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IN THE MATTER OF THE APPLICATION OF)
SUN CITY WATER COMPANY AND)
SUN CITY WEST UTILITIES COMPANY)
FOR APPROVAL OF CENTRAL ARIZONA)
PROJECT WATER UTILIZATION PLAN AND)
FOR AN ACCOUNTING ORDER)
AUTHORIZING A GROUNDWATER SAVINGS)
FEE AND RECOVER OF DEFERRED CENTRAL)
ARIZONA PROJECT EXPENSES)

Docket No. WS-02334A-98-0577
~~W-01656A-98-0577~~

STAFF'S CLOSING BRIEF

Staff of the Arizona Corporation Commission ("Staff") hereby files its closing brief in the matter of the Joint Application of Sun City Water Company and Sun City West Utilities Company ("Sun Cities" or "Companies") For Approval Of Central Arizona Project Water ("CAP") Utilization Plan And For An Accounting Order Authorizing A Groundwater Savings Fee And Recovery Of Deferred Central Arizona Project Expenses. In this brief, Staff will address the major issues that are in dispute between Staff and Sun Cities. For any issue not specifically addressed herein, Staff maintains its position as represented in its testimony.

In Decision No. 60172, dated May 7, 1997, Sun Cities was authorized by the Commission to defer a portion of their CAP capital costs for future recovery from ratepayers when the CAP allocation had been put to beneficial use. Future recovery of these costs was dependent on the Companies developing an acceptable plan for such use by December 31, 2000 (Dec. No. 60172 at 10). Sun Cities assembled a CAP Task Force that developed both an interim and long-term plan to utilize CAP water.

INTERIM SOLUTION

Staff supports Sun Cities' interim solution of indirect recharge at the Maricopa Water District ("MWD"). According to Staff's testimony, recharge would satisfy the "used and useful"

1 provision contained in Decision No. 60172, allowing recovery of Sun Cities' deferred CAP
2 costs. (Staff Exhibit S-1 at 5.) Although this interim solution is acceptable, Staff believes that
3 recharge into the Agua Fria Recharge Project would be a preferable interim solution due to its
4 close proximity to the Sun Cities region. Such recharge could provide a direct hydrological
5 impact in the Sun Cities locale. Recharge into MWD would only generate "water credits"
6 without the possibility of increasing water levels in the region. Staff supports the interim
7 solution with a recommendation that Sun Cities' utilize the CAWCD-Agua Fria Recharge
8 Project as soon as that facility becomes operational.

9
10 **DEFERRED CAP COSTS**

11 The Companies have proposed recovery of their deferred costs through a surcharge
12 mechanism. Staff agrees that the Companies should be allowed to recover deferred CAP costs
13 pursuant to Decision No. 60172. According to Staff's calculations, \$1,197,209 would be
14 recoverable through the Companies' rate design methodology. This amount includes the 1999
15 accrued capital charges (Staff Exhibit S-3 at Revised CF-1). Staff has provided a schedule of the
16 Computation Of Deferred CAP Cost Surcharge recoverable over a 42 month amortization period.
17 (Staff Exhibit S-3 at Revised CF-2).

18 **DISALLOWANCE OF RATE OF RETURN ON THE DEFERRED CAP COSTS**

19 Staff does not agree that the Companies should be authorized to earn a rate of return on
20 the deferred CAP costs. The Companies argue that the cost for such investment should be
21 treated as a plant asset and should thus be afforded a rate of return when such asset is classified
22 as "used and useful." Unlike a plant asset that accumulates AFDUC and is allowed in rate base
23 when it becomes used and useful, the foregone allocation of CAP water was not utilized in that
24 the Companies did not take physical possession of its water allocation. Unlike other plant assets
25 that receive rate base treatment and which are used to provide service into the future, the
26 deferred CAP costs represent water allocations that were available in the past.

27 Although the Commission authorized the deferral of such costs, carrying charges were
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1 not authorized with respect to such costs, a point that Mr. Dabelstein conceded on cross-
2 examination (Tr. at 147). Staff believes it is more appropriate to treat the deferred CAP costs as
3 a pass-through cost to ratepayers, therefore, such costs would not earn a rate of return.

4 **LONG TERM SOLUTION**

5 The CAP Task Force also developed a long-term plan for utilizing the CAP allocation.
6 This plan is called the Sun Cities/Youngstown Groundwater Savings Project. Under the plan,
7 CAP water will be delivered to Sun Cities through a non-potable pipeline. The CAP water will
8 be conveyed from the aqueduct, be stored in reservoirs, and pumped to multiple golf courses for
9 irrigation. The Companies anticipate the project will be completed in four years at a capital cost
10 estimated at \$15,000,000 and an annual operating cost estimated at \$187,000, assuming Sun
11 Cities construct a combined pipeline project (See Brown and Caldwell's Report Table 3-4).

12 Staff supports the concept of using CAP water as proposed by the Task Force for a long-
13 term solution in that the utilization would constitute a direct use. According to the direct
14 testimony of Staff witness Marlin Scott, the cost estimates for this project are very preliminary
15 due to the multiple facilities and numerous undefined elements of construction. Mr. Scott further
16 testified that although the cost estimate is considered conservative, actual location of facilities,
17 alignment, and rights-of-way for the distribution system pipelines could have a substantial
18 impact on costs (Exhibit S-1 at 4). Although each company witness testified that the cost
19 estimates presented in the Brown and Caldwell Report were conservative, Ms. Rossi conceded
20 that it was possible that these estimates could be exceeded (Tr. at 109).

21 According to the testimony of Ray Jones, the next step in the process of implementing the
22 CAP Task Force's water-use plan will be an extensive preliminary engineering and coordination
23 phase. (Exhibit A-10 at 10). Although Staff believes that the concept of the Groundwater
24 Savings Project appears to be reasonable, it would be imprudent for Staff to give a final
25 recommendation as to the reasonableness and appropriateness of these costs until the preliminary
26 engineering plan is submitted and evaluated.

27 Further, if the financing of this project becomes necessary, Staff would recommend that
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1 Citizens be required to file a financing plan within a reasonable period of time, describing how
2 the project will be funded. Once a preliminary engineering analysis has been provided to Staff
3 and the financial application has been reviewed, Staff can re-evaluate the proposal and make a
4 proper recommendation.

5 **CONCLUSION**

6 Staff supports Sun Cities' interim solution and concurs that the recharge will satisfy the
7 "used and useful" provision of Decision No. 60172. As a result, the Commission should
8 authorize recovery of CAP deferred costs as recommended by Staff. Staff believes that carrying
9 charges associated with the deferred costs should not be recovered and said deferred costs should
10 be treated as a pass-through cost to ratepayers.

11 With respect to the long-term plan, Staff supports the concept of the Ground Water
12 Savings Project. Staff is reluctant to give a final opinion as to the reasonableness of the project
13 and its cost until Sun Cities provides a preliminary engineering plan and financing application
14 with respect to this project. At that time, Staff would have an opportunity to analyze and
15 evaluate the data provided and could then make a recommendation as to whether the project is
16 reasonable in relation to its cost.

17
18 RESPECTFULLY SUBMITTED this 5TH day of November, 1999.

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27 Original and ten copies of the foregoing
28 were filed this 5TH day of November,
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