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Arizona Corporation Commission

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CARL J. KUNASEK
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JIM IRVIN
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Commissioner



AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION)
OF THE AGUA FRIA WATER DIVISION OF)
CITIZENS UTILITIES COMPANY FOR AN)
ACCOUNTING ORDER AUTHORIZING A)
HOOK-UP FEE FOR RECOVERY OF)
DEFERRED CENTRAL ARIZONA PROJECT)
EXPENSES AND FOR RELATED)
ACCOUNTING TREATMENT)

Docket No. W-01032B-00-0205

**STAFF'S RESPONSE TO
COMPANY'S REPLY TO
STAFF'S TESTIMONY**

On November 1, 2000, the Agua Fria Division ("Agua Fria") of Citizens Communications Company ("Citizens" or "Company") filed a reply to Staff's testimony ("Reply"). In its Reply, Citizens objected to four of the eight recommendations appearing in Staff's testimony. Staff hereby files its response to Citizens' concerns.

I. Staff's Recommended Rate of Return and its Effect on Appropriate Authorized Hook-Up Fees (Staff Recommendation Numbers 2 and 4).

Staff's recommendation for authorized hook-up fees is \$127 for age-restricted dwellings and commercial equivalent units, and \$218 for conventional residential housing units. Based on the assumption that it would receive its authorized 8.73 percent rate of return on the balance of CAP M&I capital costs, the Company requested hook-up fees of \$150 for age-restricted dwelling and commercial equivalent units and \$257 for conventional residential dwellings.

In Decision No. 62293 (February 1, 2000), the Commission authorized hook-up fees for Citizens' Sun City West and Sun City Water subsidiaries. Decision No. 62293 approved a 4.365 percent rate of return, one-half of the Company's authorized 8.73 percent rate of return.¹ In this proceeding, consistent with Decision No. 62292, Staff is recommending a rate of return of 4.365

¹ In that proceeding, the Company requested the authorized rate of return while Staff recommended no rate of return. The Commission approved one-half the authorized rate of return.

1 percent. The facts underlying the Agua Fria request for hook-up fees are similar to those in the Sun
2 City West and Sun City Water cases decided in Decision No. 62292 in that the Company is
3 requesting a rate of return on unused CAP water. Staff believes that a full rate of return would be
4 inappropriate due to the fact that not all the CAP water will be used throughout the amortization
5 period. (See attached Schedule REL3.)

6 Staff's recommendation for authorized hook-up fees reflects the revenue requirement
7 necessary to achieve a rate of return of 4.365 percent. Staff continues to believe that its
8 recommended hook-up fee amount is reasonable.

9 **II. Cessation of Hook-up Fees and Forfeiture of Remaining Cost Deferrals (Staff**
10 **Recommendation No. 7).**

11 In its Reply, Citizens disagrees with Staff's recommendation that the hook-up fees should
12 cease and the remaining cost deferrals be forfeited if Agua Fria fails to recharge its full CAP water
13 allocation. Staff's recommendation in this case is consistent with its recommendation submitted in
14 the Sun City Water Company and Sun City West Utilities Staff Report Dockets Nos. W-01656A-98-
15 0577 and SW-02334A-98-0577. Citizens argues that circumstances beyond the control of the
16 Company may arise that could affect the planned use of CAP water. Citizens also states in its Reply
17 that "the Company will notify Staff of any definitive change in the manner or quantity of the actual
18 or projected use of CAP water in its annual informational report to the Director of Utilities." Staff
19 finds it unacceptable that up to a year could pass prior to the Company notifying the Commission
20 of any inability to recharge its full CAP water allocation, and therefore stands by its original
21 recommendation as a safeguard to ensure that customers aren't required to pay for something from
22 which they will receive no benefit. Adoption of Staff's Recommendation No. 7 will provide the
23 Company with an incentive to immediately notify the Commission in the event that the Company
24 foresees any reason why it should not or can not recharge its full CAP water allocation. Upon receipt
25 of such notification, the Commission can consider a waiver or an alternative remedy.

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1 **III. Adjustments to Hook-up Fees to Reflect Changes in Recharge Costs or Billing**
2 **Determinants (Staff Recommendation No. 8).**

3 Citizens disagrees with Staff's recommendation that Agua Fria should be required to file for
4 an adjustment to the hook-up fees to reflect any changes in the actual costs of recharge or in billing
5 determinants from those projected in the application. Staff's recommendation on this point is
6 consistent with its recommendation submitted in the Sun City Water Company and Sun City West
7 Utilities Staff Report Dockets Nos. W-01656A-98-0577 and SW-02334A-98-0577. Citizens argues
8 that there is no opportunity for earnings on the deferred M&I capital cost balance in excess of the
9 authorized rate of return, and that therefore the administrative burden is unwarranted. Citizens also
10 states that Citizens' annual informational report to the Director of Utilities would make Staff aware
11 of such changes, and that if either Staff for Agua Fria believe that a hook-up fee change is warranted,
12 that either party could request a change at any time.

13 Waiting until Citizens' annual informational report is filed to learn of changes in the actual
14 costs of recharge or in billing determinants is unacceptable to Staff, as this could mean that the
15 Commission could remain uninformed of such changes for up to a year after they occur. In addition,
16 the "administrative burden" of requesting an adjustment should rest not upon Staff, but upon the
17 Company, who has immediate and direct knowledge of the occurrence of such changes.

18 In addition, if Citizens' assertion that there is no risk of overearning is true, there should be
19 no harm in having this provision appear in the order since it would not have to be applied. However,
20 as a consumer safeguard, Staff believes this recommendation should be adopted.

21 **SUMMARY**

22 Staff respectfully requests that its recommendations be adopted and that any extension of the
23 amortization period due to delays be considered as a matter of course. If the amortization period

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1 requires an extension of time at some future date, the Company should, at its discretion, come before
2 the Commission to request such an extension.

3 RESPECTFULLY SUBMITTED this ¹¹15 day of November, 2000.

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8 Original and fifteen copies of
9 the foregoing document filed
this 15th day of November, 2000 with:

10 Docket Control
11 Arizona Corporation Commission
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Phoenix, Arizona 85007

13 Copy of the foregoing mailed
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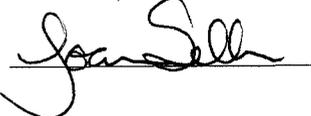
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CITIZENS UTILITIES COMPANY
Agua Fria Water Division
Distribution of Future CAP Payments

Schedule REL-3

	(A)	(B)	(C)	(D)	(E)	(F)
Year	Total Allotment Acre-feet	Amount Used	Amount Unused	M & I Rate	(BxD) Amount Expensed	(CxD) Amount Deferred
2000	11,093	2,100	8,993	\$ 48	\$ 100,800	\$ 431,664
2001	11,093	3,200	7,893	54	172,800	426,222
2002	11,093	4,300	6,793	54	232,200	366,822
2003	11,093	5,400	5,693	54	291,600	307,422
2004	11,093	6,500	4,593	54	351,000	248,022
2005	11,093	7,600	3,493	54	410,400	188,622
2006	11,093	7,800	2,393	54	469,800	129,222
2007	11,093	9,800	1,293	54	529,200	69,822
2008	11,093	10,900	193	54	588,600	10,422
					<u>\$ 3,146,400</u>	<u>\$ 2,178,240</u>