

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
CONSTANCE E. HEPPENSTALL
ON BEHALF OF
EPCOR WATER ARIZONA INC.
APRIL 9, 2018**

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1 **EXECUTIVE SUMMARY**

2 Constance E. Heppenstall testifies as follows:

3 The purpose of my testimony is to present the proposed rate design to reflect the changes in rates
4 due to changes in the Company's rate structure. I will rebut the opposing parties' arguments
5 against rate consolidation based on cost of service principles. My testimony will also include a
6 discussion of the detailed rate design proposals of Commission Staff's and RUCO's rate design
7 witnesses and other rate design issues presented by other parties.

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

4 A. My name is Constance E. Heppenstall. My business address is 1010 Adams Avenue,
5 Audubon, PA 19403. My telephone number is (610) 650-8101.

6 **Q. ARE YOU THE SAME CONSTANCE E. HEPPENSTALL WHO SUBMITTED**
7 **DIRECT TESTIMONY AND SCHEDULES IN THIS PROCEEDING?**

8 A. Yes, I prepared and submitted direct testimony and sponsored the following schedules in
9 the proceeding:

- 10 • Schedule G-1 – Cost of Service Summary-Present Rates
- 11 • Schedule G-2 – Cost of Service Summary-Proposed Rates
- 12 • Schedule G-3 – Rate Base Allocation to Classes of Service
- 13 • Schedule G-4 – Expense Allocation to Classes of Service
- 14 • Schedule G-5 – Rate Base by Function
- 15 • Schedule G-6 – Cost of Service by Function
- 16 • Schedule G-7 – Factors for Allocating Cost of Service to Cost Functions and
17 Customer Class
- 18 • Schedule G-8 – Comparison of Cost of Service with Revenues under Present and
19 Proposed Rates
- 20 • Schedule G-9 – Allocation of Total Cost of Service by Cost Function to Customer
21 Classifications
- 22 • Schedule H-1 – Summary of Revenues by Customer Classification-Present and
23 Proposed Rates
- 24 • Schedule H-2 – Analysis of Revenue by Detailed Class
- 25 • Schedule H-3 – Changes in Representative Rate Schedules

- 1 • Schedule H-4 – Typical Bill Analysis
- 2 • Schedule H-5 – Bill Count

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

5 A. The purpose of my Rebuttal Testimony is to address issues related to cost of service and
6 rate design including revisions to rate design based on EPCOR Water Arizona Inc.’s
7 (“EWAZ” or the “Company”) rebuttal position and discuss other parties’ testimony
8 regarding rate design and cost of service. I will also comment on the Arizona
9 Corporation Commission Staff’s (“Commission Staff”) proposed rate design, specifically
10 how it does not generate its recommended revenue requirement.

11 **III. SPONSORED SCHEDULES**

12 **Q. PLEASE LIST THE SCHEDULES THAT YOU WILL BE SPONSORING.**

13 A. I will be sponsoring the following schedules for each of the stand-alone areas of Agua
14 Fria, Anthem, Havasu, Mohave, North Mohave, Paradise Valley, Sun City, Sun City
15 West, Tubac, and Willow Valley and as the consolidated “EPCOR Arizona Water”
16 district, as well as rebutting the Commission Staff’s proposed rate design that does not
17 generate the recommended revenue requirement.

- 18 • Schedule G-1 Rebuttal – Cost of Service Summary-Present Rates
- 19 • Schedule G-2 Rebuttal – Cost of Service Summary-Proposed Rates
- 20 • Schedule G-3 Rebuttal – Rate Base Allocation to Classes of Service
- 21 • Schedule G-4 Rebuttal – Expense Allocation to Classes of Service
- 22 • Schedule G-5 Rebuttal – Rate Base by Function
- 23 • Schedule G-6 Rebuttal – Cost of Service by Function

- 1 • Schedule G-7 Rebuttal – Factors for Allocating Cost of Service to Cost Functions and
- 2 Customer Class
- 3 • Schedule G-8 Rebuttal – Comparison of Cost of Service with Revenues under Present
- 4 and Proposed Rates
- 5 • Schedule G-9 Rebuttal – Allocation of Total Cost of Service by Cost Function to
- 6 Customer Classifications
- 7 • Schedule G-10 Rebuttal – Calculation of the 5/8-Inch Customer Costs per Month –
- 8 Consolidated only
- 9 • Schedule H-1 Rebuttal – Summary of Revenues by Customer Classification-Present
- 10 and Proposed Rates
- 11 • Schedule H-2 Rebuttal – Analysis of Revenue by Detailed Class
- 12 • Schedule H-3 Rebuttal – Changes in Representative Rate Schedules
- 13 • Schedule H-4 Rebuttal – Typical Bill Analysis
- 14 • Schedule H-5 Rebuttal – Bill Count
- 15 • Schedule Staff H-1 Rebuttal – Summary of Revenues by Customer Classification-
- 16 Present and Proposed Rates
- 17 • Schedule Staff H-2 Rebuttal – Analysis of Revenue by Detailed Class
- 18 • Schedule Staff H-3 Rebuttal – Changes in Representative Rate Schedules
- 19 • Schedule Staff H-4 Rebuttal – Typical Bill Analysis
- 20 • Schedule Staff H-5 Rebuttal – Bill Count

21 **IV. COST OF SERVICE**

22 **Q. WHICH PARTIES ADDRESSED THE COMPANY’S COST OF SERVICE**
23 **STUDY IN THEIR DIRECT TESTIMONY?**

24 A. The Commission Staff and Residential Utility Consumer Office (“RUCO”) are the only
25 parties that presented Direct Testimony regarding the Company’s cost of service study.

1 **Q. DO THESE PARTIES SUPPORT THE COST OF SERVICE STUDY AS FILED?**

2 A. Yes, Commission Staff's witness, Frank Smaila, and RUCO's witness, Jeffrey Michlik,
3 approve and make no recommended changes to the Company's cost of service studies
4 presented in the Company's "G" schedules on a stand-alone and consolidated basis.

5 **Q. ARE YOU SUBMITTING REVISED "G" SCHEDULES AS PART OF YOUR**
6 **REBUTTAL TESTIMONY?**

7 A. Yes. The revised schedules, among other changes, reflect the Company's decision to
8 include purchased power and water in base rates in its rebuttal presentation.

9 **V. PROPOSED RATE DESIGN ("H" SCHEDULES)**

10 **Q. DOES COMMISSION STAFF AGREE WITH THE COMPANY'S PROPOSAL**
11 **TO CONSOLIDATE RATES ACROSS ALL WATER DISTRICTS?**

12 A. Yes, Commission Staff witness, Briton A. Baxter, states in his Direct Testimony that
13 Commission Staff recommends that the eleven EWAZ water districts be consolidated
14 over a 5-year phase-in period.

15 **Q. PLEASE EXPLAIN THE OTHER PARTIES' POSITIONS ON**
16 **CONSOLIDATION.**

17 A. RUCO's witness, Jeffrey Michlik, states that the decision on consolidation is ultimately a
18 decision for the Commission. It does not appear that RUCO is taking a position on
19 consolidation in this matter. Other parties that support consolidation include Santa Cruz
20 Valley Citizens Council ("SCVCC"), Diane Smith and Douglas Edwards (residents of the
21 Corte Bella Country Club Homeowners Association ("Corte Bella")), Marshall
22 Magruder, Robert J. McKenzie (the witness representing the Anthem Community
23 Council ("Anthem CC")), Verrado Community Association and Raymond A. Valle.
24 Other parties that do not support consolidation include witness Al Gervenack on behalf of

1 the Property Owners and Residence Association (“PORA”) and witness Greg Eisert on
2 behalf of the Sun City Home Owners Association (“SCHOA”).

3 **Q. DO THE PARTIES THAT SUPPORT RATE CONSOLIDATION HAVE OTHER**
4 **RATE DESIGN ISSUES?**

5 A. Yes. I will discuss their issues one by one.

6 SCVCC represents in its statement of position its concerns regarding rates for the Tubac
7 Water District. Though SCVCC is in favor of consolidation, its statement of position
8 expresses a concern regarding the phase-in of rates. In summary, SCVCC would prefer a
9 three-year phase-in, as opposed to the Company’s proposal for a five-year phase-in, and
10 would prefer that the first phase of the Tubac consolidated rate be lower than the stand-
11 alone rate. Diane Smith and Douglas Edwards, residents of Corte Bella, also recommend
12 a three-year phase-in as compared to the Company’s proposed five-year phase-in. While
13 the Company proposed a five-year phase-in, the Company does not oppose a three-year
14 phase-in and will defer to the Commission regarding the length of a phase-in. SCVCC
15 has also expressed concern regarding the yearly phase-in of rates for each district.

16 **Q. HOW DID THE COMPANY ESTABLISH THE PHASE-IN OF CONSOLIDATED**
17 **RATES BY DISTRICT?**

18 A. Once EWAZ determined a set of consolidated rates based on cost of service, the
19 Company needed to develop a set of rates for each period of the phase-in that would
20 produce the proposed revenue requirement and move each district toward the
21 consolidated rates. The most equitable method was to apply ratios to the rates by district,
22 which would move each district toward the final phase of consolidated rates and ensure
23 that the Company would receive the required revenue. Because the present rates for each
24 district are different (i.e., each district had a different starting point), how the phase-in

1 was implemented for each district to consolidated rates was accordingly different. Some
2 districts will have an increase to their rates and some will have a decrease in rates.
3 These ratios must be adjusted once the final revenue requirement is determined. A well-
4 known phenomenon of rate design is that a decrease in one rate schedule necessitates an
5 increase in another rate schedule, in order to maintain the same revenue requirement (and
6 keep the redesign revenue neutral).

7 **Q. DOES THE ANTHEM CC ALSO HAVE A CONCERN REGARDING THE**
8 **PHASE-IN OF CONSOLIDATED RATES?**

9 A. Yes, the Anthem CC's witness, Mr. McKenzie, also prefers that the Commission approve
10 a three-year phase-in. However, if a five-year phase-in is approved, he provides an
11 example phase-in of consolidated rates for the residential ¾-inch customers. However, it
12 must be noted that his analysis is based on the average bill for a single meter size for one
13 customer class. His analysis does not provide the actual rates that would need to be
14 implemented to maintain his goal of moving each average residential ¾-inch customer
15 bill one-fourth of the way to consolidated rates, while maintaining the total revenue
16 requirement. If the Commission approves consolidated rates and a revenue requirement
17 is set, the phase-in ratios will necessarily be revised, and Mr. McKenzie's concerns will
18 be considered when developing the phase-in.

19 **Q. MR. MAGRUDER RECOMMENDS A MODIFIED RATE STRUCTURE**
20 **COMPARED TO THE RATE STRUCTURE THE COMPANY RECOMMENDS.**
21 **WHAT IS YOUR OPINION RELATED TO HIS RECOMMENDED RATE**
22 **DESIGN?**

23 A. In his testimony, Marshall Magruder recommends that the Company move to a rate
24 design consisting of at least five tiers for all customers (rather than the three- and two-tier

1 structures recommended by the Company), including the same meter charge for all
2 customers with 1-inch meters and smaller. I disagree with Mr. Magruder’s proposed rate
3 design on two counts. First, Commission Decision No. 75626 specifically directs that
4 “the default water utility rate design will be a three-tier increasing block rate design with
5 a non-discretionary usage tier applicable only to residential customers. Additional rate
6 tiers and other rate design elements may be appropriate where appropriate analysis and
7 justification is provided.”¹ The Company’s rate design conforms with this directive, and
8 Mr. Magruder has offered no evidence that additional rate tiers would significantly
9 increase conservation over the proposed three-tier and two-tier rate structures. Another
10 concern of the Commission is that “[i]t may be assumed that high use customers are all
11 high-income customers but that is not necessarily the case.”² Higher rate tiers could have
12 the effect of harming customers with large families with low to moderate income that
13 have no meaningful way to conserve water.

14 Second, customers with 1-inch meters should not pay the same meter charge as customers
15 with 5/8- and 3/4-inch meters. Meter charges are set to recover customer costs, including
16 costs related to the meter, service line, billing and collection and include a portion of the
17 volumetric costs. The American Water Works Association (“AWWA”) M-1 Manual
18 indicates that the meter equivalent for a 1-inch meter is 2.5 times the 5/8-inch meter, and
19 that it is reasonable to recover the additional costs related to a 1-inch meter, and that the
20 meter charge for a 1-inch meter be set at 2.5 times the rate for a 5/8-inch meter. The
21 AWWA Manual also states that the 3/4-inch meter charge could be set at 1.5 times the 5/8-
22 inch meter charge. However, in the interest of gradualism and in respect to the Company
23 history of charging the customers with 3/4-inch meters the same as customers with 5/8-

¹ Decision No. 75626 at page 12, lines 10-13.

² Decision No. 75626 at page 11, lines 14-15.

1 inch meters, I have recommended that the Company continue to maintain the current rate
2 structure for the ¾-inch customer charge.

3 **Q. HOW DO YOU RESPOND TO THE POSITIONS OF SOME OF THE PARTIES**
4 **REGARDING THE 1-INCH CUSTOMER CHARGE COMPARED TO THE 5/8-**
5 **INCH AND ¾-INCH CUSTOMER CHARGE?**

6 A. Witnesses Raymond A. Valle, a resident of Verrado, and Anthem CC's witness, Mr.
7 McKenzie, disagree with the 1-inch customer charge as compared to the 5/8- and 3/4-
8 inch customer charges. For the reasons described above, I disagree with their assertions
9 that a customer with a 1-inch meter is paying an unfair amount. However, the Company
10 is willing to provide a residential customer with a 1-inch meter the same volumetric rates
11 and tiers as a customer with a 5/8- or 3/4-inch meter. Under the Company's proposed
12 original consolidated rates, the volumetric charges for a residential customer with a 1-
13 inch meter include two tiers, one block rate for the first 45,000 gallons of monthly usage
14 and a second block rate for usage over 45,000 gallons. The Company now proposes that
15 the volumetric charges for a customer with a 1-inch meter include three-tiers, equal to the
16 3-tier rates for the 5/8- and 3/4-inch customers. The rate structure would then be as
17 follows: first block rate for the first 3,000 gallons (a non-discretionary usage tier), the
18 second block rate for the next 9,000 gallons and a third block rate for usage over 12,000
19 gallons per month. See Schedules H-3 Rebuttal and H-4 Rebuttal for the proposed rate
20 schedules and bill comparisons that reflect this change.

21 **Q. MR. MCKENZIE ALSO REQUESTS A COST OF SERVICE JUSTIFICATION**
22 **FOR THE COMPANY'S PROPOSED CUSTOMER CHARGE. CAN YOU**
23 **PROVIDE THAT COST OF SERVICE?**

24 A. Yes. See the analysis in Schedule G-10 of the consolidated cost of service study.

1 **Q. PLEASE DESCRIBE RUCO WITNESS MR. MICHLIK'S RATE DESIGN**
2 **CONCERNS OTHER THAN RATE CONSOLIDATION.**

3 A. Mr. Michlik recommends that a residential customer with a 1-inch meter should have at
4 least three rate tiers. As stated above, the Company agrees and recommends three rate
5 tiers for the residential customers with 1-inch meters.

6 **Q. MR. MCKENZIE ALSO REQUESTS A COST OF SERVICE ANALYSIS FOR**
7 **THE WHEELING AND EFFLUENT CUSTOMERS OF THE COMPANY. DID**
8 **THE COMPANY PREPARE A COST OF SERVICE FOR THESE CUSTOMERS?**

9 A. No. It did not. As stated in data responses, the cost to wheel water to Anthem West is
10 minimal. For example, the transmission main that is used to provide service to EWAZ's
11 Anthem customers is also used to wheel water for the City of Phoenix and Anthem West.
12 The Company did not incur any additional costs for the construction of this main to
13 wheel water for the City of Phoenix. Further, the "wheeling" of water (i.e., moving water
14 from one end of the transmission system to another) does not add to the cost of the
15 transmission system. The only cost to wheel water to Anthem West would be the added
16 power cost needed to pump the wheeled water and the current contract rate of \$0.5828
17 per thousand gallons is greater than the purchased power surcharge of \$0.4095 per
18 thousand gallons in Anthem's stand-alone rate design, and \$0.4304 per thousand gallons
19 under the Company's proposed consolidation rate design. In addition, the price of the
20 wheeling service for the City of Phoenix was a negotiated price between two unaffiliated
21 parties.

22 As to the effluent rate design, the costs to produce effluent are incurred as part of the cost
23 of service for wastewater. No water costs are incurred to provide the effluent service.
24

1 All of the associated revenue for wheeling and effluent sales is included in the water
2 district's revenue requirement for the benefit of customers in Anthem, or to the entire
3 system on a consolidated basis, because it reduces the revenue requirement to be
4 collected from the customer base.

5 **Q. PLEASE DESCRIBE THE POSITIONS OF MR. AL GERVENACK ON BEHALF**
6 **OF PORA AND MR. GREG EISERT ON BEHALF OF SCHOA.**

7 A. Both Mr. Gervenack and Mr. Eisert are opposed to rate consolidation. As Mr. Gervenack
8 states on page 6 of his Direct Testimony, "cost causers should be cost payers". I disagree
9 with their positions. The use of consolidated rate design in a water utility with
10 noncontiguous service areas is supported by cost of service principles by the equivalent
11 service provided in each area and similar operating characteristics.

12 **Q. PLEASE DESCRIBE THE EQUIVALENT SERVICE PROVIDED BY EACH**
13 **DISTRICT.**

14 A. The use of the same rates in a utility with noncontiguous service areas is supported by the
15 equivalent service rendered in each area. Although there would be considerable debate
16 with respect to the equivalency of the service rendered to different customer
17 classifications (e.g., service to residential customers versus commercial customers), there
18 is no question that the service rendered to a residence in one area is the same as the
19 service rendered to a residence in another area. Residential customers are relatively
20 consistent in their uses of water: cooking, bathing, cleaning and other sanitary purposes,
21 as well as outdoor landscaping. If customers use water for the same purposes, the service
22 offering is the same and should be priced accordingly. Thus, from this perspective, there
23 is no basis for charging different prices to customers in different areas.

1 In fact, the stand-alone rates do not eliminate the same perceived inequities or subsidies
2 within a district. For example, it is widely acknowledged that a customer who resides
3 next to the water treatment plant requires little distribution compared to a customer who
4 resides miles away (the cost to serve the former is significantly less than the cost to serve
5 the latter), but these customers pay the same rate within a district. Yet, these cost
6 differences within an individual district are ignored in the stand-alone rate design. A
7 stand-alone rate design is no better at identifying the cost to serve individual customers
8 than a consolidated rate design.

9 **Q. PLEASE DESCRIBE THE SIMILAR OPERATING CHARACTERISTICS**
10 **BETWEEN DISTRICTS.**

11 A. There are many similarities in the manner in which the service areas are operated. All of
12 the systems pump their treated water through transmission lines to distribution areas that
13 include mains, booster pump stations and storage facilities. All of the areas provide
14 water to individual customers through a service line and meter. All of the areas rely on a
15 centralized work force for operations and maintenance, billing, accounting, finance,
16 engineering, administration, and regulatory matters. All of the areas also rely on a
17 common source of funds for financing working capital and plant construction. Inasmuch
18 as the costs of operation are related to functions in which the operating characteristics are
19 the same, the use of equal rates is supported.

20 **Q. DO VARIANCES BETWEEN ALLOCATED COSTS OF THE DISTRICTS**
21 **WARRANT THE USE OF STAND-ALONE RATES?**

22 A. No, they do not. Charging one group of customers higher rates because they may be
23 served by a newer plant whose original cost exceeds that of other plants (as a result of
24 inflation) is not logical. The concepts previously discussed outweigh this consideration

1 and justify the goal of moving toward a consolidated tariff. The electric industry reflects
2 such concepts when it serves customers in geographically dispersed areas. A kilowatt-
3 hour delivered in one area has the same price as a kilowatt-hour delivered in another area
4 despite the fact that cost of service studies could be performed to identify differences in
5 the cost of providing service to customer classes in different regions.

6 **Q. ARE THERE OTHER COST OF SERVICE CONSIDERATIONS THAT**
7 **SUPPORT CONSOLIDATED TARIFF PRICING?**

8 A. Yes. The Company manages its operations from a common location. Common costs
9 assigned or allocated to each operating area to establish district specific revenue
10 requirements include management fees, corporate costs, office costs, customer service
11 costs, depreciation expense developed on the basis of Company-wide depreciation rates,
12 capital structure, and income tax expense based on total Company financing and tax
13 provisions. The allocations of common costs, while reasonable, are subject to judgment
14 and may not result in the development of stand-alone revenue requirements which
15 precisely reflect the cost of serving each area.

16 **Q. BRIEFLY SUMMARIZE YOUR ANALYSIS OF CONSOLIDATED RATES FOR**
17 **THE COMPANY.**

18 A. A consolidated rate structure is appropriate for EWAZ. Such rate structure is supported
19 by considerations of the benefits of sharing the impact of capital programs on a
20 Company-wide basis, the significant common costs, and the equivalent service rendered.
21 The best interests of the customers are served through gradualism, to implement the
22 consolidated rates using a phased-in approach.

23 **Q. DO THE PARTIES HAVE ANY ADDITIONAL ISSUES WITH THE**
24 **COMPANY'S SCHEDULES?**

1 A. Yes. Both Mr. Michlik for RUCO and Mr. McKenzie for the Anthem CC believe that the
2 H-4 schedules are incomplete, as the schedules do not include the effects of the SIB
3 Mechanism and the power and water adjustors.

4 **Q. HOW DOES THE COMPANY RESPOND?**

5 A. The Company is revising its base rates to include the costs of power and purchased water.
6 As a result, the H-4 schedules will include these costs in the proposed bill comparisons,
7 for all proposed rates. Due to complexity, present rates do not include currently existing
8 surcharges or surcredits, including power, water, or SIB surcharges. The proposed SIB
9 surcharges in this case are an estimate that may or may not be realized depending on
10 whether or not the planned capital plans are completed and approved by the Commission.
11 Proposed SIB charges are also subject to a true-up calculation of over or under
12 collections – affecting the surcharge amount in years 2-5 of the SIB. Given the unknown
13 nature of these charges, Schedule H-4 does not include SIB charges.

14 **Q. COMMISSION STAFF WITNESS, PHAN TSAN, SPONSORED COMMISSION**
15 **STAFF'S RATE DESIGN. PLEASE DESCRIBE THE COMMISSION STAFF'S**
16 **RATE DESIGN.**

17 A. Staff presents a rate design similar to the Company's rate design on both a consolidated
18 and stand-alone basis. With the exception of the stand-alone rates for Paradise Valley,
19 the revenue produced from the proposed rates is equal to Staff's proposed revenue
20 requirement.

21 **Q. IN YOUR OPINION, WHY DOES THE REVENUE FROM THE STAND-ALONE**
22 **RATES FOR PARADISE VALLEY NOT EQUAL STAFF'S REVENUE**
23 **REQUIREMENT?**

1 A. In examining Ms. Tsan's rate design, I incorporated Staff's proposed rates into the
2 Company's "H" schedules. In doing so, I noticed that Ms. Tsan, in her workpapers,
3 assumed 15 customers or 180 bills for P2M1A, Paradise Valley Commercial 2-inch rate
4 schedule. The Company's H-2 for Paradise Valley shows 150 customers or 1,800 bills
5 for this rate schedule. Using Staff's stand-alone rates, this difference in the number of
6 bills for this rate schedule produces \$10,217,157 or \$327,313 more revenue than Staff's
7 revenue requirement of \$9,889,843.

8 **Q. HOW DOES MS. TSAN DEVELOP COMMISSION STAFF'S FIVE-YEAR**
9 **PHASE-IN OF RATES?**

10 A. Ms. Tsan uses the Company's individual district ratios as described previously in my
11 testimony to determine Commission Staff's phased-in rates.

12 **Q. DOES A CHANGE IN PROPOSED CONSOLIDATED RATES NECESSITATE A**
13 **CHANGE IN THE PHASE-IN RATIOS?**

14 A. Yes, any change in proposed rates would require a slight change in ratios to produce the
15 same revenue requirement in each year. As a result of not modifying the phase-in ratios,
16 Ms. Tsan's phase-in rates produce inadequate revenues in each year as listed below:

17 Phase 1 - revenue shortfall of \$194,220

18 Phase 2 – revenue shortfall of \$162,198

19 Phase 3 – revenue shortfall of \$47,344

20 Phase 4 – revenue shortfall of \$197,535

21 **Q. IS THE COMPANY MODIFYING ITS RATE DESIGN?**

22 A. Yes, as stated above, the Company will be modifying its rate design. The rates being
23 modified are listed below:

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- 1 • Lower the Anthem 1-inch Monthly Service Charge – set the rate at 2.5 times the
2 5/8- and 3/4-inch rate to correct an error in rate design.
- 3 • Change the volumetric rates for the 1-inch meter size to a 3-tier design to match
4 the 5/8- and 3/4-inch rate structure.
- 5 • Finally, the Company will modify its proposed rates to include Purchased Water
6 and Power in base rates as well as any resulting changes in revenue requirement
7 due to the adjustments proposed in its rebuttal schedules such as the change in the
8 Federal Income Tax rate and updating its Post Test Year Plant request.

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

10 A. Yes.