



0000157725

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- BOB STUMP, Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL

2014 NOV 4 PM 2 21

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

Arizona Corporation Commission

DOCKETED

NOV 04 2014

DOCKETED BY 

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT, ITS SUN CITY WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT, AND POSSIBLE RATE CONSOLIDATION FOR ALL OF ARIZONA-AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. SW-01303A-09-0343

ORIGINAL

STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY

The Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC") hereby files the Surrebuttal Testimony of Staff witness Gerald Becker in the above-referenced matter.

RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of November, 2014.

Robin R. Mitchell, Staff Attorney  
Bridget A. Humphrey, Staff Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

1 Original and thirteen (13) copies  
2 of the foregoing were filed this  
3 4<sup>th</sup> day of November, 2014 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

6 Copies of the foregoing were emailed  
7 this 4<sup>th</sup> day of November, 2014 to:

8 Thomas H. Campbell  
9 Michael T. Hallam  
10 LEWIS AND ROCA ROTHGERBER, LLP  
11 201 E. Washington, Suite 1200  
12 Phoenix, AZ 85004  
13 [tcampbel@lrrlaw.com](mailto:tcampbel@lrrlaw.com)  
14 [mhallam@lrrlaw.com](mailto:mhallam@lrrlaw.com)  
15 [Shubbard@epcor.com](mailto:Shubbard@epcor.com)  
16 Attorneys for EPCOR Water Arizona, Inc.

17 Lawrence V. Robertson, Jr.  
18 Munger Chadwick, P.L.C. (of Counsel)  
19 P.O. Box 1448  
20 Tubac, AZ 85646-1448  
21 [tubaclawyer@aol.com](mailto:tubaclawyer@aol.com)  
22 Attorney for Anthem Community Council

23 Daniel Pozefsky  
24 Chief Counsel  
25 Residential Utility Consumer Office  
26 1110 West Washington Street, Suite 220  
27 Phoenix, AZ 85007  
28 [dpozefsky@azruco.gov](mailto:dpozefsky@azruco.gov)  
[cfraulob@azruco.gov](mailto:cfraulob@azruco.gov)

29 Jeffrey W. Crockett  
30 BROWNSTEIN HYATT FARBER  
31 SCHRECK LLP  
32 One East Washington Street, Suite 2400  
33 Phoenix, AZ 85004  
34 [jcrockett@bhfs.com](mailto:jcrockett@bhfs.com)  
35 [julie.bluesky@gmail.com](mailto:julie.bluesky@gmail.com)  
36 Attorney for Russell Ranch Homeowners  
37 Association, Inc.

38 Andrew M. Miller, Town Attorney  
39 Town of Paradise Valley  
40 6401 East Lincoln Drive  
41 Paradise Valley, AZ 85253  
42 [amiller@paradisevalleyaz.gov](mailto:amiller@paradisevalleyaz.gov)

Michele L. Van Quathem  
RYLEY CARLOCK & APPLEWHITE  
One North Central Avenue, Suite 1200  
Phoenix, AZ 85004-4417  
[mvanquathem@rcalaw.com](mailto:mvanquathem@rcalaw.com)  
[lgefroh@rcalaw.com](mailto:lgefroh@rcalaw.com)  
Attorneys for Verrado Community Assn., Inc.

Cynthia S. Campbell  
Paul Norman  
Assistant City Attorneys  
Office of the City Attorney  
CITY OF PHOENIX  
200 West Washington, Suite 1300  
Phoenix, AZ 85003-1611  
[cynthia.campbell@phoenix.gov](mailto:cynthia.campbell@phoenix.gov)  
[paul.norman@phoenix.gov](mailto:paul.norman@phoenix.gov)  
[law.civil.minute.entries@phoenix.gov](mailto:law.civil.minute.entries@phoenix.gov)

Judith M. Dworkin  
Roxanne S. Gallagher  
SACKS TIERNEY, P.A.  
4250 North Drinkwater Blvd., Fourth Floor  
Scottsdale, AZ 85251-3693  
[Judith.Dworkin@SacksTierney.com](mailto:Judith.Dworkin@SacksTierney.com)  
[Roxann.Gallagher@SacksTierney.com](mailto:Roxann.Gallagher@SacksTierney.com)  
[Jessica.Chester@SacksTierney.com](mailto:Jessica.Chester@SacksTierney.com)  
Attorneys for Anthem Community Council

Bradley J. Herrema  
Robert J. Saperstein  
BROWNSTEIN HYATT FARBER  
SCHRECK, LLP  
21 E. Carillo Street  
Santa Barbara, CA 93101  
[BHerrema@bhfs.com](mailto:BHerrema@bhfs.com)  
[RSaperstein@bhfs.com](mailto:RSaperstein@bhfs.com)  
Attorneys for Anthem Golf and  
Country Club

1 Diane Smith  
Government Affairs Committee  
2 13234 W. Cabrillo Drive  
Sun City West, AZ 85375  
3 [skylar\\_98@q.com](mailto:skylar_98@q.com)

4 Albert E. Gervenack  
14751 W. Buttonwood Drive  
5 Sun City West, AZ 85375  
[agervenack@bmi.net](mailto:agervenack@bmi.net)

6 Karen D. Proctor  
7 11716 W. Villa Chula Court  
Sun City, AZ 85373  
8 [Kdprocto@gmail.com](mailto:Kdprocto@gmail.com)

9 Douglas Edwards  
Government Affairs Committee  
10 13517 W. Sola Drive  
Sun City West, AZ 85375  
11 [d.edwards795@yahoo.com](mailto:d.edwards795@yahoo.com)

12 Frances A. Noe  
11756 W. Daley Ln.  
13 Sun City, AZ 85373  
[noeshomes@earthlink.net](mailto:noeshomes@earthlink.net)

14 Regina Shanney-Saborsky  
Government Affairs Committee  
15 c/o Corte Bella Country Club  
16 22155 North Mission Drive  
Sun City West, AZ 85375  
17 [rsaborsky@cox.net](mailto:rsaborsky@cox.net)

18 Greg Eisert, Director & Chairman  
Government Affairs Committee  
19 Sun City Homeowners Association  
10401 W. Coggins Drive  
20 Sun City, AZ 85351  
21 [gregeisert@gmail.com](mailto:gregeisert@gmail.com)

22 Frederick G. Botha  
Mary L. Botha  
23024 North Giovota Drive  
23 Sun City West, AZ 85375  
[fgbotha45@gmail.com](mailto:fgbotha45@gmail.com)

24

25

26

27



28

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
BOB BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-01303A-09-0343  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM )  
WATER DISTRICT AND ITS SUN CITY )  
WATER DISTRICT. )

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. SW-01303A-09-0343  
ARIZONA-AMERICAN WATER COMPANY )  
FOR DETERMINATION OF THE CURRENT )  
FAIR VALUE OF ITS UTILITY PLANT AND )  
PROPERTY AND FOR INCREASES IN ITS )  
RATES AND CHARGES BASED THEREON )  
FOR UTILITY SERVICE BY ITS ANTHEM/ )  
AGUA FRIA WASTEWATER DISTRICT, )  
ITS SUN CITY WASTEWATER DISTRICT, AND )  
ITS SUN CITY WEST WASTEWATER DISTRICT )

GERALD BECKER  
EXECUTIVE CONSULTANT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

NOVEMBER 4, 2014

**TABLE OF CONTENTS**

	<u>Page</u>
INTRODUCTION .....	1
PURPOSE OF SURREBUTTAL TESTIMONY .....	1
RESPONSE TO COMPANY REBUTTAL .....	2
OTHER .....	3

**ATTACHMENT**

Staff Engineering Memo .....	ATTACHMENT A
------------------------------	--------------

**EXECUTIVE SUMMARY**  
**EPCOR WATER ARIZONA, INC.**  
**DOCKET NOS. W-01303A-09-0343 & SW-01303A-09-0343**

On September 8, 2014, Epcor Water Arizona, Inc. ("EWAZ" or "Company") filed testimony in support of statewide consolidation of its five wastewater districts: Sun City, Sun City West, Anthem, Agua Fria and Mohave. Mohave wastewater is also the subject of a pending rate case in Docket No. WS-01303A-14-0010. The presence of rate design issues in this associated Docket creates difficulties in assessing the impact of consolidation on Mohave and other customers.

In its filing, the Company proposes to implement flat rates, which vary only from class to class. All customers of the same class (i.e. residential) would pay the same without consideration to the size of the water meter or volumetric considerations. Accordingly, the Company's proposal will result in extremely high rate shock to certain customers. Further, the Company's proposal would result in significant revenue shifts among systems, and the Company still has not quantified the costs or benefits of its proposal.

In its rebuttal, the Company continues to support its proposal but its reasons remain unclear. The Company states that a single price for residential customers is appropriate based on its experience with Anthem and Agua Fria wastewater customers whose bills include a volumetric component. While this is correct, the Company does not explain the reasons that a volumetric component in two of its districts supports billing practices that ignore meter sizes.

In support of a single price for commercial customers, the Company correctly describes its present rates for commercial customers as rates which include a fixed and volumetric component but does not explain the reasons why the existing rate structures are problematic and does not justify its proposal to implement single tariff pricing. Those reasons might include a better matching of cost causers with cost payers and/or some cost benefit analysis.

In response to Staff's concern about effluent pricing, the Company responds that it could design rates for each system; however, the Company does not recognize or justify the reasons to work against the goal of single tariff pricing. The Company does not state that it recognized that this practice would work contrary to the overall goals of its consolidation proposal, nor does the Company describe the extent to which it would be appropriate to tailor effluent rates to local conditions under its consolidation proposal or whether it would expand its practice of tailoring rates to other rate classes.

The Company maintains that it has complied with Decision Nos. 72047 and 73227 which ordered the Company to file a rate case with consolidation and deconsolidation proposals but has not cited to any specific docket. Staff has reviewed the record and has been unable to locate any filing that addresses the Commission's order in Decision Nos. 72047 and 73227.

Staff also addresses the Company's representations regarding the alleged need to replace the Russell Ranch WWRF soon because it is alleged to be at the end of its useful life. Staff also addresses the Company's representation regarding permitting requirements at the Mohave's Wishing Well facility.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona  
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business  
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Are you the same Gerald Becker who previously submitted direct testimony in this**  
8 **case?**

9 A. Yes, I am.

10  
11 **Q. Does your silence on any particular issue raised in the Company's rebuttal testimony**  
12 **indicate that Staff agrees with the Company's stated rebuttal position?**

13 A. No. Rather, where I do not respond, I am continuing to rely on my direct testimony.

14  
15 **PURPOSE OF SURREBUTTAL TESTIMONY**

16 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

17 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff,  
18 to the rebuttal testimony of Ms. Sheryl Hubbard who represents Epcor Water Arizona  
19 ("EWAZ" or "Company").

20  
21 **Q. Do you attempt to address every issue raised by the Company and others in its**  
22 **rebuttal testimony?**

23 A. No.

1     **RESPONSE TO COMPANY REBUTTAL**

2     **Q.     Has the Company's rebuttal addressed any of Staff's concerns regarding the use of a**  
3     **single rate for residential customers?**

4     A.     No. In its direct testimony, Staff notes that the impact on residential customers will vary  
5     widely both within and across systems. The Company's rebuttal cites to an existing  
6     volumetric rate design in Anthem and Agua Fria as reasons not to consider meter sizes in rate  
7     design. The Company's concern regarding a volumetric component does not address the  
8     issue of considering differing meter sizes.

9  
10    **Q.     Did the Company's rebuttal address any of Staff's concerns regarding the use of a**  
11    **single rate for commercial customers?**

12    A.     No. In its direct testimony, Staff notes that the impact on commercial customers will vary  
13    widely both within and across systems. The Company's rebuttal cites to an existing  
14    volumetric rate design as reasons not to consider meter sizes in rate design.

15  
16    **Q.     Did the Company's rebuttal address any of Staff's concerns regarding the use of a**  
17    **single rate for effluent customers?**

18    A.     While the Company responds that the rates could be tailored to local conditions, the  
19    Company does not justify its concept of ignoring the use of a consolidated rate for all of its  
20    effluent customers.

21  
22    **Q.     Has the Company's rebuttal, regarding its compliance with previous Commission**  
23    **orders to file a rate case showing fully consolidated and deconsolidated scenarios,**  
24    **addressed Staff's concern?**

25    A.     No. The Company has yet to file a full rate case for all affected systems showing fully  
26    consolidated and fully deconsolidated scenarios as ordered in Decision No 73227 and

1 Decision No. 72047. Staff continues to recommend that the Company file rate cases by date  
2 certain for all of its water and all of its wastewater systems.

3  
4 **Q. Does the Company's rebuttal clarify the scheduled implementation date of the third**  
5 **phase of the deconsolidation of the Anthem and Agua Fria systems?**

6 A. Yes. Staff had stated that this was scheduled to occur in February 2015, based on the  
7 agreement of Anthem Community Council to delay its implementation by 30 days. However,  
8 the Commission has not recognized and approved this delay, and accordingly, the scheduled  
9 implementation date is January 2015.

10  
11 **OTHER**

12 **Q. Does Staff have additional comments regarding Wishing Well and Russell Ranch?**

13 A. Yes, in Staff's direct testimony, Staff states that it would address the Company's  
14 representations regarding certain needs at Wishing Well in Mohave wastewater and at Russell  
15 Ranch in the Agua Fria wastewater district. A memo from Staff's engineer is attached as  
16 Exhibit 1.

17  
18 **Q. Does this conclude your surrebuttal testimony?**

19 A. Yes, it does.

MEMORANDUM

DATE: October 28, 2014

TO: Gerald Becker  
Executive Consultant III

FROM: Dorothy Hains, P. E. *DH*  
Utilities Engineer

RE: In The Matter of The Application of Arizona-American Water Company, For A Determination of The Current Fair Value of Its Utility Plant And Property And For Increases In Its Rates And Charges Based Thereon For Utility Service By Its Anthem/Agua Fria Wastewater District, Sun City Wastewater District, And Sun City West Wastewater District  
(Docket Nos. SW-01303A-09-0343 & W- 01303A-09-0343)

---

In Staff's Direct Testimony filed on October 6, 2014, Staff stated that certain engineering issues related to the Wishing Well Wastewater Treatment Plant ("Wishing Well") (in the Mohave Wastewater District) and to the Russell Ranch WWTP ("Russell Ranch") (in Anthem/Agua Fria Wastewater District) would be addressed in Staff's Surrebuttal Testimony. Engineering's comments regarding the two issues are addressed in this memorandum.

**I. Issue related to the Wishing Well WWTP**

According to the Company major upgrades were made to the Wishing Well WWTP during 2013 so the plant could comply with Arizona Department of Environmental Quality ("ADEQ") requirements that this plant produce A+ effluent for irrigation reuse purposes. ADEQ revised Permit No. 102181 in 2012 which required the Company to meet the Class A+ effluent standard before the effluent produced by Wishing Well could be used for golf course irrigation purposes. The Company upgraded its Wishing Well WWTP in June 2013 to meet the Class A+ effluent standard.

**II. Issue related to the Russell Ranch Well WWTP**

According to the Company, Russell Ranch will need significant capital improvement in the future. The reasons given by the Company are (1) Russell Ranch is an above ground steel tank package plant and corrosion has shortened the useful life of this plant, and (2) the Russell Ranch WWTP is an "interim" wastewater treatment plant intended to be used until a permanent "underground concrete and steel" regional water reclamation facility ("regional plant") is constructed.

The "interim" Russell Ranch, 60,000 gallons per day ("GPD") plant was installed in 2004. According to a 2012 field inspection report from Maricopa County Environmental Services Department ("MCESD"), the existing Russell Ranch WWTP had no deficiencies and no corrective action was noted in MCESD's report. According to flow data in the Company's 2013 Annual Report, only 50 percent of the plant's treatment capacity was used. It is good engineering practice that when a WWTP reaches 80 percent of its treatment capacity a company begin the process of

expanding its plant or in this case, planning for the installation of a permanent “regional” treatment plant. Staff estimates that it will be approximately 10 years (approximately in 2023) before Russell Ranch reaches its 80 percent treatment capacity. Staff expects that the equalization tank, which is the first tank in the flow chain for the Russell Ranch WWTP, will have the greatest potential for corrosion damage. The Company has not identified when the “regional” plant will be installed. Staff expects that the Company will be spending more in the future to maintain the Russell Ranch WWTP especially on maintenance of the equalization tank. At this time Staff does not believe that an adjustment in the depreciation rates applicable to this plant is necessary.