

Arizona American Water

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From: Stephanie Ditner [SDitner@anthemcouncil.com]
Sent: Friday, March 11, 2011 3:53 PM
To: Antonio Gill
Cc: Jenna Kollings
Subject: Anthem Community Council - Questions for Chairman Pierce
Attachments: Questions for Chairman Pierce.doc

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ARIZONA CORPORATION COMMISSION
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Antonio,

In preparation for the March 22 Anthem event, please find attached questions for Chairman Pierce that were put together by Anthem Community Council's Water Rate Case Panel. In keeping Chairman Pierce's schedule in mind, as well as the number of cases that are before the Commission, we hope by providing these questions in advance Chairman Pierce will have sufficient time to prepare responses.

Thank you,
Stephanie Ditner
Anthem Community Council
623-742-4560

Arizona Corporation Commission
DOCKETED

MAR 25 2011

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Questions for Chairman Pierce

1. What will the process be for reviewing and approving AAWC's proposal for deconsolidating the Anthem/Agua Fria Wastewater District? How would you recommend that Anthem be involved in this process – e.g., work with RUCO, hire attorneys, hire a rate expert?
2. We understand that the Decision in the recent rate case directs AAWC to return to the Commission with another proposal for statewide consolidation. As you know, Anthem was in favor of statewide consolidation in the recent case because it resulted in an immediate benefit for our residents. However, at that time AAWC provided no visibility into upcoming investments that AAWC might be making in other districts and the potential impact those investments might have on our rates under statewide consolidation. How will these future investments be considered by the Commission when AAWC files the consolidation case?
3. Based on your observation of Anthem's approach to contesting the recently concluded rate case, what would you recommend that we do in future cases in order to achieve the best possible result for our residents?
4. As you may recall, Anthem residents submitted a substantial amount of information regarding the rate of return. For the most part, our efforts were unsuccessful. What should Anthem do during the next rate cases to ensure that our analysis of the rate of return is given appropriate consideration?
5. It was acknowledged by AAWC during the rate case hearings that they do not maintain separate detailed accounting records for each of their districts, and that the figures they submit for each district are allocations of statewide expenses. What can be done to assure customers that the district-level figures are independently certified as accurate?
6. What kinds of reviews are performed by the Commission to make sure that the costs incurred by AAWC are reasonable, and that the company is running their operation in a cost effective manner? What steps could Anthem take to participate in these reviews?
7. The basic service charge for a residential customer with a 1" meter is 2.5 times the basic service charge for the 5/8"x3/4" meter. Has the Commission reviewed the details behind this significant differential, and if so, why do they feel the differential is justified?
8. What is the process for the Commission to review the proposed acquisition of AAWC by EPCOR, and how should Anthem be involved in that process?
9. During the Open Meeting on December 14 and 15 it was recommended that the Commission file an Amicus Brief in support of the Anthem residents in the current Class Action Complaint against Pulte. Does the Commission plan to follow through on this recommendation?
10. We understand that one of the major purposes of the Arizona Corporation Commission is to protect consumers from large corporate greed by setting fair and reasonable utility rates. This, in our opinion, has not been the case for the residents of Anthem. Based on documentation which was provided to the Commission in the latest water rate case, the Anthem residents believe they are being "swindled" out of approximately \$53 million by the double payment to both the AAWC (in increased rates) and Pulte/Del Webb (in the original purchase price of the homes). If the regulators are not there to protect the consumers from the corporate greed of major corporations, who will protect the consumers?

Questions for Chairman Pierce

11. It seems that both the Commission and the water utility company (Citizens and/or AAWC) either knew or should have known that the cost of the infrastructure was included in the price of the homes. Why would the water utility company agree to make balloon payments to Del Webb/Pulte which eventually totaled about \$53 million? And why did the Commission fail to make a ruling on such an important matter when it was originally presented to them back in the late 1990's?
12. During the Open Meeting on December 14, several Commissioners seemed to be interested in delaying a decision until they could get definitive answers from Pulte about the balloon payments and apparent "double dipping." One of the Commissioners even indicated that "criminal fraud" might be involved. Very early during the Open Meeting on December 15, there seemed to be an "about face" by all five Commissioners. This change in attitude soon prompted the Commissioners to direct that the parties negotiate an agreement among themselves. Our community strongly feels that Anthem representatives were at a significant disadvantage during those negotiations and were unfairly put in the position of "take whatever is offered or you get nothing." What was the reason for the apparent "about face" overnight from December 14 to December 15? Why was the Commission reluctant to follow through with getting answers from Pulte?
13. Why does the Commission allow AAWC (or any utility) to include an amount for estimated taxes in the rates they charge us, especially if they don't actually pay taxes? In further support of this question, please consider the following information:

Decision No. 72047 determined the gross revenue from water should increase by \$5,453,750. The increase was determined as follows: (p. 64 of the Decision)

Fair Value Rate Base	\$57,249,836
Adjusted Operating Income	545,995
Required Fair Value Rate of Return 6.7%	
Required operating Income	3,835,739
Operating Income Deficiency	3, 289,304
Gross Revenue Conversion Factor (GRCF)	1.6578
Gross Revenue Increase	\$5,457,750

The GRCF increases the cost of water to Anthem ratepayers by \$2,163,946 per year.

The Arizona Administrative Code includes Schedule D-3 for showing incremental taxes on gross revenues and the development of a gross revenue conversion factor. (No specific instructions were found to indicate if taxes could be included that were not paid by a utility company.)

On Attachment RCS-6, Schedule A-1(A), Arizona-American Water Company indicated the following for the Test Year ended 12-31-08.

Questions for Chairman Pierce

Property Taxes	0.80%
Bad Debt Expense	0.28%
Federal Income Tax	31.63%
State Income Tax	6.97%
Total	39.68%

On Exhibit Schedule C-3 Rebuttal/Final, page 1 (prepared by Az-Am Water Company), the property taxes for the test year ended Dec. 31, 2008, were 0.66% which resulted in a total of 39.53 %.

Question 13a. How can the percent of property taxes paid during the test year change?

Exhibit Schedule C-1, Rebuttal/Final, indicates the adjusted Operating Expenses in the test year included:

General Taxes - Property	\$293,324
General Taxes - Other	34,882

Question 13b. Since these taxes reduced the Operating Income (and increased the Operating Income Deficiency), how can they be included again in computing the GRCF?

The numbers indicate:

- 1) Az-Am Water Company was profitable in the test year;
- 2) Anthem ratepayers are being required to pay \$3,289,804/year to cover the operating income deficiency of Arizona-American Water Company;
- 3) Anthem ratepayers are being required to pay an additional \$2,163,946/year as a result of applying the GRCF – apparently so Az-Am Water Company can be even more profitable and be reimbursed for taxes it might be required to pay.
- 4) All of the Gross Revenue Increase of \$5,453,750 is net profit to Az-Am Water Company.

Question 13c. How can such excessive rates and charges be considered "just and reasonable" as required by the Arizona Constitution?

It appears the Arizona Corporation Commission is requiring the water ratepayers of Anthem to pay the Federal and State income taxes of Arizona-American Water Company even though the taxes may or may not be paid by the Company to the governmental taxing authority.

Question 13d. Is it not true that income taxes are taxes on net income and cannot be collected, or paid, in advance of the income being earned?