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8 BEFORE THE ARIZONA CORPORATION COMMISSION

9 COMMISSIONERS:

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

Arizona Corporation Commission

DOCKETED

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DOCKETED BY 

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

DOCKET NOS. W-01303A-09-0343  
and SW-01303A-09-0343

**CITY OF PHOENIX' NOTICE OF  
FILING WITNESS SUMMARY**

20 ///

21 The City of Phoenix (City), through its City Attorney, Gary Verburg, by his Assistant,  
 22 Cynthia S. Campbell, hereby files the witness summaries of Denise Olson and Andy Terrey.

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RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of November, 2011.

GARY VERBURG, City Attorney

By Cynthia S. Campbell

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Original and 13 Copies of the foregoing hand delivered this 10<sup>th</sup> day of November, 2011 to:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Administrative Law Judge  
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Copies of the foregoing mailed this 10<sup>th</sup> day of November, 2011, to:

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**WITNESS SUMMARY FOR DENISE M. OLSON**

**ARIZONA-AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. W-01303A-09-0343; SW-1303A-09-0343**

**NOVEMBER 10, 2011**

Arizona-American Water Company, Inc. (AAWC) filed a rate increase for both water and wastewater rates which are different than the contractual rate AAWC agreed to with the City of Phoenix (Phoenix) in the "Anthem Wholesale Water/Wastewater Service Agreement" (Agreement) dated September 22, 2000. Phoenix did not receive notice that AAWC was attempting to alter the rates it would charge to Phoenix until after the Commission's Decision 72047. In that Decision, the Commission determined that wastewater charges to Other Water Users (OWU), which consists only of Phoenix, would be \$5.57 per 1,000 gallons charged to all metered water use. AAWC did not submit a Cost of Service study to support the change in the rate Phoenix currently pays of \$3.17 per 1,000 gallons, as required by the Agreement and standard practice in setting rates. In fact, AAWC offered no justification for the increase in the wastewater rate proposed for Phoenix.

It is industry practice to base wastewater rates on a Cost of Service study; that is, a calculation of the actual costs the utility incurs to treat wastewater and the relative contribution of a utility user to that cost. Because no Cost of Service study was conducted to support the rate determined by the Commission in Decision 72047, it is not possible to know whether the rate established represents Phoenix' relative contribution to AAWC's costs to treat wastewater. The rate imposed on Phoenix represents a rate similar to that of a commercial user; however, Phoenix has residential, commercial and irrigation only users. Moreover, the volume of wastewater delivered to AAWC from Phoenix is not equivalent to the volume of potable water metered. While the users in Anthem and Agua Fria have a limit on the volume of metered water which is subject to a rate, Phoenix does not have the same accommodation.

In an effort to apply the established rate in a more equitable fashion and closer to the actual cost of service, Phoenix supports the position of AAWC to apply the rate to 30% of the metered use. Although it is still impossible to know what AAWC's actual costs are to treat wastewater from Phoenix, this application represents a volume closer to that delivered from Phoenix to AAWC for wastewater treatment. This is especially true considering the nature of Phoenix as a wholesale user; that is, unlike other AAWC users, Phoenix maintains the infrastructure of its connection to AAWC as well as the individual service connections which send wastewater through the Phoenix Interconnect. In the alternative, or in the event of deconsolidation, Phoenix supports the position of Staff to alter Phoenix' rate from \$3.17 to \$3.42. Phoenix does not support the position of RUCO that allows AAWC to arbitrarily recover \$500,000 from Phoenix as a method to recover shortfalls in AAWC's revenue requirements. Without a basis for the rate in a cost of service study, any shortfall in revenues from a change in the method of rate application to 30% of the metered use should be absorbed by AAWC.

**WITNESS SUMMARY FOR ANDY TERREY**

**ARIZONA-AMERICAN WATER COMPANY, INC.**

**DOCKET NOS. W-01303A-09-0343; SW-1303A-09-0343**

**NOVEMBER 10, 2011**

Arizona-American Water Company, Inc. (AAWC) filed a rate increase for both water and wastewater rates which are different than the contractual rate AAWC agreed to with the City of Phoenix (Phoenix) in the "Anthem Wholesale Water/Wastewater Service Agreement" (Agreement) dated September 22, 2000. Phoenix did not receive notice that AAWC was attempting to alter the rates it would charge to Phoenix until after the Commission's Decision 72047. In that Decision, the Commission determined that wastewater charges to Other Water Users (OWU), which consists only of Phoenix, would be \$5.57 per 1,000 gallons charged to all metered water use. AAWC did not submit a Cost of Service study to support the change in the rate Phoenix currently pays of \$3.17 per 1,000 gallons, as required by the Agreement and standard practice in setting rates. In fact, AAWC offered no justification for the increase in the wastewater rate proposed for Phoenix.

The sources of wastewater from Phoenix to AAWC includes, residential, commercial and irrigation only sources, so it is unfair to apply a rate to all gallons of metered water. These issues were not considered in establishing the OWU rate and represent an undue burden to Phoenix. In addition, not all metered water is returned to AAWC as wastewater. This is recognized in the rate design applied to Anthem customers in that there is a "not to exceed" rate which limits the volume to which the rate may be assessed. Phoenix does not have a similar concession, even though it has residential customers. The result is that Phoenix residential customers will, on average, pay 20% more for wastewater treatment than Anthem residents.

While it is true that Phoenix approached AAWC to request that it measure wastewater use at the wastewater flume, this did not necessarily represent a renegotiation of the Agreement. Instead, it was an effort to apply the rate in a method that was closer to the actual costs of wastewater treatment, as required of AAWC as a prerequisite to a rate change. AAWC did not conduct a cost of service study and has no data to indicate that the rate of \$5.57 applied to all metered potable water represents the incremental increase in the actual costs to treat Phoenix wastewater as required in the Agreement. AAWC presented a cost of service study to justify its proposal to alter the wastewater rate for Phoenix in the last rate case from \$2.32 to \$3.17, which is why Phoenix accepted the new rate under the Agreement. As a way to mitigate the unsupported rate assessed against Phoenix, AAWC's proposal to limit the application to 30% of metered water is an improvement, although it does not necessarily represent the actual cost of service. It is also similar to the rate design for Anthem residents which includes a "not to exceed" volume.

AAWC's testimony that there is little difference between the volume of wastewater measured at the flume and the total volume of metered water or the proposal to apply the rate to 30% of the metered water, is not supported by any reliable data. It is based on information which is flawed.