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Katherine Nutt

From:	Kenneth Hewitt
Sent:	Friday, September 10, 2010 2:44 PM
To:	Katherine Nutt
Subject:	AZ-AM Consolidation Issue
Attachments:	The Case Against Water Rate Consolidation ACC.docx

Commissioner Kennedy;

Please add to docker W-01303A-09-0343 — SW-W-01303A-09-0343

Thanks

Kenneth Hewitt

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Arizona Corporation Commission
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The Case Against Water Rate Consolidation

Let me start by paraphrasing a widely know comment about water. "In Arizona, whiskey is for drinking and water is for fighting over." We live in a desert and have limited water supplies of both surface and underground water. To conserve the supplies we have, the state has implemented policies designed to manage our water resources.

When a developer wants to develop a new area he needs to determine how hard and how expensive it will be to get enough water to meet the needs of his planned development. This information will determine what price he is willing to pay for the land. Before he can start his project he needs to submit a plan to the Arizona Water Resources Department (AWRD) showing where he will get the water and how much water he needs.

For residential developments, the needs are defined by the number of homes and condos or apartment in the development, the average number of people for each unit and the projected gallons each person will use. These numbers come from historical data as well as restrictions that the developer places on the buyers. The landscaping might be limited to low water usage plants, only drip irrigation might be allowed, lawns might be limited in size or banned all together. Common areas may have the same rules applied; golf courses might be required to use non potable water, and many other provisions.

If wells are the source, then hydrological data and any existing well information must be presented that show that at the level of need defined in the plan, after 100 years the water level will not have dropped below the target level set by the AWRD. In the case of surface water, you must show that you have secured the rights for the needed water for 100 years and you have a way to get it to the area under development.

If AWRD agrees with your plan, they issue an Assured Water Supply or an Adequate Water Supply Certificate and you can now start the development. Most often the developer will make some significant contribution of capital to the well drilling and other items that will get the water supply system started. In the case of a system using wells, the developer has paid a premium for the land because it has an underground water supply and has paid some portion of the cost of making that water available to the buyers of the development's homes. So there is an implicit understanding that the residents will follow the restrictions and the water company will use the water sources to meet the residents' needs.

The water company submits a rate case showing the amount of capital it has invested in the system as well as what its operating expenses are and requests a set of rates. The Arizona Corporation Commission reviews the plan with two objectives in mind. First, they want the water company to make a reasonable profit on their investment and next they want the rate plan to encourage conservation of water. That is why the cost per 1000 gal goes up as you use more water. Normally when you buy in larger numbers you pay less per unit but that is not the case with water.

Looking at two different residents in two different developments, let's examine why their water rates might be different.

Development A has 10,000 single family homes with an age restriction of over 55. Plants are restricted to low water use plants and no lawns are allowed. Common area is only allowed to be 10% grass and 90% low water usage plants. Golf courses must not use potable water. The water source in the 100 year plan is 4 wells which produce 120% of the expected requirements. The developer has paid 50% of the cost of drilling the wells and establishing the water storage tanks. This leaves the water company with a modest capital investment.

Development B has the same usage profile but a different water source. It will use surface water and this requires a treatment plant as well as a lengthy piping system to get the water from the source to the development. They have acquired the rights to water equal to 120% of the expected usage. The developer has only paid 40% of the cost of getting the water treated and to the development. This leaves the water company with a capital investment twice as high as Development A.

Water companies have their rates set to produce a profit that fits within a narrow range as a percent of the capital invested in the water district or in this case the development.

Based on this residents of A pay a much lower price for their water then residents of B on average. This reflects differences in the prices the residents paid for their lots. Consolidation would increase A's rates and decrease B's rates. Essentially robbing A to pay B.

Now let 10 years go by and the residents of A have ignored their CC&R's and have removed the lawn restrictions and many have put lawns and/or putting greens in their yards. They over seed during the winter and are using sprinkler systems rather than drip lines as required by the 100 year Assured Water Supply and CC&R's. Usage is running at 145% of expected usage.

The only solution is to drill two new wells. If they have been consolidated with B, then B will get to help pay for the wells. This would be robbing B to pay A. It also defeats the goal of conserving water.

The Arizona Corporation Commission says that consolidation works for gas and electric why not use it for water. All gas and all electricity are identical. You cannot tell if the electricity was generated by atomic power, gas, coal, solar or hydroelectric means. Water has different chemicals in it depending on its source and requires more or less processing before it is potable. Gas and electricity are distributed by grids which interconnect all the supply sources. You have no idea nor do you care whether the gas you are using comes from California or Texas.

Additionally, Water Rate Plans contain a Curtailment Tariff. This relates to what you need to do if there is a problem with the water source. Under the plan there are voluntary restrictions and if they are not sufficient water may be trucked in or brought in via an emergency interconnect from an approved source. How would this work in a consolidated system? Would the other rate payers in the other areas have to share the costs of addressing the problem? Would they have to restrict usage? Even if the problem was due to the area ignoring the restrictions defined in the 100 year water supply plan?

Consolidation would deny the ACC from exercising any meaningful control over the misuse of Arizona's water resources. I believe that the only valid reasons for a rate change are, first to cover increases in normal operating expenses. Next would be replacement of worn out capital equipment. As long as a development complies with the restrictions defined in the 100 year water supply plan, those two reason should be all that are needed to assure the water company makes a fair return on their investment.

Now a special alert to Surprise residents who receive their water bill from Arizona American Water Company. To see a map of the area go to http://www.surpriseaz.gov/files/waterservices/waterproviders3.html
You have had your water rates increased recently and you should have been able to voice your concerns about the increase but when AZ-AM put a notice in your water bill talking about the hearings they referred to the Agua Fria Water district as being included but did not indicate that you were in the Agua Fria district. If you called AZ-AM to ask if you were included, you would have been told that you were not included. As a result there has been no input from AZ-AM Surprise customers while Sun City, Sun City West, Scottsdale and other have submitted 100's of comments. I do not know if AZ-AM was just mistaken or if they intentionally avoided letting the residents of the LARGEST water district whose rates were being considered for an increase to know their rates were being reviewed, but they have apologized.

They have a second plan submitted to ACC to consolidate your rates with Tubac, which has an Arsenic problem, Anthem, which has a big bill coming to cover the cost of transporting water from Lake Pleasant, and other districts. Again, the issue is being resolved with no input from their largest water districts customers.

Ken Hewitt