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OPEN MEETING AGENDA ITEM

ORIGINAL

EXCEPTION RECEIVED

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PAUL NEWMAN
BRENDA BURNS

2011 OCT 24 P 3: 22
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
OCT 24 2011

DOCKETED BY *mn*

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY FOR A WAIVER UNDER A.A.C.
R14-2-806 OR, IN THE ALTERNATIVE,
NOTICE OF INTENT TO REORGANIZE
UNDER A.C.C. R14-2-803

DOCKET NO. W-01303A-11-0101
**CORTE BELLA COUNTRY CLUB
ASSOCIATION, INC.'S EXCEPTIONS
TO THE RECOMMENDED OPINION
AND ORDER**

Corte Bella Country Club Association, Inc. ("Corte Bella"), by and through its Board President, Robert Rials, hereby files its Exceptions to the Recommended Opinion and Order ("ROO") on Arizona-American Water Company's ("Arizona-American" or "AAWC") Notice of Intent to Reorganize.

I. BRIEF SUMMARY

Corte Bella's exceptions to the ROO pertain to the absence of recommendations for developing and implementing policies and procedures that would provide planning methods to provide long-term benefits to Arizona-American ratepayers. The proposed recommendations set forth in Section VI are based, in part, on the pre-filed written testimony and the statements / testimony provided at the Evidentiary Hearing on August

1 23, 2011.

2 **II. INTRODUCTION**

3
4 Corporate planning departments understand their product, determine the product's
5 introduction (deployment) to meet demand, and perform cost analysis maximizing
6 opportunity. A public service corporation should perform planning in a defined process
7 through formal policies and procedures approved by the Commission. Those approved
8 policies should define a capital investment deployment based on demand with "just in
9 time" placement. The cost analysis on capital investment should be a Commission-
10 approved process based on "competitive bidding," providing a least-cost vendor that also
11 meets engineering standards and financial stability. This process then can be easily
12 monitored, ensuring ratepayer costs are minimized. The corporation only has to document
13 the "Comp Bid" material to justify its capital investment.
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17 **III. COMPETITIVE PRICING**

18 The pre-filed written testimony and the statements / testimony at the Evidentiary
19 Hearing provided conflicting direction on organizational accountability in identifying
20 capital investment analysis. The lack of consistent responses in the Evidentiary Hearing
21 provides doubt that a competitive bid process will exist after the EPCOR acquisition of
22 AAWC. In fact, the statements made under cross-examination by Mr. Townsley, President
23 of AAWC, and Mr. McKee, Director of Business Process Management for EPCOR Water
24 Services, Inc., are in direct conflict in defining and identifying a capital investment analysis
25 process.
26
27
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1 By way of example, the following testimony was provided at the Evidentiary
2 Hearing:

3
4 • Mr. Townsley responded to a question about a competitive bid process by
5 noting that, "American Water has a supply chain group that works nationwide and helps
6 ensure that we receive the best possible value from our vendors and we work with our
7 supply chain group and based upon the volumes of units that are procured our estimated to
8 be procured in a particular year get the best possible price." *See Evidentiary Hearing,*
9 *Reporter's Transcript of Proceedings, August 23, 2011 - page 40, lines 19 through 25.*

10
11 • Mr. McKee was then asked, "Does EPCOR have some desire to use only
12 Canadian vendors when it takes over American's operation here in Arizona ...?" Mr.
13 McKee's response was, "EPCOR recognizes that different vendors provide materials at
14 different prices. I believe that what we will do is that we will look at all vendors to obtain
15 the best price for the equipment."
16

17
18 Moreover, in the pre-filed written testimony of Mr. Rigsby (on behalf of RUCO),
19 Mr. Rigsby, using data request responses, noted that, "EPCOR USA will take the necessary
20 steps to ensure that employees are performing their duties appropriately in order to
21 maintain responsible operations."
22

23
24 Based on the foregoing, there are no clearly defined duties ensuring responsible
25 operations since Mr. Townsley and Mr. McKee have provided differing methods for
26 vendor selection through pricing analysis.

27
28 The purchasing power of AAWC using a nationwide supply-chain group based

1 upon the volumes of units has advantages in obtaining the best price. Yet, this has now
2 been lost. EPCOR does not have the same volumes to obtain the best purchase prices.
3 EPCOR recognizes that different vendors provide materials at different prices and will look
4 at all vendors to obtain the best price for the equipment. This is not a competitive bid
5 process.
6

7
8 This change in process and operation associated with lesser volume requirements
9 will bring higher costs to equipment purchases. The 158,000 AAWC customers will have
10 these higher capital expenditures most likely passed on to them in higher rates. The only
11 process to mitigate this impact is through competitive bid ensuring vendors compete
12 through financial analysis driven to least cost purchases.
13

14 **IV. OVERSIGHT AND ACCOUNTABILITY**

15
16 One example that justifies an oversight and accountability procedure, securing
17 ratepayer protection, is the work performed by developers and the billing by AAWC of
18 AAWC customers.

19
20 The "AAWC Developer Guide" for developers specifies a 3/4-inch meter for an
21 age-restricted community. *See Attachment "A."* Yet, according to AAWC, the developer
22 of Corte Bella installed 1-inch meters in over 900 homes. AAWC proceeded to bill for a 1-
23 inch meter at \$34.66, versus a 3/4-inch meter at \$13.85. Without any oversight of its
24 recommendations, AAWC increased revenue by \$220,000.00 annually in Corte Bella. No
25 questions were asked and no explanation for the installation of the 1-inch meters was
26 given. *See Attachment "B" (Corte Bella's formal request for an explanation from AAWC)*
27
28

1 *and Attachment "C" (AAWC's response letter).*

2 The AAWC letter depicts a lack of accountability for the "Developer Guide"
3 AAWC authored and approved by its Operations Department. A ratepayer financial
4 impact of \$220,000.00 annually should be sufficient for the Commission to request a
5 documented policy on "oversight and monitoring of practices."
6

7
8 **V. ORGANIZATIONAL ACCOUNTABILITY**

9 When EPCOR Business Manager Mr. McKee was asked under cross-examination,
10 "do you know who Mr. Townsley will be reporting to?," Mr. McKee's response was "No,
11 I do not." When asked, "Is it the intent that Mr. Townsley will be primarily in charge of
12 EPCOR USA, or will there been another individual within the U.S?," Mr. McKee's
13 response was "That I can't answer. I don't know."
14

15 RUCO stated in testimony after meeting with EPCOR, "EPCOR USA will take the
16 necessary steps to ensure that employees are performing their duties appropriate in order to
17 maintain responsible operations." This reference was made in two locations of Mr.
18 Rigsby's testimony: Page 15 lines 20 - 22 and on Page 17 lines 25 - 26.
19
20

21 Based on the differences in operational issues for vendor selection and equipment
22 pricing, the commitment to take the necessary steps to ensure that employees are
23 performing their duties appropriately in order to maintain responsible operations is not well
24 defined. The testimony of Mr. Townsley was taken and accepted as the expert who would
25 maintain the operational processes of the AAWC organization. The response of Mr.
26 McKee indicates there are no assurances EPCOR can "ensure that employees are
27
28

1 performing their duties appropriately in order to maintain responsible operations".

2 **VI. PROPOSED RECOMMENDATIONS**

3
4 For the reasons set forth above, and to help ensure least-cost purchases through
5 competitive bidding and appropriate organizational oversight, Corte Bella respectfully
6 requests that the following be incorporated into the ROO and/or be considered by the
7
8 Commission:

9 1. The Commission should appoint a Task Team to develop and recommend
10 procedures for:

11 (a) A "Competitive Bid Process" with multiple vendors providing pricing
12 on each project. Each vendor should be evaluated on technical / engineering criteria of
13 equipment and on its financial strength.

14 (b) The development of a procedure to document capital dollar
15 expenditures required to maintain and upgrade existing plants.

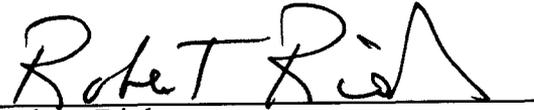
16 2. The Commission should perform oversight on capital improvement
17 expenditures for "new" infrastructure and plants.

18 3. Any recommendation for replacement capital or maintenance expenses will
19 require the support of an aging report and / or trouble reports.

20 4. AAWC (EPCOR) should follow up and ensure (prior to billing) that
21 developers have followed recommended guidelines and/or provided substantial
22 justification for any deviation therefrom.

1 DATED this 24th day of October 2011.

2
3 CORTE BELLA COUNTRY CLUB
4 ASSOCIATION, INC.

5 

6 Robert Rials
7 President, Board of Directors
8 22155 North Mission Drive
9 Sun City West, Arizona 85375

10 ORIGINAL and 13 copies filed
11 this 24th day of October 2011 with:

12 Docket Control
13 Arizona Corporation Commission
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 COPIES of the foregoing mailed
17 this 24th day of October 2011 to:

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21 Phoenix, Arizona 85007

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25 Paradise Valley, Arizona 85253

26 Jay L. Shapiro
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Phoenix, Arizona 85012

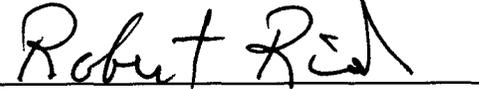
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EXHIBIT "A"

ATTACHMENT A



19820 N. 7th Street, Suite 201 • Phoenix, Arizona • 85024 • (623) 445-2400 • FAX (623) 445-2452

Development Guide For Maricopa County Properties

Prepared by Development Services
Revised September 17, 2003

**ARIZONA AMERICAN WATER
DEVELOPMENT GUIDE**

**GENERAL MASTER PLAN CRITERIA FOR WATER STORAGE,
BOOSTER, AND DISTRIBUTION SYSTEMS (CONTINUED)**

Service line size

Minimum service line size shall be 1-inch, installed in accordance with AAW STD. DET. 342-2. The appropriate adapter shall be installed with the meter box as shown on AAW STD. DET. 342-2.

Residential Potable Water Meter Criteria (minimum)

All residential meters shall be sized as follows or per the current Uniform Plumbing Code (UPC) Section 610. Meters sized per the UPC shall be based on the maximum expected fixture units. Floor plans showing fixtures and fixture count meter sizing calculations shall be submitted to AAW for review and approval prior to approval of construction plans.

Water meter sizing – Single Family Non-Age Restricted

5/8" x 3/4" Meter - Residential lots less than 60 feet wide and less than 8,000 square feet in area.

3/4" Meter - Residential lots 60 feet wide or larger; or, greater then or equal to 8,000 square feet and less than 12,000 square feet in area.

1" Meter – Lots equal to or greater than 12,000 square feet in area.



Water meter sizing – Single Family Age Restricted

5/8" x 3/4" Meter - Residential lots less than 12,000 square feet in area.

3/4" Meter – Residential lots greater than or equal to 12,000 square feet in area.

Meter location

Meters shall be doubled up on lot lines where possible, shall not be installed at road intersection corners, and shall not be adjacent to fire hydrants.

Curvilinear Alignments

C900, DR18, PVC Pipe

| <u>Pipe Diameter</u> | <u>Laying Length</u> | <u>Max Deflection Angle</u> | <u>Offset per joint of pipe</u> | <u>Min. Curve</u> |
|----------------------|----------------------|---------------------------------|-------------------------------------|-------------------|
| 6"-12" | 20' | 2.0° | 8.4" | 573' |

C905, DR18, PVC Pipe

In accordance with AWWA C605-94, section 5.6, the bending of the PVC Pipe barrels larger than 12-inch (300-mm) nominal diameter is not recommended due to the forces required. The curved alignment of PVC pipelines larger than 12-inch (300-mm) in diameter shall be determined by one-half the pipe manufacturers published axial-joint-deflection limits. Manufacturer's technical data sheets shall be submitted to AAW for review and approval.

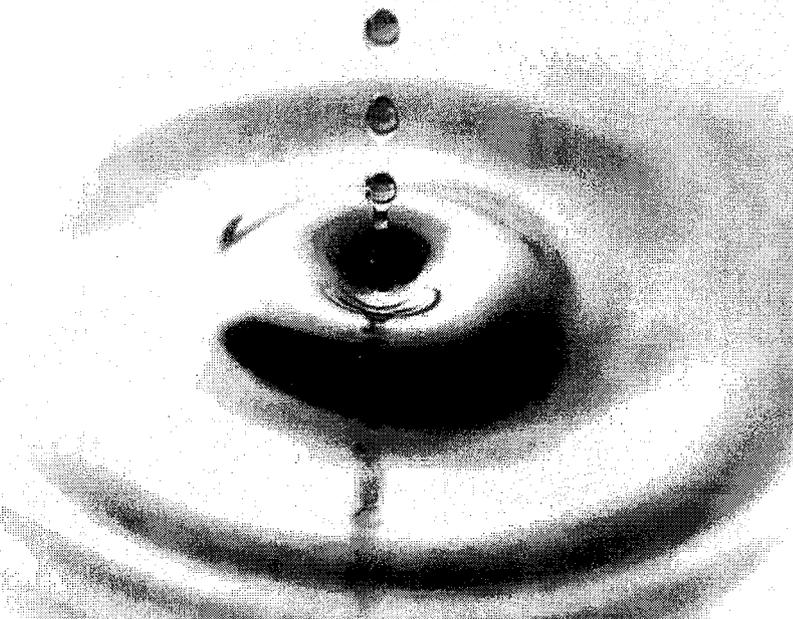
Ductile Iron Pipe, AWWA C150/151/153

| <u>Pipe Diameter</u> | <u>Laying Length</u> | <u>Max Deflection Angle</u> | <u>Offset per joint of pipe</u> | <u>Min. Curve</u> |
|----------------------|----------------------|---------------------------------|-------------------------------------|-------------------|
| 8"-12" | 18' | 2.5° | 9.4" | 413' |
| 14"-16" | 18' | 2.0° | 7.5" | 516' |
| 18"-24" | 18' | 1.5° | 5.7" | 688' |



**ARIZONA
AMERICAN WATER**

DEVELOPER GUIDE



**Prepared by:
Arizona American Water
Developer Services Department**

2355 West Pinnacle Peak Road, Suite 300
Phoenix, Arizona 85027
(623) 445-2400 FAX (623) 445-2454

www.amwater.com

*Need Developer
Guide from 2000
to 2010!*

DESIGN CRITERIA FOR WATER SYSTEMS

(CONTINUED)

Wash Crossings

All waterlines that cross washes or channels shall be MEGALUG restrained joint ductile iron pipe (Class 350). The depth requirement for placing waterlines under washes or channels shall be the deeper of the following two cases:

1. Per the Arizona Department of Environmental Quality's Engineering Bulletin No. 10, the minimum cover over the pipe shall be greater than or equal to two (2) feet below the scour depth (based on Scour Analysis described below).
2. The minimum cover over the pipe may be based on the 100-year flow rate of the wash or channel as shown in the table below. Note that the "additional depth" in the table refers to the depth of pipe that must be added to the normal cover requirements that are provided in Detail No. 350-1.

| 100-Year Flow Rate | Additional Depth |
|----------------------|--|
| 1 to 49 cfs | 1 foot |
| 50 to 99 cfs | 2 feet |
| 100 to 499 cfs | 3 feet |
| Greater than 499 cfs | Scour Depth (based on Scour Analysis); minimum of 3 feet |

Details on the determination of the 100-year flow rate shall be submitted to the Utility for review. The Scour Analysis shall be in accordance with the Arizona "State Standard for Watercourse System Sediment Balance" (SS5-96), Guideline 2, Level I, as published by the Arizona Department of Water Resources (<http://www.azwater.gov/azdwr/SurfaceWater/FloodManagement/StateStandards.htm>). The Scour Analysis shall be submitted to the Utility for review for all wash crossings.

Residential Potable Water Meter Sizing

All residential meters shall be sized as follows or per the current Uniform Plumbing Code (UPC) as described further below and on next page. Please note that some cities within Utility's service area may have more stringent requirements that may result in larger meters.

Non-Age Restricted Single Family

- 5/8" x 3/4" Meter - Residential lots less than 60 feet wide and less than 8,000 square feet in area.
- 3/4" Meter - Residential lots 60 feet wide or larger; or, having an area greater than or equal to 8,000 square feet and less than 12,000 square feet.
- 1" Meter - Lots equal to or greater than 12,000 square feet in area.

Age Restricted Single Family

- 5/8" x 3/4" Meter - Residential lots less than 12,000 square feet in area.
- 3/4" Meter - Residential lots greater than or equal to 12,000 square feet in area.

When the UPC is used to size residential meters, meter size shall be based on the maximum number of expected fixture units. Floor plans showing fixtures and fixture-count meter-sizing calculations shall be submitted to Utility for review and approval prior to approval of construction plans.

EXHIBIT "B"

ATTACHMENT B



Richard V. Mack
(Certified Real Estate Specialist)
Scott M. Drucker
(Also Admitted in Maryland)
Dax R. Watson
Paula M. DeMore
Susan T. Watson
Alan L. Kierman
Carlotta L. Turman
Chad R. Kaffer
Erin E. Szajna
Troy B. Stratman
Gregory M. Monaco
Patrick R. MacQueen
Michael H. Orcutt
John F. Fyke

Attorneys at Law
A Professional Limited
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3200 North Central Avenue, Suite 1200
Phoenix, Arizona 85012
(602) 778-9900 Fax: (602) 778-9947

August 29, 2011

VIA FIRST CLASS MAIL AND EMAIL

(paul.townsley@amwater.com; troy.day@amwater.com; ian.crooks@amwater.com)

Arizona-American Water
c/o Paul Townsley, Troy Day and Ian Crooks
2355 West Pinnacle Peak road, Suite 300
Phoenix, Arizona 85027

Re: *Meter Sizes in Corte Bella*

Gentlemen:

This law firm represents Corte Bella Country Club Association, Inc. ("Corte Bella"). As you know, Corte Bella residents receive all of their water and wastewater services from Arizona-American Water ("AAW"). Corte Bella is located within the Agua Fria Water District and the Anthem / Agua Fria Wastewater District.

Pursuant to the AAW Development Guide (from 2003 and 2010), the meter size for age-restricted single-family homes shall be (i) 5/8" x 3/4" for residential lots less than 12,000 square feet in area, and (ii) 3/4" for residential lots greater than or equal to 12,000 square feet in area. *See Exhibits A and B.*

Although Corte Bella is an age-restricted community, a number of its 1,650 residents have 1" meters. This is contrary to the AAW Development Guide. Moreover, the monthly service cost of a 1" meter is substantially higher than a 3/4" meter. Enclosed please find a water bill for Robert Rials (a Corte Bella resident) evidencing a 1" meter. *See Exhibit C.*

On behalf of its residents, Corte Bella would like to know (i) why AAW installed 1" meters for several homes within the community, and (ii) what action AAW will take to remedy this situation.

Arizona-American Water
August 29, 2011
Page 2

Thank you, in advance, for your cooperation in this matter. I look forward to hearing from you shortly.

Respectfully,

MACK DRUCKER & WATSON, P.L.C.



Troy B. Stratman
For the Firm

TBS/nms

EXHIBIT "C"

ATTACHMENT C



Martin Stanek
2355 West Pinnacle Peak Rd. Ste#300
Phoenix, AZ 85027
P. 623-445-2427 F. 623-445-2451
Martin.stanek@amwater.com

September 1, 2011

Troy B. Stratman
Mack Drucker & Watson
3200 North Central Avenue, Suite 1200
Phoenix, AZ 85012

Re: Meter Sizes in Corte Bella

Dear Mr. Stratman:

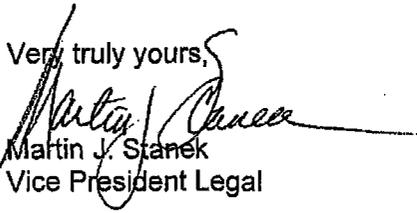
Your August 29, 2011 letter to Messers. Townsley, Day and Crooks of Arizona-American Water Company ("AAW") was referred to me for response. Please direct any further communications regarding this matter to me.

You assert as the basis for your letter that the AAW Development Guide specifies an absolute meter size for residential lots meeting certain criteria. You then suggest that AAW installed larger meters for several homes within the Corte Bella Country Club Association development and ask what AAW intends to do to "remedy the situation."

In Corte Bella, the builder determined the size of meters to be installed in each home, subject to the minimum meter sizing specified in the AAW Development Guide and required by the Uniform Plumbing Code or any applicable municipal requirements. Accordingly, the decision to install one inch meters for several of the homes in the Corte Bella Country Club Association development was a decision made by the builder and not by AAW. The builder may have had any of several reasons for installing a larger meter in a particular home. Larger meters often are used to support in-house fire sprinkler systems or to meet a larger household demand, as just two of many examples. I cannot speculate on the builder's reason for requesting the larger meters for certain lots in the development.

Please contact me if you have any further questions.

Very truly yours,


Martin J. Stanek
Vice President Legal

Cc: P. Townsley
T. Day
I. Crooks