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OPEN MEETING AGENDA ITEM

December 8, 2010

ORIGINAL

W-01303A09-0343

SW-01303A-09-0343

Commission Chairman Kris Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

RE: Immediate de-consolidation of the Anthem/Agua Fria Wastewater District

Dear Chairman Mayes,

DOCKETED BY
KOR

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AZ CORP COMMISSION
DOCKET CONTROL SECTION

Another "opportunity" for you to reduce the impact of the proposed water/wastewater rate increase on the ratepayers in Anthem will be to de-consolidate Anthem from the Anthem/Agua Fria Wastewater District as a part of your decision in this proceeding. This letter provides justification for you to take that action.

Anthem Is Not Related To The Agua Fria Wastewater District

In previous hearings, and when the Commission visited Anthem on April 7, 2010, it has been pointed out that, although Anthem is in a consolidated wastewater district with Agua Fria, there are no pipes (or connections of any type) existing or planned between Anthem and Agua Fria District (which includes the Northwest Treatment Plant), and therefore it is not possible for the Treatment plant or the District to be used or useful to the ratepayers of Anthem. Anthem has its own on-site wastewater treatment plant, and Anthem should never have been made a part of the Anthem/Agua Fria Wastewater District.

Anthem Should Not Be Forced To Subsidize Other Districts

The only apparent reason for including Anthem in the Agua Fria Wastewater District was for the Anthem ratepayers to subsidize the other ratepayers in the District.

Arizona-American Water Previously Filed For This Deconsolidation

On May 1, 2008, Arizona/American Water Company filed a new application for rate increases, Docket No. 08-0227, and in that application it proposed the de-consolidation which the Council is now requesting. The following direct testimony was given by Tom Broderick on Pages 36-39 of that application.

"XV. RATE DECONSOLIDATION (AGUA FRIA AND ANTHEM WASTEWATER)

Q. IS ARIZONA-AMERICAN PROPOSING TO CONSOLIDATE ANY ADDITIONAL DISTRICTS IN THIS RATE CASE FOR RATEMAKING PURPOSES?

A. NO. To the contrary, we are proposing to deconsolidate the rates for Agua Fria and Anthem wastewater – the only presently consolidated districts in this case. Hence, the revenue

requirement for Agua Fria wastewater and Anthem wastewater has been calculated separately in this case and rates have been designed for them on a stand alone basis. Arizona-American employees examined every asset work order comprising the Agua Fria and Anthem wastewater district and determined precisely the proper new district in which to assign plant, accumulated depreciation, advances and contributions. Ms. Gutowski can best describe the details of this classification process.

Q. HOW DID RATE CONSOLIDATION OF THE ANTHEM AND AGUA FRIA WASTEWATER DISTRICTS COME ABOUT?

A. It appears that the existing rate consolidation for Agua Fri and Anthem wastewater customers was first proposed in Docket no. WS-01303A-02-0870, one of several rate filings made in 2002. We now propose to discontinue this consolidation in this case forward for a variety of practical reasons which include an apparent lack of acceptability by some customers and possible perceived unfairness by other customers.

Q. DID THE COMPANY ERR WHEN IT STATED AT THE COMMISSION'S MARCH 12, 2008, OPEN MEETING (AND ELSEWHERE) THAT AGUA FRIA WASTEWATER CUSTOMERS WERE SUBSIDIZING ANTHEM WASTEWATER CUSTOMERS AT THE RATES PROPOSED IN THE PENDING ANTHEM/AGUA FRIA RATE CASE?

A. Unfortunately, yes. We now know a subsidy (at the rates proposed in the pending rate case) flows the other way. The data available at the open meeting was original cost plant – not rate base. And because the Anthem and Agua Fria wastewater districts were consolidated for ratemaking purposes, my rates group had not – until this rate case – required an internal audit of whether each asset was properly recorded to the correct district. Through this recent informal audit, we learned that there were mis-classifications which needed to be corrected. We also had not broken out all the other components of rate base at the new district level until recently. In this case, however, Arizona-American employees undertook such an audit and component breakout. Exhibit TMB-1 displays on the Summary of the B-1s a rate base of \$23,329,984 for Agua Fria Wastewater and \$23,299,355 for Anthem Wastewater. The total adjusted customers are 4,839 for Agua Fria Wastewater and 8,010 for Anthem Wastewater. Therefore, rate base per Agua Fria Wastewater customer is \$4,839 and for Anthem Wastewater is \$2,908. Therefore, if the Commission denies Arizona-American's request to separate these districts, Anthem Wastewater customers would continue to subsidize Agua Fria Wastewater customers."

Arizona-American Is Opposed To All Such Subgroupings

Even earlier this year when examined by the Council's attorney, Mr. Broderick testified that the Anthem/Agua Fria Wastewater District was the only consolidated district in this case. He also testified that he was opposed to all the subgrouping. Mr. Robertson asked Mr. Broderick "If Judge Wolfe and/or the Commission in this case should decide they want to look at a de-consolidation of Anthem and Agua Fria Wastewater Districts in this proceeding for purposes of a decision to be issued in this proceeding, wouldn't it be possible for them to do so given the information that they would need for that purpose?" Mr. Broderick responded "It's possible. I would want to know as soon as possible, and I would not want that to cause any delay in

implementing the rates, be they consolidated for those two districts or stand-alone.”

This De-consolidation Must Not Be Prolonged

The Council believes it is time to resolve this issue because it is unfair and unreasonable for the ratepayers of Anthem to be required to subsidize unrelated Arizona-American operations.

The current Recommended Opinion and Order proposes to continue the paper blizzard with the following Order: “... the next time Arizona-American Water Company files a rate case involving the Anthem/Agua Fria Wastewater district, it shall file schedules which will allow a comparison to be made between the two possible courses of action in that future case: keeping the Anthem/Agua Fria Wastewater district as it is currently for ratemaking purposes, or separating it into two separate districts.”

The wording in the current ROO is similar to the wording in the Decision in 2008, – “We will order the Company to report the results of plant operations in the Company’s annual report, and the allocation may be revisited in future rate cases if the relative use of the plant by the districts changes, or if other circumstances warrant.

Rather than let this farce continue, the Council requests the Commission to instruct the Company to develop new rates for Anthem based on the de-consolidation of the Anthem/Agua Fria Wastewater District, and the District be de-consolidated..

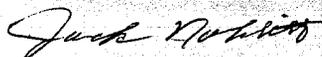
The Reduced Rate Increase Is Needed By Anthem

The Council has calculated the financial impact of removing Anthem from the subject wastewater district using the values for items (rate base, rate of return, and GRCF) indicated in the ROO (which are all too high and should be reduced), and agree with the findings, quoted earlier, of Arizona-American Water Company that the de-consolidation of the district will be beneficial to the ratepayers of Anthem. The preliminary calculations indicate the proposed de-consolidation will reduce the cost of the increase per Anthem ratepayer from \$497/year to \$264/year.

Anthem’s Request Is To De-consolidate The Anthem/Agua Fria Wastewater District

The Council requests that the Commission order the elimination of Anthem from the Anthem/Agua Fria Wastewater District as part of any final decision in this proceeding.

On behalf of the residents of Anthem,



Jack Noblitt, President