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Marshall Magruder
PO Box 1267
Tubac, AZ 85646

AZ CORP COM

25 March 2013

Arizona Corporation Commission

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Before the Arizona Corporation Commission

Bob Stump, Chairman
Gary Pierce, Commissioner
Brenda Burns, Commissioner
Bob Burns, Commissioner
Susan Bitter Smith, Commissioner

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ARIZONA CORP. COMM
400 W CONGRESS STE 218 TUCSON AZ 85701

Docket No. WS-02676A-12-0196

Subj: Rio Rico Utilities Inc., Water and Wastewater Rate Case, Comments and Rate Structure Recommendations for Water Conservation.

Summary.

These comments respectfully request that the proposed "rate structure" be revised because, as defined, it does not help conserve water in our State, but, as designed will increase water usage. A revised Rate structure is revenue neutral for the Company with significant benefits for all classes of customers, the Company and groundwater.

Background.

Santa Cruz County is in the Santa Cruz Active Management Area (SCAMA), the only AMA presently sustaining in its water resources Due to unique local geological conditions in this AMA, ground and surface water are the same since we have a shallow bedrock with water flowing, mostly underground, in the Santa Cruz River without a traditional aquifer. Thus, the governing statutes implemented for this AMA require the Department of Arizona Water Resources to ensure we must always sustain our water. If the SCAMA becomes "unsustainable" then there will be no more building permits, growth will cease. The *Santa Cruz County Comprehensive Plan* of 2004 stated that less than 34,000 additional persons in our county makes our water resources unsustainable.

One way to continue future growth in our county is to reduce water consumption through voluntary water conservation. Ratepayers are the fast to notice when rates for any utility increase; however, this can be done in "fair and reasonable" way by having the cost of water and wastewater increase with increasing consumption. In other words, those who use more, pay more per gallon.

In my Tubac water company, for small residential customers, we pay \$1.90 per 1,000 gallons for the first 3,000 gallons, then \$3.00 per 1,000 gallons continuing in two additional steps to a top rate of \$6.00 per 1,000 gallons. This is over a 3:1 rate increase based on consumption. This rate structure provides the required revenue for our water company but sends a clear "price signal" to those who use the higher tiers.

Water conservation is significant goal for SCAMA, Santa Cruz County, the State of Arizona, and our country. Both water quantity and quality are critical for life.

Rio Rico Utilities Rate Structure.

The proposed rate structure does NOT have, what is defined below, water conservation characteristics. The proposed rate structure characteristics in the Application include:

1. Definition of Few Tiers or Rate Steps.

- a. Three Tier for small water customers with 5/8 & 3/4-inch connections, which has 93% of RRUI’s customers who use an average of 7,794 gallons of water a month.
- b. Two Tiers for all other water and wastewater customers.

2. Price Signals Not Obvious at Tier Breakpoints.

- a. Small water customers see a proposed rate increase in three Tiers:
 Tier 1. A 26 cent/1000 gallon rate increase to Tier 2 breakpoint at 3,001 gallons.
 Tier 2. A 13 cent/1000 gallon rate increase to Tier 3 breakpoint at 9,000 gallons.
 Tier 3. A 6 cent/1000 gallon rate increase in Tier 3 above 9,001 gallons.
- b. All other water customers generally have a proposed rate increase of 66 cents between Tier 1 and Tier 2; however, some very high users have even smaller rate increases. These appear to be an anomaly because they are not rational.¹
- c. Wastewater residential customers have 1 tier and commercial customers with Tier 1 at NO cost and above \$7,000 gallons increase from \$4.67 per 1,000 gallons to \$5.44 per 1,000 gallons or and increase of 77 cents per 1,000 gallons.

3. The Application indicated the company pumped 818 million gallons and sold 686 million gallons during the test year or that 132 million gallons of water pumped was NOT sold to customers. Assume the Company used some; still having 19.17% of the water pumped but not sold is an example of water wastage on a large scale that ratepayers must fund. The company has a water leakage management plan; however, this company (and most other water companies) must very proactively reduce this waste.

4. Rio Rico Utilities has a program with a 15% rate reduction for “lower income” (below 150% of poverty level) customers. They must qualify and apply for this rate reduction. My experience in prior electric, natural gas, water and wastewater rate cases has shown only 20 and 25% in this income bracket ever “apply” for these lower rates through ignorance of the application process but also because of pride, especially those on social security.

5. The Service Charge should be as low as feasible for small water/wastewater rate classes.

¹ The Company’s Rejoinder Schedule H-2 proposes rate increases as follows:

Rate Category	Lowest	Highest		Rate Category	Lowest	Highest
All Residential Rates	21.05%	35.79%		Multi-family	23.7%	37.41%
Commercial (below 2-inches)	23.84%	27.69%		Commercial (>2-inches)	5.99%	7.81%
Industrial (5/8 & ¾ inch)		38.86%		Industrial (2-inches)	8.42%	8.42%
Bulk		35.15%		Fire lines	58.01%	58.01%

The proposed Commercial and Industrial (2 inch or larger) are must less than al the other rate categories as shown in about table and are an anomaly and require adjustment.

Rate Structure Principles for Water Conservation.

1. Customers have to be able to easily “visualize” and see the reward for water conservation.
2. Having several, up to ten, Tiers or breakpoints where the rates decrease with less consumption is essential.
3. The ratio from the lowest rate to the highest rate must be significant, at least a 3 to 1 ratio from lowest tier to highest tier.
4. The first tier needs to be the lowest and be for at least 3,000 gallons for ALL rate categories and classes in order to ensure “low” rates for lower income customers who really conserve water. When the first tier is low, to make the rate structure “revenue neutral”, higher rates for higher consumption are necessary, which parallels sending price signals to higher using customers.
5. The water and wastewater rate structures should use the same “tier” concepts.
6. The company needs a financial incentive for reduced water losses AND for reduce water due to water conservation; however, in no case, should more than half of this deduction used as an incentive because the Company will also have to become more efficient with less to produce.

Conclusion - Rio Rico Utilities did not proposed a water conservation-oriented rate structure.

Recommendation – It is recommended Rio Rico Utilities re-design its rate structure to meet the water conservation principles herein and consider the detailed recommendations below.

Detailed Recommendations. That the new rate structure shall

1. Be designed revenue neutral and incorporate various revenue changes determined by the parties in this case.
2. Be designed to include a minimum of five tiers for all water and wastewater rate categories with the first tier to be at least 3,000 gallons for all rate classes.²
3. Be designed to have a ratio of at least 3 to 1 from the first to the highest rate tier.
4. Be designed to include a lowest feasible first tier rate so that a “low income” requirement is not necessary. A first tier goal of less than \$25/month for water and for wastewater per month when including the Service Charge for 3,000 gallons.
5. Be designed to provide specified revenue greater than the required revenue as an incentive. This additional revenue or incentive, such as 2%, will be monitored and reviewed in the next rate case. IF the Company can show it has reduced its expenses and water losses equal to the incentive percentage, then half of the resultant reduction will go to the Company while the other half of this incentive added an increased required revenue, above the test year, IF water conservation exceeds this incentive.

Respectfully submitted,



Marshall Magruder

² Testimony during a recent American-Arizona Water/Wastewater Rate case, by the company stated an average human needs about 300 gallons of water per month to meet all bodily needs including food preparation, sanitation, baths and drinking. A first tier of 3,000 is minimum necessary for a family of 10 while most families are less than five in this utility service area. Having the cost for the first 3,000 gallons as low as possible will eliminate the need for a “lower income” rate program and its administrative costs.