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BEFORE THE ARIZONA CORPORATION COMMISSION

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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

**STAFF'S OPENING BRIEF
(DECONSOLIDATION)**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files its closing brief in the above-captioned matter. On any issue not specifically addressed in this brief, Staff maintains its position as represented in its testimony.

I. INTRODUCTION.

The Arizona-American Water Company ("Arizona-American" or the "Company") is the largest, investor-owned water/wastewater utility in the State of Arizona providing water and wastewater service to approximately 158,000 customers. It was a wholly owned subsidiary of American Water; however the purchase of the Company's stock by EPCOR USA was approved November 17, 2011 in Decision No. 72668. Arizona-American operates thirteen water and wastewater districts. Current rates for five of its districts: Anthem Water District, Sun City Water District, Anthem/Agua Fria Wastewater District, Sun City West Wastewater District and Sun City

1 Wastewater were approved in Decision No. 72047. In Decision No. 72047, the rate increase for
2 Anthem/Agua Fria Wastewater was approximately 54 percent and Anthem Water received an
3 approximately 72 percent increase, which was phased in over three years. In Decision No. 71410,
4 Arizona-American received a rate increase for its Agua Fria Water District; the average customer saw
5 an approximately 25 percent increase. Arizona-American is seeking a revenue increase of
6 approximately 75 percent in its current rate application for the Agua Fria Water District.¹ The
7 Intervenor, Russell Ranch Homeowners Association (“Russell Ranch”), Verrado Community
8 Association, Inc. (“Verrado”), DMB White Tank, LLC (“DMB”) and Corte Bella Country Club
9 Association (“Corte Bella”) are customers of both Anthem/Agua Fria Wastewater and Agua Fria
10 Water.²

11 In Decision No. 72047, the Commission set interim rates for the Anthem/Agua Fria
12 Wastewater District and ordered the Company to file schedules and testimony detailing separate
13 revenue requirements showing the effects of deconsolidating its Anthem/Agua Fria Wastewater
14 District.³ The Company filed its schedules and testimony on April 1, 2011.

15 **II. DISCUSSION.**

16 While Staff made no recommendation in this case regarding the deconsolidation of the
17 Anthem/Agua Fria Wastewater District, Staff reviewed the Company’s filing and proposed a rate
18 design, along with several other recommendations, should the Commission elect to deconsolidate the
19 District. With respect to the Company’s filing, Staff witness Gerald Becker testified that Staff agreed
20 with the Company’s total amount of the proposed increase for each district on an overall basis.⁴
21 However, Staff disagreed with the Company’s rate design calculation of the rates for Anthem.⁵ The
22 disagreement stemmed from the differences in treatment of certain activity related to the City of
23 Phoenix. Staff then proposed rate designs that compared proposed rates to test year rates and also to
24 the rates approved in Decision No. 72047.⁶ Under Staff’s proposed rate design, compared to current
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26 ¹ Docket No. SW-01303A-10-0448 (Application – Revised Schedule A-1).

27 ² See Ex. S-3 (Map).

28 ³ Decision No. 72047 at 84.

⁴ Ex. S-1 (Becker Direct) at 7.

⁵ Tr. at 615; Ex. S-1 (Becker Direct – Executive Summary).

⁶ Ex. S-2 (Becker Surrebuttal) Schedule GWB-6.

1 rates, the average Anthem wastewater customer with a 5/8 x 3/4 inch meter, with a median usage of
2 7,000 gallons would experience a 24.80 percent decrease.⁷ For Agua Fria, compared to current rates,
3 the typical Agua Fria customer with a 5/8 x 3/4 inch meter, with a median usage of 7,000 would
4 experience a 62.98 percent increase.⁸

5 Staff further recommended no change in the effluent rate and the rate remain unchanged, and
6 that any adjustments to rates be shared proportionately by all customers except for the newly created
7 group of effluent customers.⁹

8 During the hearing, Company witness Sandra Murrey, testified that the Company adopted
9 Staff's proposed rate design as set forth in Staff's Surrebuttal testimony.¹⁰ Of the parties that favor
10 deconsolidation, most noted that one of the main reasons in favor of deconsolidation was that rates
11 should be set on cost of service basis. Anthem Community Council ("Anthem") witness Dan
12 Neidlinger testified that cost of service is the single most important criterion in the development of
13 fair and reasonable revenues and related rates.¹¹ But Mr. Neidlinger also acknowledged that the
14 Commission does not look solely at cost of service when setting rates.¹² The Residential Utility
15 Consumer Office ("RUCO") witness William Rigby testified that "the Commission should set rates
16 on a cost of service basis in order to avoid cross-subsidization."¹³ However RUCO also acknowledged
17 that there are other factors that can be considered when setting rates, such as affordability and
18 gradualism.¹⁴ Company witness Thomas Broderick testified that Commission does not look solely at
19 cost of service in setting rates.¹⁵

20 The Commission, in Decision No. 60172, notes that cost of service studies are simply "tools"
21 for establishing revenue requirement per customer class.¹⁶

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24 ⁷ Ex. S-2 (Becker Surrebuttal), Schedule GWB-6.

25 ⁸ Ex. S-2,(Becker Surrebuttal), Schedule GWB-8.

26 ⁹ Ex. S-1(Becker Direct) at 8.

27 ¹⁰ Tr. at 48:21-23; see also Ex. A-2.

28 ¹¹ Ex. Anthem-1 (Neidlinger Direct) at 2.

¹² Tr. at 340:

¹³ Ex. RUCO 1 (Rigsby Direct) at 5.

¹⁴ Tr. at 522-523.

¹⁵ Tr. at 277:20-25.

¹⁶ See Decision No. 60172 at 40, 43-44.

1 All parties acknowledge that the rate increase for the Anthem/Agua Fria customer would be
2 significant. Anthem Community Council ("Anthem"), in its support of deconsolidation, offered a
3 phased in rate design to mitigate the shock of the huge increase.¹⁷ Anthem proposes a three step,
4 three year phase-in.¹⁸ Anthem has recommended that the adjustment be made to currently approved
5 revenue levels rather than the test year revenues.¹⁹ The Company was not opposed to the plan but
6 suggested that it be called a revenue transition plan.²⁰ The Residential Utility Consumer Office
7 ('RUCO") also supports the Anthem proposal.²¹

8 Not surprisingly, Corte Bella, Russell Ranch and Verrado oppose deconsolidation. Corte
9 Bella witness Robert Rials testified to the severe financial impact of such a huge increase in
10 wastewater rates would have on Corte Bella residents.²²

11 Verrado opposes deconsolidation because it is unnecessary and unfair, also citing the
12 magnitude of the proposed increase.²³ Russell Ranch testified that it would like to become a stand
13 alone system with its cost allocated separately from the cost from the rest of the Anthem/Agua Fria
14 District.²⁴

15 **III. CONCLUSION.**

16 While Staff makes no recommendation regarding deconsolidation, Staff would respectfully
17 request that if the Commission elects to order deconsolidation in this matter, that it adopts Staff's
18 proposed rate design.

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20 ...
21 ...
22 ...
23 ...

25 ¹⁷ Ex. Anthem-1 (Niedlinger Direct) at 5.

¹⁸ Tr. 290-291.

26 ¹⁹ Ex Anthem-2 (Neidlinger Surrebuttal) at 5.

²⁰ Ex. A-3 (Murrey Rebuttal) at 5.

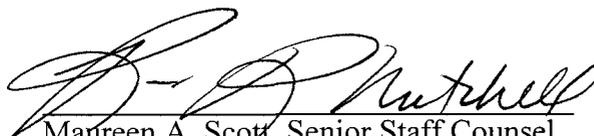
27 ²¹ Ex. RUCO-1 (Rigsby Direct) at 7.

²² Ex. CB-1 (Rials Direct) at 8-9.

28 ²³ Ex. V-1 (Gulick Diriect) at 5.

²⁴ Tr. at 441.

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

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