rate consolidation does NOT eliminate prudence and "used and useful" reviews.

21 The Magruder proposed Water Loss Management DSM program, Issue 7, requires these
22 kinds of performance records in order to determine the efficiency the water system's operations.

23 **2.3.27 RUCO Considers Staff and Company's Rate Consolidation Proposals an Issue.**

24 RUCO continues

25 "Similar to RUCO, Staff and the Company" recommend individual stand alone rates for all of
26 the Company's districts. S-I 5 at 3, A-39 at 11. [RUCO Brief at 64:1-3]

27 Magruder Reply.

28 RUCO seems again confused. Since the Staff and RUCO did not recommend Consolidated
29 Rates it is obvious the Staff and RUCO recommended standalone rates. The Company in Phase I,
30 also recommended standalone rates. As noted in the Last Rate Case and this case, Mr. Townsley
31 strongly recommended Consolidated Rates as a way to help his company become more efficient,
32 lower the efforts and expenses associated with rate cases, and to simplify company management.

33 **2.3.28 RUCO Has Concerns about Anthem Cost Shifts as a Consolidation Issue.**

34 RUCO continues

35 "Staff, however, pursuant to Decision No. 71410, prepared three rate consolidation models.
Id. Scenario #1 is a complete, companywide consolidation of all its water and wastewater
districts. Id. at 21. Scenarios #2 and #3 offer sub-groupings. S-15 at 22-23. While Staff does
not provide any explanation for its reasoning behind Scenarios #2 and #3, their effect

⁶² Id. at 14:8-18.

1
2 segregates the Sun City and Sun City West systems and shields them from increased rates
3 that mitigate the rate increases of other districts - such as Anthem. RUCO-14 at 20.
4 Unfortunately, all these two options do is shift even more of Anthem's costs to other
5 districts - such as Mohave and Paradise Valley." [RUCO Brief at 64:1-10]

6 Magruder Reply.

7 The Company's model is easy to use. The Staff verified and validated this model. It is obvious
8 one of the consolidation proposals would be for all districts to be combined as designated as
9 Scenario #1. Based on discussions during the First Rate Case, the combination of Sun City with Sun
10 City West retirement communities is another obvious case for comparison purposes as Scenario #2.
11 The Staff then developed a third comparative proposal that separated the remaining districts (other
12 than Sun City and Sun City West) into three combined groups as Scenario #3.

13 RUCO believes that reduction of Anthem costs is a purpose of consolidation as this shifts
14 Anthem's costs to other districts. The Magruder Opening Brief in Table 6 shows the changes for
15 residential rates with 5/8 & 3/4-inch and 1-inch service for the Median and Average consuming
16 customer. In Table 6,⁶³ for customers in the Last Rate Case, the present bill is used to determine the
17 change and for those customers in the present rate case, the latest Company's proposed bill is used
18 to determine the change Table 6 is repeated. Increases greater than 50% are highlighted.

19 Comparison of Anthem rate changes is an issue with RUCO that compares from Proposed
20 rates to Consolidated and not from Present rates. That's what a customer sees monthly. Table 5
21 shows Total Change from Present to Magruder Consolidated⁶⁴ to Proposed Rates used by RUCO.

22 **Table 5 – Changes in Anthem Small Residential Rates**

Customer's Bill	Present	Proposed	Consolidated	Change (\$)	Percent
Anthem 5/8 & 3/4-inch residential service:					
Average	\$37.22	\$ 70.15	\$33.98	- \$ 3.39	- \$ 8.7%
Mean (median)	\$33.33	\$ 62.30	\$29.94	- \$ 3.39	- \$10.2%
Anthem 1-inch residential service:					
Average	\$71.40	\$120.96	\$44.05	- \$37.35	- \$52.3%
Mean (median)	\$66.09	\$111.29	\$37.53	- \$28.80	- \$43.5%

27 To compare rates, such as above, understanding the "Present", "Proposed", and "Consolidated"
28 rates along with the size of service, and if Median (mean) or Average consumption, is necessary.

29 Using the Median (mean) consumption as a better measure than average,⁶⁵ we see the
30 5/8&3/4-inch customers rates decrease 10.% and the 1-inch customers rates decrease 43.5%
31 from their Present rates and when using the Magruder Consolidated Rates. The Customer
32 Charges for 1-inch customers was reduced considerably by Magruder to meter changes.⁶⁶

33
34
35 ⁶³ Magruder Opening Brief Attachment A, Errata to Magruder Consolidated Rate Schedules, at 46.

⁶⁴ *Id.* Table 6, "Impacts of Consolidated Rates on Median and Average Residential Service" at 30.

⁶⁵ *Id.* see 3.4.2, "Median (or Mean) Consumption and Average Consumption Bill Issues" at 28:23-29-13.

⁶⁶ *Id.* see 3.1.3, "Combining 5/8 & 3/4-inch Service with 1-inch Service" at 25:20-28.

Table 6 – Impacts of Consolidated Rates on Median and Average Residential Service

District	Description	Consumption		Present Bill	Proposed Bill	Consolidated Bill	Increase (\$)	Increase (%)
Agua Fria	5/8" & 3/4"	Average	7,679	\$31.18		\$29.14	-\$2.04	-6.56%
		Mean	6,000	\$26.60		\$24.94	-\$1.66	-6.25%
	1-inch	Average	12,062	\$67.57		\$46.63	-\$20.94	-30.99%
		Mean	7,000	\$53.76		\$32.94	-\$20.82	-38.72%
Anthem	5/8" & 3/4"	Average	9,616	\$37.22	\$70.15	\$33.98	-\$36.17	-51.56%
		Mean	8,000	\$33.33	\$62.30	\$29.94	-\$32.36	-51.94%
	1-inch	Average	11,203	\$71.40	\$120.96	\$44.05	-\$76.91	-63.58%
		Mean	9,000	\$66.09	\$111.29	\$37.35	-\$65.91	-65.91%
Havasu	5/8" & 3/4"	Average	9,796	\$50.36		\$34.43	-\$15.93	-31.64%
		Mean	5,000	\$35.88		\$22.44	-\$13.44	-37.46%
	1-inch	Average	3,400	\$61.02		\$23.94	-\$37.08	-60.77%
		Mean	3,000	\$59.81		\$22.94	-\$36.87	-61.65%
Mohave	5/8" & 3/4" Bullhead	Average	8,070	\$18.01		\$30.12	+\$12.11	+67.25%
		Mean	5,000	\$13.88		\$22.44	+\$8.56	+61.64%
	5/8" & 3/4" RIO	Average	10,239	\$20.98		\$35.66	+\$14.67	+69.94%
		Mean	7,000	\$16.57		\$27.44	+10.87	+65.61%
	1-inch RIO	Average	10,854	\$37.08		\$43.00	+\$5.93	+15.98%
		Mean	7,000	\$31.90		\$32.94	+\$1.04	+3.26%
	1-inch Bullhead	Average	24,153	\$54.94		\$82.90	+\$27.96	50.90%
		Mean	13,000	\$39.96		\$49.44	+\$9.48	+23.73%
Tubac	5/8" & 3/4"	Average	11,740	\$58.36		\$40.16	-\$18.20	-31.19%
		Mean	7,000	\$42.40		\$27.44	-\$14.96	-35.28%
	1-inch	Average	18,758	\$149.14		\$66.71	-\$82.42	-55.27%
		Mean	7,000	\$102.10		\$32.94	-\$69.16	-67.74%
Paradise Valley	3/4-inch	Average	24,954	\$65.81		\$79.80	+\$13.99	+21.26%
		Mean	10,000	\$37.66		\$34.94	-\$2.72	-7.22%
	5/8-inch MMWC	Average	8,545	\$34.83		\$34.15	-\$3.53	-10.13%
		Mean	8,000	\$34.15		\$29.94	-\$4.21	-12.33%
	5/8-inch	Average	20,406	\$54.79		\$66.16	+\$11.36	+20.74%
		Mean	11,000	\$37.90		\$37.94	+\$0.04	+0.11%
	1-inch MMWC	Average	93,912	\$277.93		\$346.09	+\$68.16	+24.52%
		Mean	78,000	\$227.55		\$282.44	+\$54.89	+24.12%
Sun City	5/8" & 3/4"	Average	7,954	\$16.73	\$20.44 +\$9.38 +45.90%	\$29.83	\$13.09	+78.26%
		Mean	7,000	\$15.46	\$18.89 +\$8.55 +44.25%	\$27.44	+\$11.98	+77.47%
	1-inch	Average	17,824		\$53.99	\$63.91	+\$9.92	+18.38%
		Mean	8,000		\$38.03	\$35.44	-\$2.59	-6.82%
Sun City West	5/8" & 3/4"	Average	6,702	\$32.41		\$26.70	-\$5.72	-17.64%
		Mean	6,000	\$30.34		\$24.94	-\$5.40	-17.80%
	1-inch	Average	13,529	\$77.41		\$51.03	-\$26.38	-34.08%
		Mean	8,000	\$61.10		\$35.44	-\$25.66	-42.00%

1
2 **2.3.29 RUCO Considers the Company's Position on Consolidation an Issue.**

3 RUCO continues

4 At this point RUCO is very unclear as to the Company's position on consolidation. The
5 Company declined to offer a rate consolidation design proposal. A-39, Executive
6 Summary. The Company made clear at the outset that the Company supported stand alone
7 rates and not consolidated rates. A-39 at 11. However, at the end of the hearing in this
8 matter the Company presented three different consolidation scenarios including a
9 scenario where Sun City Water and Sun City Wastewater was excluded and one scenario
10 where Sun City Water and Sun City West Water and Wastewater was excluded. Transcript
at 1468. The Company's "preferred scenario" involves all of the systems with five step
increases. Id. at 1469." [RUCO Brief at 64:11-18]

11 **Magruder Reply.**

12 The comment is very similar one by the Commission Staff. See the Magruder Reply in 2.2.5
13 above. The quote in that reply cites the Company's position as testified by the Company's President.

14 In Phase II, the Company did submit a rebuttal to the Commission Staff's Consolidated Rates
15 results that included a new set of Consolidated Rate schedules. Additional submissions with a Three
16 and Five Steps for rate changes were provided based on requests by other parties. Based on a
17 request from the Chairman of the Commission, additional scenarios that excluded Sun City and Sun
18 City West, Sun City only, and Sun City West only, for the rest of the water and waste water districts.

19 The Company responded to consolidation issues in Phase II and did not respond to
20 Consolidation issue in Phase I, as the Procedural Orders required. Further, the "standalone" revenue
21 was required to be determined in Phase I before a Rate Structure could be designed. Any earlier
22 consolidation, such as the Company did in the Last Rate Case, only partially looked at options. Until
23 all districts had their fair market values determined in the Last Rate Case or this case, could
24 consolidation actions be serious considerations for decisions. Magruder did recommend consolidation
25 of the districts in the Last Rate Case but this was not approved.⁶⁷ Further, ACC Decision No. 71410
26 rejected as unworkable as his rate design was not accompanied with bill analysis or proof of revenue
27 in the rate designs.⁶⁸

28 The Magruder Consolidated Rate Schedule, using the validated Company's model, is a
29 complete analysis and data in the Opening Brief including Attachment A, meets these requirements.
30 Computation of a Water Bill is discussed in detail.⁶⁹

31 **2.3.30 RUCO Considers Consolidating All Districts versus other Combinations an Issue.**

32 RUCO continues
33
34

35 ⁶⁷ ACC Decision No. 71401 at 50:16-19; 51:21-52:1; 52:17-21.

⁶⁸ *Ib.*, at 52:17-21.

⁶⁹ Magruder Consolidated Rate Schedules; and Magruder Opening Brief, Attachment A with paragraph 2.5, "Computation of a Customer's Water Bill;" at 17:27-19:7.

1
2 "The Company's "preferred scenario" involves all of the systems with five step increases.
3 Id. at 1469." ... [RUCO Brief at 65:5-8, emphasis added]

4 and

5 "Scenarios #2 and #3 do not match with some of the reasons RUCO would generally
6 support rate consolidation - such as a reduction in rate case expense and a reduced toll on
7 Staff resources. RUCO-14 at 21." [RUCO Brief at 65:5-7]

8 Magruder Reply.

9 This party also agrees with the last sentence, in that ALL districts should be included for
10 these RUCO's Brief reasons and those in Mr. Townsley's testimonies cited in 2.2.5 above, those in
11 the Last Rate Case by the Company and this party, and the Magruder filings in this case.

12 Consolidation is a rate change with long-term benefits, that is, in all future rate cases so rate
13 changes will be mitigated among all ratepayers thus reducing the large swings in rates from short-
14 term revenue needs. Rate "shock" will be history. The Company must operate as a company-wide
15 system and not as a bunch of individual subsystems. The larger population will significantly benefit
16 Sun City in the next few rate cases when their replacement costs are high.

17 In the future, unknown requirements that the Arizona-stressed water system will have to met,
18 such as impending reductions in CAP water allowances for our state, long-term drought, and the
19 ever decreasing groundwater resources. Our water resources are not sustainable, the goals of the
20 Arizona Water Management Act of 1980 are not going to be met [Exhibit MM-3], and thus water
21 sustainability is not on the horizon, not on anyone's horizon. We have a critical problem that serious
22 water conservation can help mitigate, thus sending strong "price signals" to high volume users
23 should dominate all rate structure designs in Arizona. The Magruder Consolidate Rates have just a
24 1-to-4 ratio from lowest to highest users. Known rates 1-to-40 have already been imposed by other
25 water companies where the replenishment of their wells cannot be sustained where residential
26 rates are as high as \$45.00 per 1,000 gallons for a monthly usage of over 15,000 gallons.

27 Cost savings is NOT the only reason to consolidate. In this party's opinion, water
28 conservation is of higher importance. Company financial health and operations are also vital.

29 The Company's Five-Step rate change process smoothes out the rate increases and
30 decreases while having the same revenue for the Company. This is fair and reasonable and does
31 not discriminate between persons or places, as required by our Constitution.

32 **2.3.31 RUCO Considers Low Income Customers and Consolidation an Issue.**

33 RUCO continues

34 "Furthermore, one could find the intent of separating these two retirement communities
35 from a consolidated rate design is to shield these ratepayers living on affixed incomes
from subsidizing rates for others - notably Anthem ratepayers. If so, RUCO points out that
retirees on fixed incomes and other low income ratepayers live in other Arizona-

1
2 American districts. By keeping two of the largest systems out of a consolidated design
3 only shifts more costs to other ratepayers in other districts including retirees and low
4 income customers. [RUCO Brief at 65:8-13]

5 Magruder Reply.

6 RUCO seems again confused. There is no relationship between Anthem and the two Sun
7 Cities when it comes to lower income customers. Low income customers live are in ALL districts as
8 this seems to be RUCO's reason for the last sentence.

9 The present Sun City low-income rate plan is deficient. The Company's plans for 1,000 lower
10 income customers have not been met.⁷⁰ Many who qualify for these kinds of programs have an
11 aversion to "handouts" and would never apply, they are too proud and would rather do without.

12 The Magruder First Tier water LIFELINE rates are for ALL customers in ALL districts. This
13 overcomes "missed and deserving" lower income ratepayers. It shifts the revenue requirement to the
14 higher Tiers that supports water conservation-oriented rates, a key principle of the Magruder rate
15 proposal herein. This is discussed in the Magruder Testimony,⁷¹ Magruder Rebuttal⁷² and Magruder
16 Opening Brief⁷³ in more detail; however, the proposed low First Tier Residential rates at \$0.98 (or
17 \$1.00 by the Company) for each 1,000 gallons provides a water LIFELINE to all customers and water
18 usage above 3,000 gallons rate increases from \$2.50/1000 gallons in the Second Tier to \$4.00/100
19 gallons in the Fifth Tier. The party won't argue over 2-cent difference with the Company.

20 The term "subsidizing" is incorrect as a better term should be "discrimination". All charges
21 must be fair and reasonable and not DISCRIMINATE between people or places. The proposed
22 Magruder First Tier water LIFELINE rates meet this constitutional requirement. Any special "low
23 income" or other customer-exclusionary rates for one district is neither fair nor reasonable.

24 **2.3.32 Anthem Customers and Consolidation an Issue.**

25 RUCO continues

26 Finally, all three of Staffs scenarios provide a rate decrease for Anthem. Id. One benefit of
27 consolidation is to mitigate rate increases for some customers. Some customers will pay
28 more to help their neighbor avoid rate shock. But in all three scenarios, Anthem not only
29 avoids rate shock, but they enjoy a rate decrease at the expense of other ratepayers. Rate
30 consolidation should not provide an unearned rate decrease at the expense of increased
31 rates for others. In all three of Staff's cases, not only is Anthem's cost of service rate

32 ⁷⁰ Initially, this party had an initial rate of \$0.83/1000 gallons for the first 4,000 gallons increasing to \$6.00/100 gallons at
33 the Fifth Tier in Magruder Testimony, paragraph 2.2.2, "Proposed Low-income and Fixed-Income "Lifeline" Rates," at
27:21-21.

34 ⁷¹ *Id.* in 1.2.3, "Influence of Low and Fixed-Income Customers on the Design of the Rate Structure," at 17:5-15; and in
2.2.2, "Proposed Low-income and Fixed-Income "Lifeline" Rates," at 27:21-21.

35 ⁷² Magruder Rebuttal at 27.

⁷³ Magruder Opening Brief, paragraph 3.4.3, "First Tier is LIFELINE Water for Residential and Small Commercial
Customers," at 29:14-19 and 31:1-25; Table 7, "First Tier Costs for All Ratepayers (LIFELINE Rates) at 31:12-25; and
31:28-32:2.

1
2 increase mitigated, but it is completely eliminated. Id. This unearned financial reward for
3 Anthem comes at a cost to the ratepayers of Paradise Valley, Sun City and Mohave. Id.
4 "The water prices that do not accurately reflect the cost of water among these diverse
5 systems." [RUCO Brief at 65:14-21]

6 Magruder Reply.

7 The issue of decreased rates for Anthem was addressed in 2.3.28 above and Tables 5 and 6.
8 RUCO is comparing Proposed to Consolidated Rates. The Proposed Rates have not been
9 implemented. Customers pay the Present Rates today and either the Proposed or Consolidated
10 Rates after the rate case Decision is implemented. The Comparisons in Tables 5 and 6 above,
11 especially the Median (mean) consumer show with the dollar and percent changes from the Present
12 (or to Proposed) to Consolidated Rates. It is the change in rates from today to tomorrow that impacts
13 the ratepayer. Proposals are intermediate, administrative terms, ratepayer meaningless till approved.

14 Proposed Rates exist for Anthem and Sun City, only two of the eight water districts, in this rate
15 case. The most of rate change for Sun City is from the Present to Proposed Rates and decrease from
16 Present to Proposed Rates for the wastewater system.

17 Anthem's problem with its developer leaving a balloon payment for the customers to absorb is
18 beyond the bounds of reasonableness that significantly increased the Anthem Proposed Rates. This
19 is not an "unearned financial reward for Anthem" but the result of a deal made before AAWC was the
20 owner. Solution of that issue is a separate Company-Anthem problem, not a consolidated rate issue.

21 **2.3.33 RUCO Considers Consolidation Winners and Losers an Issue.**

22 RUCO continues

23 "RUCO's Revised Exhibit B to the Direct Testimony of Jodi Jerich, RUCO-15, is instructive.
24 Revised Exhibit B attempts to put on to a single piece of paper the various rate proposals
25 that the Commission is being asked to consider⁷⁴. As the Revised Exhibit B shows, it is
26 impossible to consolidate rates without initial "winners" and "losers". RUCO-14 at 22,
27 RUCO-15. The "winners" will receive subsidized rates and the "losers" will pick up the
costs of the subsidized districts. There is no way around this." [RUCO Brief at 65:22-66:4]

28 Magruder Reply.

29 RUCO makes an obvious conclusion in any rate structure design. There are an infinite number
30 of rate structures in any rate case, thus winner and losers. There always are some ratepayers with
31 increases and others decreases. The Commission Staff and Company's standalone rate structures
32 have similar "winners and losers" that is not a unique Consolidated Rates result. What is unique is
33 that rate discrimination between districts is eliminated when rates are consolidated. This results in a
34 one-time rate adjustment to standardize the Customer Charges, Tiers and Breakpoints, and Rates in
35

⁷⁴ RUCO Brief footnote 22 at 66, "Revised Exhibit B does not consider the three scenarios offered by the Company at the end of the hearing discussed above."

1
2 each customer category. Yes, this transition is a challenge but after made, the future will avoid the
3 steep rate changes from rate case to rate case. This will significantly reduce customer complaints
4 when rates change a few percent to reflect the higher costs of doing business.

5 Some benefits of this are even discussed by RUCO in the next topic.

6
7 **2.3.34 RUCO Sees Benefits to Rate Consolidation an Issue.**

8 RUCO continues

9 "However, all ratepayers of a consolidated system can enjoy certain benefits. First, a
10 consolidated system will result in lower administrative costs - primarily rate case
11 expense. Id. Second, those systems that initially bear a higher rate increase to subsidize
12 other systems in the beginning will enjoy a mitigated rate increase in the future when
13 those other districts pick up their future costs. Id.

14 "RUCO understands that there are benefits to rate consolidation. RUCO also believes that
15 ratepayers are willing to pay a little bit more in the beginning knowing that the benefit
16 will be returned to them in the future." [RUCO Brief at 66:4-11]

17 **Magruder Reply.**

18 RUCO concedes there are benefits to a consolidated system and understands these benefits
19 can save the Company, thus the ratepayers, administrative costs and that ratepayers are willing to
20 pay "a little more" now for the future returns. A short-term transition cost is inevitable, especially when
21 tied to two rate increases (such as for Sun City and Anthem) in the present rate case plus equalizing
22 impacts of consolidation to standard Customer Charges, tiers and breakpoints, and rates.

23 The "fair and reasonable" clause and without "discrimination" between ratepayers or locations
24 with price-signals in water conservation rates are these guiding requirements. These were critical for
25 designing the Company and Magruder Consolidated Rate Schedules. In particular, the **principles**
26 **and rules** used by this party were summarized in the Opening Brief that included

- 27 (1) Water LIFELINE rates;⁷⁵
- 28 (2) Implementation in 5-Steps;
- 29 (3) Ratio of First to Last Tier; and
- 30 (4) Five Residential and Four Commercial Tiers⁷⁶

31 In addition, these **assumptions** are documented in the same Brief and include

- 32 (1) Retaining the 1-inch Residential Rate Category⁷⁷;
- 33 (2) Customer Charges⁷⁸;
- 34 (3) Non-Consolidated Rate Categories;

35 ⁷⁵ Magruder Opening Brief paragraph 3.4.3, "First Tier is LIFELINE Water for Residential and Small Commercial Customers," at 29:14-35, 31:1-24, and Table 7, "First Tier Costs for All Ratepayers (LIFELINE Rates) at 31:12-25.

⁷⁶ *Ib.*, paragraph 3.4.4, "Principles and Rules used for the Rate Structure in Magruder's Consolidated Rates," at 31:26-32:28.

⁷⁷ *Ib.*, paragraph 3.1.3, "Combining 5/8 & 3/4-inch Service with 1-inch Residential Service," at 25:20-28.

⁷⁸ *Ib.*, paragraph 2.5.1, "Rate Consolidation Considerations – Service Charge," at 17:33-18:24.

- 1
- 2 (4) Non-Potable Water;
- 3 (5) Private Fire Rate;
- 4 (6) Hydrants; and
- 5 (7) Commercial 4-inch Rate.⁷⁹

6 The impacts of these principles, rules and assumptions were summarized in terms of the
7 impacts on 5/8 & 3/4-inch and 1-inch residential service customers, the vast majority, detailed
8 reviews of Mohave⁸⁰ and Sun City⁸¹ water district increases to understand why they exceeded 50%,
9 and the overall change in revenue by water districts.

10 **2.3.35 RUCO Considers Cost of Rate Consolidation by Districts an Issue.**

11 RUCO continues

12 "However, there will be resistance if the initial cost shift is too much. Id. In Revised Exhibit B,
13 for illustrative purposes only, RUCO arbitrarily set this resistance threshold level at \$5.00 per
14 month. Id., RUCO-15. Those districts shaded in red have more than \$5.00 shifted to them
15 through rate consolidation so that other districts can enjoy reduced rates. Id. Once this
16 tolerance threshold is crossed, it may be more difficult to find ratepayer support for
17 consolidated rates. Id. Alternatively, those districts that receive more than a \$5.00 monthly
18 decrease in rates due to rate consolidation over a cost of service rate design are shaded in
19 orange and the yellow districts are those that fall within the \$5.00 bandwidth where RUCO
believes there would be little ratepayer opposition to consolidated rates. Id." [RUCO Brief at
66:11-20]

20 **Magruder Reply.**

21 RUCO's comment above is in two parts.

22 First, there always is some resistance to any rate increase and resistance appears to increase
23 exponentially with the size of the increase. An arbitrary threshold of \$5.00 was used by RUCO in this
24 example. Considering that this rate increase will not be instant when using the Company's proposed
25 5-Step plan but over a five-year period, and it is doubtful if RUCO was considering only a 1%
26 increase but a single, one-Step rate increase. If an annual rate increase of 3% might be acceptable
27 under normal inflation, then this arbitrary threshold appears about one-third of the regular inflation
28 rate. Therefore a 15% threshold appears to be fair and reasonable under the 5-Step approach. For
29 the residential customer with 5/8 & 3/4-inch service, with median use, as shown in Table 3 above
30 repeated below, we see that the maximum increase is \$11.98 for Sun City,⁸² \$10.87 for Mohave-Rio

33 ⁷⁹ *Id.*, paragraph 3.4.5, "Assumptions in the Magruder's Consolidated Rates," at 32:29-33-20.

34 ⁸⁰ *Id.*, paragraph 3.5.1, "Mohave Water District Rate Increases Greater than 50%," at 34:7-18.

35 ⁸¹ *Id.*, paragraph 3.5.2, "Sun City Water District Rate Increases Greater than 50%," at 34:19-35:10. It is noted that the Sun
City residential customers with a 1-inch service have a rate reduction of 6.82% with the Magruder Consolidated rates.

⁸² It should be remembered that Sun City also has its regular rate increase, proposed of \$8.55, thus the additional "cost"
for these customers is \$3.43 (= \$11.98 - \$8.55) where Table 6 above provides the difference between Present and
Proposed.

and \$8.56 for Mohave-Bullhead customers, all below an arbitrary \$15.00 threshold with the proposed Magruder Consolidated Rate Schedules.

When the Proposed rate increase for Sun City is subtracted, the additional consolidation cost for the Sun City customers is \$3.43, below the RUCO \$5.00 threshold, about 68 cents a month of annual increases under a 5-Step annual implementation plan. In fact, the highest was an annual increase of 2.39% also appears acceptable. It is notice that the larger 1-inch service rates increase at higher percentages, primarily, due to the water conservation orientation of the rate design as the 1-inch service customers have much higher consumption. Other than Paradise Valley, which has over twice the consumption as any other district, even the 1-inch service customers have reasonable rate increases, under 2% per year, in order to shift to Consolidated Rate.

Table 3 – Impact of Consolidated Rates on Median Consumption Customers.⁸³
(table repeated from above)

District	5/8 and 3/4-inch Residential Service			1-inch Residential Service		
	Impact	Dollars	Percent	Impact	Dollars	Percent
Agua Fria	Decrease	\$1.66	6.25%	Decrease	\$20.94	38.72%
Anthem	Decrease	\$33.33	55.56%	Decrease	\$65.91	65.91%
Havasu	Decrease	\$13.44	37.46%	Decrease	\$15.93	31.64%
Mohave-Bullhead	Increase	\$8.56	61.64%	Increase	\$9.48	54.90%
Mohave-Rio	Increase	\$10.87	65.61%	Increase	\$1.04	3.26%
Paradise Valley-5/8	Increase	\$0.04	0.11%	Increase	\$54.89	24.12%
Paradise Valley-3/4	Decrease	\$2.72	7.22%			
Sun City	Increase	\$11.98	77.47%	Decrease	\$2.59	6.82%
Sun City West	Decrease	\$5.46	17.80%	Decrease	\$25.55	42.00%
Tubac	Decrease	\$14.96	35.38%	Decrease	\$69.16	67.74%

Second, RUCO is correct, when it states there is "little" opposition when rates decrease. Based on cross-examination of several customer witness and Staff personnel, none knew of any customer complaints that had their rates decreased.

2.3.36 Notice of Customers on Consolidation Rate Changes as an Issue.

RUCO continues

"Revised Exhibit B brings to the forefront the financial impact that consolidation will have on residential ratepayers. Id. at 23. Sun City ratepayers are aware (and strongly oppose) rate consolidation. But RUCO does not believe ratepayers in Paradise Valley and Mohave have my real idea that the notice they received as a bill insert regarding rate consolidation will have the actual financial impact as shown in Revised Exhibit B.⁸⁴" [RUCO Brief at 66:21-67:3]

Magruder Reply.

⁸³ Magruder Opening Brief, Table ES-1 at 9 and Table 8, at 33.

⁸⁴ RUCO Brief footnote 23 at 67 that reads "The notice that was sent to all Arizona-American ratepayers states, "If approved by the Commission, this (rate consolidation) proposal may impact the rates of every Arizona-American water and wastewater customer – either increase or decrease."

1
2 RUCO earlier in its brief stated that proper notices were provided to customers. See reply at
3 2.3.16. *Sun City customers are not aware of the actual amount of their rate increase, only*
4 *approximately 68 cents a month*, is due to rate consolidation. If misleading information has been
5 repeated so many times, it is reasonable to believe the additional one-time cost for the benefits of
6 rate consolidation would greatly reduce the opposition on this issue. As shown in Table 1 above,
7 some Sun City customers would approve a small rate increase.

8 Paradise Valley annual rate changes for the 5/8-inch service, from Table 3 above, is 4 cents
9 and for the 3/4-inch service a rate decrease of \$2.72 a month. These are minimal changes. The
10 Paradise Valley 1-inch customers will see a \$54.89 increase (24.12%) or about 6.2% per year for the
11 next five years due to the very high mean consumption of 20,406 gallons with a lot at the highest Fifth
12 Rate Tier of \$4.00/1000 gallons. Again, appears to be reasonable.

13 Mohave rate changes for 5/8 & 3/4-inch service are increases of \$8.56 for Bullhead and
14 \$10.87 for the Rio customers. These are \$1.31 and \$2.17, respectively, per year on the 5-Step plan.
15 Again, appears to be reasonable.

16 If Magruder Consolidated Rates are approved; objections should be minimal for the customers
17 who have increases due to rate consolidation.

18
19 **2.3.37 RUCO's Conclusion and Recommendations.**

20 RUCO continues

21 "In the end, the goal of rate consolidation is admirable as a general rule. But each case must
22 be considered independently because each case involves a different set of facts and
23 circumstances. In this case, while consolidation will undoubtedly help to ameliorate the
24 rate increase for some ratepayers, it comes at too high of a cost when all of the other facts
25 and circumstances in this case are considered. Moreover, there does not appear to be a
26 sound legal basis for combining the present case with the Company's last rate case for
27 purposes of consolidation. RUCO recommends that the Commission reject rate
28 consolidation in this case." [RUCO Brief at 67:4-10]

29 **Magruder Reply.**

30 In the Replies above, the rate consolidation "costs" appears reasonable and below the RUCO
31 arbitrary \$5.00 [annual] rate change threshold. The factors considered in the Magruder case are wide
32 and diverse, to propose reasonable and fair solutions, without rate discrimination. The "legal"
33 argument appears weak based on the Arizona Constitution and the process in the Last Rate Case
34 and present rate case. The timing is best now, as all the data are available, to make an informed
35 decision. It is unfortunate that many customers have misleading information but seeing the final
results, such decision should be within reasonable bounds. The RUCO conclusion is shallow, misses
the rate structure design details where factors adaptive to this situation provide a water LIFELINE for
all, water conservation-oriented rate tiers, opportunities for customers to see financial benefits for

1
2 reducing consumption and a rate structure with long-term benefits for customers, Commission and
3 RUCO, and the Company⁸⁵. All benefit, thus the recommendation from RUCO should be rejected.

4 **2.4 Magruder's Reply to Arizona-American Water Company Brief on Rate Consolidation.**⁸⁶

5 **2.4.1 Company's Participation with Rate Consolidation in the Last Rate Case.**

6 This party participated as an individual intervenor in the Last Rate Case, ACC Docket No.
7 W/SW-01303A-08-0227, that resulted in ACC Decision No. 71410 (8 December 2009). This Opinion
8 and Order provides the background on the Company's position and states:

9 "On November 12, 2008, Commissioner Mayes filed a letter in the docket requesting that
10 the parties provide the Commission, as part of their testimony in this case, an analysis
11 addressing the predicted impacts of statewide and select consolidation of the Company's
12 water districts. and to propose combinations of districts where potential benefits
13 outweigh the limitations of consolidation efforts, and an analysis of rates and operations
14 under a statewide consolidation of the Company's water districts. In a letter to the docket
15 dated December 17, 2008, the Company stated that it would provide a flexible analysis
16 tool in response to the request, The consolidation analysis tool formulated by the
17 Company is a large Excel spreadsheet that can be used to analyze assumptions and data
18 points in a consolidation analysis, and the Company will make the tool available to any
19 party on request.⁸⁷ The Company's witness Mr. Broderick stated that the rate
20 consolidation analysis has a number of assumptions and decision points that must be
21 considered.⁸⁸ [ACC Order No. 71410 at 47:18-49:1]

19 **Magruder Reply.**

20 The Company cooperated with the Commission and prepared a spreadsheet to perform this
21 analysis in the Last Rate Case. The Company was asked to predict the impacts on statewide
22 consolidation and various water district combinations. As the last sentence stated, there are many
23 "assumptions and decision points" that must be considered when determining consolidated rates. In
24 this present case, these Assumptions are all on one Excel page as included in the Magruder
25 Consolidated Rate Schedules, as updated in the Magruder Opening Brief, Attachment A. With just
26 these assumptions, a complete set of rate schedules outputs can be produced, as was done in the
27 Last Rate Case by the Company and in the present rate case by the Company, Commission Staff
28 and this party.

29 **2.4.2 Company's Consolidated Rates for Residential Customers in Last Rate Case.**

30 ACC Decision No. 71401 continues:

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33 ⁸⁵ RUCO Brief footnote 23 at 67 that reads "The notice that was sent to all Arizona-American ratepayers states, "If
approved by the Commission, this (rate consolidation) proposal may impact the rates of every Arizona-American water
and wastewater customer – either increase or decrease."

34 ⁸⁶ Post-hearing Brief of Arizona-American Water Company of 16 July 2010, hereafter, Company Brief or AAWC Brief.

35 ⁸⁷ ACC Decision No. 71410 footnote 225 that reads: "Rebuttal Testimony of Company witness Thomas M Broderick (Exh.
A-12) at 5."

⁸⁸ ACC Decision No. 71410 footnote 226 that reads: "*Id.*, at 5-6."

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2 "Mr. Broderick attached the results of one consolidation scenario to his prefiled rebuttal
3 testimony. That scenario is attached to this Decision and incorporated herein as Exhibit B.
4 Exhibit B includes all eight of the Company's water districts at the Company's requested
5 revenues in the original application filed in this case, and at the present rates for the Sun
6 City Water district. Exhibit B shows the typical 5/8 x 3/4 inch meter residential customer
7 bill on a pre- and post- consolidation basis for each of the water districts, with a
8 consolidated monthly basic service charge of \$15.59 and three their commodity rates of
9 \$1.50, \$2.50 and \$3.25. That scenario would result in the following total residential
10 revenue and percentage shifts (in total changes net to zero) by district.⁸⁹

District/Revenue shift increase/(decrease)	Rate increase/(decrease)
Anthem	(\$4.6 million) (47.74%)
Tubac	(\$0.3 million) (47.13%)
Havasu	(\$0.6 million) (42.90%)
Agua Fria	(\$3.5 million) (17.75%)
Sun City West	(\$1.3 million) (15.69%)
Paradise Valley	\$0.3 million 2.95%
Mohave	\$1.7 million 37.22%
Sun City	\$8.4 million 136.00%

11 [ACC Decision No. 71410 at 48:1-19]

12 Magruder Reply.

13 These are the only changes from Present to Consolidated rates that were in the Last Rate
14 Case Decision. Since 9 December 2009, much progress has been made, many "assumptions" firmed
15 into better data, and additional analysis by the Company in its Consolidated Rates Model, now
16 version 4. Using this model, revenue shifts in the Magruder Opening Brief are shown in Table 7.

17 This table from the Magruder Closing Brief, shows that the additional revenue needed from
18 Sun City's residential revenue went from 136% to 50%, a significant change; however, Mohave's
19 residential revenue requirements increased from 37% to 65%. As explained elsewhere, due primarily
20 by the larger water consumptions in the Mohave District.

21 Overall, there was a decrease of less than 1% in residential revenue and an increase of 7% in
22 commercial revenue. This table also shows that there is a significant revenue shortfall in the Non-
23 Potable Water revenue, over \$1 million that has to be made up by other revenue classes. This is
24 discussed later.

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⁸⁹ ACC Decision No. 71410 footnote 227 that reads: "Id. at 7"

Table 7 – Resultant Increase (Decrease) in Revenue by District and by Rate Class.⁹⁰

INCREASE (DECREASE) FROM NON-CONSOLIDATED RATES									
Total	Sun City	SCW	Agua Fria	Anthem	Tubac	Mohave	Havasu	PV	Total
	5,540,852	(1,142,755)	(1,650,930)	(7,307,200)	(234,781)	3,605,784	(310,744)	1,492,714	
Residential Increase/(Decrease)									
\$ Amount	4,596,481	(1,057,408)	(1,320,277)	(5,461,353)	(159,558)	2,546,017	(267,148)	851,196	(272,049)
Percentage	50%	-13%	-8%	-57%	-37%	65%	-22%	12%	0%
Commercial Increase/(Decrease)									
\$ Amount	850,346	(97,979)	(240,550)	(875,306)	(75,224)	811,259	(43,596)	571,120	900,070
Percentage	48%	-8%	-5%	-50%	-42%	86%	-23%	29%	7%
OPA Increase/(Decrease)									
\$ Amount	-	-	4,053	-	-	172,203	-	10,465	186,722
Percentage	0%	0%	59%	0%	0%	98%	0%	48%	91%
SFR Increase/(Decrease)									
\$ Amount	5	-	-	-	-	-	-	4,334	4,339
Percentage	5%	0%	0%	0%	0%	0%	0%	14%	2%
Misc - Non-Potable Increase/(Decrease)									
\$ Amount	23,768	-	(220,562)	(893,035)	-	-	-	-	(1,089,829)
Percentage	10%	0%	-52%	-59%	0%	0%	0%	0%	-50%
Private Fire Increase/(Decrease)									
\$ Amount	70,252	12,633	126,406	(77,506)	-	76,305	-	55,599	263,688
Percentage	124%	19%	105%	-49%	0%	292%	0%	727%	60%

2.4.3 Company's Consolidated Rates Conclusions the Last Rate Case.

ACC Decision No. 71401 continues:

"Mr. Broderick stated that he experimented with the residential rate designs, but it did not change his conclusion that in order to achieve a total residential rate consolidation, the rates in the Sun City Water and Mohave Water districts would increase significantly, and that the major short term beneficiaries would be Anthem Water, Tubac Water, and Havasu Water districts, with the only largely unaffected water district being Paradise Valley Water."⁹¹ [ACC Decision No. 71410 at 48:19-23]

Magruder Reply.

As shown in Tables 3, 6, and 7 above, the resultant rate increases have been reduced with the Magruder Consolidated Rate Schedules. Mr. Broderick's conclusions remain essentially unchanged. See Magruder Exhibits MM-1 and MM-2 for additional details from Last Rate Case.

2.4.4 Company Challenges of Acceptance of Consolidation in the Last Rate Case.

ACC Decision No. 71401 continues:

"Based on its analysis, the Company believes that with the magnitude of revenue shift that would be required, its customers are not yet ready for an eight district consolidation.⁹² The Company contends that ordering rate consolidation in this proceeding would be impractical, and could lead to unintended consequences, because at this time, there are more questions than answers, and to get the answers, data must be gathered, informed

⁹⁰ Magruder Opening Brief, Table 11, same title at 36.

⁹¹ ACC Decision No. 71410 footnote 228 that reads: "Id."

⁹² Id., footnote 230 that reads: "Id. at 8."

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2 public input must be received, and difficult policy choices must be made. The Company
3 believes that a subsequent parallel proceeding is needed to provide a forum for all parties,
4 the public and the Commission to consider consolidation.⁹³ [Decision No. 71410 at 49:2-8]

5 Magruder Reply.

6 These Consolidated Rate hearings and filings is what the Company said it wanted in Phase II
7 of the present rate case. Data have been gathered, many customers informed, informal public
8 meetings held in parallel with these proceedings. Although some feel uniformed, the necessary
9 information is available in the docket or from calls to the Company for one to make a decision;
10 however, others less informed base much of the public comments on not facts in this case but by
11 misleading rumors.

12 2.4.5 The Company's Revenue Requirements Issue.

13 AAWC's Brief states:

14 "Arizona-American is Arizona's largest investor-owned water and wastewater utility,
15 serving approximately 100,000 water customers and 50,000 sew customers in the state.

16 "As the Arizona Corporation Commission ("Commission") is aware, Arizona-American's
17 operating districts have under-earned for several years, and Arizona-American has lost
18 approximately \$30 million since American Water purchased the water and wastewater
19 assets of Citizens' Utilities in 2002.⁹⁴ Arizona-American had a net loss of \$1.8 million in
20 2008, which was an improvement over its \$4.6 million loss in 2007.⁹⁵ While 2009 audited
21 results are not yet released, Arizona-American's financial condition remains dire.⁹⁶
22 [AAWC Brief at 1:6-15]

23 and

24 "Despite these poor earnings, the Company's parent, American Water, has infused
25 approximately \$70 million in equity. Several years ago, the Company was the subject of a
26 three-year rate case filing moratorium and was also ordered to forego recovery of up to
27 \$125 million of utility plant in service for periods of up to ten years ending only in 2012.⁹⁷
28 As a result, the ratepayers have been enjoying the use of substantial assets without paying
29 their full costs. In addition, this rate case included approximately \$70 million (all 5
30 districts) additional utility plant put in service in the three years since the previous test
31 years for these districts.⁹⁸

32 "Given its financial condition, Arizona-American could not have made all the necessary
33 capital investment in Arizona without American Water's willingness to infuse new equity
34 and make long-term borrowing to Arizona-America's at a very attractive rate.⁹⁹ Without
35 an adequate return on this investment, however, Arizona-American's access to this capital
from or through its parent will not continue.¹⁰⁰ Without American Water's financial

93 *Id.*, footnote 231 that reads: "Company Brief at 52."

94 AAWC Brief at 1, footnote 1 that reads: "Exhibit ("Ex.") A-7 at 2; Phase I Transcript ("TR.1") at 301."

95 *Id.*, at 1, footnote 2 that reads: "Ex. A-3 at 3."

96 *Id.*, at 1, footnote 3 that reads: "TR.1 at 301."

97 *Id.*, at 2, footnote 7 that reads: "*Id.* at 4."

98 *Id.*, at 1, footnote 8 that reads: "Ex. A-6 at 3."

99 *Id.*, at 1, footnote 9 that reads: "Ex. A-3 at 5."

100 *Id.*, at 1, footnote 10 that reads: "*Id.*"

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2 commitment to Arizona-American, Arizona-American could face the threat of financial
3 restructuring.¹⁰¹ [AAWC Brief at 2:1-15, emphasis added]

4 and

5 “In order for Arizona-American, the state’s largest private water and wastewater utility, to
6 remain stable and viable for its customers and investors, Arizona-American must earn a
7 reasonable return on and return of the investment made by its shareholders.¹⁰² [AAWC
8 Brief 3:10-13, emphasis added]

9 Magruder Reply.

10 Arizona-American financial basis is weak because it has not obtained adequate revenue from
11 customers. If Arizona-American files for bankruptcy in order to restructure its debts, the operations of
12 the largest water and wastewater investor-owned Company and their impacts on the customers and
13 Commission will not be a pleasant experience.

14 Even though no one does want a rate increase, this Company needs fair and reasonable
15 revenue to become whole, to operate and to serve its customers in a professional manner.

16 **2.4.6 Arizona American Water Company’s Position on Consolidation.**

17 The AAWC Brief continues:

18 “In Decision No. 71410, the Commission expressed its desire to examine in detail the issue of
19 consolidation in this proceeding.¹⁰³ Throughout this proceeding, the Company has provided
20 an incredible amount of evidence to address the issue of consolidation. In its pre-filed
21 testimony and throughout the evidentiary hearing, the Company outlined in detail the
22 benefits of consolidation. The proceeding has made clear to the Company that, for various
23 reasons, the benefits of consolidation are championed by certain parties, such as the Anthem
24 Council and Mr. Magruder, and not accepted by other parties, including Staff and RUCO. ¹⁰⁴
25 Although it will never be possible to convince all parties that consolidation is beneficial, if the
26 Commission wishes to order consolidation for the Company, this proceeding is the best
27 opportunity to so do. As a result, the Company seeks the Commission’s leadership to make a
28 determination regarding consolidation. If the Commission determines that it is appropriate,
29 the Company will use its best efforts to ensure that consolidation is implemented effectively
30 in the manner ordered by the Commission.” [AAWC Brief at 45:6:20, emphasis added]

31 Magruder Reply.

32 During this party’s participation in Phase II of these proceedings, the Company’s position has
33 been very supportive of consolidation.¹⁰⁵ The Commission Staff and RUCO comments that the
34 Company did not want rate consolidation were not found in the testimony by the Company’s
35 witnesses. AAWC’s President Mr. Townsely oral testimony was extremely supportive of the

36 ¹⁰¹ *Id.*, at 1, footnote 11 that reads: “*Id.* at 5-6.”

37 ¹⁰² *Id.*, at 1, footnote 18 that reads: “Ex. A-3 at 6.”

38 ¹⁰³ *Id.*, at 45, footnote 233 that reads: “In its testimony, RUCO set forth the possibility of raising certain legal arguments in
39 opposition to rate consolidation in this proceeding. The Company intends to respond to these in its reply brief.”

40 ¹⁰⁴ *Id.*, at 45, footnote 234 that reads: “Magruder Schedules, Anthem Schedules, Ex. Woods-1.”

41 ¹⁰⁵ Magruder Rebuttal, at 25:32-26:7.

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2 consolidation benefits that his Company needs to be successful. In addition to the Company's details
3 supporting the benefits of consolidation, the Magruder Testimony,¹⁰⁶ Magruder Rebuttal,¹⁰⁷ Magruder
4 Opening Brief,¹⁰⁸ and Mr. Neidlinger Testimony¹⁰⁹ all had a ample evidence that rate consolidation
5 benefits the customers, the Commission and the Company.
6

7 **2.5 Magruder's Reply to Anthem Community Council Brief**¹¹⁰

8 There are several issues related to the Anthem Community and its witnesses' testimonies,
9 rebuttals and brief. An over-arching issue concerns an agreement in 1998 between Del Webb
10 (developer) and Citizens Utilities (water/wastewater service company) for the Anthem development.
11 Del Webb sold to Pulte and Citizens Utilities to Arizona-American, thus the second-generation
12 owners are disputing a series of large charges that may impact the Anthem ratepayers. Arizona-
13 American proposed rates assume that the Anthem ratepayers will assume a certain amount of these
14 disputed refund payments in this rate case.¹¹¹ Staff, RUCO and Company positions differ.

15 The Magruder Consolidated Rates use the Company's proposed revenue from the proposed
16 rates. This is only area, where it would be easy to change to the approved Anthem districts revenue
17 in the Company's Consolidated Rate Model, v4, to compensate for such a change. There is the issue
18 of the impact of this rate case on ratepayers. A "Present" they pay the Present Rates and approved
19 rates determined by the Commission. The Proposed Rates, discussed earlier in this Reply, are not in
20 effect but have been put forth by the Council, Commission and RUCO; however, it is the resultant
21 difference between the Present and the resultant Consolidated Rates that are the primary concern of
22 Phase II. In order to show these differences, various Tables in the Magruder Opening Brief and its
23 corrected Consolidated Rates (Attachment A). For clarity, this party continues to also show Present
24 and the Company's Proposed Rates herein. The Company's Rate Consolidation Model also uses the
25 terms Present, Proposed and Consolidated 'rates' as so defined.

26 **2.5.1 Anthem Council's Participation in Phase I.**

27 The disputed refunds impact both Phase I (standalone) and Phase II (consolidated) rates.
28 This complex issue is not the primary concern of this party and will leave the decision with the
29 Commission to determine the best option in the public interest. This issue appears to be a case of
30 where a large developer "pulled the wool over the homebuyers and then skipped town."
31

32
33 ¹⁰⁶ Magruder Testimony paragraph 1.1.2 "Benefits of Rate Consolidation" at 11:28-12:23 with Table 1, "Customer,
Company, and Commission Benefits Associated with the Factors Considered for Rate Consolidation" at 12.

34 ¹⁰⁷ Magruder Rebuttal at 25:8-28.

35 ¹⁰⁸ Magruder Opening Brief paragraph 2.3, "The Benefits of Rate Consolidation" at 16:4:32 with Table 1, "Customer,
Company, and Commission Benefits Associated with Consolidation," at 16.

¹⁰⁹ Magruder Rebuttal at 25:32-26:7 that quotes the Neidlinger Testimony.

¹¹⁰ Intervenor Anthem Community Council's Initial Post-Hearing Brief of 16 July 2010, hereafter "Anthem Council Brief."

¹¹¹ Intervenor Anthem Community Council's Pre-Hearing Memorandum on Disputed Refund Payment Issue, 16 April 2010.

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3 **2.5.2 Anthem Council Supports Company-Wide Consolidation for All Districts.**

4 The Anthem Council Brief states

5 "Rate Consolidation is a long-term solution that, over the long haul, benefits all customers.
6 ¹¹² In order to achieve the maximum benefits of consolidation articulated below, Anthem
7 recommends company-wide consolidation.¹¹³ Partial consolidation (such as
8 recommended by the Staff) is not consistent with the purposes of consolidation and
9 would not provide any meaningful improvement for Anthem residents over the current
10 stand-alone rate design." [Anthem Council Brief at 15:14-20.]

11 Magruder Reply.

12 These benefits as a long-term solution for all customers, for all districts, is the position taken
13 by this party. Anything less or partial consolidation is against the principles for consolidation. ¹¹⁴

14 **2.5.3 Anthem Council Considers Each District will have Unique and Unexpected Cost.**

15 The Anthem Council Brief continues

16 "**Because it was Tubac two years ago, and it could be Sun City three years from now.
17 And Anthem was in the box last year and this year. So everybody is in the box
18 sooner or later. Everybody needs help sooner or later.**"¹¹⁵ [Anthem Council Brief at
19 15:14-20 included above emphasis.]

20 Magruder Reply.

21 Anthem Council used this quote that emphasizes different districts have significant short-
22 term cost challenges, usually infrastructure related, that are unexpected. The consequences of
23 such costs, if applied just when they occur, would cause highly variable rates and frequent rate
24 shock for customers. As indicated in the quote, these three diverse districts are "in the box" where
25 consolidation would reduce short-term "shocking" changes through long-term smoothing of
26 expenses for all customers of Arizona-American. This is a very perceptive quote.

27 **2.5.4 Anthem Council Considers the Benefits of Rate Consolidation.**

28 The Anthem Council Brief continues

29 "The benefits of rate consolidation include

- 30 (i) lower administrative costs through unified customer accounting and billing systems;
31 (ii) reduction in the number of rate cases and associated expenses;

32 ¹¹² Anthem Council's footnote 51 at 15 that reads: "Direct Examination of Paul G. Townsley, Phase II Tr. 347:14-352:5."

33 ¹¹³ Anthem Council's footnote 52 at 15 that reads: "RUCO has received 80 pieces of correspondence from Anthem
34 ratepayers and the vast majority of them do indicate support for rate consolidation. Direct Examination of Jodi A. Jerich,
35 Phase II Tr. 1088:13-21, 1095:18. Anthem acknowledges that RUCO has also received correspondence opposing
consolidation and that RUCO may formulate legal arguments opposing consolidation based upon (i) the use of revenue
requirements for two different test years and (ii) the Commission's revenue neutrality requirements set forth in Decision
No. 71410. *Id.* at 1091:4-11, 1095:16-20. Anthem's counsel would like the opportunity to analyzed these arguments if
and when they are articulated by RUCO's initial post-hearing brief and will respond in Anthem's reply post-hearing brief."

¹¹⁴ Magruder Opening Brief at 21:17-29.

¹¹⁵ Anthem Council's footnote 53 at 15 that reads: "Chairman Kris Mayes, Phase II Tr. 63:16-20."

- (iii) elimination of distorted cost allocations among districts in rate filings;
- (iv) implementation of standard customer service policies and related service rates and charges;
- (v) improved rate stability and elimination of rate shock;
- (vi) reduced customer confusion with respect to the Company's currently differing rate schedules;
- (vii) improved opportunities for future acquisitions, especially of troubled water systems.¹¹⁶

Further, consolidation of the Company's existing rate structures on a company-wide basis would be consistent with AAWC's single-company manner of operations.¹¹⁷ AAWC operates as a single entity for all purposes other than the ratemaking process.¹¹⁸

[Anthem Council Brief at 16:4-14, emphasized by formatting subparagraphs]

Magruder Reply.

Anthem Council understands the benefits of consolidation are wide-ranging and that many of these benefits are not financial-oriented but are essentially administrative and procedural improvements that will improve the quality of Arizona-American in her relations with customers, the Commission and RUCO, and more importantly, with its parent company, American Water Company (AWC).

As shown in 2.4.5 above, the financial support provided to Arizona-American over the past years has been very beneficial but AWC cannot support "losers" forever. Arizona-American must be allowed to receive Commission-approved fair and reasonable revenue from its customers. This case should accomplish this. With consolidation, then, as shown by the above Anthem Council quote, these and other benefits will accrue as expanded in the Company's footnote 54.

2.5.5 Anthem Council Supports the Company's Preferred Consolidation Scenario One.

The Anthem Council Brief continues

"There are an infinite hypothetical number of rate design proposals for AAWC's districts and a plethora of designs presented in this case. Intervenor Marshall Magruder has compared the various consolidation and stand-alone rate proposals. See Exhibit Magruder 5, attached hereto as Exhibit D. Anthem supports AAWC's Preferred Consolidation One.¹¹⁹ Scenario One includes the consolidation of all the Company's water and wastewater districts. In contrast, the partial consolidation alternatives presented by AAWC and Staff do not provide for any meaningful improvement over the current stand-alone system, seem arbitrary and unworkable, are myopic,¹²⁰ and reflect the amalgamation of rate designs for the disparate systems which, through acquisition, are the current districts of the AAWC." [Anthem Council Brief at 16:17-17-3]

Magruder Reply.

¹¹⁶ Anthem Council's footnote 54 at 16 that reads: "See *supra* FN 51; see also Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 5-6. Mr. Magruder lists 22 rate consolidation benefits on Table 1, Page 12 or Magruder-1 incorporating many of the benefits listed above as well as others that deserve some consideration."

¹¹⁷ Anthem Council's footnote 55 at 16 that reads: "Cross-Examination of Thomas M. Broderick, Phase II Tr. 102:21-25."

¹¹⁸ Anthem Council's footnote 56 at 16 that reads: "Company's response to Staff Data Request STF 21.1."

¹¹⁹ Anthem Council's footnote 57 at 16 that reads: "Company Consolidation Model Version 4."

¹²⁰ Anthem Council's footnote 58 at 17 that reads: "See Phase II. Tr. 24:18-20."

1
2 Anthem Council supports the Company's preferred Scenario One. The Magruder Opening
3 Brief expands the good work by the Company to provide additional rate structure features, such as
4 the water LIFELINE rates for all customers, separation of the 1-inch residential and commercial rate
5 category, enhance water conservation signals for customers, and others to achieve an approved
6 Company's revenue requirements.¹²¹ These rate structure features are discussed in more detail in
7 Issue 2 below.

8
9 **2.5.6 Anthem Council Supports the Five-Step Consolidation Implementation Plan.**

10 The Anthem Council Brief continues

11 "Scenario One provides for a consolidation implementation plan using five steps from
12 stand-alone to full consolidation. Although a five-step consolidation plan will delay
13 implementation of full consolidation, it will allow for a smoother transition and will
14 reduce rate shock for customers in those districts whose rates will increase more than
15 they would without consolidation.¹²² In each step of the five steps, one-fifth of the
16 aggregate rate increase or decrease, as the case may be, required to transition to total
17 consolidation would be stepped in. As a result, percentage step adjustments in steps two
18 through five would be roughly equal.¹²³ [Anthem Council Brief at 17-4:10]

17 **Magruder Reply.**

18 There is concurrence with this party that the Company's proposed 5-Step consolidation
19 implementation plan is the best way to reflect the transition from standalone to consolidated rates for
20 all parties. This plan results in both the rate increases and rate decreases smaller and in annual steps
21 that will be known by customers in advance. As shown above, the largest annual rate increase due to
22 rate consolidation using this plan is about 68 cents a month for the Sun City residential customers.
23 This appears to be fair and reasonable.

24 **2.5.7 Anthem Council Supports the Five Residential Tiers.**

25 The Anthem Council Brief continues

26 "Scenario One is also preferable because it includes five residential tiers in the commodity
27 rate component which allows AAWC to address the variation in customer use patters
28 across the various districts.¹²⁴ Multiple tiers avoids large intra-class subsidies that would
29 result in the absence of commodity tiers to address customer use patterns.¹²⁵ For
30 example, most of the consumption in the Sun City water district occurs in the first or

31
32 ¹²¹ Magruder Opening Brief at paragraphs 2.6.1, 2.6.2, and 3.1.1 to 3.6.

¹²² Anthem Council's footnote 59 at 17 that reads: "See Direct Testimony of Dan L. Neidlinger Stand-Alone Design and Rate Consolidation, Exh. Anthem-18 at 7."

33 ¹²³ Anthem Council's footnote 60 at 17 that reads: "Step one is an exception because the rate adjustment must account for
34 the transition from an existing rate design to a new rate design as well as the step in of one-fifth of the revenue change
35 from rate consolidation. Direct Examination of Thomas M. Broderick, Phase II Tr. 1480:5-10, 1481:6-11."

¹²⁴ Anthem Council's footnote 61 at 17 that reads: "See Rebuttal of Staff Rate Design Testimony of Thomas M. Broderick, Exh. A-39 at 14."

¹²⁵ Anthem Council's footnote 62 at 17 that reads: "Direct Examination of Thomas M. Broderick, Phase II Tr. 1483:15-1848:7; Direct Testimony of Dan L. Neidlinger Stand-Alone Rate Design and Rate Consolidation, Exh. Anthem-18 at 8."

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2 second tiers, whereas Sun City West has substantial consumption in the second and third
3 tiers. Similarly, Tubac and Paradise Valley have significant consumption in the fourth and
4 fifth tiers.¹²⁶ While the Company has not proposed a time frame for implementing each of
5 the five-steps, Anthem suggests a five-year time frame, with annual step increases.¹²⁷
6 Anthem Rate Design Schedule 2 – ‘Development of Consolidated Rate Design Adjustment
7 Factors,’ attached hereto as Exhibit E, sets forth the consolidated rate design adjustment
8 factors proposed by Anthem.” [Anthem Council Brief at 17-11:21, emphasis in original]

9
10 Magruder Reply.

11 There is concurrence that a five-tier rate structure design is essential for residential customer
12 and that a four-tier rate structure design is also appropriate for commercial customers, using the
13 same logic as expressed by the Anthem Council.¹²⁸

14 **2.5.8 Anthem Council’s Alternatively Supports Stand-Alone Rate Design as Modified by
15 Deconsolidation of Anthem and Agua Fria Wastewater Districts**

16 And the Anthem Council Brief continues

17 “1. AAWC’s proposed rate design is acceptable.

18 “In the event that the Commission does not adopt company-wide consolidated rates in
19 this proceeding, the current fixed/commodity rate structure of the Anthem water and
20 wastewater districts should be retained and any rate increases applies on an across-the-
21 board basis.” [Anthem Council Brief at 18:3-6]

22 And continues

23 “2. Staff’s proposals for rate design are unacceptable.

24 “Because the Staff’s proposed changes to water and wastewater rate designs are without
25 adequate foundation or support and would adversely affect Anthem customers, the
26 Commission should reject Staff’s proposed stand-alone rate design for the Anthem Water
27 District. There is no justification for the Staff’s extreme tilting of the rate structure which
28 could create significant rate stability problems for AAWC. ...” [Anthem Council Brief at
29 18:9-14]

30 And continues

31 “The Commission should also reject Staff’s proposed stand-alone rate design for the
32 Anthem/Agua Fria Water District. ... Furthermore, this proposed change in wastewater
33 rates for Anthem’s residential customers should not be accepted. 20:16 [Anthem Council
34 Brief at 18:9-14; 19:8-9]

35 And the Anthem Council Brief continues

“3. If company-wide consolidation is not adopted by the Commission, Anthem
recommends the deconsolidation of the Anthem/Agua Fria Wastewater District.”

“However, if consolidation of all AAWC districts is not adopted in this case, the
Commission should deconsolidate the Anthem and Agua Fria wastewater districts and set
separate stand-alone rates for each district. Anthem wastewater customers should not be

¹²⁶ Anthem Council’s footnote 63 at 17 that reads: “Company’s response to Staff Data Request STF 21.8.”

¹²⁷ Anthem Council’s footnote 64 at 17 that reads: “Direct Examination of Thomas M. Broderick, Phase II Tr. 1502:21-23.”

¹²⁸ Magruder Opening Brief at 32:12-28.

1
2 burdened by what in effect is a subsidization of Agua Fria wastewater customers under
3 the existing rate design.¹²⁹ As part of RUCO's discussion regarding consolidation,¹³⁰ Ms.
4 Jerich asserted that the Commission should deviate from cost of service rate design, as in
5 the case of rate consolidation, only if it can identify reasons on favor or rate consolidation
6 that outweigh the identified reasons against rate consolidation.¹³¹ If the Commission
7 accepts Ms. Jerich's argument and denies company-wide consolidation because the
8 associated cross-subsidization deviates from cost of service rate design, then Anthem and
9 Agua Fria wastewater districts, for the same reason, should be deconsolidated. In the
10 Company's response to Anthem data request 6.2, Mr. Broderick indicated that none of the
11 four wastewater facilities in the Anthem/Agua Fria wastewater district are
12 interconnected.¹³² Moreover, Anthem wastewater customers receive no service from the
13 Northwest Treatment Plant, whereas Agua Fria wastewater customers do. Therefore,
14 Agua Fria wastewater customers should absorb any of the Northwest Treatment Plant
15 costs not allocated to Sun City West. Finally, regardless of whether or not the Anthem or
16 Agua wastewater districts are deconsolidated, the Commission should reject Staff's
17 recommended design change.¹³³ [Anthem Council Brief at 19:20-21:16, emphasis in
18 original]

14 Magruder Reply.

15
16 For clarity, these comments concerning stand-alone rates do not impact on this Reply Brief.
17 This issue clearly illustrates some of the present problems that exist when Arizona-American is not
18 consolidated. We see some districts paying for services not rendered, others paying disproportionate
19 shares for services, and other rate discrimination and cross-subsidization issues that will be
20 eliminated²¹ if the Commission decides to adopt deconsolidation.

21 **2.5.9 Anthem Council's Conclusions and Recommendations.**

22 And the Anthem Council Brief continues

23 "In summary, Anthem supports [Company] Scenario One consolidation as a useful long-
24 term strategy for decreasing the inefficiencies in AAWC's provision of water and
25 wastewater services. However, if consolidation is not accomplished in this case, the
26 Commission should deconsolidate the Anthem and Agua Fria wastewater districts and set
27 separate stand-alone rates. ..." [Anthem Council Brief at 19:17-21]

31
32 ¹²⁹ Anthem Council's footnote 69 at 20 that reads: "Cross-Examination of Paul G. Townsley, Phase II Tr. 331:15-334:5."

33 ¹³⁰ Anthem Council's footnote 70 at 20 that reads: "RUCO does not take a position on the question of whether there should
be deconsolidation of the Anthem and Agua Fria wastewater districts in the event that the Commission decides on
stand-alone rates. Cross-Examination of Jodi A. Jerich, Phase II Tr. 1157:6-21."

34 ¹³¹ Anthem Council's footnote 71 at 20 that reads: "Direct Examination of Jodi A. Jerich, Phase II Tr. 1090:6-15."

35 ¹³² Anthem Council's footnote 72 at 20 that reads: "Exh. Anthem-7 response to Anthem data request 6.2. See Direct
Testimony of Dorothy M. Hains, Exh. S-7 at 13, Exhibit DMH-3, Figure 1 for a map depicting the geographical distance
between the Anthem and Agua Fria wastewater districts."

¹³³ Anthem Council's footnote 73 at 20 that reads: "See Section IV.C.2 herein for Anthem's discussion of Staff's proposed
stand-alone rate design."

1
2 **2.6 Magruder's Reply to Individual Intervenor, Larry Wood's Brief.**

3 **2.6.1 Larry Wood's Participation in the Last Rate Case and Phase I.**

4 Mr. Larry Woods participated in the Last Rate Case and in Phase I as the President of the
5 Property Owners and Residents Association (PORA) for Sun City West. In the present rate case, he
6 has participated as an "individual" intervenor, not as a representative of PORA. During the Last Rate
7 Case, Mr. Woods took a position that opposed rate consolidation of water and wastewater districts.

8
9 **2.6.2 Magruder's Prior Rebuttal to Larry Wood's Prior Testimony.**

10 In Mr. Woods Direct Testimony of 3 May 2010, he referenced the EPA-NARDC document
11 titled *Consolidated Water Rates: issues and Practices in Single-Tariff Pricing*.¹³⁴ He referred to four
12 benefits of rate consolidation and omitted other important benefits that are presented in the Magruder
13 Rebuttal.¹³⁵ He also referred to 13 arguments that were against rate consolidation.¹³⁶ The Magruder
14 Rebuttal presented a more balanced view of these factors for/against rate consolidation.

15 **2.6.3 Larry Wood's Water as a Commodity Issue.**

16 The Woods Brief states

17 "At various times during the case proceedings it was mentioned that the Company
18 provided water to its ratepayers, the conclusion being that all ratepayers should pay the
19 same amount for this water. This is not the case. The main product that is provided by the
20 Company is potable water that is delivered in a dependable manner to the faucets of the
21 ratepayers. The methods that are used to provide this water are locally unique and vary
22 greatly from district to district. Initial sources of the water, the age of processing
23 equipment, methods of purification, and the distribution systems that are used are specific
24 for each district; in some cases various combinations being implemented within a single
25 district. Based upon the diverse requirements of each district and the infrastructure
26 available it is obvious that the ultimate delivery of water for a given district is very much
27 dependent on the unique situation within that locale. There cannot be a case made that
28 'water is water' and therefore all ratepayers should be charged the same rates for its
29 ultimate delivery to the faucet. Water is local!" [Woods Brief at 2:11-25]

30 **Magruder Reply.**

31 As Mr. Woods states, the Company delivers water to its customers. Water is the product being
32 delivered and it is the cost of delivery, not the cost of water, that the customer's bills reflect. The
33 product is the same, water, it is the services to deliver the product that differ. Each and every
34 customer, in each and every district, has some differences in the cost to deliver this product.

35 ¹³⁴ Joint Publication of the U.S. Environmental Protection Agency and the National Association of Regulatory Utility
Commissioners, www.epa.gov/safewater/utilities/stptitle.pdf and as Exhibit A to Jodi Jerich Rate Consolidation
Testimony of 3 May 2010, Summary at viii.

¹³⁵ Magruder Rebuttal, Response No. 1, Beneficial Arguments for Rate Consolidation at 15:23-16:23, including Table 1 –
Arguments in Favor of Single-Tariff Pricing.

¹³⁶ *Id.*, Response No. 2, Negative Arguments for Rate Consolidation at 16:24-17:16, including Table 2 – Arguments Against
Single-Tariff Pricing.

1
2 It should be remembered that every water district residential and commercial customer
3 receives this same product, water, contemporaneously with other customers. During cross-
4 examination and oral testimony I used some examples as to how much customer A or B pay for their
5 service. If one feels A and B should pay the same for the Company's service, then rate consolidation
6 is the appropriate answer to the below questions.

- 7 1. Customer A lives 100 yards from the water pump, Customer B lives 20 miles away from
8 the same pump. Should Customer A pay the same rates as Customer B?
- 9 2. Customer A lives across the Interstate highway from Customer B in the same water district;
10 however, Customer A's well has arsenic while Customer B's well does not. The water
11 mains are not interconnected. Should Customer A pay the same rates as Customer B?
- 12 3. Same as 2 but Customer A lives in different water district from Customer B across the
13 same Interstate highway. Should Customer A pay the same rates as Customer B?
- 14 4. Customer A lives across the Interstate highway from Customer B in the same water district;
15 however, Customer A's well has arsenic while Customer B's well has excess copper that
16 requires a special treatment process. Should Customer A pay the same rates as B?
- 17 5. Same as 4 but Customer A lives in different water district from Customer B across the
18 Interstate highway. Should Customer A pay the same rates as Customer B?
- 19 6. Customer A lives across the Interstate highway from Customer B in the same water district;
20 however, Customer A's well has arsenic and copper while Customer B's well only has
21 arsenic. Should Customer A pay the same rates as Customer B?
- 22 7. Same as 6 but Customer A lives in different water district from Customer B across an
23 Interstate highway. Should Customer A pay the same rates as Customer B?
- 24 8. Customer A lives across the Interstate highway from Customer B in the same water district,
25 Customer A subdivision's water system is old and needs equipment replacement; while
26 Customer B subdivision's water system is new. These customers do not have
27 interconnected water lines. Both live in the same water district. Should Customer A pay
28 the same rates as Customer B?
- 29 9. Same as 8 but Customer A lives in a different water district than Customer B. Should
30 Customer A pay the same rates as Customer B?

31 And, overarching all of these A or B decisions is the Arizona Constitutional requirement in
32 Article 15 Section 12 that charges for service shall not discriminate between people or places.

33 **2.6.4 Larry Wood's Consolidation Savings to the Company and/or Commission Issue.**

34 And the Woods Brief continues

35 "Company witnesses felt that there might be some minimal internal savings realized
through rate consolidation but they emphasized that their present business practices
were very efficient. On the other hand, the Company felt that the costs for future rate
cases could be reduced since it was their belief that there would be fewer cases. This
would also translate into savings for the commission since they would also have to hear
fewer cases, Let's look at that.

"The Company pointed out that they are constantly coming to the commission with rate
adjustment requests. This is because they have multiple districts that need funds for
various repairs, additions, etc so there is the requirement for multiple rate cases. For
example, through rate consolidation the Company might only have to come to the
commission annually, presumably with a 'consolidated' request. But what would this
request look like? Wouldn't it be the collection of dl of the various district modifications
that would have been requested previously through individual rate cases? Wouldn't

1
2 Commission Staff and RUCO have to review all of the individual parts of the rate request?
3 Wouldn't an ALJ have to preside over a much longer set of proceedings? And, since the
4 rate request would affect ALL of the ratepayers in ALL of the districts then wouldn't we
5 expect--or at least hope - that potentially there could be interveners from ALL of the
6 districts that would be questioning the validity of various portions of the request? The
7 only way that I can see that there would be savings to the Company and the Commission is
8 that the rate case would be presented and accepted with little examination. By statute this
9 is not an option. Therefore I see little argument to support the implied savings." [Woods
10 Brief at 2:23-3:17

11 Magruder Reply.

12 These are not viable concerns.

13 The Commission and RUCO reviews for prudence and use and useful can not be changed
14 under consolidation. ALL changes are always assessed, if individually submitted, or as in the Last
15 Rate case and in this case, when multiple districts are involved. From a regulatory requirement, there
16 are no changes that this party could imagine. The Company requests rate changes, not districts. The
17 Commission and RUCO reviews are for the Company. The details of reviews are company-wide,
18 which includes all districts to the same degree as if one district was making an application.

19 Why these last and present rate cases are so complex is due to the continually separation of
20 all costs and expenditures at district levels. In many cases, this is now being apportioned, such as
21 pension costs. Obviously, if one district supports many of the Company's pensions while another
22 newer district has no such retirees, such differences are not accounted for now nor should they ever
23 be. The Company funds pensions, not districts. In fact, these proceedings should be more efficient.
24 For example, tank maintenance can be reviewed at one time, instead of as a separate issue for each
25 district. In such a review, all tanks would be assessed, all tank maintenance costs reviewed as to if
26 they are prudent and reasonable. All customers would pay the same for tank maintenance, including
27 those customers in Tubac, which have no storage tanks to maintain but hope to have a storage tank
28 in the near future. Should Tubacaños complain about paying for tank maintenance in Sun City?

29 No company could ever charge each customer exactly what it costs to serve that individual
30 customer, as in the examples in the prior reply.

31 **2.6.5 Larry Wood's Concern that Consolidation Encourages Company Growth Issue.**

32 The Woods Brief states

33 "American Water Works Company (AWK) is the parent of the Company. Plant acquisition
34 is the growth strategy for the parent and therefore we can assume a charge to the
35 Company. ... Growth of service providers in the regulated utility segment is achieved
through acquisitions, including small water and wastewater systems, typically serving
fewer than 10,000 customers that are in close geographic proximity to our Regulated
Business operations. These smaller acquisitions we refer to as "tuck-ins." of other water

1
2 and wastewater systems and organic growth of the population served by such
3 providers.¹³⁷ (Author underlining)" [Woods Brief 3:19-20, 4:4-8, emphasis in original]

4 and continues

5 "Utility commissions periodically request our expertise to purchase small, unsustainable
6 water systems that have fallen into disrepair and bring them back into regulatory
7 compliance Municipalities and cities have called directly on our experience with design,
8 construction and operation of water systems and established operations and maintenance
9 contracts, to address compliance issues or respond to consent orders. For example, in
10 Pennsylvania, we took over a troubled water systems with a history of water outages,
11 frequent main breaks and service reliability issues and are now providing a long-term
12 solution for customers of the water system. The system had been under a Department of
Environmental Protection (DEP) consent order since July 2008 over service reliability
issues.¹³⁸ (Author underlining)" [Woods Brief at 4:15-21, emphasis in original]

13 Magruder Reply.

14 The Corporation Commission frequently hires professional water companies to manage
15 disabled water or wastewater companies. The management fees and the expenses of this company
16 are all paid from funds obtained by the Corporation Commission. If this company's assets are to be
17 purchased by any company, the purchase agreement is required to be approved by the
18 Commission. One area of continual concern by the Commission will always be the financial impact
19 on the acquiring of any utility and to ensure that ratepayers in the acquiring company do not pay for
20 problems from the company being purchased. These expenses belong to the shareholders of the
21 acquiring company. This is not a problem in Arizona. I have participated in such cases and confirm
22 this is a through process with the existing ratepayer's interest not to be negatively impacted. In the
23 above cases, it was very beneficial for both companies to complete the acquisition.

24 Further, the Pennsylvania example appears to concern a municipal utility, which are not
25 under the purview for rate setting by the Commission.

26 This party has stated on several occasions in these proceedings that there are at least an
27 order of magnitude too many water and wastewater companies in Arizona, with maybe 30 water
28 and 25 wastewater companies being a reasonable goal to benefit all Arizonans. I agree with Mr.
29 Woods there are way too many troubled water/wastewater companies that need leadership that
30 large companies provide. Since the acquiring company's shareholders pay the cost of acquisition,
31 including the necessary improvements to not impact the current ratepayers of the acquiring
32 company, this should be a long-term goal for this Commission.

33
34 ¹³⁷ Woods Brief footnote i at 7 that reads: "Form 10-K, American Water Works Company, For the fiscal year ended
35 December 31, 2009; Page 5; <http://www.sec.gov/Archives/edgar/data/1410636/000119312510044392/d10k.htm>

¹³⁸ Woods Brief footnote ii at 7 that reads: "American Water Company June 20, 2010 Institutional Investor Meeting, Page
50 of 52;
<http://phx.corporate.ir.net/External.File?item=UGFyZW50SUQ9NDkyMzF8Q2hpbGRJRD0tMXxUeXB1PTM=&t=1>

1
2 **2.6.6 Larry Wood's Concern about Company like a Municipal Utility as an Issue.**

3 The Woods Brief states

4 "In a discussion with an officer of the Company I suggested that there wasn't any
5 justification for spreading individual district costs over the complete ratepayer base. He
6 suggested that this type of "cost-sharing" was no different than if the City of Phoenix
7 needed to drill a new water well in the north side of Phoenix. The city water department
8 would be charging the costs of this well over the complete base of ratepayers in Phoenix,
9 even though some of these ratepayers live in the south side of Phoenix. I contend that
10 there is a distinct difference. The focus of a municipal utility is service. The goal of a for-
11 profit company such as the Company is profit to the shareholder. Obviously the Company
12 must deliver a service but any level of service over and above that that is expected might
13 have a negative affect on profitability and should therefore be avoided. Is this to imply
14 that the Company is not to be trusted? No. On the other hand, in any business transactions
15 with the Company we need to remember that the Company is a for-profit business entity."
16 [Woods Brief at 5:4-16]

17 **Magruder Reply.**

18 An investor-owned utility is "regulated" by this Commission. The Commission, during each rate
19 case, determines the "return on investment" (ROI) for the Company. Forensic auditors review all
20 expenses and revenue and those not deemed appropriate for the ratepayers are not allowed and
21 must be assumed by the shareholders. It is my understanding that the Commission may give a
22 regulated water company a higher ROI if its performance meets a certain level or a lower ROI when
23 performing poorly. In both ROI cases, the impacts on the ratepayers are always a major factor and
24 happy ratepayers (high performing company) seem to enjoy the benefits of efficiency, highly
25 responsive companies, who keep their costs down, thus maybe awarded a higher ROI. Companies
26 that have satisfied customers, satisfied utility commissions and have earned higher ROIs make
27 higher profits.

28 Thus, the "for-profit" regulated utility versus "municipal" local-regulated utility, are vastly
29 different when it comes to determination of rates. Both will have expenses that impact one set of
30 customers and not another, such as the "water well" example used by Mr. Woods. In both cases, this
31 cost usually are not shifted to just the users of that well but to the utility as a whole. This is really not
32 an issue.

33 **2.6.7 Larry Wood's Concern about the Tubac Issue.**

34 The Woods Brief states

35 "The debate about rate consolidation should have been done based upon the merits of the
concept. Instead, the commission allowed the debate to focus on situations specific to
particular districts. What should have been a discussion on a concept became an
emotional exchange between residents of various districts. Let's look at the specific
situations:

" -**Tubac**: This small district with less then 600 meters has a well that is delivering water
with an arsenic level that is above the mandated federal level. Correcting the problem will

1
2 cost multiple million dollars. At this point it is my understanding that some of this cost has
3 been covered by federal funds. In any case the costs to such a small group of ratepayers
4 are extravagant. This type of situation where a group of residents is forced to incur
5 exorbitant cost
6 that are outside of their control should be addressed by government. For example, a
7 possibility might be a governmental fund that would assist in covering these costs. But,
8 should other ratepayers who coincidentally buy services from the same company have to
9 cover these costs?" [Woods Brief at 5:18-6:4, emphasis in original]

10 and continues

11 Before leaving the topic of addressing specific situations I find it interesting that I can't
12 find any citations either from the commission or media where any of the water districts
13 came forward in 2004 to propose support for Sun City West when they spent over
14 \$10,000,000 for arsenic removal facility. And, Sun City West was not the only district that
15 required additional facilities for arsenic removal; it's just the one that I am familiar with.
16 [Woods Brief 6:18-22]

17 Magruder Reply.

18 This rate case and its resultant consolidated rates have NOTHING to do with the arsenic
19 removal plant costs for the Tubac Water District. At present, these customer costs are in an
20 independent ACC Docket. None of the revenue in the present rate case will be used to fund this
21 plant. This is not an issue.

22 However, this is what rate consolidation is all about. In the future, there should be no single
23 water or wastewater district involved in independent assessments, such as the arsenic removal costs.
24 Sun City West will not have its local ratepayers fund such a plant, nor would Tubac, or any other
25 district. All infrastructure costs, from storage tanks to water mains to meter reading, will be in the
26 revenue requirements for Arizona-American, with all customers providing the revenue in their rates.
27 Tubac customers will also fund, in the future, the Sun City infrastructure replacement program and
28 the tank cleaning programs at other places.

29 This eliminates the unfair way to doing business at this time, and removal of rate
30 discrimination that is the real issue of this case. And, in the long-term, we never will see \$10 million
31 cost being born by one water district, such as by Sun City West for its arsenic treatment plant.

32 **2.6.8 Larry Wood's Concern about the Anthem Issue.**

33 The Woods Brief states

34 "**Anthem:** The 'Anthem Problem' is NOT a rate setting problem and should never have
35 been allowed to be part of this rate case. The situation in Anthem has nothing to do with
the delivery of water and/or wastewater treatment. It is a financial situation of
questionable validity that first needs to get resolved before it should be introduced as a
rate setting case. There seem to be many parties that had a responsibility for allowing this
situation to happen. In particular, from my research it looks as if the Commission itself
was negligent in ignoring this situation, a situation that was known and acknowledged in
the late 1990's when the commission disallowed the inclusion of some of these costs in the

1
2 rate base for Anthem. From my layman's prospective it looks like the then elected
3 commissioners said, 'No,' and then ignored it, 'kicking the can down the road.' The
4 Company, the developer, and the Commission knew that the day was coming when this
5 bill needed to be paid. The victims were the ratepayers. But, should other ratepayers who
6 coincidentally buy services from the same company have to cover these costs?" [Woods
7 Brief at 6:5-17, emphasis in original]

8
9
10 **Magruder Reply.**

11 This party concurs with Mr. Woods; however, this issue needs resolution and, from my
12 experience, a rate case is sort of a catch-all event in the life of a utility.

13 The continued stress and uncertainty being experienced by the Anthem Community needs to
14 be resolved. The consequences of a Commission decision to approve the Company's position will
15 have significant impacts on this community; however, a Commission decision to deny the Company's
16 position will have a similar impact on the Company. This is a true test of the Commission's balancing
17 function on weighing ratepayers versus the utility.

18
19
20 **2.6.9 Larry Wood's Conclusion and Position**

21 The Woods Brief states

22 "I would hope that the reader has picked up on my position as being against rate
23 consolidation. I cannot identify any significant savings that will be had through
24 consolidation. I also believe that if consolidation is approved that we will see increased
25 acquisition activities by the Company. And, this will lead to increased rates for all
26 ratepayers." [Woods Brief at 6:24-7:2]

27 **Magruder Reply.**

28 As explained above in reply to Mr. Woods, consolidation has other benefits than "cost"
29 savings and that increased acquisitions by the Company are adjudicated by the Commission to
30 ensure that the result remains "fair and reasonable" without discrimination between persons and
31 place. Therefore, this party does not agree with Mr. Woods' conclusion and position.

32
33 **2.7 Magruder's Reply to Individual Intervenor, W.R. Hansen Brief.**

34 **2.7.1 W. R. Hansen's Background Issues and Participation in Phase I.**

35 During Phase I, Mr. Hansen participated as an individual intervenor. Mr. Hansen opposed rate
consolidation.

Magruder Reply.

No comment. Mr. Magruder did not participate in Phase I of the present rate case.

2.7.2 Magruder's Prior Rebuttal to W. R. Hansen's Prior Testimony.

In Phase II, his testimony concerns include rate consolidation assists some districts, increased
levels of service are not guaranteed, incentives for inefficient or capital-troubled districts, "trolling" for

1
2 disadvantaged districts, water district interconnections, lack of a homogenous character in 426 water
3 districts, and discrimination in rates.

4 Magruder Reply.

5 Each issues or concern from Mr. Hansen was individually answered in Magruder Rebuttal.¹³⁹

6
7 **2.7.3 W. R. Hansen's Comparing Business and Utilities Consolidation Issue.**

8 Mr. Hansen's Brief states

9 "The policy issue of 'so-called consolidation' should never have been laid with a rate
10 hearing.

11 "I continue to belabor my concern that the 'so-called consolidation' hearing are
12 mislabeled. A fact I contend that the FTC would bristled over quickly labeling it,
13 inappropriate marketing. Whether done to give it more customer appear or not, I can not
14 say. But it lacks the two prime ingredients of consolidation as it is known and used in the
15 business world today: centralization of production facilities & measured cost reductions.
16 Neither is apparent in this study. The concepts offered up are, in fact, termed 'levelization
17 or equalization' by the utility industry and illustrated in the last rate case study as such,
18 purported to be utilized in New Jersey. Why the masquarade [sic] is highly suspect.
19 Perhaps it is the reluctance to concede that rates are not consolidated but compressed to
20 obscure the high rates while eliminating the low rates, which are siphoned onto a higher
21 level to compensate for the lost higher rates. In the process, no rate payer's charge
22 approximates the billing, reflective of 'cost service provided,' as the Arizona Constitution
23 requires in Chapert [sic] 15." [Hansen Brief at 2:1-23]

24 Mr. Hansen's Brief continues

25 "This study is not about 'consolidation' as the business world would define it, for
26 centralization of production in a concentrated plant is not contemplated nor plausible.
27 While in the electric and gas utility fields, centralization of production is the centerpiece."
28 [Hansen Brief at 2:1-7]

29 Magruder Reply.

30 Unfortunately, Mr. Hansen was not a party in the Last Rate Case where this issue arose and
31 the decision delayed by Commission Decision No. 71410 to this rate case. This is so that the
32 operating expenses and other factors used to determine the revenue requirements so the Company
33 can receive a fair and reasonable return on its investment. This company is a public service
34 corporation and has been given a monopoly permit (called a CC&N) for its service area. As a
35 monopoly, it has no competition, thus the "free" marketplace and other business concepts are not
applicable to this or any other public service corporation. The Commission is the regulator for public

¹³⁹ Magruder Rebuttal, "Response No. 1: Rate Consolidation Assists some Districts" at 17:21-18:1; "Response No. 2: Increased levels of Service are not guaranteed," at 18:2-16; "Response No. 3: Incentives for inefficient or Capital-troubled districts" at 18:17-27; "Response No. 4: Trolling for disadvantaged Districts" at 18:28-35; "Response No. 5: Interconnection for water districts," at 19:1-14; "Response No. 6: Lack of Homogeneous Character in 426 water districts" at 19:15-26; "Response No. 7: Discrimination in Rates" at 19:27-20:7.

1
2 service corporations, and as such, determines the appropriate "revenue" needed for the company to
3 cover all its approved expenses with a fair and reasonable RIO for its shareholders.

4 There is no "cover up" for rate consolidation. All issues have been transparent. Mr. Hansen
5 has been able to participate in all of the activities for both Phases of this rate case. In general, Phase
6 I determined the revenue for the districts that were not included in the Last Rate Case, while Phase II
7 used the revenue requirements for each district to determine the total revenue. A rate structure is
8 designed to collect this amount of revenue from the customers based on customer class, customer
9 category, size of connection and volume of water used.

10 A utility is not building or a production plant. Centralization in the electric utility business is
11 being replaced by distributed generation, at the customer level, all much different than in a production
12 plant.

13 This party cited in my oral testimony a recent electric utility consolidation for two "districts" at
14 opposite sides of Arizona. In this case, rate discrimination for some 50-years had small businesses in
15 Nogales, Arizona paying approximately 8% higher electric rates than similar customers in Mohave
16 County. All were delivered the same "product" (electricity in that case, water in this case) but being
17 distributed by different non-connected circuits. This case is similar to this one, both RUCO and the
18 Commission Staff opposed rate consolidation; however, the Commissioner's determined that such
19 consolidation was in the public interest and approved the same rates for customers in both counties.

20 As initially cited by Mr. Hansen in his Testimony, Article 15, Section 12 of the Arizona
21 Constitution, in this persons view, strongly supports rate consolidation because it requires the
22 Commission to set rates that are fair and reasonable and that do not discriminate among people or
23 places. This means the company operates as a company, and not as a group of legacy organizations
24 acquired over the years from various sources. A company needs to be integrated, in order to operate
25 intelligently, and Arizona-American, at the request of the Commission, has proposed a reasonable
26 and just way to determine its approved revenue needs from its customers. The non-relevant
27 comments in the quote have no reply.

28
29 **2.7.4 W. R. Hansen's Consolidation Cost Savings by the Company.**

30 Mr. Hansen's Brief continues

31 "Likewise, cost-savings of significant proportion are absent though they are the other
32 customary component of business-world consolidation." [Hansen Brief at 3:5-7]

33 **Magruder Reply.**

34 Businesses, including this Company, should want to implement cost-saving initiatives, even if
35 just a few percent improvement results. In this case, the customers (ratepayers) also benefit. What is
important are the non-cost benefits of rate consolidation, as all decisions are not just about money.

1
2 **2.7.5 W. R. Hansen's Concern about Districts for Consolidation.**

3 Mr. Hansen's Brief continues

4 "There is no singular rate by a compression of rates, lopping off the high rates, pumping
5 up the low rates, to move toward a more centralized average- resulting in a bonus for
6 Anthem & Tubac at the expense of Sun City & Mohave in particular. The process causes
7 the wide span of rates to escalate from a range of \$16.73 - \$65.81 to \$21.11-\$99.35."
[Hansen Brief at 3:8-13]

8 **Magruder Reply.**

9 This concern has several misleading statements. For example, Tubac presently has the high
10 average residential customer rates for 5/8&3/4-inch service; however, Paradise Valley's similar rates
11 are even higher as shown in Table 6 above. In general, those with the lowest rates have the lowest
12 rate increases while those with the highest rates have the largest rate decreases. Table 6 also
13 supports this.

14 The rates cited by Mr. Hansen are not referenced or in Table 6 and are undefined.

15
16 **2.7.6 W. R. Hansen's Concern about Consolidation Candidates.**

17 Mr. Hansen's Brief continues

18 "The 8 districts within the study are the least likely candidates for consolidation for 2
19 principal reasons:

20 "1) the range of rates (16.73-65.81) is illustrative of the extremes of costs for delivery of
21 service within the 8 districts, a multiple swing of almost 4 times.

22 "2) the differences in aging of the districts, with the earliest starting back in 1946. 75%
23 of the districts average 49 yrs. while 25% (including SCW) average 22 yrs. Thus the
24 younger district go through years of paying while they would be the last to incur
25 (normally) significant improvements." [Hansen Brief at 3:14-23]

26 **Magruder Reply.**

27 The range of rates (from whatever study Mr. Hansen is using) also accounts for the water
28 consumption by the ratepayers. Equivalent customers (1-inch service) in Paradise Valley use, on
29 average, 93,912 gallons a month while Havasu customers average 3,400 gallons, a ratio of almost 20
30 times more water thus higher bills in one district compared to another. Age was not a factor when it
31 came to arsenic removal for some districts. Tubac was founded in 1752, is the oldest community in
32 Arizona, so even extreme age differences are not relevant. These concerns are not an issue.

33
34 **2.7.7 W. R. Hansen's Concern about Trolling and Cost-Sharing.**

35 Mr. Hansen's Brief continues

"The cost sharing concept, inherent in this approach, has an unfortunate advantage to the
company whereby it incentives them to troll for the sick and lame districts, bring them
into the group and saddle their financial burden on the existing companies. Statewide, the
range of rate is even more radical, thus imposing the potential of a steady rising rate
structure." [Hansen Brief at 3:24-1]

1
2
3 Magruder Reply.

4 The Magruder Rebuttal has adequately responded to the "trolling" issue. See 2.6.5 for
5 additional reply to the issue of acquiring other companies. This is not an issue.

6 **2.7.8 W. R. Hansen's Concern about Legal Impediments.**

7 Mr. Hansen's Brief continues

8 "There are serious legal impediments to this approach since the state constitution, Article
9 15, requires the Commission to spread among the districts a rate reflective of 'cost of
10 service provided.' Both the Legal Counsel for the Staff and R.U.C.O. concur on that fact."
11 [Hansen Brief at 4:2-6]

12 Magruder Reply.

13 There are no references in Article 15 of the Arizona Constitution to "districts" but only to public
14 service corporations, such as Arizona-American. The cost of service is used to determine the
15 Company's revenue from which a rate structure is designed to collect this amount from all the
16 ratepayers.

17 Thus, as included in the Magruder Opening Brief, it is clear to this layman that the words
18 concerning charges (rates) "shall not discriminate between persons and places."¹⁴⁰

19 **2.7.9 W. R. Hansen's Concern about Company Expenses.**

20 Mr. Hansen's Brief continues

21 "Discussion of two major expenditure items were obscured in this cluttered process.

22 "1) Management Fees....

23 "2) Incentive Bonuses...[Hansen Brief at 4:7-9, 15]

24 Magruder Reply.

25 These are Phase I issues and do not impact rate consolidation issues in Phase II.

26 **2.7.10 W. R. Hansen's Conclusion and Position.**

27 Mr. Hansen's Brief concludes

28 "I would urge the commissioners to resist this proposal." [Hansen Brief at 4:19-20]

29
30 Magruder Reply.

31 There are several proposals by the Company, Anthem Community Council and Magruder.
32 Also the Town of Paradise Valley, The Resorts, Belle Corte Country Club, DBM, and Anthem Golf
33 and Country Club have voiced independent rate concerns. It is assumed Mr. Hansen does not
34 support rate consolidation and any of these proposals.

35
¹⁴⁰ Magruder Opening Brief at 13:10-26.

1
2 **2.8 Magruder's Reply to the Town of Paradise Valley Brief.**

3 **2.8.1 Town of Paradise Valley Participation in the Last Rate Case.**

4 The Town Attorney, Mr. Andrew Miller and Attorneys Michael W. Patton and Timothy J. Sabo
5 of the law firm of Roshka De Wuld & Patton, PLC of Phoenix, Arizona represented the Town of
6 Paradise Valley in the Last Rate Case. A Motion to Intervene was filed on 7 October 2008, and
7 subsequently approved by a Commission Procedural Order, for the above attorney's to represent the
8 Town of Paradise Valley.

9 Other than filing a Motion to Intervene, no other testimonial filings were made for the Town of
10 Paradise Valley in the Last Rate Case during the Paradise Valley Water Division rate case. A
11 Resolution of the Mayor and Council of the Town of Paradise Valley was filed on 13 March 2009 in
12 ACC Docket No. WWS-01303A-08-0227, the "Last Rate Case" (LRC).¹⁴¹

13 **2.8.2 Paradise Valley Resolution Number 1185.**

14 The Town of Paradise Valley Water Utility Committee advised the Town Council on 22
15 January 2009 and met on 4 March 2009 to make recommendations to the Town on the concerns in
16 the LRC. The following four issues were concerns that the Water Utility Committee indicated to the
17 Town Council. These were included in the Town Resolution No. 1185 that was approved on 12 March
18 2009 and filed in the docket for the LRC on 13 March 2009.¹⁴²

19 1. Fire Flow Improvements and/or Public Safety Surcharges. This issue was resolved in the Last
20 Rate Case and is not related to consolidated rates.¹⁴³

21 2. Water Conservation and System Benefits Surcharge. The

22 "Town favors the use of a conservation program that is more global in its approach
23 [instead of a surcharge] and that strongly stresses education as a component, similar to
24 programs Arizona-American already uses in its other rate districts such as Sun City, Sun
25 City West, and Agua Fria."¹⁴⁴

26 3. Rate Tier Structure. This Resolution stated:

27 "The use of rate tiers can be an effective tool in encouraging conservation. However, the
28 Committee does not have sufficient data or the in-house expertise needed to comment on
29 the merits of using the three tier rate structure proposed by ACC Staff testimony or the
30 five tier rate structure proposed by Arizona-American. The Town should take no official
31 position on which tier structure is best." [Resolution 1185 at 3:9-13]

32 4. Consolidation of Arizona-American Water Systems This Resolution stated:

33 "There are some foreseeable benefits to the Town's residential and commercial users in
34 the event of a consolidation with the various Arizona-American water systems in Arizona,

34 ¹⁴¹ Town of Paradise Valley] Resolution Number 1185 of 12 March 2009, in ACC Docket WWS-01303A-08-0227, the Last
35 Rate Case, hereafter Resolution 1185.

¹⁴² *Id.*

¹⁴³ *Id.* at 2:5-14.

¹⁴⁴ *Id.* at 2:15-3:8.

1
2 but there are also some potential detriments. There are too many unknown variables to
3 determine whether the Town's water users are in a better or worse position in the event
4 of a consolidation. The Town should take no position on the question of consolidation of
Arizona-American's Arizona water system districts." [Resolution 1185 at 3:14-21]

5 Resolution 1185 continues:

6 **"Findings Regarding the ACC Docket No. W-01303A-08-0227:** By this Resolution, the Town
7 Council makes the following findings regarding this Rate Case

8 **"1. Fire Flow Improvements and/or Public Safety Surcharges - ...**

9 **"2. Water Conservation and Systems Benefits Surcharge** – At this time the Town does
10 not support the institution of a systems benefit surcharge to fund a conservation program
11 to be administered, in part, by the Town of Paradise Valley. The Town itself desires to
12 explore other alternative means of encouraging water conservation that it can utilize for
13 any of the various water providers in the Town that does not rely on any funding from
14 Arizona-American. As for Arizona-American itself, the Town favors the use of a
conservation program that is more global in its approach and that strongly stresses
15 education as a component, similar to programs Arizona-American already uses in its other
rate districts such as Sun City, Sun City West, and Agua Fria.

16 **"3. Rate Tier Structure** – The Town believes that the use of rate tiers can be an effective
17 tool in encouraging conservation. However, the Town does not have sufficient data or the
18 in-house expertise needed to comment on the merits of using the three tier rate structure
proposed by ACC staff testimony or the five tier rate structure proposed by Arizona-
19 American as the best means to encourage such water conservation. Thus, the Town takes
no official position on which of the competing tier structure should be utilized.

20 **"4. Consolidation of Arizona-American Water Systems** - The Town takes no position on
the question of consolidation of Arizona-American's water rate districts raised by
21 Commissioner Mayes in her letter to the parties to the docket dated 10 November 2008.
The Town can foresee some benefits and some detriments to the Town's residential and
22 commercial users in the event of a consolidation, but it finds that there are too many
variables involved in the determination of whether the Town's water users are in a better
23 or worse position in the event of a consolidation." [Resolution 4:5-5-14, emphasis in
24 original]

25 Magruder Reply.

26 Based on the Town of Paradise Valley's early intervention in the Last Rate Case, and the
27 above Resolution, with the Town Attorney and a law firm representing the Town, all information filed
28 was made available to this party. Unfortunately, the Town of Paradise Valley filed no pre-filed or oral
29 testimonies or briefings in the Last Rate Case after 13 March 2009.

30
31 **2.8.3 Paradise Valley's "Opportune Time" to Consolidate Based on the Last Rate Case.**

32 The Town of Paradise Valley Initial Post-Hearing Brief of 16 July 2010, hereafter
33 Paradise Valley Brief, stated:

34 **"NOW" IS NOT THE 'OPPORTUNE TIME' TO IMPLEMENT ARIZONA-AMERICAN**
35 **WATER DISTRICT CONSOLIDATION**

"When Decision No. 71410 was entered on December 8, 2009 in [the Last Rate Case]...
holding that docket open for the limited purpose of considering consolidation of all of

1
2 Arizona-American Water Company's ... water districts in a future rate case, little was
3 known as to how rate consolidation would be 'considered' and what would be analyzed in
4 the process of considering water district consolidation... If a party such as the Town of
5 Paradise Valley (or more particularly the customers of the Company in the Paradise Valley
6 Water District) were to rely on the initial analysis of the Company that accompanied
7 Decision No. 71410, one would not be too concerned about the potential impacts of
8 consolidation as the initial rate model (and the testimony of Company witness Tom
9 Broderick) would leave one to believe that the Paradise Valley Water District would be
"largely unaffected" by consolidation.¹⁴⁵ But if they were left to consider the panoply of
the variety of other consolidation scenarios, they would have little guidance and great
unease." [Paradise Valley Brief at 5:1-3; 5:4-5, 5:15-6:5]

10 Magruder Reply.

11 There are an infinite series of solution for a rate design but only one, in general, for rate
12 consolidation statewide. The above comments are correct and this party takes no issue with them.

13
14 **2.8.4 Paradise Valley Brief Concerns about the 'Opportune Time' to Consolidate.**

15 The Paradise Valley Brief continues.

16 "As the history of "the next rate case" (this Docket) has unfolded, there are numerous
17 factors that make it nearly impossible for any customer to predict how consolidation
18 would affect that customer and what factors would be considered in the final analysis.
19 Despite the testimony of Company witness Thomas M. Broderick that "now" is the
20 "opportune time" to implement rate consolidation, the lack of clear direction on the types
21 of factors determined by the Commission to be of paramount importance and how a
22 consolidation proposal should be structured has led to numerous scenarios being
proposed and a complete lack of any ability to predict what scenario might be selected by
the Commission. [Paradise Valley Brief 6:6-13]

22 Magruder Reply.

23 Mr. Broderick has to consider the impacts of consolaton on the entire Company. For him, it's a
24 net positive gain. The million dollars of ratepayers funds expended in the Last Rate Case and this
25 case, with much going just to this consolidation issue, will have to be spent again, if consolidation is
26 delayed. The Town has some factors that need to be considered but the concern in this topic is
27 uncertainty. As stated several times herein, there are an infinite number of solutions for consolidation
28 since it really is summed up in the design of the rate structure, factors being considered next.

29
30
31 ¹⁴⁵ Paradise Valley Brief at 6 footnote 3 that reads "Mr. Broderick attached the results of one consolidation scenario to his
32 prefiled rebuttal testimony. That scenario s attached to this Decision and incorporated herein as Exhibit B.[Exhibit B
33 omitted] Exhibit B includes all eight of the Company's water districts at the Company's requested revenues in the
34 original application filed in this case, and at the present rates for the Sun City Water district. Exhibit B shows the typical
35 5/8 x 3/4 inch meter residential customer bill on a pre- and post- consolidation basis for each of the water districts, with
a consolidated monthly basic service charge of \$15.59 and three tier commodity rates of \$1.50, \$2.50 and \$3.25. That
scenario would result in the following total residential revenue and percentage shifts (in total changes net to zero) by
district. [Table omitted.] Mr. Broderick stated that he experimented with the residential rate designs, but it did not
change his conclusion that in order to achieve a total residential rate consolidation, the rates in the Sun City Water and
Mohave Water districts would increase significantly, and that the major short term beneficiaries would be Anthem
Water, Tubac Water, and Havasu Water districts,"

1
2 **2.8.5 Paradise Valley Brief's Unresolved Issues to Consider in this Rate Case.**

3 The Paradise Valley Brief continues.

4 "A list of the unresolved issues that need to be determined before a predictable
5 consolidation rate model can be analyzed with at least some level of comfort include the
6 following:

7 "1. the total revenue requirement needed for the Anthem and Sun City Water Districts in
8 the instant docket has not been determined, making projections on rate impacts
9 uncertain.

10 "2. the number of tiers or break points for a consolidation proposal, and especially the
11 consumption levels for such break points is not determined, with such break points
12 capable of radically shifting costs to customers in certain districts, especially the
13 Paradise Valley Water District.¹⁴⁶

14 "3. the possibility of leaving out some of the water districts, such as Sun City or Sun City
15 West, from a consolidation proposal, as is done in one of the Staff proposed scenarios
16 and as has been requested by Commission Chairman Mayes.

17 "4. whether the one-inch meter size residential customer class will be treated more like
18 the 5/8 x 3/4 class, or more like a commercial-type customer with only a two-tiered
19 rate structure,¹⁴⁷ which is of particular importance in Paradise Valley where many
20 residential customers have one-inch meters due to requirements for in-home
21 sprinklers in all new construction.

22 "5. and the likelihood of any large capital improvements or upgrades needed in any
23 particular water district, such as the aging infrastructure needs in the Sun City district
24 often referenced by the Company during the hearing. [Paradise Valley Brief at 7:1-18]

25 **Magruder Reply.**

26 Each of these unresolved issues will be discussed individually.

- 27 1. The Phase I of this rate case has one key goal, which is to determine the total revenue for and
28 other water and wastewater districts. The differences (other than the Anthem problem) are within
29 about 5% of each other, so the Company's Rate Consolidation Model, v4, now reflects the current
30 Company's requested revenue. As the Magruder Closing Brief indicated, a place for this
31 adjustment has been set-aside in the Magruder Consolidated Rates. This is a minor issue (other
32 than Anthem, one of the issues that a ruling by the Commissioners would reduce uncertainty).
- 33 2. The more tiers that are used in the rate design permit greater flexibility to match desired usage
34 demands, especially when many districts are involved. This party would want ten or so tiers so that
35 median (mean) consumption users would be straddled, and thus could lower their monthly bill by

¹⁴⁶ *Id.* footnote 4 at 7 that reads "For example, a comparison of the initial Company structure shown in the record of Decision No. 71410 with the rates proposed in any of the three Staff consolidation scenarios reveals how dramatic the shifting of rates from one district to the other may be, as is evidenced by RUCO Exh. R- 15, where the impact on the average 5/8 x 3/4 inch customer in the Paradise Valley Water District would be an increase of 25.90% under Staff scenario #1, 33.27% under Staff scenario #2, 46.44% under Staff scenario #3; hardly an "unaffected" customer."

¹⁴⁷ *Id.* footnote 5 at 7 that reads "By way of example, the proposed one-inch residential customer rate tiers for the Sun City Water District shown in Errata Schedule JMM-1 contain only two tiers, 0-43,000 gpm and 43,000 and above gpm as recommended by the Company and 0-20,000 gpm and 20,000 and above gpm as recommended by the Staff. See Notice of Errata Rate Design for Sun City Water District filed by Staff on July 14,2010."

1
2 reducing their demand a reasonable amount. Any two-tier arrangement completely negates any
3 use of rate design as a way to conserve water and is strongly opposed by this party. Unfortunately,
4 the Company in its latest consolidated rate design only used two tiers for all commercial rates, that
5 two-tier approach is strongly opposed by this party.

6 The Magruder Consolidated Rates are conservation-oriented, with a 1-to-4 ratio from lowest
7 rate to highest rate. Early in this rate case I was using 1-to-6 but now feel this might be too much a
8 leap at this stage. Further, the First Tier is designed to provide a water LIFELINE for all customers,
9 which also slightly shifts additional revenue requirements to the higher consuming ratepayers. The
10 Fifth Tier is at \$4.00/1000 gallons, two-thirds the \$6.00 for the Fourth Tier in the present rates. If
11 ten tiers was proposed, a \$6.00 top-tier rate might be appropriate; however, with only five
12 residential tiers as now proposed by the Company, the Fifth Tier is appropriate.

13 One of the benefits of the Company's Consolidated Rate model is that interactions between
14 breakpoints and tiers can be instantly seen on the Assumptions data entry page, especially in
15 terms of total revenue. Table 3 above shows this table from the model.

16 Every tier and breakpoint adjustment impacts the total revenue, thus the Company must be
17 whole when this is finished. Thus, single adjustments for one small customer group results in
18 unfair and unreasonable impacts on all other customers. The recent Commission decision to
19 change non-potable water to \$1.24 has left over a \$1 million void that other customers have to
20 make up. The Magruder Consolidated Rates, see Table 3, has this now below \$1 million but other
21 customers have to have higher rates to compensate. This kind of single adjustment for one
22 customer group must be managed from the "big picture" viewpoint. Again, this is a one-time
23 adjustment and will not happen again.

24 Paradise Valley's footnote four only looks at percent change and not the dollars involved in
25 such changes. The customers pay in dollars and "think" in dollars. Some rates are so low that a
26 minor small "dollar" change is a large percent change. Reality is dollars. Further, the Magruder
27 filings have used "median" (mean) and not average for the reasons explained in these hearings
28 and filings.

- 29 3. Leaving out districts from consolidation. This is a bad concept as it is the larger number of
30 customers that provided the greatest benefits for rate consolidation. The Company preferred
31 option is its Scenario #1, that is, all districts. The Company does not support other options, nor
32 does this party or even RUCO.
- 33 4. One-inch rates for Fire Sprinklers. This has been taken into account in the Magruder Consolidated
34 Rates by retaining the 1-inch service class with a lower monthly Customer Charge, adding a high
35 fee to change from a 1-inch service to a smaller service, and by requiring a certification that the
safety of the facility has not been reduced for this change of service. In this party's view, this is

1
2 preferable to consolidating the 5/8&3/4-inch and the 1-inch services as many 1-inch service
3 customers do not have fire sprinklers. See the Magruder Opening Brief in 3.1.3 at 25.

4 5. Large capital improvements. ALL districts have large capital costs, some for growth (where
5 developers are required to fund), some for replacement facilities due to age and/or water
6 contamination or other reasons that make today's equipment unusable tomorrow. The water utility
7 industry has the highest capital cost per customer than any of the other common utilities including
8 electricity, gas, and communications. There will be no new Arsenic Remediation surcharges, future
9 rate changes will not have large cost changes for customers.

10 **2.8.6 Resolution of Paradise Valley Brief's Unresolved Issues.**

11 The Paradise Valley Brief continues.

12 "The lack of any resolution of these factors, and perhaps others, has made it difficult to
13 have any predictability on what a consolidation scenario can or would look like if one is
14 selected by the Commission. One could say that it is like trying to shoot a moving target,
15 but given the lack of data and inability to know the mind of the Commission as a whole on
16 many of the most important factors to be considered (including the number of tiers to be
17 used and the highly relevant break points of those tiers), it is more akin to trying to shoot
a moving target in the dark." [Paradise Valley Brief at 8-1-8:6]

18 **Magruder Reply.**

19 Yes, clear direction from the Commission would have most helpful and if the Commission Staff
20 or RUCO could have been more positive, then other parties would also have been more receptive.
21 The Staff did not respond to any feedback on its proposed schedules, RUCO did not submit any
22 schedules, and only the Company and Magruder interacted with schedules during these hearings.
23 Feedback on the specific rationale used by this party has been very quite, none from Staff, RUCO, or
24 any party other than Anthem Community Council. Feedback from the Commission is especially
25 critical when issues are as challenging as posed in this case.

26 Either we consolidate now to form an integrated utility or never and remain in Babel forever.

27 The concern about direction is also a concern by this party. A few words from the
28 Commissioners on key issues, such as the below factors, would reduce the stress in the Town's brief.

29 All parties need to remember that the Commission has four options concerning the proposed
30 Recommended Opinion and Order:

31 (1) Approve without change (unlikely);

32 (2) Approve with short Amendments (usually not more than a page or two);

33 (3) Deny and send back to the ALJ to be reheard; or

34 (4) Review the ROO and provide specific guidance, including the Commission's decisions on
35 key factors, to the ALJ to resubmit.

1
2 Frankly, number (4) would be very helpful for all parties, including the ALJ, because this
3 decision is a very important and with long-term implications. The Company has indicated that its
4 financial condition needs the revenue from this rate case, with strong preference from its customers
5 starting on 1 January 2011. I feel this is reasonable and can be accomplished if the Commission
6 chooses (4) above.

7
8 **2.8.7 Paradise Valley Brief's Concerns on Town Halls.**

9 The Paradise Valley Brief continues with a discussion concerning Town Halls. [Paradise
10 Valley Brief at 8:7-9:16]

11 **Magruder Reply.**

12 The Company has completed another round of Town Halls as reported in its filing on 29 July
13 2010. The Town is suggesting that a two-step approach be used concerning the consolidation issue.
14 The first step is for the ALJ to issue a ROO. Then Town Halls would be held to look at "if the
15 Commission should decide to implement consolidation at this time...) with the Commission then
16 considering the results of this before making a final decision.

17 The above two-step in number (4) above in 2.8.6 would do this with feedback from the
18 Commission itself instead of the ALJ. The ALJ's ROO would be reviewed and appropriate decisions
19 made by the Commission. And, if the Commission orders, such feedback Town Halls could easily be
20 held. Going from the ALJ's ROO without Commission feedback compounds anxiety and stress.

21 As an aside, the Town mentioned that the Staff Scenarios 1, 2, and 3 were not discussed at
22 the Town Halls. They shouldn't be discussed because they are so awful and anyone believing that
23 they were developed to be implemented seems to have missed the entire negative attitude being
24 radiated from the Staff on this issue throughout these proceedings. Again as I said in my opening oral
25 comments, this attitude appears to be due to public pressure from the thousands in Sun City who
26 have objected to consolidation based on misleading information. The Staff doesn't know how to
27 change its position so it's just staying on the same course and just doesn't want to expend any more
28 effort to "try" to see if their could be a reasonable rate consolidation plan. RUCO's performance has
29 also been the same.

30 **2.8.8 Paradise Valley's Concerns about Rate Consolidation Impacts on Customers.**

31 The Paradise Valley Brief continues.

32 **"RATE CONSOLIDATION, IS, IN REALITY, NOT GOOD FOR THE CUSTOMERS OR**
33 **ARIZONA-AMERICAN AND SHOULD NOT BE IMPLEMENTED AT ALL**

34 "Even if the process-related and meaningful customer information issues could be cured,
35 consolidation is not likely to result in any customer benefits, only a shifting of costs from
one set of customers to others (appropriately labeled "Cross-Subsidization" by RUCO) and
perhaps even lead to higher customer rates in general. As noted in the testimony submitted

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2 by Town of Paradise Valley (the "Town") witness James C. Bacon, Jr.,¹⁴⁸ the Town Council of
3 Paradise Valley (the "Town Council") does support the concept of rate consolidation, as it
4 does not believe there is any purpose for consolidating the Paradise Valley Water District
5 with other Arizona-American Water Districts at this time. Although it is often suggested that
6 consolidation can help to fund needed system upgrades or needed capital improvements in
7 the Company as a whole, the Town has stated that "[It] believes funding for other water
8 district systems upgrades or infrastructure improvements can be made regardless of
9 consolidation."¹⁴⁹ For this reason, the Town Council has stated (in the testimony of James C.
Bacon, Jr. and in accompanying Town Resolution No. 1215,¹⁵⁰ that it would like for the
Paradise Valley Water District to remain unconsolidated at this time. [Paradise Valley Brief
at 9:17-10:10, emphasis in original]

10 Magruder Reply.

11 The total revenue remains the same before and after rate consolidation, thus "higher customer
12 rates in general" will not occur. Consolidation is NOT for the short-term, but is for long-term stability in
13 customer rates. An unexpected cost, such a arsenic treatment plant or a well failure, can easily
14 double rates in smaller districts in "the next rate case". The overall company benefits are vital for
15 Arizona-American. The Magruder Closing Brief, again, covered the customer benefits from rate
16 consolidation. The weak rationale in the above, fails to over come the beneficial impacts for rate
17 consolidation.

18 The purpose of rate consolidation is not to fund other system upgrades or needed capital
19 improvements, but to integrate these nonintegrated districts into one company and to eliminate rate
20 discrimination that exists throughout the present rate structure. The Arizona Constitution is clear, *rate*
21 *discrimination shall not occur between people and places*. We now have that situation. It must be
22 cured.

23 If the Town of Paradise Valley wants to manage Arizona-American water assets instead of this
24 Company, it can always "municipalize" this district and make it, and the other water companies in the
25 Town's limits, municipal water companies. With three water companies in such a small location,
26 consolidating them into one should be beneficial for the customers of all three, in a similar analogy, to
27 the ongoing Phase II rate consolidation issue.

28
29 **2.8.9 Paradise Valley's Concerns about Rate Consolidation on Public Policy Goals.**

30 The Paradise Valley Brief continues.

31 "Although some have cited to "public policy goals" that can purportedly be achieved by
32 rate consolidation (most generally in the testimony of Marshall Magruder, in both his
33 submitted pre-trial direct testimony and in the exhibits he submitted at the hearing) such
34 as increased water conservation by means of multiple "increasing" block tariffs and

35 ¹⁴⁸ *Id.* footnote 8 at 10 that reads: "Exhibit PV-1, testimony of James C. Bacon, Jr., Town Manager of Paradise Valley, p. 6, lines 13-15." [Emphasis in original]

¹⁴⁹ *Id.* footnote 9 at 10 that reads: "Exhibit PV-1, p. 6, lines 15-16." [Emphasis in original]

¹⁵⁰ *Id.* footnote 10 at 10 that reads: "See Exhibit A to Exhibit PV-1." [Emphasis in original]

1
2 encouraging a switch from use of groundwater to use of surface water, such goals can also
3 be pursued in the individual rate districts and do not need consolidated water districts in
4 order to be advanced.¹⁵¹ In fact, tailoring conservation goals, including the tiering of rates
5 and the selection of appropriate best management practices, could arguably be fine-tuned
6 to meet the unique conservation needs of each district's unique water consumption and
7 water supply circumstances, whereas a one size fits all approach to conservation could
8 actually send the wrong conservation signals in some districts." [Paradise Valley Brief at
9 10:11-20]

8 Magruder Reply.

9 Apparently the Magruder Testimonies have not been understood in Paradise Valley. The
10 state of Arizona is running out of water at an accelerating rate. If CAP water allocations start being
11 reduced in 2012, as now forecast by ADWR, we will see major changes statewide. The Anthem
12 Report in the Company's Testimony was clear, higher rates cause customers to reduce their
13 consumption. This is why higher Tier Four and Tier Five rate are critical. People can see a "price
14 signal" however; education about water conservation does not change behavior. Money has been
15 shown in many situations to change one's behavior. The behavior of ALL Arizonans must be change
16 as we all use less water. Price Signals are sent to customers via rate changes. The comments by
17 RUCO and the Staff that a conservation-oriented rate structure will inhibit water conservation are
18 very misleading and erroneous. It has no basis.

19 We need to have xeriscape landscaping practices implanted throughout our desert state. Our
20 groundwater resources are diminishing faster than anyone wants to admit (especially elected
21 officials); however, we see this Commission starting to put water limitations for the electric utility
22 industry for power generation, which uses over 30% of Arizona's groundwater.

23 I have experienced drought conditions where water is very limited and restricted. The sever
24 restrictions were obvious in Los Angeles County a few decades ago because no one was allowed to
25 water their lawns, and they all died. I live in the only Active Management Area that is sustaining its
26 water resources. Our county comprehensive plan says no more water permits when our population
27 is around 71,000 people, because at that limit, we will not be sustaining or water resources. Our
28 Santa Cruz River, mostly underground, must flow into the Tucson aquifer, which is seeing its water
29 tables going down to some four feet a year, nearly an inch a week. Groundwater takes thousands of
30 years to naturally replenish. The Colorado River has less flow each year and Arizona is the last state
31 in line for its water.

32 A transition into a conservation-oriented rate structure is critical for the survival of our state,
33 not just the Town of Parodies Valley. Everyone in a decade will understand what water conservation
34 really means. It's lots more than a few showerhead replacements. A local water company charges
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¹⁵¹ *Id.* footnote 11 at 10 that reads: "Exhibit PV-1, p. 7, line 3-7." [Emphasis in original]

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2 \$45.00 per 1,000 gallons when consumption exceeds 15,000 gallons in a month. We don't need to
3 go that far, yet, but that does send such a price signal that only one customer has reached that limit
4 to date.

5 "Fine tuning" continues rate discrimination based on place or location which is prohibited by
6 our Arizona Constitution. This is one company and must be operated to be fair and reasonable for all
7 customers, equally. The water rates in some districts, such as Paradise Valley, are too low and
8 cause excessive water usage.

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10 **2.8.10 Paradise Valley's Concerns about Rate Consolidation in other Utilities.**

11 The Paradise Valley Brief continues.

12 Although it has been argued by other witnesses in the case, most particularly Company
13 witness Thomas Broderick, that the example of consolidation of the Arizona Public Service
14 Corporation (APS) is historical example of how rate consolidation can and should work, the
15 Town has clearly stated that this example of successful utility-company consolidation is not
16 an appropriate example or analogy. First, electricity generation and distribution are in no
17 way comparable to treatment and distribution of water.¹⁵² Second, in the case of Arizona-
18 American water, each set of assets is designed to serve a unique entity or district, with
19 varying water treatment needs and requirements (depending on the source), with no
20 centralized "grid" available for balancing load and optimizing generation (that is, no method
to match system-wide water consumption demands with the system-wide water sources),
and with no physical interconnection between the geographically separate facilities of the
Arizona-American water districts.¹⁵³ Thus any comparison to APS for the purpose of
bolstering a proposal for rate consolidation is flawed." [Paradise Valley Brief at 11:1-13]

21 **Magruder Reply.**

22 As shown in Exhibit MM-1, the Company's witness in the Last Rate Case has testified that
23 "Mr. Hebert's "rate equalization" process considers similarities to consider when handling
24 the various operating characteristics in the various water districts. Mr. Herbert discusses this
in terms of similarities, as follows:

25 "There are many similarities in the manner in which the several areas [such as Arizona
26 water districts] are operated. All the systems pump their treated water through
27 transmission lines to distribution areas that include mains, booster pump stations and
28 storage facilities. All of the areas rely on a centralized work force for billing, accounting,
29 engineering, administration, and regulatory matters. All of the areas rely on a common
30 source of funds for financing working capital and plant construction. Inasmuch as the
costs of operation are related to functions in which the operating characteristics are the
same, the use of equal rates is supported." (*Ibid*, original underlined)" [Exhibit MM-1]

31 and

32 "Mr. Herbert resolves if variances in allocated cost of tariff groups warrant the use of
33 separate rate schedules as follows:

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¹⁵² *Id.* footnote 12 at 11 that reads: "Exhibit PV-1, p. 7, line 12-12." [Emphasis in original]

¹⁵³ *Id.* footnote 13 at 11 that reads: "Exhibit PV-1, p. 7, line 13-18." [Emphasis in original]

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2 'No, they do not. Charging one group of customers' higher rates because they may be
3 served by a newer plant whose original cost exceeds that of other plants as a result of
4 inflation is *not logical*. The concepts previously discussed outweigh this consideration
5 and justify the goal of moving toward a single tariff. The electric industry reflects such
6 concepts when it serves customers in geographically dispersed areas. A kilowatt-hour
7 delivered in one area has the same price as a kilowatt-hour delivered in another area
8 despite the fact that cost of service studies could be performed to identify differences
9 in the cost of providing service to customers classes in different regions.' (*Ibid*, 30-31)"
10 [Exhibit MM-1, emphasis in original]

11 In addition, my prior experience with consolidation concerned electricity rate consolidation in
12 two counties, Mohave and Santa Cruz, not at all connected or using the same generation sources.
13 Obviously we disagree on this issue; but, the above quotes show the similarity between electric and
14 water systems. Based on these views, there is a close relationship between the electric and water utilities
15 when it comes to consolidation, contrary to some of the limited views of Paradise Valley.

16 **2.8.11 Paradise Valley's Concerns about Rate Consolidation and Business Logic.**

17 The Paradise Valley Brief continues.

18 "Similarly, there is no business logic for nor customer benefit from combining the
19 geographic-ally separate and distinct water districts in the Arizona-American system
20 through some form of consolidation. The only real business logic is that rate consolidation
21 leads to simplicity for regulators, but it is difficult to see how this will lead to any benefits
22 for the customers of Arizona-American.¹⁵⁴ Although some have purported that their
23 would be some form of customer rate savings achieved through rate consolidation, it was
24 abundantly clear in the testimony of Thomas Broderick that the Company already treats
25 all of the various water districts as if they are one in the way that it distributes its costs
26 and assigns its personnel, thus the only savings that he could identify would be in some
27 minor bookkeeping costs." [Paradise Valley Brief at 11:14-22]

28 **Magruder Reply.**

29 During the evidentiary hearings, not a single witness said there was any relationship
30 between geographic separation and consolidation. The Commission Staff, RUCO, Company
31 and every witness cross-examined expressed this view. The benefits for rate consolidation
32 are found in all of this party's testimonies in this and the Last Rate Case, in the testimonies
33 from the Company and in the EPA-NARUC documentation provided by RUCO's Testimony
34 and Mr. Wood's Testimonies, discussed previously. These two rate cases have cost
35 ratepayers over \$1 million, so far, which should be of some interest to all customers.

36 **2.8.12 Paradise Valley's Concerns about Rate Consolidation Causing Rate Increases.**

37 The Paradise Valley Brief continues.

¹⁵⁴ *Id.* footnote 14 at 11 that reads: "Exhibit PV-1, p. 7, lines 21-28, p. 8, lines 1-2." [Emphasis in original]

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2 "Unfortunately, rate consolidation could actually lead to overall customer rate increases as
3 it would basically centralize and accumulate the rate bases for all the Arizona-American
4 water districts and make it more difficult for customers to dissect the information discreet
5 to their locality in order to voice their opinion.¹⁵⁵ As an example of how individualized
6 scrutiny of the requested improvements to one rate district lead to a thorough and rigorous
7 vetting of the requested improvements and the implementation of unique methods to
8 achieve real cost savings and thus real rate relief, one need look no further than the example
9 of how the Tubac District analyzed the arsenic treatment implementation for that district
10 and was able to reduce the costs from an initial projection of \$2,300,000 down to
11 \$500,000.¹⁵⁶ Although it is stated that this same level of effort would be pursued even in the
12 event of rate consolidation, typical human logic would suggest such would not be the case,
13 as it is often-observed that 'when it is everyone's responsibility, it becomes no one's
14 responsibility.'¹⁵⁷ Conversely, when everyone else helps pay for it, then no one is really
15 going to question the costs. The Company itself alluded to such as one reason why Sun City
16 should be in favor of consolidation, that is, everyone else can now help pay for some
17 projected well replacements and other aging infrastructure replacements needed in Sun
18 City." [Paradise Valley Brief at 12:1-16]

14 Magruder Reply.

15 There is nothing in Rate Consolidation that prevents the Commission and RUCO to perform
16 their functions nor to "hide" any expenses. RUCO requested and I recommended that books be kept
17 so local subsystem expenses are maintained, as they are presently as explained in 2.3.26 above.
18 The total revenue is the sum of the revenue required to provide water services for all districts
19 (subsystems) in the Arizona-American water system. Rate Consolidation, as explained above in 2.3.5
20 from RUCO's Brief. Is a rate design issue. This design must determine how the costs are collected
21 based on services rendered. The savings by implementing a simple, non-location discriminatory, fair
22 and reasonable, conservation-oriented rate design is the end product of Rate Consolidation. Rate
23 Consolidation, e.g., the rate structure, should have no impact upon financial, local, technical, or any
24 other kind of review that are elements in the determination of revenue.

25 The Tubac cost are outside of this and the last rate cases. It is being handled as a separate
26 surcharge, as was the costs for arsenic treatment for several other districts. Our community was
27 impressed about a University of California study about an arsenic removal process in Bangladesh
28 where arsenic was being removed from water systems for less than \$3.00 per month, obviously a real
29 bargain when considering the costs in our country. We also considered this method applicable to all
30 districts, not just Tubac. During the three year delay in implementation approved by the EPA, our
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33 ¹⁵⁵ *Id.* footnote 15 at 12 that reads: "Exhibit PV-1, p. 8, lines 2-5." [Emphasis in original]

34 ¹⁵⁶ *Id.* footnote 16 at 12 that reads: "Rebuttal Testimony of Marshall Magruder, at p. 23, lines 12-17." [Emphasis in original]

35 ¹⁵⁷ *Id.* footnote 17 at 12 that reads: "Exhibit PV-1, p. 8, generally, see also p. 9, lines 12-17, where Mr. Bacon states: 'Rate consolidation can lead to a loss of accountability by Arizona-American over the necessity or merit of making certain investments in each of the water districts. Capital expenditures that may receive a rigorous examination by the ratepayers when made in one water district will not appear to have a substantial rate impact when spread out over a much larger rate-payer base, thus leading to a less thorough examination of such capital expenditures.'" [Emphasis in original]

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2 readings increased to over an EPA threshold that required immediate installation and canceled this
3 delay. This is why it was made operational last December, well outside the test year for this district.
4 From that UC study, our community looked for other ways to reduce these costs. Our community,
5 like any other community, always wants to reduce cost and we obtained a stimulus grant and a WIFA
6 loan, plus other reductions in the actual plant design that reduced the total financial impact on the
7 Company's costs. The Sun City issue should have that community working along the same lines.
8 However, both of these local interest kinds of activities to reduce Company costs, under consolidation
9 will also save all ratepayers.

10 This really is not an issue but a fundamental "fear" without a reasonable basis due to the
11 regulatory environment that public service corporations operate in our state.

12 **2.8.13 Paradise Valley's Concerns about Rate Consolidation Impacts on Other Districts.**

13 The Paradise Valley Brief continues.

14
15 "Assuming however, that the foregoing principle of typical human psychology does not
16 come into play and that the combined customer really does ask for a thorough and
17 rigorous vetting of the requested improvements in each and every district, for those so
18 inclined, it would potentially pit the customers in one district against those in another
19 district. For example, the customers in one water district, such as Sun City, may choose to
20 intervene in future rate cases in order to oppose capital investments in other districts
21 while still insisting that improvements be made in their own district. that is, they would
22 argue that the aging infrastructure should be replaced in the physically discrete Sun City
23 area, while aging infrastructure in other physically discrete districts such as Tubac or
24 Paradise Valley not be improved.¹⁵⁸ Consolidation could actually lead to the ugly result of
25 pitting customers in one district against others. Because Arizona-American's water
26 districts are geographically isolated with completely separate water supplies and
27 customers, necessary improvements and the resulting rates required for making such
28 improvements can be easily determined for each district.¹⁵⁹ As noted in the testimony of
29 James C. Bacon, Jr., one must ask whether rate consolidation is actually good for the
30 customers; or good only for Arizona-American.¹⁶⁰ [Paradise Valley Brief at 12:17-13:11]

31 **Magruder Reply.**

32 Again, the vetting and customer intervention processes are unchanged with rate consolidation.
33 No restrictions exist for improvements to be made in one district and another district at a different
34 time. That's what companies do all the time.

35 The present discrimination in rates has pitted several districts against other districts. After rate
consolidation, such disagreements will not exist. Further, the issue of "rate shock" will disappear,
which is the issue that brings out the most dissent during a rate case. Some customers in the Sun

¹⁵⁸ *Id.* footnote 18 at 13 that reads: "Exhibit PV-1, p. 8, lines 5-8." [Emphasis in original]

¹⁵⁹ *Id.* footnote 19 at 13 that reads: "Exhibit PV-1, p. 8, lines 8-10." [Emphasis in original]

¹⁶⁰ *Id.* footnote 20 at 13 that reads: "Exhibit PV-1, p. 8, lines 10-12." [Emphasis in original]

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2 City area would accept small rate increases if statewide as discussed above in 2.3.13, including
3 Table 2.

4 **2.8.14 Paradise Valley's Concerns about Public Safety Needs for Smaller Districts.**

5 The Paradise Valley Brief continues.

6 "Similarly, the argument that public policy goals can be achieved by having an established
7 consolidated set of districts fund public safety improvements needed for smaller
8 challenged districts should be rejected. As Mr. Bacon testified, it is often argued that rate
9 consolidation 'allegedly may promote public safety by combining smaller troubled water
10 districts with larger ones in order to help "fund" the substantial investments needed to
11 alleviate health or public safety issues in the smaller districts. However, those same
12 improvements can be made regardless of consolidation.'¹⁶¹ The only effect of
13 consolidation is to shift those costs from the smaller districts to the larger districts, the
type of cross-subsidization that has been thoroughly briefed by RUCO." [Paradise Valley
Brief at 13:12-20]

14 **Magruder Reply.**

15 The issue of "combining smaller troubled water districts with larger ones" has been discussed
16 in detail in 2.3.15, 2.6.5, and 2.7.7 above.

17 **2.8.15 Paradise Valley's Conclusion and Position.**

18 The Paradise Valley Brief continues.

19 "Inadequate direction and lack of clarity in Decision No. 71410 as to how the
20 consideration of consolidation of the various Company water districts should be
21 accomplished and the lack of any meaningful "Town Halls" or other education of the
22 affected customer base leads to the conclusion that consolidation should not be ordered in
23 this case and at this time. Consolidation should be more thoroughly analyzed with more
24 detailed information identified from the outset. Yet, even if these defects were to be
25 remedied in the future, it is not in the interests of Arizona-American customers for
26 consolidation to be implemented as many of the purported benefits, such as cost-savings
and conservation, may not be achieved, and instead may actually be made worse.
Consolidation should not be implemented." [Paradise Valley Brief at 24:1-9]

27 **Magruder Reply.**

28 The Decision No. 71410 set the basis for rate consolidation to be adjudicated and left the
29 discussions for these proceedings. As reported on 29 July, another round of Town Halls was held in
30 all districts. A possible two-step approach, discussed in 2.8.6 and 2.8.7 above could provide more
31 information to customers on a one-time rate structure change. The Town's concerns about reduction
32 in water conservation are wrong and contrary to the Study presented by the Company's Testimony as
33 conservation-oriented rate structures result in less water consumed. The long-term benefits are many
34 but were not considered applicable. This party does not agree with the Paradise Valley conclusion.

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¹⁶¹ *Id.* footnote 21 at 13 that reads: "Exhibit PV-1, p. 8." [Emphasis in original]]

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2 **2.9 Rate Consolidation Concerns by Various Other Intervenors.**

3 There were several briefs filed that were primarily for special rates for a customer or a group of
4 customers. Two of these intervenors took a position with respect to rate consolidation. All concerned
5 rate structure and are presented in the next section of this brief.

6
7 **2.9.1 Anthem Golf and County Club Brief's Position on Rate Consolidation.**

8 The Anthem Golf and County Club Brief did not take a position with respect to Rate
9 Consolidation; however, the Anthem Golf and County Club Testimony stated

10 "The Club defers to the Commission's discretion as to whether consolidation should be
11 ordered in this case." [Anthem G&CC Testimony at 6:12-16].

12 **2.9.2 The Resorts Brief's Position on Rate Consolidation**

13 The Resorts' requested it should be excluded from rate consolidation or that a Class of
14 Service for Commercial Resorts be established. The Resorts' opposes rate consolidation.¹⁶²

15 **Magruder Reply.**

16 Several different schemes were proposed for "hotels of 50 or more beds" thus inclusion of an
17 unknown number of such customers, including all Motel 6's, could be members of this rate class.
18 Resolution of this issue needs to wait for better definition and submission in a later rate case.

19 **2.10 Magruder Conclusions and Recommendations on Rate Consolidation.**

20 Several issues presented in the Briefs by the parties about issues that this Commission need
21 to be resolve by making a decision, preferably, prior to continuing in the consolidating rate process for
22 the water districts. These include the following:

23 **2.10.1 Determination of Total Revenue.**

24 **2.10.1.1 Decision 1. Approve new stand-alone rates for Sun City and Anthem Water Districts.**

25
26 This needs to include the existent problems involving the Anthem Water District and its "Pulte"
27 obligations, all the modifications proposed by RUCO and the Commission Staff, and other
28 intervenors. This will result in approved "total revenue" for each of these water districts.

29 **2.10.1.2 Decision 2. Approve the Company Recommended Exceptions.**

30 The Company has recommended that all water districts have consolidated rates with several
31 exceptions that involved contracts or other issues, about 1.5% of the total revenue that should not be
32 included at this time. The Company should review these exceptions prior to the next rate case, and
33 as these contracts are renewed, slowly change those rate categories to the 98.5% of the Company's
34 ratepayers or create new rate classes or categories to accommodate these customers.
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¹⁶² Resorts' Initial Closing Brief at 6:1-18.

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2.10.1.3 Decision 3. Approve the Total Revenue for the Company's Consolidated Rate Structure.

This is determined by adding the total Revenue From the Five Water Districts in the Last Rate Case to the two water districts from Conclusion Decision 1, accounting for the Exceptions from Decision 2. As a part of this decision, the possible legal issues raised by RUCO, such as Test Year and "revenue neutral", should be considered, if deemed applicable.

The specific Consolidated Rate Structure conclusions and recommendations are in the next Section of this Brief.

2.10.2 Magruder Recommendation Concerning Rate Consolidation

Marshall Magruder recommends the Commission approve rate consolidation for all the water districts in the Arizona-American Water Company by progressively making Decisions 1, 2 and 3 above.

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3 **Section 3**

4 **Reply to Issue 2 – Should the Rate Structure be Conservation Oriented?**

5
6 **3.1 Background.**

7 The Magruder Testimony, Rebuttal, and Opening Brief all considered Rate Structure (issue 2)
8 separately from considerations about the decision to Consolidate Rates. These have become
9 inseparable in this Brief; where many issues in the above Magruder documents were able to keep
10 these as separate discussions. After a decision to consolidate rates has been determined, the
11 remaining efforts are do design a rate structure that is fair and reasonable for all customers. The
12 issue of rate discrimination based on "place" is resolved when statewide rate consolidation has been
13 ordered.

14 In this Section, herein are Magruder Replies to various Brief discussions that concern rate
15 structure; however, much of this was already discussed in the prior section and will not be repeated
16 but only referenced in this section.

17 The Magruder Consolidated Rates are in Attachment A to this brief.

18 **3.2 Magruder's Reply to the Commission Staff's Brief on Rate Structure Issues.**

19 The only issue in the Staff's Brief that involved rate structure was a concern was one of the six
20 factors in Mr. Abinah's Testimony that should be considered in any consolidated rate proposal. [Staff
21 Brief at 22:6-11] that was also discussed in 2.2.6 above.

22
23 **Magruder Response.**

24 The purpose of rate consolidation is to avoid future rate shock; however, the transition from
25 standalone to a consolidated rate structure will include adjustments for all customers, some with rate
26 increases others with decreases. . The rate increases and decreases are also discussed in 2.3.18
27 above with Table 3 showing the dollar change in rates for the Median (Mean) Consumption
28 Customers. There are four districts/sub-districts that have rate increases with 5/8&3/4-inch service
29 as computed in the Magruder Consolidated Rate Schedules:

30 Mohave-Bullhead Increase \$ 8.56
31 Mohave-Rio Increase \$10.87
32 Paradise Valley-5/8 Increase \$ 0.04
33 Sun City increase \$11.98 (\$8.55 is from the Company's proposed increase
and \$3.43 is from the consolidation adjustment)

34 From Table 4, in 2.3.19 above, we see that in the Last Rate Case, Mohave customers had a \$0.64
35 rate increase, Paradise Valley a \$6.70 rate increase. Sun City West had a \$17.91 rate increase in the
Last Rate Case which is bring reduced to a total rate increase of only \$12.28 if the Magruder

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2 Consolidated Rates are approved. Havasu had a \$13.50 rate increase in the Last Rate Case and will
3 see a rate reduction in this case of \$15.66 with Magruder Consolidated Rates, for a total decrease of
4 \$2.16 since prior to the Last Rate Case. It should be noted that Havasu and Sun City West rate
5 increases exceed the total Sun City rate increase, without all of the attention the latter has caused in
6 this rate and consolidation case. In summary, there was a greater "rate shock" in the Last Rate Case
7 than this case. The larger rate increases in Paradise Valley are due to the extremely high water
8 consumption usage where third and fourth tier rates have higher effects.

9 Other rate structure issues are discussed in reply to RUCO's Brief below.

10 **3.3 Magruder's Reply to RUCO's Brief on Rate Structure Issues.**

11 Throughout the discussion in the prior section, "rate structure" was included and will be
12 referenced here by paragraph numbers with as little repetition as possible.

13 **3.3.1 RUCO Considered Rate Consolidation is a Rate Design Issue.**

14 In 2.3.5 above is discussed in the Magruder Reply.

15 **3.3.2 Highest Present Rates Receive Greatest Decreases under Consolidation.**

16 In 2.3.18 above, is discussed in the Magruder Reply. Note Table 3 provides the actual bill
17 changes for each district's residential median (mean) customers usage with 1-inch and smaller
18 service.

19 **3.3.3 RUCO Considers Back-to-Back Increases an Issue.**

20 In 2.3.19 above is discussed in the Magruder Reply. Note Table 4 shows the differences in
21 rates before the Last Rate Case, from the Last Rate Case and after the Rate Consolidation
22 adjustment.

23 **3.3.4 RUCO Considers Distorted Price Signals is Contrary to Water Conservation.**

24 In 2.3.21 above is discussed in the Magruder Reply. This party does **strongly agrees** with
25 RUCO on this issue, when considering conservation-oriented rate design as supported by the results
26 of the last rate increase in Anthem presented in the Report in the Company's Testimony. This report
27 showed a 5% reduced consumption by customers after that rate increase, a rate structure not
28 deliberately designed to be water conservation oriented.

29 **3.3.5 RUCO Considers Water Conservation with Consolidation an Issue.**

30 In 2.3.23 above is discussed in the Magruder Reply and in 3.3.4 above.

31 **3.3.6 RUCO Considers Sun City West Rate Decrease an Issue.**

32 In 2.3.24 above is discussed in the Magruder Reply. This is further discussed in 3.2 above.

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2 **3.3.7 RUCO Has Concerns about Anthem Cost Shifts as a Consolidation Issue.**

3 In 2.3.28 above is discussed in the Magruder Reply. Table 5 shows the actual changes in
4 Anthem's rates that are a decrease of \$3.39 from its present rates, not considered to be excessive.
5 Table 6 shows the rate changes for all residential customers with 1-inch or smaller service
6 connections. This is a comprehensive table that used the Magruder Consolidated Rates when
7 determining the Consolidated Bill.

8
9 **3.3.8 RUCO Considers Low Income Customers and Consolidation an Issue.**

10 In 2.3.31 above is discussed in the Magruder Reply. This will be discussed farther under the
11 Company's replies below.

12 **3.3.9 RUCO Considers Cost of Rate Consolidation by Districts an Issue.**

13 In 2.3.35 above is discussed in the Magruder Reply. When using the 5-Step approach, with
14 annual steps, the highest annual change in rates due to consolidation will be Sun City, with an
15 approximately 65 cents (\$0.65) annual rate increase for five years, and all are within the \$5.00
16 threshold selected by RUCO. Table 3 summarized.

17
18 **3.4 Magruder's Reply to the Arizona-American Water Company Brief on Rate Structure.**

19 **3.4.1 Company's Consolidated Rates for Residential Customers in Last Rate Case.**

20 In 2.2.2 above is discussed in the Magruder Reply. The Company provided consolidated
21 model results with a three-tier residential and two-tier commercial model. The results from this model
22 were not as impressive as when the Company used its present model that appeared to provide
23 greater flexibility so that the high rate changes could be mitigated. The 136% rate increase for Sun
24 City, in these early results, appear to have been the root cause of the present unrest in that district.
25 The Magruder rates have lowered this to 50% rate increase from their present rates. A \$3.43 per
26 month rate increase is due to rate consolidation.

27 Table 7 is included which is the key summary of how a rate structure design impacts different
28 water districts. It must be remembered that any one change in rates in any one rate class or rate
29 category changes ripple through all customers. Balancing Table 7 is critical to ensure that the
30 Company total revenue requirements are being met as the rate structure is being designed. The
31 Magruder Consolidated Rates, Attachment A, contains this table and the "assumptions" used in that
32 rate design.

33
34 **3.4.2 The Company's Low Income Program for Sun City.**

35 The AAWC Brief states:

"The Company seeks to continue the existing low income program in the Sun City District.

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2 The Company also requests that the Commission make clear in its order that the current
3 high block funding mechanism should remain in place.¹⁶³ The Company has included this
4 in its final schedules. However, although Staff testified at the hearing that the current
5 funding mechanism should remain in place, the Company cannot discern from the Staff's
6 final schedules whether this mechanism is included in rates.¹⁶⁴ As a result, the Company
7 respectfully requests that the Commission confirm this funding mechanism in its order in
8 this matter. Although it does not impact the existing program, the Company continues to
9 work through issues relating to program eligibility of residents of the condominium
10 associations within Sun City. The associations that receive the Company's water bills are
11 reluctant to transfer low income credits to their residents and are generally reluctant to
12 accept any administrative responsibilities associated with the low income program. The
13 Company is examining other alternatives which bypass the associations for
14 administration for residents of these HOAs that may involve support from the Sun City
15 Taxpayers Association." [AAWC Brief at 47:3:18, emphasis added]

12 Magruder Reply.

13 A rate structure can be designed, as proposed in the Magruder Consolidated Rates, to provide
14 the benefits of lower rates for those whose incomes are low. The issues above involve:

- 15 (1) A funding mechanism,
16 (2) Determination of eligibility of residents in condominium associations,
17 (3) HOAs that are reluctant to transfer low-income credits to their residents, the program's goal,
18 (4) HOAs failure to accept administrative responsibility associated with the low income program,
19 and
20 (5) Using alternatives to "bypass" the HOAs for residential administration.

21 NONE of these six issues are present in the water LIFELINE program contained in the First
22 Tier Residential and Small Commercial Rates proposed by this party. All will be have a low cost for
23 their first 3,000 gallons used in the First Tier. There will be no discrimination between any customers
24 or locations. The water LIFELINE rates are a key rate design principle design in the Magruder
25 Consolidated Rates.

25 **3.4.3 The Company's Low Income Program for Condominium Residents Sun City.**

26 The Company on 29 July 2010 filed a "Sun City Low Income – HOA Eligibility" document. The
27 Company was requested to investigate ways to expand the existing \$4.00 per month rebates to Sun
28 City residents who meet low-income guidelines and live in condominiums, including "some other
29 multi-housing situations such as mobile homes as appropriate."¹⁶⁵ Three options were investigated
30 and the third recommended. This third option is described at

31 "As a viable alternative to the Company sending checks directly to [these qualifying]
32 residents, the Company has on several occasions discussed with the Sun City Taxpayers
33 Association ("SCTPA") a means of administrating this program at nominal cost. Under this
34 alternative, the Company would periodically (probably semi-annually) provide the SCTPA

35 ¹⁶³ AAWC Brief at 47, footnote 238 that reads "Ex. A-39 at 11."

¹⁶⁴ AAWC Brief at 47, footnote 239 that reads "TR.II at 1413."

¹⁶⁵ "Sun City Low Income – HOA Eligibility" filing of 29 July 2010, at 2, footnote 1.

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2 with a lump sum of funding (e.g., \$20,000) in order for the SCTPA to cut checks to
3 qualified low income condominium residents. Essentially, SCTPA would handle all tasks
4 described in the second option above. Key features of this option would include the
5 following”

- 6 • “SCTPA would process \$4 credits for condominium residents only, as single housing
7 residents would continue to be processed by the Company.
- 8 • “SCTPA would establish accounting procedures to record information about each
9 qualified condominium residents and low income credit amounts provided.
- 10 • “SCTPA would maintain a separate bank account for this effort and would periodically
11 and also upon request make records available to the Company or another intervenor
12 for review in future rate cases (e.g., Commission Staff”.
- 13 • “SCTPA would only be reimbursed for reasonable direct cost to administer this
14 program (e.g., banking and record keeping fees) and an allocation of SCTPA labor
15 costs.
- 16 • “SCTPA would periodically inform the Company of the number of low income
17 participants in order for the Company to effectively monitor the 1,000 customer
18 ceiling for this program.
- 19 • “The Company would periodically replenish the account via a lump sum as per
20 anticipated requirements of the program as communicated by SCTPA to the Company
21 as regards near term funding requirements.”¹⁶⁶ [Company filing of 29 July 2010 at
22 3:25-4:22]

23 Magruder Reply.

24 This program appears to solve one of the open issues in this rate case. This party agrees with
25 the Company’s recommended option 3 for low income condominium residential customers.

26 If the Magruder Consolidated Rate Structure, with the First Residential Tier providing a water
27 LIFELINE for all customers in all districts, this condominium program for low income residents should
28 still be implemented in Sun City and similar programs with other non-profit organizations in the
29 Company’s service area, with Commission approval being necessary for others than this Sun City
30 option.

31 Further, some of the “excluded” rate categories from consolidated rates are multi-residential
32 apartment units. Between now and the next rate case, similar programs for low income residents in
33 multi-residential units should be developed and proposed to cover the entire Company’s service area,
34 as low-income customers exist in every district.

35 A four-dollar a month rebate also seems appropriate; however, a limitation for a certain number
of participants does not appear to be necessary under this limited low income program for multi-
residential residents if the Magruder Consolidated Rates water LIFELINE is implemented. This will
reduce significantly administrative expenses, and issues in the Magruder Reply in 3.4.1 above.

¹⁶⁶ “Sun City Low Income – HOA Eligibility” filing of 29 July 2010 footnote 2 that reads: “The credit amount may be increased or decreased by the Commission upon completion of future Sun City Water District rate cases. A condo resident’s credit would equal the credit provide to single housing residents.”

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2 **3.5 Magruder's Reply to the Anthem Community Council Brief on Rate Structure.**

3 **3.5.1 Anthem Council Considers the Benefits of Rate Consolidation.**

4 In 2.5.4 above is discussed in the Magruder Reply. The listed rate consolidation benefits
5 numbered iii, iv, v, vi and vii are based on the design of the Rate Structure.

6
7 **3.5.2 Anthem Council Supports the Company's Preferred Consolidation Scenario One.**

8 In 2.5.5 above is discussed in the Magruder Reply.

9 If the Magruder Rate Structure is not approved, the Company's preferred Consolidated
10 Scenario One with five residential tiers, a low First Residential Tier rate of \$1.00 (close to Magruder's
11 \$0.98), and modest conservation-oriented rate structure is the next best option, and it would be
12 greatly enhanced with four commercial tiers instead of the two tiers now being proposed and with
13 higher Fourth and Fifth Tier rates beginning at lower breakpoints.

14 **3.5.3 Anthem Council Supports the Five-Step Consolidation Implementation Plan.**

15 In 2.5.6 above is discussed in the Magruder Reply. The five-step plan is essential for
16 implementation of the proposed rate structures.

17
18 **3.5.4 Anthem Council Supports the Five Residential Tiers.**

19 In 2.5.7 above is discussed in the Magruder Reply. The five-tier residential rate structure is the
20 minimum number of residential tiers necessary to cover the wide range of consumption rates in the
21 Arizona-American service area.

22 **3.6 Magruder's Reply to the Larry Woods Brief on Rate Structure.**

23 Mr. Woods did not comment on rate structure issues in his Brief. He had no comments on the
24 Magruder Consolidated Rate Structure.

25
26 **3.7 Magruder's Reply to the W.R. Hansen Brief on Rate Structure.**

27 He had no comments on the Magruder Consolidated Rate Structure.

28 **3.7.1 W. R. Hansen's Concern about Districts for Consolidation.**

29 In 2.7.5 above is discussed in the Magruder Reply. Mr. Hansen's rates cited were not found,
30 thus the rate structure used is unknown.

31 **3.8 Magruder's Reply to the Town of Paradise Valley Brief on Rate Structure.**

32 **3.8.1 Paradise Valley Resolution Number 1185 Issues.**

33 In 2.8.2 above is discussed in the Magruder Reply. The second issue concerns the number of
34 tiers. The Commission Staff recommended and the Commission approved a five-rate tier structure for
35 this district; however, at the time of this Resolution, the Town was not sure of that position. The

1
2 Magruder Consolidated Rates also include five-tier residential and four-tier commercial rate
3 structures.

4 **3.8.2 Paradise Valley Brief's Unresolved Issues to Consider in this Rate Case.**

5 In 2.8.5 above, is discussed in the Magruder Reply.

6
7 The second item of concern relates to the number of tiers and breakpoints is also addressed in
8 Magruder Opening Brief in 3.4.1 at 28. The fourth item of concern relates to the residential 1-inch
9 service customers. This also is addressed in 2.8.5 above and Magruder Opening Brief in 3.1.3 at 25.

10 These are proposed in the Magruder Consolidated Rate Schedules and in prior testimony.
11 There are no specific comments by the Town of Paradise Valley on the proposed tier structures that
12 also retain the total revenue for the Company.

13 **3.8.3 Paradise Valley's Concerns about Rate Consolidation on Public Policy Goals.**

14 In 2.8.9 above, is discussed in the Magruder Reply. It appears that the concepts and
15 implementation of water conservation-oriented rate structures is new to this water district; however, it
16 is practice throughout the western states as a way to create "price signals" that cause customers to
17 change their behavior and reduce their water consumption or pay more for the water they use.

18 Water is not a luxury but an essential element of life. A water LIFELINE minimum is essential
19 for all humans but excessive use of this limited and a depleting natural resource must be reversed or
20 the quality of life in our state will be significantly changed, as stated in the Magruder Rebuttal, Exhibit
21 MM-3 quotes from the Arizona Director of the Department of Water Resources.

22 **3.9 Magruder's Replies to Other Briefs on Rate Structure.**

23 Several other intervenors who represent resorts, country club and gold course clients have
24 proposed various rates for their clients. As stressed above, and key to rate consolidation, is the fact
25 that the Company's total revenue must still be received from its customers. As shown in Table 8
26 below, the revenue from the various customer rate classes is shown for the Magruder Consolidated
27 Rate Schedules.

28 Table 8 shows that the recent Commission revision to Decision No. 70140, where the rates
29 were changed for non-potable water from \$2.728/1000 gallons to \$1.24/1000 gallons created a
30 decrease in revenue of \$1,089,829 after increasing the rate for non-potable water to \$1.32/1000
31 gallons in the Magruder Consolidated Rates.¹⁶⁷

32 None of the proposed changed by these intervenors approached \$1.32/1000 gallons and all
33 would require other customer classes, in particular, the commercial or residential customers to
34
35

¹⁶⁷ *Id.*, Attachment A, see Assumptions used for the Magruder Consolidated Rates that includes Table 7 above.

Table 8 – Present and Consolidated Target Revenue by Rate Classes¹⁶⁸

ARIZONA AMERICAN WATER COMPANY			
<u>Summary of Consolidated Water Rates</u>			
Rate Classes	Revenue from Consolidated Rates	Target Revenue	Difference
Residential (a)	55,829,027	56,101,076	(272,049)
Commercial	13,410,557	12,510,487	900,070
OPA (b)	391,915	205,193	186,722
Sale For Resale (c)	283,647	279,308	4,339
Misc- Non-Potable	1,088,904	2,178,733	(1,089,829)
Private Fire	700,328	436,640	263,688
Total	\$ 71,704,378	\$ 71,711,438	\$ (7,060)

(a) Includes Multi-family - rates are not consolidated.
 (b) OPA in Aqua Fria (State Prison) and in Mohave consolidated to Commercial rates.
 (c) Includes Peoria Public Interruptible in Sun City, PI Surprise and Water Contract in Agua Fria and City of Phoenix in Anthem whose rates were not consolidated.

increase their rates proportionally. These proposals, both individually and collectively, should be rejected as shifting costs for these recreational activities to other customer classes. Relies for each of these briefs is summarized below.

3.9.1 Rate Concerns in the Belle Corte County Club Brief.

This Brief indicated that the Belle Corte Country Club, hereafter Belle Corte, rates for non-potable water was \$0.62/1000 gallons that was increased to \$2.7280/1000 gallons in Decision No. 70140, the Last Rate Case. Based on an Application by Belle Corte for an A.R.S. §40.252 review, the rate for non-potable water was changed to \$1.24/1000 gallons that was requested and that satisfied the Belle Corte request.¹⁶⁹ The Company did not object to the lost revenue at these review hearings; however, the total revenue from the Last Rate Case was not changed.

Magruder Reply.

The Magruder Consolidated Rates have increased to \$1.32/1000 gallons to makeup about \$200,000 of the lost revenue, still leaving a deficit of \$1,089,829 for the non-potable water rate class revenue. An \$0.08 increase between December 2009 to January 2011 appears as reasonable. In the present rate case, the Company has proposed a revenue of \$1.65, which this party feels is too high for the arguments made in the approved §40.252 review and by Corte Belle and others who feel non-potable water rates should always be less than the rates for potable water. After the First Tier water LIFELINE rates that are not applicable in this situation, the next rate tier is \$2.50/1000 gallons, thus, the consolidated non-potable water rate being proposed is less than 50% of that for potable water.

¹⁶⁸ Magruder Opening Brief, Table 3, same title, at 20, computed using the AZCONSOL Model 4 with Assumptions.

¹⁶⁹ Corte Bella's Opening Brief at 3:16-4:5, 5:4-16. Commission Procedural Order of 27 June 2010 amended Commission Order No. 70140 for non-potable water rate to \$1.24/1000 gallons.

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2 The Corte Belle Brief indicated that the Agua Fria Water District presently is \$0.62/1000
3 gallons.¹⁷⁰ In the Magruder Consolidated Rates, all non-potable water rates would be changed to
4 \$1.32/1000 gallons, including that in Agua Fria water district.

5 The Corte Belle Brief now requests that a rate of \$0.77/1000 gallons be approved based on a
6 request by DMB. This greatly increases rates for all other customer rate classes, shown in Table 8.

7
8 **3.9.2 Rate Concerns by DMB White Tanks Brief.**

9 The DMB White Tanks Brief is similar to that of Corte Belle Brief. DMB contends that the
10 Agua Fria Water district has a non-potable or effluent water rate that was modified by the recent
11 Commission decision that modified Decision No. 70140 to \$1.24/1000 gallons. However, the Agua
12 Fria Wastewater district does not have such a rate.¹⁷¹ This Brief also discussed the fact that the
13 Company includes CAP water with the non-potable water rates in some districts. DMB request that
14 the non-potable water rate be set at \$0.77/1000 gallons.¹⁷²

15 **Magruder Reply.**

16 The same product should have the identical rates in the same district and after consolidation,
17 in all districts. The rates for non-potable/effluent should be the same in water and wastewater
18 districts.

19 CAP water is of a higher quality than effluent but is not potable. CAP water should be priced
20 separately and at a rate between non-potable/effluent and potable water. Looking at the Magruder
21 Consolidated Rates, with non-potable water at \$1.32/1000 gallons and the lowest realistic rate for
22 potable water at \$2.50/1000 gallons, setting a rate in between, at \$1.85/1000 gallons for CAP water
23 sales seems, to this party, to be reasonable.

24 The DMB proposal for non-potable water rates to be set at \$0.77/1000 gallons is not
25 reasonable and should be denied.

26
27 **3.9.3 Rate Concerns in the Anthem Golf and County Club Testimony.**

28 At present, this brief indicates the Anthem Water District rates for non-potable water is
29 \$1.43/1000 gallons and that the Company has proposed raising that rate to \$2.5648/1000 gallons.¹⁷³

30 **Magruder Reply.**

31 As discussed in the above two replies, the Magruder Consolidated Rates is \$1.32/1000
32 gallons, a slight rate decrease for this organization and more than satisfies the comments in its brief.

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35 ¹⁷⁰ *Id.* 7:15-17.

¹⁷¹ DMB White Tank, LLC's Closing Brief at 4:7-15.

¹⁷² *Id.* at 4:7-15.

¹⁷³ Anthem Golf and Country Club's Direct Testimony Regarding Rate Structure and Rate Consolidation at 2:3-4, 3:25-4:3.

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2 **3.9.4 Rate Concerns the Resorts' Brief.**

3 1. The Resorts Brief is concerned that the Company's proposed Consolidated Rate Schedule,
4 Scenario 1, shows only a 3.3% rate increase for the residential rate class compared to 31.5% for the
5 commercial rate class.¹⁷⁴

6 2. Further, the resorts provided a recommended two-tier rate schedule with a \$0.50 difference
7 when exceeding proposed breakpoints.¹⁷⁵

8
9 **Magruder Reply 1.**

10 The Magruder Consolidated Rate Schedule for all residential rates has a zero percent change
11 and a 7% overall increase for commercial rates as shown in Table 7 above [page 52]. For the
12 Paradise Valley water district, the increases are 12% for the residential rate class compared to the
13 3.3% in the Company's proposal. The Magruder Consolidated Rates result in an increase of
14 \$571,125 or 29% for the commercial class or \$45,038 less than the Company's consolidated rates.

15 As discussed in the other three replies above, the recent change in non-potable water rate
16 still has a loss of \$1,089,829 that the other rate classes must makeup. This obviously is unfortunate
17 for all customers; however, having lower costs for effluent when compared to potable water is an
18 essential element of the Commission's water conservation efforts. Since non-potable water is used
19 primarily for "commercial" recreational reasons, then a large part of that lost revenue was from the
20 commercial rate class; however, all other rate classes had increases as shown in Table 7, with zero
21 being the percent change for residential rates.

22 As presented in this party's oral testimony, rebuttal and opening brief as Issue 6, a water
23 demand side management program (WDSM) is being recommended for the utility. The excellent
24 water conservation techniques used by The Resorts should be used as an incentive in a WDSM
25 program developed for organizations, such as The Resorts, with substantial rate decreases or
26 credits, based on documented water conservation results. Under such a program, I would expect to
27 see a credit of several hundred thousand dollars being applied to the annual water bill for The
28 Resorts. This should be a way, by demonstrating the effective water conservation methods now
29 being employed, for The Resorts to lead your industry in water conservation. Further, those who do
30 not demonstrate water conservation will then be making up the difference being applied as a credit
31 for The Resorts.

32 **Magruder Reply 2.**

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¹⁷⁴ Resorts' Initial Closing Brief at 3:11-23.
¹⁷⁵ *Id.* at 6:17-25.

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2 The proposed commercial rate schedule fails the basic principles for conservation-oriented
3 rates. There must be several tiers to permit the diverse customer consumption patterns to "see" and
4 be able to take advantage of the breakpoints, thus at least four such tiers are recommended for all
5 commercial rate categories. Two is unsatisfactory and should not be considered.

6 The \$0.50 difference in rates at the single breakpoint will not be effective in sending price
7 signals to commercial customers. The Magruder Consolidated Rates, considered the same
8 breakpoint proposed by The Resorts but added an additional one above and one below with a
9 \$0.50 rate change for each breakpoint. The Resorts proposed the Company used rate schedule for
10 its latest Consolidated Rates that this party considers as its critical defect that must be remedied

11
12 **3.10 Conclusions and Recommendations on Rate Structure Implementation.**

13 Upon Commission approval of Consolidate Rates, then a new rate structure is necessary
14 that will need to implemented in all water districts.

15 In general, this party recommends the Magruder Consolidated Rates, as corrected in the
16 Magruder Opening Brief, Attachment A. IF the Commission wants to approve the Company's
17 Consolidated Rates, Scenario 1, then this party can accept that position ONLY if the Commercial
18 Rates are changed to include Four-Tiers instead of the two tiers now in the Company's proposal.

19 After selection of the appropriate rate structure, then the implementation phase needs to be
20 carefully considered.

21 When the total revenue for all water districts is known, the Company should update the
22 Target Revenue in the Model, and calculate new rates for all customers. If there are variations more
23 than \$10,000 from the Target Revenue, then the Commercial 4-inch service rates are modified to
24 reduce such variation to less than \$10,000 in the Magruder Consolidated Rates. If the Company's
25 Consolidated Rates are approved, then this party would recommend any reduction be used to
26 reduce the non-potable water rate class which should be the same for all water (and wastewater)
27 districts.

28 Further, the Five-Step process should be included in these rates, using an annual rate
29 changes starting on 1 January from 2011 through 1 January 2015, for all water districts. During
30 these five years, the Company should be restricted to not submitting new rate cases unless there is
31 an extreme change in the situation (in monetary terms, over \$2,000,000), which must be justified in
32 such a rate case submission.

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Section 4
Reply to Issue 4
Should Wastewater Districts Be Consolidated?

4.1 Consolidated Wastewater Districts.

Based on the water district Rate Consolidation and Rate Structure Relies in the proceeding two sections, the benefits and costs, wastewater rate consolidation appear also to be the best alternative.

4.2 Conclusion and Recommendation.

This Party has limited experience with the additional factors that influence Wastewater issues; therefore, after review and consideration, Marshall Magruder will adopt the Wastewater Rates in the Company's Opening Brief as being fair and reasonable without discriminating between persons and places.

Also, an effluent rate of \$1.32/1000 gallons, as discussed in 3.9.1 through 3.9.3 above, is recommended. Also establishment of a CAP water rate of \$1.85 per 1000 gallons is recommended.

Since all wastewater districts will be consolidated, the issues between Anthem and Agua Fria should be mute discussed in 2.5.8 above.

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Section 5

Reply to Issue 4

Should All Miscellaneous Charges and Fees Be Consolidated?

5.1 Background on the issue of Consolidation of Miscellaneous Charges and Fees.

Separate schedules miscellaneous charges and fees exist for each district. Variations in charges or fees for the same service have remained for many years, sometimes a legacy from a prior owner.

The Arizona Constitution, Article 15, Section 12, states there should be no discrimination in charges for the same contemporaneous service, thus consolidation of these miscellaneous charges and fees is very appropriate for this case. This issue was presented in the Last Rate Case and deferred to this consolidation phase and was discussed in greater detail in Magruder Testimony Exhibit MM-1, "Consolidation of Miscellaneous Charges and Fees" as updated in Table 9 below.

Table 9. Present, Proposed, and a Standard for Miscellaneous Charges and Fees.

Miscellaneous Customer Cost	Company's		Magruder Proposed Charge/Fee	Variations in other districts' (present and proposed) including Staff and RUCO
	Present Charge	Proposed Charge		
Establish, Re-establish, Re-connect Fee (Regular hours)	\$ 30.00	\$ 30.00	\$ 30.00	\$ 20 to \$40
(Off hours)	\$ 40.00	\$ 40.00	\$ 60.00	\$ 20 to \$ 60
Water Meter Test (if correct)	\$ 10.00	\$ 10.00	\$ 80.00	\$10 to \$81
Meter Re-read (if correct)	\$ 5.00	\$ 5.00	\$ 20.00	\$ 5 to \$25
Move Customer Meter	NA	NA	Actual Cost	NA or Actual Cost
Non-Sufficient Funds Check Charge	\$ 10.00	\$ 10.00	\$ 30.00	\$10 to \$25
Late Fee Charge	1.5%/ month	1.5%/ month	3.0% /month	NA to 1.5% per month
Deferred Payment Finance Fee	NA	NA	1.5% /month	NA to 1.5% per month
Residential Deposit	2 x average bill			2 x average bill
Non-Residential Deposit	2.5 x average bill			2.5 x average bill
Deposit Required (residential or commercial), Interest on Deposit	In accordance with ACC Rule 14-2-403(B)			
Service Line Charge (Difference based on size of line)	\$130 to \$6,120	\$156 to \$830, Actual	Actual Cost	\$370 to \$1,620 to actual cost
Meter Installation Charge (Difference based on size of line)	\$370 to \$1,630	\$370 to \$1,890, Actual	Actual Cost	\$130 to \$6,130 to actual costs (plus \$120 for AMR)
Meter Installation Change (decrease from 1-inch to 5/8 or 3/4-inch meter)	NA	None	\$500.00	Requires safety certification by Fire Dept for sprinkler system

5.2 Company's Response to this Miscellaneous Charges and Fees Issue.

The Company supports consolidation of miscellaneous charges and fees and has offered no arguments to support the any variations. Therefore these charges and fees should be consolidated into one schedule applicable for all water and wastewater districts.

A new Charge is also recommended in 5.3.

5.3 Imposing a Charge and Safety Certification for Changes that Impact Sprinkler Systems.

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2 A new fee of \$500 per meter change is added when a customer requests that a meter be
3 changed to a smaller size and the customer has a fire sprinkler system. Before changing any meter
4 with a sprinkler system, the customer will have to provide a safety certification that the Fire
5 Department or an Arizona-certified Registered Professional Engineer (RPE) has approved this
6 change and that fire safety design will not be impacted for such a meter change. The Company will
7 prepare a form for customers to use for this purpose. The purpose of this certification is to ensure that
8 the customer does not negatively impact the design fires safety capabilities of the facility involved and
9 that the Company has a customer signature that absolves the Company of any possible or future
10 liabilities for such meter changes. Prior to the Company changing the meter, the customer will be
11 required furnish to the Company that this certification has been to recorded with the administrator of
12 property record office for that community or county so that any future owners are aware of this meter
13 change. The certification will remain with the Company's records for the property.
14

15 **5.4 Conclusion and Recommendations.**

16 It is recommended that the Company provide a Tariff filing within 45 days of the approval of
17 this rate case that consolidates the Miscellaneous Fees and Charges, including the new charge for
18 changing meters when facilities have a fire sprinkler system and the draft "certification" procedure for
19 inclusion in the Rules and Regulations.
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2 **Section 6**

3 **Reply to Issue 5 – Should the Rules and Regulations Be Consolidated?**

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5 **6.1 Background on the Issue of Consolidated Rules and Regulations.**

6 Each water and wastewater district has its own Rules and Regulations (R&Rs), most do not
7 appearing similar to others. A Consolidated R&Rs should facilitate both customer understanding and
8 Company operations by reducing the volume of redundant and conflicting rules and regulations. A
9 generic set of R&Rs should be applicable throughout all districts and a district specific supplement to
10 cove the unique differences, if necessary.

11 Consolidation of R&Rs was discussed in the Last Rate Case and deferred to the present case.

12 No party has commented on this issue.

13 **6.2 Consolidated Rules and Regulations Conclusions and Recommendations.**

14 a. Conclusions. Consolidation of the R&Rs should enhance administrative efficiency and
15 improve the Company's quality performance. This consolidation should make the Company's
16 business processes easier understand by its customers and also by its workers.

17 The Company's Consolidated R&Rs should be user-friendly. Further, the Company should
18 use this project as a way to improve relations with its customers by establishing a Citizens Advisory
19 Committee (CAC) to meet at least semi-annually, with at least one person per water district and
20 wastewater district and for each district with over 5,000 customers, then two or more
21 representatives. The CAC will be used as a way to receive feedback from customers and to provide
22 information to customers, such as the status of all water projects including schedules and outage
23 periods, and various regulatory actions including Water DSM, "town hall" schedules, and at least a
24 semi-annual multi-page newsletter.

25 b. Recommendations. It is recommended that

- 26
- 27 • The R&Rs be consolidated into one document and during this process, reviewed by
28 the CAC to ensure the result in user-friendly, with 180-days after the completion of
29 this case.
 - 30 • That the R&Rs be published on the Company's website.
 - 31 • That the R&Rs be an agenda item for CAC meetings.

32 **6.3 Consolidated Rules and Regulations Implementation.**

33 The Consolidated Rules and Regulations should be reviewed by the CAC prior to submission
34 to the Commission.

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3 **Section 7**

4 **Reply to Issue 6 – Should a Water Demand Side Management Program Be Established?**

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6 **7.1 Water Demand Side Management (WDSM) Program Issues.**

7 Using the analogies from the electricity and natural gas utilities, WDSM programs are
8 conservation programs whereby customer demands for water are permanently reduced by a
9 change in equipment or procedures. Such a WDSM program compensates the Company for its
10 part using the same process used by the Commission for these other two utilities.

11 I created this kind of program; however, it is a realistic way to reduce water consumption. The
12 Arizona Department of Water Resources program with “Best Practices” should and could be
13 integrated by the Company into the WSDM process. Examples of WDSM projects include

- 14 a. Providing a pool cover mechanisms to reduce evaporation and water loss from a pool.
15 b. Providing incentives for purchasing a dish or clothes washer that used significantly less
16 than the model now being used by a customer.
17 c. Providing incentives for a car wash facility to recycle water.
18 d. Replacing the showerheads in a school’s shower room with low-flow versions.
19 e. Providing low-water trees for customers that replace trees that consume lots of water.
20 f. Working with gardeners to set drip irrigation timers to optimize water usage.
21 g. Setting water conservation goals for multi-unit facilities, including hotels and resorts, with
22 incentives to reduce water consumption.

23 Each WDSM program would be submitted to the Commission for approval prior to
24 implementation. Upon approval, a WDSM rate “adjustor” would be added to customer’s bills to fund
25 these programs. The WDSM adjustment should not exceed 2% on a customer’s bill.

26 Obviously, any WDSM program loses expected revenue for the Company. This avoided cost
27 needs to be factored into the Company’s compensation based on measured performance results for
28 implementing each WDSM program.

29 **7.2 Water DSM Conclusions and Recommendations.**

30 a. Conclusion. Water conservation is a Company and Commission concern. Programs that
31 conserve water by taking or changing what one does are those best suited, therefore it is concluded
32 that a WDSM program be created and managed by the Company with 100% reimbursement.

33 b. Recommendations. It is recommended that the Company propose a Water Demand Side
34 Management (WSDM) program in several Rate Classes, as a way to provide incentives for customers
35 to reduce water demands. The Company should be ordered to apply for establishing a Water DSM
Program within 180-days after issuing the resultant order for this case.

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2 **Section 8**

3 **Reply to Issue 7 – Should Water Loss Be An Incentive or Disincentive?**
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5 **8.1 Background on the Issue of Water Loss.**

6 In general, the Commission seems to be of the opinion that when the total water loss by a water utility
7 is considered excessive when exceeding 10%. This results in a goal not to exceed a 10% wastage
8 factor. It is this party's opinion that NO water losses are beneficial to the Company or the customers.
9 Just like transmission (energy) losses in the electricity industry, water losses are always charged to
10 the customers and not to the utility.

11 **8.2 Creation of Incentivizes and Disincentives to Reduce Water Loss.**

12 To the best of the knowledge of this party, no Water Loss Management incentive programs are
13 known to exist at this Commission and probably very few are elsewhere.

14 At present, the implementation of "smart meters" is providing the Company the capacity to
15 understand the actual real-time customer demands and the ability to monitor water flow in ways not
16 dreamed of a decade ago. Using this technology and other innovative processes, the Company
17 should be able to monitor its system much closer, in particular, to determine if and where there are
18 water losses in its mains or other parts of its system. This could be the basis for creating a Water
19 Loss program.

20 If the Commission sets a target water loss Goal is set with the Commission with agreement by
21 the Company, and this goal is not obtained, then the agreement's disincentives should be exercised.
22

23 **8.3 Water Loss Program Conclusions and Recommendations.**

24 a. Conclusion. The Company needs to establish and activate an aggressive Water Loss
25 Management Program.

26 b. Recommendation. That the Company proposes a program with financial incentives and
27 disincentives to reduce water losses for each water district. This Water Loss Management Program
28 should be a required Water DSM Program.
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2 **Attachment A**

3 **Errata to Magruder Consolidated Rate Schedules**

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5 This errata replaces Attachment A to the Magruder Consolidated Rate Schedules filed on 25 July
6 2010, by replacing pages 4 through 6 with those herein. The original Scope, References and
7 Discussion paragraphs of the 25 July 2010 remain without change.

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9 The following corrections and changes are included in this Errata:

- 10 a. Under Commercial, 5/8-“ – 3/4” – correct Fifth Tier to read “Over 50,000”.
- 11 b. Under Commercial, 1” – change Second, Third and Fourth Tiers to “20,000”, “50,000” and
12 “80,000”, respectively.
- 13 c. Under Residential and Commercial, 3” – change Customer Charge to “\$250.00”.
- 14 d. Under Residential and Commercial, 4” – change Customer Charge to “\$400.00”.
- 15 e. Under Commercial, 4”, change tiers from 4 to 2, with First Tier, 4,000,000 at \$3.50 rate and
16 Second Tier, over 4,000,000 at \$4.00. [See Brief for additional discussion]
- 17 f. Under Residential and Commercial, 6” – Change Customer Charge to “725.00”.
- 18 g. Under Non-Potable Rate – Change to “1.3200”
- 19 h. Under Private Fire Rate – Change 2” to \$11.00, 3” to \$23.00, 4” to “\$44.00”, 6” to “\$100.00”,
20 8” to “\$175.00”, 10” to \$275.00, and 12” to “\$400.00”.
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Marshall Magruder Consolidated Rate Schedule

ARIZONA WATER COMPANY CONSOLIDATED RATES MODEL – WATER

Percentage of Consolidated Rates Step 1

Sun City	100.000%
SCW	100.000%
Agua Fria	100.000%
Anthem	100.000%
Tubac	100.000%
Mohave	100.000%
Havasu	100.000%
PV	100.000%

Residential Rates and Blocks

5/8" - 3/4"

Customer Charge		\$14.50
First	3,000	\$0.9800
Next	7,000	\$2.5000
Next	15,000	\$3.0000
Next	20,000	\$3.5000
Over	45,000	\$4.0000

1"

Customer Charge		\$20.00
First	3,000	\$0.9800
Next	7,000	\$2.5000
Next	15,000	\$3.0000
Next	30,000	\$3.5000
Over	55,000	\$4.0000

1 1/2"

Customer Charge		\$70.00
First	3,000	\$0.9800
Next	22,000	\$2.5000
Next	25,000	\$3.0000
Next	50,000	\$3.5000
Over	100,000	\$4.0000

2"

Customer Charge		\$110.00
First	30,000	\$1.7500
Next	70,000	\$2.5000
Next	100,000	\$3.0000
Next	100,000	\$3.5000
Over	300,000	\$4.0000

3"

Customer Charge		\$250.00
First	25,000	\$2.0000
Next	75,000	\$2.5000
Next	100,000	\$3.0000
Next	100,000	\$3.5000
Over	300,000	\$4.0000

Commercial, OPA, Turf Rates and Blocks

5/8" - 3/4"

Customer Charge		\$17.50
First	3,000	\$0.9800
Next or First	7,000	2.5000
Next	15,000	3.0000
Next	25,000	3.5000
Over	50,000	4.0000

1"

Customer Charge		\$30.00
First	10,000	\$2.5000
Next or First		
Next	20,000	3.0000
Next	50,000	3.5000
Over	80,000	4.0000

1 1/2"

Customer Charge		\$70.00
First	25,000	\$2.5000
Next or First		
Next	25,000	3.0000
Next	150,000	3.5000
Over	200,000	4.0000

2"

Customer Charge		\$110.00
First	100,000	\$2.5000
Next or First		
Next	100,000	3.0000
Next	300,000	3.5000
Over	500,000	4.0000

3"

Customer Charge		\$250.00
First	1,000,000	\$2.5000
Next or First		
Next	2,000,000	3.0000
Next	3,000,000	3.5000
Over	6,000,000	4.0000

**Marshall Magruder Consolidated Rate Schedule
ARIZONA WATER COMPANY CONSOLIDATED RATES MODEL - WATER**

4"			4"		
Customer Charge		\$400.00	Customer Charge		\$400.00
First	100,000	\$2.0000	First		\$2.5000
Next	100,000	\$2.5000	Next or First		
Next	100,000	\$3.0000	Next		3.0000
Next	200,000	\$3.5000	Next	4,000,000	3.5000
Over	500,000	\$4.0000	Over	4,000,000	4.0000

6"			6"		
Customer Charge		\$725.00	Customer Charge		\$725.00
First	100,000	\$2.0000	First	1,000,000	\$2.2500
Next	100,000	\$2.5000	Next or First		
Next	250,000	\$3.0000	Next	3,000,000	3.0000
Next	500,000	\$3.5000	Next	4,000,000	3.5000
Over	950,000	\$4.0000	Over	8,000,000	4.0000

Apartments Not Consolidated - Present rates in effect.

Non-Potable Rate

Customer Charge	\$-
All Consumption	\$1.3200

Private Fire Rate

2"	
Customer Charge	\$11.00
3"	
Customer Charge	\$23.00
4"	
Customer Charge	\$44.00
6"	
Customer Charge	\$100.00
8"	
Customer Charge	\$175.00
10"	
Customer Charge	\$275.00
12"	
Customer Charge	\$400.00

Hydrants

Customer Charge	\$14.00
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Water Districts Included in Rate Consolidation

	Included? Yes=1, No=0
Sun City	1
SCW	1
Agua Fria	1
Anthem	1
Tubac	1
Mohave	1
Havasas	1
PV	1

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Magruder Exhibits

Exhibit MM-1.

Excerpts from Marshall Magruder Reply Brief in Last Rate Case (docket 09-0227), Section 4

Exhibit MM-2.

Excerpts from Marshall Magruder Reply Brief in Last Rate Case (docket 09-0227), Section 2

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3 **Exhibit MM-1**

4 **Excerpt from the Marshall Magruder Reply Brief of 15 May 2009 in Commission Docket Nos.**
5 **W/SW-010303A-09-0227, pages 19 to 41,**
6 **Section 4, "Rate Consolidation for All Water Districts"**

7 **NOTES CONCERNING THIS EXERPT:**

- 8 1. It should be noted that this excerpt used revenue and rate data from the First Rate Case that
9 has been modified for this case; therefore, please see the basic testimony for actual
10 numerical values and consider those in this excerpt as representative examples of the
11 important principles herein.
- 12 2. The pagination and footnotes were not changed to match the original.

13 Quote:

14 **Section 4**
15 **Issue No. 3**
16 **RATE CONSOLIDATION FOR ALL WATER DISTRICTS**

17 **4.1 Summary of Issue No. 3**

18 This party supports full rate and fee consolidations including having the Company,
19 RUCO, and ACC Staff submit a single set of Consolidated Rate Schedules, Fees and Rules
20 and Regulations, based on the rates being proposed by each as a later phase in the case for
21 all five water districts and the next Arizona-American rate case all other water districts should
22 be integrated within revised Consolidated Rates and Fees in order to have *fair and*
23 *reasonable* rates throughout Arizona. (Magruder Brief, 24; 27-28)

24 In general, all RUCO, Staff and Company all support tiered rate structures and rate
25 consolidation. There were no recommendations against consolidation; however, when and the
26 level or degrees of consolidation are where differences lie. These differences will be the ultimate
27 decision on the Rate Consolidation issue, in my opinion, with the most significant impact on
28 ratepayers than any other issue in this Rate Case. (*Ibid*, 29, original underlined)

29 **4.2 Replies to Post Hearing Closing Briefs.**

30 **4.2.1 Long-Term Benefits of Consolidation to Customers, the Company, and Shareholders.**

31 Company Brief.

32 Mr. Townsley testimony stressed the "long-term benefits to customers of consolidation for
33 ratemaking purposes between Arizona-American districts." (Company Brief, 6)

34 The Company conditionally supports Rate Consolidation because of "improved rate case
35 efficiency, improving ability to make needed capital investments in smaller districts without
imposing burdensome rate increases, improving ability to acquire small troubled water systems,
and a desire to bring the tariff structure of water and wastewater utilities more in line with those
of other regulated utilities in Arizona, that all support consolidation on a philosophical basis."
(*Ibid*, 49)

Mr. Herbert is a witness for AAWC and providing his excellent background shows he is one
witness with Company-experience in this matter, and supports consolidation of all financial and
operational aspects for all water districts. (Magruder Brief, 31)

RUCO Brief.

A completed and comprehensive consolidation analysis was performed by RUCO for all
districts in question other than Paradise Valley. (RUCO Brief, 15)

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2 This analysis resulted in a consolidated Service Charge of \$9.59. As usual, the greatest
3 reductions occur for the highest service charge, with less significant increases for those with the
4 lowest service charge which is fairer than the present situation. (Magruder Brief, 31)

5 In an overall view, using \$9.59 provides more "rate relief" compared to rate "shock", which
6 seems also to be fair and reasonable. Similarly, the proposed Company Service Charges to a
7 Consolidated Service Charge has more "rate relief" occurs compared to rate "shock." (*Ibid*)

8 Staff Brief.

9 The Staff is "supportive of Rate Consolidation, where it is technically and financially feasible."
10 (Staff Brief, 20)

11 The Staff did not perform a comprehensive consolidation rate analysis.

12 Magruder Reply.

13 This party fully agrees that all customers will definitely benefit with consolidation but for some
14 their rates may increase; however, there are also numerous benefits to the Company as well as
15 administrative costs, fewer tariff rates and associated filings, better company focus, equalization
16 of existing disparities between water districts, lower rate case costs, so the Company can better
17 focus on its customers' need and provide better service and lower overall costs. With reduced
18 costs, shareholder benefits increase with higher dividends. (Magruder Brief, 25)

19 One-time costs for smaller districts would be absorbed in larger customer district with much
20 less impact than the same one-time cost for a smaller district. There would be one rate case for
21 these six water districts instead of six to thirteen cases now. Additional workloads for the
22 Company, RUCO and ACC Staff would be avoided if only one rate case was being filed. (*Ibid*)

23 Due to fundamental differences between water and wastewater districts, it appears
24 reasonable for the wastewater districts to be consolidated but separately from the others. (*Ibid*)

25 For an example of equalization of disparities between different water divisions, assume the
26 following two water districts, using hypothetical numbers to show effects of consolidation is in
27 Table 6. In this example, consolidating increased the Large District's rate by \$0.48 and reduced
28 the Tubac District rate by \$19.52. Now, is consolidating "fair and reasonable" or not? In this
29 Party's opinion, it is fair and reasonable. In addition to "cost of service" example, the same
30 impacts would apply for the water volume rates. (*Ibid*, 26-27; Table 8, 28)

31 **Table 6. Example of Consolidation Impacts for a Large and a Small District.**

Factor	Tubac District (a)		Large District (b)
1. Number of customers	500		20,000
2. Service Charge	\$40.00		\$20.00
3. Monthly Revenue (fixed) (1 x 2)	\$20,000		\$400,000
		Consolidated	
4. Number of Customers (1a + 1b)		20,500	
5. Service Charge (3a + 3b)/(1a + 1b)		\$20.48	
6. Monthly Revenue (fixed) (4 x 5)		\$420,000	

32 In the recent UNS Electric rate case, the Mohave and Santa Cruz County residential and
33 small commercial rates were finally consolidated after five decades. The smaller Santa Cruz
34 County saw an 8% reduction in small business rates while Mohave County rates increased about
35 2% based just on consolidating rates in each rate category. (*Ibid*)

4.2.2 **Specific Impacts on Service Charges due to Consolidation.**

Company Brief.

Mr. Townsley testimony stressed there are "long-term benefits to customers of consolidation
for ratemaking purposes between Arizona-American districts." (Company Brief, 6)

The Company consolidation analysis used Proposed rates, and several different water
districts, including some that are not included in this rate case. Still, this gives a picture of
relationships using proposed rates. (Magruder Brief, 34)

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2 The Company's determined consolidated service charge was \$15.59 for the proposed rates.
3 We see significant decreases for Tubac, Paradise Valley and Havasu, and minor increases for
4 Agua Fria and Sun City West and Mohave Water in Table 7. (*Ibid*, and Table 11, 33)

5 **Table 7. Changes due to Consolidation on Proposed Service Charges.**

Water District	Change	Difference in Present Rates	Calculation (Consolidated minus Present)
Mohave	Increase	\$ + 3.59	(15.59-12.00 = +3.59)
Sun City West	Increase	\$ + 0.59	(15.59-15.00 = +0.59)
Agua Fria	Increase	\$ + 0.59	(15.59-15.00 = +0.59)
Havasú	Decrease	\$ - 12.41	(15.59-28.00 = -12.41)
Paradise Valley	Decrease	\$ - 12.41	(15.59-28.00 = -12.41)
Tubac	Decrease	\$ - 16.91	(15.59-32.50 = -16.91)

11 RUCO Brief.

12 A completed and comprehensive consolidation analysis was performed by RUCO for all the
13 districts in question. (RUCO Brief, 15, Magruder Brief, 32-36)

14 The RUCO analysis resulted in a consolidated Service Charge of \$9.59 for five districts.
15 Table 8 shows in the inequity in service charges that now exist because the service charge cost
16 are not consolidated, with unfair discrimination on customers who receive the same product. As
17 usual, the greatest reductions occur for the highest service charge, with less significant
18 increases for those with the lowest service charge. (Magruder Brief, 31 and Table 10, 33)

19 **Table 8. Changes due to Consolidation on the Existing Service Charges.**

Water District	Change	Difference in Present Rates	Calculation (Consolidated minus Present)
Sun City West	Increase	\$ + 3.72	(9.59 - 5.87 = +3.72)
Mohave	Increase	\$ + 0.84	(9.59 - 8.75 = +0.84)
Agua Fria	Increase	\$ + 0.51	(9.59 - 9.08 = +0.51)
Paradise Valley	Increase	\$ + 0.07	(9.59 - 9.65 = +0.07)
Havasú	Decrease	\$ - 2.19	(9.59 - 11.87 = -2.19)
Tubac	Decrease	\$ - 10.09	(9.59 - 19.68 = -10.09)

24 When comparing Present to the Consolidated Service Charge, one sees the present \$9.59 or
25 proposed \$15.59, consolidation provides more rate "relief" compared to rate "shock". This is fair
26 and reasonable. Similarly, comparison of the proposed Company to a Consolidated Service
27 Charge, again, more rate "relief" occurs compared to rate "shock." (*Ibid*, 32)

28 Staff Brief.

29 The Staff did not calculate a comprehensive Service Charge.

30 Magruder Reply.

31 When using the Proposed Consolidate Service Charge, the change for those with lowest
32 rates is much less significant than for those with the highest proposed service charges.

33 Table 9 shows Basic Service Charges with the present rates and proposed RUCO, Staff and
34 Company proposed rates. These vary from \$5.87 to \$ 32.50. (*Ibid*, 32 and Table 9)

35 Mr. Hebert (Arizona-American witness) stated the highest rates see the greater decreases
and the lowest rates, the smaller increases when consolidating is borne out here. (*Ibid*, 31)

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2 **Table 9. Consolidated and Unconsolidated Basic Service Charges**
3 **(Residential 5/8 and 3/4-inch Meters)**

4 Consolidated Service Charge (RUCO)	AAWC Present Basic Service Charge					
	Agua Fria	Sun City West	Tubac	Havasu	Mohave Water	Paradise Valley ¹⁷⁶
5 \$ 9.59	\$ 9.08	\$ 5.87	\$ 19.68	\$ 11.78	\$ 8.75	\$ 9.65
6	RUCO Proposed Basic Service Charge					
	\$ 11.87	\$ 13.81	\$ 29.34	\$ 25.66	\$ 10.30	\$ 26.68
7 Consolidated Service Charge (AAWC)	AAWC Proposed Basic Service Charge					
	Agua Fria	Sun City West	Tubac	Havasu	Mohave Water	Paradise Valley
8 \$ 15.59	\$ 15.00	\$ 15.00	\$ 32.50	\$ 28.00	\$ 12.00	\$ 28.00
9 Consolidated Service Charge (ACC Staff)	ACC Staff Proposed Basic Service Charge					
	Agua Fria	Sun City West	Tubac	Havasu	Mohave Water	Paradise Valley
10 Not calculated	\$ 14.55	\$ 15.30	\$ 28.73	\$ 24.54	\$ 9.10	\$ 28.00

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13 **4.2.3 Specific Impacts on Consumption Rate Charges due to Consolidation.**

14 Company and RUCO Briefs.

15 The Company and RUCO did not offer any consolidated consumption rates in its Brief for the
16 Final Schedules but did in earlier testimonies.

17 Staff Brief.

18 The Staff did not calculate consolidated consumption charges.

19 Magruder Reply.

20 RUCO's Mr. Moore consolidated the commodity (volumetric) usage charges by determining
21 a common three-tier rates for residential customers (5/8 & 3/4-inch) and two-tiers for all other
22 customer categories. Table 10 compares this residential rate category. (Magruder Brief, 33;
23 Table 12, 34)

24 **Table 10. Consolidated and Unconsolidated Existing Commodity Charges.**
25 **(Residential 5/8 and 3/4-inch meters)**

26 Commodity Usage (at \$/1000 gallons)	AAWC Present Rate Design					
	RUCO Consolidated Rate	Agua Fria	Sun City West	Tubac	Havasu	Mohave Water
27 First 4,000 gals	\$1.2443	\$1.5398	\$1.3092	\$1.89	\$1.6802	\$0.85
28 Next 10,000 gals.	\$2.0757	\$2.2198	\$1.7442	\$2.85	\$2.1852	\$1.30
29 Over 14,000 gals.	\$2.3270	\$2.6468	\$2.0102	\$3.41	\$2.5000	\$1.50

30 Again, the water division with the highest rates received the greatest decrease when
31 consolidated, and the water division with the lowest rates the highest rate increases. (Ibid, 34)

32 The Company also computed a consolidation scenario, with different assumptions when
33 compared to RUCO's analysis. The Company's analysis used Proposed rate, and different
34 water districts, including some not included in this rate case. Still, this gives a picture of
35 relationships using the Company's proposed rates. (Ibid)

Table 11 shows consolidated commodity rates compared to the proposed Company's rates;
however, without considering the Final Schedules. Again, the water districts with the highest

¹⁷⁶ Final Schedules for the Company, ACC Staff, RUCO and Magruder combined the present Paradise Valley 5/8 and 3/4-inch rate categories into one, which is simulated by averaging herein.

1
2 commodity rates, received the greatest rate reductions, while those with the lowest rates, the
3 smallest rate increases. (Ibid)

4 It is not feasible to directly compare these "consolidation" analyses. Mr. Moore
5 comprehensive consolidation used present rates, excluded Paradise Valley, and derived
common three-tier commodity blocks, to equalize Company return with the Test Year. (Ibid, 35)

Table 11. Consolidated and Unconsolidated Proposed Commodity Charges.
(Residential 5/8 and 3/4-inch meters)

Company's Proposed Rate Design							
Commodity Usage Blocks (at \$/1000 gallons)	Company's Consolidated Rates	Agua Fria	Sun City West	Tubac	Havasu Water	Mohave Water	Paradise Valley
First 4,000	\$1.500	\$2.926	\$2.880	\$3.780	\$4.033	\$1.471	\$1.288
4,001-10,000		\$3.463				\$1.625	
4,001-13,000	\$3.463				\$4.196		
4,001-15,000			\$3.171				
4,001-20,000				\$4.850			\$2.233
Over 10,001						\$1.744	
Over 13,001	\$3.670				\$4.555		
Over 14,001							
Over 15,001			\$3.413				
Over 20,001				\$4.950			
20,001-65,000							\$2.796
65,001-125,000							\$3.359
Over 125,001							\$3.879

19 The Company's "typical" Consolidated Bills for residential customers are in Table 12 for the
20 Company's proposed rates, different water companies, and other assumptions that make this
21 analysis not suitable to make any decisions in this rate case because it is incomplete and needs
22 correction to reflect the current proposed rates. (Ibid; Tables 13 and 14, 35)

Table 12. Consolidated Proposed Impacts for Typical Residential Bills and Total Revenue.

Water District	Typical Bill	Proposed Changes WITHOUT Consolidated Rates	Total Revenue
Tubac	\$41.01	+47.13% rate INCREASE	\$0.3 million
Havasu	\$35.85	+42.90% rate INCREASE	\$0.6 million
Mohave	\$31.77	+37.22% rate INCREASE	\$1.7 million
Agua Fria	\$30.09	+17.75% rate INCREASE	\$3.5 million
Paradise Valley	\$66.94	+2.95% rate INCREASE	\$0.3 million
Sun City West	\$28.35	-15.69% rate DECREASE	\$1.3 million
Water Districts in the Company's Analysis that are NOT in this rate case.			
Sun City	\$32.26	+136.00% rate INCREASE	\$8.4 million
Anthem	\$34.15	+47.74% rate INCREASE	\$44.6 million

31 The variety of "blocks" in Table 11 show how dysfunctional the existing rate and proposed
32 rate schedules are for this Company. There should be only one block structure for all water
33 districts. (Ibid, 36)

34 First, there is no logic when setting the limits for the rate blocks. The distribution of the water
35 usage is a non-Gaussian (or normal) and more like a chi-squared (X^2) distribution, with a fast
rising peak closer to zero and a long tail. A chi-squared distribution has its mean or cumulative
50% distribution nearer to the origin, thus when an average customer consumes between 7,500

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2 to 12,000 gallons. The rate structure must have cost "signals" for those near-mean usage
3 customers. (*Ibid*)

4 Second, second tiers start at 3,001 or 4,001 gallons to 10,000, 13,000, 15,000, and 20,000
5 gallons. The range for this "second" tier extends from 3,000 to 14,000 gallons, too wide and
6 challenging for a consumer to see the price signal to reach (or reduce demand) the first tier. The
7 chi-squared tail extends for tens to hundreds of thousands gallons with price tiers only in the
8 Paradise Valley after 20,001 gallons, with the last starting at 125,000 gallons. (*Ibid*)

9 Third, the Company's Consolidated Rate second tier is 9,000 gallons wide. It may be divided
10 to make obvious and reachable blocks for customers to lower water bills by conservation. (*Ibid*)

11 Fourth, looking at Table 11, one sees 13 different tiers used by six water divisions for the
12 same rate category. I proposed a standard 4,000-gallon blocks in the residential and small
13 commercial rate categories. (*Ibid*)

14 Furthermore, all larger residential and commercial commodity rate categories have just two
15 tiers. Many small commercial (5/8 and 3/4-inch), such as in the Tubac district, have very similar
16 demand demands (with a lower average) than the residential counterparts. These commercial
17 categories should parallel the residential rate tiers. Multiple tier blocks for all other rate
18 categories should be in the resultant tariff from this rate case. Just like the residential category
19 that is discussed extensively, commercial enterprises can and will always look for ways to lower
20 rates, IF THEY CAN, to a lower tier. As the present and proposed rate structure is now
21 constructed with only two tiers, reaching the first tier rates is nearly impossible unless your
22 consumption is just over the second tier break point. This is *utterly useless*. (*Ibid*)

23 At least five tiers for larger meters is recommended, with two breakpoints below the chi-
24 squared mean for example near the 35% and 45% points, the third at 5% past the mean (55%),
25 and fourth and fifth, near the 65% and 80% points on the tail. The additional breakpoints on the
26 tail will provide significantly more revenue to the Company in Exhibit M-4. (*Ibid*)

27 4.2.4 Consolidation of Miscellaneous Charges and Fees.

28 Company, RUCO, and Staff Briefs.

29 The Company, RUCO and Staff Brief did not discuss miscellaneous charges and fees in their
30 Briefs; however, the Final Schedules presented various charges and fees for the different water
31 districts. Consolidation of these fees and charges was not discussed.

32 None of these charges and fees appears isolated by water district; however, the Company is
33 using different rates/fees for the same service at different water districts. If nothing else happens
34 in this rate case concerning consolidation, this is the easiest consolidation step. (*Ibid*, 37)

35 Magruder Reply.

No standards are used for miscellaneous charges and rates, with significant differences
between charges for the same service in different water districts. (Magruder Brief, 19)

Miscellaneous customer costs that should be included and consolidated in this rate case are
in Table 13. (*Ibid* and Table 6, 19-20)

It is probable that new water lines will be lengthy in rural areas. This party objects to having
existing customers funding ANY such developer's expenses. New customers must fund new
development, and not today's ratepayers, for the actual cost or line extensions and meters.
Service Line and Meter Installation Charges must also be borne by new customers. (*Ibid*)

Meter Test and Re-reading Meter (when correct) need to account for higher vehicle fuel
costs, thus these were increased. Also increased were the cost for a check without specific
funds (NSF) to \$30.00, a more commonly used fee. The Late Fee charge is raised to a simple
3.0% per month (36.0% APR), the maximum permissible interest rate. The Deferred Payment
Financing fee at 1.5% per month (18.0% APR) is half of the Late Fee charge. To obtain deferred
financing the ratepayer has committed to makeup unpaid bills to the Company and a lower
Deferred Payment Financing fee is fair and reasonable. This could help the Company collect its
fees and charges by discouraging higher costs for non-payment. (*Ibid*, 20; Table 6, 19-20)

Table 13. Present, Proposed, and a Standard for Miscellaneous Charges and Fees.

Miscellaneous Customer Cost	Company's		Magruder Proposed Charge	Variations in other water districts' charges and fees (present and proposed) including Staff and RUCO
	Present Charge	Proposed Charge		
Establish, Re-establish, Re-connect Fee (Regular hours)	\$ 30.00	\$ 30.00	\$ 30.00	\$ 20 to \$4 0
(Off hours)	\$ 40.00	\$ 40.00	\$ 60.00	\$ 20 to \$ 60
Water Meter Test (if correct)	\$ 10.00	\$ 10.00	\$ 80.00	\$10 to \$81
Meter Re-read (if correct)	\$ 5.00	\$ 5.00	\$ 20.00	\$ 5 to \$25
Move Customer Meter	NA	NA	Actual Cost	NA or Actual Cost
Non-Sufficient Funds Check Charge	\$ 10.00	\$ 10.00	\$ 30.00	\$10 to \$25
Late Fee Charge	1.5%/ month	1.5%/ month	3.0% /month	NA to 1.5%/ month
Deferred Payment Finance Fee	NA	NA	1.5% /month	NA to 1.5% /month
Residential Deposit	2 x average bill			2 x average bill
Non-Residential Deposit	2.5 x average bill			2.5 x average bill
Deposit Required (residential or commercial), Interest on Deposit	In accordance with ACC Rule 14-2-403(B)			
Service Line Charge (Difference based on size of line)	\$130 to \$6,120	\$156 to \$830, Actual	Actual Cost	\$370 to \$1,620 to actual cost
Meter Installation Charge (Difference based on size of line)	\$370 to \$1,630	\$370 to \$1,890, Actual	Actual Cost	\$130 to \$6,130 to actual costs (plus \$120 for AMR)

16 Specific areas that should be consolidated include:

- 17 1. General & Administrative (believed to have been completed)
- 18 2. Cost of Service and Volumetric Charges with more and standard tiers deployed
- 19 3. Arsenic treatment costs (service and volumetric) included in 2 above
- 20 4. Taxes, including social security and Medicare, and other Rate Base Costs
- 21 5. Service Line and Meter Installation Charge (change all to "actual cost")
- 22 6. Establish, Re-establish, and Re-connect fees during regular and off hours
- 23 7. Water Meter Test, (if correct) and Re-read the Meter (that is good)
- 24 8. Non-Sufficient Funds to check charges and Late fees, Deferred Payment Finance Charge, Residential and Non-Residential Deposit Interest on Deposits (*Ibid*, 37)

24 **4.2.5 Consolidation of Rules and Regulations.**

25 Company, RUCO and Staff Briefs.

26 There were no comments on Rules and Regulations in any of these Briefs.

27 Magruder Reply.

28 The Company's Rules and Regulations (R&Rs), submitted, as a part of this rate case, should be consolidated. In respond to a Magruder Data Request, these R&Rs have not been translated into Spanish. (Magruder Brief, 28)

29 **4.2.6 Impact of White Tanks Plant on Consolidation.**

30 Company Brief.

31 The Company's Brief argues that its White Tanks Plant proposal is "fair" and "will mitigate rate shock and enable Rate Consolidation in the near future." (Company Brief at 19)

32 The Company continues that if its White Tanks Plant proposal were not approved, it would have to file another rate case to put "the entire White Tanks Plant in rate base." (Company Brief at 19)

33 The Company also uses the ACC Staff testimony by Mr. Becker who, under usual conditions, would support such a request in the next Agua Fria district rate case. (Company Brief at 19)

1
2 The Company concludes that this alternative would result in a "significant future rate
3 increase for Agua Fria customers" and "throw off the consolidation timeline" (see below)
(Company at 20)

4 RUCO Brief.

5 In summary, RUCO recommends the "Commission should reject the Company's proposal...
6 associated with the White Tank plant in rate base." (RUCO Brief at 4)

7 Staff Brief.

8 "The Commission should reject the Company's request to include CWIP in rate base in this
9 case and any associated related adjustments to increase depreciation and property taxes
10 related to inclusion of CWIP in rate base should also be rejected." (Staff Brief at 7)

11 Magruder Reply.

12 It issue exists because the rates are NOT consolidated and as a result will be unfair, no
13 matter how determined without consolidation, to the ratepayers in Agua Fria water district. This
14 case can be described as a global "rate shock" due to the extraordinary rate increases proposed
15 by all but this party. (Magruder Brief, 41)

16 The issue of "when" to include this project should be in accordance with normal rate case
17 procedures with consolidated rates. Since we have multiple and different sized water districts,
18 any capital expense perturbation is unfair to the smaller division, as shown in Table 8. (*Ibid*, 26;
19 Table 8, 29)

20 This party agrees with the Company on this issue this is unfair to the Agua Fria ratepayers.
21 Only after it is operational should this plant's cost go into a Consolidated rate base in order to be
22 fair to all customers, shareholders, and the Company when the other Arizona-American water
23 districts are integrated into Consolidated Rates and Fees. The prudently assessed impacts of the
24 White Tanks, like all capital projects, must be spread across all ratepayers in a Consolidated
25 Rate base, as just to those in Agua Fria water district is unfair and not reasonable.

26 **4.2.7 Was adequate notice provided in this case to proceed with Consolidation?**

27 Company and RUCO Briefs.

28 This issue was not addressed.

29 Staff Brief.

30 Staff was concerned that notice in the instant case was not adequate to notify affected
31 ratepayers, particularly those customers of the districts that were not included, that a rate
32 increase (or decrease) was possible. (Staff Brief, 20)

33 Magruder Reply.

34 The Staff witness states "proper notice be given to customers affected by a rate application"
35 in accordance with Arizona Administrative Code R14-2-105(A) and that this notice has not been
36 given to "all the Company's customers". Staff recommends, "Rate Consolidation can not be
37 undertaken in this docket." Further, he states "due process concerns require proper notice be
38 given." (Magruder Brief, 37)

39 This Rate Case Procedural Order required Notice of these hearing for this case be placed in
40 newspapers and in billing statement for all customers involved in this rate case. This includes
41 customers of all six water districts and one wastewater district that are impacted by this case
42 and excludes other Arizona-American two water districts and four wastewater district customers
43 not impacted by this case. Consolidation for the one-wastewater district has not been
44 considered. Therefore, only the six water districts are being considered for consolidation and all
45 their customers were properly "noticed" in accordance with the ACC Regulations. The Company
46 also has reported compliance with the Rate Case Procedural Order. (*Ibid*)

47 This notice included: "The Commission is not bound by the proposals made by Arizona-
48 American, Staff, or any intervenors; therefore, the final rates approved by the Commission may
49 be higher or lower than the rates requested by Arizona-American." (*Ibid*, 38-39)

50 It appears obvious the Commission may make any changes it deems appropriate and legal
51 as the final result of any and all rate cases. In my opinion, there is absolutely nothing is this

1
2 notice that would "prohibit" consolidation of these six water districts in THIS rate case. Further,
3 A.A.C. regulations R14-2-105(A) have been met. Therefore, there is no reason why
4 consolidation cannot be implemented based on Notice for these six water companies, without
5 additional "Notice". (*Ibid*, 39)

6 In this party's opinion, rate consolidation of the six water districts in this case is within the
7 Notice requirements of the A.A.C. and other statutes. All other Company water districts have
8 never been a consideration by this party.

9 **4.2.8 All Urge Consolidation to Proceed with Caution.**

10 Company Brief.

11 Mr. Townsley supports consolidation "as long at consolidation does not cause further
12 financial harm to the Company." (Company Brief, 6)

13 He also has some concerns with rate consolidation. The practicalities of district consolidation
14 present significant challenges to both the Commission and Arizona-American. For instance,
15 average customer water bills across Arizona-American's systems range from about \$12 per
16 month in Sun City to about \$70 in Paradise Valley." Some of these "differences are due to net-
17 plant investment and O&M expense per customer between districts. Proposals for the short term
18 are likely to cause significant public and political consternation. Arizona-American will not
19 support consolidation if the result were to delay rate relief, or otherwise harm the Company."
20 (*Ibid*, 49-50)

21 RUCO Brief.

22 RUCO "believes the better approach would be to consider the [consolidation] issue when all
23 of the districts are the subject of a rate case. This would provide the Commission with the
24 opportunity to consider all the factors necessary to make the best decision. These factors
25 include, but are not limited to, the operational and financial information of all the Districts, the
26 interconnectivity of the systems, and the financial impact on each system. It would also mitigate
27 some of the unintended consequences that will result should the Commission make the decision
28 at this time." (RUCO Brief at 15-16)

29 Staff Brief.

30 The Staff feels rate consolidation is a complex issue that has both public and policy
31 ramifications and recommends that before undertaking rate consolidation, the Commission
32 establish certain criteria regarding public health and safety, proximity, economics of scale and
33 rate shock. (Staff Brief, 20)

34 For Arizona-American, with differing rates among its districts, rates for some customers will
35 decrease while rates for others will increase for others. (*Ibid*)

Before undertaking consolidation, the Company would have to undertake significant public
outreach to educate its customers on the issue, something that did not happen within the
confines of the instant case. (*Ibid*)

Staff recommends that the Commission carefully consider all aspects and impacts that could
result from consolidation in an effort to avoid unintended consequences. (*Ibid*)

Staff testimony addressed areas where work remains before rate consolidation, including:

1. How to deal with different number of, and break point for, rate tiers across the districts.
2. How to account for differing uses of water for irrigation in different districts, particularly in the Paradise Valley Water District.
3. Whether to consolidate commercial rates at the same time.
4. Whether returns on customer classes as a result of cost of service studies are or should be the same in the different districts.
5. How to maximize public input, including whether to hold workshops.
6. How to educate the public about the pros and cons of rate consolidation.
7. How Staff, RUCO, and other parties would participate in the public process.
8. Whether to flash cut to consolidated rates or to phase them in.
9. Whether to consolidate sewer rates at the same time that water rates are consolidated.

- 1
2 10. What economics of scale would result from consolidation? (Company Brief, 50)
3 These criteria are sound and should be evaluated during a consolidation application review.
4 (*Ibid*, 40)
5 Magruder Reply.
6 This party agrees but some of these concerns have been overtaken by events. Going
7 through all of these from Company, RUCO to Staff, we see the following:
8 a. Financial harm. First, rate structure variations are all revenue neutral. Rate consolidation
9 should not impact revenue and do financial harm.
10 b. Average water bill differences. These differences are mild when compared to the
11 variations in rates being proposed in this case, see Table 1 at 10, Table 2 at 11, Tables
12 3 and 4 at 13, Table 5 at 16, Table 7 at 21, Tables 8 and 9 at 22, Table 10 at 23, Tables
13 11 and 12 at 24, and Table 13 at 26 that show much more significant variations without
14 any rationale in this case.
15 c. Net plant investment differences. These are due to many factors, but as indicated by Mr.
16 Herbert, consolidation is the only solution to smooth out high swings in rates. "The cost
17 of specific programs should be shared by all customers rather than burdening those of
18 the affected area. Rate increases will be more stable and major increases in specific
19 tariff groups will be avoided. (Magruder Brief, 29)
20 d. O&M expense differences. These are due to many factors, but as indicated by Mr.
21 Herbert, consolidation is the only solution to smooth out high swings in rates. (Magruder
22 Brief, 29)
23 e. Public and political consternation. This company presently has a terrible reputation by its
24 customers; mostly because of the extremely high rate changes requested in its rate
25 cases. Personally, I doubt if it could be worse, so concerns about "consternation" are
26 understandable but in reality mute. Therefore, since consolidation will "smooth out" and
27 "equalize" the bothersome peaks and valleys ratepayers now perceive, there could be no
28 better time than the present to consolidate from this view point. (*Ibid*, 40)
29 f. Rate relief timing. This company perceives that "any" delay in obtaining the increased
30 rates requested in this case will have terrible consequences involving reduced spending
31 on capital projects, personnel reductions, and equipment maintenance due to losing
32 parent company and shareholder support. This case has taken over a year so far with
33 new rates not expected prior to September 2009. In my opinion, a few additional months
34 to really settle the unjust and unfair rates now being implemented are worth the longer-
35 term benefits for shareholders, customers, company integrated work, and regulatory
agencies.
g. Consolidate when all of the districts are the subjects of a rate case. At present, 5 of 7
water districts are represented, required Company revenues and test year expenses
adjudicated, and necessary financial basis determined, a requirement prior to determine
how to collect this revenue. Rate consolidation is revenue neutral. To expend hundreds
of thousands of dollars in a future rate case, manpower that has been used in this case,
and the necessary audits at some future date, is not cost-effective and delays are
benefits of consolidation. There is no need to have all 7 water districts in the same rate
case to consolidate these 5 districts. The proposed result will be one large water district
(of the 5 herein) that will consolidate with the remaining two later. Three entities will be in
the second rate case, not 7, again with consolidation benefits already incorporated for
the original 5 districts. Thus, the addition of two smaller districts, as shown time and time
again in my analyses, to the larger district will result in less impacts on the larger district
and greater on the smaller ones, as they converge into one integrated water company.
The cost of 7 rate cases is greater than to consolidate 3 rate cases.
h. All districts in one case provide an opportunity to consider all the factors necessary to
make the best decision. By having a two-step consolidation approach, as just explained
above, does not mean nor imply "all" operational and financial factors are considered but

1
2 over two cases (this one and one for the remaining districts), not in one larger future and
3 much more expensive rate case.

- 4 i. Consideration of interconnectivity of systems is necessary for consolidation. This
5 involves expenses of connecting to different water districts but is not an essential
6 element of rate consolidation. Both the Company's Mr. Hebert and Staff agree that
7 interconnectivity is NOT required for consolidation, but is a nice to have feature, if
8 possible. (Magruder Brief, 31 and 39)
- 9 j. Unintended consequences of consolidation. First, all decisions may have such
10 consequences; however, the Staff has listed at least 10 such considerations that are
11 discussed below. (Company Brief at 50)
- 12 k. Commission establishes certain criteria regarding public health and safety, proximity,
13 and economics of scale and rate shock. Pubic health and safety criteria will not change
14 with consolidation. Proximity, as indicated in "I" above, is not a factor in consolidating.
15 Economics of scale is a benefit for many parties, should be a positive outcome; however,
16 having the Commission pre-determine this as a "criteria" for consolidation will not be
17 known until after the consolidation plan is finished. Rate shock occurred long ago, and
18 then the Company submitted its original and revised applications. Any customer, who
19 has a proposed rate increase of over 15%, will have rate shock, at least 80% of the
20 customers in these five districts. Only through rate consolidation will "rate shock" be
21 diminished.
- 22 l. Some customers will have rate increases and others decrease with consolidation. As
23 shown, the degree of change is related to the customer base size. Larger divisions will
24 have smaller changes, smaller divisions larger changes, with the resultant changes more
25 beneficial for the smaller divisions as rates become smoother for all.
- 26 m. Company needs to take significant public outreach prior to consolidation. The public is
27 presently furious and ill informed about utility rates, not only water, but communications,
28 electric, and gas rate structures. The terms used for each are all different and very
29 confusing as additional "mechanisms" and surcharges only add confusion. Very few
30 understand the fundamentals of the process and rate determination mechanisms used
31 by the Commission, as this is my fifth rate case, in a continuum of learning, I'm in the
32 fifth grade with graduation a long time away. Extensive public outreach has problems in
33 that some small factor maybe blown out of proportion. For example, the Magruder
34 proposed rates will decrease the majority of these on Sun City West who are the loudest
35 objectors to consolidation and rate tiers I have proposed. Even after explaining, during
breaks in this case, understanding that the resultant is lower rates is not understood.
Facts need to be published in billing statements that are clear, understandable showing
impacts. Educating the public to accept change is challenging and may never be
effective.
- n. Number of breakpoints and tiers (1). This issue is the heart of consolidation. Many tiers
are necessary due to varying demands. Price signals are required. Consumption levels
in each district are drivers. As accomplished by RUCO, this can be developed in a fair
and reasonable manner.
- o. Irrigation water differences (2). Arizona-American is a water company, not an agriculture
irrigation district, and as such, is required to deliver safe, potable water. Irrigation water
should not be a separate rate category unless used for agriculture, but integrated in the
residential/commercial rate categories. The same goes for "fire" water.
- p. Consolidate residential and commercial at the same time (3). This party feels that the
company's revenue requires both to be consolidated at the same time. In fact, there
many are some trades between these two rate classes when consolidating rates.
- q. Cost of Service at water district or consolidated level (4). As strongly advocated by the
Company's rate structure witness, Mr. Herbert, cost of service must be integrated across

1
2 the entire customer base, not for each small, individual entity, in order to be fair and
3 reasonable. (Magruder Brief, 31)

- 4 r. Maximize public input and decide to hold workshops (5). This is a Company decision but
5 will add to rate case costs. See "m" above.
6 s. Educate the public about the pros and cons of rate consolidation (6). In my opinion, only
7 as small number of the public will understand this, as stated in "m" above.
8 t. Participation of Staff, RUCO and other parties in the public process (7). Unless prohibited
9 by statute, all knowledgeable-parties should participate.
10 u. Flash-cut or phase in consolidated rates (8). As is clear in Mr. Herbert's writing, without
11 consolidation, rates are NOT FAIR. Fairness requires remediation of unfair,
12 unconsolidated rates. The multi-phase approach took 50-years for a recent electric rate
13 consolidate, with a half-century of unfair rates.
14 v. Consolidate sewage and water together or separately (9). As these are different
15 businesses, separate consolidation cases are appropriate.
16 w. Economics of Scale due to Consolidation (10). See "k" above.

17 4.2.9 When and How to Consolidate.

18 Company Brief.

19 Because of the complexities and potential for unintended consequences, the Company's
20 position is that rate consolidation must be analyzed though a proceeding focusing solely on
21 consolidation issues. (Company Brief, 51)

22 The Company intends to do the following in a separate and nearly parallel process with its
23 Next Rate Case:

- 24 1. Open a separate Rate Consolidation Docket including all of its districts focusing solely on
25 rate consolidation.
- 26 2. Request the Commission to re-open this Rate Case and the Next Rate Case under A.R.S
27 §40-252, solely for the purpose of re-examining the rate design consistent with resolution of
28 the Rate Consolidation Docket.
- 29 3. If a new rate design were ordered as part of the Rate Case Docket, the A.R.S. §40-252
30 procedure would allow the final order in this 2008 Rate Case and the final order in the Next
31 Rate Case to be amended solely to adjust rate design.
- 32 4. The Commission must rely on the summation of the individual districts' revenue
33 requirements found in the 2008 Rate Case Order and in the Next Rate Case Decision as a
34 basis for new rate design consolidating rates in some or all districts.
- 35 5. This procedure would allow the Commission to fully examine Rate Consolidation as a basis
for a new rate design consolidating rates in some or all districts.
6. This procedure would allow the Commission to fully examine Rate Consolidation while at the
same time allow the Company to implement new rates in each of its divisions on an
unconsolidated basis, necessary in the interim to ensure the Company's continued financial
health and stability.
7. The Company is willing to support the above actions as best as possible in a manner
consistent with completion of the Next Rate Case and Rate Consolidation by December
2010. However, the Company can only control the timing of initial application filings; it has
only limited influence on subsequent procedural dates. (Company Brief, 51)

36 RUCO Brief.

37 In this case, the Commission is considering only 7 of the 13 water and wastewater districts.
38 From RUCO's perspective, this does not make sense to consider only 7 districts at this time.
39 RUCO believes the better approach would be to consider the issue when all districts are the
40 subjects of a rate case to provide the Commission the opportunity to consider all the factors
41 necessary to make the best decision. (RUCO Brief, 15-16)

42 Staff Brief.

1
2 The Staff recommendation in Mr. Abinah's testimony is that
3 "The Commission order Arizona-American, in its next rate case, to propose detailed
4 rate consolidation and/or system interconnection plans where the Company believes it
5 is technically and financially feasible." (Magruder Brief, 40)

6 Staff defines "rate consolidation", also known as Single Tariff Prices (STP) as
7 "The use of a unified rate structure for multiple utility systems that are owned and
8 operated by a single utility, but that may not be contiguous or physically
9 interconnected." (*Ibid*)

10 Similar to the Company's Mr. Herbert, we see Mr. Abinah support consolidation even if the
11 water districts are not contiguous or interconnected. In fact, Staff feels that rate consolidation or
12 STP even when not physically interconnected. (*Ibid*)

13 During Mr. Abinah's oral testimony he suggested that a 12 to 18 month plan be developed
14 leading toward consolidation in one rate case for all districts. Under cross-examination, it
15 appears this is a bit optimistic as this party urged not to spend 50 years consolidate his electric
16 company. He is and rightfully concerned about unintended consequences including analysis of
17 these factors during a consolidation application review, to include as minimum criteria:

- 18 a. Public health and safety.
 - 19 b. Proximity and location.
 - 20 c. Community of interest.
 - 21 d. Economies of scale/rate case expense.
 - 22 e. Price shock and mitigation including a low-income program
 - 23 f. Public policy.
 - 24 g. Other jurisdictions and municipalities. (Magruder Brief, 39-40)
- 25 [These factors were discussed above]

26 Magruder Reply.

27 In general, this party supports the Company's position in its Brief.

28 Specific areas that should be consolidated include:

- 29 1. General & Administrative (completed)
- 30 2. Cost of Service and Volumetric Charges so that more tiers be deployed
- 31 3. Arsenic treatment costs
- 32 4. Taxes, including social security and Medicare
- 33 5. Service Line and Meter Installation Charges (change all to "actual cost")
- 34 6. Establish, Re-establish, and re-connect fees during regular and off hours
- 35 7. Water Meter Test (if correct) and Re-read the Meter (that is good)
8. Miscellaneous Charges and Fees including Non-Sufficient Funds to check charges and
Late fees, Deferred Payment Finance Charge, Residential and Non-Residential Deposit
Interest on Deposits. (Magruder Brief, 37)

In addition, the Company's Rules and Regulations (R&Rs), submitted as part of this rate
case, should be consolidated into one document, and also made available in Spanish. (*Ibid*)

The published works by the Company's witness, Mr. Paul Herbert, should be used as a
foundation for consolidation. (*Ibid*, ¶4.2.3.1, 29-31)

This is not a single or a selected group of water districts issue. All water districts should be
consolidated into a single tariff for all water districts and one single tariff for all sewage water
districts throughout the entire Company. (*Ibid*, 29)

In general, all RUCO, Staff and Company testimonies all support tiered rate structures and
rate consolidation. There were no recommendations against consolidation; however, when and
the level or degrees of consolidation are where differences lie. (*Ibid*)

First, Mr. Herbert uses "rate equalization" instead of "consolidation" defined as follows:

1
2 "Rate equalization or single tariff pricing is the use of the same rates for the same
3 service rendered by a water company regardless of the customer's location." (*Ibid*)

4 Second, Mr. Herbert made very clear the basis for his definition of "rate equalization"
5 (consolidation) as follows:

6 "Rate equalization is based on the long-term rate stability which results from a single
7 tariff, the operating characteristics of the tariff's groups, the equivalence of services
8 offered, the cost of service on a tariff group basis, and the principle of gradualism." (*Ibid*)

9 Third, Mr. Herbert explained how rate equalization provided long-term stability for several
10 areas, that also defines the situation here including the arsenic and White Tanks issues in
11 Arizona, as follows:

12 "Utility customer rates are dependent on the total expenses and rate base of the
13 utility and the amount of the commodity which the utility sells. Changes in rate base,
14 particularly, as the result of the Safe Drinking Water Act, have significant potential for
15 adversely impacting the rates for certain areas within a utility.

16 "The ability to absorb the cost of such projects over a larger customer base is a
17 compelling argument in support of rate equalization. Capital programs will never be
18 uniform in the several operating areas, even over periods of 5 to 10 years. The cost of
19 specific programs should be shared by all customers rather than burdening those of the
20 affected areas. Rate increases will be more stable and major increases in specific tariff
21 groups will be avoided."¹⁷⁷ [Underlined for emphasis] (*Ibid*)

22 The impacts that Mr. Herbert's approach would have on this case include:

- 23 • Consolidate all capital and other costs into one account, shared equally using one set of
24 rate categories for all customers.
- 25 • This would "equalize" or level out, the ups/downs in all Arizona-American water districts.
- 26 • This reduces the rate complexity in these six very divergent, non-coordinated, and
27 discombobulated rate cases to one rate base and case for all customers.
- 28 • By combing ledgers into a consolidated ledger, accounting would be easier; Company's
29 administrative costs lower, and thus reduce long-term ratepayer costs. (*Ibid*, 29-30)

30 In summary, this approach presents a **fair and reasonable** methodology to share capital
31 and other costs across all similar customers. If Consolidated Rates were fully implemented, as
32 recommended by Mr. Herbert, all customers and the Company benefit. The Commission and
33 RUCO also benefit by being able to concentrate on one set of books instead of many. (*Ibid*, 30)

34 Separation of "water" and "waste water" into two tariffs is assumed. (*Ibid*)

35 Mr. Hebert's "rate equalization" process considers similarities to consider when handling the
various operating characteristics in the various water districts. Mr. Herbert discusses this in
terms of similarities, as follows:

36 "There are many similarities in the manner in which the several areas [such as
37 Arizona water districts] are operated. All the systems pump their treated water through
38 transmission lines to distribution areas that include mains, booster pump stations and
39 storage facilities. All of the areas rely on a centralized work force for billing, accounting,
40 engineering, administration, and regulatory matters. All of the areas rely on a common
41 source of funds for financing working capital and plant construction. Inasmuch as the
42 costs of operation are related to functions in which the operating characteristics are the
43 same, the use of equal rates is supported." (*Ibid*, original underlined)

44 Mr. Herbert has shown O&M activities, in general, are similar for the long-term, thus
45 consolidation is appropriate. Many of these functions are already consolidated by Arizona-

¹⁷⁷ *Ibid*. 19 at 28 to 20 at 7. [Ex. 3]

1
2 American; however, they are then "de-consolidated," using traditional separate division-oriented
3 formulae, to allocate these costs back to various water and sewage water divisions. (*Ibid*)

4 His explanation of how equivalence of offered services supports consolidation by providing
5 directly applicable evidence those noncontiguous service areas, such as the Arizona-American
6 districts, should consolidate rates, by stating:

7 "The use of the same rates in a utility with noncontiguous service areas is
8 supported by the equivalent service rendered in each area. Although there would be
9 considerable debate with respect to the equivalency of the service rendered to different
10 customer classifications, there is no question that the service rendered to a residence in
11 one area is the same as the service rendered to a residence in another area. Residential
12 customers are relatively consistent in their uses of water: cooking, bathing, cleaning and
13 other sanitary purposes, and lawn sprinkling. If customers use water for the same
14 purposes, the service offering is the same and should be priced accordingly. Thus, from
15 this perspective, there is no basis for charging different prices to customers in different
16 areas." [Underlined for emphasis] (*Ibid*, original underlined)

17 Mr. Herbert resolves if variances in allocated cost of tariff groups warrant the use of
18 separate rate schedules as follows:

19 "No, they do not. Charging one group of customers' higher rates because they may be
20 served by a newer plant whose original cost exceeds that of other plants as a result of
21 inflation is *not logical*. The concepts previously discussed outweigh this consideration
22 and justify the goal of moving toward a single tariff. The electric industry reflects such
23 concepts when it serves customers in geographically dispersed areas. A kilowatt-hour
24 delivered in one area has the same price as a kilowatt-hour delivered in another area
25 despite the fact that cost of service studies could be performed to identify differences in
26 the cost of providing service to customers classes in different regions." (*Ibid*, 30-31)

27 There is recent Arizona precedence for Mr. Herbert's comments concerning consolidation of
28 electric rates. In the UNS Electric rate case, the residential and small business rates in Mohave
29 and Santa Cruz County were consolidated, to eliminate five decades of higher rates in the
30 smaller county, as I testified there "is no valid basis for continuing separate rates." (*Ibid*, 31)

31 This water rate case has exactly the same issue but is compounded by many different tariffs.

32 Other Cost of Service considerations that Mr. Herbert state support rate consolidation:

33 "The Company [including Arizona-American] has taken a number of steps in recent
34 years to centralize and consolidate its operations. Common costs which must be
35 assigned or allocated to each operating area to establish tariff group revenue
36 requirements include management fees, corporate headquarters costs, office costs,
37 customer service costs, depreciation expense developed on the basis of Company-wide
38 depreciation rates and income tax expense based on total Company financing and tax
39 provisions. The allocation of common costs, while reasonable, are subject to judgment
40 and may not result in the development of tariff group revenue requirements which reflect
41 precisely the cost of serving each area." (*Ibid*)

42 Mr. Herbert discusses how a *single tariff will result in higher rate increases in areas where
43 the rates are lower*. Conversely, a *single tariff will have smaller rate increases in areas where
44 rates are higher*. This balancing, equalizing or consolidation, makes rates fair and reasonable.
45 (*Ibid*, original underlined)

46 In summary, Mr. Herbert summary supports this rate equalization analysis and suggests it
47 be done using gradualism principles, that is, over several rate cases. He specifically stated:

1
2 "Rate equalization is appropriate for New Jersey-American. Such pricing is supported
3 by considerations of the benefits of sharing the impact of capital programs on a
4 Company-wide basis, the significant majority of common costs, the equivalent service
5 rendered, electric industry precedent and the per capita income of affected communities.
6 The best interests of the customers are served through gradualism by continuing to
7 implement rate equalization during this case and in subsequent cases." (*Ibid*)

8 **4.3 Conclusions.**

9 With respect to his concerns, Mr. Townsely is first and foremost concerned about any short-
10 term delay. As a ratepayer, it is the long-term cost for quality service that impacts ratepayers
11 than the Company's financial conditions.

12 It is my opinion, that RUCO, Staff and the Company can produce Consolidated Rate
13 Schedules for review and comparison, as a separate effort, after this case concludes. The
14 Company's Closing Brief position on this is appropriate. This provides at least three independent
15 views for review, cross-examination, and full-disclosure in public hearings according to a new
16 consolidated rate case schedule.

17 Concern is about the public and political impacts of Consolidation are, in my opinion, minor
18 when compared to the proposed gains by the Company. Public relations damage has occurred.
19 This case has a record number of water company customer complaints. The public couldn't be
20 more upset than they are right now.

21 This party considers "consolidation" to means equalize or make level, all elements involved in
22 efficiently running this business. All rate cases end with a determination of a fair and reasonable
23 rate of return for the Company based on a total revenue stream from the ratepayers. The total
24 revenue requirements must be raised from customers, with fixed (service cost) and variable
25 (volumetric rates) customer charges for different rate classes based on "meter" size.

26 It is concluded that the following are necessary to most effectively consolidate:

- 27 1. Consolidate all "fixed" charges into one Service Charge for each customer category, with
28 one customer category for each meter class, combining residential and commercial rate classes.
- 29 2. Consolidate all "variable" or volumetric rates in to one set of rates for each customer
30 category for each meter class. An inclined reverse block rate structure, with adequate number of
31 blocks be developed to ensure all customers can "see" and have an opportunity to reduce
32 consumption by reaching the next lower rate block. At least ten such blocks should be designed;
33 including lower rates for the lowest rate block and significantly higher rates for highest
34 consumption customers in each rate category as a water conservation measure. There should
35 be at least a 100% difference between the lowest and highest rates in each rate category. The
36 lowest rate block should be described for Lower Income customers and publicized as such.
- 37 3. Consolidate all miscellaneous "charges and fees" into one schedule for all customers.
- 38 4. Consolidate "rules and regulations" into one streamlined, easy to read, document in
39 English and Spanish, available for customers during initial interviews, the web, and in all offices.
- 40 5. Consolidate all revenue into one consolidated account (retaining water districts
41 accounting is encouraged) when presenting future rate cases. Revenue will be determined for
42 the consolidated account and not allocated to water districts as a rate making measure.
- 43 6. Consider completing the ISO 9000 (Quality Management) qualification process for all
44 divisions with an aim to integrate all company policies and practices, and consider qualifying
45 under ISO 14000 (Environment Management) as a bonus. The additional funds for this are
46 embedded in the "consolidation" incentive part of this rate case to assist this effort.

47 This party does not support the SBC process recommended by the Company as SBC is NOT
48 understood by ratepayers, sets up additional accounting procedures, and finally this Commission
49 has recently resolved a most challenging and grueling experience in eliminating the SBC by a
50 major electric utility. It was an ugly show that neither I nor anyone else who wants Arizona-
51 American to be successful would wish on their worst enemy. The SBC recommendation is a

1
2 partial solution when a complete "accounting reset" must be accomplished that will improve
3 Arizona-American. The Test Year plus equipment changes provides the Company the solid
4 foundation and basis right now to start the Consolidation process. Don't wait for later, it maybe
5 too late.

6 **4.4 Recommendations.**

7 I strongly urge the Commission

8 1. Order this rate case be re-opened to review consolidated financial data for Consolidated
9 Rates and order the Company to consolidate all aspects of these six water districts immediately
10 after the rates being proposed are approved for implementation, and

11 2. To require the unconsolidated water divisions in a future rate case to fully consolidate with
12 the Company, as a single fully integrated company instead of individual inefficient smaller,
13 uncoordinated, unconsolidated companies, and

14 3. To increase the Company's ROI at 1 to 2 percentage points, as a bonus, above what it
15 would normally award in this case to reflect the higher risk and potential additional benefits to
16 help reward the Company reorganize into a better entity and become ISO 9000 certified.

17 Without #3 above, in my opinion, the energies necessary to respond effectively to these
18 demands may have less importance to upper management as success has smaller reward.

19 By making bold, objective and obviously beneficial changes now, consolidation will improve
20 the entire company, and all ratepayers will benefit in the long-term.

21 The present situation is deplorable, almost dysfunctional and is surely not impressive to
22 potential investors, actual shareholders and today's nervous financial community.

23 A strong, united, and more efficient consolidated operation attracts investors, while
24 continuation of the present situation may continue to repel them.

25 I support such action as a result of this rate case with periodic status reports to the
26 Commission and parties as to "lessons learned" so early mistakes in the consolidation are
27 transparent and the best corrective action measures, with support by the Staff, as necessary, to
28 make Arizona-American Water Company the best in Arizona and the Western United States.
29
30
31
32
33
34
35

1
2 **Exhibit MM-2**

3 **Excerpt from the Marshall Magruder Reply Brief of 15 May 2009 in Commission Docket No.**
4 **W/SW-010303A-09-0227, pages 8 to 14,**
5 **Section 2, Conservation as a Significant Driver of Water Volumetric Rates**

6 **NOTES CONCERNING THIS EXERPT:**

- 7 1. It should be noted that this excerpt used revenue and rate data from the First Rate Case that
8 has been modified for this case; therefore, please see the basic testimony for actual
9 numerical values and consider those in this excerpt as representative examples of the
10 important principles herein.
11 2. The pagination and footnotes were not changed to match the original.

12 Quote:

13 **Section 2**
14 **ISSUE NO. 1**
15 **CONSERVATION AS A SIGNIFICANT DRIVER OF WATER VOLUMETRIC RATES**

16 **2.1 Summary of Issue No. 1.**

17 The results of rate structure design are revenue-neutral for the Company with obvious "price
18 signals" so ratepayers can actually make behavior changes required to reduce their water
19 demands and conserve water. (Magruder Brief, 12)

20 A rate structure with frequent price changes provides an opportunity so customers can
21 clearly see "price signals" by the proposed ten-tier inverse rate block structure. It has price-
22 breaks at 4,000-gallon intervals for residential (5/8 & 3/4-inch) and the smallest commercial
23 customers. This stair-stepped, increasing rate process is necessary for every rate category,
24 including commercial categories. A nearby water-short company has much higher rates than
25 Arizona-American, especially for its highest consuming ratepayers. (*Ibid*, 12, footnote 5)

26 The principle used by this party is that customers who use the least amount of water pay the
27 lowest rates and conversely for the highest consuming customers, the highest rates. (*Ibid*, 13)

28 A significant difference between these extremes is an important feature, to show the
29 strength of price to influence consumption. When consolidation is considered, ten or more rate
30 tiered structure can provide important impacts for *fairness and reasonableness.* (*Ibid*)

31 The lowest rate tiers, with the lowest rates, provide a "low-income" measure, as the
32 company's rate structure has no minimal or low-income rates. (*Ibid*)

33 No other Party presented a rate structure with significant differences between the lowest to
34 highest rate differences; however, the Staff Alternative Rate Design for Tubac testimony was
35 closest to this party's. None proposed more than two tiers for commercial customers, which
means only one break point exists as a price signal that might already have been exceeded or
reaching that demand break point is beyond reason. (*Ibid*)

This issue consists of two parts, the Service Charge and the Consumption (volumetric)
rates. The Service Charge passes the overall infrastructure fixed costs to customers and the
volumetric rates are based on water consumed. The combination of these two must be rate-
neutral so the Company's revenue is a fair rate of return on its investment. (*Ibid*, 13)

36 **2.2 Reply to Post Hearing Opening Briefs.**

37 **2.2.1 Proposed Additional "Price Signal" Breakpoints in the Commodity Rate Structures.**
38 **Company Brief.**

39 In section "Tubac Rate Design" the Company stated Magruder proposed "many more rate
40 blocks, with severe inverted block rates" for the Tubac Water District. (Company Brief, 52)

1
2 Further, Arizona-American opposed the Magruder proposal and "will respond further in its
3 reply brief." (*Ibid*) [Note: This makes a reply herein rather challenging.]

4 RUCO and Briefs.

5 Neither discussed additional breakpoints in rate structures.

6 Magruder Reply.

7 Magruder testimonies determined a rate structure with a reasonable Service Charge plus
8 multiple tiers with clear, obvious, observable and attainable "price break points" so customers
9 reduce their costs by reducing their consumption. (Magruder Brief, 13)

10 "The Tubac Water District was used throughout as an example; however, all resultant
11 conclusions and recommendations are company-wide, and specifically only for the six water
12 districts in this case." (*Ibid*, 13, underlined original)

13 The Company missed this point.

14 The Magruder-proposed ten-tiered rate block process is for use with ALL rate classes and
15 categories for all six water districts. Each rate class (residential, commercial) and category (by
16 consumption) may have different rate block sizes and rates. (*Ibid*, 12-13)

17 The Company in all its filings failed to demonstrate any understanding of sending price
18 signals as a way to conserve water. In Tubac and the other water districts herein, proposed
19 residential rates have wide variations and wide differences. (*Ibid*, 20)

20 The Company does not understand the impact of a "price signal" or how to make meaningful
21 and fair rates to conserve critical water in a desert state that is not sustaining its water table.

22 At least 100% difference should be used to send price signals between multiple tiers and still
23 be revenue neutral. (*Ibid*, 14) Magruder used 400% for residential and small business rates.

This Party's proposed consumption rates are based on lowering the rates for low volume
users and raising the rates for high volume water users. To make this effective, one must
ensure the customers can "see" the benefits of lower cost with lower water consumption. These
"price signals" must be visible and must be attainable or using the inverse rate block structure
has no other major purpose. (*Ibid*, 17, emphasis added)

In Table 1, major differences in the proposed residential rate schedules for the example
water district are shown. The same type of differences also exists for the other districts. (*Ibid*,
17, and Table 3)

The Magruder proposed rates are clear, obvious and progressively increase with
consumption. NO logical rationale has been presented or may exist for the major differences
and variances in volumetric rates and rate blocks being proposed. (*Ibid*, 17)

Table 1. Present and Proposed Tubac Residential Rate Commodity Tiers and Rate Schedules
(Per 1,000 gallons)

Commodity Usage Tiers	Magruder's Proposed Rates	Present Rates	Company Initial Proposal	Company Final Proposal	Staff Final Proposal	Staff Alternative	RUCO Final Proposal
0 to 3,000 gallons	\$1.50	\$ 1.89	\$ 3.78	\$ 3.400	\$ 2.67	\$ 1.90	\$ 3.4341
3,001 to 10,000 gallons							
First 4,000 gallons	\$1.50	\$ 1.89	\$ 3.78	\$ 3.400	\$ 2.67	\$ 3.00	\$ 3.4341
4,001 to 8,000 gallons	\$ 2.00						
8,001 to 12,000 gallons	\$ 2.50	\$ 2.85	\$ 4.85	\$ 4.800	\$ 4.15	\$ 4.00	\$ 4.4062
10,001 to 20,000 gallons							
12,001 to 16,000 gallons	\$ 3.00						
16,001 to 20,000 gallons	\$ 3.50						
20,001 to 24,000 gallons	\$ 4.00						
24,001 to 28,000 gallons	\$ 4.50	\$ 3.41	\$ 4.95	\$ 5.500	\$ 5.25	\$ 6.00	\$ 4.4971
28,001 to 32,000 gallons	\$ 5.00						
36,001 to 40,000 gallons	\$ 5.50						
40,001 gallons and above	\$ 6.00						

35 Numerous price-break points are required for a wide range of consumption. As shown in this
table, ten tiers or rate blocks were proposed for ALL rate categories. All customers, residential

1
2 and commercial, should be able to see and be rewarded with lower water usage costs for
3 conserving water in our state. (*Ibid*, 17, original underlined)

4 The RUCO and Staff rate structure proposals have weak price signals compared to this
5 party. The Staff's Final (Alternative) Rate Structure 4-Tier, for Tubac is the closest proposed to
6 send price signals. A 5-Tier structure proposed for Paradise Valley has such large water volume
7 differences between steps (up to 60,000 gallons) that inhibit any customer to reduce demand by
8 one step to a lower water rate. (*Ibid*, 20-21)

9 The Company appears to have not considered water conservation important in rate design.

10 At least 100% difference between lowest and highest rates should be used to send price
11 signals with multiple tiers and remain revenue neutral. Magruder proposed a 400% difference in
12 residential rates, from \$1.50/1000 gallons and to \$6.00/1000 gallons. (*Ibid*, 14)

13 Cost of Service is a fixed charge and is not intended to provide customers a "price signal" to
14 encourage water conservation. The Company, RUCO, and Staff have proposed significant
15 increases in this charge. Table 2 has illustrative data for Tubac, the water district with highest
16 The Tubac Cost of Service. These proposals illustrate these wide variations without explanation.

Further, the Cost of Service rate categories should be based only on size of the
interconnection and be identical for Residential and Commercial rate types (with same sized
connection). Since the amount of water demand is determined by infrastructure size to serve a
customer, there should be NO difference in Cost of Service for residential and commercial
customers with the same-size meter connection. (*Ibid*, 15)

The Magruder residential cost of service proposal is for all water districts. (*Ibid*, 14)

Table 2. Proposed Cost of Service Comparisons (Tubac Water District Example).

Customer Type	Rate Category		Present	Company Initial	Company Final	RUCO Final	ACC Staff Alternative	Staff Final	Magruder Proposal	Number of Customers	
Residential	5/8 & 3/4-in	F1M1A	\$ 19.68	\$32.50	\$ 31.00	\$ 29.53	\$24.00	\$ 32.50	\$25.00	461	
	1-inch	F1M1B	\$ 29.63	\$ 48.93	\$ 46.67	\$ 44.45	\$72.00	\$ 48.63	\$50.00	41	
	2-inch	F1M1D	\$97.49	\$161.00	\$153.57	\$146.27	\$224.00	\$161.00	\$100.00	3	
	3-inch	F1M1E	\$115.65	\$190.99	\$182.17	\$173.52	\$448.00	\$190.99	\$150.00	1	
Total Residential Customers										489	
Commercial	5/8 & 3/4-in	F2M1A	\$ 19.68	\$ 32.50	\$ 31.00	\$ 29.53	\$24.00	\$ 32.50	\$ 25.00	47	
	1-inch	F2M1B	\$ 29.63	\$ 48.93	\$ 46.67	\$ 44.45	\$72.00	\$ 48.63	\$ 50.00	16	
	1½-in	F2M1C	\$ 59.26	\$ 97.66	\$ 93.35	\$ 89.91	\$140.00	\$ 97.86	\$ 75.00	2	
	2-inch	F2M1D	\$ 97.49	\$161.00	\$153.57	\$146.27	\$224.00	\$161.00	\$ 100.00	10	
	3-inch	F2M1E	\$115.65	\$190.99	\$182.17	\$173.52	\$448.00	\$190.99	\$ 150.00	4	
Total Commercial Customers										78	
Growth	5/8 & 3/4-in	F1M1A	Same at Residential F1M1A								10
Total Customers										549	

29
30 The Company, RUCO and Staff proposed significant Cost of Service differences for
31 customer types. (*Ibid*, 15)

32 Significant variations in proposed Cost of Service in this example water district vary for small
33 residential/commercial customers. This pales if compared to 3-inch residential/commercial
34 customer change. The Staff Alternative at \$448.00 greatly exceeds the \$191.00 charge
35 proposed by the others; therefore, this appears to be an error, along with the 2-inch Cost of
Service proposed in the Staff Alternative. (*Ibid*, 15)

Significant differences in the basic Cost of Service exist in each water district to provide the
same product, to meet the same standards, using the same engineering and operations staffs,

and the same administrative personnel. In addition, proposed increases vary from \$0.25 for Mohave (Staff) to \$12.82 for Tubac (Company Final). (*Ibid*, pp. 15-25, Table 2)

These unstable and unfair fixed charges must be reviewed for consolidation to accomplish long-term leveling. This will eliminate the peaks and valleys in the existing Cost of Service charges, and will greatly improve the public relations for the Company. These cost swings will continue until consolidation is complete, as all water districts require major capital improvements, at various asynchronous times that make these large cost swings. (*Ibid*, 16)

The six water districts in this case have the average monthly consumption for residential customers shown in Table 3. Also shown are present, Company initial and final proposed costs for the first 1,000 gallons in the First Tier. Except for the Staff's Alternative Rate Design for Tubac, all water district rates use the first 4,000 gallons for the First Tier. (*Ibid*, 18; Table 4, 19)

Table 3 – Average Residential Consumption and Initial Cost Proposals for First, 1,000 Gallons.

Water District	Average Consumer Water Consumption	Proposed Cost per 1000 gallons for First 1,000 Gallons						
		Present	Company Initial	Company Final	RUCO Final	Staff Alternative	Staff Final	Magruder
Sun City West	6,704 gallons	\$ 1.35	\$ 2.880	\$ 2.8734	\$ 2.6929	Same as Staff Final	\$2.75	\$ 1.50
Agua Fria	7,400 gallons	\$ 1.53	\$ 2.926	\$ 2.9260	\$ 2.2697		\$ 1.84	\$ 1.50
Mohave	8,073 gallons	\$ 0.85	\$ 1.471	\$ 1.3190	\$ 1.1944		\$ 0.88	\$ 1.50
Havasu	9,705 gallons	\$ 1.68	\$ 4.033	\$ 3.4390	\$ 2.2741		\$ 2.26	\$ 1.50
Tubac	10,757 gallons	\$ 1.89	\$ 3.400	\$ 3.7800	\$ 3.4341	\$ 1.90	\$ 1.89	\$ 1.50
Paradise Valley	20,493 gallons	\$ 1.21	\$ 1.223	\$ 1.2130	\$ 1.3119	\$1.20-1.05	\$ 1.41	\$ 1.50
Total for 6 water districts	63,132 gallons	\$8.51	\$15.9333	\$15.5504	\$13.1771		\$ 11.04	\$9.00
Average for 6 water districts	10,522 gallons	\$1.4186	\$ 2.6555	\$ 2.5917	\$ 2.6350		\$ 1.84	\$ 1.50

Table 3 provides the average water consumption per residential customers by water district. In general, Sun City West has the lowest consumption at 6,704 gallons per customer, and increasing approximately 1,000 gallons a month, for Agua Fria, Mohave, Havasu, and Tubac at 11,757 gallons per average customer. These are tightly grouped compared to Paradise Valley with an average customer using almost 20,500 gallons per month. (*Ibid*)

There is no correlation between Average Water Consumption and rate schedules. (*Ibid*, 18)

The proposed rates in Table 3 vary from \$0.88 for Mohave (Staff) to \$4.033 for Havasu (Company Final). The proposed Tubac rates vary between \$1.41 (Staff) and \$3.78/1,000 gallons (Company Final). There is no logical reason or has any rationale been provided in this case that would lead to such a wide variance. (*Ibid*, 18 and Table 4, 19)

As shown in Magruder Exhibit MM-6, with progressive tiers, the higher usage rates of \$6.00 (or capped at \$5.00 for largest commercial due to economics of scale) provide considerably more revenue for the Company than the present revenue from water usage. This "extra" revenue is included to cushion an anticipated impact from customer conservation measures to providing adequate revenue for the Company. (*Ibid*, 18)

Table 4. Sample Tubac Residential Customer Bill Comparing Company and Magruder Total Service Charge including Arsenic Surcharges.

Billing Item	Present	Company Original Proposal			Magruder Proposal		
		Charge	Change		Change		
Cost of Service	\$19.68	\$32.50	+ \$12.82	+ 62.8%	\$ 25.00	+ \$5.32	+25.4%
Average Usage	\$ 49.46	\$85.44	+ \$35.98	+72.7%	\$ 26.50	- \$22.96	-53.6%
Total Bill	\$ 69.14	\$117.94	+\$48.80	+ 70.6%	\$ 51.50	- \$17.64	-24.5%

Average Water Usage = 11,797 gallons

There is also second Cost of Service charge that is indirectly in this rate case planned for Tubac to fund an arsenic treatment plant (Issue 2) with a capital cost of some \$2.3 million. The Basic Cost of Service charge could increase from the present \$19.68 to Company's proposed \$32.50, shown in Table 4. Add the Company's proposed Arsenic Service Charge of \$25.98, for

1
2 a proposed Total Cost of Service of \$68.48 per month. It is doubtful if Cost of Service exceeds
3 \$68.48 in Arizona for residential customers. As shown in Table 5 in the next section, this total
4 customer cost increase is 347% higher than the present. This is an excessive rate increase,
5 beyond the customary rate increases usually approved by the Commission. The most fair and
6 reasonable way for all water districts to above new, expensive and necessary capital
improvements is through rate consolidation to eliminate unintended consequences for the
smallest water districts. (*Ibid*, 18 and Table 5, 19)

7 **2.3 Conclusions.**

8 Same as Magruder Opening Brief, paragraph 2.3.

9 The large variation in the fixed Cost of Service charge must be smoothed out, so the
10 Company can make all prudent capital expenses without causing violent perturbations to its
customers. This will lead to a consolidation recommendation later. (*Ibid*, 21)

11 In summary, the proposed rate structures, other than Staff Alternative and mine, do NOT
12 promote water conservation, in an Active Management Area, where future growth is limited
based on the AMA requirements to maintain sustainability in water resources as required by the
13 Santa Cruz Comprehensive Plan, Water Resources Element, where "water supplies are
protected and conserved." (*Ibid*, 21)

14 Water conservation is necessary for a **fair and reasonable** rate structure. The evidence
15 presented remains valid that support this issue. Water conservation and sustainment remain
critical State of Arizona objectives and also is an objective of Arizona-American and the
16 Commission. (*Ibid*, 21)

17 **2.4 Recommendations.**

18 To have water conservation as a significant driver of the volumetric water rate, the following
19 are recommended:

20 1. That the lowest residential rate tiers be credited as a mechanism to provide low-income
21 rates without additional administrative overhead. This should result in defining the first rate tier
also as the "low-income" or the survival rate level.

22 2. That a minimum of ten tiers be used for all residential and commercial rate categories. This
will require only an adjustment of "how" the revenue requirements will be distributed to the
23 customer rate categories when higher users pay more, lower user pay less.

24 3. That all residential and commercial customers, with the same water connection size, have
identical Cost of Service and be in the same rate categories that are designed to account for the
25 infrastructure required for service. This should reduce administrative tasks for the Company and
make understanding rates easier.

26 4. That the Commission-determined fair and reasonable company's revenue will be collected
27 and the resultant consumption structure must be revenue-neutral for the Company.

28 5. That the billing statements make obvious the rate per tier and where that monthly bill lies in
the multi-tier structure. This is how the "price-breaks" can be observed and how much less water
29 consumed is necessary to reach then next lower tier.

30 6. That the smallest residential and commercial rate tiers (at least the first several) identical.
This will be advantageous to small businesses that the Company's schedules have shown to
31 typically use less water than the comparable residential rate category.

32 7. That the fixed Cost of Service variations be minimal and leveled out across all rate payers
in each rate category. This will also lead to consolidation of all fixed charges, across all water
33 divisions, to equalize this "fixed" cost. (*Ibid*, 21-22)