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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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2012 JAN 18 P 2: 16

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/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

W-01303A-09-0343

CLOSING BRIEF
RUSSELL RANCH HOMEOWNERS'
ASSOCIATION, INC.

CLOSING BRIEF
ON THE DECONSOLIDATION OF THE
ANTHEM/AQUA FRIA WASTEWATER
RUSSELL RANCH HOMEOWNER'S ASSOCIATION, INC.
JANUARY 17, 2012

Arizona Corporation Commission

DOCKETED

JAN 18 2012

DOCKETED BY 

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OPENING STATEMENT

The term Rate Shock has been discussed immensely over the duration of this case to a point that one becomes desensitized to its meaning. For a revitalization of the Rate Shock feeling, note that since the formation of the Anthem/Agua Fria Wastewater District in 1998, the accumulated rate increase over that 14 year period realized by the remaining three communities within the district would be in excess of 316%, if Anthem was allowed to deconsolidate. (See Exhibit RR-5)

The Russell Ranch community opposes the deconsolidation of the Anthem/Aqua Fria Wastewater District for the sole purpose of allowing Anthem to stand-alone. Russell Ranch meets the same "Cost of Service" argument posed by Anthem as their justification to deconsolidate. Preferential treatment cannot be given to one party when the same logic applies across the board. Russell Ranch will be unduly prejudiced and grossly neglected if a decision to deconsolidate Anthem from the District does not also allow Russell Ranch to do the same.

INTRODUCTION

I. The Russell Ranch Service Area

Russell Ranch is a relatively small community in relationship to the other three member communities, Anthem, Verrado and Corte Bella, all consolidated in the Anthem/Agua Fria Wastewater District. The current Russell Ranch service area is composed of a total of 321 custom lots, 213 that are built out and 108 vacant lots. The 213 homes represent only 1.55% of the residential customers served in the Anthem/Agua Fria Wastewater District.

The Russell Ranch wastewater treatment facility was built and placed in service at the initial expense of the developer, Russell Ranch LLC, and in essence was paid for by each property owner through the purchase of their custom lot and the assessed sewer hookup fees paid to the developer. It was added as a turnkey operation to the Citizens

wastewater service territory in April 2002, during the same time frame Citizens was acquisitioned by Arizona-American Water Company, (the company).

Today, an alternative regional wastewater service connection may be available to Russell Ranch via a 12 inch service line located within a few hundred feet of the current Russell Ranch wastewater facility. This Liberty Water wastewater treatment facility is located approximately six miles to the east of Russell Ranch, servicing residential communities adjacent to, and west of Russell Ranch. (Transcripts P443-446, L10-25) (Exhibit RR-6)

II. The Formation of the Anthem/Agua Fria Wastewater District

The Anthem/Aqua Fria Wastewater District was always designated as one district, composed of four individual communities, Anthem, Verrado, Russell Ranch and Corte Bella, chronologically added to the district in that order and separated by distance as four individual self contained wastewater service areas. (Transcripts P25, L7-10)

The title, "Anthem/Aqua Fria Wastewater District", was not formally adopted until March 2003, when Corte Bella became the fourth community to join the district as the company incorporated the Northeast Aqua Fria service area CC&Ns (Decision 65757, dated 3/20/2003) into their overall wastewater district, which was formerly referred to as the "Citizens Water Services wastewater district."

Prior to March 2003, the communities of Anthem (Decision 60975, dated 6/19/1998), Verrado (Decision 64307, dated 12/28/2001), and Russell Ranch (Decision 64746, dated 4/17/2002) were incorporated into the "Citizens Water Services wastewater district" CC&N in that order. (Exhibit A-1, P3-5)

The geological orientation of the three Service Areas of Verrado, Russell Ranch and Corte Bella can be viewed in the attached Exhibit RR-3. As viewed, they are three physically separated wastewater infrastructure systems. (Transcripts P93-94, L25-6) (Exhibit RR-3)

The following table reflects the customer count of the four Service Areas within the Anthem/Agua Fria Wastewater District, as of September 30, 2011.

Service Area	Customer Count	Anthem/Agua Fria District Percentage	Agua Fria District Percentage, If Anthem Deconsolidates
Anthem	8450	61.50%	
Corte Bella	3174	23.10%	60%
Verrado	1902	13.85%	36%
Russell Ranch	213	1.55%	4%
Total	13,739		

Russell Ranch customer base only represents 1.55% of the total customer base within the Anthem/Agua Fria Wastewater District. The Anthem deconsolidation would remove 61.5% of the total district customer base, resulting in Russell Ranch increasing their cross-subsidization of the Verrado and Corte Bella service areas by a factor of approximately 2.6 times, ($4\%/1.55\% = 2.58$), driving the disparity from a Cost of Service to Cross-Subsidization for Russell Ranch up even higher. (Exhibits V-6 & V-7)

ARGUMENT

As will be established in this argument, it is the position of Russell Ranch that a lack of understanding the true composition of the Anthem/Agua Fria Wastewater District, combined with the company using only two accounting Business Units (BUs) for the four service areas in the district to track capital expenditures and operating & maintenance costs, implied that the deconsolidation involved only two geologically separated facilities, in which one facility was subsidizing the operating costs of the other. This could not be further from the truth.

I. The Misconception of the Development and Composition of the Anthem/Agua Fria Wastewater District

There was a general misconception throughout the Hearing that the Anthem/Agua Fria Wastewater District came about through the combining of two separate Districts, the Anthem District and the Agua Fria District. As previously indicated, the Anthem/Agua Fria Wastewater District matured as one district composed of four geologically separated service areas, Anthem, Verrado, Russell Ranch and Corte Bella.

The use of the term “Agua Fria Community” was spoken by witnesses and counsel throughout the Hearing. It was used as general term denoting the communities, other than Anthem, that composed the Agua Fria District, but a large number of Hearing participants were unaware that the three Agua Fria communities were separated geologically and were not interconnected. The most alarming acknowledgment of a misunderstanding of the composition and infrastructure of the Anthem/Agua Fria Wastewater District was that of the Residential Utility Consumer Office (RUCO) witness, who was advocating for the Anthem deconsolidation.

II. RUCO’s Position on the Deconsolidation was Structured on a Flawed Understanding of the Composition and Infrastructure of the District

RUCO’s own witness, Chief of Accounting and Rates, stated within his direct written testimony, *“in the case of the Anthem/Agua Fria wastewater district, ratepayers paid rates that reflected the costs of operating two separate wastewater systems that were not interconnected and provide service to customers living in two different communities that were miles apart from one another.”* (Exhibit RUCO-1, P5) When questioned about his statement, during cross-examination, the witness admitted he was not familiar with the composition of the Anthem/Agua Fria district when he prepared his testimony.

(Transcripts P501-502, L6-1)

RUCO's counsel expressed that RUCO has a policy that favors cost of service ratemaking and admitted that, "*Unfortunately, the result for the Agua Fria folks would be a very high rate increase.*" (Transcripts P40, L24-25)

RUCO's witness testified that, "*you have to know what the cost of service is before you can take anything else into consideration.*" (Transcripts P524, L19-21)

However, RUCO failed to consider looking at the cost of service of the other three service areas within the Anthem/Agua Fria District, Russell Ranch, Verrado and Corte Bella, before supporting the Anthem deconsolidation. (Transcripts P524, L23-25)

In addition, prior to accepting the company's rate design for the Agua Fria communities, RUCO failed to request a further breakout from the company so a rate design analysis could be performed for consideration of separate rates for Verrado, Russell Ranch and Corte Bella. When asked why this was not performed, the witness admitted the filing, (*his direct testimony*), states that RUCO was unaware there were four separate systems. (Transcripts P542-543, L20-9)

During cross-examination, RUCO's witness finally admitted that the rates RUCO are recommending for the Agua Fria service areas, Verrado, Russell Ranch and Corte Bella, do not represent the cost of service to those communities and there may be cross-subsidization between the three service areas. (Transcripts P543-544, L20-4)

RUCO's support for the Anthem deconsolidation lacks merit and credibility due to their admitted flawed interpretations and lack of validating the cost of service for the individual Agua Fria service areas.

It is totally irresponsible for RUCO, a consumer advocate, to establish a policy position in support of the Anthem deconsolidation without the full knowledge of the district composition and the understanding of the complete impact on all service areas, communities and ratepayers within that district. Since the cost of service argument presented by Anthem could be equally applied to Russell Ranch, RUCO advocating the

Anthem deconsolidation prejudices Russell Ranch by clouding their impartiality to represent the best interests of all communities involved.

III. Failure to Assign Business Units to Russell Ranch and Verrado Defied the Decision Order and Added to the Confusion of the District Makeup

Business Units are used to account of income and expenditures for individual projects to track items such as operating and maintenance costs, and capital expenditures. (Transcripts P82-83, L5-25)

Contributing to the misconception of the Anthem/Agua Fria Wastewater District was the fact that the Company only developed two Business Units for the four service areas, one Business Unit for Anthem and one Business Unit for the remaining three service areas.

The use of one Business Unit for the service areas of Verrado, Russell Ranch and Corte Bella allowed the company to comingle all the operating, maintenance and capital project expenses, providing an illusion that the service areas were interconnected and all responsible for the capital overrun costs associated with the Northwest Wastewater Treatment Facility. Thus, providing the Anthem deconsolidation proponents the position that Anthem is subsidizing the entire Agua Fria community, which could not be further from the truth.

Additionally, all hookup fees and tariffs collected from each of the three individual service areas were also comingled and tracked under a common Business Unit. (Transcripts P138, L3-9)

This comingling of Hook-up Fees and Tariffs was in direct disregard per that order by the Commission within Decisions 64307 & 64746, issued for the inclusion of the Verrado and Russell Ranch CC&N service areas, respectively. Each of the Decisions ordered that all wastewater hook-up fees related to each individual project be maintained in separate interest bearing accounts specific to each project.

In the case of Decision 64746 (Russell Ranch), the Commission not only ordered that all wastewater hookup fees related to that project be maintained in a separate interest

bearing account, but the funds were to be used only for the installation of backbone off-site facilities; (referenced in the Decision's Findings of Fact as either the development of a regional wastewater treatment facility or the expansion of the existing Russell Ranch facility) as needed as the community built out. The Commission also required annual reports to be filed on the hook-up fee accounts that disclosed the name of each applicant, the amount paid by each, a description of the utility plant constructed with hook-up fee funds and the balance and interest of the hook-up fee account. (Decision 64746, P6, L21-26)

That order by the Commission within Decision 64746 in itself justified establishing a separate Business Unit for Russell Ranch.

IV. Russell Ranch Minimal Capital Cost Expenditures

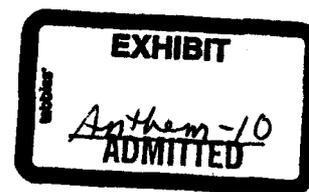
The Russell Ranch capital cost expenditures accumulated over the last 9.5 years provide the strongest argument, outside of a Cost of Service Study, of the minimal cost of service that Russell Ranch imposes on the district as a whole. Over the 9.5 year period since the Russell Ranch went online in March 2002 until present, a total of \$56,845.00 was spent on capital improvements. That equates to approximately \$6,000.00 per year for the 213 Russell Ranch customers, or approximately \$2.35 per customer per month. (Exhibit RR-2)

An additional example would be the company's proposed capital budget for years 2012 -2016 provided within Exhibit Anthem-10. As noted under the Agua Wastewater section, Russell Ranch is referenced in the column as sharing expenses with Verrado. As noted only 2 of 35 line items are directly tied to Russell Ranch's projected expenses, with a small number of line items with minimal expense that may be shared, such as lab equipment.

Closing Brief
Russell Ranch Homeowners Association
Docket No. SW-01303A-0900343

ATTACHMENTS

Exhibit Anthem-10



**Arizona American Water Company
Docket Nos. W-01303A-09-0343
and SW-01303A-09-0343
November 14-18, 2011 Hearings**

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Christopher D. Krygier
Title: Sr. Capital Program Administrator
Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

Company Response Number: Corte Bella 2.4

Q. Has Arizona-American planned for any capital improvements to the Anthem wastewater system in the next ten years? If so, please provide a list of planned improvements and the approximate costs for those improvements. If the Anthem/Agua Fria Wastewater District remains intact, will Agua Fria customers subsidize the costs of those capital improvements to the Anthem wastewater system? Please explain.

A: Arizona American Water prepares five-year capital improvement plans which forecast future funding requirements. These forecasts are revised annually. Attached below is the most recent version of the 2012-2016 capital improvement plan for Anthem Wastewater.

		2012	2013	2014	2015	2016
District	Project Name	Total	Total	Total	Total	Total
	Anthem Wastewater Total	364,270	302,414	429,776	416,701	328,929
Anthem Wastewater	Mains - Unscheduled	3,900	3,998	4,113	4,237	4,372
Anthem Wastewater	Manholes - Replaced	26,000	26,650	27,423	28,246	29,149
Anthem Wastewater	Tools and Equipment	9,789	16,696	26,778	18,402	13,161
Anthem Wastewater	Plant Facilities and Equipment	324,581	255,070	371,462	365,816	282,246

If the Anthem/Agua Fria wastewater district remains intact, Agua Fria wastewater customers will share in the costs of capital improvements to the Anthem wastewater system, but it is not possible to identify subsidies at the level of individual projects or components of the cost of service as a subsidy is a concept applying to customers revenues versus the total cost of service.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Ian Crooks
Title: Director of Engineering
Address: 2355 W. Pinnacle Peak Rd., #300
 Phoenix, AZ 85027

Company Response Number: Anthem 4.4

Q. Has AAWC planned for any capital improvements to the wastewater systems that would be included in the proposed stand-alone Agua Fria Wastewater District in the next ten years? If so, please provide a list of planned improvements and the approximate costs for those improvements.

A: Please see the list of planned improvements below. The Company forecasts its capital improvement program for a five year future period. The table below shows the most recent 5-year capital improvement program for wastewater systems in a stand-alone Agua Fria Wastewater District. The projects and figures shown are estimates and actual expenditures will differ to one extent or another. The capital program is updated and extended annually and subject to change for many reasons including facility, regulatory, or financial requirements.

(Note: For rate recovery purposes, the Northwest Valley Wastewater Treatment Plant costs are recovered in the Sun City West Wastewater District and Aqua Fria Wastewater District. Since the most recent Commission approved recovery percentages are 72% to Sun City West District and 28% to Agua Fria Wastewater District, capital costs below likewise reflect the same allocation percentage. The percentages changed in the most recent rate case and, are subject to change in future rate case decisions.)

Project Name	2012	2013	2014	2015	2016
Northwest Valley Treatment Plant					
Recharge Field Tractor			260,000		
Replace Tools and Lab Equipment	8,500	6,735	16,161	22,295	40,498
Water Bath for Certified Lab	3,900				
Replace Lab Muffle Furnace	5,200				
Fecal and BOD Incubator	9,750				
Replace Lab Refrigerator	10,400				
Lab Spectrophotometer		7,150			
Replace Lab Autoclave		7,150			
Replace 3 Field Refrigerated Samplers		15,990	16,454	16,947	
Sealer for IDEX Fecal Testing			5,485		
Cl2 Analyzers, Field	8,385				
Replace Bioreactor Mixer	25,350			25,350	
Chlorine Field Analyzers	27,950	28,649			
Replace Discharge Piping Backwash Pumps	27,950				
Replace Digester Diffuser	41,925	42,973			62,671

Repair Effluent EQ Basin Discharge Vault				72,670		
Replace PEPS Influent Pump 1	90,838					
Replace air blowers w/ efficient VFD turbos				314,438		391,695
Replace Filter Backwash Pump 2		21,487			22,773	
Disinfection Bleach Pump		22,971			8,385	
Replace Two Methanol Pumps		42,973				
Sand Blast & Epoxy Primary Clarifier 1 Structure		57,298			60,728	
Improve Final Effluent Delivery System	148,974					
Rebuild Final Clarifier Scum Pump				20,636		
Replace Sluice Gate Primary Clarifier 2				22,110		
Replace Filter Influent Pump VFD				58,959		
Replace Odor Scrubber 1				147,398		
Replace Two Make-up Water Booster Pumps					28,246	
Sand Blast and Epoxy Coat Final Clarifier 1					60,728	
Sand Blast and Epoxy Coat Final Clarifier 2					60,728	
Replace Sand Filter Air Compressor						47,003
Total at Northwest Valley Treatment Plant	\$ 258,148	\$ 402,349	\$ 934,309	\$ 306,179	\$ 541,867	
72% Sun City West Wastewater	\$ 185,866	\$ 289,691	\$ 672,702	\$ 220,449	\$ 390,144	
28% Agua Fria Wastewater	\$ 72,281	\$ 112,658	\$ 261,606	\$ 85,730	\$ 151,723	

Agua Wastewater - Verrado, Russell Ranch, & Collection

Mains - Unscheduled Repairs	13,000	13,325	13,711	14,123	14,575
Manholes - Replace	6,500	6,663	6,856	7,061	7,287
Laterals - Replace	23,400	23,985	24,681	25,421	26,234
Forklift	52,000				
Purchase Kawasaki Mule				13,000	
Tools and Lab Equipment Misc.		13,000	13,377	13,778	7,288
Purchase Lab Furnace Vent System	10,400			11,050	
Purchase Laboratory Muffle Furnace	6,500				
Plant Replacements				101,430	
Replace Disc Filter 1& 2 Backwash Pumps at Verrado	4,855				
Purchase new D.O. Controller and Probe at Verrado	6,242		6,936		
Replace Anoxic Jet Mixing Pump	11,097	11,097		11,097	
Odor Control Improvements at Verrado	13,871				
Replace NTU Meter and Controller at Verrado WRF		5,548		6,936	
Replace Disc Filter 3 & 4 Backwash Pumps at Verrado		5,548			
Replace AUMA MOVs Inside Pipe Gallery		6,936			
Rehab RAS pump at Verrado		8,323		5,548	
Rehab Disc Filter Media 1 and 2 at Verrado WRF		8,323		9,710	
Replace Influen EQ Pump at Verrado WRF		8,323			
Replace Vogelsang Sludge Pump		8,323			
IMLR Pump Replace at Verrado		9,710		9,710	
Replace OXIC Blower at Russell Ranch		9,710			
Rehab Influent Pumps at Verrado		13,871		13,871	13,871
Replace Influent Pump at Russell Ranch		17,200			
Replace Jet Motive Pumps		18,032			41,613
Replace Disc Filter Influent Pump at Verrado		27,742			
Rehab OXIC Blowers at Verrado		33,290	16,645		
Replace Effluent Pump at Verrado		34,400			34,678
Sandblast/Paint of Clarifier 1 Steel Components			5,548		
Sandblast/Paint of Clarifier 2 Steel Components			5,548		
Rehab Disc Filter Media 3 and 4 at Verrado WRF			8,323		

Replace Sludge Holding Tank Blowers				13,871				138,710		
Replace Refrig Influent and Effluent Samplers				13,871						
Replace Pumps Verrado HS Lift Station				20,807				20,807		
Rehab 1/2 Meter Belt Filter Press				27,742						
Replace Headworks Grit and Screening Separation				34,400						
Total Aqua Fria	\$	147,865	\$	283,347	\$	212,315	\$	242,735	\$	305,062
Total AF WW Capital Program (NWV 28% + Aqua Fria)	\$	220,146	\$	396,005	\$	473,922	\$	328,465	\$	456,785

**ARIZONA-AMERICAN WATER COMPANY
 ANTHEM/AGUA FRIA WASTEWATER DISTRICT
 DECONSOLIDATION PROCEEDING
 ACC DOCKET NO. W-01303A-0343**

PROJECTED CAPITAL IMPROVEMENTS

PROJECTED YEAR	TOTAL DISTRICT	ANTHEM (1)	AGUA FRIA (2)
2012	\$584,416	\$364,270	\$220,146
2013	698,419	302,414	396,005
2014	903,698	429,776	473,922
2015	745,166	416,701	328,465
2016	785,714	328,929	456,785
Total	\$3,717,413	\$1,842,090	\$1,875,323
Current Customers (3)	13,739	8,450	5,289
Total Per Customer	\$271	\$218	\$355

NOTES:

- (1) Per Response to Corte Bella data request 2.4 to Company
- (2) Per Response to Anthem data request 4.4 to Company
- (3) Anthem customers per response to Corte Bella data request 3.3; Aqua Fria customers per response to Anthem data request 4.1

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Sandy Murrey

Title: Rate Analyst

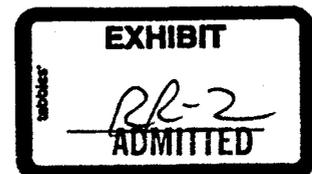
Address: 2355 W. Pinnacle Peak Rd., #300
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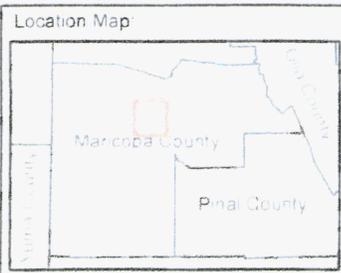
Company Response Number: Russell Ranch 2.1

Q: Capital Costs
I need the date and description of work performed for each work order listed.

A: See the table below.

Work Order Number	Total Cost	Description	Completion Date
448398	\$2,274	2 HP submersible grinder pump	3/28/2009
449269	\$2,880	3 HP blower for the equalizer basin	4/27/2009
459750	\$2,314	Grinder pump	12/22/2009
460157	\$7,550	20 HP motor and blower rebuild for aeration basin	12/22/2009
465879	\$1,987	Replace roller assembly and bearing for clarifier arm	5/26/2010
50062301	\$35	updates Russell Ranch WRF Ph 2	12/31/2007
519657	\$2,278	Replacement of submersible centrifugal grinder pump.	2/24/2011
523647	\$7,402	Air header replacement	5/26/2011
533752	\$18,399	Decking, slues box, guide rails, support beam etc. replaced	9/26/2011
50069461	\$11,726	Security for Russell Ranch	12/21/2004
	<u>\$56,845</u>		





Notes:
Date: March 30, 2011



Legend: 1" = 11,650'

- Highway
- Major Road
- Local Road
- Agua Fria Wastewater Service Area

Agua Fria Wastewater Service Area

Arizona American Water
15626 N. Del Webb Blvd.
Sun City, AZ 85351

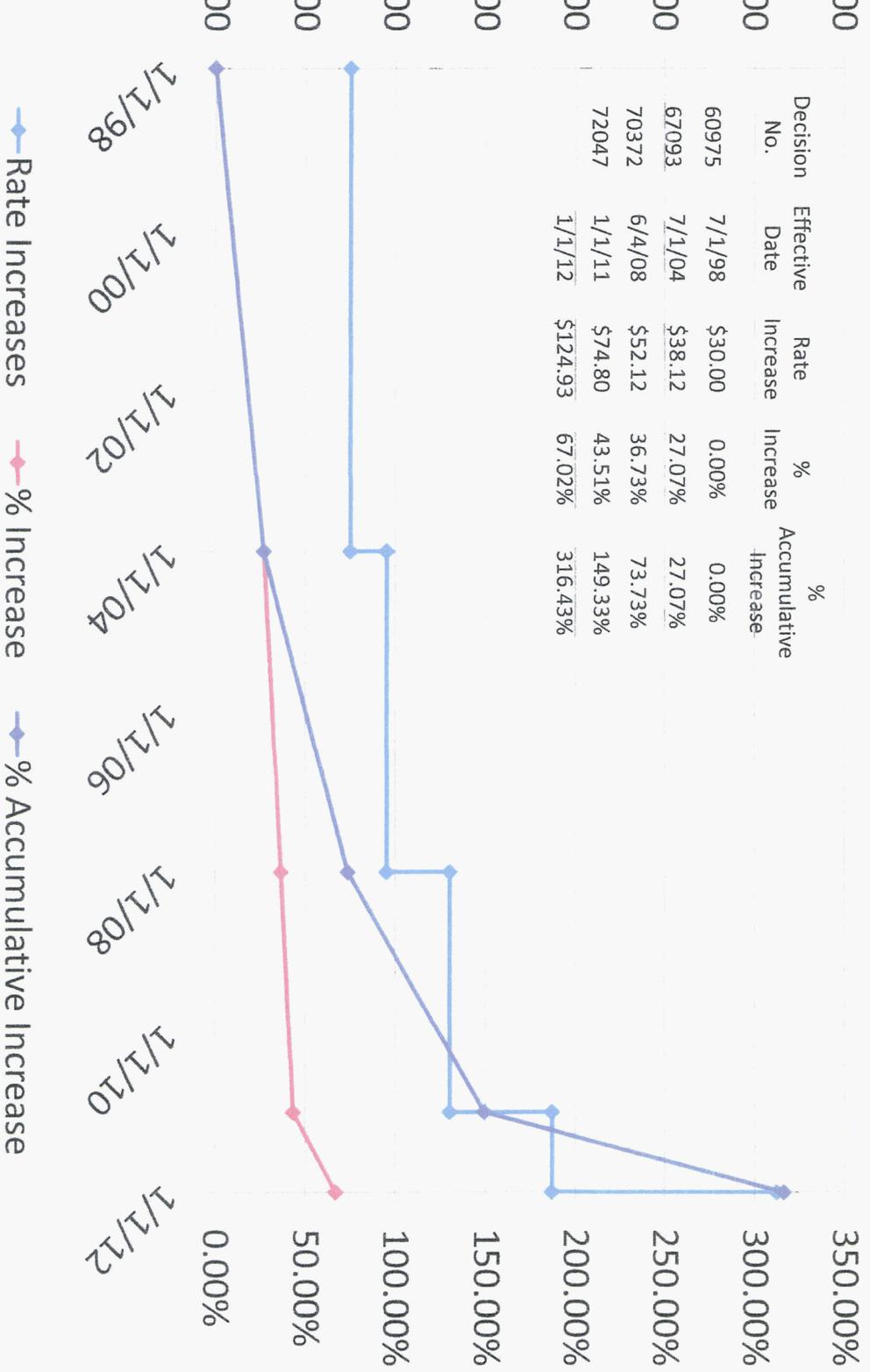
Agua Fria Wastewater District

Effective Rate Increases

7/1/1998 thru Projected Deconsolidation



Decision No.	Effective Date	Rate Increase	% Increase	% Accumulative Increase
60975	7/1/98	\$30.00	0.00%	0.00%
67093	7/1/04	\$38.12	27.07%	27.07%
70372	6/4/08	\$52.12	36.73%	73.73%
72047	1/1/11	\$74.80	43.51%	149.33%
	1/1/12	\$124.93	67.02%	316.43%



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COMMISSIONERS

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GARY PIERCE, Chairman
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ARIZONA CORPORATION COMMISSION
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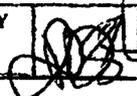
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Docket No. SW-01303A-09-0343

**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

EXHIBIT
RR-6
AUG 18 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. ^{SCOPE}SCOPE 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>
1	104	101
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 ~~BEEN~~ The total number of homes planned for all five phases of Russell Ranch ^{WOULD HAVE} ~~is now~~
5 ~~BEEN~~ 426 homes which would ^{HAVE BEEN} ~~be~~ approximately 86.6% of its designed capacity.

6 **Q. WHAT WAS THE PLAN FOR RUSSELL RANCH VI, LLC, IF IT WAS ^{THE WASTEWATER TREATMENT} ~~IT WAS~~ FACILITY'S**
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} also included in the LXA agreement ^{DELETED} 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 *THE DEVELOPER WAS ALSO REQUIRED BY THE UTILITY
COMPANY TO PAY AN ADDITIONAL WASTEWATER
HOOK-UP FEE OF \$750.00 PER LOT TO DEFER THE
UTILITY'S COST OF EXPANDING THE WASTEWATER
FACILITY.*

INSERT

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 65M-1.~~ *RR-3* 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

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Karan Moore

Title: Operations Specialist

Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

Company Response Number: Anthem 4.1

Q. Please provide a current customer connection count for each of the individual wastewater systems located within the proposed stand-alone Agua Fria Wastewater District.

A: The customer count shown below is based on the number of billed wastewater customers as of September 30, 2011 and the meter routes to distinguish the customers among the individual wastewater systems.

Agua Fria Wastewater Customers as of 9/30/11	
Northeast Agua Fria (includes Corte Bella)	3,174
Russell Ranch	213
Verrado	1,902



10g

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Sandy Murrey

Title: Rate Analyst

Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

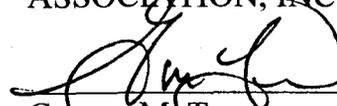
Company Response Number: Corte Bella 3.3

- Q. Please provide a current customer connection count for the wastewater system located within the proposed stand-alone Anthem Wastewater District.
- A: The current customer count is approximately 8,450 for the Anthem Wastewater District.



DATED this 17th day of January 2012.

RUSSELL RANCH HOMEOWNERS'
ASSOCIATION, INC.



George M. Turner
President, Board of Directors
Russell Ranch Homeowners' Assoc., Inc.
P.O. Box 12560
Glendale, AZ 85318

CERTIFICATE OF SERVICE

ORIGINAL and 13 copies filed this
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Docket Control
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Closing Brief
Russell Ranch Homeowners Association
Docket No. SW-01303A-0900343

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By: 