

GLOBAL UTILITIES

DOCKET NO. SW-02445A-09-0077 ET AL.

**DIRECT RATE DESIGN
TESTIMONY**

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 6, 2009

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Have you previously filed direct testimony in this proceeding?

8 A. Yes. On October 26, 2009, I filed direct testimony on RUCO's
9 recommended cost of capital for Global Utilities and on a number of issues
10 associated with the required revenue aspect of this case.

11
12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to present RUCO's recommendations on
14 certain rate design issues raised in Global Utilities' Application.

15
16 Q. What rate design issues will you address in your testimony?

17 A. My testimony will address the following rate design issues:

18 Rate Consolidation;
19 Phased-In Rates; and
20 Rebate Threshold Rates.

21
22 ...

23

1 Q. Will you present RUCO's recommended rate design and offer supporting
2 schedules in your testimony?

3 A. No. RUCO witness Rodney L. Moore will present RUCO's recommended
4 rate design and offer supporting schedules. Mr. Moore will also be
5 responsible for explaining the technical points associated with RUCO's
6 recommended rate design.

7

8 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

9 Q. Briefly summarize how your direct testimony is organized.

10 A. My direct testimony is organized into three sections. First, the introduction
11 I have just presented and second, the summary of my testimony that I am
12 about to give. Third, and finally, I will discuss RUCO's positions and
13 recommendations regarding the rate design issues cited above.

14

15 Q. Please summarize the recommendations that you will present in your
16 testimony.

17 A. I am making the following recommendations:

18

19 Rate Consolidation – RUCO is recommending that the Commission reject
20 Global Utilities proposed rate consolidation for three of the six operating
21 systems included in the Company's filing.

22

1 Phased-In Rates – RUCO is recommending that the Commission adopt
2 Global Utilities proposal to phase in rates over a three-year period for Palo
3 Verde Utilities Company.

4
5 Rebate Threshold Rates – RUCO is recommending that the Commission
6 reject Global Utilities the volumetric rebate element that is part of the
7 Company’s rebate threshold rates proposal.

8

9 **RUCO’S POSITIONS AND RECOMMENDATIONS**

10 **Rate Consolidation**

11 Q. Is Global Utilities requesting consolidated rates in this proceeding?

12 A. Yes. Global Utilities is requesting consolidated rates for Water Utility of
13 Greater Tonopah (“WUGT”), Valencia Water Company – Town Division
14 (“VWC – Town Div.”) and Valencia Water Company - Greater Buckeye
15 Division (“VWC – GB Div.”). The Company’s remaining three systems,
16 Palo Verde Utilities Company, Willow Valley Water Company, Inc, and
17 Global Water – Santa Cruz Water Company would have rates that are
18 based on their individual costs of service.

19

20 Q. What is the Company’s rationale for single tariff pricing for the
21 aforementioned operating systems?

22 A. In summary, the Company’s main reason for consolidating the three
23 systems is to mitigate rate shock for one of the systems – WUGT. In the

1 Company's proposal, costs for WUGT would shift to the customers of the
2 other two systems. Company witness Mathew J. Rowell states that the
3 360 customers of Water Utility of Greater Tonopah ("WUGT") would face
4 an extremely large rate increase without consolidation. According to Mr.
5 Rowell WUGT required substantial upgrades, including arsenic and
6 fluoride treatment, point of use treatment systems and infrastructure which
7 was mandated by Commission orders. Mr. Rowell goes on to say that,
8 without rate consolidation, rate recovery for these improvements would fall
9 entirely on a few customers. All three of the subject utilities have a total of
10 6,000 customers. Mr. Rowell argues that the aforementioned
11 infrastructure costs can be spread across this larger customer base.

12

13 Q. Does RUCO agree with the Company's position?

14 A. RUCO does not necessarily disagree with the points being made by Mr.
15 Rowell. However, RUCO is not convinced that partial rate consolidation is
16 in the best interest of the ratepayers served by the other two operating
17 systems affected by the Company's proposal.

18

19 Q. Why does RUCO believe that partial rate consolidation is not in the best
20 interest of the ratepayers in the other two operating systems?

21 A, RUCO believes that, given the large disparity in the number of customers
22 served by the WUGT system, it is unlikely that the other two systems
23 would ever derive any meaningful contribution toward any reciprocal

1 infrastructure improvements from WGUT's ratepayers in the future. Based
2 on RUCO's recommended levels of operating revenue, VWC – GB Div.'s
3 ratepayers would more than likely bear the brunt of subsidizing WUGT.
4

5 Q. Is RUCO's position consistent with the full rate consolidation position that
6 it took in the AWC case?

7 A. Yes. As explained in the surrebuttal testimony of RUCO Director Jodi Jerich,
8 AWC's partial consolidation proposal, which is similar to Global Utilities'
9 proposal, results in inequitable unilateral subsidization of smaller systems by
10 larger systems. Ms. Jerich stated that that this type of rate consolidation is a
11 one way street always benefitting one system and always burdening the other
12 system. Ms. Jerich further testified that AWC's partial consolidation proposal
13 matches a large system with one or two small systems¹ (as does Global
14 Utilities proposal), and that the purpose of this type of consolidation is to
15 mitigate the rate increase of the smaller system by having the larger system
16 pay more than its fair share.
17
18
19 ...
20

¹ The Company matches Superstition (18,257 customers) with Miami (2,820 customers) and Casa Grande (20,642 customers) with Stanfield (179) and Coolidge (4,229). Sedona (5,154) will subsidize Pinewood (2,862) and Rimrock (1,230). The Company does propose to consolidate the two similarly sized systems of Bisbee (3,085) and Sierra Vista (2,664).

1 Q. What is RUCO's recommendation regarding rate consolidation in this
2 case?

3 A. Based on the concerns expressed above, and RUCO's belief that a rate
4 design based on cost of service is more appropriate in this case, RUCO is
5 recommending that the Commission reject the Company's request for rate
6 consolidation. As in the AWC case, RUCO urges the Commission to
7 consider rate consolidation on a case by case basis. Based on the facts
8 of this docket, RUCO does not find the Company's partial rate
9 consolidation proposal to be in the public interest.

10

11 **Phased-In Rates**

12 Q. Please explain the Company's request for phased-in rates.

13 A. The Company is requesting phased in rates for the Palo Verde Utilities
14 Company wastewater operating system. According to the testimony of
15 Company witness Trevor T. Hill, Global Water is proposing that the
16 Commission phase in the rate increase to 1) reduce rate shock; 2) to allow
17 consumers to adapt to the new charges; and, 3) to ensure that Global
18 Utilities will, over time, earn a reasonable return. To achieve those goals,
19 the Company is proposing that the Commission move Palo Verde to new
20 rates in three steps, providing for one-third of the approved revenue
21 increase in each year. Mr. Hill also stated that Global Utilities will not earn
22 a 10% return on its investment in plant until the final phase-in takes effect

1 in perhaps 2013 or 2014. Mr. Hill believes that the proposed phase-in is “a
2 fair approach in light of the extraordinary economic situation.”

3

4 Q. What is RUCO’s position on the Company’s proposal for a three-year
5 phase-in of rates for Palo Verde Utilities Company?

6 A. RUCO typically has not proposed phased-in rates. However, in this case
7 RUCO is recommending that the Commission adopt a three-year phase in
8 of rates for Palo Verde Utilities Company that will generate RUCO’s
9 recommended level of operating revenue.

10

11 Q. Why is RUCO recommending a three-year phase-in of rates for Palo
12 Verde Utilities Company?

13 A. RUCO’s recommended revenue increase (not to mention the Company’s
14 recommended revenue increase) would produce a drastic rate increase
15 for Palo Verde Utilities Company ratepayers. Under RUCO’s
16 recommended level of operating revenue, ratepayers would experience a
17 monthly charge of \$63.33 per month or a 92.00 percent increase in
18 existing rates. This amounts to an additional \$30.33 per month over the
19 present rate of \$33.00 per month. Given the magnitude of the increase
20 and current economic conditions, RUCO agrees with the Company that
21 phased-in rates are warranted.

22

23

1 **Rebate Threshold Rates**

2 Q. Please summarize Global Utilities request to implement rebate threshold
3 rates.

4 A. As explained in the testimony of Company witness Graham S. Symmonds,
5 Global Utilities is requesting a volumetric rebate that allows residential
6 customers, who achieve reductions in water consumption, to realize an
7 immediate reduction in volumetric charges when their consumption level is
8 below a rebate threshold volume amount. The volumetric rebate is one of
9 a three element plan that makes up the Company's Rebate Threshold
10 Rate ("RTR") structure. The other two elements include six volumetric
11 tiers, as opposed to the more common three tier rate structure, and
12 revenue decoupling through an increased minimum monthly charge.

13
14 Q. Has RUCO adopted any of the Company's RTR structure?

15 A. Yes. As can be seen in RUCO witness Moore's rate design testimony,
16 RUCO is recommending that the Commission adopt the Company-
17 proposed six tier rate structure and has increased the minimum monthly
18 charge for each of the five water providers included in the Company's
19 filing.

20

21

22 ...

23

1 Q. Does RUCO support the Company's proposal regarding the volumetric
2 rebate?

3 A. No. RUCO believes that the six tier rate structure and the increased
4 monthly minimum will send a proper price signal to conserve water. While
5 RUCO definitely supports programs to encourage water conservation, we
6 believe that the volumetric rebate is flawed for two reasons. First, it will
7 not save ratepayers money, because all the rates will be artificially
8 increased in order to provide funds for the rebates. Second, the proposal
9 will not properly incent conservation because rebates are awarded to all
10 customers who consume less than the median amount, regardless
11 whether those customers have always been below the median point prior
12 to the implementation of the rebate program. Furthermore, rebates would
13 not be given to those high use customers who demonstrably reduce their
14 consumption, yet still fall above the median amount.

15
16 Q Has the Company made an accounting adjustment that provides Global
17 Utilities with additional revenue for the Company-proposed volumetric
18 rebate?

19 A. Yes. The Company has made an upward adjustment of \$514,806 to its
20 level of operating revenue in anticipation of customers taking advantage of
21 the aforementioned volumetric rebate program. In effect, under the
22 Company's proposal, ratepayers will pay for the Company-proposed

1 volumetric rebate through increased rates no mater what and may not
2 realize any savings at all.

3

4 Q. Has RUCO made an adjustment to remove the additional revenue for the
5 Company-proposed volumetric rebate?

6 A. Yes. As explained in Mr. Moore's testimony, RUCO has made an
7 adjustment to remove the aforementioned \$514,806 in additional revenue.

8

9 Q. What is RUCO's recommendation regarding the Company-proposed
10 volumetric rebate?

11 A. RUCO is recommending that the Commission reject the Company-
12 proposed volumetric rebate.

13

14 Q. Does your silence on any of the issues, matters or findings addressed in
15 the testimony of any of the witnesses for Global Utilities constitute your
16 acceptance of their positions on such issues, matters or findings?

17 A. No, it does not.

18

19 Q. Does this conclude your rate design testimony on Global Utilities?

20 A. Yes, it does.