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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

- SUSAN BITTER SMITH, Chairman
- BOB STUMP
- BOB BURNS
- DOUG LITTLE
- TOM FORESE

IN THE MATTER OF THE APPLICATION OF)
 EPCOR WATER ARIZONA, INC., FOR A) DOCKET NO. WS-01303A-14-0010
 DETERMINATION OF THE CURRENT FAIR)
 VALUE OF ITS UTILITY PLANT AND)
 PROPERTY AND FOR INCREASES IN ITS) NOTICE OF FILING
 RATES AND CHARGES FOR UTILITY SERVICE) SURREBUTTAL TESTIMONY OF
 BY ITS MOHAVE WATER DISTRICT, SUN CITY) JIM PATTERSON AND RICH
 WATER DISTRICT, TUBAC WATER DISTRICT,) BOHMAN ON BEHALF OF THE
 MOHAVE WASTEWATER DISTRICT AND SUN) SANTA CRUZ VALLEY CITIZENS
 CITY WASTEWATER DISTRICT) COUNCIL

The Santa Cruz Valley Citizens' Council ("SCVCC") hereby provides notice of filing of the Surrebuttal Testimonies of Jim Patterson and Rich Bohman on behalf of SCVCC.

Dated this 26th day of February 2015.

Respectfully submitted,

Jim Patterson, President-Elect
Santa Cruz Valley Citizens Council

The original and thirteen (13) copies of the foregoing will be filed this 26th day of February 2015 with

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A copy of the same will also be emailed or mailed that same date to:

Arizona Corporation Commission

DOCKETED

FEB 26 2015

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**SURREBUTTAL TESTIMONY OF JAMES S. PATTERSON
REGARDING THE TUBAC WATER DISTRICT
ON BEHALF OF
THE SANTA CRUZ VALLEY CITIZENS' COUNCIL
DOCKET NO. WS-01303A-14-0010**

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

A1. My name is James Patterson. My address is PO Box 1983, Tubac, Arizona.

Q2. ARE YOU THE SAME JAMES PATTERSON THAT SUBMITTED DIRECT TESTIMONY IN THIS CASE?

A2. Yes.

Q3. DO YOU STILL REPRESENT THE SANTA CRUZ VALLEY CITIZENS COUNCIL ("SCVCC")?

A3. Yes, although I have assumed the office of president, after being elected at the January membership meeting. In this case, we represent a significant number of our 400 members who are customers of Epcor Water.

Q4. DO YOU HAVE ANY OVERVIEW ON STAFF'S AND RUCO'S DIRECT TESTIMONY?

A4. Yes. In general, we support many of Staff's and RUCO's conclusions contained in their Direct Testimony. In particular:

- We support Staff witness John Cassidy's inclusion of the total outstanding WIFA loan amount in the Tubac District's capital structure, with the result that the overall rate of return for the Tubac district is lowered relative to the rates of return for the other districts.

- 1 • We support in principle Staff's commodity rate design recommendation, which
- 2 encourages conservation by establishing a lower first-tier charge and creating a
- 3 wider spread between the lowest and highest tier charges.
- 4 • We support RUCO's conclusion that dividend payments by EWAZ to the parent
- 5 company are excessive based on comparative payout ratios.
- 6 • We support Staff's and RUCO's adjustments that remove excessive amounts from
- 7 the corporate allocations "pool." However, as outlined below, we believe that the
- 8 Tubac District is still unfairly burdened by unnecessary layers of corporate
- 9 overhead.

10
11 **Q5. MORE SPECIFICALLY, DO YOU BELIEVE THAT THE CORPORATE**

12 **ALLOCATIONS ASSIGNED TO THE TUBAC DISTRICT ARE FAIR?**

13 A5. No. Although both Staff and RUCO made adjustments in their Direct Testimonies to the

14 corporate allocations pool, the Tubac district would still be burdened with at least \$126

15 thousand of allocations for layers of corporate overhead. That amounts to more than 45%

16 of the Company's Required Revenue Increase for Tubac as proposed in their Rebuttal

17 Testimony.

18 By comparison, Baca Float Water Company ("Baca Float"), which filed a rate case

19 application on Dec. 30, 2014, is a local water company adjacent to Epcor's Tubac water

20 district. Epcor's costs per customer or per million gallons pumped, as shown in Citizens

21 Council Exhibit A - Revised, are significantly higher than Baca Float's.

22 For example, Epcor's general "human" costs per customer of providing service (i.e.

23 Labor, Outside Services, Customer Accounting and Corporate overhead) are 30% higher

24 than Baca Float's. A significant portion, more than 40%, (\$105,518 of the total amount of

25 \$261,685) of Epcor's claimed costs are attributed to corporate overhead. Strip corporate

26 overhead out, and Epcor's costs per customer are comparable to Baca Float's.

27 Although some of these corporate overhead costs would undoubtedly become the

28

1 Tubac District's responsibility were it an independent company, we believe that the many
2 layers of corporate overhead unduly burden Tubac ratepayers.

3
4 **Q6. WHAT IS THE SCVCC'S POSITION ON THE VARIOUS PROPOSALS FOR**
5 **RECOVERY OF DEFERRED ARSENIC MEDIA COSTS?**

6 A6. We opposed the Company's original proposal of dividing the total amount by 2 and
7 including it as an expense. This method would have provided no clear end date for the
8 recovery. We favor an accounting treatment that results in the least impact on ratepayers.
9 RUCO's proposal of "reclassifying and including the \$101,712 as a regulatory asset to be
10 amortized over 5 years..." appears to achieve a favorable outcome for Tubac ratepayers.
11 Staff also proposes capitalizing the deferred arsenic media costs, but we won't know until
12 Staff's surrebuttal by what method the amount would amortized. Also, Epcor may offer
13 another alternative in its rejoinder testimony. Thus, at this time the SCVCC does not have a
14 final position on this issue.

15
16 **Q7. HOW SHOULD THE CURRENT STEP 1 ACRM SURCHARGE BE TREATED IN**
17 **FUTURE RATES?**

18 A7. The surcharge should be eliminated and the cost of the arsenic treatment plant, less CIAC*
19 and accumulated depreciation, should be included in rate base.

20
21 **Q8. WHAT IS SCVCC'S POSITION ON STAFF'S RECOMMENDATION FOR**
22 **ADDITIONAL STORAGE FOR THE TUBAC WATER DISTRICT?**

23 A8. We aware of Staff's recommendation for at least 100,000 gallons of storage. But there
24 were no details substantiating the need for additional storage or the amount of storage.
25 Before any action is taken on this recommendation, we ask that further details be provided,
26 including a cost analysis and the opportunity to offer written comment.

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Q9. IS IT THE POSITION OF SCVCC THAT CURRENTLY PROPOSED INCREASES TO THE WATER BILL OF THE AVERAGE 5/8"-METER RESIDENTIAL CUSTOMER CONSTITUTES RATE SHOCK?

A9. Yes, as I have indicated in prior testimony. Under the various proposals, the average bill would increase anywhere from 40% to the Company's proposed 67%. The Citizens Council recommends that any significant increase in rates for Tubac customers that might be authorized by the Commission should be phased in over at least three years, with the provision that the Company receives no recovery of any foregone revenues.

Q10. IS THERE ANYTHING YOU WISH TO ADD TO YOUR DIRECT TESTIMONY?

A10. The Citizens Council, on behalf of its members, continues to advocate for consideration and implementation of fully consolidated rates. We advocate for the long-term goal of rate-consolidation across all of Epcor's water districts, bringing that practice in line with that of other utilities, such as telephone and electric.

Q11. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A11. Yes

* Note: \$1.15 million of the cost of the ARF came in the form of Stimulus Funding via a WIFA grant. The balance of the cost is a low-cost WIFA loan.

Citizens Council Exhibit A - Revised

Expense Comparison - Epcor Water Tubac v. Baca Float Water Co. Citizens Council Exhibit A - Revised

Expense	Epcor Water - Tubac	Epcor Corporate Allocations	Baca Float Water Co.	Cost per Epcor Customer	Cost per Baca Float Customer	% Difference per Customer	Epcor Cost per Million Gal.	Baca Cost per Million Gallons	% Difference per Million Gallons
Customers	596		411						
Gallons Pumped (Millions)	84.52		24.62						
Labor	179,440	59,989	73,091						
Outside Services	26,870	7,673	65,342						
Sub-Total	206,310	67,662	138,433	\$346.16	\$336.82	3%			
Corporate Allocation	34,814	34,814	0						
Customer Accounting	20,561	3,042	0						
Total	261,685	105,518	138,433	\$439.07	\$336.82	30%			
Power (& Fuel)	33,324	361	9,254	\$55.91	\$22.52	148%			
Chemicals - Arsenic Media Replacement	46,000	9	10,510				\$544.25	\$426.89	27%
Rents	7,566	2,407	4,351	\$12.69	\$10.59	20%			
General Office	28,204	8,835	6,134	\$47.32	\$14.92	217%			
Total	35,770	11,242	10,485	\$60.02	\$25.51	135%			

from Schedule C-1, page 1

from Docket No. WS-01678A-14-0 425

1 **SURREBUTTAL TESTIMONY OF RICH BOHMAN**
2 **ON BEHALF OF**
3 **THE SANTA CRUZ VALLEY CITIZENS COUNCIL**
4 **DOCKET NO. WS-01303A-14-0010**

5
6 **Q1. PLEASE STATE YOUR NAME AND ADDRESS.**

7 A1. My name is Rich Bohman. My address is 1 Trocito Corte, Tubac, Arizona 85646.

8
9 **Q2. ARE YOU THE SAME RICH BOHMAN THAT SUBMITTED DIRECT**
10 **TESTIMONY IN THIS CASE?**

11 A2. Yes.

12
13 **Q3. DOES THE SANTA CRUZ VALLEY CITIZENS COUNCIL (SCVCC) HAVE**
14 **A POSITION ON THE \$101,712 OF DEFERRED ACRM AND HOW IT**
15 **SHOULD BE HANDLED?**

16 A3. Yes. This is an issue that concerns the SCVCC because it certainly would add to the
17 future burden paid by EPCOR's Tubac water customers and any annual component
18 of this amount would be in addition to the approximate \$46,000 annual expense
19 needed for media replacement. The SCVCC intends to hear the testimony from
20 parties other than EPCOR before making a final decision as to its position on this
21 issue, since this particular item seems to have several potential alternative
22 ratemaking treatments.

23
24 **Q4. DOES THE SCVCC SEE A PHASE IN APPROACH TO ANY RATE**
25 **INCREASE AS AN APPROPRIATE MITIGATION TO THE "RATE**
26 **SHOCK" WHICH WOULD RESULT FROM EPCOR'S PROPOSED RATE**
27 **INCREASE?**

28 A4. Yes. The SCVCC is very concerned about the financial impact any increase on

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water rates would have on EPCOR's Tubac customers. If a rate increase is to be approved, the SCVCC believes that that increase must be phased in over a minimum three year period and that any forgone revenues not be recovered.

Q5. WHY SHOULD TUBAC WATER CUSTOMERS BEAR THE IMPACT FOR A LACK OF FORESIGHT BY BOTH ARIZONA AMERICAN WATER (AAW) AND NOW EPCOR IN THEIR ATTEMPT TO ACHIEVE A HIGHER RATE OF RETURN?

A5. The customer in this case, the Tubac rate payer, should not be held accountable for business decisions by both the former owner (AAW) and now EPCOR in not addressing their concerns earlier about how to incrementally solve negative rate of returns for residential customers. Now, EPCOR in one drastic proposal which amounts to "rate shock" is attempting to correct past years' problems on the backs of current Tubac customers. In that regard, it should be remembered that it is the utility which has the discretion as to when a rate increase application is filed, not its ratepayers.

Q6. DOES THAT COMPLETE YOUR SURREBUTTAL TESTIMONY?

A6. Yes