



0000011670

30

ORIGINAL

MEMORANDUM

RECEIVED  
AZ CORP COMMISSION

AUG 8 2 02 PM '00

Arizona Corporation Commission

TO: Docket Control

DOCKETED

DOCUMENT CONTROL

FROM: Deborah R. Scott  
*for* Director  
Utilities Division

AUG 0 8 2000

DOCKETED BY

DATE: August 8, 2000

RE: STAFF REPORT FOR ARIZONA WATER COMPANY IN THE MATTER OF THE FILING OF PROPOSED TARIFF NO. TE-264, TREATED EFFLUENT SERVICE (DOCKET NO. W-01445A-00-0319)

Attached is the Staff Report for Arizona Water Company's application for Proposed Tariff No. TE-264, Treated Effluent Service. Staff recommends denial of the rates and charges, subject to Commission approval. Staff further recommends that a hearing not be held in this matter.

DRS:SSA/smm

Originator: Sonn S Ahlbrecht

Attachment: Original and Eleven Copies

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-00-0319

APPLICATION  
FOR  
PROPOSED TARIFF NO. TE-264  
TREATED EFFLUENT SERVICE

AUGUST 2000

## TABLE OF CONTENTS

	<u>PAGE</u>
Introduction and Background .....	1
City of Casa Grande Intervention .....	1
Tariff No. RW-256.....	2
Analysis.....	3
Staff Recommendations .....	4

## STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company, Docket No. W-01445A-00-0319, was the responsibility of Sonn S. Ahlbrecht. She was responsible for the review and analysis of the Company's application for Proposed Tariff TE-264, and well as its impact on the Company's revenues and expenses.

Sonn S. Ahlbrecht, CPA  
Rate Analyst II

## **INTRODUCTION AND BACKGROUND**

Arizona Water Company ("Arizona Water" or "Company") filed Tariff No. TE-264 ("Proposed Tariff"), on May 10, 2000. The Proposed Tariff requests a monthly minimum charge based on meter size, and a commodity charge set at the cost to purchase effluent from a supplier, plus one-percent (1%) of that amount for administrative and handling costs. Additionally, other assessments such as power, maintenance, and depreciation charges "may be applicable based on the specific facility requirements of each customer". The Proposed Tariff also reflects these charges as cost plus a markup for administrative and handling costs expressed as percentages.

The Proposed Tariff will apply to all eighteen (18) of Arizona Water's service areas, with the exception of Apache Junction. The Apache Junction service area currently has Tariff No. RW-256 in place, and the Proposed Tariff will not apply to customers receiving effluent under that tariff.

Since the current filing has occurred outside a formal rate proceeding, the Proposed Tariff cannot impact the Company's authorized rate of return. As a result, any increase in revenue that results from the Proposed Tariff must be offset by matching expenses so as not to effect this rate of return. Arizona Water contends this tariff will not impact the rate of return related to their potable water division, and will recover costs only.

## **CITY OF CASA GRANDE INTERVENTION**

On June 1, 2000, the City of Casa Grande ("Casa Grande" or "City") requested intervention in this Docket, representing the citizens of Casa Grande, as well themselves as a customer of Arizona Water. Also on June 1, 2000, the City filed an Objection to Proposed Tariff TE-264, stating Arizona Water is attempting to gain control of, and receive revenue from, the sale of any effluent within its Casa Grande certificated water service territory.

Additionally, the City filed a Complaint on June 5, 2000, against Arizona Water asserting that Arizona Water's Certificate of Convenience & Necessity ("CC&N") does not apply to effluent sales. Casa Grande also contends that the Company does not produce effluent, and therefore, Arizona Water may have to substitute groundwater or CAP water if they are unable to obtain a sufficient amount of effluent from other sources to meet the demand.

On June 19, 2000, Arizona Water filed a response to Casa Grande's request for intervention stating that they are not opposed to the City being granted intervention, but denied the factual and legal allegations contained within the City's Motion to Intervene. On June 23, 2000, the Hearing Division of the Commission granted intervention to Casa Grande.

Arizona Water filed its response to the City's Objection to the Proposed Tariff on July 14, 2000. Within that filing, the Company stated, "The CCN vests Arizona Water Company with the exclusive right to provide water service within the geographical areas described in the CCN. The CCN includes the right to provide all water service, including treated effluent." Staff disagrees that a water CC&N grants an entity holding that CC&N an exclusive right to sell a product they cannot produce, (i.e. effluent). The Commission does not have the authority to regulate many effluent-producing entities, and as a result, cannot compel them to contract with Arizona Water.

The dispute between Casa Grande and Arizona Water is based upon which entity has the right to sell effluent produced by the City at its sewage treatment plant. Arizona Water contends that they have exclusive rights to sell all water within their certificated area, including effluent. The City maintains that they have the right to dispose of their effluent in a manner consistent with the public interest.

This ongoing dispute between these two parties has resulted in a lawsuit being filed in the United States District Court for the District of Arizona. Arizona Water filed a Memorandum in Support of Injunctive Relief against the City on March 24, 2000, to prevent Casa Grande from entering into a contract with Reliant Energy ("Reliant") to provide Reliant with effluent for its cooling operations from the City's sewage treatment plant.

#### **TARIFF NO. RW-256**

Arizona Water Company currently has one reclaimed water service tariff in effect. Tariff No. RW-256 was approved by the Commission in Decision No. 56751, and became effective January 1, 1990. This tariff is the direct result of a three-way agreement between Gold Canyon Sewer Company ("Gold Canyon"), Superstition Mountain Investment, Ltd. ("Superstition Mountain"), and Arizona Water as authorized in Decision No. 56631, and applies only to the Apache Junction water system.

The Commission approved Gold Canyon's application for a CC&N to provide sewerage service and sell reclaimed non-potable water on September 14, 1989, in Decision 56631. Arizona Water was granted intervention in that proceeding on January 6, 1989, and objected to Gold Canyon selling non-potable water, or effluent, to Superstition Mountain for irrigation on a golf course within Arizona Water's certificated area.

The Decision approved a three-way agreement for Arizona Water to purchase effluent from Gold Canyon and resell it to Superstition Mountain at cost, plus an applicable monthly minimum charge. As a result of the agreement approved by Decision No. 56631, Arizona Water filed Tariff No. RW-256 on December 1, 1989. The Commission subsequently approved that tariff on December 20, 1989 in Decision No. 56751, and as mentioned previously, applies only to the Apache Junction service area.

## ANALYSIS

There are several major differences between Tariff No. RW-256 and Proposed Tariff No. TE-264. Tariff No. RW-256 sets a flat rate of \$250 per acre-foot, plus a monthly minimum charge for the appropriate meter size, as well as sales tax. The Proposed Tariff does not contain any specific dollar amounts for a per acre-foot charge. Per response to a Staff data request, Arizona Water anticipates the cost, as well as the price charged per acre-foot, will vary between its service areas. This cost/price variability has precluded the Company from requesting specific rates stated in conclusive dollar amounts, and as a result, the Company has proposed this "blanket" tariff.

The Proposed Tariff also includes several markup charges to recover costs for various administrative and handling functions. These charges are not expressed as conclusive dollar amounts either, but rather as percentages of the Company's direct costs that are not known and measurable at this time. Some of these markup charges include power, maintenance, and depreciation; however, these charges would only be applicable in certain circumstances. Per Company responses to Staff data requests, those charges would only apply if Arizona Water owned the effluent related plant and needed to recover the associated costs. Otherwise, the effluent customer would be independently responsible for those costs. Under the Proposed Tariff each customer could pay varying prices for the same amount of effluent based upon ownership of assets. This scenario hinders Staff's ability to evaluate financial impacts on an ever-changing, hypothetical situation.

Staff does not believe a blanket tariff like the Proposed Tariff is appropriate for Arizona Water's effluent sales. The prices are dynamic, and by the Company's own admission, the amount charged between service areas will vary, as well as the charges that would be applicable for each particular customer. Without dollar figures for substantially all of the items requested in the tariff, Staff cannot adequately evaluate the impact of Proposed Tariff TE-264 on Arizona Water's authorized rate of return.

Staff's evaluation of each individual contract related to Arizona Water's selling of effluent would be the appropriate method to evaluate the impact on the Company's authorized rate of return. Once the Company has entered into a tentative agreement with another party to sell effluent, Staff recommends they submit a tariff specific to that sales agreement only. In this scenario, Staff would be able to evaluate each unique situation.

Proposed Tariff No. TE-264 will apply to all eighteen of Arizona Water's current service areas, with the exception of the existing customers in Apache Junction. Such existing customers will continue to purchase effluent under Tariff No. RW-256. Staff believes such "grandfathering" would constitute discriminatory pricing within the Apache Junction service area, which would not be in the public interest.

**STAFF RECOMMENDATIONS**

Staff recommends denial of Proposed Tariff TE-264.

Staff further recommends Arizona Water Company submit tariff filings for Commission approval for each proposed effluent sales agreement.

Staff further recommends that Arizona Water Company express any future tariff filings in dollars, rather than as percentages of costs.

Staff further recommends that any effluent sale agreements between Arizona Water and effluent producers submitted to the Commission be negotiated on a voluntary basis.