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BEFORE THE ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission

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7 IN THE MATTER OF THE APPLICATION OF
8 ARIZONA-AMERICAN WATER COMPANY,
9 AN ARIZONA CORPORATION, FOR A
10 DETERMINATION OF THE CURRENT FAIR
11 VALUE OF ITS UTILITY PLANT AND
12 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.

Docket No. W-01303A-09-0343

ORIGINAL

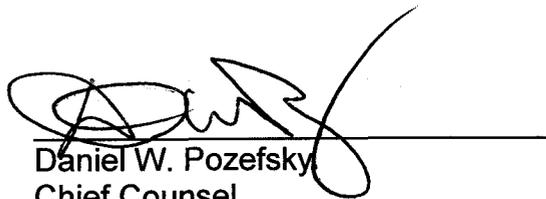
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14 ARIZONA-AMERICAN WATER COMPANY,
15 AN ARIZONA CORPORATION, FOR A
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18 PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

Docket No. SW-01303A-09-0343

20 NOTICE OF FILING

21 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
22 surrebuttal testimony of Robert B. Mease, in the above-referenced matter.

1 RESPECTFULLY SUBMITTED this 4th day of November, 2014.

2
3 
4 Daniel W. Pozefsky
Chief Counsel

5
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8 of November, 2014 with:

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By Cheryl Faulob
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ARIZONA-AMERICAN WATER COMPANY

(now)

EPCOR WATER ARIZONA, INC.

DOCKET NO. SW-01303A-09-0343

SURREBUTTAL TESTIMONY

OF

ROBERT B. MEASE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2014

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EXECUTIVE SUMMARY

RUCO continues to recommend that a full rate case be filed including cost of service studies that would include both a consolidation and a deconsolidation case for its five wastewater districts. RUCO further recommends to freeze the current rates in the Agua Fria and Anthem Districts and delay the rate adjustment scheduled to become effective on January 1, 2015, that will increase Agua Fria's rates by \$15.70 per month and decrease Anthem's rates by \$6.18 per month. Finally RUCO continues to recommend that the issue raised by the City of Phoenix be resolved prior to the establishment of new rates and that a Plan of Administration be developed identifying the process required by the Company for future acquisitions and major expansions.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 **A.** My name is Robert Mease and I'm Chief of Accounting and Rates for the Residential
4 Utility Consumer Office. ("RUCO") My business address is 1110 W. Washington Street,
5 Suite 220, Phoenix, AZ.

6
7 **Q. Have you previously provided testimony in this docket?**

8 **A.** Yes. I provided direct testimony in this docket on October 6, 2014.

9
10 **Q. What is the purpose of your surrebuttal testimony?**

11 **A.** My surrebuttal testimony will address the Company's comments as presented in their
12 rebuttal testimony. More specifically I will address the issues of consolidation, rate
13 design, the City of Phoenix's claim they have been overcharged and the issue of
14 expansion and possible purchase of existing systems.

15
16 **RATE CONSOLIDATION / RATE DESIGN**

17 **Q. Can you please summarize RUCO's position on rate consolidation of its five**
18 **wastewater systems?**

19 **A.** Yes. RUCO basically recommended that the Company file a full rate case and include
20 all five wastewater districts as many of the elements that make up the revenue
21 requirements for all systems have changed significantly. The most recent test year
22 for the Sun City, Sun City West, Aqua Fria and Anthem Wastewater Districts was
23

24

1 December 31, 2008 while the Mohave Wastewater District is currently involved in a
2 rate case proceeding.

3
4 **Q. Does RUCO continue to believe that a full rate case is necessary?**

5 A. Yes. Nothing has changed since our initial rate case recommendation was made in
6 our direct testimony. RUCO believes that in setting new rates that all current
7 information be reviewed and a determination made if consolidation of rates is in the
8 best interest of residential ratepayers. Cost causation cannot be totally ignored in
9 setting new rates and ratepayers have a right to be informed of the subsidization that
10 may exist across district boundaries.

11
12 **Q. What did the Arizona Corporation Commission Staff ("Staff") recommend on
13 the issue of consolidation?**

14 A. Staff recommended that instead of full statewide rate consolidation, full
15 deconsolidation of rates, or reconsolidation of Anthem/Aqua Fria District(s) rates at
16 this time that; "The Company file a full rate case for all of its wastewater and water
17 systems no later than July 1, 2015, with a test year ending December 31, 2014. In
18 that filing, the Company should propose both a fully consolidated statewide rate
19 design and a fully deconsolidated rate design including the costs and benefits of each.
20 Both rate designs should have a three year phase-in."¹

21
22
23

¹ Staff Direct Testimony, Docket No. SW-01303A-09-0343, Executive Summary

1 **Q. Did the Company agree to file a rate application in accordance with RUCO's or**
2 **Staff's proposal?**

3 A. Per Mr. Bradford's testimony in responding to Staff's proposal: "Quite Simply, no. An
4 undertaking of that magnitude will take the Company additional time. As a result if the
5 Commission supports consolidation and wants the Company to come in with a new
6 rate case for all districts, the Company would propose that the Commission require it
7 to file a new rate case application based on a December 31, 2014 test year for all of
8 its wastewater districts no later than September 30, 2015, and to file a new rate case
9 for all of its water districts no later than September 30, 2016. If the Commission does
10 not make a decision on consolidation as part of this proceeding and asks the
11 Company to come in with a new rate case for all wastewater districts, the Company
12 would propose that the Commission require it to file a new rate case application based
13 on a December 31, 2014 test year for all of its wastewater districts by September 30,
14 2015 and once a decision is reached on the policy of consolidation a date would be
15 selected for a new rate case for all of its water districts."²

16
17 **Q. Doesn't it appear that the Company is proposing a rate case filing schedule for**
18 **its water and wastewater districts depending on the Commission's deciding**
19 **the issue of consolidation vs. deconsolidation?**

20 A. Yes, it does. However, the decision to consolidate rates into a statewide rate
21 realistically cannot be made without understanding the rate impact on ratepayers
22

23 ² Company Rebuttal Testimony, Docket No. SW-01303A-09-0343, Mr. Bradford Testimony, Page 6

1 within each district. That determination cannot be made without a full rate case
2 application including cost of service studies and a rate design that identifies both
3 consolidated rates including all wastewater districts and deconsolidated rates on a
4 system stand-alone basis.

5
6 **Q. Does RUCO have any concern with the Company's proposal to determine rates**
7 **without taking into consideration meter sizes and other volumetric**
8 **considerations?**

9 A. Yes. This is a major departure from traditional rate design that encourages
10 conservation. A flat rate has been proposed for all residential ratepayers which
11 reduces the incentive for water efficiency and conservation. An article has been
12 attached as, Exhibit I, published by the Natural Resources Defense Council, that
13 identifies the impact in California if wastewater usage was priced on a volumetric
14 basis. The article estimates that California could save nearly 100 billion gallons of
15 water per year by having all wastewater systems on a volumetric billing program
16 which is a significant benefit to both water and wastewater customers.

17
18 **Q. Based on the recommendations of the Company, Staff, RUCO and other**
19 **intervening parties, has RUCO changed its initial proposal that a full rate case**
20 **application be filed and include all five of the wastewater districts owned by**
21 **EPCOR?**

22 A. No. RUCO continues to propose a consolidated rate application be filed by the
23 Company, including cost of service studies, and include all five of its wastewater
24

1 systems. Once the application is filed a review can be performed and a decision can
2 be rendered whether consolidation is warranted or if deconsolidation remains the best
3 alternative.

4
5 **Q. Can RUCO accept the recommendation made by Staff that the Company file full**
6 **rate cases for both its water and wastewater districts by July 1, 2015 with a test**
7 **year ending December 31, 2014?**

8 A. RUCO can accept the Staff's proposed filing date of July 1, 2015, for the wastewater
9 districts. However, as there is a current rate application filed by EPCOR under Docket
10 No. WS-01303A-14-0010 that includes four of its water systems, RUCO does not
11 believe that a rate application for its water districts needs to be filed per the Staff's
12 proposal.

13
14 **OTHER ISSUES**

15 **Q. Has there been a concern expressed by the City of Phoenix that EPCOR has**
16 **been charging a commodity rate to the City of Phoenix and not the agreed upon**
17 **contractual price for water and wastewater services?**

18 A. Yes. The City of Phoenix has conducted an internal audit and expressed concerns
19 about the rates being charged by EPCOR to the City. The City believes that the rates
20 charged should be those rates per the contract and the Company believes that the
21 rates charged should be the rates as approved by the Commission. The City of
22 Phoenix believes it may have been overcharged by as much as \$2.8 million (the final
23

1 amount is in dispute) and further believes that the revenues included in this filing from
2 its agreement with the City may be incorrect.

3
4 **Q. What will be the effect on EPCOR ratepayers if the City of Phoenix prevails and**
5 **EPCOR has been charging excessive rates?**

6 A. If it is determined that the Company is charging excessive rates to the City of Phoenix
7 and the Company has to adjust its rates downward the revenue reduction would have
8 to be made up by the remaining district ratepayers or if consolidation is approved, the
9 revenue shortfall would be made up by all of the company's remaining ratepayers.

10
11 **Q. Does RUCO continue to recommend that a Plan of Administration be prepared**
12 **to describe the consolidation process and establish guidelines if other systems**
13 **are purchased or major expansions are planned?**

14 A. Yes. The Company has entered into an agreement with Global Water Resources
15 and purchased a 7,000 acre area known as Loop 303 Corridor. There is a major
16 expansion planned in the area and EPCOR will spend approximately \$36.5 million
17 over the next five years and the expansion project will become part of the Agua Fria
18 District.

19
20 **Q. Does this conclude your surrebuttal testimony?**

21 A. Yes.

EXHIBIT I

**WATER
FACTS**



Volumetric Pricing for Sanitary Sewer Service in California Would Save Water and Money

Volumetric sewer pricing is the simple concept of billing a customer for the volume of water discharged to the sewer based on the water meter reading—water the customer actually uses as opposed to a flat charge. The less water a customer uses, the less the bill will be. As a result, wastewater volumetric rates provide important incentives for water efficiency to customers and offer a more fair pricing structure. According to a study commissioned by the Natural Resources Defense Council (NRDC), converting flat-rate residential customers to volumetric rates could eventually save California nearly 100 billion gallons of water per year, a significant benefit to both water suppliers and wastewater treatment agencies.



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Costly expansion of wastewater treatment capacity can be postponed or avoided by water conservation and efficiency measures, such as water savings gained through volumetric pricing of sewer service. Source: Google Maps and U.S. Geological Survey

THE NEED FOR VOLUMETRIC WASTEWATER PRICING

Although roughly 90 percent of California households served by a public water supplier pay for drinking water through a volumetric rate applied to metered water deliveries, about 70 percent of such California households pay for sewer service through a flat, non-volumetric charge. While fixed charges may be simple, they do not distinguish between customers within the same class who produce larger amounts of wastewater and those who produce smaller amounts.

Fixed charges also do not provide signals to customers about the potential monetary savings from water use efficiency, or onsite treatment and reuse. With sewer charges equal to or greater than water charges in many jurisdictions, the price signal rewarding water efficiency is being cut in half for the majority of California households.

Timely adoption of volumetric wastewater pricing would contribute 10% of the 38 GPCD needed by 2020 for the state to comply with the Water Conservation Act of 2009, counting short-run savings alone.

With California's landmark Water Conservation Act of 2009 now requiring that per capita urban water use be reduced by 20 percent by 2020, water suppliers throughout the state are looking for additional ways to achieve water savings; cooperation with wastewater agencies is one such means. Thus, converting to volumetric sewer pricing can save water in addition to providing more equitable wastewater financing.

Moreover, volumetric wastewater pricing benefits wastewater agencies by reducing flows, which can:

- Help to preserve wastewater treatment capacity, and thereby postpone or eliminate the need for costly additional treatment plants.
- Reduce operating costs.
- Reduce sewer overflows, which endanger public health and the environment.

THE WATER SAVINGS FROM VOLUMETRIC WASTEWATER PRICING ARE QUANTIFIABLE AND SUBSTANTIAL

A recent study by A&N Technical Services commissioned by NRDC quantifies the effect of shifting residential sewer service billing in California, from collections based on flat charges to a billing system based on the volume of water consumption.¹ The analysis uses statewide water and wastewater data compiled by the State Water Resources Control Board (SWRCB) and the California Department of Water Resources (DWR), as well as price elasticity estimates from the literature on the topic. The potable water savings from switching to volumetric wastewater pricing are quantifiable, and the savings are impressive.

Converting residential customers to volumetric wastewater pricing can save California approximately 141,000 acre-feet per year (AFY) in the short term (a one to four year period), and over 283,000 AFY in the long term (over a 10 to 20 year period; see Table 1). An acre-foot of water is enough to supply up to eight individuals—one to two families—in California for a year. The savings are more over the long term because demand is more elastic in the long run (customers can replace water-using fixtures with more efficient ones) than in the short run (customers can mainly change their behavior).

The challenges that a wastewater agency might anticipate in converting to volumetric pricing can be addressed with a modest investment of time and effort.

Table 1: Estimate of the Statewide Volume of Price-Induced Water Conservation from Volumetric Sewer Pricing by the California Department of Water Resources Hydrologic Region, Expressed in Acre-Feet per Year.²

| Hydrologic Region | Total Estimated Residential Use (AFY) | Short Run Water Savings (AFY) | Long Run Water Savings (AFY) |
|--------------------|---------------------------------------|-------------------------------|------------------------------|
| North Coast | 22,335 | 715 | 1,429 |
| San Francisco Bay | 782,250 | 25,025 | 50,051 |
| Central Coast | 123,283 | 3,944 | 7,888 |
| South Coast | 2,173,581 | 69,536 | 139,073 |
| Sacramento River | 588,625 | 18,831 | 37,662 |
| San Joaquin River | 180,141 | 5,763 | 11,526 |
| Tulare Lake | 516,986 | 16,539 | 33,078 |
| North Lahontan | 1,770 | 57 | 113 |
| South Lahontan | 9,753 | 312 | 624 |
| Colorado River | 29,331 | 938 | 1,877 |
| California (Total) | 4,428,055 | ~141,700 | ~283,400 |

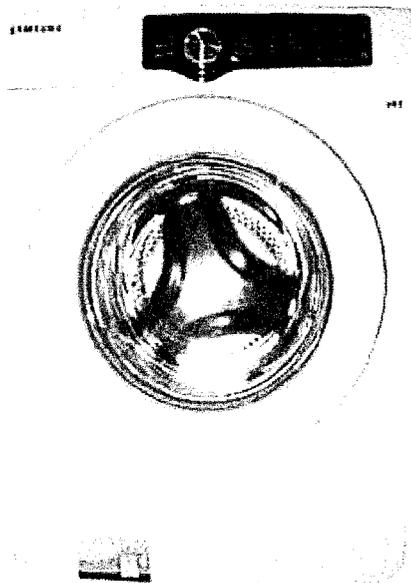
AFY= Acre-feet per year

The savings can also be expressed as gallons per capita per day (GPCD). For California as a whole, simply converting to volumetric wastewater pricing could save four GPCD in the short run and seven GPCD in the long run. Thus, the timely adoption of this one simple measure would contribute 10 percent of the 38 GPCD water savings needed by 2020 for the state to comply with the Water Conservation Act of 2009, counting the short-run savings alone.³

IMPLEMENTATION CHALLENGES CAN BE OVERCOME

Cities across California, including Los Angeles, San Diego, Long Beach, and San Luis Obispo, and across the country, including New York, Boston, Atlanta, Houston, Philadelphia, and Seattle, already use volumetric wastewater pricing. Momentum is building in other areas to convert—for one thing, the California Urban Water Conservation Council's best management practices require signatories that provide both water and wastewater service to adopt volumetric sewer rates.⁴ Second, the rising cost of providing wastewater service has encouraged consumers to ask for volumetric rates, which are more equitable and affordable for conserving customers.

The challenges that a wastewater agency might anticipate in converting to volumetric pricing can be addressed with a modest investment of time and effort. Separate sewer meters are not necessary. Residential customers with volumetric sewer rates are typically billed for sewer service based on the amount of water use recorded by the water meter serving the home. This method uses a meter reading for the winter months (when outdoor use is at its lowest) as a basis for the amount of water that enters the sewer system from the home throughout the year.



Customers will see additional utility bill savings from high efficiency products when volumetric wastewater billing is adopted.



Volumetric pricing for residential sewer service can be accomplished by using the customer's existing water meter.

Wastewater agencies will collect customer water use data from water suppliers with whom they have common residential customers. Data-sharing is already in place between many water and wastewater agencies for the large commercial and industrial customers that they have in common. Further, wastewater agencies can continue to use a combination of fixed charges and variable charges in order to ensure a stable revenue stream. Using winter usage for billing purposes year-round will also help maintain stable revenues for wastewater agencies.

Explaining the new rate structure to the community will be a particularly important aspect of conversion. Agencies that have successfully converted undertook community outreach and public hearings to ensure that their customers understood the benefits of converting; namely, that customers would be much more in control of their rates based on their own water usage. While this initial public outreach and billing system change can take some time and effort, administering the new rate structure is comparatively routine.

These and other issues are discussed further in Volumetric Wastewater Pricing Frequently Asked Questions, available on NRDC's web site.⁵

The water savings resulting from volumetric wastewater pricing will benefit wastewater agencies by reducing operating costs, helping to preserve wastewater treatment capacity, and helping to reduce sewer overflows.

CONCLUSION

The water savings resulting from volumetric wastewater pricing will benefit wastewater agencies by reducing operating costs, helping to preserve wastewater treatment capacity, and helping to reduce sewer overflows. If done correctly, the pricing of water and wastewater service can be a powerful signal to consumers about the cost of water and wastewater infrastructure, and the scarcity of water resources. Converting to volumetric wastewater pricing is an efficient, relatively low-cost way of saving California billions of gallons of water each year, saving money for water suppliers, wastewater treatment agencies, and the customers they both serve.

¹ Chesnutt TW. Volumetric Pricing for Sanitary Sewer Service in the State of California. Encinitas, CA: A & N Technical Services, 2011. http://docs.nrdc.org/water/files/wat_11121301a.pdf.

² Modified from Chesnutt, note 1.

³ Statistics in Canada reveal an even more dramatic water conservation response when pricing is converted from a flat rate structure to a volumetric structure. Consumption there is 70 to 80% lower nationally under volumetric rates than flat rates. Source: 2008 Municipal Water Pricing: 2004 Statistics, p. 8. Gatineau, QC: Environment Canada: 2008. ec.gc.ca/Publications/default.asp?lang=En&xml=DB6E24B6-0421-4170-9FCF-9A7BC4522C54.

⁴ California Urban Water Conservation Council. Memorandum of Understanding Regarding Urban Water Conservation in California; [see BMP 1.4, Retail Conservation Pricing, Part II-Retail Wastewater Rates]. Sacramento, CA: California Urban Water Conservation Council, 2010.

⁵ Natural Resources Defense Council. Volumetric Wastewater Pricing: Frequently Asked Questions. New York, NY: Natural Resources Defense Council: 2011. <http://www.nrdc.org/water/volumetric-pricing.asp>.