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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

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.

DOCKET NO. SW-01303A-09-0343

ANTHEM COMMUNITY COUNCIL INC.'S MOTION TO STAY PROCEEDINGS

Pursuant to A.A.C. R14-3-106(k), the Anthem Community Council, Inc. on behalf of the Anthem Community ("Anthem") hereby moves for an order staying the scheduling of any procedural dates related to the evidentiary hearing contemplated by Decision No. 74588, dated July 30, 2014 until EPCOR Water Arizona, Inc. (the "Company") has (i) filed a system wide rate case in connection with the consolidation of the Company's wastewater rates and (ii) contemporaneously submitted full cost of service studies and other information supporting consolidation as required by Decision No. 73227, dated June 5, 2012.

In support of this Motion, Anthem incorporates by reference herein Anthem Community Council's Preliminary Comments on EPCOR Water Company's Response to Commission Decisions filed on August 8, 2014, attached hereto as Exhibit A.

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DATED this 12th day of August, 2014.

Respectfully submitted,

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Judith M. Dworkin

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EXHIBIT A

**ANTHEM COMMUNITY COUNCIL'S PRELIMINARY COMMENTS ON EPCOR
WATER COMPANY'S RESPONSE TO COMMISSION DECISIONS**

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 **BOB STUMP, Chairman**
5 **GARY PIERCE**
6 **BRENDA BURNS**
7 **BOB BURNS**
8 **SUSAN BITTER SMITH**

9 IN THE MATTER OF THE APPLICATION OF)
10 ARIZONA-AMERICAN WATER COMPANY,)
11 AN ARIZONA CORPORATION, FOR A)
12 DETERMINATION OF THE CURRENT FAIR)
13 VALUE OF ITS UTILITY PLANT AND)
14 PROPERTY AND FOR INCREASES IN ITS)
15 RATES AND CHARGES BASED THEREON)
16 FOR UTILITY SERVICE BY ITS ANTHEM)
17 WATER DISTRICT AND ITS SUN CITY)
18 WATER DISTRICT.)

DOCKET No. W-01303A-09-0343

19
20 IN THE MATTER OF THE APPLICATION OF)
21 ARIZONA-AMERICAN WATER COMPANY,)
22 AN ARIZONA CORPORATION, FOR A)
23 DETERMINATION OF THE CURRENT FAIR)
24 VALUE OF ITS UTILITY PLANT AND)
25 PROPERTY AND FOR INCREASES IN ITS)
26 RATES AND CHARGES BASED THEREON)
27 FOR UTILITY SERVICE BY ITS)
28 ANTHEM/AGUA FRIA WASTEWATER)
DISTRICT, ITS SUN CITY WASTEWATER)
DISTRICT AND ITS SUN CITY WEST)
WASTEWATER DISTRICT.)

DOCKET No. SW-01303A-09-0343

**ANTHEM COMMUNITY COUNCIL
INC.'S PRELIMINARY
COMMENTS ON EPCOR WATER
COMPANY'S RESPONSE TO
COMMISSION DECISIONS**

20 The Anthem Community Council, Inc. on behalf of the Anthem Community ("Anthem")
21 hereby submits its Preliminary Comments on EPCOR Water Company's Response to Commission
22 Decisions (the "Response") filed on August 8, 2014 in the above-captioned and docketed
23 proceedings (the "Instant Proceeding") to address certain issues raised by and/or discussed in the
24 Response. These Preliminary Comments are not intended to be exhaustive or to be Anthem's final
25 dispositive positions on the issues discussed herein or in the Response. In that regard, Anthem
26 reserves the right to provide additional or alternative arguments arising from or within the Instant
27 Proceeding, and to the extent any prior Arizona Corporation Commission ("Commission") decision
28 is modified, to provide arguments in connection with issues presumptively settled by such prior

1 decisions.

2 **I. INTRODUCTION**

3 In response to numerous complaints by wastewater ratepayers in the Agua Fria Wastewater
4 District, the Commission issued Decision No. 74588, dated July 30, 2014 (the “Order”), and
5 ordered EPCOR Water Arizona, Inc. (as successor in interest to Arizona-American Water
6 Company, “EPCOR” or the “Company”), to file a response to the Order including, at a minimum,
7 the following issues, as set forth in Finding of Fact No. 25 of the Order:

- 8 a. Response to the customer complaints and requests for relief.
- 9 b. Response to Staff’s opinion that the Commission’s examination of
10 these matters should commence with rate design matters related to
11 wastewater rates.
- 12 c. Discussion and analysis demonstrating the rate impacts of full
13 consolidation of all districts, including a potential timeline for
14 consolidation and whether phase in is warranted. Discussion and
15 analysis should address when the circumstances in one district
16 necessitate a substantive investment for a new plant and/or
17 infrastructure improvements, for only that district. This discussion
18 should also address whether a rate case(s) would be warranted for
19 consolidation of all districts.
- 20 d. Discussion and analysis as to whether consolidation is warranted,
21 when there is no nexus between districts that do not share
22 contiguous service territorial borders, weather conditions, urban or
23 rural locations, farming factors and/or water supply needs.
- 24 e. Discussion and analysis demonstrating the rate impacts of full
25 deconsolidation of all districts and systems, including a potential
26 timeline for deconsolidation and whether phase in is warranted.
27 This discussion should also address whether a rate case(s) would
28 be warranted for deconsolidation.
- f. Discussion and analysis demonstrating the rate impacts of
reversing the deconsolidation of Anthem from the Agua Fria
District, including a potential timeline for reversal and whether
phase in is warranted. Discussion and analysis should include any
and all implications to the settlement agreement in Docket Nos. W-
01303A-09-0343 and SW-01303A-09-0343.
- g. Discussion of any EPCOR identified potential alternative options
and the options’ rate impacts on affected customers.
- h. Any recent calculations by EPCOR, which have previously
identified potential alternative options, must be updated and must
also add any new calculations if the next rate case moves forward
as scheduled.

1 To comply with the Order, the Company filed the Response.

2 **II. SUMMARY OF PRELIMINARY COMMENTS**

3 In the following Section III of these Preliminary Comments, Anthem will discuss its
4 following points with respect to the Response:

- 5 • The Commission has not yet determined whether A.R.S. § 40-252
6 applies to the Instant Proceeding and has not restricted the ultimate
7 scope of inquiry to the scope suggested in the Response.
- 8 • A full rate case and cost of service studies are required for the
9 Commission to conduct any meaningful examination of
10 wastewater rate design.
- 11 • The Instant Proceeding should not be conducted on the schedule
12 suggested by the Company.
- 13 • The Company's portrayal of the settlement reached on December
14 15, 2011 and approved in Decision No. 72047 (the "Settlement
15 Agreement") ignores factual issues regarding (i) the adoption and
16 incorporation of the Settlement Agreement into Decision No.
17 72047 and (ii) surrounding ratification and implementation of the
18 Settlement Agreement through Decision No. 73227.
- 19 • The Response does not respond to customer requests for relief as
20 required by the Order because it fails to explore the most requested
21 customer solution, namely consolidation of the Sun City West
22 Wastewater District and the Agua Fria Wastewater District.
- 23 • The Response does not identify any potential alternative options
24 for affected customers as required by the Order.

18 **III. DISCUSSION**

19 **A. The Commission Has Not As Yet Determined Whether A.R.S. § 40-252
20 Applies and Has Not Restricted the Scope of Inquiry**

21 The Commission has not as yet determined whether it will "rescind, alter, or amend any
22 order or decision made by it" as provided for in A.R.S. § 40-252. While the Commission may
23 ultimately decide to modify existing orders, the Company's suggestion that this phase of the
24 Instant Proceeding has already been instituted under A.R.S. § 40-252 is premature. In the event
25 that the Commission does hereafter decide to consider modification of any prior decision, the
26 Order does not place any limitation on the issues that may be reconsidered, including changes in
27 authorized revenues for the Company, if such changes are in the public interest. While the Order
28 noted that there does not seem to be any dispute as to whether EPCOR is charging rates approved

1 by the Commission, and suggests that the customer complaints are best addressed “initially by an
2 examination of rate design matters related to the Agua Fria District’s rates,” the Order does not
3 require any final solution to Agua Fria’s elevated rates to be “revenue neutral” to the Company.¹

4 **B. A Full Rate Case and Cost of Service Studies Are Required for the**
5 **Commission to Conduct any Meaningful Examination of Wastewater Rate**
6 **Design**

7 The Company’s contention that a full rate case is not required at this time in order to
8 examine wastewater rate design is wrong. Decision No. 72047 and Decision No. 73227, each
9 issued in earlier phases of the Instant Proceeding, directed the Company to file a system wide rate
10 case in connection with any future consideration of consolidation of Company water or wastewater
11 rates. In addition, Decision No. 73227 directed that the required system wide rate filing should be
12 accompanied by full cost of service studies. To date, more than two years later, the Company has
13 not made the filings required by Decision No. 72047 and Decision No. 73227. The Response
14 suggests the Commission can side-step this requirement and nevertheless consider consolidation
15 without a full rate case because any revisions in the Company’s current wastewater rate design
16 would be revenue neutral. However, any redesign of wastewater rates using billing data from the
17 last rate case necessarily changes total revenues that would result because current customer bill
18 counts will likely differ from previous bill counts. Accordingly, such a redesign cannot be
19 considered revenue neutral unless current billing data is used.

20 Further, cost of service ratemaking should be the presumptive rule for the Commission
21 except where public policy requires a rate design that deviates from cost of service.² Changes to
22 wastewater rate design should accurately reflect current underlying cost of service circumstances
23 and considerations. However, the Company has submitted no studies or data to support the
24 assumption that the now contemplated rate design changes would be cost-based. Moreover, the
25 Company’s existing wastewater rates for both of the Agua Fria Wastewater District and the

26 ¹ In fact, the words “revenue neutral” do not appear anywhere in the Order.

27 ² In that regard, the Commission knew at the time it issued Decision No. 73227, and expressly
28 acknowledged at that time, that deconsolidation would result in higher rates for the Agua Fria
Wastewater District. Thus, the consumer complaints discussed in Decision No. 74588 are not in
the nature of “new evidence.”

1 Anthem Wastewater District are based upon information which is now at least five to six years old.
2 It is unlikely that this antediluvian data accurately reflects or represents the current cost of
3 providing wastewater service to ratepayers in the Agua Fria Wastewater District or the Anthem
4 Wastewater District, and, simply “reshuffling” such data into new rates at this time is
5 inappropriate. In the absence of current cost of service information, the Commission cannot
6 intelligently determine at this time whether the Company’s existing wastewater rates should be
7 altered by means of (i) consolidation, (ii) further deconsolidation or (iii) reconsolidation of the
8 Anthem/Agua Fria Wastewater District. The Commission essentially agreed with this proposition
9 in Decision No. 73227 by noting:

10 The evidence presented in this proceeding . . . demonstrates the
11 need for the Company to file an updated cost of service study and
12 we will require it to do so. We will require the cost of service
13 studies and other information supporting consolidation that are
14 provided by the Company in its filing to be sufficient for all parties
15 to make their own reasoned proposals either for or against
16 consolidation or deconsolidation, consistent with sound ratemaking
17 principles.

18 **C. The Instant Proceeding Should Not Be Conducted on the Procedural Schedule**
19 **Suggested by the Company**

20 As previously noted, at the time the Commission issued Decision No. 73227, the
21 Commission had thoughtfully considered the rate impacts and other potential effects of
22 deconsolidating Anthem from the Anthem/Agua Fria Wastewater District, including the prospect
23 of future requests from Agua Fria wastewater customers to further deconsolidate the Agua Fria
24 Wastewater District or to consolidate with the Sun City West Wastewater District. In response, the
25 Commission welcomed Agua Fria intervenors to advocate for further deconsolidation in “future
26 Commission proceedings” and proposed and ordered the following mechanics:

27 In order to address the issue of deconsolidation/consolidation in
28 the most expeditious and fair manner possible, we will require the
29 Company to make the system-wide rate filing as ordered by
30 Decision No. 72047 that includes all of the affected districts,
31 including the Sun City West Wastewater district, as soon as
32 possible,³ so that all affected parties will receive notice of, and
33 will have a full opportunity to address, all the issues affecting the
34 Company’s revenue requirement, and can make proposals either
35 for or against consolidation or deconsolidation for Commission
36 consideration. The required system-wide rate filing should include

37
38 ³ In that regard, Decision No. 73227 was issued on June 5, 2012.

1 full cost of service studies and other information supporting
2 consolidation sufficient for all parties to make their own reasoned
3 proposals either for or against consolidation or deconsolidation,
 consistent with sound ratemaking principles. [Decision No. 73227
 at page 39, line 80-page 40, line 10] [Emphasis added.]

4 The Commission made it clear in both Decision No. 72047 and Decision No. 73227 that
5 (i) a system wide rate application by the Company and (ii) a cost of service study underlying and
6 supporting such filing were necessary predicates to any future consideration of further
7 consolidation or deconsolidation proposals. The Company has not to date submitted the required
8 system wide rate filing or cost of service studies. Therefore there is not sufficient information at
9 this time for all parties to make reasoned proposals either for or against consolidation,
10 deconsolidation, or reconsolidation scenarios. Accordingly, the Commission should defer the
11 scheduling of the evidentiary hearing and related pre-hearing activities contemplated by the Order
12 until the Company has (i) made the system wide rate filing and (ii) contemporaneously submitted
13 the full cost of service studies and other information supporting consolidation required by Decision
14 No. 73227.

15 Alternatively, in the event that the Commission should decide to not stay the Instant
16 Proceeding, as discussed above, the Instant Proceeding should not be subjected to an expedited
17 procedural schedule, such as that proposed by the Company. Few, if any, parties possess the
18 substantial resources available to the Company to address the facts and issues to be considered by
19 the Commission on the rushed schedule proposed by the Company. These issues are too important
20 for all concerned parties to utilize an expedited procedural schedule. Getting to a fair and reasoned
21 result may take time. Also, whether or not the Instant Proceeding is accorded expedited treatment,
22 the procedural schedule should provide for filing of Surrebuttal Testimony by Staff and the
23 Intervenors. If the Commission does not stay the Instant Proceeding until the Company submits a
24 system wide rate filing and cost of service studies, Anthem proposes the filing of Surrebuttal
25 Testimony should be scheduled for the week of October 27 and the hearing date to be moved into
26 the second full week in November, 2014.

1 **D. The Company’s Portrayal of the Settlement Agreement Ignores Factual**
2 **Issues regarding the Adoption and Incorporation of the Settlement**
3 **Agreement into Decision No. 72047 and Surrounding Ratification and**
4 **Implementation of the Settlement Agreement through Decision No. 73227.**

5 The Response erroneously suggests that the recited language of Decision No. 72047
6 provides a complete description of the Settlement Agreement as it relates to the deconsolidation of
7 the Anthem/Agua Fria Wastewater District. In that regard, Anthem offers the following language
8 from Decision No. 73227 which indicates the Commission’s view with respect to the Settlement
9 Agreement reached in connection with Decision No. 72047:

10 Moreover, even if we were to set aside our desire to establish rates
11 on cost causation principles, we believe deconsolidation of the
12 Anthem wastewater district would be appropriate in this case in
13 order to preserve the integrity of settlement negotiations that occur
14 in Commission proceedings. In our December 15, 2010 Open
15 Meeting, we encouraged the parties to negotiate the settlement of
16 contentious legal and equitable issues involving the disputed
17 refund payments that the Company paid to Pulte. As part of the
18 settlement agreement that was ultimately reached, Anthem
19 surrendered several arguments against recognizing the disputed
20 refund payments to Pulte for ratemaking purposes. Anthem’s
21 willingness to do so was based on the gains Anthem would make
22 in other areas under the settlement agreement, including the timely
23 deconsolidation of the Anthem/Agua Fria Wastewater District. The
24 record suggests that deconsolidation of the Anthem/Agua Fria
25 Wastewater District was vital to Anthem’s willingness to support
26 the settlement as a complete package. Therefore, in order to
27 preserve the integrity of the settlement negotiations that occur in
28 Commission proceedings, we believe it is in the public interest to
 deconsolidate Anthem from the Anthem/Agua Fria Wastewater
 District at this time. [Decision No. 73227 at page 31, lines 13-28]
 [Emphasis added.]

20 As a result of the Company’s failure to acknowledge this additional language, the Response does
21 not “include any and all implications to the settlement agreement” as required by the Order. At the
22 very least, failure by the Commission to honor the Settlement Agreement would risk compromising
23 the Commission’s integrity, discourage settlement in future rate cases and other Commission
24 proceedings, and expose the Commission to potential legal claims, unintended practical
25 consequences, and unflattering media attention.

26 **E. The Response Does Not Fully Respond to Customer Requests for Relief as**
27 **Required by the Order.**

28 Finding of Fact 25(a) of the Order requires the Company to address “customer complaints
and requests for relief.” However, the Response fails to explore at all the most requested form of

1 relief, namely, consolidation of the Sun City West Wastewater District and the Agua Fria
2 Wastewater District.⁴ Sun City West is adjacent to Corte Bella; Anthem is geographically remote.
3 Sun City West and Corte Bella share wastewater treatment facilities; Anthem does not and
4 physically cannot share these facilities. Sun City West has approximately 15,000 customers to
5 spread wastewater costs; Anthem has roughly 8,600 residents. Sun City West residents enjoy
6 among the lowest water and wastewater rates in the State of Arizona; Anthem residents pay among
7 the highest combined water and wastewater rates in the State. Sun City West residents pay
8 significantly less than Corte Bella residents for the same service from the same facility; Anthem
9 has been and is currently subsidizing Corte Bella's wastewater rates. Nevertheless, the Company
10 did not explore the customer-requested consolidation of the Sun City West Wastewater District
11 and the Agua Fria Wastewater District. Anthem believes that it is inexcusable for potentially fair
12 and reasonable solutions for reducing Agua Fria wastewater rates to remain unexamined while a
13 "completely arbitrary"⁵ reconsolidation of Anthem into the Agua Fria Wastewater District
14 constitutes a threat to Anthem ratepayers. If a "completely arbitrary" would now be deemed to be
15 acceptable, then why not investigate the partial consolidation of the Agua Fria Wastewater District
16 with the Mohave Wastewater District, or with the Sun City Wastewater District? Anthem should
17 not be included in the only partial consolidation model to date explored by the Commission and
18 the Company simply because Anthem is perceived as the proverbial "path of least resistance," and
19 an administratively convenient place to dump Agua Fria's costs.

18 **F. The Response Does Not Identify any Potential Alternative Options for Affected**
19 **Customers as Required by the Order.**

20 Finding of Fact 25(a) of the Order requires the Company to discuss "any EPCOR identified
21 potential alternative options and the options' rate impacts on affected customers." The Response
22 identifies none. Considering the significant financial benefit that the Company derives from the
23 ownership and operation of the Agua Fria wastewater treatment facilities, the Company should be
24 compelled to present at least one option for rate relief for Agua Fria wastewater consumers that

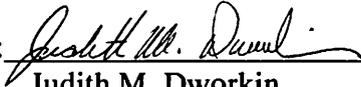
25 ⁴ In contrast, not a single petitioner requested reconsolidation of the Anthem/Agua Fria
26 Wastewater District. The Company also notified representatives of Anthem by email dated August
27 8, 2014, that the Company was not recommending reconsolidation.

28 ⁵ In Decision No. 73227, the Commission recognized that the continued consolidation of the
Anthem/Agua Fria Wastewater District would be "completely arbitrary" and accordingly ordered
deconsolidation.

1 reaches into its own pocketbook and not into those of its customers. The Commission cannot find
2 the most appropriate solution for Agua Fria wastewater consumers if all possible options are not
3 available for consideration.

4 DATED this 12th day of August, 2014.

5 Respectfully submitted,

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22 this 12th day of August, 2014 to:

23 Docket Control
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27 COPY of the foregoing mailed or e-mailed
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