

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE, Chairman
BOB BURNS
ANDY TOBIN
BOYD DUNN
JUSTIN OLSON

IN THE MATTER OF THE APPLICATION
OF EPCOR WATER ARIZONA INC. FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR
INCREASES/DECREASES IN ITS RATES
AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS AGUA FRIA,
ANTHEM, CHAPARRAL, HAVASU,
MOHAVE, NORTH MOHAVE, PARADISE
VALLEY, SUN CITY, SUN CITY WEST,
TUBAC, AND WILLOW VALLEY WATER
DISTRICTS AND FOR CONSIDERATION
OF CONSOLIDATION PROPOSALS

DOCKET NO: WS-01303A-17-0257

**REBUTTAL TESTIMONY
OF
SHAWN BRADFORD
ON BEHALF OF
EPCOR WATER ARIZONA INC.
APRIL 9, 2018**

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1 **EXECUTIVE SUMMARY**

2 Mr. Bradford responds to the direct testimonies from Commission Staff, RUCO and other
3 intervenors (including SCHOA and PORA) on consolidation – including why the
4 Company continues to support full consolidation and why the Commission should
5 approve full consolidation. Mr. Bradford justifies why a five-year phase-in of full
6 consolidation is appropriate for EPCOR Water Arizona Inc.’s water districts. Finally,
7 Mr. Bradford addresses the positions Commission Staff and RUCO regarding the System
8 Improvement Benefits mechanism (“SIB”) and how system reliability and safety justify
9 inclusion of valves, meters and hydrants for all districts (in addition to all SIB-eligible
10 plant in those districts with water loss over 10% or which include systems with a high
11 number of recorded leaks and breaks in mains and service lines.) Mr. Bradford
12 summarizes the modifications the Company makes to its SIB proposal in its rebuttal
13 filing.

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Shawn Bradford. My business address is 2355 W. Pinnacle Peak
5 Road, Suite 300, Phoenix, Arizona 85027, and my business phone is (623) 815-
6 3136.

7 **Q. ARE YOU THE SAME SHAWN BRADFORD WHO PROVIDED DIRECT**
8 **TESTIMONY IN THIS MATTER?**

9 A. Yes.

10 **II. PURPOSE OF TESTIMONY**

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
12 **CASE?**

13 A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of
14 Arizona Corporation Commission Utilities Division Staff (“Commission Staff”),
15 the Residential Utility Consumer Office (“RUCO”) and the other intervenors on
16 the issue of consolidation, including EPCOR Water Arizona Inc.’s (“EWAZ” or
17 “Company”) proposed five-year phase-in of consolidated rates. I also respond to
18 the Commission Staff’s recommendation regarding the Company’s request for
19 System Improvement Benefit mechanisms (“SIB”) for several of the water
20 districts in this case.

1 **III. FULL CONSOLIDATION**

2 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY SUBMITTED BY**
3 **THE INTERVENORS AND BY COMMISSION STAFF IN THIS**
4 **MATTER?**

5 A. Yes, I have.

6 **Q. BASED UPON YOUR REVIEW OF THAT DIRECT TESTIMONY, DOES**
7 **THE COMPANY CONTINUE TO SUPPORT FULL CONSOLIDATION**
8 **OF ITS WATER DISTRICTS?**

9 A. Yes. Following my review of that Direct Testimony, EWAZ continues to support
10 full consolidation of its water districts over a five-year phase-in period.

11 **Q. DOES COMMISSION STAFF ALSO SUPPORT FULL CONSOLIDATION**
12 **OF THE COMPANY'S WATER DISTRICTS?**

13 A. Yes. Mr. Briton Baxter for Commission Staff describes the basis for Staff's
14 support of full consolidation in his Direct Testimony. Staff also supports the five-
15 year phase-in in its rate design testimony.

16 **Q. DO OTHER INTERVENORS ALSO SUPPORT FULL CONSOLIDATION?**

17 A. Yes. Full consolidation is supported by the Anthem Community Council, Verrado
18 Community Association, Diane Smith and Doug Edwards (residents of the Corte
19 Bella Country Club Association), Marshall Magruder, Santa Cruz Valley Citizens
20 Council, and Raymond Valle, a resident of the Verrado community.

1 **IV. RESPONSE TO RESIDENTIAL UTILITY CONSUMER OFFICE**

2 **Q. WHAT IS RUCO'S POSITION ON THE ISSUE OF CONSOLIDATION IN**
3 **THIS PROCEEDING?**

4 A. RUCO states that consolidation is a policy issue for the Commission to determine.
5 RUCO also indicates, however, that it does not feel there are overwhelming
6 reasons to support consolidation in this case.

7 **Q. DOES THE COMPANY AGREE?**

8 A. The Company agrees that consolidation is a policy issue for the Commission to
9 determine, just as it did in the Company's most recent wastewater case when it
10 approved full consolidation. The Company disagrees, however, that the
11 consolidation should not be supported in this case. RUCO does not address any
12 specific issues regarding consolidation. For the reasons stated in my Direct
13 Testimony, and by other intervenors in this proceeding, the Company strongly
14 believes that the Commission should approve full consolidation in this case.

15 **V. RESPONSE TO SUN CITY HOME OWNERS' ASSOCIATION ("SCHOA")**

16 **Q. IN HIS TESTIMONY, MR. GREG EISERT FOR SCHOA RELIES AGAIN**
17 **UPON THE NOTION OF COST CAUSATION IS A REASON TO REJECT**
18 **CONSOLIDATION. HOW DOES THE COMPANY RESPOND?**

19 A. We do not agree with how SCHOA defines what cost causation is and is not.
20 Consolidated rates do not violate the principles of cost causation. Further, as in
21 the Company's previous rate case seeking consolidation of its Wastewater
22 Districts, Docket No. WS-01303A-16-0145, the issue of cost causation is not
23 absolute. In fact, it is important to point out that of the eleven separate geographic

1 areas where we provide water service, three areas, including Sun City, already
2 have rates in place that do not follow the “cost user pays” principle as SCHOA
3 describes it. Specifically regarding Sun City, the Sun City residents share a single
4 tariff with those within new Tierra del Rio master planned community located in
5 Peoria. This development is approximately five miles north of Sun City and the
6 water systems are not physically connected. If one were to simply look at the
7 “cost user pays” principle in a vacuum, it is clear that this new development is
8 subsidizing all of the infrastructure investments the Company is making in Sun
9 City to replace aging infrastructure. To the best of my knowledge, the Sun City
10 community has not objected to this, formally or informally, including any previous
11 proceeding with the Commission.

12 In addition to Sun City, in our Mohave water district we have six separate water
13 systems that are not physically connected, but the customers within that district
14 share a single tariff. The same is true for the Agua Fria Water District. All
15 customers south of Grand Avenue, including Sun City Grand, Verrado, Sedella
16 and Russell Ranch, are not physically connected to the area defined as “Northeast
17 Agua Fria” but they share a single tariff.

18 **Q. WHILE NOT ACCEPTING SCHOA’S ARGUMENTS REGARDING COST**
19 **CAUSATION AND CONSOLIDATED RATES, ARE THERE LEGITIMATE**
20 **REASONS TO DEVIATE FROM STRICT COST CAUSATION WHEN**
21 **DESIGNING RATES?**

22 **A.** Yes. It is also important to point out that Commissions often stray from traditional
23 cost-of-service principles when developing low-income or other programs that are
24 part of the public good. This point is reinforced in this case given that no party

1 has objected to the Company's proposed low-income, disabled veteran or
2 deployed service member programs that provide a "public good" but do not
3 strictly follow cost-of-service principles.

4 **Q. MR. EISERT ALSO ARGUES THAT THE NUMBER OF RESIDENTS**
5 **OPPOSED TO CONSOLIDATION IS A BASIS TO REJECT IT. DO YOU**
6 **AGREE?**

7 A. No. In Mr. Eisert's testimony, he appears to be referencing the prior wastewater
8 case, which was decided in favor of consolidation. His argument in that case was
9 that consolidation was opposed by 60,000 ratepayers or a majority of customers
10 that received wastewater service from the Company. While the Company did not
11 directly dispute his claim in that case, Mr. Eisert offered no empirical evidence to
12 support this argument. Further, if one were to take a similar approach in this case
13 it would result in the majority of customers supporting consolidation, given the
14 consolidated rate being proposed by the Company.

15 **Q. WHAT ARE THE PROJECTED CAPITAL EXPENDITURES FOR THE**
16 **SUN CITY DISTRICT?**

17 A. EWAZ witness Andrew D. Brown testifies that the capital needs for the Sun City
18 Water District for the five-year period (2018 – 2022) will be approximately \$33.6
19 million.

1 **VI. RESPONSE TO PROPERTY OWNERS AND RESIDENTS ASSOCIATION (SUN**
2 **CITY WEST)**

3 **Q. MR. GERVENACK REPEATEDLY STATES IN HIS TESTIMONY THAT**
4 **THE COMPANY IS IN FAVOR OF “FORCED CONSOLIDATION”. IS**
5 **THIS EWAZ’S POSITION?**

6 A. No. This phrase is also used multiple times by Mr. Eisert in his Direct Testimony.
7 EWAZ believes that there are benefits for all customers by consolidating these
8 districts. Ultimately, as noted by the Company, Commission Staff, and RUCO,
9 this is a policy issue that the Commission will make based on the evidence
10 provided by the parties.

11 **Q. WHAT ARE THE PROJECTED CAPITAL EXPENDITURES FOR THE**
12 **SUN CITY WEST WATER DISTRICT?**

13 A. Mr. Brown states in his Direct Testimony that the capital needs for the Sun City
14 West Water District for the five-year period (2018 – 2022) will be approximately
15 \$21.4 million.

16 **VII. FIVE YEAR PHASE-IN OF CONSOLIDATED RATES**

17 **Q. CERTAIN INTERVENORS HAVE INDICATED THAT THE PHASE-IN**
18 **OF CONSOLIDATED RATES SHOULD BE LESS THAN FIVE YEARS.**
19 **PLEASE EXPLAIN THE BASIS FOR THE COMPANY’S FIVE-YEAR**
20 **PHASE-IN OF RATES.**

21 A. The Company is supporting a five-year phase-in of rates in this case. The basis for
22 this decision is twofold. First, the Commission approved a five-year phase-in as
23 part of the Company’s recent wastewater consolidation rate case; based on the
24 Commission’s approval in that case, the Company believes it is appropriate to

1 request a five-year phase-in for this case given the similar policy decision on
2 consolidation. Second, the Company is sensitive to the customers that will see an
3 increase due to consolidation and believes a five-year phase-in provides rate
4 gradualism for those districts.

5 **Q. IN DESIGNING THE PHASE-IN OVER FIVE YEARS, DID THE**
6 **COMPANY TAKE INTO ACCOUNT THE SPECIFIC IMPACTS TO SUN**
7 **CITY, SUN CITY WEST, AND MOHAVE?**

8 A. Yes. The Company's proposed rate design, included in our rebuttal filing,
9 provides additional relief to the Sun City, Sun City West, and Mohave Water
10 Districts. The individual or "stand-alone" rate in each of these three districts is
11 higher than the proposed consolidated rate during the first three years of the phase
12 in. This difference reduces the initial impact of consolidation and will result in
13 customers paying less each month under consolidation versus the cost they would
14 incur if consolidation was not adopted. In total, the Company's proposed rate
15 design reduces the revenue required in each of these three districts by
16 approximately \$6.5 million dollars over the first three years. The impact to each
17 district is broken out as follows:

18

District	Stand-alone rate	Consolidated rate year 1	Consolidated rate year 2	Consolidated rate year 3	Total reduction in revenue
Sun City	\$28.76	\$24.36	\$26.17	\$28.71	\$5.4M
Sun City West	\$38.76	\$37.57	\$38.42	\$38.73	\$539,000
Mohave	\$38.34	\$35.88	\$36.73	\$37.57	\$621,000

19 * rates listed above are for an average residential customer using 7,000 gallons/month on a 5/8"
20 meter.

1 It is important to point out that at the end of the five-year phase-in, customers in
2 all districts will pay the same consolidated rate.

3 **Q. THE POLICY OF CONSOLIDATION AND ITS BENEFITS CAN BE**
4 **DIFFICULT TO EXPLAIN TO CUSTOMERS. WHAT STEPS DID THE**
5 **COMPANY TAKE TO COMMUNICATE THE ISSUES INVOLVED IN**
6 **THIS RATE CASE?**

7 A. The Company understands that the concept and benefit of consolidation can be
8 difficult to understand. The Company proactively held 28 community meetings
9 across the state to walk our customers through the rate making process and the key
10 components that we included in our rate case filing. These meetings were broken
11 out over two time-periods to maximize the potential number of attendees in all of
12 our districts and to account for the high number of seasonal customers or second
13 homeowners that exist in several of the retirement communities we currently
14 serve.

15 The Company scheduled community meetings over the last quarter of 2017 and
16 first quarter of 2018. The Company scheduled at least one community meeting in
17 each of its 11 water districts. Multiple community meetings took place in several
18 of our larger water districts, to accommodate potential customer attendance. At
19 each meeting, the Company provided a formal presentation of the rate case, the
20 issues involved including consolidation, and identified ways customers could
21 make their individual voices heard as part of the formal proceeding. The
22 Company also had representatives from Customer Service,
23 Operations/Engineering, Rates, Public & Governmental Affairs and Water
24 Conservation on hand to answer questions as part of informal town halls that

1 occurred before and after the formal presentation. Copies of all of the materials
2 developed for these meetings including the number of attendees by district is
3 attached to my Rebuttal Testimony as Exhibit SB-1 REB.

4 **VIII. SYSTEM IMPROVEMENT BENEFITS MECHANISM**

5 **Q. IS THE COMPANY PROPOSING A SYSTEM IMPROVEMENT**
6 **BENEFITS (SIB) MECHANISM AS PART OF THIS RATE CASE?**

7 A. Yes. The Company is requesting a SIB in its rate case application but is making
8 some changes in its rebuttal filing to address concerns raised by Commission Staff
9 and RUCO.

10 **Q. WHY DOES EWAZ WISH TO ESTABLISH SIB MECHANISMS FOR ITS**
11 **WATER DISTRICTS?**

12 A. As previously stated in Andrew Brown's Direct Testimony, the Company is
13 committed to delivering high quality and reliable water service to its customers;
14 but given the age and condition of our infrastructure, this commitment requires
15 higher levels of infrastructure replacement than has occurred in the past. Without
16 a proper annual replacement program, water systems become inefficient and begin
17 to fail.

18 **Q. WHAT CHANGES IS EWAZ MAKING TO IT ORIGINAL SIB FILING?**

19 A. RUCO and Commission Staff in their Direct Testimony have taken a position that
20 if a district has water loss less than 10% the water loss (and, per Commission
21 Staff, if there are not a high number of recorded leaks and breaks in mains and
22 service lines), then the circumstances are not severe enough to warrant granting a
23 SIB mechanism. While the Company does not agree with this position, in an

1 effort to reach middle ground with RUCO and Commission Staff, the Company
2 has revised its SIB filing in hopes of resolving what projects will remain SIB
3 eligible.

4 **Q. CAN YOU PROVIDE A BRIEF SYNOPSIS OF WHAT LED TO THE**
5 **APPROVAL OF THE SIB?**

6 A. Yes. By way of background, Decision No. 73938 (August 5, 2011) developed a
7 framework that outlined the SIB process and what types of project would be
8 eligible for recovery. In that Decision, the parties agreed to a settlement on the
9 mechanics of the SIB process. The settlement was ultimately approved by the
10 Commission, and is used today as guidance on all new SIB requests. While water
11 loss exceeding 10% was identified as one of the factors that satisfies the criteria
12 for SIB recovery, it also allows for assets that are fully depreciated and in need of
13 replacement due to deteriorating conditions. The Company believes that all of the
14 assets it has requested in its original SIB filing meet this second criteria, but in the
15 spirit of cooperation the Company's request no longer includes the replacement of
16 water services in the districts in which Commission Staff did not recommend
17 approval of the SIB. The rationale behind this adjustment is that these asset types
18 are typically the major contributors to water loss in EWAZ's existing districts.

19 **Q. WHY DOES THE COMPANY BELIEVE VALVES, METERS AND FIRE**
20 **HYDRANTS SHOULD BE SIB-ELIGIBLE PLANT, MR. BRADFORD, IF**
21 **THOSE ARE NOT MAJOR CONTRIBUTORS TO WATER LOSS?**

22 A. The Company is continuing to request the inclusion of valves, meters and fire
23 hydrants in the Company's SIB filings in all of the districts included in our
24 original application. The justification is that these assets are in poor operating

1 condition or are not operable at all. Given the Company's obligation to operate a
2 safe, efficient and reliable system having valves that are inoperable, meters that do
3 not register correctly, or fire hydrants that do not work is not in our customers'
4 best interest.

5 **Q. IF THE SIB IS NOT APPROVED WILL THE COMPANY REPLACE THIS**
6 **FAILING INFRASTRUCTURE?**

7 A. Yes, the Company will continue to replace failing infrastructure to ensure that we
8 continue to provide safe, reliable and efficient water service to our customers.

9 **Q. IF THE COMPANY IS GOING TO REPLACE ITS FAILING**
10 **INFRASTRUCTURE WITH OR WITHOUT A SIB, THEN WHY ASK FOR**
11 **A SIB MECHANISM IN THIS CASE?**

12 A. As defined in Decision No. 73938, the SIB mechanism "is a ratemaking device
13 designed to provide for the timely recovery of the capital costs (depreciation
14 expense and pre-tax return on investment) associated with distribution system
15 improvement projects."¹ While EWAZ will make the necessary investments to
16 replace failing infrastructure, the SIB mechanism allows for quicker recovery of
17 this investment and provides smaller incremental increases over time, which
18 benefits customers and helps to avoid rate shock.

19 **Q. WHAT IS THE COMPANY'S REVISED REQUEST FOR A SIB**
20 **MECHANISM IN THIS CASE?**

21 A. As previously stated, the Company is modifying its request so that it is not
22 including any water services or water mains for any districts with water loss less

¹ Decision No. 73938 at 19.

1 than 10%. This reduces the Company's total investment of the 5-year SIB plan
2 from \$49.9 million to \$47.2 million. Additional details on the modified SIB
3 request is included in the Rebuttal Testimony of Andrew D. Brown.

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5 **A. Yes.**