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BEFORE THE ARIZONA CORPORATION COMMISSION

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2
3 **JIM IRVIN**
4 **COMMISSIONER-CHAIRMAN**
5 **RENZ D. JENNINGS**
6 **COMMISSIONER**
7 **CARL J. KUNASEK**
8 **COMMISSIONER**
9

10 **IN THE MATTER OF THE APPLICATION OF)**
11 **CITIZENS UTILITIES COMPANY FOR A (1))**
12 **APPROVAL OF THE AGREEMENT FOR THE)**
13 **VILLAGES AT DESERT HILLS WATER/)**
14 **WASTEWATER INFRASTRUCTURE,)**
15 **AND (2) APPROVAL OF FORMATION OF)**
16 **SUBSIDIARIES.**
17

DOCKET NO. W-1032A-97-0599

18
19 **IN THE MATTER OF THE APPLICATION OF)**
20 **CITIZENS WATER SERVICES COMPANY OF)**
21 **ARIZONA FOR (1) A CERTIFICATE OF)**
22 **CONVENIENCE AND NECESSITY TO)**
23 **PROVIDE POTABLE WATER AND WASTE-)**
24 **WATER SERVICES TO THE VILLAGES)**
25 **AT DESERT HILLS, (2) APPROVAL OF)**
26 **THE AGREEMENT FOR THE VILLAGES AT)**
27 **DESERT HILLS WATER/WASTEWATER)**
28 **INFRASTRUCTURE, AND (3) APPROVAL)**
29 **OF THE WATER/WASTEWATER PURCHASE)**
30 **AGREEMENT.**
31

DOCKET NO. SW-03454A-97-0599

32
33 **IN THE MATTER OF THE APPLICATION OF)**
34 **CITIZENS WATER RESOURCES COMPANY)**
35 **OF ARIZONA FOR (1) A CERTIFICATE OF)**
36 **CONVENIENCE AND NECESSITY TO)**
37 **PROVIDE POTABLE WATER AND WASTE-)**
38 **WATER SERVICES TO THE VILLAGES AT)**
39 **DESERT HILLS, (2) APPROVAL OF THE)**
40 **AGREEMENT FOR THE VILLAGES AT)**
41 **DESERT HILLS WATER/WASTEWATER)**
42 **INFRASTRUCTURE, AND (3) APPROVAL)**
43 **OF THE WATER/WASTEWATER)**
44 **PURCHASE AGREEMENT.**
45

DOCKET NO. SW-03455A-97-0599

Arizona Corporation Commission

DOCKETED

APR 30 1998

DOCKETED BY	<i>BS</i>
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REVERSE OF FILING

51

1 Citizens Utilities Company hereby provides Notice of Filing Direct
2 Testimony for Robert L. O'Brien and Ray L. Jones in the above-referenced
3 docket.

4 RESPECTFULLY SUBMITTED this 30th day of April, 1998.

5
6
7
8 *Craig A. Marks* (initials)

9 Craig A. Marks
10 Associate General Counsel
11 Citizens Utilities Company
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17 Original and ten copies filed
18 this 30th day of April, 1998, with:

19
20 Docket Control
21 Arizona Corporation Commission
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23 Phoenix, Arizona 85007
24

25
26 Copies of the foregoing delivered
27 this 30th day of April, 1998, to:

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By Joann Zychlewicz
Joann Zychlewicz

DIRECT TESTIMONY OF ROBERT L. O'BRIEN
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-1032A-97-0599 et.al.
VILLAGES AT DESERT HILLS

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APRIL 29, 1998

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-1032A-87-0599 et.al.
VILLAGES AT DESERT HILLS**

1 Q. Please state your name and business address?

2 A. My name is Robert L. O'Brien, my business address is 3 High Ridge Park,
3 Stamford, Connecticut, 06905.

4
5 Q. By whom and in what capacity are you employed?

6 A. I am employed by Citizens Utilities Company ("Citizens") as Vice President
7 - Strategic Planning and Regulatory Affairs for the Public Service Sector
8 ("PSS" or "Sector").

9
10 Q. How long have you been employed by Citizens?

11 A. Since March 1975.

12
13 Q. What are your duties and responsibilities?

14 A. I am responsible of the oversight for all strategic planning and regulatory
15 activities occurring in the PSS. This includes the development of the
16 Sector's strategic plan and the coordination of all budget, forecasting and
17 regulatory functions. In addition, I represent the Sector's in key corporate
18 activities and participate in other corporate functions as requested. As
19 part of my regulatory responsibility, I direct the preparation and
20 presentation of applications for general revenue increases and other filings
21 or special studies representing Citizens', or the Sector, on corporate

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1 matters and specific issues for the Sector and its operating properties. In
2 addition, I prepare special studies, present them to regulatory agencies
3 and their staffs, and to the extent necessary, provide expert testimony
4 with respect thereto. In previous positions with Citizens, I also performed
5 and directed internal audits of various company operations and activities.
6

7 Q. What has been your education and professional experience relevant to the
8 responsibilities of your current position?

9 A. After attending public schools in New York, I received a degree of Bachelor
10 of Business Administration, major in Accounting, from the University of
11 Cincinnati. While attending college, and for two years subsequent thereto,
12 I was employed by Ernst & Young, an international public accounting firm
13 at its New York office, and achieved the position of senior auditor. In
14 addition, I have been employed in various financial and accounting
15 positions including that of Controller, in the communications, education
16 and printing industries.
17

18 Q. Have you presented testimony before any regulatory commissions?

19 A. Yes. I have presented testimony or testified in over 200 proceedings
20 before regulatory bodies the states of Arizona, California, Colorado,
21 Hawaii, Idaho, Illinois, Indiana, Montana, Nevada, Ohio, Pennsylvania,

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1 Tennessee, Vermont and West Virginia. These testimonies have
2 addressed revenues and expenses, various rate base components, and
3 such other issues, as: current and deferred income taxes, cost of capital
4 and capital structure, allowance for funds used during construction, payroll
5 and compensation, including employee benefits, as well as other typical
6 operating expenses or investments for a utility company. In addition, I
7 have testified in special regulatory proceedings addressing the acquisitions
8 and sales of utility properties, and such extraordinary issues as changes in
9 the Federal Income Tax rules and disaster recovery issues.

10
11 Q. Do you hold any professional licenses?

12 A. Yes, I am a Certified Public Accountant.

13
14 Q. What is the purpose of your testimony in this proceeding?

15 A. My testimony will address Citizens' position with respect to certain
16 portions of the Arizona Corporation Commission ("Commission") Staff's
17 ("Staff") recommendation for approval of the certificate of convenience
18 and necessity ("CCN") and initial rates and charges for the Villages at
19 Desert Hills project ("Villages").

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-1032A-97-0599 et.al.
VILLAGES AT DESERT HILLS**

1 Q. What areas will your testimony address?

2 A. I will clarify Citizens' position with respect to the amount of the capacity
3 reservation charge ("CRC") that Citizens' Water Resources Company of
4 Arizona ("TreatCo") will charge builders at the Villages, a project of Del
5 Webb Corporation ("Webb"). I will also respond to the Staff's
6 recommendation relating to Citizens' proposal to commence amortization
7 of one-half of the line extension agreement ("LXA") amounts received by
8 Citizens' Water Services Company of Arizona ("DistCo") from builders, as
9 a contribution-in-aid-of-construction ("CIAC") in the year following the
10 receipt of the LXA amounts.

11

12 Q. What is the Company's understanding of the CRC amount to be charged
13 by TreatCo to builders?

14 A. Based on our discussions with Staff and members of the Residential
15 Utility Consumers Office ("RUCO"), Citizens believes that all parties agree
16 that the CRC to be charged by TreatCo is \$765 per equivalent residential
17 unit ("ERU") per service. This represents a total, combined charge of
18 \$1,530 for each ERU connected to the DistCo facilities. This represents
19 an increase over the amount of the CRC that was included in the
20 agreements between Citizens and Webb parties as described in the Staff
21 Report, and that was intended to provide sufficient revenue to maintain

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1 the average monthly charge per customer of \$70.00. An average
2 customer is defined in the projections as a customer with a 5/8" x 3/4"
3 meter who uses 12,000 gallons of water monthly and provides 7,000
4 gallons of wastewater to be treated. The calculation of the \$70.00
5 monthly charge is shown on Schedule "B" attached.
6

7 Q. Why did Citizens and Webb parties agree to increase the amount of the
8 CRC?

9 A. The parties agreed to increase the amount of the CRC to address certain
10 issues raised by the Staff during the discussion of the CCN application.
11 These included the elimination of the deferral of depreciation expense on
12 the infrastructure investment and the elimination of a rate of return
13 differential for TreatCo. The Webb parties, in order to retain the \$70.00
14 per month average residential customer bill, were prepared to increase
15 the initial CRC from the \$1,000 per ERU stated in the agreement
16 between the parties to the \$1,530 used in the most recent data
17 submissions to Staff.
18

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CITIZENS UTILITIES COMPANY
DOCKET NOS. W-1032A-97-0599 et.al.
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1 Q. Did Staff agree that the charge for the average monthly residential
2 customer should be \$70.00?

3 A. No. It was my understanding that Staff reserved the right to make rate
4 recommendations that might be different than Citizens' proposal.

5
6 Q. Is it also your understanding that Staff agreed there was a relationship
7 between the monthly customer rates and the CRC proposed by Citizens?

8 A. Yes. I believe that Staff understood that, under Citizens' proposal and its
9 agreement with Webb parties, there was a relationship between the
10 monthly charges to customers and the CRC to be charged to the builders.
11 Since both represented revenue sources, if one increased the other must
12 decrease to provide a comparable earnings level for Citizens.

13
14 Q. Does the Staff recommendation of a total monthly residential bill of
15 \$78.00 cause concern to Citizens?

16 A. Yes, it does. One of the significant factors in the agreement between
17 Citizens and Webb parties was an average monthly charge to residential
18 customers of \$70.00 for water and wastewater service. This is
19 demonstrated by the fact that although Citizens and Webb parties made
20 significant concessions in their agreement to eliminate differences

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1 between Citizens, Staff and RUCO, the \$70.00 monthly charge was an
2 item with Citizens and Webb parties that remained firm.

3
4 Q. What impact will the Commission's acceptance of the \$78.00 monthly
5 revenue requirement for a single family residential customer have on the
6 Citizens/Webb agreement?

7 A. In the event that the Commission adopts the Staff recommendation of
8 \$78.00, Citizens and Webb parties will have to reassess the economic
9 parameters of the entire transaction, including the customer additions
10 and the level of refunds for the LXAs.

11
12 Q. What is Citizens' recommendation for rates in this proceeding?

13 A. Citizens recommends that the Commission approve a rate of \$765 per
14 ERU per service connection to the DistCo system (a total of \$1,530 per
15 ERU connected to the system) and Citizens' proposed rates which provide
16 for an average \$70.00 per month charge for water and wastewater
17 service to residential customers in the Villages with a 5/8" x 3/4" meter,
18 basically a single family residential customer.

19

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
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1 Q. If the Commission adopts the Staff recommended rates, which would
2 result in a \$78.00 monthly charge for the single-family residential
3 customer, should the Commission also approve the \$1,530 CRC per ERU
4 from the builders?

5 A. No, it should not. The increase in the CRC from the \$1,000 per ERU
6 contained in the contract to the \$1,530 in the latest proposal made by
7 Citizens and Webb was made to provide additional revenues to offset the
8 expense caused by the elimination of the deferral of depreciation. The
9 \$1,530 per ERU amount was established to maintain the monthly single
10 family residential charge at \$70. If the Staff proposal is adopted, the
11 CRC must be reduced by \$130 to a charge of \$1,400 per ERU.

12
13 Q. What is the effect of adopting rates that provide both the \$78 monthly
14 charge for a single family residential customer and the \$1,530 per ERU?

15 A. Citizens' earnings would increase, since the \$1,530 charge was not
16 correspondingly reduced to offset the additional revenues that will result
17 from the \$8 higher rate for the single family residential service.

18

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1 Q. What are the differences in rates between Citizens' and Staff's
2 recommendations for a residential customer with a 5/8" x 3/4" meter?

3 A. The only difference is in the monthly charge for water and wastewater
4 service. As shown on Schedule "A", attached hereto, the Staff is
5 recommending that the minimum monthly customer charge be \$20.00
6 for water service and \$20.00 for wastewater service. The Company is
7 recommending a monthly customer charge of \$16.00 for each service.
8 Both the Staff and Citizens are using a \$2.00 per thousand gallon charge
9 for water service and for the treatment of each of the first 7,000 gallons
10 of wastewater.

11
12 As shown on Schedule "B" attached, the Staff's total monthly bill for an
13 average single family residential customer is \$78. Citizens' total monthly
14 bill, under the same assumptions is \$70. The \$8 per month difference
15 creates a significant concern for Citizens and Webb parties.

16
17 Q. What is the purpose of the CRC?

18 A. The CRC was designed to provide funds from builders to offset the
19 revenue requirement for the infrastructure investment required to serve
20 the customers at the Villages.

21

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
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1 Q. Are you requesting Commission approval for the CRC?

2 A. Yes, we are. The CRC is a charge that will be collected from the builders
3 and will be accounted for as revenues by TreatCo. Since the Staff is not
4 recommending approval of the contract between The Villages at Desert
5 Hills, Inc. and Citizens, Citizens believes it is necessary for the
6 Commission to approve the rates charged for the CRC just as the
7 Commission approves all rates charged by a regulated utility. Without
8 separate approval, there would be no Commission approved basis for the
9 charge.

10

11 Q. Have the amounts to be charged as CRC been included as revenues by
12 TreatCo in the projections used to establish initial rates in this
13 proceeding?

14 A. Yes, they have. Both Citizens and Staff have used the CRC revenues to
15 establish the initial rates for TreatCo.

16

17 Q. Have you discussed this issue with Staff since the issuance of the Staff
18 Report?

19 A. Yes, I have.

20

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
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1 Q. What is your understanding of Staff's position on this issue?

2 A. It is my understanding, that Staff does not object to Commission
3 approval of a CRC covering both water and wastewater services in this
4 proceeding.

5
6 Q. Referring now to the issue of amortization of a portion of the LXA
7 advances made by the builders, please briefly describe the difference
8 between Citizens and Staff.

9 A. In developing the proposed initial rates for DistCo, Citizens amortized, as
10 a contribution-in-aid of construction, 50 percent of the LXA advanced by
11 the builder, beginning in the year of receipt of the LXA advance,
12 attempting to reduce the revenue requirement for DistCo's customers.
13 The Staff's initial rates do not include such amortization of the LXA
14 advance at the beginning of the advance; rather, they follow the
15 Commission's traditional LXA policy which delays the amortization until
16 the expiration of the LXA refund provisions.

17

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CITIZENS UTILITIES COMPANY
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1 Q. Why does Citizens request the Commission to approve a change in its
2 LXA policy regarding amortization of LXA advances in setting initial rates
3 in this proceeding?

4 A. Citizens believes, in this instance, a change in this policy is warranted
5 because it produces a lower revenue requirement and therefore lower
6 initial and future rates to customers.

7
8 Q. Have you prepared a schedule showing the impact on revenue
9 requirement following the Commission's LXA policy and the change
10 recommended by Citizens for this CCN proceeding?

11 A. Yes, I have. Attached to my testimony are two schedules, Schedule "C"
12 which shows the revenue requirement following the Commission's
13 existing LXA policy and Schedule "D" which shows the revenue
14 requirement impact following the Company's recommendation.

15
16 Q. Please describe Schedule "C".

17 A. Schedule "C" shows the effect of a \$100,000 LXA with a 20-year
18 depreciable life and an estimated total refund that equals 50 percent of
19 the original LXA by year 10. As indicated thereon, the depreciation
20 expense reflects 100 percent of the utility plant, included in setting the
21 revenue requirement (line 12), with the cumulative effect used to reduce

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1 rate base (line 2). The amortization of the CIAC begins in year 11 (line
2 13) at a rate that will achieve full amortization at the same time the
3 original plant is fully depreciated. As shown on line 9, the depreciation of
4 the total plant investment produces a negative rate base, thereby
5 reducing the revenue requirement for that component. However, as
6 shown on line 14, when the depreciation expense is included as an
7 element of the revenue requirement, which is consistent with the use of
8 accumulated depreciation as an offset to rate base, the **total** revenue
9 requirement is over \$4,000 in each year through year 10.

10
11 Q. Please describe Schedule "D".

12 A. Schedule "D" shows the annual revenue requirement if 50 percent of the
13 LXA advance is treated as a CIAC from the beginning. There is no impact
14 on the plant, accumulated depreciation or net plant as compared with the
15 scenario on Schedule C. The builders' advance is reduced from \$100,000
16 to \$50,000 and the CIAC is increased from \$0 to \$50,000. This still
17 reflects the total amount of the LXA provided by the builder, with no
18 effect on the actual amount to be refunded. Since that amount is
19 computed based on the revenue from the customers, it is the same
20 under both examples. The only change affecting rate base is that the
21 CIAC amortization begins in year 1 instead of year 11. This, as shown on

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1 line 8, increases the rate base by \$2,500 per year and therefore
2 increases the revenue requirement from the rate base. However, as
3 shown on line 13, the amortization of the CIAC offsets depreciation
4 expense, thereby producing a reduced revenue requirement in the
5 aggregate.

6
7 Q. Is it reasonable to assume that 50 percent of the LXA amount will not be
8 refunded?

9 A. Yes, it is. In my experience with LXAs with refund provisions based on
10 customer revenues, normal customer growth and a ten-year term, the
11 normal amount of an LXA refunded is anywhere from 30 percent to 60
12 percent. Using a 50 percent level is within a reasonable range of what
13 will eventually represent a CIAC.

14
15 Q. Have you shown a comparison of the revenue requirement from each
16 method?

17 A. Yes, I have. Referring to Schedule "C", line 16, the comparison shows
18 that the revenue requirement from the Citizens' recommendation is
19 approximately \$2,000 lower in the first year and remains lower until year

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1 6. Moreover, the cumulative revenue requirement is lower under
2 Citizens' proposal until year 11. This relationship is even greater when
3 considered on a net present value basis.
4

5 Q. To what may this difference be attributed?

6 A. Under the existing LXA policy covering the amortization of unrefunded
7 advances, customers are charged for depreciation on the gross plant
8 investment from the date of source, but do not receive any benefits of
9 the amortization until **after** the expiration of the LXA's refund provisions.
10 Citizens and Webb have proposed to accelerate this customer benefit by
11 limiting the amount of the LXA refund to 50 percent.
12

13 Q. What is your understanding of the Staff's position recommending that the
14 existing LXA provisions not be changed in this CCN proceeding?

15 A. As I understand it, Staff does not believe that a CCN proceeding is the
16 right forum for making a determination that the existing LXA procedures
17 should be changed.
18

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
CITIZENS UTILITIES COMPANY
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1 Q. Why does Citizens think that this issue should be decided by the
2 Commission in this proceeding and not in Citizens' first rate case?

3 A. The CCN proceeding is establishing initial rates which, under the Staff
4 proposal, would have to be higher to provide for increased revenue
5 requirements during the initial project years. Citizens and Webb believe
6 that it is reasonable for the Commission to decide in this case to avoid
7 putting increased pressure on customers rates which, under Citizens'
8 proposal are established at \$70 per month for water and wastewater
9 service for an average residential customer with a 5/8" x 3/4" meter. The
10 \$70 per month charge is, in the opinion of Citizens and Webb, at the
11 upper limit of the acceptable requirement for a single family residential
12 charge within the Phoenix Metropolitan area. It is also significantly
13 greater than the existing rates of almost all water and wastewater
14 utilities in the state.

15
16 Q. What is the comparable revenue level recommended by the Staff?

17 A. Staff proposed tariffs reflecting an average rate of \$78.00.

18
19 Q. Is there another source for this revenue requirement?

20 A. The only other source would be an increase in the CRC paid by the
21 developer.

**DIRECT TESTIMONY OF ROBERT L. O'BRIEN
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1 Q. Should the Commission consider increasing the CRC instead of increasing
2 the customer's rates?

3 A. No, it should not. The developer is already making a substantial
4 commitment in this development to provide service to customers. In
5 addition, with respect to the \$1,530 CRC and the 50 percent of the LXA
6 which will not be refunded (approximately \$1,200 per customer), Webb
7 is receiving no return on the amount of the infrastructure advanced until
8 refunds are paid by TreatCo or DistCo. Such advances are used to
9 reduce rate base and are a significant part of keeping initial rates low.

10

11 Q. Please summarize Citizens' requests.

12 A. First, Citizens requests that the Commission approve a CRC in the
13 amount of \$765 per ERU for water and \$765 per ERU for wastewater
14 service to be charged by TreatCo to builders at the Villages. In addition,
15 Citizens requests that the Commission authorize DistCo to record 50
16 percent of the amounts received from builders under LXA as CIAC when
17 received and amortize the CIAC over the average service life of the plant
18 to which they relate, beginning with the year during which the advance is
19 received. Finally, Citizens requests that the minimum monthly charge for

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1 water and wastewater service for a 5/8" x 3/4" meter be established at
2 \$16 per month per service as recommended by Citizens and not at the
3 \$20 level proposed by Staff.
4

5 Q. Does that complete your testimony at this time.

6 A. Yes, it does.
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SCHEDULE A

11/06/1990 10:00

CITIZENS UTILITIES COMPANY
PROPOSED WATER AND WASTEWATER TARIFFS

Schedule "A"
 Page 1 of 1

LINE #	DESCRIPTION	[1]		[2]	
		CITIZENS RECOMMENDATION		STAFF RECOMMENDATION	
WATER SERVICE					
1	5/8" x 3/4" Meter	\$	16.00	\$	20.00
2	3/4" Meter		16.00		20.00
3	1" Meter		32.00		32.00
4	1 1/2" Meter		64.00		64.00
5	2" Meter		80.00		80.00
6	3" Meter		160.00		160.00
7	4" Meter		200.00		200.00
8	6" Meter		250.00		250.00
9	Master Meter - Per Unit		12.00		12.00
USAGE CHARGE					
10	---ALL METERS, ALL USAGE -- Per 1,000 gallons	\$	2.00	\$	2.00
WASTEWATER SERVICE					
RESIDENTIAL					
11	---Minimum Monthly Charge	\$	16.00	\$	20.00
---Treatment Charge					
12	--- For up to first 7,000 gallons of Water Usage -- Per 1,000 gallons	\$	2.00	\$	2.00
SMALL COMMERCIAL					
--- 5/8" X 3/4" Meter					
13	--- Minimum Monthly Charge	\$	16.00	\$	20.00
---Treatment Charge					
14	--- For up to first 10,000 gallons of Water Usage -- Per 1,000 gallons	\$	2.00	\$	2.00
--- 1" Meter					
15	--- Minimum Monthly Charge	\$	32.00	\$	32.00
---Treatment Charge					
16	--- For up to first 25,000 gallons of Water Usage -- Per 1,000 gallons	\$	2.00	\$	2.00
LARGE COMMERCIAL USERS					
17	--- Minimum Monthly Charge	\$	64.00	\$	64.00
18	---Treatment Charge For All Water Usage -- Per 1,000 gallons	\$	2.00	\$	2.00

R:\O_TEST\cis
 TARIFF (AO1_AX60)

SCHEDULE B

106-001-002

CITIZENS UTILITIES COMPANY

Schedule "B"
Page 1 of 1

PROPOSED WATER AND WASTEWATER RESIDENTIAL REVENUE LEVEL

LINE #	DESCRIPTION	(1) CITIZENS RECOMMENDATION	(2) STAFF RECOMMENDATION
RESIDENTIAL SERVICE -- 5 / 8" X 3 / 4" Meter			
WATER SERVICE			
1	Monthly Minimum Charge -- 5 / 8" x 3 / 4" Meter	\$ 16.00	\$ 20.00
2	Monthly Usage Charge for 12,000 gallons @ \$2.00 per 1,000 gallons	24.00	24.00
WASTEWATER SERVICE			
3	Monthly Minimum Charge -- 5 / 8" x 3 / 4" Meter	16.00	20.00
4	Monthly Treatment Charge for 7,000 gallons @ \$2.00 per 1,000 gallon	14.00	14.00
5	MONTHLY BILL TO SINGLE FAMILY RESIDENTIAL	\$ 70.00	\$ 79.00

Maximum charge for wastewater treatment for single family residential with 5 / 8" x 3 / 4" meter. If water usage is less than 7,000 gallons the customer will be charged only for the lower water usage level.

ALL OTHER SERVICES

- 5. There are no differences between rates recommended by Staff and the Company. Therefore there are no revenue differences.

SCHEDULE C

111100-1100-000

SCHEDULE D

3300-100-000

CITIZENS UTILITIES COMPANY

REVENUE REQUIREMENT FOR LINE EXTENSION AGREEMENTS
AMORTIZATION BEGINS UPON THE RECEIPT OF THE ELA

LINE #	DESCRIPTION	BASE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	
1	PLANT DEPRECIATION	\$ 120,000	\$ 150,000	\$ 180,000	\$ 210,000	\$ 240,000	\$ 270,000	\$ 300,000	\$ 330,000	\$ 360,000	\$ 390,000	\$ 420,000	\$ 450,000	\$ 480,000	\$ 510,000	
2	ACCUMULATED DEPRECIATION	15,000	30,000	45,000	60,000	75,000	90,000	105,000	120,000	135,000	150,000	165,000	180,000	195,000	210,000	
3	NET PLANT	95,000	120,000	135,000	150,000	165,000	180,000	195,000	210,000	225,000	240,000	255,000	270,000	285,000	300,000	
4	CUSTOMER ADVANCES	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
5	REFUNDING OF CUSTOMER ADVANCES	2,000	5,000	8,000	11,000	14,000	17,000	20,000	23,000	26,000	29,000	32,000	35,000	38,000	41,000	
6	ELA	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
7	AMORTIZATION OF ELA	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	
8	NET OPERATING INCOME	\$ 100,000	\$ 150,000	\$ 200,000	\$ 250,000	\$ 300,000	\$ 350,000	\$ 400,000	\$ 450,000	\$ 500,000	\$ 550,000	\$ 600,000	\$ 650,000	\$ 700,000	\$ 750,000	
9	NET OPERATING INCOME	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000	65,000	70,000	75,000	
10	INCOME TAXES (ELA)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	
11	PROVISION FOR DEFERRED TAXES	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	
12	DEFERRED TAX EXPENSE	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	
13	AMORTIZATION OF ELA	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	
14	TOTAL REVENUE REQUIREMENT	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	

REG. TEST NO.
AMOUNT DED. 41.4600

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-01032A-97-0599 et.al.
VILLAGES AT DESERT HILLS**

1 Q. Please state your name and business address.

2 A. My name is Ray L. Jones. My business address is Citizens Water
3 Resources, 15626 North Del Webb Boulevard, Sun City, Arizona 85352.
4

5 Q. By whom and in what capacity are you employed?

6 A. I am employed by Citizens Utilities Company ("Citizens") and subsidiaries
7 as Engineering and Development Services Manager for the Citizens Water
8 Resources ("CWR") operations in Arizona.
9

10 Q. Please describe the CWR operations in Arizona.

11 A. In Arizona, CWR provides water and/or wastewater service to customers
12 in Mohave, Maricopa and Santa Cruz Counties. These services are
13 provided through the Agua Fria Water and Mohave Water Divisions of
14 Citizens and through the following wholly owned subsidiaries of Citizens:
15 Citizens Public Works Service Company of Arizona, Havasu Water
16 Company, Sun City Water Company, Sun City Sewer Company, Sun City
17 West Utilities Company, Tubac Valley Water Co., Inc.
18

19 Q. How long have you been employed by Citizens?

20 A. I have been employed by Citizens for over twelve years.

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
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VILLAGES AT DESERT HILLS**

1 Q. What are your duties and responsibilities?

2 A. I am responsible for managing a diverse group of business functions
3 related to business growth and ongoing technical support of operations.
4 Specific responsibilities are: 1) managing engineering services, including
5 the design, permitting, construction and evaluation of all types of water
6 and wastewater facilities; 2) managing development activity, including
7 developer contact, Line Extension Agreement negotiation, related
8 regulatory activity and filings, and tracking and accounting for agreement
9 activity; 3) managing water resource related activities, including securing
10 long-term water supplies and compliance with the Arizona Department of
11 Water Resources rules and regulations; and 4) master planning, including
12 projecting growth and system demands, developing water and
13 wastewater system master plans, and long-term water resource plans.

14
15 Q. What is your relevant education, training and experience relating to the
16 work you are doing?

17 A. I attended and graduated from the University of Kansas with a Bachelor
18 of Science degree in Civil Engineering. I began working at Citizens as a
19 Civil Engineer. While working at Citizens, I attended Arizona State
20 University and received a Master of Business Administration degree. In
21 1990, I was promoted to my current position. I have received training

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VILLAGES AT DESERT HILLS**

1 through attendance at numerous seminars pertaining to my areas of
2 responsibility. I have overseen the rapid growth of the CWR water and
3 wastewater systems. I have also managed numerous studies and
4 planning efforts pertaining to water and wastewater systems. Further, I
5 have managed numerous construction projects ranging from treatment
6 plant expansions and modifications, to source of supply, and pipeline
7 projects.

8
9 Q. Are you a member of any professional associations?

10 A. I am a member of several professional associations, including the
11 American Water Works Association, Water Environment Federation,
12 American Society of Civil Engineers, National Society of Professional
13 Engineers, Arizona Water and Pollution Control Association, American
14 Management Association and others.

15
16 Q. Have you presented testimony before any regulatory commissions?

17 A. Yes, I have presented testimony or testified in several Certificate of
18 Convenience and Necessity and rate making proceedings before the
19 Arizona Corporation Commission ("Commission").

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-01032A-97-0599 et.al.
VILLAGES AT DESERT HILLS**

1 Q. Do you hold any professional licenses?

2 A. Yes, I am a registered Professional Engineer in Arizona and California.

3

4 Q. What is the purpose of your testimony in this proceeding?

5 A. I will present testimony in support of the applications for Certificates of
6 Convenience and Necessity ("CCN") and related approvals and
7 authorizations for Citizens and its subsidiaries, Citizens Water Resources
8 Company of Arizona ("TreatCo") and Citizens Water Services Company of
9 Arizona ("DistCo")

10

11 Q. What areas will your testimony address?

12 A. I will provide:

- 13 1. An overview of the Villages at Desert Hills ("Villages") development
14 plan, including establishing the need for public water and
15 wastewater utility service.
- 16 2. An overview of the water supply for the Villages.
- 17 3. An overview of the water and wastewater system planned for the
18 Villages, including the status of needed regulatory approvals.
- 19 4. A description of Citizens' plan for operating the water and
20 wastewater systems at the Villages.

21

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-01032A-97-0599 et.al.
VILLAGES AT DESERT HILLS**

VILLAGES DEVELOPMENT PLAN

1
2 Q. Please provide a brief description of the location and size of the Villages
3 development.

4 A. The Villages is located adjacent to Interstate 17, approximately twenty
5 miles north of downtown Phoenix, between the Desert Hills and Pioneer
6 Road interchanges. The project consists of 5,661 total acres.
7 Approximately 4,756 acres are located east of Interstate 17; the
8 remaining approximately 905 acres is located west of Interstate 17.

9
10 Q. In what political jurisdiction(s) is the Villages located?

11 A. The portion of the Villages east of Interstate 17 is located in
12 unincorporated Maricopa County. The portion of the Villages located
13 west of Interstate 17 is in the City of Phoenix.

14
15 Q. Who is the developer of the Villages?

16 A. The Villages is being developed by The Villages at Desert Hills, Inc. a
17 subsidiary of the Del Webb Corporation (collectively, "Del Webb").

18
19 Q. Please describe Del Webb's development experience.

20 A. Del Webb is the largest developer and homebuilder in Arizona and one of
21 the premier developers in the Country. Del Webb has extensive

**DIRECT TESTIMONY OF RAY L. JONES
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VILLAGES AT DESERT HILLS**

1 experience developing master planned communities such as the Villages.
2 Del Webb communities in Arizona include Sun City, Sun City West, Sun
3 City Grand, Sun City Tucson, The Foothills, and Terrivita. Del Webb
4 currently has operations in Arizona, Nevada, California, Texas and North
5 Carolina and has purchased land for development of a Sun City
6 community in the Chicago metropolitan area.

7
8 Del Webb is the sixth largest homebuilder in the United States. In its
9 fiscal year ended June 30, 1997, it closed 4,320 homes in nine Sun City
10 communities located in Arizona, Nevada, California, Texas and North
11 Carolina, 410 homes in a non-age restricted country club community in
12 North Scottsdale, Arizona and 1,476 homes through its conventional
13 home-building division Coventry Homes. At the Villages, Del Webb will
14 open the project with a conventional home-building operation which will
15 offer product for the first time homebuyer through the second trade up
16 buyer and with a non-age restricted country club community. It is
17 anticipated that annual closings in these two communities will average
18 approximately 700 units per year.

19
20

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CITIZENS UTILITIES COMPANY
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VILLAGES AT DESERT HILLS**

1 Q. Please provide a brief description of the planned Villages development.

2 A. The Villages is the largest master-planned community development in the
3 Metropolitan Phoenix area. The Villages' environmentally sensitive land
4 plan devotes 2,680 acres to residential development, 611 acres to mixed
5 use development, and 2,150 acres to open space and recreational uses.
6 The Villages will include up to 14,500 quality homes which will range
7 from starter to luxury homes. Amenities planned for the Villages include
8 parks, a community center, schools, a Village Market, and golf courses.

9
10 Q. Is additional detailed information available describing the Villages
11 development?

12 A. Yes, attached as Exhibit RLJ-1 is a Project Overview prepared by Del
13 Webb.

14
15 Q. Is there a Development Master Plan for the Villages?

16 A. Yes, Del Webb has prepared a Development Master Plan (DMP 94-6)
17 which has been approved by Maricopa County.

18
19 Q. What is the development schedule for the Villages?

20 A. The project is currently in the early stages of development. Activities
21 such as planning, infrastructure design, and surveying are underway. By

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VILLAGES AT DESERT HILLS**

1 calendar year-end 1997 the first of the water facilities is expected to be
2 under construction, and by mid-1998 most aspects of the Phase I
3 development are expected to be under construction. The first homes
4 sales are expected to occur in early to mid 1999.

5
6 Q. Is there a public need and necessity for water and wastewater utility
7 service for the Villages?

8 A. Yes, as previously described, the Villages is currently under development
9 by Del Webb, one of the premier developers of master planned
10 communities in the United States. It is imperative that Certificates of
11 Convenience and Necessity be issued as soon as practical so that
12 development of the Villages can proceed as planned.

13
14 Q. Are TreatCo and DistCo fit and proper entities to provide water and
15 wastewater utility service to the Villages?

16 A. Yes, these wholly owned subsidiaries of Citizens Utilities Company are
17 financially able and have the necessary expertise and resources to
18 provide the services and have entered into the necessary contract with
19 Del Webb to provide the services. No other Public Service Corporation or
20 municipality is providing service to the Villages, and no other Public

**DIRECT TESTIMONY OF RAY L. JONES
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VILLAGES AT DESERT HILLS**

1 Service Corporation has Certificates of Convenience and Necessity to
2 provide services to the Villages.

3

4 Q. Do TreatCo and DistCo have the necessary authorizations required under
5 Arizona Revised Statute §40-282 to install facilities in the public rights-
6 of-way planned for the Villages?

7 A. DistCo and TreatCo are making simultaneous application to Maricopa
8 County and the City of Phoenix for the necessary authorizations. Within
9 the next few months TreatCo and DistCo expect to obtain a Franchise
10 from Maricopa County and to enter into an Operating Agreement with the
11 City of Phoenix.

12

13 Q. Will the Franchise and the Operating Agreement satisfy TreatCo and
14 DistCo's requirement under Arizona Revised Statute §40-282?

15 A. Yes, they will.

16

17 Q. Are TreatCo and DistCo in good standing with the Commission?

18 A. Yes, they are.

19

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
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VILLAGES AT DESERT HILLS**

WATER SUPPLY FOR THE VILLAGES

1
2 Q What is the planned source of water supply for the Villages?

3 A. The primary source of water for the project is a 100-year lease ("Ak-Chin
4 Lease") for 10,000 acre-feet per year of Colorado River water between
5 Del Webb, the Ak-Chin Indian Community, and the United States of
6 America. The Agreement for the Villages at Desert Hills
7 Water/Wastewater Infrastructure Agreement ("Agreement") assures the
8 supply of 7,500 acre-feet of that water ("Ak-Chin water") to TreatCo for
9 treatment and sale to DistCo and other customers. Also, during the
10 initial development of the Villages, Del Webb will use groundwater for
11 construction purposes.

12
13 Q. Is groundwater use at the Villages limited?

14 A. Yes, as a stipulation to approval of the master plan for the Villages, Del
15 Webb agreed to limit groundwater use to the amount needed to
16 construct the water and wastewater treatment facilities and the main
17 water delivery pipeline plus an additional 150 acre-feet for other initial
18 construction and certain public uses. Additionally, assured water supply
19 requirements require water for new developments to be renewable
20 supplies.

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1 Q. Will wastewater effluent be reused at the Villages?

2 A. Yes, all non-potable water demands will be first met with treated
3 effluent. Any remaining demands will be met with untreated Ak-Chin
4 water. Any excess effluent not needed for irrigation will be recharged
5 into the underground aquifer.

6
7 Q. Is the Ak-Chin water a reliable supply?

8 A. Yes, the Ak-Chin water will be delivered by the United States through the
9 Central Arizona Project ("CAP"). Further the Ak-Chin water has the
10 highest priority of all water delivered through the CAP, making it
11 extremely reliable in times of drought.

12
13 Q. Is a detailed summary of Ak-Chin water history, priority and terms of
14 lease available?

15 A. Yes, an Ak-Chin Water Summary is provided as Attachment 11 to the
16 Application. This summary describes in detail, the history and priority
17 nature of the Ak-Chin Water. Further, the Ak-Chin Lease is included in
18 the Application as Exhibit G to the Agreement.

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VILLAGES AT DESERT HILLS**

1 Q. Where will the Ak-Chin water be delivered to TreatCo?

2 A. The Ak-Chin Water will be delivered to TreatCo at a turnout to be
3 constructed on the Waddell canal approximately 2.5 miles south of Lake
4 Pleasant.

5
6 Q. Describe the Waddell Canal's function in the CAP system?

7 A. The Waddell canal is a two-way flow canal used to transport water to and
8 from Lake Pleasant and the main CAP canal. During the winter season,
9 water is taken from the main canal and transported northerly through the
10 Waddell canal to fill Lake Pleasant. During the summer season, water is
11 released from Lake Pleasant and transported through the Waddell canal
12 to the main canal for delivery to downstream users.

13

14 Q. Is there any advantage to having the delivery point for Ak-Chin water on
15 the Waddell canal?

16 A. Yes, since the Ak-Chin water delivery point is on the Waddell canal, water
17 deliveries are not affected by a single failure in the CAP system, making
18 the supply very reliable. Regardless of the season, if a canal failure
19 occurred between the delivery point and Lake Pleasant, water would be
20 delivered from the main canal. If a canal failure occurred between the

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VILLAGES AT DESERT HILLS**

1 delivery point and the main canal or upstream on the main canal, water
2 would be delivered from Lake Pleasant.
3

4 **WATER AND WASTEWATER SYSTEM INFRASTRUCTURE**

5 Q. Please summarize the planned water and wastewater system
6 infrastructure for the Villages?

7 A. The Villages will be served by a completely self-contained water and
8 wastewater system to be constructed specifically to serve the project.
9 The system will consist of seven separate components owned by two
10 separate entities. TreatCo will own and operate the off-site raw water
11 supply system, the water treatment facility, the wastewater treatment
12 facility, the backbone water distribution and wastewater collection
13 systems, and the effluent reuse and on-site raw water system. DistCo
14 will own and operate the on-site water distribution system and the on-
15 site wastewater collection system. Through these systems all of the
16 potable and irrigation water requirements and the wastewater
17 requirements of the Villages will be met.
18

19 Q. Briefly describe the off-site raw water supply system.

20 A. A canal turnout, pumping station, and an approximately 9-mile, 30-inch
21 diameter ductile iron pipeline will be constructed to bring water from the

**DIRECT TESTIMONY OF RAY L. JONES
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VILLAGES AT DESERT HILLS**

1 Waddell canal to the water treatment campus located on the project site.

2 Raw water will be stored on-site in two 2-million gallon reservoirs. A
3 groundwater recharge and recovery system is being investigated to allow
4 storage of surface water and effluent underground for use during peak
5 demands or times of shortage.

6
7 Q. What measures are being taken to insure that the supply of raw water to
8 the project is reliable?

9 A. First, the pumping station and raw water pipeline are being designed with
10 reliability in mind. For example, the pumping station will have redundant
11 pumps and a backup generator. The pipeline is being constructed of
12 ductile iron pipe to insure maximum reliability and ease of repair. Pipe
13 and required fittings will be stocked in case emergency repairs are
14 required. All river and wash crossings are designed to withstand a 100-
15 year flood event. Additionally, four million gallons of raw water storage
16 is provided at the treatment plant site in addition to the 7.5-million
17 gallons of treated water storage.

18

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
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VILLAGES AT DESERT HILLS**

1 Q. Is there a potential for a long-term failure of the raw water supply
2 system?

3 A. Due to the design of the system a long-term failure is extremely unlikely.
4 However, in the event of major flood event, the pipeline could be
5 damaged and rendered inoperable for a period of up to a few weeks.

6
7 Q. What is being done to address this contingency?

8 A. A study of the subsurface hydrology to determine the possibility of
9 operating recovery wells is underway. This study will determine the
10 feasibility of storing excess effluent and raw Ak-Chin water underground
11 for later recovery. The study is comprehensive in scope and includes
12 production well installation and full-scale test pumping. If recovery is
13 proven to be feasible, a recovery well field will be installed to provide
14 source of water during times when the raw water supply system is out of
15 service for extended periods.

16
17 Q. Would the recovery wells be used for any other purpose?

18 A. Yes, they would likely be used to supply a portion of the peak demand
19 during the summer months, reducing the required capacity of the water
20 treatment facility.

21

**DIRECT TESTIMONY OF RAY L. JONES
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VILLAGES AT DESERT HILLS**

1 Q. When is the status of the hydrological study and when is it expected to
2 be completed?

3 A. The initial phases of the study are complete. Drilling and analyzing of
4 test well and other data has indicated that recovery wells are likely
5 feasible. Work is proceeding with installation and testing of a full-scale
6 production well. The study is expected to be complete by January 1998.

7
8 Q. What other options are available to provide a back-up water supply if
9 recovery wells are not feasible?

10 A. Other options include additional storage of raw Ak-Chin water on-site and
11 interconnection with the City of Phoenix water system.

12
13 Q. Briefly describe the water and wastewater treatment facilities?

14 A. The water and wastewater treatment facilities will be constructed on a
15 common Water Campus site that will also include raw water storage,
16 finished water storage, and pumping and effluent storage and pumping.
17 The Water Campus will include common support buildings, which include
18 an Administration Building (Offices, Control Room, Laboratory, etc.) and
19 a Maintenance Building (Garage and Warehousing). The water treatment
20 facility is being designed to produce water that meets or exceeds all
21 regulatory requirements for drinking water. The water treatment facility

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VILLAGES AT DESERT HILLS**

1 is expected to include the following major unit processes: Preoxidation
2 for Iron/Manganese removal, Granular or Powdered activated carbon for
3 taste and odor control, Microfiltration or ultrafiltration membrane
4 filtration, and Disinfection. The wastewater treatment facility is being
5 designed to provide tertiary treatment for the wastewater flow from the
6 Villages. The water treatment facility is expected to include the following
7 major unit processes: Influent pumping, screening, secondary treatment
8 utilizing an activated sludge process, secondary effluent filtration for
9 tertiary treatment, and disinfection.

10
11 Q. Briefly describe the backbone water distribution and wastewater
12 collection systems.

13 A. Potable water will be provided through an integrated system of two
14 booster stations, a combination of ground and elevated storage, and an
15 extensive piping network, providing service to four pressure zones. The
16 wastewater collection system will operate primarily by gravity using a
17 network of trunk sewers to collect flows from subdivisions and
18 commercial properties. Due to terrain limitations, two small areas will be
19 served by lift station and force main.

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VILLAGES AT DESERT HILLS**

1 Q. Briefly describe the effluent reuse and on-site raw water system.

2 A. Treated effluent and raw water will be delivered to individual turf
3 irrigators and other large landscape uses through an integrated system
4 of reservoir storage, booster stations, and two extensive piping
5 networks. One network is exclusively for use by the golf courses and the
6 community lake, which must use treated effluent as a primary water
7 supply. The other network will serve other users (schools grounds, parks
8 and rights-of-way) which do not require treated effluent as a primary
9 source of water supply.

10

11 Q. How are the various water and wastewater facilities being constructed?

12 A. Whenever possible, water and wastewater facilities are being constructed
13 in phases, in order to provide cost effective service to the Villages. To
14 the greatest extent possible facilities are being added incrementally as
15 demand increases.

16

17 Q. Please summarize the status of required regulatory approvals.

18 A. The regulatory review process is underway with both the Maricopa
19 County Environmental Services Department ("MCESD") and the Arizona
20 Department of Environmental Quality ("ADEQ"). ADEQ has primary
21 responsibility for the "environmental" permits including the Aquifer

**DIRECT TESTIMONY OF RAY L. JONES
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1 Protection Permit and wastewater Reuse Permit. MCESD has primary
2 responsibility for the review of master plans, design reports and facility
3 construction plans and specifications. Additionally, before the property
4 can be subdivided, a Certificate of Assured Water Supply or Designation
5 of Assured Water Supply must be obtained from the Arizona Department
6 of Water Resources ("ADWR").

7
8 Del Webb has submitted an application for an Aquifer Protection Permit
9 and a wastewater Reuse Permit to ADEQ. These applications are
10 currently under review. The applications will be amended to replace Del
11 Webb with TreatCo as the applicant. ADEQ is expected to issue the
12 Aquifer Protection Permit and the wastewater Reuse Permit by July of
13 1998. The draft master plans for the water distribution, wastewater
14 collection, and effluent reuse systems have been submitted to MCESD
15 and are currently under review. The final master plans are nearly
16 complete and will be submitted to MCESD in December 1997. Del Webb
17 submitted an application for a Certificate of Assured Water Supply for
18 Phase I.a. of the project on November 5, 1997. Approval is expected in
19 mid 1998

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1 Q. Is a detailed description of the various components of the water and
2 wastewater supply system available?

3 A. Yes, a detailed description of the water, wastewater, and effluent reuse
4 systems, including the status of the regulatory approvals is provided as
5 Attachment 6 to the Application.
6

7 **CITIZENS' PLAN OF OPERATION**

8 Q. How will TreatCo and DistCo be operated and managed?

9 A. TreatCo and DistCo will be operated and managed as a part of the CWR
10 operations in Arizona. Initially, the existing CWR Arizona workforce will
11 provide all operation and management for the TreatCo and DistCo
12 operations at the villages. As the operations of TreatCo and DistCo
13 grow, certain functions, such as operation of the treatment facilities will
14 be performed by CWR Arizona employees primarily dedicated to TreatCo
15 and DistCo operations. The common workforce will continue to be
16 housed at the existing Sun City and Surprise offices. DistCo and TreatCo
17 will have access and use of all of the common equipment and resources
18 available to other CWR Arizona operations.
19

**DIRECT TESTIMONY OF RAY L. JONES
CITIZENS UTILITIES COMPANY
DOCKET NOS. W-01032A-97-0599 et.al.
VILLAGES AT DESERT MILLS**

1 Q. Why was this plan of operation selected?

2 A. Through the use of common resources and personnel the TreatCo and
3 DistCo operations will have access to resources and expertise which
4 otherwise would not be available. Additionally, TreatCo and DistCo will
5 enjoy economies of scale associated with the large CWR Arizona
6 operation, providing the most cost efficient operation.

7
8 Q. How will costs be charged to TreatCo and DistCo?

9 A. All charges will be consistent with existing practices used by CWR Arizona
10 and approved by the Commission. Labor supplied to TreatCo and DistCo
11 will be direct charged by the individuals working for TreatCo and DistCo.
12 Common capital costs and administrative costs will be allocated to
13 TreatCo and DistCo in accordance approved allocation models.

14
15 Q. Does this conclude your testimony at this time?

16 A. Yes, it does.

17

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