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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP
BRENDA BURNS

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
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 AGUA FRIA WATER DISTRICT,
HAVASU WATER DISTRICT, AND
MOHAVE WATER DISTRICT

Docket No. W-01303A-10-0448

**Notice of Filing Verrado
Community Association, Inc.'s
Direct Testimony on Issues Other
than Rate Design**

Verrado Community Association, Inc., through its undersigned counsel, hereby provides notice of filing the Direct Testimony of Melinda Gulick and Kent Simer in the above-referenced matter.

DATED this 27th day of June, 2011.

RYLEY CARLOCK & APPLEWHITE

Arizona Corporation Commission

DOCKETED

JUN 27 2011

DOCKETED BY

By Michele Van Quathem
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2 filed this 27th day of June, 2011, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 COPY of the foregoing mailed this
8 27th day of June, 2011, to:

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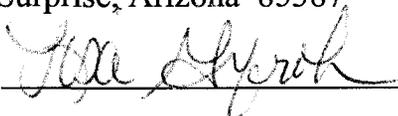
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By 

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE, Chairman
4 SANDRA D. KENNEDY
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6 BOB STUMP
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8 **IN THE MATTER OF THE APPLICATION**
9 **OF ARIZONA-AMERICAN WATER**
10 **COMPANY, AN ARIZONA**
11 **CORPORATION, FOR A**
12 **DETERMINATION OF THE CURRENT**
13 **FAIR VALUE OF ITS UTILITY PLANT**
14 **AND PROPERTY AND FOR INCREASES**
15 **IN ITS RATES AND CHARGES BASED**
16 **THEREON FOR UTILITY SERVICE BY**
17 **ITS AGUA FRIA WATER DISTRICT,**
18 **HAVASU WATER DISTRICT, AND**
19 **MOHAVE WATER DISTRICT**

20 **Direct Testimony**

21 **of**

22 **Melinda Gulick**

23 **on behalf of Verrado Community Association, Inc.**

24 **June 27, 2011**

1 **Executive Summary**

2 Melinda Gulick is the President of Verrado Community Association, Inc. (the
3 "Association"). Ms. Gulick describes the Association's concerns regarding Arizona-American
4 Water Company's proposed large residential and potable irrigation water rate increases, each of
5 which, if granted, will significantly impact Verrado residents.

6 Verrado is a new community of homes and businesses located near the White Tank
7 Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes
8 spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the community,
9 approximately nine businesses and four schools. All of Verrado's water and sewer service is
10 provided by Arizona-American Water Company.

11 The Association is a non-profit corporation that serves approximately 5892 current
12 Verrado residents through a variety of services and community and recreational activities. The
13 Association is seriously concerned about the impact of a large water rate increase on its current
14 residents. Water rates were just increased approximately 26% in Arizona-American Water
15 Company's December 2009 rate case (see Decision No. 71410). This concern is aggravated by
16 a current proposal to increase the Agua Fria Wastewater District residential sewer rates up to
17 139.7% through a potential deconsolidation of the Anthem/Agua Fria Wastewater District in
18 case number WS-01303A-09-0343.

19 Verrado's residents include many people who are on fixed or reduced incomes that have
20 already been significantly impacted by adverse economic conditions in the Phoenix area in
21 recent years. The Association opposes any unfair or untimely increases in water and sewer
22 rates, especially during these trying economic times, and requests that the Commission carefully
23 examine and consider in making its decision on this case all of the consumer comments and
24 proposed remedies entered in this docket.

25 Verrado residents will also be impacted by increases to the Association's overall costs.
26 The Association manages various physical facilities and landscaping within the commonly-
27 owned areas throughout Verrado. Common areas are watered with potable water provided by
28 Arizona-American Water Company. Effluent is not yet available at locations and in sufficiently
reliable quantities to water landscaping for the Verrado Community Association.

The Association currently pays a rate of \$2.7280 per 1,000 gallons for delivery of potable
irrigation water. In the current version of the schedules, the Company's proposed commodity
rate appears to be a flat \$ 4.988622 for all meter sizes, plus a new base charge that varies by
meter size. The proposed change in the commodity rate alone would increase costs for water
83% for the Association, equaling an estimated overall increase for test year usage (July 1,
2009-June 30, 2010) of \$392,000. This is an enormous and unreasonable increase, and cannot

1 be sufficiently mitigated by additional conservation. Ms. Gulick describes the steps the
2 Association has already taken to conserve water.

3 **Q. Please state your name, position, business address, and telephone number.**

4 A. My name is Melinda Gulick. I am the current President of Verrado Community
5 Association, Inc. (the "Association"). I am also employed by DMB Associates as Vice
6 President of Community Life. My business address for the Association is 4236 North
7 Verrado Way, Suite A200, Buckeye, Arizona 85396.

8 **Q. Have you previously testified before the Commission?**

9 A. No.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to describe the Association and its interest as an
12 Intervenor in this case. In particular, I am describing the Association's concerns
13 regarding Arizona-American Water Company's proposed large residential and potable
14 irrigation water rate increases, each of which, if granted, will significantly impact
15 Verrado residents.

16 **Q. Please describe Verrado.**

17 A. Verrado is a new community of homes and businesses located near the White Tank
18 Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000
19 homes spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the
20 community, approximately nine businesses and four schools. All of Verrado's water and
21 sewer service is provided by Arizona-American Water Company.

22 **Q. Please describe the Association.**

23 A. The Association is a non-profit corporation that serves approximately 5892 current
24 Verrado residents through a variety of services and community and recreational activities.

25 **Q. Please described the Association's interest in this case.**

26 A. The Association has two overriding interests in this case. First, the Association is
27 seriously concerned about the impact of a large water rate increase on its current
28 residents. Water rates were just increased approximately 26% in Arizona-American

1 Water Company's December 2009 rate case (see Decision No. 71410). Our concern is
2 aggravated by a current proposal to increase the Agua Fria Wastewater District
3 residential sewer rates up to 139.7% through a potential deconsolidation of the
4 Anthem/Agua Fria Wastewater District in case number WS-01303A-09-0343.

5 Verrado's residents include many people who are on fixed or reduced incomes that
6 have already been significantly impacted by adverse economic conditions in the Phoenix
7 area in recent years. The Association opposes any unfair or untimely increases in water
8 and sewer rates, especially during these trying economic times, and requests that the
9 Commission carefully examine and consider in making its decision on this case all of the
10 consumer comments and proposed remedies entered in this docket.

11 Second, the Association pays water bills too, and Verrado residents will be
12 impacted by increases to the Association's overall costs. In 2010, water costs represented
13 14 % of the Association's overall spending. Because of the significant portion of the
14 Association's funds that go to landscape watering and maintenance, any increase in those
15 costs will have a direct upward impact on owner's assessments.

16 In particular, the Association manages various physical facilities and landscaping
17 within the commonly-owned areas throughout Verrado. The Association is responsible
18 for collecting assessments payable pursuant to the community's Charter, and using these
19 funds to support the common areas, including paying water bills to Arizona-American
20 Water Company. Common areas are watered with potable water provided by Arizona-
21 American Water Company. Effluent is not yet available at locations and in sufficiently
22 reliable quantities to water landscaping for the Verrado Community Association.

23 **Q. What rate is Arizona-American Water Company charging for the water used by the**
24 **Association to water common area landscaping?**

25 **A.** The Association currently pays an "irrigation" rate of \$2.7280 per 1,000 gallons for
26 delivery of potable irrigation water. Annual water use for the twelve months ending June
27 30, 2010 (the test year) was 173,279,158 gallons.

1 **Q. What new rate is Arizona-American proposing for this service?**

2 A. In the current version of the schedules, the Company's proposed commodity rate appears
3 to be a flat \$ 4.988622 for all meter sizes, plus a new base charge that varies by meter
4 size. The proposed change in the commodity rate alone would increase costs for water
5 83% for the Association, equaling an estimated overall increase for test year usage (July
6 1, 2009-June 30, 2010) of \$392,000. This is an enormous and unreasonable increase.

7 **Q. Is it possible to reduce the impact of a rate increase by decreasing the Association's**
8 **water use?**

9 A. Yes – through conservation. However, the Association has already taken steps to
10 conserve water because we already had a significant financial incentive to do so. Any
11 further conservation the Association might be able to achieve is unlikely to provide
12 significant relief from the economic impact of such a large rate increase.

13 **Q. What measures has the Association already taken to conserve water?**

14 A. The Association takes water conservation seriously. Verrado faces challenges with both
15 wind and slope, and we must be diligent to maximize every drop of water. First and
16 foremost, the Verrado Community Association has a state-of-the-art Rain Bird MaxiCom
17 irrigation system. The system monitors every emitter's status, which allows us to
18 immediately address any issue that may arise such as leaks or blocks. Irrigation is
19 scheduled based on real-time weather as determined by twice daily readings from the
20 onsite weather station. All watering is done at night to reduce evaporation, and plants are
21 watered only to their wilting point. Recently, we updated 10,000 nozzles within Verrado
22 that emit a heavier water droplet to ensure the water hits the ground and reduces
23 evaporation. So far, after a four month test, the nozzles are reducing water usage by
24 30%. In addition to our infrastructure, we employ DLC Resources as our landscape
25 contractor, and require it to follow The Irrigation Association's Turf and Landscape
26 Irrigation Best Management Practices. DLC Resources has assigned both a Certified
27 Irrigation Auditor and a Certified Water Manager to our community, one of whom was
28

1 recently recognized nationally by the Environmental Protection Agency's WaterSense
2 program for excellence in demonstrated results in irrigation efficiency.

3 The Verrado Community Association follows best practices for turf management,
4 which include aeration and soil conditioning, allowing us to use less water. DMB also
5 provided highly-trained oversight for our water and landscape programs, by Scott Rowan,
6 who carried the certification of Irrigation Auditor during the design and development of
7 the Verrado Community. He currently oversees all Landscape and Maintenance for the
8 Verrado Community Association.

9 **Q. Does this conclude your testimony in this case?**

10 **A. Yes.**

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

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Docket No. W-01303A-10-0448

8 IN THE MATTER OF THE APPLICATION
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16 THEREON FOR UTILITY SERVICE BY
17 ITS AGUA FRIA WATER DISTRICT,
18 HAVASU WATER DISTRICT, AND
19 MOHAVE WATER DISTRICT

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Direct Testimony
of
Kent Simer
on behalf of DMB White Tank, LLC
June 27, 2011

1 **Executive Summary**

2 Kent Simer is a rate consultant for K. R. Saline & Associates, PLC ("KRSA"), which
3 provides ongoing consulting and engineering services for numerous irrigation and electrical
4 districts, municipal utilities and tribal utilities located throughout the Southwest.

5 Mr. Simer is addressing the proposed increase in revenue requirements made by the
6 Arizona-American Water Company for their Agua Fria Water District.

7 Mr. Simer testifies that the proposed rate has significant rate shock implications
8 stemming from the placement of the White Tanks Regional Water Treatment Plant into the rate
9 base. Coinciding with the downturn in the economy, the construction of the treatment plant
10 preceded the growth intended to support its need. Without a sufficient customer base, the
11 increase in revenue requirements will result in an 82.89% rate increase for the average
12 residential customer in the Agua Fria Water District.

13 Arizona-American is proposing to adopt a declining residential usage mechanism to
14 account for under collections due to conservation efforts made by the utility. Mr. Simer testifies
15 on the likely cause of declining residential usage and whether it constitutes the need for the
16 requested adjustment.

17 Mr. Simer testifies against the request to change depreciation rates at this time. The
18 adoption of new depreciation rates at this time would only increase the severity of the rate shock
19 impact on the customers. Insufficient evidence has been provided that would demonstrate the
20 need for new depreciation rates at this time. Adoption of new depreciation rates instead of using
21 existing rates does not provide any greater guarantee that Arizona-American will earn a
22 reasonable rate of return.

23 To mitigate the impact of the requested rate increase, Mr. Simer testifies that a phase-in
24 of the rate increase would be appropriate. A phase-in would smooth the transition to the new
25 rates and would provide more time for recovery in the housing industry, potentially spreading
26 the rate increase across additional customers.
27
28

1 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2 A1. My name is Kent R. Simer. My business address is 160 N. Pasadena, Suite 101, Mesa,
3 Arizona. I am a Utility Rate Consultant for K. R. Saline & Associates, PLC, a firm that
4 provides electrical engineering services, management consulting, and ongoing business
5 operational services primarily to wholesale public electric utilities.

6 **Q2. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND**
7 **EXPERIENCE.**

8 A2. I have been employed at K. R. Saline & Associates, PLC for the past thirteen years
9 providing various services to our clients. For the past six years my primary
10 responsibilities have included performing cost-of-service and rate design, economic
11 analyses and computer-aided modeling for power supply planning, load forecasting,
12 financial forecasting, and cost/benefit analysis for various municipal, tribal and public
13 utilities throughout Arizona.

14 I have a Bachelors Degree in Interdisciplinary Studies in Business and Communications
15 from Arizona State University. Additionally I have completed American Public Power
16 Association basic and advanced Utility Cost of Service and Retail Rate Design courses.

17 **Q3. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

18 A3. No.

19 **Q4. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

20 A4. I am appearing on behalf of the Verrado Community Association, Inc. ("Verrado").
21 Verrado is a customer of Arizona-American's Agua Fria Water District ("AAWC"), and
22 has as members numerous residential and commercial customers who are directly
23 impacted by the rates proposed by AAWC.

24 **Q5. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

25 A5. The purpose of my testimony is to discuss the rate shock implications of the proposed
26 increase to residential customers, the impact of placing the cost of the White Tanks
27 Regional Water Treatment Plant into the rate base, whether it is necessary to change
28

1 depreciation rates at this time, and why the use of a Declining Usage Adjustment is not
2 appropriate in this case.

3 **Q6. WHAT IS THE RATE SHOCK IMPLICATION OF THE WATER RATE**
4 **INCREASE PROPOSED BY AAWC?**

5 A6. As requested by AAWC, the average residential customer (per the revised Schedule H)
6 would see an 82.89% increase in their monthly billing for water provided by AAWC. To
7 an average residential customer, this would result in a \$25.13 increase in their monthly
8 water bill and \$301.54 in their annual costs for water. By any standard, this increase
9 would result in rate shock to AAWC's customers and should be mitigated.

10 **Q7. WHAT IS THE PRIMARY DRIVER IN THE REQUESTED INCREASE TO**
11 **AAWC'S AGUA FRIA WATER DISTRICT CUSTOMERS?**

12 A7. The single largest driver in the proposed increase to AAWC's Agua Fria District water
13 customers is the proposed inclusion in rate base of the newly constructed White Tanks
14 Regional Water Treatment Plant. At a total cost of \$63.9 million, the plant was placed in
15 service in November of 2009.

16 **Q8. WHEN AAWC FIRST PROPOSED TO CONSTRUCT THE WHITE TANKS**
17 **REGIONAL WATER TREATMENT PLANT, HOW WAS IT REPRESENTED**
18 **THAT THE CAPITAL COSTS OF THE WHITE TANKS PLANT WOULD BE**
19 **PAID?**

20 A8. In Decision 69914 dated September 27, 2007, AAWC proposed that new development
21 pay for the plant through payment of additional hook-up fees. AAWC was granted a
22 substantial increase to its Water Facilities Hook-up Fees. In its request to increase its
23 hook-up fees, AAWC stated

24 "Arizona-American believes that its proposal to finance the White Tanks
25 Project with hook-up fees, which will be treated as contributions in aid of
26 construction ("CIAC"), is equitable because customer growth is largely
27 driving the need for the plant (Surrebuttal Testimony of Thomas M.
28 Broderick, Exh. A-7 at 7)."

1 At the time of that decision, AAWC represented that the increased hook-up fees would
2 cover a substantial portion of the capital requirements to construct the White Tanks Plant,
3 and as a result would not be included in AAWC's rate base. However, due to the
4 continuing decline of the U.S. economy and more specifically the significant decline in
5 the residential housing market in the metro Phoenix area, as of May 2011 only \$2.6
6 million had been collected from hook-up fees. AAWC now proposes to have its existing
7 Agua Fria Division customers pay for the difference. The obvious rate shock result of
8 this proposal is manifested in AAWC's request to include the \$63.9 million in rate base
9 and its associated return rather than having collected that amount from CIAC.

10 **Q.9 IF THE WHITE TANKS REGIONAL WATER TREATMENT PLANT IS**
11 **DETERMINED NOT "USED AND USEFUL" TO CUSTOMERS DURING THE**
12 **TEST YEAR, WHAT WOULD BE THE IMPACT ON RATES OF EXCLUDING**
13 **THE PLANT'S CAPITAL COSTS?**

14 A.9. The White Tanks Regional Water Treatment Plant is a significant driver in the proposed
15 increase needed in revenue requirements. The exclusion of the White Tanks Regional
16 Water Treatment Plant capital costs from rate base for the test year would mitigate rate
17 shock to the customers in the Agua Fria Water Division. Though it is difficult to remove
18 the exact costs of the plant in the provided revised Schedules A-F, an effort was made to
19 try to capture the impact the plant has on existing customers. Removing the White Tanks
20 original cost of \$63,893,324 and associated adjustments in adjustment TMB-2 from the
21 rate base, along with the operating expense amount \$1,549,627 as stated in the testimony
22 provided by Ian C. Crooks and additional O&M adjustments made in ADJ LJC-20 from
23 the operating expenses, the rate shock for residential customers would be reduced from
24 an 82.89% rate increase to a rate increase of 37.29%, a difference of \$166 per year for the
25 average residential customer.

26 **Q10. WHAT SHOULD ARIZONA-AMERICAN OR THE COMMISSION DO TO**
27 **MINIMIZE THE RATE SHOCK OF THE REQUESTED REVENUE INCREASE?**

1 A10. Arizona-American is seeking an overall revenue increase of \$20.8 million, \$17.5 million
2 of which is directly allocated to the Agua Fria Water District. The impact to Agua Fria
3 Water District will result in an 82.89% rate increase, which will cause significant rate
4 shock to Agua Fria customers. If the plant, or any portion of it, is determined not used
5 and useful, then the related costs should be excluded from rate base in this case. For any
6 portion of the plant that is determined used and useful during the test year, then I
7 recommend a several year phase-in of the requested rate increase to lessen the impact on
8 AAWC's customers.

9 In Decision 71878 dated September 15, 2010, the Commission adopted a 3-year revenue
10 phase-in for Global Water's Palo Verde division due to significant capital investment
11 made in advance of need in that area. Similar circumstances exist in AAWC's current
12 rate request and a three step phase-in would allow customers time to adapt to the new
13 rates. The addition of time may also provide opportunities for customer growth as local
14 economies improve, potentially spreading the requested rate relief over a greater
15 customer base.

16 **Q11. COULD YOU PLEASE DISCUSS AAWC'S PROPOSED DECLINING USAGE**
17 **ADJUSTMENT?**

18 A11. The declining usage adjustment proposed by Arizona-American is a *pro forma*
19 adjustment that would decrease test-year revenues to reflect anticipated losses due to "a
20 sustained trend of declining residential usage". In the direct testimony of Mr. Kiger on
21 behalf of AAWC, reduced residential consumption is claimed to be the result of increased
22 efforts in water conservation through the use of increasing block tariff structures and best
23 management practices ("BMPs").

24 **Q12. SHOULD THE COMMISSION ACCEPT ARIZONA-AMERICAN'S DECLINING**
25 **USAGE ADJUSTMENT?**

26 A12. No. The price elasticity of inclining block rates and the use of BMPs has been shown in
27 some cases to lead to conservation by consumers and thus declining usage per customer.
28

1 However, the adjustment as proposed looks at the decline in usage during the 2006
2 through 2010 time period, during which the nation has experienced a significant
3 economic recession and highly unusual housing downturn. Nationally, vacancy rates are
4 at their highest levels since 1980 and census tracts with significant foreclosure activity
5 recorded a vacancy rate of nearly 19% in 2010¹ Arizona fringe communities surrounding
6 the metropolitan Phoenix area saw disproportionate increases in foreclosures and
7 increases in available housing inventory due to a national housing crash. In and near the
8 Agua Fria Water District, the Town of Surprise has been impacted similar to other Agua
9 Fria water customers. The housing resale market was heavily impacted by foreclosure
10 activity with 43% of all homes in 2008 being bought out of foreclosure. The
11 disproportionately high amount of properties purchased out of foreclosure demonstrates
12 the high level of foreclosures in the housing inventory. What is not illustrated in the
13 following graph is the length of time these houses sit empty due to foreclosure, which can
14 often be for months.

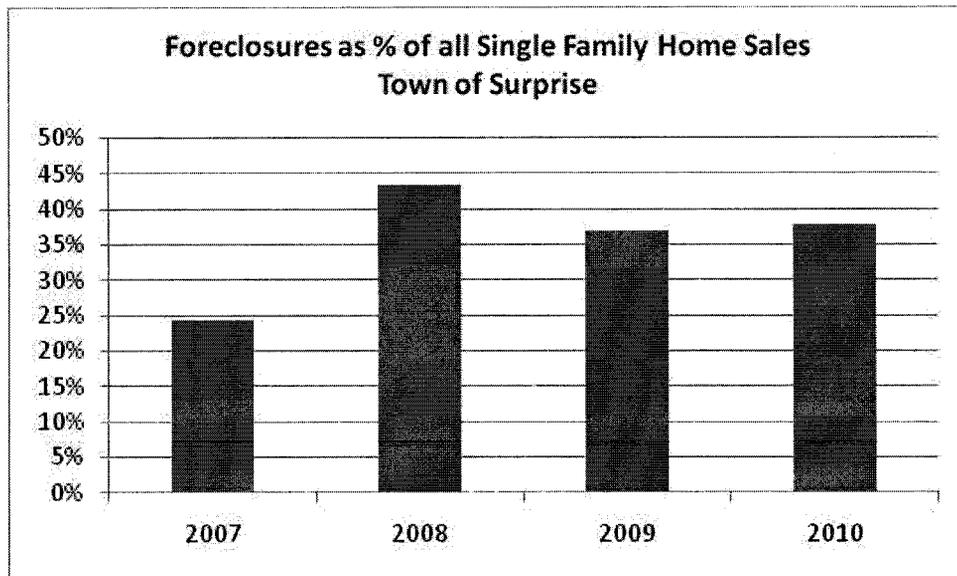


Figure 1 – Arizona State University Realty Studies “Annual Sales by Cities”

¹ “The State of the Nations Housing”, Joint Center for Housing Studies, Harvard University. 2011.
http://www.jchs.harvard.edu/publications/markets/son2011/son2011_appendix_tables.pdf

1 The Verrado community lies even further on the outskirts of the city and it is likely to
2 have experienced foreclosure activity that is similar to the Town of Surprise. The
3 resulting increase in empty houses likely played a greater role in the cause for declining
4 average use per customer than tiered rates and BMPs. Though the decrease in water use
5 is significant in its impact to local utilities, it is also a temporary response to economic
6 conditions that is likely to improve as economies improve and empty houses are again
7 occupied.

8 Declines in residential use per customer are likely the result of a multitude of events. For
9 ratemaking purposes this is important to consider when determining whether the
10 proposed rate adjustment is fair and equitable for customers. The Declining Usage
11 Adjustment is not of sufficient magnitude to warrant extraordinary rate treatment.
12 Similar to staff's response in Decision 71845 (pages 69-71) regarding Arizona Water
13 Company's request for a purchased water adjuster mechanism, the commission should
14 reject AAWC's declining residential usage adjuster because (1) decline in residential use
15 has not had significant impact on AAWC; (2) adjustor mechanism would not incentivize
16 AAWC to seek cost reducing alternatives; and (3) the adjustment mechanism is
17 burdensome and not administratively efficient, and the related cost of administration
18 could exceed potential benefits.

19 As part of the cost of equity discussions in Decision 71410 (pages 41-45) the
20 Commission pointed out that Arizona-American should not be shielded "from the
21 negative impacts of today's economy that affect its ratepayers and virtually every other
22 business." This declining residential usage adjustment is another attempt to shield the
23 Company from the current economic cycle and it would be premature to establish a
24 mechanism that would smooth out the ups and downs of the economy on the shoulders of
25 their customer base. If declining residential usage is purely the result of the price
26 elasticity of the cost of water then this adjustment will only add to the revenue gap being
27 collected in the adjuster.
28

1 **Q13. ARIZONA-AMERICAN IS REQUESTING TO CHANGE DEPRECIATION**
2 **RATES. WHAT IS THE STATED PURPOSE FOR THE CHANGE AT THIS**
3 **TIME AND HOW WERE THE RATES DETERMINED?**

4 A13. Arizona-American is requesting to adjust depreciation rates to “establish depreciation
5 rates that are reasonably applicable to the depreciable assets of the water and wastewater
6 systems of the Company.” *See* Application, p. 13. The depreciation study presented by
7 Mr. Guastella utilized comparative average service lives incorporating data from utilities
8 around the country, NARUC established policies for asset depreciation, and Company
9 O&M records. The study also included a review of net salvage values to more accurately
10 capture asset retirement costs.

11 **Q14. WHAT IS THE IMPACT OF THE PROPOSED DEPRECIATION RATES?**

12 A14. According to Schedule E-1 of the Depreciation study, the Agua Fria Water System would
13 see an increase in depreciation expense of \$2,252,589 for the water utility.

14 **Q15. SHOULD ARIZONA-AMERICAN’S PROPOSED DEPRECIATION RATES BE**
15 **ACCEPTED AT THIS TIME?**

16 A15. No. The adjustment to depreciation rates proposed by Arizona-American will contribute
17 to the significant rate shock that the customers will experience from the rates proposed in
18 this case. Arizona-American does not make it clear why it is necessary to change
19 depreciation rates at this time and has not demonstrated that current depreciation rates are
20 more or less appropriate than the depreciation rates determined by the comparative
21 average service life methodology proposed by Mr. Guastella. In response to staff
22 requests, the company further states that “the course corrections in depreciation rates
23 would likely not be so significant as to render past depreciation accruals as unreasonable”
24 further demonstrating that existing rates may be just as suitable.

25 The Company states that it may use sub-accounts for any extraordinary retirements where
26 established depreciation rates or salvage values were not sufficient. To help mitigate the
27 rate impact to customers, the Company should continue to use existing depreciation rates
28

1 until such a time that actual retirement costs can be collected in sufficient amounts to
2 accurately determine appropriate depreciation rates for Arizona-American's water and
3 wastewater utilities in Arizona. Arizona-American should rely on sub-accounts for
4 extraordinary retirements to record depreciation expense for assets that demonstrate
5 retirement costs differing significantly from existing depreciation rates and salvage
6 values.

7 **Q16. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A16. Yes.

**STATEMENT OF QUALIFICATIONS
OF
KENT R. SIMER**

EDUCATION

BIS, Business and Communication, Arizona State University, 2003
MBA, (Coursework toward), University of Phoenix

CERTIFICATIONS & TRAINING

American Public Power Association – Basic Utility Cost of Service and Retail Rate Design (2005)
American Public Power Association – Advanced Utility Cost of Service and Retail Rate Design (2005)
American Public Power Association – Rate and Utility Management Seminars (Ongoing)

RELEVANT WORK EXPERIENCE

Electrical District No. 3 – Annual Cost of Service and Rate Design Analysis (Since 2003)
San Carlos Irrigation Project – Annual Cost of Service and Rate Design Analysis (Since 2005)
Electrical District No. 3 – Load Forecast (Annually)
Imperial Irrigation District – Annual Load Forecast (2001-2008)
Town of Thatcher – Electric Utility Unbundled Cost of Service and Rate Design Study (2004)
San Carlos Irrigation Project – Electric Utility Unbundled Cost of Service and Rate Design Study (2006)
City of Safford – Electric Utility Unbundled Cost of Service and Rate Design Study (2007)
City of Safford – Gas Utility Unbundled Cost of Service and Rate Design Study (2007)
Town of Wickenburg - Electric Utility Unbundled Cost of Service and Rate Design Study (2007)
Electrical District No. 4 – Load Forecast (2008)
Navajo Tribal Utility Authority – Power Requirements Study (2008)
San Carlos Irrigation Project – Electric Unbundled Utility Cost of Service and Rate Design Study (2011)
Multiple Electric Utilities –Revenue Requirement Forecasting / Planning (Ongoing)

Mr. Simer is a rate consultant for K. R. Saline & Associates, PLC. (“KRSA”), which provides ongoing consulting and engineering services for numerous irrigation and electrical districts, municipal utilities and tribal utilities located throughout the Southwest. Many of KRSA’s clients were created to bring electrical service to rural areas to facilitate groundwater pumping for agricultural purposes. Over time these clients have extended their electrical service offerings to residential and commercial customers, and have seen their agricultural wells repurposed for commercial pumping and potable water development. Mr. Simer provides various consulting services for these clients.

Employed since 1998, Mr. Simer’s experience in the utility industry includes economic analyses and computer-aided modeling for power supply planning, load forecasting, financial forecasting, cost/benefit analysis and rate studies. Mr. Simer participates with several regional public power organizations that seek to find the balance between environmental and cultural stewardship of water resources and federal project power development on the Colorado River. Mr. Simer assists in analysis of Western Area Power Administration rate filings and participates in Public Information Forums and Public Comment Forums for federal rate making for Parker-Davis Project power rates, Parker-Davis Project transmission rates, Pacific NW-SW Intertie transmission rates, Boulder Canyon Project power rates, and Salt Lake City Area Integrated Projects power and transmission rates.

Ongoing Consulting Services Include:

Project: Financial and Economic Studies

Project Description: Economic analysis of operations, financial modeling, forecasting, cash management analyses and electric rate studies, including cost-of-service and bundled and unbundled rate design.

Project: Load Forecasting

Project Description: Long range load forecasting based on econometric and time series techniques that incorporated regional economic, demographic, and climatological data to develop independent energy forecasts for the various customer classes and the peak demand for the total system. Forecasts of energy and demand were developed for low and mid-range as well as high range expectations of future economic conditions.

Project: Integrated Resource Plans.

Project Description: Conservation and Renewable Energy programs, Integrated Resource Plans, evaluation of long-term and short-term power supply alternatives, demand-side planning and special resource pooling and resource integration arrangements.

Special Projects Include:

Project: Standard Market Design Study

Project Description: Investigating the effects of Standard Market Design and the implementation of Locational Marginal Pricing methodologies. This included development of a generation cost data database, simulation of powerflow models under existing and proposed scenarios, and analysis of the data created from the simulations.

Project: Solar Feasibility Study

Project Description: Developed a twenty-year utility rate model based on forecasted commercial load. Load profile was analyzed for its suitability under existing available time-of-use and net metering rate tariffs to determine the most financially beneficial solution. Model included development of utility rate increase assumptions, net metering determination, and calculation of applicable fees and taxes. Feasibility analysis included review of current utility renewable incentives, federal and state tax implications, and project capital planning. Feasibility package included all necessary data and materials to aid customer in making their solar decision.