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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

Docket No. W-01303A-09-0343

Arizona Corporation Commission

DOCKETED

AUG 18 2011

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

Docket No. SW-01303A-09-0343

PRESENTED TESTIMONY IN SUPPORT OF THE RUSSELL RANCH HOMEOWNERS' ASSOCIATION, INC.'S MOTION TO INTERVENE

DIRECT TESTIMONY
OF
DANIEL O'CONNOR
ON BEHALF OF THE
RUSSELL RANCH HOMEOWNER'S ASSOCIATION, INC.
AUGUST 16, 2011

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND TELEPHONE NUMBER.**

3 A. Daniel A. O'Connor, 5606 North 180th Lane., Litchfield Park, AZ 85340, 623-
4 297-0263

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

6 A. No.

7 **Q. ARE YOU A HOMEOWNER IN RUSSELL RANCH?**

8 A. Yes.

9 **Q. ARE YOU A BOARD MEMBER OF THE RUSSELL RANCH HOA?**

10 A. No.

11 **Q. WERE YOU AWARE THAT RUSSELL RANCH WAS LOCATED IN THE**
12 **AGUA FRIA WASTEWATER DISTRICT?**

13 A. No, I was not and all Russell Ranch homeowner that I had spoken too, with the
14 exception of the gentleman who alerted me to the issue were also unaware that this
15 issue affected them.

16 **II. SCOPY AND PURPOSE OF TESTIMONY**

17 **Q. WHAT IS YOUR INVOLVEMENT WITH RUSSELL RANCH?**

18 A. I was one of the managing partners of the real estate development company that
19 developed Russell Ranch. My partner, John R. Luke, were the managers of
20 Russell Ranch, LLC, the developer of Russell Ranch. Russell Ranch, LLC
21 purchased the land for Russell Ranch Phases 1 – 5. Russell Ranch, LLC hired the
22 project design engineers, obtained the zoning and entitlements from Maricopa
23 County, supervised the improvements and sold the developed lots for custom
24 home construction.
25

1 Russell Ranch, LLC was also responsible for constructing the Russell Ranch
2 Wastewater Treatment Facility. Russell Ranch, LLC obtained the approvals from
3 Maricopa County, hired the contractor, while interfacing with Citizens Utility, the
4 predecessor of Arizona-American Water Company. Russell Ranch, LLC turned
5 over the facility to them upon completion.

6 **Q. WHY DID YOU CONSTRUCT THE WASTEWATER TREATMENT**
7 **FACILITY FOR RUSSELL RANCH?**

8 A. At the time we began development of Russell Ranch, there were no wastewater
9 treatment facilities or sewer line service in that area of the valley. All housing
10 located north of Interstate 10 to the Town of Surprise, and between the White Tank
11 Mountains and Highway 303 were on septic tanks. To meet the needs of Russell
12 Ranch, Maricopa County required us to erect a self-contained wastewater
13 treatment facility sized to service approximately 492 homes. The facility is state
14 of the art, purifying the facility's effluent for ground water recharge. In fact, I
15 understand that Arizona-American receives water credits for the quality of its
16 effluent discharge.

17 **Q. HOW MANY LOTS COMPOSE RUSSELL RANCH AND HOW MANY**
18 **HOMES ARE ERRECTED?**

19 A. Russell Ranch was originally planned for five Phases, currently only Phases 1, 2
20 & 3 have been developed at this time. The table below illustrates the breakdown
21 of the number of lots per Phase and the total number of houses erected in each
22 Phase.

| | <u>PHASE NUMBER</u> | <u>LOT NUMBER</u> | <u>HOMES ERRECTED</u> |
|----|---------------------|-------------------|-----------------------|
| 23 | | | |
| 24 | 1 | 104 | 101 |
| 25 | 2 | 103 | 87 |

| | | | |
|---|--------------|-----|-----|
| 1 | 3 | 114 | 23 |
| 2 | <u>TOTAL</u> | 321 | 211 |

3 Additionally, Phases 4 and 5 would have contained 80 and 25 lots, respectively. ,
4 The total number of homes planned for all five phases of Russell Ranch is now
5 426 homes which would be approximately 86.6% of its designed capacity.

6 **Q. WHAT WAS THE PLAN FOR RUSSELL RANCH VI, LLC, IF IT WAS**
7 **NOT TO BE TIED INTO THE RUSSELL RANCH WASTEWATER**
8 **TREATMENT FACILITY?**

9 A. During the planning stages of Russell Ranch VI, LLC development of new
10 subdivisions west of Russell Ranch, up to Jackrabbit Road, warranted a need for a
11 larger scale sewer service. Maricopa County required the installation of a 12 inch
12 sewer line which ran along Camelback Road from Jackrabbit Road to the Liberty
13 Water sewage treatment facility, located at the corner of 135th Avenue &
14 McDowell Road. Maricopa County required Russell Ranch VI, LLC to be tied
15 into that sewer line and receive wastewater service from Liberty Water.

16 **Q. IF THAT WAS ARIZONA-AMERICAN'S SERVICE AREA, WHY DIDN'T**
17 **THEY PROVIDE THE SEWAGE NEEDS FOR THE NEW HOUSING**
18 **GROWTH?**

19 A. I don't know.

20 **Q. HOW DID ARIZONA-AMERICAN ACQUIRE THE RUSSELL RANCH**
21 **WASTEWATER TREATMENT FACILITY?**

22 A. As previously indicated, the development of Russell Ranch required the erection
23 of the wastewater treatment facility. Since Citizens Utility, predecessor to
24 Arizona-American, had the rights to that service area, Maricopa County required
25 Russell Ranch, LLC to turn the facility and operational control over to them. So,

1 in the year 2002, upon completion of the facility, Russell Ranch, LLC turned the
2 wastewater treatment facility over as a turnkey operation to Citizens Utility for the
3 purpose of operating the facility.

4 **Q. WHO PAID FOR THE WASTEWATER TREATMENT FACILITY?**

5 A. Russell Ranch, LLC paid approximately \$1,267,630. to construct the wastewater
6 facility for Russell Ranch. In addition, Russell Ranch, LLC included an area
7 equivalent to approximately three 1-acre lots for the placement of the facility and
8 percolation fields. Russell Ranch, LLC has sold some of the acre lots in the
9 development for over \$300,000. The value of the land included with the
10 wastewater treatment facility **IS NOT** included in the \$1,267,630 referenced
11 above.

12 **Q. HAVE YOU RECEIVED ANY RE-IMBURSEMENT FOR YOUR**
13 **EXPENDITURES OF THE WASTEWATER TREATMENT FACILITY?**

14 A. Yes. Per the terms of the LXA agreement with Citizen's Utilities Russell Ranch,
15 LLC receives a "one-time refund of \$375.00 per lot for each lot initiating
16 wastewater service". However, also included in the LXA agreement is the
17 notification from the Utility Company that, "Developer is hereby notified that
18 Utility intends to apply to the Commission for a Wastewater Service Hook-Up Fee
19 in the amount of \$750.00 per lot to defer its cost of constructing WWTP facilities"
20 Russell Ranch, LLC receives partial re-imbursement from the Russell Ranch
21 residents in the form of a Sewer Development Fee. Per Section 5.8 of the Russell
22 Ranch Covenants, Conditions and Restrictions (CC&Rs), a \$2750.00 Sewer
23 Development Fee is assessed each lot at the time the residential construction
24 permits are drawn. This fee paid to Russell Ranch, LLC to partially offset the cost
25

1 of the wastewater treatment facility and the costs for constructing the sewer lines
2 within the community.

3 **Q. SINCE THE WASTEWATER TREATMENT FACILITY WAS GIVEN TO**
4 **ARIZONA-AMERICAN AS A NO COST TURNKEY FACILITY, WAS**
5 **THERE ANY CONSIDERATION GIVEN TO HOLDING DOWN THE**
6 **SEWAGE SERVICE COSTS FOR THE RESIDENTS OF RUSSELL**
7 **RANCH?**

8 A. Yes, the representatives of Citizens Utility implied, at the time we turned over the
9 facility, that the sewage treatment cost per household should not exceed \$30.00
10 per month. However, the current sewer service fee for each household is \$75.00
11 per month.

12 **III. CLOSING**

13 **Q. IS THERE ANYTHING YOU WOULD LIKE TO ADD?**

14 A. The "Agua Fria Wastewater CC&N Areas" are delineated in Green within the
15 attached Exhibit SLM-1. It seems inappropriate that Russell Ranch would be
16 included in this service area being its location, size and the fact that the sewage
17 treatment infrastructure was provided and paid for by the developer and residents
18 of Russell Ranch, with no capital expenses accrued by Arizona-American. The
19 facility is practically self sufficient and does not warrant the elevated sewer
20 service fee currently imposed on the residents of Russell Ranch, not to mention the
21 exorbitant 139.7% rate increase that Arizona-American would like to impose.

22
23 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

24 A. Yes.

25