

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
CHAIRMAN

3 GARY PIERCE
COMMISSIONER

4 SANDRA D. KENNEDY
COMMISSIONER

5 PAUL NEWMAN
COMMISSIONER

6 BOB STUMP
COMMISSIONER

7
8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA WATER COMPANY, AN ARIZONA
10 CORPORATION, FOR A DETERMINATION
11 OF THE FAIR VALUE OF ITS UTILITY
12 PLANT AND PROPERTY, AND FOR
13 ADJUSTMENTS TO ITS RATES AND
14 CHARGES FOR UTILITY SERVICE AND
15 FOR CERTAIN RELATED APPROVALS
16 BASED THEREON.

Docket No. W-01445A-08-0440

13
14 **EXCEPTIONS OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

15 The Residential Utility Consumer Office (“RUCO”) makes the following
16 Exceptions to the Recommended Opinion and Order (“ROO”) on Arizona Water
17 Company’s (“AWC” or “Company’s”) application for a rate increase.

18 RUCO’s Exceptions¹ are limited to the following:

- 19
- 20 1. Adopt RUCO’s alternative rate consolidation design.
 - 21 2. Maintain traditional accounting of CIAC and include CIAC in rate base.
 - 22 3. Exclude certain post test year plant from rate base.
 - 23 4. Clarify RUCO’s position on rate case expense.

24 ¹ Attached hereto as Exhibit 1 are proposed amendments for RUCO’s Exceptions

1 **I. The Commission should adopt RUCO's Consolidation Model if the**
2 **Commission does not approve stand alone rates.**

- 3
- 4 **A. RUCO's rate consolidation proposal (1) caps increases to no more**
5 **than \$5.00 per month for the average residential customer, (2)**
6 **maintains strong price signals to encourage water conservation**
7 **and (3) is easier to understand than company's proposal.**

8 RUCO believes that stand alone rates are the best way to assure that
9 ratepayers pay no more than their cost of service. However, RUCO, understands
10 that consolidated rates are an option especially where there is great rate disparity
11 among a utility's different systems. Each case deserves its own consideration, and
12 should the Commission decide in this case that consolidation is preferable, RUCO
13 would urge the Commission to adopt RUCO's consolidated rate design as described
14 in "Option F" in RUCO's testimony. Option F offers a consolidated monthly minimum
15 rate for all systems while each system would retain separate commodity rates.
16 RUCO further modifies this rate design by capping the amount of the rate increase
17 for the average residential customer to no more than \$5.00 per month.

18 Compared to every other consolidation proposal, RUCO's Option F will have
19 the most subtle effect on ratepayers and will go the farthest toward ameliorating rate
20 shock because it guarantees that the average ratepayer will not have more than a \$5
21 maximum per month rate increase. The merit of a limited rate increase is highlighted
22 by the present state of the economy and current financial crises all ratepayer's face.
23 Now, more than ever, ratepayers find themselves cutting back and facing tough
24 financial decisions. Now is a bad time to raise rates. So if a rate increase is
necessary, it should be done in such a way as to have the least impact, overall, on

1 ratepayers in these systems. That is exactly why RUCO believes its rate design
2 accomplishes the Company's goal of achieving a gradual, "first step" toward full rate
3 consolidation while at the same time limiting the rate impact for all of its customers.

4 Attached to these Exceptions as Exhibit 2 is RUCO's Option F rate design
5 using the ROO's revenue requirement. It shows the rate impact for the average
6 residential customer in all 17 systems and preserves the \$5.00 maximum rate
7 increase.

8 RUCO's Option F offers the following benefits over the Company's design.

- 9
- 10 **1. Option F limits the rate increase to no more than \$5.00 per month for the**
11 **average residential customer in any system, thus shielding all customers**
12 **from rate shock.**

13 Under the ROO, the Company's rate design imposes rate increases that
14 exceed \$5.00 per month in eight (8) of the systems and that go as high as
15 \$14.19 (40.73 percent) for San Manuel customers and \$15.16 (48.12 percent)
16 for Rimrock customers, ratepayers who among the other systems, are perhaps
17 the least able to afford it.

- 18 **2. Option F better promotes the Commission's goal of water conservation.**

19 System specific commodity rates more closely reflect the true cost to deliver
20 safe and reliable water to customers. Furthermore, separate commodity rates
21 that are designed to reflect the "value" of the water will encourage the cautious
22 and conscientious use of this precious resource. Consolidated rates can
23

1 distort the true price of water delivery which can work against the
2 Commission's efforts to urge water conservation.

3
4 For example, under the ROO, the average Miami customer receives a rate
5 decrease of (\$1.36). However, under a cost of service stand alone rate
6 design, the average residential Miami customer should receive a sizeable rate
7 increase.² While tiered rates incent wise water use, tiered rates need to be
8 priced to reflect the "value" of the water. Miami's consolidated tiered rates do
9 not do this and studies show that this may lead to greater water consumption.³
10 Under RUCO's alternative consolidation proposal "Option F", Miami rates
11 would better reflect its increased cost of service. However, that rate increase
12 would be capped at \$5.00.

13
14 The parties in this case have been sensitive to this issue of water
15 conservation. For example, the Company objected to Staff's consolidated rate
16 design proposal claiming it sends distorted price signals because it reduced
17 rates for Rimrock and Pinewood. *"As Mr. Reiker explained, such significant*
18 *reductions could undermine the conservation principles contained within the*
19 *Commission's inverted tier rate design policy by sending customers conflicting*
20 *price signals. (Ex. A-21 at 12). He indicated that rate reductions of that*
21 *magnitude could be especially problematic for Rimrock and Pinewood given*

22 _____
23 ² As Shown in RUCO's Post Hearing Exhibit B 9/26/09, using RUCO's revenue requirement, Miami's average rate
increase would be \$13.43.

24 ³ Consolidated Water Rates: Issues and Practices in Single-Tariff Pricing, U.S. EPA / NARUC, September 1999,
p.58.

1 *water supply issues affecting the area.” (Id.; Tr. 635).”* (ROO at p. 51, lines 9-
2 13). Additionally, the Company objected to Staff’s tiered commodity rates for
3 Stanfield which would reduce rates, “thereby sending improper price signals to
4 these customers.” (ROO at p. 51 lines 23-25.) The concerns expressed here
5 are valid and provide further support for RUCO’s Option F, should the
6 Commission agree with the Company that a “first step” toward rate
7 consolidation is necessary.

8
9 **3. Option F provides a first step to consolidation that can smoothly**
10 **transition to full consolidation in the next rate case.**

11 In a future rate case, the Commission can easily move toward full
12 consolidation as intended by the Company. Yet, Option F does not bind a
13 future Commission to full consolidation. The Commission can also transition
14 to cost of service rates if it so chooses without much work for Staff or the
15 Company.

16
17 **4. Option F is easier to explain to customers than the Company’s**
18 **intermediate plan.**

19 The Company offers a patchwork rate design. It proposes to fully consolidate
20 some systems, partially consolidate other systems and leave other systems
21 completely alone. It takes the ROO two whole pages just to describe it. (See
22 ROO pp. 45-46)

1 **5. Option F provides financial safeguards that require detailed**
2 **bookkeeping.**

3 Another Commission has identified the concern that rate consolidation could
4 strip the Commission of its ability to fully inspect a regulated utility.
5 Commission oversight drives the utility to act efficiently, maintain costs and
6 use best practices. If the Commission cannot thoroughly examine financial
7 records in detail, the Commission loses the ability to do its job. Staff at the
8 New Hampshire Public Utilities Commission identified this concern when
9 Pennichuck Water Works requested rate consolidation of its multiple systems.
10 The PUC agreed with Staff and determined that a lack of sufficient detail in
11 bookkeeping could result in over-investment escaping the scrutiny of
12 regulators. (Pennichuck Water Works, March 25, 1998, DR 97-058, Order No.
13 22,883). As stated in the Order:

14 “The Commission’s Acting Finance Director, Mark A. Naylor,
15 testified in opposition to the proposal, arguing among other
16 things that by blending the rates there would be no tracking of
17 the specific costs of each system...Although we are approving
18 the rate consolidation proposal, we share the concerns of Mr.
19 Naylor that there is a risk that there will be inadequate
information tracked on a community system basis and, as a
result, a troubled system, or over-investment, could escape the
scrutiny of management and regulators. We accept the
commitment of Pennichuck to record costs on a system specific
basis.”

20 Because Option F retains system specific commodity rates, the Company must
21 maintain at the very least its current level of detailed bookkeeping. So Option F
22 eliminates one of the disadvantages associated with consolidated.
23
24

1 **6. Option F is no more difficult to implement than the Company’s proposal.**

2
3 **7. Option F retains some adherence to cost of service principles by**
4 **keeping system-specific commodity rates for all systems that are based**
5 **on cost of service.**

6 For these reasons, RUCO asks the Commission to reject the Company’s “first
7 step” toward rate consolidation and adopt RUCO’s plan.

8 **B. The Company’s consolidation design shifts costs so that some**
9 **customers may avoid increased rates**

10 RUCO takes issue with the portrayal of the Company’s consolidation plan that
11 “residential customers in one system would not subsidize residential customers in
12 another system” (ROO at p. 44, lines 23-24) and that “no residential customers would
13 be required to pay rates that reflect less (sic) than the cost of service, even in
14 systems that would be consolidated under AWC’s plan.” (ROO at 50, lines 16-18).
15 While this statement is technically true, in RUCO’s perspective it is not entirely
16 forthcoming. It is fundamentally impossible to consolidate rates without shifting costs
17 from one ratepayer to another.

18 The Company’s expert witness, Joel Reiker, testified that the Company chose
19 to allocate its revenue requirement among the residential, commercial and industrial
20 classes in a manner that deviates from a pure cost of service allocation. The
21 Company shifted revenue to commercial and industrial classes and away from
22 residential customers. The Company’s cost of service study shows that the
23 commercial customers are paying a markup over cost of 2.44 percent and the
24 industrial customers are paying a markup of 25.76 percent. (Ex. A-21 at 5). The

1 result is that the rates for residential customers are designed to collect less revenue
2 than required than if the allocation were based precisely on the cost of service.

3 So, while it is true that the Company's rate consolidation plan does keep all
4 residential rates under their cost of service, this is solely because the Company has
5 reduced the allocation to the residential class and shifted it on to other classes.
6 Therefore, under the Company's revenue allocation as adopted by the ROO, **any**
7 rate design – including RUCO's – sets all residential rates lower than the cost of
8 service. Even stand alone rates would be lower than the cost of service using the
9 Company's revenue allocation.

10
11 **II. The Commission should include in rate base the CIAC**
12 **associated with Ranch 160 Well No. 2 in the Superstition**
13 **System and Coolidge Well No.11.**

14 It should not come as a surprise that the Company is trying to remove CIAC
15 associated with plant (two wells) from ratebase. This type of request, or a variation
16 thereof, has manifested itself in multiple rate cases in the recent past. The
17 Commission has repeatedly rejected this request because it departs from traditional
18 ratemaking. The timing of the contribution or advance does not change the “nature
19 of AIAC or CIAC”. (See In the Matter of the Application of UNS Gas for a rate
20 increase, Decision No. 70011 at 9-10 (Nov. 2007), In the Matter of the Application of
21 Arizona-American for a rate increase, Decision No. 71410 at 26-28 (Dec. 2009)).
22 Despite these rulings, it still appears that utilities are still trying to convince the
23 Commission to depart from traditional accounting methodologies in order for the
24 Company to receive a larger rate base.

1 What makes this case unusual is not the recommendation itself, but the fact
2 that it was Staff that originally sought and continues to recommend the exclusion
3 from ratebase of the CIAC associated with the wells. Staff has consistently rejected
4 other utilities' requests to exclude CIAC and AIAC from ratebase.

5 The plant in question involves two wells - Ranch 160 Well No. 2 in the
6 Superstition System and Well No. 11 in the Coolidge System. (Ex. A-20, at 16) Both
7 wells belong to the consolidated Superstition/Coolidge interconnect system, which
8 has not been completed. The ROO concludes that the Wells are plant held for future
9 use ("PHFFU"), and disallows the wells from rate base, but incorrectly removes the
10 corresponding CIAC.

11 The ROO distinguishes this case from past Decisions because the wells in
12 question, according to the ROO are PHFFU and not CWIP.

13 The ROO states:

14 "[P]rior cases relied upon by RUCO are distinguishable
15 because they addressed contributions or advances
16 related to plant that was not yet built, or plant that was
17 accounted for as CWIP. In the instant case, AWC's
18 agreement with Staff that the wells should be disallowed
from rate base as plant held for future use is a
distinguishing fact that justifies removal from rate base of
the associated CIAC. We therefore adopt Staff's
recommendation on this issue. (ROO at p. 21)

19 Regardless of whether the Wells are PHFFU or CWIP, the accounting
20 treatment for CIAC should be the same. The ROO distinguishes the CIAC based on
21 the timeliness of when the plant (Wells) goes into service. The issue is not when the
22 plant goes into service; it is how CIAC should be treated for ratemaking purposes.

1 In UNS Gas, this Commission noted that advances are customer-supplied
2 funds that are properly deducted from the Company's ratebase. Decision No. 70011
3 at 9. The Commission further noted that its own rules contemplated the deduction
4 and that the deduction is required. Id. The rules do not treat CIAC associated with
5 PHFFU any differently than they treat CIAC associated with CWIP. Nor should the
6 rules contemplate such distinctions. Contributions of plant and/or funds are non-
7 investor supplied at all times, and should be an adjustment to ratebase **when the**
8 **contribution is made** and not when the plant associated with the contribution goes
9 into service.

10 Imagine from a policy perspective what could happen if the Commission
11 allows a utility to delay booking AIAC and CIAC until plant is in service as is being
12 proposed here. When the plant does goes into service, the Commission will be
13 relying on the Company to adjust its ratebase and book the CIAC. If the Company
14 does not make the adjustment it would fall on Staff or RUCO to catch the error and
15 make the adjustment. Meanwhile, the ratepayers would be paying a return on a
16 ratebase that consists of non-investor supplied plant. This prospect just opens the
17 door for abuse and is a slippery slope the Commission should not entertain. The
18 Commission should reject the ROO's recommendation to exclude the CIAC.

19
20 **III. The Commission should exclude Valley Vista Well No. 13**
21 **from ratebase.**

22 There are several reasons why the Commission should not allow full ratebase
23 treatment of the Valley Vista Well No. 13 ("Valley Vista Well No. 13", or "Valley Vista
24 Well" or "Well"). First, there is conflicting testimony as to exactly when the Well was

1 completed. To qualify for full ratebase treatment, the Well should have been
2 completed and fully operational in the test year, but at the very least, no longer than
3 six months beyond the test year. The evidence raises questions as to when the Well
4 was completed, and further shows that even six months beyond the test year, the
5 Well was operating at no more than 20 percent of its full capacity.

6 Initially, the Company reported that it placed Valley Vista Well No. 13 in service
7 in November 2008, eleven months post test year.⁴ During the hearing, the Company's
8 witness, Frederick Schneider testified that he saw the Well and pump in place by the
9 fall of 2007.⁵ On further review, Mr. Schneider submitted documentation and testified
10 that the Well and pump were in place by May 2008.⁶

11 There is precedent for the inclusion of timely post test year plant where the
12 plant in question is used and is useful. Valley Vista Well No. 13 was mostly unused
13 by the Company's ratepayers in the post test year. In 2009, the Company reported
14 that in 2008 it used a mere 2 acre feet or less than 1 percent of the well's capacity.⁷

15 In response to data request BKB 11.16, the Company admitted that the well
16 was not in service until November 2008, eleven months post test year.⁸ Accordingly,
17 RUCO did not inspect the plant to support its position because the Company's
18 admission supported RUCO's position. However, during the second and third day of
19 hearing, Mr. Schneider claimed the plant was completed or in service in the fall of
20
21

22 ⁴ See Exhibit S-4 Arizona Water's Response to Staff DR BKB 11.16

⁵ T: 781-782.

23 ⁶ See Exhibits A-32 and 33.

⁷ See RUCO's Closing Brief at 9-10.

24 ⁸ See Exhibit S-4 Arizona Water's Response to Staff DR BKB 11.16

1 2007 and/or in May of 2008.⁹ Mr. Schneider submitted no further evidence as to
2 when the plant went into service other than this vague reference.¹⁰ Given the timing
3 of the new evidence, RUCO could not verify its accuracy.¹¹ RUCO's witness,
4 Timothy J. Coley, testified that the Arizona Department of Water Resources'
5 ("ADWR") well registry indicated no pump had been installed at Valley Vista Well No
6 13.¹² The law requires that the Company notify ADWR within 30 days of installing
7 the pump.¹³ The Company could not demonstrate on the record that it notified the
8 ADWR of the pump installation. The conflicting testimony is suspicious and RUCO
9 believes it does not support the Company's latest position that the plant was placed
10 in service timely.

11 The second reason why the Commission should not award full rate base
12 treatment has to do with the capacity at which the plant operates. Given the benefit
13 of the doubt as to the timeliness of the completion date, at best the evidence shows
14 the plant was operating at no more than 20 percent capacity. The ROO recommends
15 the Commission include Valley Vista Well No. 13 in rate based on Staff's engineering
16 witness, Ms. Stukov's, testimony that the Well currently has a 75 gpm pump, was
17 rated at 300 gpm (not 750 gpm) and the Well was producing only 50 to 60 gpm until
18 such time as the arsenic treatment facilities could be upgraded to handle higher flow.
19 ROO at 17. The Arizona Department of Water Resources ("ADWR") documents
20 confirm that the Well was to be constructed to handle 750 gpm.

22 ⁹ T: 781-782. See also Exhibits A-32 and 33.

23 ¹⁰ *Id.*

23 ¹¹ T: 929-930.

24 ¹² See Exhibit R-14 Well Registry for Well 212110 Valley Vista Well #13.

24 ¹³ A.R.S. §45-600B

1 Regardless of whether the Valley Vista Well is rated at 300 gpm or 750 gpm,
2 the Well produced no water during the test year. Moreover, accepting for the sake of
3 argument a capacity rating of 300 gpm, the Well produced less than 3 percent of its
4 rating one year post test year. In May of 2009, one and one-half years post test year,
5 the Company reported in its Community Water Report that the Well produced 2 acre
6 feet in 2008. See Exhibit A-32 Community Water System Report dated May 13, 2009.
7 If, as the ROO states, Valley Vista Well was throttled back to 300 gpm, at the
8 conversion factor of 1.612 for gallons per minute to acre-feet per annum, the Well
9 should have been able to produce 483.6 acre feet per annum. ($1.612 \times 300 \text{ gpm} =$
10 $483.6 \text{ acre feet per annum}$). The 2 acre feet of water produced by the Valley Vista
11 Well in 2008, one year post test year, is approximately 2.9 percent of its total well
12 capacity ($2/483.6=2.88 \text{ percent}$). Ratepayers should not have to pay rates based on
13 full capacity on a well that operates at less than 3 percent of its total well capacity.

14 Further, assuming that the Well produced water at the rate of 50-60 gpm one
15 year post test year, its production would still be no more than 16-20 percent of Staff's
16 reported rated capacity of the Well ($50\text{gpm}/300\text{gpm} = 16 \text{ percent}$ or $60 \text{ gpm}/300\text{gpm}$
17 $= 20 \text{ percent}$). There is no basis for giving more than 20 percent rate base treatment
18 to the Valley Vista Well because at most it is providing service to customers at 20
19 percent of its rated capacity based on the evidence in this record.

20 There is further, overwhelming evidence in this record that shows the Well is
21 not 100 percent used and useful at this time. According to the Company's engineer,
22 Frederick Schneider, Valley Vista Well's arsenic wellhead project completion will be
23
24

1 delayed until at least September of 2010 or nearly three years post test year.¹⁴
2 Originally, the Company intended to complete construction on the wellhead arsenic
3 treatment plant in May of 2010 or two and one-half years post test year, but now the
4 project completion has been delayed until September of 2010 due in part to the
5 bankruptcy filing of the Company's construction company, Basin Water. *Id.* The
6 evidence shows that at best the Well will not be 100 percent used and useful to
7 ratepayers until September of 2010. RUCO respectfully recommends the
8 Commission deny 100 percent rate base treatment to Valley Vista Well until such
9 time as the Well is fully operational. If the Commission is inclined to include some
10 measure of rate base treatment, RUCO recommends it be limited to the capacity that
11 is used and useful, which at this juncture is 3 percent of the 300 gpm rated capacity
12 based on the Company's 2008 reported production, or 20 percent based on Staff's
13 engineering assessment in December 2008, one year post test year.

14
15 **IV. RUCO recommends the Commission adopt its underlying**
16 **rate case expense recommendation which provides for**
17 **the recovery of \$300,000 amortized over three years.**

18 The ROO recommends rate case expense of \$500,000. The ROO correctly
19 points out that RUCO did not brief this issue. Nonetheless, RUCO did make a
20 recommendation in its underlying case which would provide for rate case expense of
21 \$300,000 amortized over three years. RUCO still maintains that \$300,000 amortized
22 over three years is fair and reasonable amount of rate case expense.

23
24

¹⁴ A-10 Rejoinder Testimony of Frederick Schneider at 8.

1 RESPECTFULLY SUBMITTED this 2nd day of August, 2010.

2
3
4 _____
Michelle L. Wood
Counsel

5
6 An Original and Thirteen (13) Copies of
7 the foregoing were filed this 2nd day
8 of August, 2010 with:

9 Docket Control
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 COPIES of the foregoing hand delivered/
14 mailed this 2nd day of August, 2010 to

15 Dwight D. Nodes
16 Asst. Chief Administrative Law Judge
17 Hearing Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

21 Janice Alward, Chief Counsel
22 Legal Division
23 Arizona Corporation Commission
24 1200 West Washington
Phoenix, Arizona 85007

 Steve Olea, Director
 Utilities Division
 Arizona Corporation Commission
 1200 West Washington
 Phoenix, Arizona 85007

 Robert W. Geake
 Arizona Water Company
 P. O. Box 29006
 Phoenix, Arizona 85038-9006

1 Norman D. James
Jay L. Shapiro
2 Fennemore Craig
3003 North Central Avenue, Suite 2600
3 Phoenix, Arizona 85012-2913

4 Nicholas J. Enoch
Jarrett J. Haskovec
5 Lubin & Enoch, PC
349 N. Fourth Avenue
6 Phoenix, Arizona 85003

7 Michele Van Quathem
Ryley Carlock & Applewhite
8 One North Central Avenue, Suite 1200
Phoenix, Arizona 85004-4417

9

10

11 By _____

12

13

14

15

16

17

18

19

20

21

22

23

24

ARIZONA WATER COMPANY
Docket No. W-01445A-08-0440

EXHIBIT 1
TO RUCO'S EXCEPTIONS

Arizona Water
W-01445A-08-0440
Proposed RUCO Amendment No. 1
Rate Consolidation

Page 48, after line 23 INSERT: (Language moved from ROO at p. 52)

“Ms. Jerich described RUCO’s proposal as a “first step” (Tr. 1575-76) but expressed concerns with full consolidation for two primary reasons; full consolidation could discourage conservation in some systems, and concerns with adequate regulatory oversight if the Company is not required to maintain separate books and records for each of the 17 systems. (Tr. 1539) Ms. Jerich indicated that RUCO does not necessarily oppose full consolidation, but would consider such a proposal based on those concerns. (Id. At 1540-41.)

Page 50, DELETE lines 3-28.
DELETE Pages 51 – 52.
Page 53, DELETE lines 1-18,

INSERT: (New Language)

The Commission has approved consolidated rates for Arizona Water in prior Decisions. (Decision No. 66849 (Apache Junction/ Superior) However, this Commission has also rejected rate consolidation proposals for Arizona Water. (Decision No. 66400 (Sedona/Rimrock ACRM) The Commission has also approved consolidated rate designs for other water utilities in the past (Decision No. 61730 (Bella Vista/Nicksville) and Decision No. 68826 (McLain)).

This Commission appreciates the Company’s advance notice that it plans to propose a consolidated rate design for all of its 17 systems in a future rates case. Due to the scope of such a rate design that would affect over 83,000 residential, commercial and industrial customers, we agree with the Company that it is appropriate to authorize a rate design that provides a “first step” toward full rate consolidation in this rate case. We find RUCO’s “Option F” the best rate design proposal for that first step.

RUCO’s proposal creates a single monthly minimum rate for all 17 systems. Each system retains individual commodity rates.

RUCO’s proposal offers several benefits. First, RUCO’s rate design caps the maximum rate increase for the average residential 5/8 x 3/4 inch metered customer to no more than \$5.00 per month. This cap mitigates rate shock while

maintaining the Company's overall revenue requirement. Furthermore, during these times of high unemployment and record home foreclosure rates, the Commission finds a cap on the rate increase an appropriate measure of relief for residential ratepayers.

Second, RUCO's rate design provides individual system commodity rates which send proper price signals to consumers. Third, RUCO's rate design provides a smooth transition to full consolidation if that is the wish of a future Commission. Alternatively, if the Commission declines to consolidate rates, RUCO's design allows for the smooth return to stand alone rates.

Fourth, this rate design is easy to explain compared to the Company's complicated plan to fully consolidate some systems, partially consolidate other systems and leave other systems alone. Fifth, RUCO's rate design prevents the company from avoiding detail in its bookkeeping. The Commission agrees with the New Hampshire Public Utilities Commission in its Order No. 22,883 which required Pennichuck Water to record costs on a system specific basis in order to avoid the possibility of inadequate information resulting in a troubled system or overinvestment from escaping the scrutiny of regulators that may result from a consolidated rate design.

Sixth, RUCO's proposal is no more difficult to implement than the Company's rate design. Finally, RUCO's rate design retains some adherence to the principle of cost of service by keeping individual commodity rates for each system.

We make no finding at this time regarding the issue of whether full rate consolidation should ultimately be approved. Rather, we expect the Company to provide detailed supporting testimony and documentation in a future case, or cases, to justify a single tariff pricing proposal. The Commission's decision today has no effect on this ultimate disposition of the single tariff issue in a subsequent case. The Commission finds that rate consolidation should be decided on a case by case basis in consideration of the individual facts of each docket.

Make all necessary conforming changes.

Arizona Water
W-01445A-08-0440
Alternate Proposed RUCO Amendment No. 1
No Rate Consolidation

Page 48, after line 23 INSERT: (Language moved from ROO at p. 52)

“Ms. Jerich described RUCO’s proposal as a “first step” (Tr. 1575-76) but expressed concerns with full consolidation for two primary reasons; full consolidation could discourage conservation in some systems, and concerns with adequate regulatory oversight if the Company is not required to maintain separate books and records for each of the 17 systems. (Tr. 1539) Ms. Jerich indicated that RUCO does not necessarily oppose full consolidation, but would consider such a proposal based on those concerns. (Id. At 1540-41.)

Page 50, DELETE lines 3-28.
DELETE Pages 51 – 52.
Page 52, DELETE lines 1-18,

INSERT: (New Language)

We find that considering a fully consolidated rate design for Arizona Water in a future rate case does not require the Commission to authorize an intermediate step toward that decision. Furthermore, we do not find that the benefits of such a first step toward full rate consolidation outweigh the benefits of maintaining rates that are based on the systems’ cost of service. The Commission has traditionally held that cost of service rate design is the cornerstone to sound ratemaking. When we deviate from this principle, one group of ratepayers will have to pay more in order to make up for the revenues not collected from others. We will deviate from cost of service rate design on when we are able to identify public policies in favor of consolidation that outweigh the disadvantages of single tariff pricing.

This Commission has previously rejected consolidation proposals from Arizona Water. “Independent systems should have rates and charges that are independently cost based to the greatest extent possible...Maintaining the individual identity of each of the systems for ratemaking purposes is consistent with our directive to Arizona Water in Decision No. 64282, and prior to that in Decision No. 58120 (December 23, 1992), to preserve individual system data and rates.” (Decision No. 66400)

Declining to approve a limited rate consolidation proposal in this docket does not prevent a future Commission from authorizing a single tariff rate design in a subsequent docket. At that time, we expect the Company to provide detailed

supporting testimony and documentation in a future case, or cases, to justify a single tariff pricing proposal. The Commission's decision today has no effect on this ultimate disposition of the single tariff issue in a subsequent case. The Commission finds that rate consolidation should be decided on a case by case basis in consideration of the individual facts of each docket

Make all necessary conforming changes.

Arizona Water
W-01445A-08-0440
Proposed RUCO Amendment No. 2
CIAC Associated with Well No. 2 and Well No. 11

Page 20, DELETE line 21 through page 21, line 21

INSERT:

We agree with RUCO that contributions represent customer-supplied funds that are properly deducted from the Company's rate base at the time the contributions are made. Regardless, of whether the wells in question are PHFFU or CWIP, the accounting treatment for CIAC should be the same. The timing of when the Wells go into service should not distinguish when CIAC is treated for ratemaking purposes. The issue is not when the plant goes into service; it is how CIAC should be treated for ratemaking purposes.

In UNS Gas, this Commission noted that advances are customer-supplied funds that are properly deducted from the Company's ratebase. Decision No. 70011 at 9. This Commission further noted that its own Rules contemplated the deduction and that the deduction is required. *Id.* The Rules do not treat CIAC associated with PHFFU any differently than they treat CIAC associated with CWIP. Nor should the rules contemplate such distinctions. Contributions of plant and/or funds are non-investor supplied at all times and should be an adjustment to ratebase when the contribution is made and not when the plant associated with the contribution goes into service.

We have stated in prior cases, regulated utility companies control the timing of their rate case filings and should not be heard to complain when their chosen test periods do not coincide with the completion of plant that may be considered used and useful and therefore properly included in rate base. Nor should regulated utilities complain when their chosen test periods do not coincide with when completed plant is placed in service. We believe our conclusions regarding the CIAC associated with the wells in question in this case is consistent with the treatment that has been afforded to other utility companies regulated by the Commission and provides a result that is fair to both the Company and its customers.

Make all necessary conforming changes.

Arizona Water
W-01445A-08-0440
Proposed RUCO Amendment No. 3
Valley Vista Well (Well No. 13)
Alternative 1

Page 16, DELETE Line 11 starting with “Mr. Schneider ...” through page 17 line 10

INSERT:

In response to data request BKB 11.16, the Company admitted that the Valley Vista Well (“Well”) was not in service until November 2008, eleven months post test year.¹ During the second and third day of hearing, Mr. Schneider further claimed the plant was completed or in service in the fall of 2007 and/or in May of 2008.² Mr. Schneider submitted no further evidence as to when the plant went into service. The Arizona Department of Water Resources’ (“ADWR”) well registry indicated no pump had been installed at Valley Vista Well No 13.³ The law requires that the Company notify ADWR within 30 days of installing the pump.⁴

Although Staff agrees that the well is properly included in AWC's rate base, RUCO proposes exclusion of the well because of RUCO's claim that it was not placed in service during the test year, and because of inconsistencies in the Company's statements as to when the well became operational. RUCO also contends that even if the well was placed in service in May 2008, it produced only 2 acre-feet of water in 2008, or less than one percent of rated operational capacity. RUCO therefore proposes that the well not be included in AWC's rate base because it was not used and useful for the provision of service to customers.

We agree with RUCO that the Valley Vista Well should not be included in rate base in this case. The evidence in this record is inconsistent as to when the well was placed in service. Regardless of the Company's assertions, Staff witness, Mrs. Stukov testified that the Well was complete as of December, 2008. Ms. Stukov further testified that the Well was pumping 50-60 gpm or between 16 and 20 percent of its rated capacity of 300gpm.

The Company's Community water reports contradict the Staff's analysis and show the Company pumped no water from Valley Vista Well No. 13 in the test year and 2 acre feet, in 2008. The Company itself admits that the well will not be fully functional until

¹ See Exhibit S-4 Arizona Water's Response to Staff DR BKB 11.16

² T: 781-782. See also Exhibits A-32 and 33.

³ See Exhibit R-14 Well Registry for Well 212110 Valley Vista Well #13.

⁴ A.R.S. §45-600B

September, 2010 when the arsenic wellhead treatment plant is expected to be completed.

It is unclear from the evidence when the Well was placed in service and operational. It is clear that the Well, at best at all times herein, was operating far below its full capacity. Because it has not been established that the Well went into service during the test year and the Well was not fully functional, the Well should not be afforded rate base treatment at this time.

Make conforming changes.

Arizona Water
W-01445A-08-0440
Proposed RUCO Amendment No. 3
Valley Vista Well (Well No. 13)
Alternative 2

Page 16, DELETE Line 11 starting with “Mr. Schneider ...” through
page 17 line 10

INSERT:

In response to data request BKB 11.16, the Company admitted that the Valley Vista Well (“Well”) was not in service until November 2008, eleven months post test year.⁵ During the second and third day of hearing, Mr. Schneider further claimed the plant was completed or in service in the fall of 2007 and/or in May of 2008.⁶ Mr. Schneider submitted no further evidence as to when the plant went into service other than this vague reference. The Arizona Department of Water Resources’ (“ADWR”) well registry indicated no pump had been installed at Valley Vista Well No 13.⁷ The law requires that the Company notify ADWR within 30 days of installing the pump.⁸

Although Staff agrees that the well is properly included in AWC's rate base, RUCO proposes exclusion of the well because of RUCO's claim that it was not placed in service during the test year, and because of inconsistencies in the Company's statements as to when the well became operational. RUCO also contends that even if the well was placed in service in May 2008, it produced only 2 acre-feet of water in 2008, or less than one percent of rated operational capacity. RUCO therefore proposes that the well not be included in AWC's rate base because it was not used and useful for the provision of service to customers.

We agree with RUCO that the Valley Vista Well should not be included in rate base in this case. The evidence in this record is inconsistent as to when the well was placed in service. Regardless of the Company's assertions, Staff witness, Mrs. Stukov testified that the Well was complete as of December, 2008. Ms. Stukov further testified that the Well was pumping 50-60 gpm or between 16 and 20 percent of its rated capacity of 300gpm.

⁵ See Exhibit S-4 Arizona Water's Response to Staff DR BKB 11.16

⁶ T: 781-782. *See also* Exhibits A-32 and 33.

⁷ See Exhibit R-14 Well Registry for Well 212110 Valley Vista Well #13.

⁸ A.R.S. §45-600B

The Company's Community water reports contradict the Staff's analysis and show the Company pumped no water from Valley Vista Well No. 13 in the test year and 2 acre feet, in 2008. The Company itself admits that the well will not be fully functional until September, 2010 when the arsenic wellhead treatment plant is expected to be completed.

It is unclear from the evidence when the Well was placed in service and operational. It is clear that the Well, at best at all times herein, was operating far below its full capacity. There is testimony to support that the Well was operating at 3 percent of its capacity and testimony to support it was operating at 20% of its capacity. On the facts most favorable to the Company, the Well produces water at no more than 20 percent capacity; therefore the Company is afforded 20 percent rate base treatment or \$315,414.

Make conforming changes.

ARIZONA WATER COMPANY
Docket No. W-01445A-08-0440

EXHIBIT 2
TO RUCO'S EXCEPTIONS

COMPARISON OF MONTHLY INCREASES TO AN AVERAGE 5/8" x 3/4" METERED CUSTOMER

LINE NO.	SYSTEMS	DESCRIPTION		ROO'S RECOMMENDED RATE DESIGN		RUCO'S RATE DESIGN - OPTION F BASED ON THE ROO'S RECOMMENDED REVENUE			
		5/8" x 3/4" Metered Customers	Avg. Gallons						
1	Superstition System	18,257	7,358	\$	9.84	36.20%	\$	1.25	3.70%
2	Bisbee System	3,085	5,215	\$	3.27	10.95%	\$	5.00	16.74%
3	Sierra Vista System	2,664	8,924	\$	(0.96)	-3.21%	\$	(1.25)	-4.18%
4	San Manuel System	1,477	8,745	\$	14.19	40.73%	\$	5.00	11.43%
5	Oracle System	1,389	5,605	\$	(1.82)	-3.84%	\$	(2.63)	-5.57%
6	Winkelman System	144	9,459	\$	7.22	30.33%	\$	5.00	21.10%
7	Miami System	2,820	5,995	\$	(1.36)	-3.96%	\$	5.00	14.60%
8	Casa Grande System	20,642	8,843	\$	7.77	35.06%	\$	2.85	10.64%
9	Stanfield System	179	9,162	\$	1.99	5.15%	\$	5.00	11.75%
10	White Tank System	1,573	15,648	\$	5.65	11.08%	\$	(3.61)	-5.94%
11	Ajo System	604	5,185	\$	6.22	13.36%	\$	3.36	7.22%
12	Coolidge System	4,229	8,134	\$	3.11	25.61%	\$	0.86	3.36%
13	Lakeside System	4,679	4,312	\$	(4.14)	-11.40%	\$	(4.55)	-12.52%
14	Overgaard System	4,110	2,765	\$	(6.23)	20.31%	\$	(7.15)	-23.27%
15	Sedona System	5,154	10,264	\$	8.99	27.46%	\$	3.34	9.16%
16	Pinewood System	2,862	2,407	\$	2.52	8.76%	\$	(2.70)	-9.39%
17	Rimrock System	1,230	6,165	\$	15.16	48.12%	\$	5.00	10.77%