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BEFORE THE ARIZONA CORPORATION COMMISSION
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8 IN THE MATTER OF THE APPLICATION OF ARIZONA-
9 AMERICAN WATER COMPANY, AN ARIZONA CORPORATION,
10 FOR THE DETERMINATION OF THE CURRENT FAIR VALUE
11 OF ITS UTILITY PLANT AND PROPERTY AND FOR
12 INCREASES IN ITS RATES AND CHARGES BASED THEREON
13 FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT
14 AND ITS SUN CITY WATER DISTRICT.

Docket No. W-01303A-09-0343

15 IN THE MATTER OF THE APPLICATION OF ARIZONA-
16 AMERICAN WATER COMPANY, AN ARIZONA CORPORATION,
17 FOR THE DETERMINATION OF THE CURRENT FAIR VALUE
18 OF ITS UTILITY PLANT AND PROPERTY AND FOR
19 INCREASES IN ITS RATES AND CHARGES BASED THEREON
20 FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA
21 WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTE
22 WATER DISTRICT.

Docket Nos. SW-01303A-09-0343

Arizona Corporation Commission
DOCKETED

23 **FILING OF EXCEPTION TO THE RECOMMENDED OPINION AND ORDER**

24 **By Marshall Magruder**
25 **9 December 2010**

26 DEC 10 2010
DOCKETED BY [Signature]

27 Marshall Magruder files this Exception to the proposed Recommended Opinion and Order
28 (ROO) of 30 November 2010 for consideration by the Commission. This Exception pertains only
29 to Phase II of this case, in particular, a Commission decision necessary to determine Rate
30 Consolidation and resultant rate structure design.

31 The ROO provides rates that are not fair or reasonable and rates that discriminate against
32 ratepayers based on location contrary to the Arizona Constitution Article XV, Section 12.

33 The Commission has not made a Decision to date concerning the rate consolidation issue for
34 the eight water and five wastewater Arizona American Water Company (ASWC) divisions. This
35 decision is a vital precept before Phase II can be concluded.

This Exception recommends, if the Commission decides to consolidate the rates of the 13
districts, that the Hearing Department resubmit a Revised ROO with consolidated rates.

Without this decision, the Staff and RUCO have failed to seriously consider the long-term
importance of rate consolidation to implement water conservation rates using multiple tiers and
realistic breakpoints, reduce future rate case workloads and resultant taxpayer cost due to the
over 450 water and wastewater companies (or divisions) in Arizona.

The Commission, rate paying customers, and the Company will all benefit with consolidated
rates with a revised ROO to

- Reduce rate shock and provide long-term rate stability throughout an integrated AAWC,
- Reduce future rate cases with additional customer costs,
- Provide fair and reasonable rates that provide the company its approved revenue,

- Eliminate the existing rate discrimination that violated the Arizona Constitution, and
- Eliminate the "special" legacy rates that favor special interests at the cost of higher rates for residential ratepayers.

Further, the additional recommendations, mostly administrative in nature, in the Magruder Testimony and Briefs, were not reviewed or refuted in the present ROO. They should be included in a Revised ROO.

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

Respectfully submitted on this 9th day of December 2010

MARSHALL MAGRUDER

By



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4 **EXCEPTIONS TO THE**
5 **RECOMMENDED OPINION AND ORDER**
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10 **by**
11 **Marshall Magruder**
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17 **9 December 2010**
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22 **IN THE MATTER**
23 **OF THE APPLICATIONS OF**
24 **ARIZONA-AMERICAN WATER COMPANY,**
25 **AN ARIZONA CORPORATION,**
26

27 **FOR THE DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND**
28 **PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY**
29 **SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT**
30 **(ACC Docket No. W-01303A-09-0343)**

31 **AND**

32 **FOR THE DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND**
33 **PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY**
34 **SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTE**
35 **WATER DISTRICT**
(ACC Docket No. SW-01303A-09-0343)

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7 **by**

8 **Marshall Magruder**

9

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SUMMARY OF THIS EXCEPTION

The Recommended Opinion and Order (ROO) in this case should be revised because

- The ROO fails in the matter of this case, to determine rates that are fair and reasonable.
- The ROO is contrary to effective water conservation principles and sends the wrong price signals to high usage customers with stand-alone rate schedules.
- The ROO proposed rates are discriminatory and violate the Arizona Constitution.
- The ROO will continue Arizona-American Water Company to not achieve its target revenue.
- The ROO, without consolidating these 13 districts (8 water and 5 wastewater), will continue to cause higher rate shock, needlessly expend rate case and taxpayer's funds for excessive rate case costs by the Commission and RUCO, and incur higher customer rates.
- The ROO fails to treat AAWC as an integrated public service corporation, but as 13 entities to exacerbate long-term planning, administrative and good business practices deficiencies.
- The ROO fails to standardize customer policies to facilitate better customer relationships.
- The ROO continues legacy rate structures, discriminatory water pricing and anti-water conservation policies with excessively confusing and contradictory rate schedules.
- The ROO does not have incentives for all customers to conserve water with least four tiers.
- The ROO does not include incentives or disincentives for the company to manage water loss.
- The ROO fails to include a company-wide residential low-income program, other than in one water district for condominium residents. In this district, low-income customers must "apply" for lower rates. Low income rate "application" processes are deficient when compared to when ALL the lowest consuming consumers are automatically provided a non-discriminatory low rates and the higher usage customers makeup the difference and improve water conservation.
- This ROO provides only a temporary patch in rates without improving rate stability for customers that will result in more, and not less, future rate cases and water rate uncertainties.
- The ROO approved piece-meal issues raised by some parties without considering the whole with unintended consequences and negative revenue impacts to the company. Thus, lowering rates for a golf course, resort or even a town, discriminates against all other AAWC ratepayers by having higher rates so the company meets its Commission-approved revenue requirement.

All of the above should be resolved through rate consolidation and well-designed rate structure applicable for all water and for all wastewater districts, as proposed by this party, and, in general, by the Company and the Anthem Community Council.

These issues were raised with recommendations and detailed solutions in the Magruder Testimonies and Briefs that were partially listed in the ROO without rejection rationale or basis.

The excellent and comprehensive AAWC Consolidated Rate Model with revenue requirements from the Last Rate Case and Part I can accurately and efficiently resolve the above rate structure with resultant rate schedules developed in a few days. This is not a major challenge. Both RUCO and Commission Staff verified and validated this Model. The ROO provides the Phase I revenue necessary for Commission approval prior to rate consolidation and rate structure design.

This Exception respectfully requests that the Commission:

1. **Consider and decide** to order AAWC rate consolidation statewide in a Revised ROO.
2. Review the Magruder recommendations for inclusion into a Revised ROO.
3. Direct the Hearing Division to file a Revised ROO by 11 January 2011, so approved rate schedules (consolidated or standalone) can be implemented statewide on 1 February 2011.

4. Direct the Company to expedite updating the Consolidated Model with Phase I revenue requirements, with five residential and four commercial tiers, with a company-wide rate structure to meet the target revenue from Phase I and Last Rate Case for the Revised ROO.

Based on the total revenue requirements, the Magruder Reply Brief shows the monthly rate impacts in **Dollars** and percent for a residential user's bill over a five-year phase-in accounting for all rate changes and the Company's "5 Step" process. The impacts for median residential (5/8 & 3/4 and 1-inch) water consumption customers, based on increased or decreased rates from the present rates in each district as shown in the table. The Note below discusses Sun City impacts.

Table ES-1 – Total Impact of the Magruder Consolidated Rates on Median Residential Consumption Customers over Five Years.

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%

Note:

- For Sun City. The table shows small service customers will have a 5-year total increase of \$11.98 of which \$3.43 is from Phase I of this rate case and \$8.55 from consolidation. This annual increase is \$2.20 a year for residential small service. The 1-inch customers have a 5-year decrease of \$2.59. On 6 December 2010, the Commission approved a 12-month Groundwater Savings Fee credit of \$2.39 a month starting Nov. 2010 with a rate decrease for all Sun City customers for almost the first year after rate consolidation. This credit also reduces Sun City West rates by \$1.72 a month from that in the table.
- A five-year phase-in of all rate changes is proposed with the Company's "5 Step" process. The annual change in rates is approximately 20% of that in this table.

The Magruder Brief recommendations include administrative issues to consolidate miscellaneous fees and charges (the company agrees) and the company rules, and to establish a performance-oriented water "demand side management" (WDSM) program to include at one with incentives to reduce water leakage. These should be included in a revised ROO.

A new 1-inch "meter change" fee is proposed to avoid fire safety liability concerns.

Consolidated wastewater rates from the Company's Scenario One are recommended and, after approval, with consolidated wastewater schedules implemented on 1 February 2011.

*The above are based on **fair and reasonable** considerations for both the Company and ratepayers, without discrimination, as required by the Arizona Constitution.*

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Section 1

Comments on the Recommended Opinion and Order and Arizona Constitutional Impacts on Rate Design

1.1 Background.

This water and wastewater rates case is being adjudicated in two Phases.

- a. Phase I determined the revenue requirements for two water and three wastewater districts of the Arizona-American Water Company (AAWC). In a separate rate case in the prior year, the revenue requirements and rate schedules for six water and two wastewater districts were decided in Decision No. 71410 of 8 December 2009, hereafter the "Last Rate Case".
- b. Phase II considers (1) to consolidate the rates from Phase I and the Last Rate Case or (2) to continue with standalone rate schedules for all AAWC's 13 districts. If the Commission decides rate consolidation, a consolidated rate structure must be determined.

1.2 Arizona Constitutional Requirements Concerning Charges for Service.

In the Last Rate Case, the Magruder and Company's witness and testimonies provided evidence that strongly support Rate Consolidation in the Magruder Direct Testimony¹ and Rebuttal Testimony.² Understanding the Rate Consolidation factors is essential for resolution.

The guiding principle for rate consolidation for this party is the Arizona Constitution.

1.2.1 Charges for Like and Contemporaneous Services SHALL be *Just and Reasonable*.

The "*just and reasonable*" decision considerations in all rate cases is Article XV Section 12 of the Arizona Constitution that states:

"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 ..." [Arizona Constitution, Article XV, Section 12, emphasis added]

¹ Direct Testimony of Marshall Magruder in Rebuttal to Rate Structure and Rate Consolidation Testimonies by the Commission Staff and Arizona-American Water Company of 3 May 2010, hereafter "Magruder Testimony" or "Exhibit MM-1".

² Rebuttal Testimony of Marshall Magruder to Rate Structure and Rate Consolidation Testimonies and Rebuttals and an Errata to His Direct Testimony, of 14 May 2010, hereafter "Magruder Rebuttal" or "Exhibit MM-2".

1 **1.2.2 Charges for Like and Contemporaneous Service Shall NOT Discriminate Between**
2 **Persons or Places.**

3 This section is understood by this layman to specifically prohibit all charges (or “rate”)
4 discrimination between persons (or “customers”) in different places (or “locations”) for the like
5 (“same”) and contemporaneous services rendered.

6 The contemporaneous services rendered are the same for all water (or wastewater) district
7 customers, that is provision of water or removal of wastewater.

8 Imposing different charges in different “districts” for the same service fails to meet the intent of
9 Section 12 and appears potentially to be unconstitutional.

10 This Constitutional section, in my opinion, clearly supports Rate Consolidation for all water and
11 for all wastewater districts for this public service corporation, *i.e.*, the Company, and not by
12 divisions in various locations.³ The existing rate structure situation with different customer charges
13 for the same rate classes and categories, by district, appears to not conform to this Constitutional
14 requirement. There is no “district loophole” for less than the entire system operated by a public
15 service corporation in Arizona, as AAWC is a single public service corporation regulated by this
16 Commission, not a group of 13 individual companies.

17 Further, there is no disconnect between Constitutional [Article XV] Section 12 and Section 14
18 that requires cost of service to be used in determination of the revenue required for a public
19 service corporation. The public service corporation revenue requirement is based on the total cost
20 of service, not by smaller, legacy-derived, subsystems (or divisions), which is then allocated to
21 customers through a fair and reasonable rate structure. Some Briefs by other parties violate
22 Section 12, as the Magruder Reply Brief shows.

23 The present ROO in Phase I and Last Rate Case provide separate, “stand alone” rates, for
24 each district, with different rate schedules charged by AAWC, a public service corporation, for the
25 same and contemporaneous service, that is for water or wastewater service, between persons in
26 different places. Consolidating these various standalone rate schedules into one rate schedule,
27 such as in Attachment A, is the next Phase II step.

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33 ³ The Arizona Public Service electric utility has the same rates in many different and diverse counties, some with new
34 infrastructure and others with old infrastructure, others with local generation or distant generation received by long-
35 transmission lines, and some with nuclear power for generation, others with coal or natural gas or renewable energy
generation. Some parts of APS are not directly interconnected, similar to AAWC. Also, in a recent UNS Electric rate case, the
Commission ordered the residential and small commercial rates to be consolidated between Mohave and Santa Cruz County,
where the rates in Santa Cruz County had exceeded those in Mohave County by some 8.2% for over a half-century, for the
same contemporaneous electricity service.

1 **Section 2**

2 **Positions of Marshall Magruder Concerning Rate Consolidation**

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4 **2.1 Phase I Position by this Party.**

5 This party did not participate in Phase I and has no Exceptions that pertain.

6 This party believes the individual district revenue requirements from the Phase 1 and the Last
7 Rate Case were prudently determined based on the current fair value of AAWC's utility plants and
8 property. Therefore, the total revenue of all the water and wastewater districts is acceptable and
9 should be considered for Phase II Rate Consolidation. They were considered in the Magruder
10 Consolidated Rate Schedule in Attachment A.

11 At least three other cases may impact the company's total revenue since the Last Rate Case.

- 12 a. Decision No. 71867 of 1 September 2010 for Arsenic Cost Recovery Mechanism (ARCM)
13 Step One for the Tubac Water District. This increased the company's revenue to meet the
14 cost of an Arsenic Treatment Plant in Tubac and may have no impact on rate consolidation.
15 b. Procedural Order of 17 June 2010. This approved an A.R.S. § 40-252 change to Decision
16 No. 71410 that amended the Agua Fria Water District Non-Potable Water Rate to \$1.24 per
17 thousand gallons effective 1 January 2010, with "no provision for the collection in other rates
18 and charges of any resulting revenue shortfall." This decision reduced AAWC's revenue over
19 \$1 million. Other customers in Phase II have to assume these additional changes in order to
20 compensate the Company for the lost revenue.⁴
21 c. Open Meeting on 6 December 2010. The Commission approved an adjustment for
22 groundwater savings fee in the Sun City and Sun City West Water Districts with a monthly
23 credit for twelve months starting in November 2010 of \$2.39 monthly credit for Sun City and
24 \$1.72 a month for Sun City West water districts.⁵

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27 **2.2 Phase II Rate Consolidation Positions by this Party.**

28 **2.2.1 Position on Rate Consolidation and Rate Structure Design.**

29 Specific recommendations and rate design principles from the Magruder Opening Brief,⁶
30 Magruder Reply Brief,⁷ and the ROO⁸ are summarized below:
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33 ⁴ Magruder Reply Brief in the Rate Consolidation and Rate Structure (Phase II) of 6 August 2010 with an Errata of 13 August
34 2010, "hereafter Magruder Reply Brief" at 54, "Table 7 – Resultant Increase (Decrease) in Revenue by District and Rate
35 Class" that shows AAWC's total revenue decreases by \$1,089,825 based on this decision.

⁵ ACC Dockets No. W-01656A-98-0577 and WS-02334A-98-0577.

⁶ Opening Brief of Marshall Magruder in the Rate Consolidation and Rate Structure (Phase II) with Errata to Marshall Magruder
Consolidated Rates and Rate Structure of 28 June 2010 filed 16 July 2010, hereafter "Magruder Opening Brief" at 10:1-30.

- 1 1. That all water and wastewater district rates are consolidated in five annual steps over a five-
- 2 year period from the Company's Consolidation Model.
- 3 2. That the lowest residential tier have a rate of \$1.00/thousand gallons or less for first 3,000
- 4 gallons as water "lifeline" for all customers, other low-income residential customer programs
- 5 be cancelled, and a Company's proposed Sun City condominium program remain.⁹
- 6 3. That a conservation incentive rate structure is adopted with five residential and four
- 7 commercial inclined block tiers with price differences between the lowest to highest tier rates
- 8 to create multiple and meaningful breakpoints so customers can more easily use less water
- 9 and move to a lower usage tier more easily.
- 10 4. That the Magruder Consolidated Rates are adopted or the Company's version modified for
- 11 four commercial tiers to meet the Phase I and Last Rate Case total revenue requirements.
- 12 5. That "Miscellaneous Charges and Fees" are consolidated into one schedule for all water
- 13 and wastewater districts and filed with the Commission in 45 days of this case's approval.
- 14 6. That a new \$500 fee are established for changing a water meter to a smaller size, that a
- 15 Safety Certification is recorded on the deed for customers with fire sprinklers, and that this
- 16 process are included with the Consolidated Charges and Fees submission.
- 17 7. That the Company's Rules and Regulations are consolidated and reviewed for readability by
- 18 a Citizens Advisory Committee and submitted to the Commission within 180-days after
- 19 completion of Phase II. The effective R&Rs are published on the Company's website.
- 20 8. That the Company provide in its tariffs ever-increasing rates for effluent/non-potable water,
- 21 then CAP water, and then ground water.
- 22 9. That the Company be ordered to create at least five Water DSM projects with residential
- 23 customers, large hotels/resorts, and golf courses, with significant incentives created by a
- 24 Water DSM rate adjustment not to exceed 2% within 90 days after completion of Phase II.
- 25 10. That the Company provides a Water Leakage Management WDSM program with financial
- 26 disincentives if leakage exceeds 10% in any district and incentivized if below a threshold.
- 27 11. That the Company to (a) activate a Citizens Advisory Committee with at least one member
- 28 per small district (less than 5,000 customers) and at least two members for larger districts
- 29 representing different Rate Classes, (b) meet at least semi-annually, (c) establish a regular
- 30 "Town Hall" meeting schedule, (d) publish a multi-page newsletter as a way to receive
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35 ⁷ Magruder Reply Brief at 10:4-34.

⁸ ROO at 70:4-71:1, these listed and rephrased the recommendations from the Magruder Brief.

⁹ Magruder Reply Brief at 94:25-95:32.

1 customer feedback and review Rules and Regulations, and (d) inform the public of Water
2 DSM programs and ongoing project or company changes that impact customers.¹⁰ If travel
3 exceeds 200 miles one-way for a CAC meeting attendee, the Company will provide the
4 federal standard mileage reimbursement.

5 6 **2.2.2 Determination of Total Revenue.**

7 The Magruder Reply Brief additionally recommended to determine Total Revenue a sequence
8 of three decisions after completion of Phase I issues. First, determine the revenue rates for each
9 district, then acknowledge that about 1.5% of this revenue is not considered in this consolidation
10 case because of unique factors the company should strive to remedy by the next rate case, and
11 then approve the Total Revenue value for the water and the wastewater districts.¹¹

12 13 **2.3 The Magruder Briefs Provide a Comprehensive Consolidated Rate Design.**

14 A complete consolidated rate design for the water districts is in the Magruder Opening and
15 Reply Briefs. The Executive Summary table is from these briefs.¹² The Magruder Reply Brief has
16 the complete set of Assumptions used with the Company's Consolidated Rate Model, version 4.
17 The Magruder Consolidated Rates are also in Attachment A.¹³

18 Based on Decision No. 70140 where "average" consumption change impacts are noted, The
19 Magruder Reply Brief in Table 4 below shows the impact on customers in each district from
20 before the Last Rate Case (LRC) to the LRC rate change in ACC Decision No. 70140 to the
21 proposed Magruder Consolidated Rates for these districts.

22 Reply Brief Table 4 shows Agua Fria, Havasu, Sun City West and Tubac, after consolidation,
23 all have their rates decreased from those in Decision No. 70104. Two districts in Decision No.
24 70140 have increased rates (Mohave and Paradise Valley). In Paradise Valley, due to high
25 average consumption rates of over 20,000 gallons for small connection and **93,912 gallons a**
26 **month** for 1-inch residential customers, they will see the highest consolidated rate change. In
27 Table 6 from the Magruder Reply Brief below, the Mohave rate change due to consolidated rates
28 is partially because of the high average 1-inch customer usage in Mohave-Bullhead of **24,153**
29 **gallons a month**. These water rate increases reflect the water conservation-oriented rate
30 impacts in the Magruder Consolidated Rate schedules.
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34 ¹⁰ Magruder Reply Brief at 10:4-34.

35 ¹¹ *Id.*, at 88:23-89:9.

¹² Magruder Opening Brief, Table ES-1 at 9, Table 8 at 33; Magruder Reply Brief, Table ES-1 at 9, and Table 3 at 34.

¹³ Magruder Reply Brief at 108-110, Attachment A.

1 **Magruder Reply Brief Table 4 – Change in Average Residential Customer Costs from Prior to Last**
 2 **Rate Case, Changes in the Last Rate Case, and Rate Changes with Consolidated Rates**¹⁴

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

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 10 Comparison of Anthem rate changes was an issue with RUCO that compared from Proposed
 11 to Consolidated and not to existing rates that a customer sees monthly. Table 5 in the Magruder
 12 Reply Brief shows the total change from Present to Magruder Consolidated¹⁵ to Proposed Rates
 13 used by RUCO for the Anthem customers.

14 **Magruder Reply Table 5 – Changes in Anthem Residential Rates.**

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

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 21 The Magruder Reply Brief provides comprehensive rate impacts in Table 6 below. Median
 22 (labeled "mean") consumption is a better measure than Average.¹⁶ The 5/8 & 3/4-inch
 23 customers rates decrease 10.2% and the 1-inch customers rates decrease 43.5% from their
 24 Present rates with the Magruder Consolidated Rates.

25 The Customer Charges for 1-inch customers was significantly reduced by Magruder to
 26 avoid meter changes caused by a residential rate imbalance in some districts.¹⁷

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 33 ¹⁴ Magruder Reply Brief, Table 4, "Change in Customer Costs from Prior to Last Rate Case to Consolidated Rates, at 35.

34 ¹⁵ 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
 35 service was provided in this Decision, and Excerpted from Magruder Reply Brief, Table 6, "Impacts of Consolidated Rates on
 Median and Average Residential Service" at 30.

¹⁶ Magruder Opening Brief, see 3.4.2, "Median (or Mean) Consumption and Average Consumption Bill Issues" at 28:23-29-13.

¹⁷ *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%

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1 The Consolidated Rate Model allocates the revenue requirements to the water districts as
 2 shown below in Table 7 from the Magruder Reply Brief.

3
 4 **Magruder Reply Brief Table 7 – Resultant Increase (Decrease) in Revenue by District and
 by Rate Class.**¹⁸

INCREASE (DECREASE) FROM NON-CONSOLIDATED RATES									
	Sun City	SCW	Agua Fria	Anthem	Tubac	Mohave	Havasu	PV	Total
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%

20 Meeting approved revenue is uncertain. A Phase II decision should review the total revenue
 21 impact with an updated Model, to determine specific impact of a rate change to a district and the
 22 Company. Various rates in the ROO for resorts, a town or golf courses are NOT considered in
 23 the whole". These are separate issues with serious unintended consequences on revenue and
 24 must be reconsidered. The Company should have a reasonable chance to achieve its target
 25 revenue but these special interest changes in the ROO have reduced the Company's revenue
 26 considerably. The Consolidated Rates Model (even for standalone rates) can make this clear.

28 Table ES-1 and Table 7 show two rate categories, that is, residential small and 1-inch service
 29 rates and the rate case changes and consolidation impacts on Average and Median (labeled
 30 Mean) customers. This Table has the most significant drivers when determining rate structure.

31 Table 7 has a consolidated zero percent change for residential customers and a 7 percent
 32 increase for commercial customers, and other increases necessary to makeup the reduction in
 33 non-potable water rates ordered in an amended Decision Order No. 71410.
 34

35
¹⁸ Magruder Reply Brief, Table 7, same title, at 54; Magruder Opening Brief, Table 11, same title at 36.

1
2 **Section 3**

3 **The ROO Position on Rate Consolidation**

4
5 **3.1 The Conclusion in the ROO Concerning Rate Consolidation.**

6 The ROO conclusion for Rate Consolidation states:

7 *"As RUCO acknowledges, the goal of rate consolidation is admirable, but each case considering rate*
8 *consolidation must be considered independently based on the facts and circumstances of the*
9 *particular case. In this case, the facts demonstrate that the existing large disparity in rates among*
10 *the Company's districts presents an insurmountable impediment, a this time, to statewide*
11 *consolidation of rates for the Arizona-American water and wastewater districts. We agree with*
12 *RUCO that, while statewide rate consolidation would undoubtedly help to ameliorate rate increases*
13 *for some ratepayers in this case, when all other factors are considered, that amelioration comes at*
14 *too high a cost. The proponents of consolidation do not propose partial consolidation. After careful*
consideration of the facts and arguments by the parties, we decline to order the implementation of
rate consolidated rates for the Arizona-American districts at this time." [ROO at 82:5-15]

15 **3.2 Response to the ROO Conclusion Concerning Rate Consolidation.**

16 The ROO acknowledgement in the first sentence above does not negate rate consolidation.

17 The second sentence of this ROO quote stated

18 *"[I]n this case, the facts demonstrate that the existing large disparity in rates*
19 *among the Company's districts presents an insurmountable impediment¹⁹, a this*
20 *time, to statewide consolidation of rates for the Arizona-American water and*
21 *wastewater districts."* [ROO at 82:7-9]

22 It is the discrimination that this existing large disparity in rates has between the Company's
23 districts is why rates should be consolidated. This is not a rationale reason to avoid this beneficial
24 process as shown in the Magruder Briefs and Replies that refute RUCO's comments.

25 The company feels this is the BEST time to consolidate rates, which can only happen as a part
26 of a rate case. Combining all the water and all the wastewater districts into another very large rate
27 case will be necessary and, due to the cost, probably a doubtful possibility.

28 Thus, *continuation of rate discrimination or "the existing large disparity in rates among the*
29 *Company's districts" will continue, to harm ratepayers and the Company who having five*
30 *Commissioners who can remedy this situation.*

31
32 Therefore, in the last two sentences change "agree" to read "disagree" and delete "decline to"
33 in order to provide fair and reasonable rates for all customers.

34
35 ¹⁹ It is noted that this party could not find either "insurmountable" or "impediment" in the Briefs submitted by the Commission Staff
or by RUCO. Therefore, the basis use of those words in this sentence is unknown.

1 **Section 4**

2 **Positions of the Parties Concerning Rate Consolidation**

3 **4.1 The Company's Position on Rate Consolidation.**

4 The Company supports statewide rate consolidation of the water and the wastewater districts.
5 The Company's Consolidated Model, in its preferred Scenario One, proposed revenue neutral
6 five-tier steps for residential rates and for commercial three tiers for 2-inch and smaller and two
7 tiers for larger service lines.²⁰ This party supports the company's position with minor changes, in
8 particular, to include four revenue-neutral tiers for commercial rates.
9

10 **4.2 The Magruder Position on Rate Consolidation.**

11 This party contends in its briefs that the rates in the ROO are not "just and reasonable" and
12 that the stand-alone rates discriminate between "persons and places". The ROO appears in
13 violation Article XV, Section 12.²¹ This party presented 22 factors that supported rate
14 consolidation; rate consolidation benefits and costs for customers, the Company and Commission
15 for rate consolidation; rate consolidation impacts on a customer's bill in terms of service charge
16 and volumetric rates; resolution of consolidated rates and target revenue requirements; issues
17 involving target revenue, rate consolidation conclusion and recommendations, and rate
18 consolidation implementation.²² Also, a consolidated rate design was presented in terms of 14
19 factors that influence rate structure, the influence of water conservation on the design of rate
20 structure, influence of lower-income customers on rate structure design, combining 5/8&3/4-inch
21 with 1-inch residential rate structures, benefits of a responsive rate structure design, cost impacts
22 on the design of rate structure, resolution of rate structure design issues, tier design issues,
23 median and average consumption billing issues²³, and a first-tier "lifeline" water for residential and
24 small commercial customers²⁴. Further, the principles and rules used for the Magruder rate
25 structure and assumptions with the impact of Consolidated Rates on median customers, and
26 discussion of Mohave and Sun City Water Districts rate increases greater than 50% over 5
27
28
29
30
31

32 ²⁰ ROO at 63:19-64:17.

33 ²¹ Magruder Reply Brief at 13:11-14-8 and 56:16-57:5; and Magruder Opening Brief at 13:11-26.

34 ²² *Ib.*, at 13:28-21:31 and Table 1, "Customer, Company and Commission Benefits Associated with Rate Consolidation Factors,"
Table 2 "Customer, Company and Commission Costs Associated with Rate Consolidation Factors", and Table 3, "Present and
Consolidated Rates Target Revenue by Rate Classes".

35 ²³ *Ib.*, at 23:4-30:33 and Table 5, "Customer, Company and Commission Costs Associated with the Factors and Considerations
for Rate Structure Design" and Table 6, "Impacts of Consolidated Rates on Median and Average Residential Service".

²⁴ *Ib.*, at 29:14-19, 31:1-31 and Table 7, "First Tier Costs for All Ratepayers (LIFELINE Rates)".

1 years.²⁵ The pre-consolidated, total and proposed revenue requirements, impacts of rate
2 consolidation by water district and rate category were also presented with resultant increase (or
3 decrease) in revenue by district and the impact of rate consolidation by water district.²⁶
4 Resolution of the rate structure design issues, conclusions and recommendations and rate
5 structure implementation were provided.²⁷ Although not completed in the same detail but
6 consolidation of the wastewater districts considers factors for the similar benefits. The
7 recommended wastewater consolidation plan in the Company's Rebuttal was recommended.²⁸
8

9 **4.3 The Commission Staff's Position on Rate Consolidation.**

10 The Staff did not support rate consolidation. The Magruder Reply Brief refuted every issue
11 raised by the Commission Staff and rationale for total rejection of the Commission Staff's rate
12 consolidation was provided.²⁹ The "six factors" in the Staff Testimony were refuted in both this and
13 the Last Rate Case.³⁰
14

15 **4.4 The RUCO Position on Rate Consolidation.**

16 RUCO did not propose consolidated rates, did not provide any consolidated rate analysis in
17 Phase II of this case, and rejected the rate consolidation in this and the Last Rate Case. Every
18 issue raised by RUCO was refuted based on evidence and data in the Magruder Testimony and in
19 detail in the Magruder Reply Brief. A total of 37 separate issues were raised by RUCO. Each of
20 these 37 RUCO issues was responded in the Magruder Reply Brief with supporting evidence. The
21 one page RUCO comparison was determined to be erroneous. No issue in RUCO Testimonies
22 and Briefs was substantial or adequate to refute the rate consolidation benefits.³¹
23

24 **4.5 The Anthem Community Council Position on Rate Consolidation.**

25 The Council supports statewide rate consolidation with the Company's preferred Scenario
26 One. The Council cited eight important benefits of consolidation included lower administrative
27 costs, reduction in number of rate cases and expenses, elimination of distorted cost allocations
28 among districts in rate filings, improved rate stability and elimination of rate shock, reduced
29
30

31 ²⁵ *ib.*, at 31:17-35:10 and Table 8 "Impact of Consolidated Rates on Median Consumption Customers."

32 ²⁶ *ib.*, at 34:7-37:11, Table 9 "Present and Proposed Stand-Alone Rates Revenue Requirements," Table 10 "Revenue by Rate
33 Class and Districts for the Magruder Consolidated Rates", Table 11 "Resultant Increase (Decrease) in Revenue by District and
34 Rate Class," and Table 12 "Overall Change in Revenue by Water District".

35 ²⁷ *ib.*, at 37:12-38:7 and Attachment A, "Assumptions."

²⁸ *ib.*, at 39:5-13 and Tables 1, 2, 4 and 6.

²⁹ *ib.*, at 15:10-19:11.

³⁰ *ib.*, at 17:9-19:3 and Exhibit MM-1.

³¹ *ib.*, at 19:12-52:3.

1 customer confusion with different rate schedules, implementation of targeted water conservation
2 programs statewide, and improved opportunities for future acquisitions, benefits for older and
3 smaller systems requiring infrastructure replacement or upgrades, flexibility with five tiers to
4 account for water usage patterns, and reduction of "rate shock" for districts whose rates would
5 increase the greatest. The Council supports, in general, the company's consolidation rates;
6 however, an over-arching concern by the Council is the dispute concerning the Pulte "balloon"
7 infrastructure payment issue.³²
8

9 **4.6 Parties that Oppose Rate Consolidation.**

10 There were three individual intervenors, from Sun City and Sun City West, who opposed rate
11 consolidation. The Magruder Opening and Reply Briefs refuted each issue raised by these
12 intervenors including Mr. Larry Woods, Mr. W.R. Hansen, with a general conclusion that they were
13 opposed to ANY rate increase, no matter how or why it was being determined to be fair and
14 reasonable. They had no validated rate consolidation data and were confused as to specific
15 impacts of rate consolidation on their water or wastewater districts. Both opposed rate
16 consolidation.³³
17

18 **4.7 Other's Parties Position on Rate Consolidation.**

19 No other parties did a comprehensive analysis with respect to the Company's revenue. This
20 missing analysis is essential for any Phase I and/or Phase II decisions, including that by the Town
21 of Paradise Valley that did not have any validated consolidation data and, in general, opposed
22 rate consolidation.³⁴ The Resorts opposed rate consolidation and, for its self-interest, requested
23 that its clients be excluded from rate consolidation.³⁵ The Anthem Golf and County Club Brief's
24 rate consolidation position was "deferred."³⁶
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34 ³² ROO at 64:18-66:25 and Magruder Reply Brief at 58:1-62:25.

35 ³³ ROO at 68:21-70:2 and Magruder Reply Brief at 63:1-73:29.

³⁴ ROO at 66:1-67:15 and Magruder Reply Brief at 74:1-87:34.

³⁵ ROO at 67:16-68:20 and Magruder Reply Brief at 88:11-18.

³⁶ Magruder Reply Brief at 88:6-10.

Attachment A

Magruder Consolidated Rate Schedules

This is Attachment A from the Magruder Reply Brief with corrected Magruder Consolidated Rate Schedules of 25 July 2010. The original Scope, References and Discussion of the 25 July 2010 remain unchanged.

Marshall Magruder Consolidated Rate Schedule					
ARIZONA WATER COMPANY CONSOLIDATED RATES MODEL – WATER					
<u>Percentage of Consolidated Rates Step 1</u>					
	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%			
<u>Residential Rates and Blocks</u>			<u>Commercial, OPA, Turf Rates and Blocks</u>		
	5/8" - 3/4"			5/8" - 3/4"	
	Customer Charge	\$14.50	Customer Charge	\$17.50	
	First	3,000 \$0.9800	First	3,000 \$0.9800	
	Next	7,000 \$2.5000	Next or First	7,000 2.5000	
	Next	15,000 \$3.0000	Next	15,000 3.0000	
	Next	20,000 \$3.5000	Next	25,000 3.5000	
	Over	45,000 \$4.0000	Over	50,000 4.0000	
	1"		1"		
	Customer Charge	\$20.00	Customer Charge	\$30.00	
	First	3,000 \$0.9800	First	10,000 \$2.5000	
	Next	7,000 \$2.5000	Next or First		
	Next	15,000 \$3.0000	Next	20,000 3.0000	
	Next	30,000 \$3.5000	Next	50,000 3.5000	
	Over	55,000 \$4.0000	Over	80,000 4.0000	
	1 1/2"		1 1/2"		
	Customer Charge	\$70.00	Customer Charge	\$70.00	
	First	3,000 \$0.9800	First	25,000 \$2.5000	
	Next	22,000 \$2.5000	Next or First		
	Next	25,000 \$3.0000	Next	25,000 3.0000	
	Next	50,000 \$3.5000	Next	150,000 3.5000	
	Over	100,000 \$4.0000	Over	200,000 4.0000	
	2"		2"		
	Customer Charge	\$110.00	Customer Charge	\$110.00	
	First	30,000 \$1.7500	First	100,000 \$2.5000	
	Next	70,000 \$2.5000	Next or First		
	Next	100,000 \$3.0000	Next	100,000 3.0000	
	Next	100,000 \$3.5000	Next	300,000 3.5000	
	Over	300,000 \$4.0000	Over	500,000 4.0000	
	3"		3"		
	Customer Charge	\$250.00	Customer Charge	\$250.00	
	First	25,000 \$2.0000	First	1,000,000 \$2.5000	
	Next	75,000 \$2.5000	Next or First		
	Next	100,000 \$3.0000	Next	2,000,000 3.0000	
	Next	100,000 \$3.5000	Next	3,000,000 3.5000	
	Over	300,000 \$4.0000	Over	6,000,000 4.0000	

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**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
-----------------	---------

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
Havasu	1
PV	1

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2 **Service List**

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