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Commissioner

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AZ CORP COMMISSION
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Arizona Corporation Commission
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10 IN THE MATTER OF THE APPLICATION)
11 OF ARIZONA-AMERICAN WATER)
12 COMPANY, AN ARIZONA)
13 CORPORATION, FOR A)
14 DETERMINATION OF THE CURRENT)
15 FAIR VALUE OF ITS UTILITY PLANT)
16 AND PROPERTY AND FOR INCREASES)
17 IN ITS RATES AND CHARGES BASED)
18 THEREON FOR UTILITY SERVICE BY)
19 ITS ANTHEM/AGUA FRIA WASTEWATER)
20 DISTRICT, SUN CITY WASTEWATER)
21 DISTRICT, AND SUN CITY WEST)
22 WASTEWATER DISTRICT)

DOCKET NOS. SW-01303A-09-0343
W-01303A-09-0343

NOTICE OF FILING REBUTTAL
TESTIMONY

17 EPCOR Water Arizona, Inc. files the attached rebuttal testimony of Sheryl L.
18 Hubbard and Shawn Bradford dated October 20, 2014.

19 RESPECTFULLY SUBMITTED this 20th day of October, 2014.

20 LEWIS ROCA ROTHGERBER LLP



21 Thomas H. Campbell
22 Michael T. Hallam
23 201 E. Washington Street, Suite 1200
24 Phoenix, AZ 85004
25 Attorneys for EPCOR Water Arizona, Inc.
26

1 ORIGINAL and thirteen (13) copies
2 of the foregoing filed
3 this 20th day of October, 2014, with:

4 The Arizona Corporation Commission
5 Utilities Division – Docket Control
6 1200 W. Washington Street
7 Phoenix, Arizona 85007

8 Copy of the foregoing hand-delivered
9 this 20th day of October, 2014, to:

10 Steve Olea
11 Utilities Division
12 Arizona Corporation Commission
13 1200 W. Washington Street
14 Phoenix, Arizona 85007

15 Lyn Farmer
16 Chief Administrative Law Judge, Hearing Division
17 Arizona Corporation Commission
18 1200 W. Washington Street
19 Phoenix, Arizona 85007

20 Janice Alward, Chief Counsel
21 Legal Department
22 Arizona Corporation Commission
23 1200 W. Washington Street
24 Phoenix, Arizona 85007

25 Copy of the foregoing mailed
26 This 20th day of October 2014, to:

27 Mr. Mike Albertson
6634 North 176th Avenue
Waddell, Arizona 85355

Frederick G. Botha
23024 N. Giovota Drive
Sun City West, AZ 85375

Mr. Michael D. Bailey
City Attorney
City of Surprise
16000 North Civic Center Plaza
Surprise, Arizona 85374

Joan S. Burke
Law Office of Joan S. Burke
1650 N. First Avenue
Phoenix, AZ 85003
Joan@jsburkelaw.com
Attorney for Mashie, L.L.C.

1 Mr. Kevin Chiariello
2 Greer Ranch South HOA
3 16074 West Christy
4 Surprise, Arizona 85379

4 Philip H. Cook
5 10122 W. Signal Butte Circle
6 Sun City, AZ 85373

7 Peter and Rochanee Corpus
8 8425 N. 181st Drive
9 Waddell, AZ 85355

10 Jeffrey W. Crockett, Esq.
11 Brownstein Hyatt Farber Schreck, LLP
12 One East Washington Street, Suite 2400
13 Phoenix, Arizona 85004
14 Attorney for Russell Ranch Homeowners
15 Association, Inc.

14 Mr. Owen Dejanovich
15 Clearwater Farms Three HOA
16 P.O. Box 72
17 Waddell, Arizona 85355

17 Judith M. Dworkin
18 Roxanne S. Gallagher
19 SACKS TIERNEY PA
20 4250 N. Drinkwater Blvd., Fourth Floor
21 Scottsdale, AZ 85251-3693
22 judith.dworkin@sackstierney.com
23 Attorney for Anthem Community Council

22 Mr. Timothy L. Duffy
23 Ms. Cindy J. Duffy
24 19997 North Half Moon Drive
25 Surprise, Arizona 85374

Jerome M. Ellison II
Cortessa Community Association
PO Box 25466
Tempe, AZ 85285

Jared Evenson
Cross River Homeowners Association
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

Ms. Jan Garcia
Sycamore Estates Parcel 13 Comm. Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

W.R. Hansen
12302 W. Swallow Drive
Sun City West, AZ 85375

Ms. Susan Harr
Summerfield at Litchfield Subdivision
HOA
13201 North 35 Avenue, Suite B-3
Phoenix, Arizona 85029

Mr. Garry D. Hays
The Law Offices of Garry D. Hays, PC
1702 East Highland Avenue, Suite 204
Phoenix, Arizona 85016

Bradley J. Herrema
Robert J. Saperstein
Brownstein Hyatt Farber Schreck, LLP
21 E. Carrillo St
Santa Barbara, CA 93101
BHerrema@BHFS.com
RSaperstein@BHFS.com

1 Kenneth Hewitt
2 18729 North Palermo Court
3 Surprise, AZ 85387

4 Desi Howe
5 Anthem Golf and Country Club
6 2708 W. Anthem Club Drive
7 Anthem, AZ 85086

8 Norman D. James
9 Fennemore Craig, P.C.
10 2394 E. Camelback Rd, Suite 600
11 Phoenix, AZ 85012
12 njames@fclaw.com
13 Attorney for DMB White Tank, L.L.P.

14 Chard R. Kaffer
15 Troy Stratmen, Esq.
16 Mack Drucker & Watson, PLC
17 3200 N. Central Ave., Suite 1200
18 Phoenix, AZ 85012

19 Lynn M. Krupnik
20 Ekmark & Ekmark, LLC
21 6720 N. Scottsdale Rd, Suite 261
22 Scottsdale, AZ 85253

23 Mr. William B Lipscomb
24 Kingswood Parke Community
25 Association
26 14976 West Bottletree Avenue
27 Surprise, Arizona 85374

Marshall Magruder
P.O. Box 1267
Tubac, AZ 85646
mmagruder@earthlink.net

Craig A. Marks
Craig A. Marks, PLC
10645 N. Tatum Blvd, Suite 200-676
Phoenix, AZ 85028

Mr. Nicholas Mascia
The Surprise Farms III Community Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

Andrew M. Miller, Town Attorney
Town of Paradise Valley
6401 E. Lincoln Drive
Paradise Valley, AZ 85253
amiller@paradisevalleyaz.gov

Mr. Stan Mucha
The Sun Village Community Association
17300 North Sun Village Pkwy
Surprise, Arizona 85374

Mr. Brian O'Neal
21373 West Brittle Bush Lane
Buckeye, Arizona 85396

Mr. Jim Oravetz
Legacy Parc South Homeowners Assn.
1600 West Broadway Road, Suite 200
Tempe, Arizona 85282

William and Erin Parr
18044 West Georgia Court
Litchfield Park, Arizona 85034

Greg Patterson
Water Utility Association of Arizona
916 W. Adams, Suite 3
Phoenix, AZ 85007
greg@azcpa.org

1 Craig and Nancy Plummer
2 17174 West Saguaro Lane
3 Surprise, Arizona 85388

4 Daniel W. Pozefsky
5 Chief Counsel
6 Residential Utility Consumer Office
7 1110 West Washington Street
8 Suite 220
9 Phoenix, Arizona 85007
10 dpozefsky@azruco.gov

11 Peggy H. Rahkola
12 The Arizona Traditions HOA
13 17221 North Citrus
14 Surprise, AZ 85374

15 Lawrence V. Robertson, Jr.
16 P.O. Box 1448
17 Tubac, AZ 85646-1448
18 tubaclawyer@aol.com
19 Attorney for Anthem Community Council

20 Dana Rosenbaum
21 Surprise Farms Community Assn., Phase
22 1A
23 PO Box 25466
24 Tempe, AZ 85285

25 Tammy Ryan
26 Andy Terrey
27 City of Phoenix
Water Services Department
200 W. Washington, Floor 9
Phoenix, AZ 85003

Scottsdale Citizens for Sustainable Water
7322 E. Cactus Wren Road
Scottsdale, AZ 85250-4526

Sun City Grand Community Association
Palm Center
19726 N. Remington Drive
Surprise, AZ 85374

Mr. Jay Shapiro
Mr. Patrick Black
Fennemore Craig, P.C.
2394 E. Camelback Rd, Suite 600
Phoenix, AZ 85012

Ms. Jeanne Stockard
Northwest Ranch Homeowners
Association
1600 W. Broadway Rd, Suite #200
Tempe, AZ 85282

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

Michele L. Van Quathem
Ryley Carlock & Applewhite
One N. Central Ave, Suite 1200
Phoenix, AZ 85004

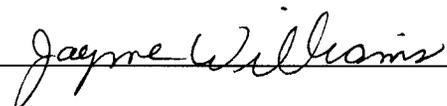
Gary Verburg, City Attorney
Daniel L Brown, Assistant City Attorney
Cynthia Campbell
Office of the City Attorney
200 W. Washington, Suite 1300
Phoenix, AZ 85003

Mr. Jim Weihman
The Happy Trails Community Association
17200 West Bell Road
Surprise, Arizona 85374

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2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Ms. Sharon Wolcott
20117 North Painted Cove Lane
Surprise, Arizona 85387
Larry Woods
President
Property Owners and Residents Assoc.
13815 E. Camino Del Sol
Sun City West, AZ 85375-4409

Larry D. Woods
15141 W. Horseman Lane
Sun City West, AZ 85375
larry@lwoods.com



SHERYL L. HUBBARD

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

I.	INTRODUCTION AND QUALIFICATIONS.....	3
II.	PURPOSE OF TESTIMONY.....	3
III.	RATE DESIGN.....	3
A.	RESPONSE TO THE DIRECT TESTIMONY OF COMMISSION STAFF.....	3
B.	RESPONSE TO RUCO'S DIRECT TESTIMONY.....	7
C.	RESPONSE TO VERRADO'S DIRECT TESTIMONY.....	8
D.	RESPONSE TO ANTHEM COMMUNITY COUNCIL.....	10
E.	RESPONSE TO MR. BOTHA.....	10

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Sheryl L. Hubbard. My business address is 2355 W. Pinnacle Peak
5 Road, Suite 300, Phoenix, Arizona 85027, and my business phone is (623) 445-
6 2419.

7 **Q. ARE YOU THE SAME SHERYL L. HUBBARD WHO PROVIDED DIRECT**
8 **TESTIMONY IN THIS CASE?**

9 A. Yes.

10 **II. PURPOSE OF TESTIMONY**

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
12 **CASE?**

13 A. The purpose of my rebuttal testimony is to respond to issues raised in the direct
14 testimony of certain intervenors in this docket, particularly those issues related to
15 EPCOR Water Arizona, Inc.'s ("EWAZ" or "Company") proposed rate design for
16 full consolidation.

17 **III. RATE DESIGN**

18 **Q. DOES EWAZ CONTINUE TO SUPPORT FULL CONSOLIDATION OF ITS**
19 **WASTEWATER SYSTEMS?**

20 A. Yes, as described in detail in the rebuttal testimony of Mr. Shawn Bradford, the
21 Company continues to support full consolidation of its wastewater systems.

22 **A. RESPONSE TO THE DIRECT TESTIMONY OF COMMISSION STAFF**

23 **Q. DOES THE COMPANY CONTINUE TO BELIEVE THAT A FLAT RATE**
24 **IS APPROPRIATE FOR CONSOLIDATION?**

25 A. Yes. As noted in my direct testimony, the Company currently has different rate
26 designs in different districts as ordered by the Commission. Based on the
27 Company's experience and as evidenced by certain of the comments and testimony

1 in this case, customers are often confused by the volumetric component of the
2 Company's rate design. In addition, because the Company's water rates are
3 designed to incent conservation, it is not necessary for its wastewater rate design to
4 be designed in that matter. This rate design proceeding is the appropriate venue in
5 which to reduce customer confusion and design the rates on a flat rate basis.

6 **Q. STAFF TAKES ISSUE WITH THE FACT THAT RESIDENTIAL RATES**
7 **ARE NOT BASED ON METER SIZE. WHY DID THE COMPANY NOT**
8 **INCLUDE THIS DISTINCTION IN ITS RATE DESIGN?**

9 A. The Company's experience with volumetric wastewater rates for residential
10 customers has been limited to the Anthem Wastewater and Agua Fria Wastewater
11 Districts. In those districts, the volumetric charge has a maximum usage level of
12 7,000 gallons for all meter sizes, which is the amount of water typically used
13 indoors by residential customers. Based on this, residential rate design based on
14 water consumption for residential customers has not historically been differentiated
15 based on meter size so it was not deemed necessary in designing flat wastewater
16 rates for the residential class of customers.

17 **Q. STAFF ALSO QUESTIONS THE COMPANY'S PROPOSED RATES FOR**
18 **COMMERCIAL CUSTOMERS. PLEASE EXPLAIN HOW THESE RATES**
19 **WERE DESIGNED.**

20 A. As noted in my direct testimony, commercial customers in all five districts have a
21 rate design comprised of a fixed component (basic service charge) and a volumetric
22 component applied to the entire monthly water usage of the commercial customer.
23 However, in the Mohave Wastewater district, there is also a class of commercial
24 customers where water usage is unavailable that are currently billed on a flat
25 monthly rate which is applied on an equivalent residential units ("ERU") factor per
26 customer. The Company's proposed consolidated commercial rate schedules and
27 associated proposed rates are summarized in Table 1 below.

1 Table 1. Summary of Proposed Commercial Rates

2

	Flat Rate per Unit ¹
3 1 Commercial	
4 2 Single Unit	\$ 81.59
5 3 Multi-Unit	\$ 301.00
6 4 Large User (Meter > 2")	\$ 394.00
7 5 Mobile Home Parks (Paradise Park)	\$ 13,416.00
8 6 Mohave Commercial-Flat (Mohave ONLY)	\$ 83.00

9 ¹ Mohave bills on an Equivalent Residential Unit (ERUs)
10 basis instead of Units. Rates for Mohave Commercial
11 customers are per ERU.

12 The Company is proposing flat monthly commercial rates for Single Unit
13 commercial customers, Multi-unit commercial customers, Large Users using
14 meters larger than 2-inch, a special rate for a mobile home park in the Sun City
15 Wastewater district, and a rate per ERU to be used in the Mohave Wastewater
16 district only.

17 As with the residential class, the Company believes that a flat rate is appropriate for
18 its commercial class of customers and will lead to less confusion. Once again, for
19 this class of customers, the Company's water rates are designed to encourage
20 conservation, so the Company does not believe that a volumetric component is
21 necessary for wastewater rates and is not recommending their usage in this
22 proceeding.

23 **Q. ON PAGE 19 OF HIS TESTIMONY, MR. BECKER EXPRESSES
24 CONCERNS ABOUT THE REVENUE REQUIREMENT FOR THE
25 MOHAVE SYSTEM. HOW DO YOU RESPOND?**

26 **A.** The Company's proposal in this proceeding incorporates the full requested revenue
27 requirement of the Mohave wastewater district in the pending rate case docket. In
addition, the Company has discussed a method that can be used upon determination

1 of the final revenue requirement and issuance of a Commission decision in the
2 pending rate case Docket No. WS-01303A-14-0010.

3 **Q. PLEASE RESTATE THE METHOD THAT THE COMPANY PROPOSED**
4 **IN ITS DIRECT TESTIMONY TO INCORPORATE THE FINAL**
5 **AUTHORIZED REVENUES IN THE PENDING MOHAVE**
6 **WASTEWATER RATE CASE.**

7 A. Beginning at the bottom of page 13, I stated that upon issuance of a decision in the
8 pending Mohave Wastewater rate case, the effects of any difference in the revenue
9 requirement will form the basis of a true-up to the rates adopted in this proceeding
10 if full consolidation is approved by the Commission.

11 I went on to discuss that in my opinion the best way to reflect the final
12 determination in the pending Mohave Wastewater district rate case on any rates
13 approved under a full consolidation scenario in this docket is to require the
14 Company to make a compliance filing substituting the final revenue and rate design
15 authorized in the pending Mohave Wastewater case in place of the district's
16 proposed revenue of and rate design included in this proceeding. Using that type of
17 substitution would enable the calculation of any resulting adjustments to the
18 consolidated rates resulting from this case. Once those adjustments are determined,
19 a retroactive adjustment could be made to customers of record back to the date of a
20 decision in this case.

21 **Q. ON PAGE 23 OF HIS TESTIMONY, MR. BECKER EXPRESSES**
22 **CONCERNS ABOUT THE EFFLUENT PRICING. DO YOU AGREE WITH**
23 **HIS CONCERNS?**

24 A. No. I do not agree that consolidation would reduce the Commission's ability to
25 tailor effluent rates to the unique circumstances of a case. This argument is more
26 an argument against consolidation than effluent pricing. Any customer that has
27 unique characteristics can still have a rate tailored to those characteristics even with

1 consolidated pricing. The Company in its rate design is proposing to combine
2 customers with similar usage characteristics such as the residential class of
3 customers or small commercial customers. I would note that the current rates for
4 the effluent customers of the Company in its Agua Fria and Anthem Wastewater
5 Districts are \$0.76 per thousand gallons while the Mohave Wastewater District's
6 rate is \$0.69 per thousand gallons. If the Commission determines that it prefers to
7 design those rates based on the Active Management Area ("AMA"), that preference
8 can be accomplished through rate design. It would merely require two rate
9 schedules instead of one. The Staff's concerns can be easily remedied through the
10 use of two rate schedules where the applicability terms include the physical
11 location of the customers to insure the setup recognizes the AMA. For example,
12 one rate schedule could be applicable to effluent sales in the Phoenix AMA and
13 another rate schedule could be applicable to effluent sales in non-Phoenix AMA
14 areas.

15 **B. RESPONSE TO RUCO'S DIRECT TESTIMONY**

16 **Q. DOES RUCO RAISE CONCERNS ABOUT THE COMPANY'S PROPOSED**
17 **RATE DESIGN FOR FULL CONSOLIDATION?**

18 A. Mr. Mease alludes to some concerns about the rate design proposed by the
19 Company but does not provide specifics or alternatives. To the extent RUCO has
20 concerns about the flat rate proposed by the Company for both the residential and
21 commercial class, those are addressed above.

22 **Q. DOES MR. MEASE ALSO DISCUSS CONCERNS RAISED BY THE CITY**
23 **OF PHOENIX?**

24 A. Yes, he does. However, there appears to be confusion about this issue. To be
25 clear, the rates being charged were approved by the Commission and those
26 revenues have been included by the Commission for purposes of supporting the
27 Company's revenue requirement. As such, if those revenues are excluded from the

1 revenue requirement, it would require an increase in rates for other customer
2 classes.

3 **C. RESPONSE TO VERRADO'S DIRECT TESTIMONY**

4 **Q. MR. SIMER OUTLINES CERTAIN CRITERIA FOR A SOUND RATE**
5 **STRUCTURE ON PAGE 11 OF THIS TESTIMONY. DOES THE**
6 **COMPANY BELIEVE ITS PROPOSED RATE STRUCTURE MEETS**
7 **THESE CRITERIA?**

8 A. Yes, and so does Mr. Simer. The Company generally agrees with Mr. Simer's
9 assessment of its full consolidation proposal as meeting these criteria and that full
10 deconsolidation would be counterproductive toward meeting these criteria. The
11 Company, however, disagrees with Mr. Simer that re-consolidation of Anthem and
12 Agua Fria would not lead to customer confusion.

13 **Q. MR. SIMER HAS INCLUDED TWO CONSOLIDATION PROPOSALS.**
14 **HAS THE COMPANY REVIEWED MR. SIMER'S PROPOSALS?**

15 A. Yes. The first of Mr. Simer's consolidation proposals is similar to the Company's
16 proposal with the exception that the commercial class of customers is segregated on
17 meter size as opposed to just single-unit and multi-unit as is the Company's
18 proposal. This proposed consolidated rate design is revenue neutral and produces
19 the necessary revenues. Mr. Simer also has included a 2-step phase-in proposal
20 intended to implement movement toward full consolidation now and complete the
21 full consolidation after a full cost of service study can be completed. Mr. Simer
22 has not, however, provided proposed rates for the following rate schedules under
23 his 2-step phase-in proposal: A2MSP (Sun City), P2MS1 (Mohave), P4MS1
24 (Mohave), C8M28 (Agua Fria), E5M2 (Anthem), D7M1 (Anthem), and D7M2
25 (Anthem), consequently, the revenue neutrality of this scenario cannot be
26 determined.
27

1 **Q. DOES MR. SIMER'S 2-STEP PHASE-IN PROPOSAL ELIMINATE THE**
2 **VOLUMETRIC COMPONENT TO THE COMPANY'S EXISTING**
3 **RESIDENTIAL RATE DESIGN?**

4 A. The current rate design for residential customers in the Agua Fria and Anthem
5 Wastewater districts includes a volumetric component for water usage up to 7,000
6 gallons per month in addition to the basic service charge. Mr. Simer's 2-Step
7 phase-in proposal recommends continuing that rate design for the first phase and
8 eliminating the volumetric component in the second phase.

9 **Q. IS THE COMPANY OPPOSED TO RETAINING A VOLUMETRIC**
10 **COMPONENT FOR THE RESIDENTIAL CLASS DURING A PHASE-IN**
11 **PERIOD?**

12 A. The Company's proposal includes flat rates wherever possible in response to
13 customers' complaints that volumetric rates are difficult to comprehend in
14 conjunction with wastewater service where there is no meter to measure the
15 wastewater flow. Accordingly, the Company would suggest that if Mr. Simer's
16 phase-in proposal is adopted, that the Anthem and Agua Fria residential rate design
17 be modified to reflect a flat rate design that will be more consistent with the other
18 wastewater districts and reduce residential customers' confusion over volumetric
19 rate design.

20 **Q. HAS THE COMPANY CALCULATED THE EFFECT OF CONVERTING**
21 **MR. SIMER'S RESIDENTIAL RATE DESIGN FOR ANTHEM AND AGUA**
22 **FRIA WASTEWATER DISTRICTS TO A FLAT RATE DESIGN?**

23 A. Yes. The flat rate effect of converting the revenue generated by Mr. Simer's
24 proposed residential rate design using total number of billing units applicable to the
25 residential class in those districts is summarized below in Table 2.

1 Table 2. Flat Rate Effect on Residential Rate Design in Step 1 Using Mr. Simer's
 2 Interim Revenue Proposed for Anthem and Agua Fria

	Step 1 Revenue	Billing Units	Flat Rate
3 Agua Fria Residential	\$ 3,895,673	54,616	\$ 71.33
4 Anthem Residential	\$ 4,303,224	99,935	\$ 43.06

6
 7 **D. RESPONSE TO ANTHEM COMMUNITY COUNCIL**

8 **Q. MR. NEIDLINGER FAVORS A PHASED-IN IMPLEMENTATION OF**
 9 **CONSOLIDATED RATES FOR ALL OF THE COMPANY'S**
 10 **WASTEWATER DISTRICTS USING A TWO-STEP ADJUSTMENT**
 11 **PROCEDURE. HAS THE COMPANY EVALUATED THE IMPACTS OF**
 12 **MR. NEIDLINGER'S RECOMMENDATION?**

13 **A.** Yes. The 2-Step phase-in proposal as recommended by Mr. Neidlinger included on
 14 Exhibit DLN-2 only sets forth residential rate design. It does not specify the actual
 15 rates that would be charged in Step 1 for commercial and all of the other customer
 16 classes of the Company so we believe it is incomplete and cannot be properly
 17 evaluated to determine if it is revenue neutral. It does, however, demonstrate
 18 another potential approach for the Commission to, in fact, move toward a
 19 consolidated wastewater district for the Company with less immediate impact on
 20 the Sun City and Sun City West Wastewater Districts than the Company's one step
 21 proposal. But, the rate design for the Company's other customer classes still need
 22 to be computed.

23 **E. RESPONSE TO MR. BOTHA**

24 **Q. IN HIS TESTIMONY, MR. BOTHA RAISES CONCERNS ABOUT THE**
 25 **COMPANY'S ACCOUNTING SYSTEMS AND WEBSITE. WHAT IS THE**
 26 **COMPANY'S RESPONSE?**

1 A. The Company continues to appreciate Mr. Botha's concerns and interest in the
2 Company's systems. However, the issues raised by Mr. Botha are outside the
3 scope of this proceeding and more relevant for a future rate case in which the
4 prudence of the Company's costs and expenses are analyzed.

5 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes, it does.

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SHAWN BRADFORD

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

I. INTRODUCTION AND QUALIFICATIONS..... 3
II. PURPOSE OF TESTIMONY 3
III. CONSOLIDATION 3

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Shawn Bradford. My business address is 2355 W. Pinnacle Peak Road, Suite
5 300, Phoenix, Arizona 85027, and my business phone is (623) 815-3136.

6 **Q. ARE YOU THE SAME SHAWN BRADFORD WHO PROVIDED DIRECT**
7 **TESTIMONY IN THIS CASE?**

8 A. Yes.

9 **II. PURPOSE OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?**

11 A. The purpose of my rebuttal testimony is to respond to certain issues raised by intervenors
12 in their direct testimony, particularly with regard to the issue of whether the Commission
13 should support full consolidation of EPCOR Water Arizona, Inc.'s ("EWAZ" or
14 "Company") wastewater systems and several parties' recommendations to defer a
15 Commission decision on the policy question of whether consolidation is appropriate for a
16 later proceeding.

17 **III. CONSOLIDATION**

18 **Q. HAVE YOU REVIEWED THE TESTIMONY SUBMITTED BY THE**
19 **INTERVENORS IN THIS MATTER?**

20 A. Yes, I have.

21 **Q. BASED UPON THAT REVIEW, DOES THE COMPANY CONTINUE TO**
22 **SUPPORT FULL CONSOLIDATION OF ITS WASTEWATER SYSTEMS?**

23 A. Yes. A review of the testimony and the positions taken by each of the parties highlights
24 that, if the Commission supports a policy of consolidation, it should make that
25 determination now.

26 **Q. WHY SHOULD THE COMMISSION MOVE TOWARD FULL CONSOLIDATION**
27 **NOW RATHER THAN WAIT AS RECOMMENDED BY CERTAIN PARTIES?**

1 A. The decision to support full consolidation is a policy decision that the Commission can
2 and should make now. Delaying that decision will not change the policy rationale for or
3 against consolidation. In a future consolidated rate case, the Commission will be faced
4 with the same parties and the same positions. If approved, consolidation will initially lead
5 to an increase in some rates and a decrease in others. Although some of the fine points of
6 rate design can be modified in a future rate case, there is no reason to delay the policy
7 decision facing the Commission in this proceeding.

8 **Q. HAS THE BASIS FOR THE COMPANY'S POSITION CHANGED?**

9 A. No. As I stated in my direct testimony, the Company believes that full consolidation is the
10 best short term and long term solution for the Company's wastewater customers. Also, the
11 Company views full consolidation as the most equitable approach in the long term because
12 full consolidation will enable the Company to provide all of its customers with the same
13 wastewater service for the same price by establishing reasonable rates to recover
14 prudently-incurred expenses and reasonable capital investments that will ultimately benefit
15 every district at some point in the future. As stated in my direct testimony, in the long
16 term, all wastewater customers will benefit from uniform rate structures which will reduce
17 customer confusion over the existing disparity in rates, reduced regulatory expenses and
18 increased efficiencies in operational planning and the deployment of capital. In my direct
19 testimony, I discussed ten benefits arising from full consolidation of these wastewater
20 districts. Nothing I have seen in the testimony of intervenors in this docket has changed
21 my strongly held belief that these benefits make consolidation worthwhile. In fact, the
22 testimony of certain witnesses, including Mr. Simer from Verrado, provides additional
23 support for full consolidation.

24 **Q. YOU MENTIONED MR. SIMER'S TESTIMONY. WHAT OTHER BENEFITS OF**
25 **CONSOLIDATION DID HE DISCUSS?**

1 A. Mr. Simer discusses in detail in his testimony criteria that must be examined for any rate
2 design. As he notes in great detail, full consolidation as set forth in the Company's
3 proposal meets many of these criteria. Most importantly, the Company's full
4 consolidation proposal is understandable, free from controversy over interpretation (i.e.,
5 will not lead to confusion); and will lead to rate stability with more manageable increases
6 in the future for the Company's customers. Under consolidation, customers would benefit
7 from consolidation through stable and predictable rates, reduced regulatory expenses, and
8 increased operating efficiencies that will result from the economies of scale of a unified
9 wastewater system. All EWAZ customers would be recipients of the same level of service,
10 regardless of geographic location, and existing disparities for these services would be
11 eliminated.

12 **Q. IN STAFF'S TESTIMONY, MR. BECKER NOTES A CONCERN THAT RATES**
13 **FOR SUN CITY CUSTOMERS HAVE INCREASED UNDER THE COMPANY'S**
14 **CONSOLIDATION PROPOSAL. IS THAT A VALID BASIS TO RECOMMEND**
15 **AGAINST CONSOLIDATION?**

16 A. No, it is not. Any full consolidation proposal will lead initially to an increase in some
17 rates and a decrease in others. The Company, of course, takes any rate increase seriously
18 and has heard and listened to the concerns raised by its Sun City customers. However, the
19 Company continues to believe that full consolidation is the best long term solution for
20 ALL customers.

21 **Q. STAFF ALSO RECOMMENDS THAT THE COMMISSION ORDER THE**
22 **COMPANY TO COME IN FOR A FULL WATER AND WASTEWATER RATE**
23 **CASE FOR ALL DISTRICTS NO LATER THAN JUNE 30, 2015. CAN THE**
24 **COMPANY MEET THAT REQUIREMENT?**

1 A. Quite simply, no. An undertaking of that magnitude will take the Company additional
2 time. As a result, if the Commission supports consolidation and wants the Company to
3 come in with a new rate case for all districts, the Company would propose that the
4 Commission require it to file a new rate case application based on a December 31, 2014
5 test year for all of its wastewater districts by September 30, 2015, and to file a new rate
6 case for all of its water districts no later than September 30, 2016. If the Commission
7 does not make a decision on consolidation as part of this proceeding and asks the
8 Company to come in with a new rate case for all wastewater districts, the Company would
9 propose that the Commission require it to file a new rate case application based on a
10 December 31, 2014 test year for all of its wastewater districts by September 30, 2015 and
11 once a decision is reached on the policy of consolidation a date would be selected for a
12 new rate case for all of its water districts.

13 Contrary to the positions of certain parties, including RUCO, the Company is in
14 compliance with prior Commission decisions relating to the filing of future rate cases. In
15 fact, this same argument, made by the Anthem Community Council at the onset of this
16 proceeding, was rejected first by the Commission at its July 22, 2014 Open Meeting and
17 again by the Administrative Law Judge in response to the Anthem Community Council's
18 Request for Reconsideration of the Denial of the Motion to Stay of Proceeding¹.

19 **Q. CERTAIN PARTIES HAVE FOCUSED ON THE NEED FOR A FULL COST OF**
20 **SERVICE STUDY AND OTHER MORE RECENT DATA. DOES THE**
21 **COMPANY BELIEVE THIS WILL CHANGE THE ANALYSIS?**

22 A. The Company, of course, will provide a full cost of service study (and other customary
23 rate case information) for the rate case described above as required by the Commission. A
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25 ¹In a June 2, 2014 Procedural Order in Docket No. WS-01303A-14-0010, in response to the April 25, 2014 Motion to
26 Stay and Remand filed by Mr. Marshall Magruder for the same argument, Judge Nodes noted that “[w]hile Decision
27 No. 73227 also directed EPCOR to ‘file the system-wide rate filing as ordered by Decision No. 72047... as soon as
possible,’ it is not practical, or likely possible, for the Company to file a system-wide consolidation proposal until the
three-year deconsolidation transition of the Anthem-Agua Fria wastewater systems is completed. (*Id.*) It is also
notable that Staff found EPCOR’s application in the instant case to be sufficient as of April 4, 2014.”

1 full cost of service study and all of the other standard filing requirements will be a large
2 undertaking and is another reason why the Company will require more time than
3 recommended by Staff. However, the Company does not believe that a cost of service
4 study will change the policy decision to be made by the Commission. There is no doubt
5 that a cost of service study will show that consolidation will result in some revenue shift
6 between customers in different districts and different customer classes. It will also
7 demonstrate that full consolidation is not based on absolute cost causation. These facts are
8 known now. A cost of service study is an historical analysis and, as such, will not show
9 the long term benefits of consolidation on customers' rates as they will be impacted by
10 future infrastructure improvement costs and the capital required to make those
11 investments. A decision must be made on the policy of consolidation, and as such, there is
12 no reason to await a cost of service study prior to making a decision on whether to support
13 consolidation.

14 **Q. MR. SIMER FOR VERRADO AND MR. NEIDLINGER FOR ANTHEM BOTH**
15 **RECOMMEND THAT THE COMMISSION CONSIDER A PHASE IN OF FULL**
16 **CONSOLIDATION. WHAT IS THE COMPANY'S POSITION ON A PHASE IN?**

17 **A.** Although the Company continues to support its proposal for an immediate change to full
18 consolidation, it would not object to a revenue neutral phase in of no more than two steps
19 with the second step occurring at the conclusion of the wastewater rate case noted above.
20 It must be noted that if the Company files a new rate case by September 30, 2015 for its
21 wastewater districts, rates in these districts will almost certainly increase based on
22 increases in costs and other capital improvements made by the Company.

23 In the event a two-step process is approved, the Company recommends that the first step
24 of the increase follow the rate design testimony provided by the Company's other witness,
25 Sheryl Hubbard, wherein Sun City and Sun City West rates are increased, with the final
26 step of consolidation being approved at the conclusion of the wastewater case noted above.
27 Taking this approach, any approved increase as part of this proceeding would not

1 overburden the districts experiencing the increase because their cost of service under a
2 company wide deconsolidated rate model would also increase.

3 Based on its review of the proposals of Mr. Simer and Mr. Neidlinger, the Company is
4 more supportive of a phase-in in a manner similar to that proposed by Mr. Simer. He noted
5 that a two-step phase-in will lessen the immediacy of the rate impact, providing a more
6 gradual transition to a consolidated system. Moving forward with a smaller initial
7 adjustment follows the ratemaking principle of gradualism. Taking this approach also
8 allows for a final consolidated wastewater rate that is based on costs and capital
9 improvements using a December 31, 2014 test year.

10 **Q. STAFF RECOMMENDS THAT THE COMMISSION NOT IMPLEMENT THE**
11 **THIRD PHASE OF DECONSOLIDATION FOR THE ANTHEM AND AGUA**
12 **FRIA WASTEWATER DISTRICTS. WHAT IS THE COMPANY'S POSITION ON**
13 **THIS APPROACH?**

14 A. The Company does not support this approach.² Although this approach will keep the
15 status quo, it is the current status that led to the initiation of this proceeding. More
16 importantly, adopting the Staff's recommended approach will not address whether the
17 Commission supports a policy of consolidation. If it does, it should make that
18 determination now rather than delay that determination.

19 **Q. RUCO GOES FURTHER TO RECOMMEND THAT THE COMMISSION**
20 **IMPLEMENT THE THIRD PHASE DECREASE FOR THE ANTHEM**
21 **WASTEWATER DISTRICT AND NOT IMPLEMENT THE CORRESPONDING**
22 **INCREASE FOR AGUA FRIA, BUT RATHER DEFER THESE AMOUNTS.**
23 **WHAT IS THE COMPANY'S POSITION ON THIS PROPOSAL?**

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27 ² The Company also notes that despite Staff's assertion that this phase has been delayed until February, this is not the case. Under current Commission orders, the third phase is required to be implemented in January 2015.

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A. The Company strongly objects to this approach. Although I am not an attorney, I understand there are legal issues with not allowing the Company to earn its authorized revenue requirement. In addition to the legal issues, this would make for a misguided policy decision. Simply delaying a decision will only make the issue worse and will not address the underlying and critical policy decision which must be answered.

Q. IS RUCO'S PROPOSAL ONE OF THE SCENARIOS ORDERED TO BE CONSIDERED BY THE COMMISSION IN DECISION NO. 74588?

A. No. This is not one of the three scenarios that the Commission ordered to be examined in this proceeding. In addition, this new position by RUCO is inconsistent with RUCO's position in the prior phase of this case in which the Commission ordered full deconsolidation of the Anthem and Agua Fria Wastewater Districts. In that phase of this proceeding, RUCO recommended deconsolidation of these districts and supported the three step phase in of deconsolidation which the Commission ultimately adopted as part of Decision No. 73227. Moving away from this would invalidate the rates approved by the Commission.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes, it does.