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BEFORE THE ARIZONA CORPORATION COMMISSION

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

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
ITS SUN CITY WATER DISTRICT.

Docket No. W-01303A-09-0343

Arizona Corporation Commission
DOCKETED

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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
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THEREON FOR UTILITY SERVICE BY
ITS ANTHEM/AGUA FRIA
WASTEWATER DISTRICT, SUN CITY
WASTEWATER DISTRICT, AND SUN
CITY WEST WASTEWATER DISTRICT

Docket No. SW-01303A-09-0343

**VERRADO COMMUNITY
ASSOCIATION, INC.'S
SURREBUTTAL TESTIMONY**

Verrado Community Association, Inc., through its undersigned counsel, hereby provides notice of filing the Surrebuttal Testimony of Kent Simer in the above-referenced matter.

1 DATED this 4th day of November, 2014.

2 RYLEY CARLOCK & APPLEWHITE

3
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9 ORIGINAL and 13 copies of the foregoing
10 filed this 4th day of November, 2014, with:

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By José Lopez

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WASTEWATER DISTRICT, SUN CITY
WASTEWATER DISTRICT, AND SUN
CITY WEST WASTEWATER DISTRICT

Docket No. SW-01303A-09-0343

**Surrebuttal Testimony
of
Kent Simer
on behalf of Verrado Community Association, Inc.
November 4, 2014**

INTRODUCTION AND QUALIFICATIONS

1 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2 A1. My name is Kent R. Simer. My business address is 160 N. Pasadena, Suite 101, Mesa,
3 Arizona. I am a Utility Rate Consultant for K. R. Saline & Associates, PLC, a firm that
4 provides electrical engineering services, management consulting, and ongoing business
5 operational services primarily to wholesale public electric utilities.

6 **Q2. ARE YOU THE SAME KENT R. SIMER WHO PROVIDED DIRECT**
7 **TESTIMONY IN THIS CASE?**

8 A2. Yes.

9 **PURPOSE OF TESTIMONY**

10 **Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

11 A3. In this Surrebuttal, I continue my support for full consolidation as the best solution to the
12 concerns raised in the immediate proceedings. I respond to EWAZ's support and
13 concerns with the 2-step phase-in proposal included in my direct testimony. I also
14 provide a response to the direct testimonies of Mr. Eisert and Mr. Hansen.

15 **GENERAL RESPONSE**

16 **Q4. DO YOU STILL SUPPORT FULL CONSOLIDATION OF EWAZ's**
17 **WASTEWATER SYSTEMS?**

18 A4. Yes. Consolidation of all of the EWAZ systems provides the best long term solution to
19 address the immediate concerns being raised. Customers will benefit from consolidation
20 through stable and predictable rates, reduced regulatory expenses, and increased
21 operating efficiencies that will result from the economies of scale of a unified wastewater
22 system. Under complete consolidation, all EWAZ customers would be recipients of the
23 same level of service, regardless of geographic location, and existing disparities in
24 pricing for these services would be eliminated.

25 **Q5. DO THE DIRECT TESTIMONIES SPONSORED BY CORTE BELLA, RUSSELL**
26 **RANCH, CROSS RIVER AND ANTHEM INCORPORATE SIMILAR SUPPORT**
27 **FOR CONSOLIDATION?**

1 A5. Yes. It appears that the majority of the interveners are supportive of the consolidation of
2 all of the EWAZ wastewater systems. Several interveners who also previously supported
3 full deconsolidation of EWAZ's wastewater systems have since changed their position
4 and favor complete consolidation, over alternative options, believing it to be the most fair
5 and equitable solution for all of EWAZ wastewater customers.

6 **Q6. HOW DO YOU RESPOND TO RUCO'S AND STAFF'S REQUEST FOR THE**
7 **IMMEDIATE REQUIREMENT THAT EWAZ CONDUCT A COST-OF-**
8 **SERVICE STUDY PRIOR TO A COMMISSION DECISION ON POSSIBLE**
9 **CONSOLIDATION?**

10 A6. I agree that an updated cost-of-service study would address the staleness of the existing
11 revenue requirements and customer use patterns that constitute the existing EWAZ
12 wastewater rates and potential consolidated rates. However, the issue in the immediate
13 preceding is a policy one and is revenue neutral. Nothing precludes the Commission
14 from having the ability to address the immediate concerns raised by EWAZ customers
15 through a policy decision and it can do so on an interim basis until such a time EWAZ is
16 able to file a full cost-of-service study in a full rate case.

17 **2-STEP PHASE-IN PROPOSAL**

18 **Q7. DOES EWAZ GENERALLY ACCEPT YOUR 2-STEP PHASE-IN PROPOSAL?**

19 A7. Yes. EWAZ has found that my proposed 2-step phase-in is "revenue neutral and
20 produces the necessary revenues" and will provide a more gradual transition to a
21 consolidation system. EWAZ did stop short of giving its full acceptance of the phase-in
22 proposal. EWAZ stated that residential customers have complained that volumetric
23 charges are difficult to comprehend. EWAZ therefore suggests that if the phase-in as I
24 have proposed is adopted, residential rates should be modified to remove volumetric
25 charges to reduce possible confusion. Additionally, EWAZ noted several rate schedules
26 that were excluded in my phase-in proposal and consequently found that, the revenue
27 neutrality of this scenario could not be determined. EWAZ identified the following
28 schedules as missing from my phase-in proposal: A2MSP (Sun City), P2MS 1 (Mohave),

P4MS 1 (Mohave), C8M28 (Agua Fria), E5M2 (Anthem), D7M1 (Anthem), and D7M2 (Anthem).

Q8. HAVE YOU PROVIDED A RATE PROPOSAL FOR THE RATE CLASSES EXCLUDED IN YOUR ORIGINAL PROPOSAL AS IDENTIFIED BY EWAZ?

A8. I am not proposing any changes to the schedules that EWAZ has identified as being missing from the consolidation proposal included in my direct testimony. These schedules, as well as P7A1 (Mohave), are acceptable as presented in the consolidation scenario workpapers filed by EWAZ as part of their direct testimony and; therefore, should be considered as revenue neutral.

<u>Schedule</u>	<u>Description</u>	<u>Total Authorized Revenue</u>
A2MSP	Mobile Home Parks (Paradise Park)	\$160,998
P2MS1	Commercial-Flat (Mohave ONLY)	14,902
P4MS1	Other Public Authority-Flat (Mohave ONLY)	12,915
E5M2	Other Wholesale Users - City of Phoenix	792,489
	Effluent (AF, AN, MO ONLY)	631,157
Total		\$1,612,461

Table 1 - Total Authorized Revenue as included in both EWAZ and Verrado Direct Testimony workpapers.

Q9. EWAZ PROPOSES THE ELIMINATION OF VOLUMETRIC COMPONENTS FOR THE RESIDENTIAL CLASS DURING THE PHASE-IN PERIOD. DO YOU AGREE WITH EWAZ?

A9. No. The impact to customers when changing from volumetric rates to a flat rate will vary according to the estimated volume of sewage. Inclusion of volumetric charges in step 1 of my proposed Agua Fria and Anthem residential rates was done intentionally to address issues that may arise when considering this impact on low use customers. EWAZ has converted the revenue generated by my proposed residential rate design to a flat rate for Agua Fria and Anthem residential customers. For Agua Fria residential customers, EWAZ has proposed a step 1 flat rate of \$71.33. Under the third step of the approved

1 deconsolidated rates, Agua Fria customers with no billed volume would pay the monthly
2 minimum of \$66.12. These customers would be paying more under EWAZ's proposed
3 step 1 rate of \$77.33 than they currently pay today. Under my proposed step 1 rates,
4 customers with no billed volume would pay \$60.57. The step 1 Agua Fria residential
5 rates as proposed by EWAZ would add to customer confusion rather than eliminate it.

6 **RESPONSE TO THE DIRECT TESTIMONY OF MR. EISERT**

7 **Q10. MR. EISERT SAYS SUN CITY RATEPAYERS WOULD "SUBSIDIZE THE**
8 **SHORTCOMINGS AND POOR PLANNING OF OTHERS". HOW DO YOU**
9 **RESPOND?**

10 A10. The Sun City Wastewater system is unique in that its builder did not construct nor
11 operate its own stand-alone wastewater treatment plant. EWAZ is the successor in
12 interest to Sun City Sewer as the purchaser of wastewater treatment services from the
13 City of Tolleson Wastewater Treatment Plant under the Sewage Treatment and
14 Transportation Services Agreement originally signed between the City of Tolleson and
15 Sun City Sewer Co. Originally executed June 21, 1985, the agreement has undergone
16 three amendments to address how these services should be repaid to the City of Tolleson.
17 As of the third amendment, signed April 22, 2003, EWAZ pays four rate components: 1)
18 A fixed annual user charge related to bond financing issued by Tolleson to pay for
19 original plant additions made in order to receive and treat the Sun City District's
20 wastewater flows; 2) a monthly operating and maintenance charge based on EWAZ's
21 proportionate share of O&M costs based on actual flows; 3) a monthly payment for
22 replacement and contingency reserves; and 4) a pro rata share of major capital
23 improvements.

24 The Tolleson wastewater plant has been held up as a successful model for efficient
25 wastewater planning; a huge benefit to the current Sun City customers. Though current
26 Sun City customers pay a proportionate contract rate for services, they fail to
27 acknowledge the significant benefit received via longstanding subsidies provided during
28 the lifetime of the Tolleson plant. Originally constructed in 1967, the plant was financed

1 with general obligation bonds to be repaid in part with impact fees and property taxes.
2 The plant was constructed with future capacity expansion considerations by including
3 certain structural elements needed for additions, such as internal piping and pump stands,
4 in the original construction of the plant.¹ If we were to compare the Tolleson plant to an
5 automobile, it would appear that Sun City customers essentially have only had to repay
6 the cost of an engine upgrade, but received the chassis for free. Additionally in 2009 the
7 City of Tolleson was the recipient of an \$11.6 Million loan from the Water Infrastructure
8 Finance Authority of Arizona (WIFA) to help pay for upgrades and expansions to the
9 existing solids handling facilities. The loan included, in part, \$2 million in automatic
10 debt forgiveness as a condition of the \$82 million that WIFA received from the federal
11 government via the American Recovery and Reinvestment Act of 2009.² Thus Sun City
12 wastewater customers may have partially been subsidized by every taxpaying citizen of
13 this country.

14 Though Sun City wastewater customers may be unique in their low-cost for wastewater
15 services when compared to other EWAZ systems, that does not exclude them as
16 beneficiaries of various forms of subsidies; not unlike subsidies that they are currently
17 rallying against, that are necessary and common when private companies construct
18 capital intensive, regionally planned wastewater systems.

18 **RESPONSE TO THE DIRECT TESTIMONY OF MR. W.R. HANSEN**

19 **Q11. WHAT IS THE BASIS OF MR. HANSEN'S DIRECT TESTIMONY?**

20 A11. Mr. Hansen advances seven concerns in his objection to the consolidation proposal
21 advanced by EWAZ. Six concerns relate to the process and the seventh concern
22

23
24 ¹ The United States Congress Congressional Budget Office, *Efficient Investments in Wastewater Treatment
Plants*. June 1985. Retrieved from <https://www.cbo.gov/sites/default/files/85-cbo-016.pdf>.

25 ² WIFA, *WIFA Announces Federal Stimulus Funds Part of \$11.6 Million Loan to the City of Tolleson*. August
26 14, 2009. Retrieved from
27 <http://www.azwifa.gov/mediaeleases/docs/2009/ARRATollesonCityOfPressRelease2009.pdf>
AZCENTRAL.COM, *Tolleson lands \$11.6M loan for wastewater plant renovation*. June 3, 2009. Retrieved from
28 <http://www.azcentral.com/news/articles/2009/06/03/20090603stim-swv-tolwastewater0603.html>

addresses his concerns regarding the possible discrimination that would occur should the Commission support full consolidation.

Q12. HOW DO YOU RESPOND TO MR. HANSEN'S CONCERN THAT CONSOLIDATION WILL NOT PROVIDE ADEQUATE TRANSPARENCY OF COST DRIVERS IN FUTURE RATE CASES?

A12. Mr. Hansen's fourth concern is that consolidation, if accepted, will "destroy the fundamental purpose & function of our Commissioners." This is incorrect. Consolidation will not circumvent the examination of revenue requirements and proposed plant in service that is thoroughly vetted during a full rate case. EWAZ would likely have to submit itself to greater scrutiny during a full rate case of a consolidated wastewater system due to a likely increase in intervening parties. Consolidation would provide greater customer awareness as there would be no confusion over what wastewater system a customer belonged to.

Cost analysis will not become "minimized" and more "evasive" as detailed account of plant and equipment will still be required to be maintained. Additionally, system planning and the rate basing of wastewater plant would be more transparent if it were conducted under a consolidated system versus buried in five different rate proceedings. This may lead to the better planning of the timeliness of when to construct or place new plant in service in the rate base when considering the lumpiness and rate impact of the capital investments.

Q13. HOW DO YOU RESPOND TO MR. HANSEN'S POSITION THAT THE CONSOLIDATION PLAN IS DISCRIMINATORY?

A13. According to Mr. Hansen, the consolidation proposal would discriminate against Sun City and Sun City West wastewater customers on the basis that:

- A. Sun City and Sun City West are already fully amortized;
- B. Sun City and Sun City West are the largest, most compact systems which affords them economy of scale;

- 1 C. Sun City and Sun City West have a lower volumetric consumption compared to
2 the other wastewater systems;
3 D. Sun City and Sun City West would shoulder the entire burden of subsidizing the
4 entire rate reduction;
5 E. Sun City and Sun City West rely on social security to one degree or another and,
6 presumably, are more constrained than customers in the other wastewater systems.

7 **Sun City and Sun City West are already fully amortized /**

8 **Sun City and Sun City West are the largest, most compact systems which affords**
9 **them economy of scale**

10 This is incorrect. EWAZ has identified additional capital needs that are needed in
11 these wastewater systems. This new investment and the recent upgrades completed at the
12 City of Tolleson Wastewater Treatment Plant demonstrate that these systems are in
13 perpetual need of capital improvements. Capital investment in a utility system is lumpy
14 by nature and will ebb and flow over the lifetime of the system. It is misleading to claim
15 discrimination simply because the system is currently in the trough of the current plant
16 life. Existing Sun City and Sun City West customers have both contributed to ongoing
17 expenses and benefited from the contributions of past wastewater customers and previous
18 subsidies.

19
20 **Sun City and Sun City West have a lower volumetric consumption compared to the**
21 **other wastewater systems**

22 This is a broad assumption. In any utility there are a number of variables that
23 affect the volumetric use of services. Financial ability, lawns versus xeriscape, pools,
24 HOA restrictions, and a number of inhabitants are all valid variables that may affect use.
25 Utilities and Commissions have acknowledged that trying to account for all of the
26 differences that exist between customers through individualized tariffs would be overly
27
28

1 burdensome. Given that usage differences exist between all customers, the use of flat
2 rates or rates based on meter size aims to treat customers in an indiscriminate fashion.

3 **Sun City and Sun City West would shoulder the entire burden of subsidizing the**
4 **entire rate reduction**

5 All of EWAZ customers would share the financial impact of future system
6 improvements made to Sun City and Sun City West. All customers will both subsidize
7 future customers as well as benefit from past ratepayer contributions.

8
9 **Sun City and Sun City West rely on social security to one degree or another and,**
10 **presumably, are more constrained than customers served by the other wastewater**
11 **systems**

12 This is a broad assumption. Mr. Hansen would like to presume that Sun City and
13 Sun City West are somehow greater burdened by the cost of their utility services
14 compared to other EWAZ wastewater customers. An average Sun City customer pays an
15 annual comparative wastewater bill of approximately \$216 while an Agua Fria customer
16 is anticipated to pay approximately \$1452 annually. It is probable that the wastewater
17 bill of a portion of Agua Fria customers may constitute a greater portion of the
18 customer's income than a Sun City resident. Additionally, utilities provide support
19 through low income assistance programs to provide additional support to struggling rate
20 payers. Simply because a customer is on a fixed income does not mean price increases
21 are discriminatory.

22 **Q14. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 A14. Yes, it does.

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