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ARIZONA CORPORATION COMMISSION
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Docket No.: W-01303A-09-0343
SW-01303A-09-0343

Arizona Corporation Commission

DOCKETED

OCT 17 2014

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**REBUTTAL TESTIMONY
OF
GREG EISERT
ON BEHALF OF
SUN CITY HOME OWNERS ASSOCIATION
October 17, 2014**

Greg Eisert testifies that:

I am appearing on behalf of the Sun City Home Owners Association (SCHOA). SCHOA has intervened in this proceeding on behalf of Sun City wastewater users that are customers of EPCOR Water Arizona, Inc. (EPCOR). The purpose of my testimony is to address our position regarding full consolidation of EPCOR's Wastewater Districts relating to various testimony submitted to the Arizona Corporation Commission between the dates of October 3, 2014 and October 6, 2014.

Small water/wastewater systems have long troubled our Arizona Commissioners. Many of the commission-regulated water/wastewater systems are small in size, which poses certain public policy problems. Particularly problematic are the very small systems that were the product of unchecked real estate development and lax local and area zoning policies. Many of these systems are geographically isolated, which often precludes interconnection with another system. Lacking economies of scale, smaller water systems typically must charge a much higher rate for service than larger systems. Higher rates make water/wastewater service less affordable for customers of smaller water systems.

Historical pricing behaviors with cost-of-service principles enhancing allocative efficiency: customers of systems with higher costs pay higher rates and customers of systems with lower costs pay lower rates. The degree of subsidy or inefficiency introduced with single-tariff pricing, depends in part on the differential in costs among systems. A small differential with a minimal rate impact will be less controversial than a large differential with a substantial rate impact. In this case, it is apparent that the extent of cost averaging through single-tariff pricing would constitute an inappropriate level of subsidy, undue price discrimination, or more generally, an abuse of monopoly power. Particularly, given the numbers offered by EPCOR as noted in this writer's Direct Testimony dated September 30, 2014, the Sun City ratepayers would forever be subsidizing the smaller user base district ratepayers.

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Tariff consolidation pricing contradicts fundamental regulatory principles and conventions, as well as undermines the commission's oversight responsibility: Tariff consolidation, sometimes called Single Tariff Pricing (STP), breaks the connection between costs and rates. It is a fundamental tenet of utility ratemaking policy that the cost causer should also be the cost payer. STP runs counter to this principle. Under a STP scheme, customers who receive no service from the core system would receive a considerable subsidy. Likewise, customers who do not impose a load on the noncore systems would be forced to pay a portion of the cost of providing that service indefinitely. A customer located in the core system would be encouraged to conserve water to an excessive degree. Conversely, a noncore customer would bear a smaller economic penalty for using more water than necessary.

The primary disadvantages of single-tariff pricing are that it appears to undermine economic efficiency, distort price signals to customers, and manifest an inconsistency with traditional cost-of-service principles. Although subsidies through some societal policy instruments (namely, taxes) are widely accepted, subsidies through utility rates generally are not. STP is merely a means of subsidizing high-cost users at the expense of low-cost users. Single-tariff pricing could provide EPCOR with incentives to overinvest in individual systems, disincentives for cost control, and a competitive advantage in the course of acquisitions.

Arguments Against Single-Tariff Pricing

- ✦ Conflicts with cost-of-service principles
- ✦ Provides subsidies to high-cost customers
- ✦ Not acceptable to all affected customers
- ✦ Considered inappropriate without physical interconnection
- ✦ Distorts price signals to customers
- ✦ Fails to account for variations in customer contributions
- ✦ Justification has not been adequate
- ✦ Discourages efficient water use and conservation
- ✦ Undermines economic efficiency

Importantly, single-tariff pricing is a *pricing* strategy, not a *costing* strategy. By itself, single tariff pricing may not provide significant economies of scale because only the costs associated with the pricing process itself (including analytical, administrative, and regulatory costs) can be considered. Larger utilities such as EPCOR view consolidated rates as an incentive to engage in acquisitions.

EPCOR eludes to the notion that if rates were to be consolidated, there would be no reason to maintain separate books and records for each of the districts – administrative cost savings. However, this loss of operating and financial data would destroy the ability to evaluate the effectiveness and efficiency of the Company's operation of the districts. As a result, the Commission would lose its ability to exercise regulatory oversight and control as it pertains to the districts.

Further, there were numerous notable items that came to light from various testimonies docketed from 10/3/2014 – 10/6/2014.

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- ✚ Testimony from two paid professional consultants: Neiderlinger/Anthem; Simer/Verrado. Both agreed that a viable alternative to full consolidation was “reconsolidation”.
- ✚ On the one hand, testimony was given complaining of an earlier settlement to “deconsolidate” due to “forced subsidies”. Yet a few years later in favor of “full consolidation” which would impose “forced subsidies” on the ratepayers of another district. (Select Convenience)
- ✚ Full Consolidation is more beneficial “over the long haul”. Nice words but the numbers given by EPCOR do not support that theory. The numbers simply do not add up now, any more than they did in 2012. There are approximately 28,000 Sun City District users of the EPCOR wastewater system. EPCOR lists 22,116 customers which is misleading as there are 6,000+ condominium users in Sun City which are consolidated under each Association thus the lower number listed as customers. The listing of the lower number depicts a lesser negative impact for the Sun City District ratepayers which is actually not accurate. EPCOR forecasts additional capital improvement costs of \$9.3M over the next five (5) years for Sun City District Ratepayers. At the proposed consolidation rate over a five year period, EPCOR would collect an additional \$27M to cover the projected \$9.3M expenditure/cost increase. If one were to forecast another \$12M in capital cost expenditures over the next five years the same increase would again produce \$27M to cover the \$12M projection. Therefore, over a ten year period, given the noted projections, it would cost Sun City Ratepayers an additional \$32.7M beyond the projected capital cost improvements due to full consolidation. Based on these projections “the long haul” is closer to infinity.
- ✚ Argument for a methodology shift from “cost causer” to “gradualism” & consolidation pricing base. Pricing and structural changes must be properly vetted. The theory nor the numbers provided thus far even come close to proving, let alone suggesting the viability of such a shift. Sounds like a call for a full rate case.
- ✚ The term “discrimination” was mentioned. Discrimination is accepted in the rate structures of public utilities, but such discrimination must be “just and reasonable.” Discrimination is both unintentional and purposeful. It is unintentional in that some discrimination results from the efforts of utilities and commissions to simplify the rate structures by grouping customers into a limited number of classifications. It is purposeful in that discrimination may be the only way in which service can be provided to some customers.

The Sun City Wastewater District is unique from all the other EPCOR districts in that its wastewater is serviced by the independent entity “City of Tolleson” wastewater treatment facility. EPCOR is responsible for the transmission lines to the Tolleson facility and pays a contracted fee to the City of Tolleson for wastewater treatment. The notion that there is no difference in wastewater service across districts thus the current rate structure is overly discriminatory simply is not true. The Commission in its previous decisions not to allow full consolidation was not only well within its authority but also correct in its determinations.

The Sun City Home Owners Association (SCHOA) agrees with the testimony of the Arizona Corporation Commission (ACC) Staff that “the Company’s proposal will result in extreme and unprecedented rate shock to certain customers. Further, the Company’s proposal would

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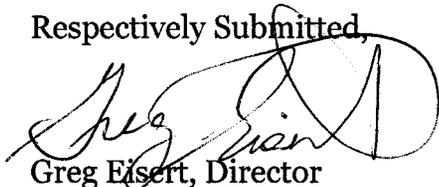
result in significant revenue shifts among systems, and the Company has not quantified the costs or benefits of its proposal". Full consolidation of EPCOR's districts would certainly impose an undue hardship on the ratepayers within the Sun City District.

SCHOA further agrees with the testimony of both RUCO & the ACC Staff relating to significant short and long term inequities among and within districts, a lack of an appropriate cost/benefit analysis provided by the Company and a lack of justification by the company on a number of proposals.

Again, it is SCHOA's position that given the facts as have been presented in recent testimony, along with previous thoroughly vetted determinations by the Commission, that full consolidation of the EPCOR wastewater districts remains an unsuitable solution and should be removed from the current proceedings.

Furthermore, copies of the attached list have also been mailed to the current Service List as noted on the ACC website as attached.

Respectively Submitted,



Greg Eisert, Director
Chairman Government Affairs
Sun City Homeowners Association

CC: Arizona Corporation Commission (13 copies)
EPCOR Water Arizona, Inc.
c/o Thomas H. Campbell, Attorney for EPCOR Water Arizona, Inc.