

OPEN MEETING AGENDA ITEM



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RYLEY CARLOCK & APPLEWHITE

One North Central Avenue, Suite 1200

Phoenix, Arizona 85004-4417

Telephone: 602/258-7701

Telecopier: 602/257-9582

Michele L. Van Quathem – 019185

Attorneys for Verrado Community Association, Inc.

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ARIZONA CORPORATION COMMISSION
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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

DEC 10 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, SUN CITY WASTEWATER DISTRICT, AND SUN CITY WEST WASTEWATER DISTRICT

Docket No. SW-01303A-09-0343

VERRADO COMMUNITY ASSOCIATION, INC.'S RESPONSES TO COMMISSIONER BRENDA BURNS' DECEMBER 2, 2014, QUESTIONS

Verrado Community Association, Inc. ("Verrado"), through its undersigned counsel, hereby responds to Commissioner Brenda Burns' list of questions posed in a December 2, 2014, letter to interested parties and stakeholders. Commissioner Burns' questions are quoted in italics below, followed by Verrado's responses.

- 1) *Prior to the Settlement Agreement, what was your position on deconsolidation and consolidation? (Were you in favor or opposed to full consolidation, full deconsolidation, partial consolidation or deconsolidation, or a reversal of the Anthem/Agua Fria deconsolidation? Other?)*

Prior to entering into the Settlement Agreement, Verrado proposed and supported a full rate consolidation proposal that was similar to Epcor's full rate consolidation proposal, to be implemented immediately, but with a two-step phase-in period to provide a more gradual rate change to Sun City customers. As was explained in more detail by Kent Simer in Verrado's Direct Testimony, Verrado's full rate consolidation proposal is supported by sound ratemaking principles as it would improve simplicity, understandability, public acceptability, and feasibility of application, would provide more freedom from controversies in interpretation, and would provide for more stable rates (smoothing lumpy investment cycles for all districts).

Cost of service principles are supported by the Verrado full rate consolidation proposal because cost of service is still an important consideration in setting fully-consolidated rates for similarly-situated customers receiving similar services (for example, residential customers versus commercial customers). Consolidation of rates will also more fairly apportion among all Epcor's wastewater customers the substantial costs currently borne primarily by Agua Fria Wastewater District customers attributable to unused regional wastewater treatment plant capacity. Mr. Simer illustrated the unused capacity in two Agua Fria plants with conservative "peak day" numbers in the attached charts. Mr. Simer presumed in his Direct Testimony that the Commission had allowed the excess treatment plant capacity into Epcor's rate base to encourage efficient plant

sizing and to encourage future investment in plant infrastructure. “Those are recognized public policy goals that support the private wastewater industry on a statewide basis; not on a subdivision-by-subdivision basis.” See Simer Direct Testimony docketed October 6, 2014, p. 16. In other words, if Epcor’s customers must pay for unused treatment plant capacity to support private investment goals, or even just to support Epcor’s health as a company while it waits for paying customers, that is a cost burden that is more fairly shared by all of Epcor’s customers, and not just those customers that happen to share a pipe with a particular plant.

Verrado supported re-consolidation of the Anthem and Agua Fria Wastewater Districts as an alternative measure if the Commission was unwilling to adopt a full consolidation proposal.

Verrado opposes full deconsolidation of districts as further deconsolidation is not supported by the sound ratemaking principles discussed in Verrado’s Direct Testimony, and will only exacerbate the rate disparities that led to this proceeding. (See attached chart showing rate disparities).

2) *Since the Settlement Agreement, has your position changed?*

The Settlement Agreement by its terms addresses an interim solution until resolution of the rate case Epcor files next year (the “2015 rate case”). Verrado supports the interim solution described in the Settlement Agreement as a fair interim solution to address the issues raised by the parties and urges the Commission to adopt the Settlement Agreement terms in their entirety. The Settlement Agreement provides that “[n]o party gives up their right to take any position or make any proposals in the 2015 rate case...”

See Settlement Agreement docketed November 19, 2014, section 2.2. If the Settlement Agreement terms are rejected by the Commission, then Verrado's positions as described in response to question one above would be the same as they were prior to reaching the Settlement Agreement.

- 3) *Do you see the Settlement Agreement as the first step toward your position? Please explain.*

The Settlement Agreement by its terms is an interim solution only, and its adoption by the Commission will not bind the Commission or the parties to any particular position or rate design outcome in the 2015 rate case. The practical effect of the Settlement Agreement is to change residential wastewater rates in the interim in a manner that reduces (but certainly does not eliminate) the large disparity in wastewater rates between the same class of residential customers in separate Epcor districts. To the extent the Commission supports a more consolidated rate structure for Epcor's wastewater districts in deciding the 2015 rate case, then the Commission would start that consolidation process with less disparate rates.

- 4) *How does the Settlement Agreement advance or hinder the position you support?*

The Settlement Agreement advances Verrado's position because it provides fair, real, and needed rate relief to Agua Fria residents immediately even though the rates are interim rates, and the Settlement Agreement proposes no adverse findings regarding the possibility of more permanent relief in the 2015 rate case.

The Settlement Agreement hinders Verrado's position in that the Commission, by adopting the Settlement Agreement, would not be making a decision in favor of the full consolidation proposal made by Verrado.

RESPECTFULLY SUBMITTED this 10th day of December, 2014.

RYLEY CARLOCK & APPLEWHITE

By Michele Van Quathem
Michele Van Quathem
One North Central Avenue, Suite 1200
Phoenix, Arizona 85004-4417
Attorneys for Verrado Community Association, Inc.
mvanquathem@rcalaw.com

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Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

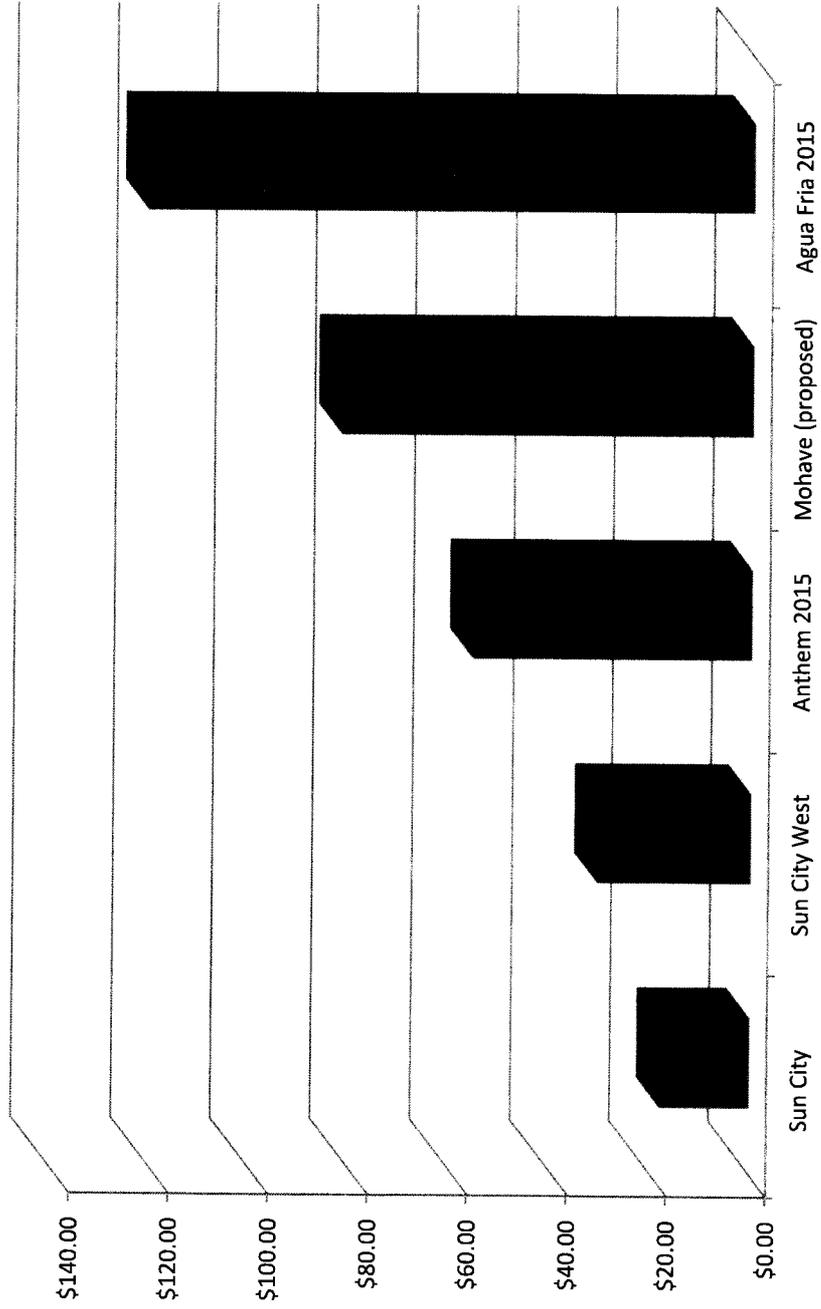
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10th day of December, 2014, to:

tcampbell@lrrlaw.com
mhallam@lrrlaw.com
shubbard@epcor.com
judith.dworkin@sackstierney.com
roxann.gallagher@sackstierney.com
jessica.chester@sackstierney.com
dpozefsky@azruco.gov
cfraulob@azruco.gov
tubaclawyer@aol.com
jrockett@bhfs.com
julie.bluesky@gmail.com
bherrema@bhfs.com
mvanquathem@rcalaw.com
lgefroh@rcalaw.com

cynthia.campbell@phoenix.gov
paul.norman@phoenix.gov
d.edwards795@yahoo.com
rsaborsky@cox.net
skylar_98@q.com
noeshomes@earthlink.net
kdprocto@gmail.com
agervenack@bmi.net
gregiesert@gmail.com
rmitchell@azcc.gov
bhumphrey@azcc.gov
ahodge@azcc.gov
bscamargo@azcc.gov
fgboth45@gmail.com

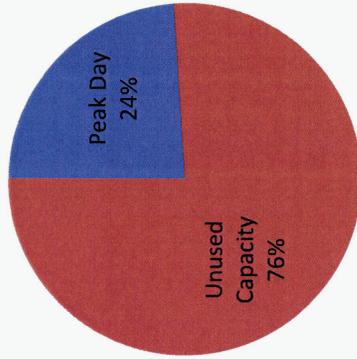
By Joni Styrub

Disparity in Epcor Wastewater District Rates Typical 5/8" x 3/4" Residential Customer

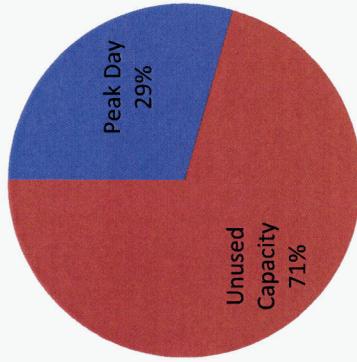


Verrado WRF Unused Capacity (Peak Day per Annual Reports)

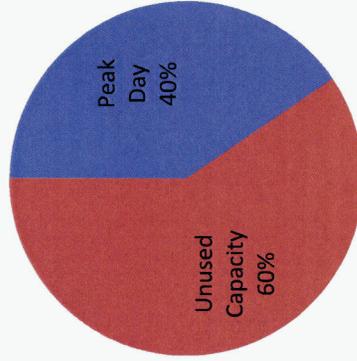
2008 Verrado WRF



2010 Verrado WRF

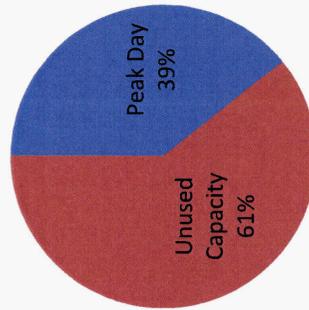


2013 Verrado WRF

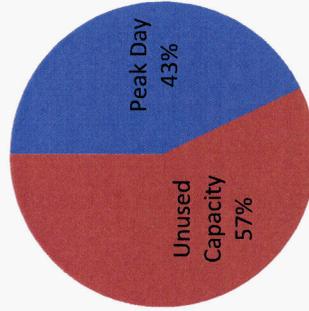


Northwest Valley Regional WRF Unused Capacity (Peak Day per Annual Report)

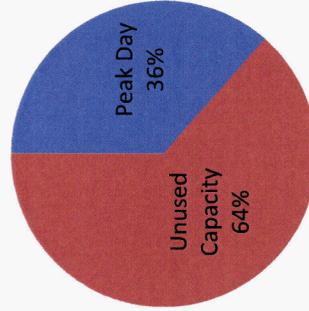
2008 Northwest Valley
Regional WRF



2010 Northwest Valley
Regional WRF

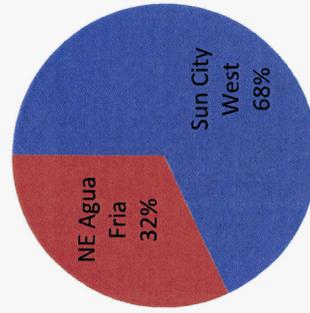


2013 Northwest Valley
Regional WRF

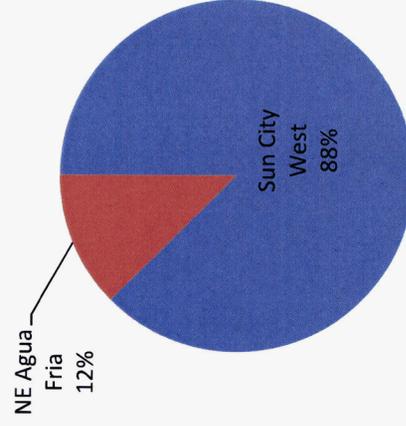


Amount of Unused Capacity Costs Allocated to Agua Fria Division Northwest Valley Regional WRF

2008 Total Plant Capacity Cost Allocation in Rates

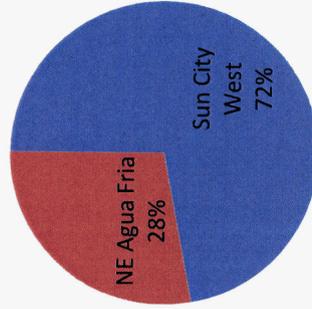


Actual Use of Capacity 2008



Amount of Unused Capacity Costs Allocated to Agua Fria Division Northwest Valley Regional WRF

**Post-2011 Total Plant Capacity Cost
Allocation in Rates**



Actual Use of Capacity 2013

