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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 ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT.

Docket No. W-01303A-09-0343

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 ANTHEM/AGUA FRIA WASTEWATER DISTRICT, ITS SUN CITY WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT.

Docket No. SW-01303A-09-0343

RUCO'S OPENING BRIEF

The Residential Utility Consumer's Office ("RUCO") hereby submits its Opening Brief in the Deconsolidation Phase of Arizona American Water Company's ("AAWC") rate application for its Anthem/Agua Fria Wastewater District.

1 **RUCO SUPPORTS DECONSOLIDATION OF AAWC'S ANTHEM/AGUA**
2 **WASTEWATER DISTRICT.**

3 AAWC was ordered by the Commission in Decision No. 72047 to file a proposal
4 deconsolidating the Anthem/Agua Fria Wastewater District no later than April 1, 2011.
5 Decision No. 72047 at 84. Consistent with the Decision, AAWC filed its deconsolidation
6 proposal. AAWC, like the Commission's Staff has not taken a position on deconsolidating the
7 Anthem/Agua Fria districts. RUCO, however, believes that deconsolidation of the
8 Anthem/Agua Fria District is in the public interest subject to the phase-in proposal being
9 recommended by the Anthem Community Council ("Council").

10 RUCO has consistently presented its position on rate consolidation through numerous
11 dockets including: Arizona Water (Decision No. 72251), Bella Vista (Decision No. 71845) and
12 earlier in this same docket. RUCO continues to contend that separate rates for separate
13 systems respect the principle of traditional cost of service ratemaking and ensure that those
14 who use the utility services pay for them. Only when the Commission can identify policies in
15 support of rate consolidation that outweigh the principle of cost of service ratemaking should
16 the Commission consolidate rates. While this case presents the issue of whether to de-
17 consolidate an already consolidated district, from RUCO's perspective the policies surrounding
18 the analysis are the same.

19 Throughout the rate case, RUCO opposed the Company's rate consolidation proposals
20 and recommended cost of service ratemaking for several reasons.¹ Among those reasons,
21 RUCO believed that the timing for consolidation was bad due to the recent rate increase in the

22
23 ¹ RUCO points out that rate consolidation in the underlying rate case would have benefitted Anthem water
24 ratepayers. However, RUCO opposed rate consolidation because Anthem's costs would have been shifted to
 ratepayers of other systems such as Sun City and Sun City West.

1 last rate case for some of the districts, ratepayer resistance to large initial cost shifts, legal
2 infirmities that the case presented, impairment of the goal of water conservation, and lack of
3 rate stability. Decision No. 72047 at 74-75.

4 RUCO recommends that the same principle of cost of service ratemaking that it
5 believed applicable to the issue of consolidation should be applied to the issue of
6 deconsolidating the Anthem/Agua Fria wastewater district - it would be disingenuous to argue
7 otherwise. RUCO-1 at 5². In the case of the Anthem/Agua Fria Wastewater District,
8 ratepayers pay rates that reflect the costs of operating two separate wastewater systems that
9 are not interconnected and provide service to customers living in two different communities
10 that are miles apart from one another. *Id.* The deconsolidated figures presented in the
11 Company's Compliance Application reveals that Anthem ratepayers have been subsidizing
12 Agua Fria customers under the existing consolidated arrangement. *Id.* Had the two districts
13 not been consolidated when the Commission issued AAWC's certificate of convenience and
14 necessity, the rates for the two separate districts would have more closely reflected the
15 Company's actual cost of service and ratepayers would have had a much better idea of what
16 they could expect to pay for wastewater services when they bought homes or relocated in their
17 respective service areas. *Id.* This case provides a good example of why new developments
18 such as Anthem, which are not interconnected or not close enough for interconnection to be
19 practical, should not be consolidated in order to keep rates artificially low.

20 It is critical to RUCO's analysis of the question presented to the Commission is that
21 Anthem and Agua Fria have absolutely no shared infrastructure, the communities are located

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23 ² For ease of reference, trial exhibits will be identified similar by their identification in the Transcript of
24 Proceedings. The transcript volume number will identify references to the transcript.

1 several miles away from one another and there is no evidence in the record to explain why the
2 two wastewater systems were consolidated in the first place. Furthermore, RUCO finds it
3 persuasive that the Commission kept the Anthem and Agua Fria water systems as stand alone
4 systems. The policies that support separate systems for the water systems should extend to
5 the wastewater systems.

6 The only evidence in the record to support the continued consolidated rate design for
7 the Anthem/Agua Fria wastewater system is to keep rates in Agua Fria as low as possible.
8 However, the benefit to Agua Fria customers comes at a cost to the Anthem ratepayers. The
9 record does not identify any benefit Anthem receives in exchange for subsidizing Agua Fria's
10 rates. For these reasons, RUCO supports the deconsolidation of the two wastewater systems.

11 **THE ANTHEM COMMUNITY COUNCIL'S RATE IMPACT MITIGATION PROPOSAL**
12 **IS FAIR AND APPROPRIATE FOR THIS CASE.**

13 RUCO understands that while the concept of cost of service ratemaking is fair, a strict
14 implementation of the principle may be overly-burdensome to the district that is being
15 subsidized. In this case, deconsolidation, using RUCO's recommended rate design would
16 have the following impact on a typical Anthem and Agua Fria ratepayer: a typical Anthem
17 ratepayer, with an average monthly water consumption of 5,814 gallons, will see their monthly
18 bill fall from \$68.88 to \$54.39 or a decrease of \$14.49. Whereas, a typical Agua Fria customer
19 with an average monthly water consumption of 5,297 gallons will see their monthly bill climb
20 from \$66.30 to \$108.34 or an increase of \$42.04. Id. at 5.

21 RUCO shares the concerns expressed by the different Agua Fria aligned interveners
22 regarding the potential rate shock that will result if deconsolidation is approved and can only
23 support deconsolidation if an appropriate rate mitigation proposal is approved. The Council
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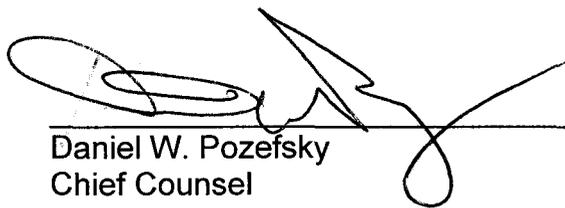
1 has proposed such a proposal. The Council's proposal will adjust the level of revenue and the
2 rates needed to generate that amount of revenue in three separate steps over a three-year
3 period. Id. at 7. Under the proposal, Agua Fria wastewater rates would progressively increase
4 while Anthem wastewater rates would progressively decrease over a three year period.
5 AAAWC would remain whole since there would be no foregone revenue. The Company would
6 continue to collect the \$800,000 in revenue that it was authorized to receive under Decision
7 No. 72047. Id.

8 All in all, it is a pretty generous plan from Anthem ratepayer's standpoint. Anthem's
9 ratepayers, who already are paying very high rates, are agreeing to initially absorb some of
10 Agua Fria's rate increase, in order to mitigate Agua Fria's rates. RUCO believes this is a fair
11 solution to a very difficult situation.

12 **CONCLUSION**

13 RUCO supports the deconsolidation of the Anthem/Agua Fria Wastewater District and
14 recommends that the Commission approve the Council's phase-in rate mitigation proposal.
15

16 RESPECTFULLY SUBMITTED this 17th day of January, 2012.

17 
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