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Arizona Corporation Commission
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DATE: JANUARY 14, 2000

DOCKET NOS: W-01656A-98-0577 and SW-02334A-98-0577

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Jerry Rudibaugh. The recommendation has been filed in the form of an Opinion and Order on:

SUN CITY WATER COMPANY and
SUN CITY WEST UTILITIES COMPANY
(CAP ACCOUNTING ORDER)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **10:00** a.m. on or before:

JANUARY 24, 2000

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

JANUARY 25, 2000 and JANUARY 26, 2000

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE JOINT 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 RECOVERY OF DEFERRED CENTRAL ARIZONA PROJECT EXPENSES.	DOCKET NO. W-01656A-98-0577 DOCKET NO. SW-02334A-98-0577 DECISION NO. _____ **OPINION AND ORDER**

DATES OF HEARING:	October 14, 1999 (Pre-hearing conference), October 18 and 19, 1999.
PLACE OF HEARING:	Phoenix, Arizona
PRESIDING OFFICER:	Jerry L. Rudibaugh
APPEARANCES:	Mr. Craig Marks, Associate General Counsel on behalf of Citizens Utilities Company; Ms. Karen E. Nally on behalf of the Residential Utility Consumer Office; Mr. William G. Beyer, BEYER, MCMAHON & LARUE, on behalf of the CAP Task Force; Mr. Walter W. Meek, President, on behalf of the Arizona Utility Investors Association; Mr. Paul R. Michaud, MARTINEZ & CURTIS, P.C., on behalf of the Sun City Taxpayers Association; and Mr. Robert Metli, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On October 1, 1998, Sun City Water Company ("Sun City Water") and Sun City West Utilities Company ("Sun City West") (collectively "Companies") filed with the Arizona Corporation Commission ("Commission") an application for approval of a Central Arizona Project ("CAP") water utilization plan and for an accounting order authorizing a groundwater savings fee and recovery of

deferred CAP expenses. The Residential Utility Consumer Office ("RUCO"), the Arizona Utility Investors Association, Inc. ("AUIA"), the Sun City Taxpayers Association ("SCTA"), and the CAP Task Force ("Task Force") requested and were granted intervention in this matter.

Our June 17, 1999 Procedural Order set this matter for hearing commencing on October 13, 1999. Because SCTA had a scheduling conflict, the hearing was continued until October 18, 1999. The hearing was convened on October 18, 1999 with the Companies, RUCO, Task Force, SCTA, and the Commission's Utilities Division Staff ("Staff") appearing with counsel. AUIA was represented by its President. At the conclusion of the hearing, the parties were given an opportunity to submit closing briefs on or before November 5, 1999.

DISCUSSION

Citizens Utilities Company ("Citizens") is a Delaware corporation and diversified public utility which, through its operating divisions and subsidiaries, provides electric, natural gas, telecommunications, water and wastewater service to approximately 2 million customers in 20 states. Citizens is engaged in the business of providing public utility water service in Maricopa County pursuant to the Certificates of Convenience and Necessity granted by the Commission. This includes the Agua Fria Water Division ("Agua Fria Division"), as well as Citizens' wholly-owned subsidiaries, the Companies.

The CAP was designed to deliver surface water to replace mined groundwater. In 1985, Citizens entered into two CAP-water subcontracts, with a total CAP allocation of 17,274 acre-feet. One contract was for Sun City Water which included a 15,835 acre-feet CAP allocation and the other was for Agua Fria for a 1,439 acre-feet CAP allocation. In 1995, Sun City Water purchased the municipal water system of the Town of Youngtown resulting in Sun City Water obtaining an additional 380 acre-feet CAP allocation. This increased the total CAP allocation for Citizens to 17,654 acre-feet. In 1998, in response to criticism from intervenors in the rate case filed by Citizens in 1995, Citizens reassigned 9,654 acre-feet of Sun City Water's allocation to Agua Fria. This left Sun City Water with an allocation of 6,561 acre-feet. Citizens is proposing as part of the CAP water utilization plan to reassign 2,382 acre-feet to Sun City West resulting in an allocation of 4,189 acre-feet for Sun City Water.

In March, 1994, the Company completed a Water Resources Planning Study that concluded that continuous reliance solely on groundwater to meet the municipal and industrial demand could result in decreased water levels, increased pumping costs, well failures, diminished water quality, and land subsidence. The study recommended that the Company pursue the development of additional water resources to supplement its water supplies, and noted that the most technically and legally feasible alternative was the development and use of CAP water.

In August, 1995, Citizens completed a Water Use Feasibility Study which looked at three options for the use of CAP water. The study concluded that all three options were technically feasible, but selected the joint recharge project with the Central Arizona Water Conservation District ("CAWCD") along the Agua Fria River as the preferred option due to anticipated economies of scale, the advantage of having CAWCD as a partner, and the expected financial benefits from partial state financing.

On June 27, 1994, Sun City Water and Agua Fria filed a Joint Application with the Commission requesting an accounting order authorizing deferral of CAP water charges to allow the companies an opportunity to request recovery of the costs in a future rate proceeding. In Decision No. 58750, (August 31, 1994), the Commission approved the requested accounting order beginning with CAP water charges for 1995. The CAWCD assesses annual M & I Capital Charges based upon a per acre foot charge. The CAP water charges in 1995 were $21.00 per acre foot and have continued to escalate to $30.00 per acre foot in 1996, $39.00 per acre foot in 1997, $48.00 per acre foot for 1998-9, and $54.00 per acre foot in 2000 and thereafter.

In August, 1995, Citizens filed applications for rate increases for Sun City Water, Sun City West Water, and Agua Fria Water. As part of those applications, Citizens requested rate recognition for the deferred and on-going CAP water charges in the form of a surcharge mechanism. The Commission in Decision No. 60172, dated May 7, 1997, denied the request because Citizens was not utilizing CAP water in the provision of service to its customers. However, the Commission determined that the decision of Citizens to obtain allocations of CAP water was a prudent planning decision. It was also determined that the demand of existing customers was contributing to the groundwater depletion of the aquifer, land subsidence, and other environmental damage. Finally, the

Commission allowed Citizens to continue to defer CAP capital costs for future recovery from ratepayers when the CAP allocation has been put to beneficial use for Citizens' ratepayers. The continued deferral was subject to development of a plan and the date of implementation must be by December 31, 2000.

Task Force

Subsequent to Decision No. 60172, Citizens facilitated the creation of a community-based CAP Task Force to answer the question of how best to use CAP water. Citizens hired an independent professional facilitator ("Facilitator") to oversee the public planning process. The Facilitator interviewed various community leaders and as a result invited the following groups to each assign two individuals to represent their organization on the Task Force:

- Recreation Centers of Sun City
- Sun City Condominium Owners Association
- Sun City Homeowners Association
- Sun City Taxpayers Association
- Property Owners and Residents' Association
- Recreation Centers of Sun City West

Each group was to assign a current board member as well as a representative that was knowledgeable about water issues. Additionally, Citizens was permitted to appoint two members to the Task Force, the Town of Youngtown provided one representative, and four at-large members were selected to represent the general public. At their first meeting, the nineteen member Task Force unanimously agreed on the following mission statement:

> The underlying principle of this cooperative public planning process is that CAP water is needed to maintain the quality of life in Sun City, Sun City West and Youngtown. The mission of the Task Force is to develop consensus on the best plan for the use of CAP water that meets the Arizona Department of Water Resources' guidelines to achieve "safe yield", and that will be supported and paid for by the customers of Sun City Water Company and Sun City West Utilities Company.

According to Citizens, the Task Force used a number of means to solicit views and receive input from the residents of Sun City, Sun City West, and Youngtown, including advertisements, press

releases, bill inserts, board and personal communication, public comment periods and community open houses.

After considering the mission statement and information received during the planning process, the Task Force evaluated a number of options (including relinquishing the CAP allocations). The Task Force concluded as follows:

a. It was in the public interest to retain the CAP water allocation of 6,561 acre-feet.

b. The Interim Solution which recommended that the Sun Cities recharge its CAP allotment at the existing Maricopa Water District ("MWD") recharge facility, meets criteria of "used and useful".

c. The ratepayers would pay for the Deferred CAP Charges.

d. The ratepayers would pay for the Ongoing CAP Costs.

e. The Long-term Solution is to deliver CAP water to the Sun Cities through a non-potable pipeline, where the water would be used to irrigate golf courses that have historically used groundwater.

f. The Deferred CAP Charges and the On-going CAP Costs would be recovered on a per household, per month fee for the residential customer class.

g. The Deferred CAP Charges and the On-going CAP Costs for the commercial customer class would be recovered based on usage. The fee would be assessed per 1,000 gallons used.

Short-Term Solution

As an interim solution to resolve the issue of CAP water being "used and useful" until a long-term solution can be completed, the Task Force recommended Citizens deliver CAP water to the existing MWD groundwater savings project or, if capacity is unavailable, recharge the CAP water at the CAWCD Agua Fria Recharge Project ("Recharge Project"). The total cost to deliver CAP water to MWD's groundwater savings project in 2000 is $563,246. In 2001, the cost will increase to $636,417 because of an increase in the holding and delivery charges.

The MWD project would generate "water credits", but it would not increase the water levels in the Sun Cities' wells. Staff opined that the Recharge Project could provide a hydrological impact

in the Sun Cities' area. For that reason, Staff recommended Citizens utilize the Recharge Project as soon as it becomes operational. Staff also concurred with Citizens that the interim solution would resolve the "used and useful" criteria when CAP water is put to use.

SCTA hired an engineering consultant to review the long-term and short-term proposals as well as the proposed method to collect deferred costs. SCTA recommended the interim solution be rejected as a waste of ratepayers' money for the sole purpose of satisfying the "used" component of the "used and useful" test, where there has been no evidence to show such use of CAP water would benefit ratepayers. According to SCTA, such discharge of remote sites north of the Sun Cities may benefit the region as a whole, but will offer no benefit to the Sun Cities. As a result, SCTA concluded the remote discharges may put the CAP water "to use" but would not be "useful" to the Sun Cities. SCTA opined that the money would be better spent on paying a portion of the deferred obligation.

RUCO opined that the MWD exchange would allow the Companies to utilize their CAP allocations at the lowest cost possible for CAP usage. According to RUCO, it minimizes the cost of using CAP water with no investment in infrastructure. As a result, RUCO supported the short-term solution proposed by Citizens.

We find the proposed short-term solution satisfies the requirement in Decision No. 60172 that CAP water must be put to beneficial use prior to recovery from ratepayers. While there may not be a direct benefit to the Sun City Communities, we concur with Staff that the short-term proposal could provide a positive hydrological impact in the Sun Cities' area. Our approval is contingent upon any "water credits" not being utilized in a manner that would result in additional groundwater depletion in the Sun Cities' area.

Short-Term Costs

Citizens requested an order authorizing the recovery of the deferred CAP holding charges. Additionally, Citizens requested recovery of the on-going costs associated with payment of CAP holding and delivery charges, less an offset from participation in the MWD groundwater savings project. In the first year of implementation, the fee will be calculated based on the 2000 CAP holding and delivery charges, as approved by the CAP Board, and converted to residential and commercial

rates, using the forecasted year 2000 number of households and commercial volumes. In subsequent years, the fee will be determined using the difference between the actual amount of fees collected in the previous year, and the sum of the upcoming and the previous year's CAP holding and delivery charges. The fee will then be converted to residential and commercial rates using the forecasted number of households and commercial volumes for the subsequent year.

Cost Recovery

Deferred Costs

For Sun City Water, Citizens requested recovery of Deferred CAP charges of $762,320 (as of December 31, 1998) over a period of 42 months. The Company included an interest charge of $74,806 based on its currently approved cost of capital of 8.73 percent. Citizens proposed a monthly flat fee of $0.5502 per residential household and $0.0542 per 1,000 gallons for commercial customers. Staff updated the holding charges through 1999 and removed the interest charges to arrive at a deferred amount of $767,473. Since the balance of the Deferred CAP charges reflected five years of accumulated charges, Staff recommended an amortization period of 60 months. Staff proposed a monthly flat fee of $0.3437 per residential household and $0.0341 per 1,000 gallons for commercial customers.

For Sun City West, Citizens requested recovery of Deferred CAP charges of $433,195 (as of December 31, 1998) over a 42 month period with $42,371 due to the interest component of 8.73 percent. Citizens proposed a monthly flat fee of $0.5970 per residential household and $0.0709 per 1,000 gallons for the commercial customer class.

Staff updated the holding charges through 1999 and removed the interest charges to arrive at a deferred amount of $361,908. Utilizing Staff's proposed amortization period of 60 months, Staff proposed a monthly flat fee of $0.3761 per residential household and $0.0443 per 1,000 gallons for commercial customers.

RUCO opposed the recovery of $4,023 in late payment penalties as part of the deferral balance. Subsequently, Citizens agreed to remove any late payment penalties from the deferred amounts. As discussed below, RUCO also opposed the inclusion of carrying costs and the rate design proposed by Citizens.

The Company requested the inclusion of a carrying cost on the deferred CAP costs to be effective with the date of the decision in this matter. Both RUCO and Staff opposed the request to include a return on the deferred costs. RUCO relied on Decision No. 61831, dated July 20, 1999, in which the Commission denied Paradise Valley Water Company a return on its deferred CAP costs because such payments did not meet the "used-and-useful" test.

SCTA opposed any rate of return on the deferred holding cost balance. According to SCTA, the deferral balance was created by deliberate management decision and it would not be fair to have ratepayers pay any rate of return.

Staff characterized the CAP cost recovery as a pass-through and not subject to a rate of return. The Company disagreed with such characterization. Further, the Company asserted that cost recovery through most pass-through mechanisms occurs within a relatively short period of time which mitigates the time value of money issue.

Consistent with our determination that the CAP water will be put to beneficial use with commencement of the short-term solution, Citizens' request to begin recovery of deferred charges should be approved. Further, we find Staff's proposed 60 month collection period to be reasonable based on the period of deferral. As to the requested carrying charges going forward, we agree with Citizens that a certain rate of return is appropriate once the CAP water has been determined to be of beneficial use. Because it is not a direct benefit to the customers of the Companies, we find the appropriate rate of return should be reduced from the authorized rate of return. Accordingly, we shall approve a going-forward carrying cost of 50 percent of the authorized 8.73 percent cost of capital or 4.365 percent. Lastly, we concur with RUCO's removal of any late payment penalties.

<u>On-Going Holding/Delivery Charges</u>

Sun City Water proposed a monthly flat fee of $0.94 per residential household for the on-going CAP holding and delivery charges. The proposed rate for commercial customers was $0.0899 per 1,000 gallons. Similarly for Sun City West, the proposed monthly flat fee for residential customers is $1.04 and the rate for commercial customers was $0.1133 per 1,000 gallons.

Combined Monthly Impact

Sun City Water

Residential Month Fee	$1.35
Commercial (per 1,000 gallons)	$0.126

Sun City West

Residential Month Fee	$2.53
Commercial (per 1,000 gallons)	$0.1626

Staff concurred with the methodology set forth by Citizens for the on-going CAP holding and delivery charges. However, Staff modified those numbers to reflect updated charges and credits. Accordingly, Staff recommended for Sun City Water a monthly flat fee of $1.0036 per residential household and $0.0996 per 1,000 gallons for commercial customers. For Sun City West, Staff recommended a monthly flat fee of $1.1026 for residential households and $0.1299 per 1,000 gallons for commercial customers.

According to RUCO, both Sun City and Sun City West have exceeded their Groundwater Per Capita Day ("GPCD") limit established by the Arizona Department of Water Resources ("DWR") in each of the last four years. The current monthly allowance for Sun City and Sun City West is 15,000 and 11,000 gallons, respectively. As a result, RUCO recommended the proposed surcharge for the deferred and on-going CAP costs be applied to usage above the GPCD limits. RUCO's proposed CAP deferral surcharge for Sun City is $0.051 and for Sun City West is $0.089 per 1,000 gallons, respectively. RUCO recommended that the surcharge be applicable to all commercial consumption and to Sun City residential consumption above 15,000 gallons and Sun City West residential consumption above 11,000 gallons. RUCO's proposed surcharge for on-going CAP costs is $0.172 for Sun City and is $0.299 for Sun City West per 1,000 gallons, respectively. RUCO also recommended that the surcharge be applied to all commercial consumption and all residential consumption exceeding 15,000 gallons in Sun City and 11,000 gallons in Sun City West.

SCTA criticized the proposed CAP plan as being too expensive and opined that it would result in "rate shock" for the Sun City communities. According to SCTA, Citizens' proposal would result

in an annual increase to Sun City ratepayers of $688.695[1] or 12.6 percent increase before the impacts from any CAP related infrastructure. SCTA recommended that all CAP Deferred Costs should be denied because Citizens: a) initially agreed to take CAP water to protect its shareholders' investment by allowing additional development in its certificated areas; and b) made a management decision not to actively use CAP water.

Rate Design

Citizens proposed that CAP water be considered as the first water supply delivered to customers and be recovered on a pre-household charge. RUCO, on the other hand, proposed CAP charges be based upon incremental consumption above a threshold amount. SCTA proposed CAP charges be collected primarily from customers entering the system. Alternatively, SCTA supported RUCO's proposal that customers whose usage exceeds the GPCD limits should pay the incremental cost of using CAP water.

Citizens opposed the recommendations of SCTA and RUCO because they are: against the wishes of the communities; based upon a faulty understanding of water conservation requirements; and contrary to principles of cost causation. Citizens indicated that the Task Force has concluded that "CAP water should be considered as the first water supply delivered to customers, roughly the first 3,500 gallons, instead of making CAP water a portion of every gallon delivered. If the CAP water is assessed based on consumption, then the large water users will unfairly subsidize small water users . . ." Citizens further opined that the rate design should encourage CAP water consumption and discourage groundwater consumption. Citizens also criticized the RUCO proposal because 82 percent of all customers, those primarily with meters less than one-inch, would avoid paying any CAP charges. Finally, Citizens indicated that the deferred CAP charges are capital charges designed to recover the costs of constructing CAP facilities. Citizens opined that these charges as well as on-going CAP charges will not vary based on the consumption in the Sun Cities.

SCTA argued that using CAP water provides benefits of a regional nature and as such, the costs of using CAP water should be borne by the entire region. In response, Citizens indicated that

[1] This amount consists of $226,206 for on-going CAP holding charges, plus $247,151 in delivery charges, plus $215,338 in deferred costs.

the Board of the CAWCD establishes the balance between regional revenue sources and local revenue sources. The publicly elected Board establishes Citizens' appropriate fair share. Other entities that receive a regional benefit from Citizens' use of CAP water do not have to reimburse Citizens. Citizens opined that SCTA was challenging Decision No 60172 by now arguing that Citizens could have used CAP water as much as ten years ago. According to Citizens, the Commission has already determined in Decision No. 60172 that Citizens' stewardship of CAP water was prudent. Further, Citizens asserted that prudency should not be an issue anyway since Citizens is not seeking any return of the carrying costs of the CAP water.

We share some of RUCO's concerns that consumers who utilize water in excess of the allotted per capita amount should bear more of the burden of CAP water. However, because the Task Force supports the rate design proposed by Citizens as well as the fact that the deferred costs are for capital costs, we will approve Citizens' proposed rate design. The Commission wants to make it clear that it will review the rate design at the time Citizens comes in for rate consideration of its long-term solution to insure that cost allocations are appropriate.

Long-Term Solution

The Task Force determined that subsidence and earth fissures are becoming more and more common as a result of continued groundwater mining. As a result, the Task Force concluded that CAP water must be used in a manner which clearly and directly reduces the current amount of groundwater pumping. Brown and Caldwell were hired by Citizens to prepare a cost analysis of CAP water usage options. The six options and their relative incremental operating and capital costs are as follows:

Option	Capital Costs	Oper. Costs
Lease capacity at Agua Fria Recharge Proj.	$0	$132,000
Citizens' Recharge Project	11M	76,000
Exchange with MWD	0	(111,000)
Golf Course Usage	15M	187,000
CAP Water Treatment Plant	21M	679,000
Capacity at City of Glendale	10M	1,669,000

The Task Force recognized that the groundwater aquifer of the Communities of Youngtown, Sun City and Sun City West was being overused through groundwater pumping in excess of natural or incidental recharge. If CAP water is utilized on golf courses for turf irrigation, there would be an offsetting reduction in pumping of groundwater now being used on the golf courses. The use of CAP water on the golf courses would directly benefit the aquifer beneath the Communities of Youngtown, Sun City and Sun City West. Continued overdraft of the underground aquifer will give rise to serious problems from subsidence, degradation of water quality, increased pumping costs, and regulatory sanctions. The Task Force indicated there was overwhelming support in the Communities of Youngtown, Sun City and Sun City West.

As a result, the Task Force recommended that CAP water be delivered to the Sun Cities through a non-potable pipeline ("Groundwater Savings Project"). The CAP water would be used to irrigate golf courses that have historically pumped groundwater. The water would be conveyed from the aqueduct, be stored in reservoirs, and pumped to multiple golf courses for irrigation. The project would include an estimated 46,000-foot transmission line, storage reservoirs of 3.9 million gallons, and irrigation booster pumps with a capacity of 10,800 gallons per minute. The capital cost for the Groundwater Savings Project is estimated at approximately $15 million. Annual operating and maintenance costs for the project are estimated at $400,000. It is anticipated that these costs would be partially offset by annual water sales of approximately $221,000 to the Recreation Centers of Sun City and Sun City West ("Recreation Centers") for use on their golf courses. While the Company currently has no contracts for the golf course sales, the Recreation Centers have passed resolutions demonstrating their intent to enter into such contracts. Citizens estimates the Groundwater Savings Project would be operational sometime in 2003.

Staff supported the concept of using CAP water as proposed by the Task Force for a long-term solution in that utilization would constitute a direct use. According to the testimony of Ray Jones for Citizens, the next step in the process of implementing the CAP Task Force's water-use plan will be an extensive preliminary engineering and coordination phase. Although Staff believes that the concept of the Groundwater Savings Project appears to be reasonable, Staff opined that it would be imprudent to give a final recommendation as to the reasonableness and appropriateness of the costs

until the preliminary engineering plan is submitted and evaluated.

SCTA acknowledged that CAP water represents an important water source for central Arizona. SCTA also agreed that use of CAP water on existing golf courses in the Sun City communities is the only alternative that presents a potential for providing measurable benefits to equal the costs to ratepayers. SCTA reviewed the Groundwater Savings Project and concluded that the following three general changes could possibly be made to the Project:

- Elimination of a Storage Reservoir;
- Elimination of a Pumping Station; and
- Using existing Sun City West distribution facilities to use much of Sun City Water's CAP allocation in Sun City West.

According to SCTA, the aforementioned changes could reduce the cost of the Project by approximately $6 million. Citizens concurred that the first two suggestions should be considered during the completion of a preliminary design with a possible cost reduction of $2 million. Citizens opined that the majority of the potential cost reduction would result from the third suggestion, but Citizens asserted that Sun City Water's CAP water allocation cannot be used in Sun City West.

SCTA also recommended that Citizens should evaluate whether to proceed with a joint CAP water transmission project with the Agua Fria Division. SCTA indicated that Citizens is developing a separate plan for its 11,093 acre-feet allocated to the Agua Fria Division. SCTA recommended the plan for Agua Fria be combined with the plan for the Sun Cities whereby a joint transmission facility ("Joint Plan") could be built at a savings to the Sun Cities of $5,000,000. According to SCTA, the only reason Citizens gave for rejection of a Joint Plan was that it had decided to delay the bringing of CAP water to Agua Fria for a few years. SCTA noted that while Citizens hired the same engineering firm for the Agua Fria plan and the Sun Cities' plan, Citizens never requested the engineering firm to examine whether a joint project would be more cost effective. Citizens opposed this idea because; 1) Agua Fria will not need a CAP treatment plant before 2005; and 2) Agua Fria will likely be able to use the MWD's Beardsley Canal for water transportation.

Based on the above, SCTA made the following recommendations:

1. There should be no recovery of CAP-related costs from Citizens' ratepayers until

Citizens has, at a minimum: a) presented a viable, least-cost alternative for putting CAP water to use on the golf courses in Sun City; and b) demonstrated that the benefits to the ratepayers from implementation of the plan are equal to, or greater than, the costs associated therewith;

2. The Commission should require Citizens to further develop its proposed plan and return it within a specified period (e.g., 8 months) with all the elements of the proposed plan fully developed. Citizens should be required to address: a) the feasibility of a joint facility with the Agua Fria Division; b) maximizing use of existing infrastructure (e.g., the existing delivery system in Sun City West and the Beardsley Canal) by increasing deliveries in Sun City West; c) the need for all major elements of its proposed plan (e.g., storage and booster stations); d) binding commitments from golf courses, public and private, and the terms and conditions related thereto; e) the accrual and use of recharge credits; f) right-of-way issues; g) firm, not to exceed, costs; and h) financing.

3. If the recovery of CAP costs is allowed in the future, costs of CAP related infrastructure should be placed on new residents through connection fees and the on-going costs of CAP water should be recovered on a gallonage basis to recognize that it is the use of water that requires the importation of CAP water and to encourage conservation; and

4. If ratepayers pay for CAP water in order to protect their existing groundwater resources, the Commission must vigilantly monitor the accrual and use of recharge credits and groundwater to ensure the ratepayers' interests are protected.

According to RUCO, the Company's estimated CAP related construction costs of $15,000,000 would increase rate base by 40 percent and result in rate shock for residential ratepayers. RUCO opined it was premature to commit Citizens to such substantial investment at this time. RUCO asserted it would be more prudent to proceed with the interim plan and see how that works before committing the substantial investment for the golf course option. RUCO also expressed concern that it may not be in the public's best interest to commit to an expensive course of action

when Citizens has announced plans to sell its water utilities.

Citizens requested the Commission approve the general concept of the construction of a pipeline to the golf course as a reasonable and prudent approach for implementing the long-term solution for the utilization of CAP water in the Sun Cities. Citizens indicated it was unwilling to spend any more money to begin preliminary design work until the Commission finds the Project to be acceptable. According to Citizens, it needs an order from the Commission approving the Groundwater Savings Project before the Company can invest the necessary capital. Further, Citizens asserted that it is appropriate and reasonable for the CAP water costs to be paid for by the customers who benefit from the water. Once the Project is approved, Citizens opined that it would work with the Task Force and other interested parties to complete a preliminary design, obtain permits and right-of-way, complete a final design, and to finally construct the project. Citizens also indicated it would provide Staff with quarterly progress reports as well as submit the following for Staff review and approval:

1. Upon completion of the preliminary design, the final plan for the project as evidenced by the preliminary design and an updated cost estimate will be submitted.
2. Upon attaining all major permits, easements, right-of-ways, and completion of 50 percent design, a final cost estimate will be submitted.
3. Upon receipt of final bids, the bid with a comparison to the final cost estimate will be submitted.

Finally, in some future rate case, Citizens will ask the Commission to approve the completed Project for inclusion in rate base.

Staff opined that the Groundwater Savings Project with the golf courses for the long-term solution is the most favorable because, 1) the CAP water would directly be applied to the golf courses, 2) the high use consumption golf courses would stop pumping groundwater, and 3) the direct use of CAP water on the golf courses would eliminate any type of groundwater pumping in order to use this CAP water, even through the use of recharge wells. However, Staff indicated the cost estimates for the long-term project are very preliminary and conservative. As a result, Staff was unable to give a final opinion as to the reasonableness and appropriateness of the cost estimates.

According to SCTA, the foundation of Citizens' proposed plan is to preserve groundwater to avoid the harms associated with overdrafting an aquifer. However, SCTA opined that Citizens continues to encourage development within its certificated areas without any requirement that renewable resources are provided. SCTA recommended the Commission require Citizens to collect the cost of building CAP infrastructure to bring water to all new subdivisions.

SCTA opined that Citizens plans to have each golf course designated as a Recharge Facility to accept CAP water in lieu of groundwater. According to SCTA, this will make Citizens eligible to receive recharge credits which allow the storer of CAP water to recover the water at a later time. According to SCTA, recharge credits create the potential for the entire benefit to be consumed at a later date. As a result, SCTA asserted the Commission must restrict Citizens' right to dispose of or recover such credits without express authority of the Commission.

The Task Force requested the Decision in this matter include the following:

1. A requirement for Citizens to provide final cost estimates for the infrastructure required for the long-term plan;
2. A requirement for Citizens to provide detailed engineering and construction schedules for the completion of the long-term plan and to provide quarterly progress reports; and
3. An express sanction against Citizens if it fails to complete the long-term plan within a reasonable time (e.g., 42 months).

While there are clearly less costly options, the Task Force has represented there is general agreement in the Sun City areas for the Groundwater Savings Project. As a result, we will approve the concept of the Groundwater Savings Project and approve the reasonable and prudent costs associated with the completion of the preliminary design/updated cost estimate. As part of that design/cost estimate, we will require Citizens to address: a) the feasibility of a joint facility with the Agua Fria Division including the timeframe for any such joint facility; b) the need for all major elements of its proposed plan (e.g., storage and booster stations); and c) binding commitments from golf courses, public and private, and the terms and conditions related thereto. Further, we shall require Citizens to file the preliminary designed/updated cost estimate with the Commission within six months of the effective date of this Decision.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On October 1, 1998, the Companies filed with the Commission an application for approval of a CAP water utilization plan and for an accounting order authorizing a groundwater savings fee and recovery of deferred CAP expenses.

2. Citizens is a Delaware corporation engaged in providing water and wastewater utility service to the public in certain portions of Mohave and Santa Cruz Counties, Arizona.

3. Citizens is in the business of providing public utility water service in Maricopa County through its Agua Fria Division and the Companies.

4. CAP was designed to deliver surface water to replace mined groundwater.

5. In 1985, Citizens entered into two CAP-water subcontracts, with a total CAP allocation of 17,274 acre-feet.

6. One contract was for Sun City Water which included a 15,835 acre-feet CAP allocation and the other was for Agua Fri for a 1,439 acre-feet CAP allocation.

7. In 1995, Sun City Water purchased the municipal water system of the Town of Youngtown resulting in Sun City Water obtaining an additional 380 acre-feet CAP allocation for a total CAP allocation for Citizens of 17,654 acre-feet.

8. The Commission in Decision No. 58750 approved a request by Sun City Water and Agua Fria for an accounting order authorizing deferral of CAP water charges for possible recovery of the costs in a future rate proceeding.

9. In August 1995, Citizens filed applications for rate increases for the Companies and Agua Fria.

10. As part of the August 1995 rate applications, Citizens requested rate recognition for the deferred and on-going CAP water charges in the form of a surcharge mechanism.

11. In 1998, Citizens re-assigned 9,654 acre-feet of Sun City Water's allocation to Agua Fria.

12. The Commission in Decision No. 60172 denied the request for the CAP surcharge mechanism because Citizens was not utilizing CAP water in the provision of service to its customers.

13. The Commission in Decision No. 60172 determined that the decision of Citizens to obtain allocations of CAP water was a prudent planning decision.

14. The Commission in Decision No. 60172 allowed Citizens to continue to defer CAP capital costs for future recovery from ratepayers when the CAP allocation has been put to beneficial use for Citizens' ratepayers.

15. The demand of existing customers is contributing to the groundwater depletion of the aquifer, land subsidence, and other environmental damage.

16. The consequences of excessive groundwater withdrawal include decreased water levels, diminished water quality, well failures, increased pumping costs, and more land subsidence.

17. The continued deferral of CAP capital costs was subject to a development of a plan and date of implementation by December 31, 2000.

18. Subsequent to Decision No. 60172, Citizens facilitated the creation of a community-based CAP Task Force to answer the question of how best to use CAP water.

19. At their first meeting, the Task Force unanimously agreed on the following mission statement:

> The underlying principle of this cooperative public planning process is that CAP water is needed to maintain the quality of life in Sun City, Sun City West and Youngtown. The mission of the Task Force is to develop consensus on the best plan for the use of CAP water that meets the Arizona Department of Water Resources' guidelines to achieve "safe yield", and that will be supported and paid for by the customers of Sun City Water Company and Sun City West Utilities Company.

20. After considering the mission statement and information received during the planning process, the Task Force evaluated a number of options (including relinquishing CAP allocations) and concluded as follows:

a. It was in the public interest to retain the CAP water allocation of 6,561 acre-feet.

b. The Interim Solution which recommended that the Sun Cities' recharge its CAP allotment at the existing Maricopa Water District ("MWD") recharge facility, meets the

criteria of "used and useful".

c. The ratepayers would pay for the Deferred CAP Charges.

d. The ratepayers would pay for the Ongoing CAP Costs.

e. The Long-term Solution to deliver CAP water to the Sun Cities through a non-potable pipeline, where the water would be used to irrigate golf courses that have historically used groundwater.

f. The Deferred CAP Charges and the On-going CAP Costs would be recovered on a per household, per month fee for the residential customer class.

g. The Deferred CAP Charges and the On-going CAP Costs for the commercial customer class would be recovered based on usage. The fee would be assessed per 1,000 gallons used.

21. The current monthly allowance established by DWR for Sun City and Sun City West is 15,000 and 11,000, respectively.

22. The MWD groundwater savings project and Recharge Project satisfy the requirement in Decision No. 60172 that CAP water must be put to beneficial use prior to recovery from ratepayers.

23. The Groundwater Savings Project will provide direct benefits to the Sun City areas.

24. While the use of CAP water will support the State's water policy goals, CAP water at any cost is not necessarily a prudent decision.

CONCLUSIONS OF LAW

1. Citizens is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Citizens and of the subject matter of the applications.

3. Notice of the application was given in accordance with the law.

4. Citizens' decision to obtain allocations of CAP water was a prudent planning decision.

5. The approval of rate recovery for the deferred CAP costs as well as the on-going capital and delivery costs should be subject to the conditions that any "water credits" will not be utilized in a manner that would result in additional groundwater depletion in the Sun City areas.

6. The requirements of Decision No. 60172 have been satisfied and rate recovery should

be approved for the previously approved deferred CAP costs as well as the on-going capital and delivery costs.

ORDER

IT IS THEREFORE ORDERED that Citizens Utilities Company shall file a tariff setting forth the rates and charges as approved herein subject to the following conditions:

- The deferred CAP costs for both Sun City and Sun City West shall be updated up through January 31, 2000;
- The deferred CAP costs shall be collected utilizing Citizens proposed rate design over a 60 month period;
- The deferred CAP costs shall include a going-forward carrying cost of 4.365 percent;
- The deferred CAP costs shall not include any late payment penalties;
- The on-going CAP costs shall be estimated based on costs of February 1, 2000; and
- The on-going CAP costs shall be collected utilizing Citizens proposed rate design.

IT IS FURTHER ORDERED that Staff shall review and approve Citizens Utilities Company's tariff in order to determine whether it meets the criteria set forth herein.

IT IS FURTHER ORDERED that Citizens Utilities Company shall notify its customers of the rates and charges authorized herein and the effective date of same by means of an insert in its next regular monthly billing.

IT IS FURTHER ORDERED that approval of the use of CAP water is conditional upon any "water credits" not being utilized in a manner that would result in additional groundwater depletion in the Sun Cities' area.

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IT IS FURTHER ORDERED that Citizens Utilities Company shall file the results of the completion of the preliminary design/updated cost estimate within six months of the effective date of this Decision including: a) the feasibility of a joint facility with the Agua Fria Division including the timeframe for any such joint facility; b) the need for all major elements of its proposed plan (e.g., storage and booster stations); and c) binding commitments from golf courses, public and private, and the terms and conditions related thereto.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 1999.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
JLR:dap

SERVICE LIST FOR: SUN CITY WATER COMPANY and SUN CITY WEST UTILITIES COMPANY

DOCKET NOS.: W-01656A-98-0577 and SW-02334A-98-0577

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THIS AMENDMENT:		
_____ Passed	_____ Passed as amended by	_____
_____ Failed	_____ Not Offered	_____ Withdrawn

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AZ CORP COMMISSION

JAN 20 2 55 PM '00

UTILITIES DIVISION

DOCUMENT CONTROL

TIME/DATE PREPARED: January 20, 2000

COMPANY: Sun City Water Company and Sun City West Utilities Company

AGENDA ITEM NO. 41

DOCKET NO. W-01656A-98-0577 and SW – 02334A-98-0577

OPEN MEETING DATE: January 25 and 26, 2000

Page 20, line 5, after the word "file" **INSERT** ", within 15 days from the effective date of this Decision,"

Page 20, line 12, after the word "herein" **INSERT** "and file a memorandum in this Docket within 5 days from the date Sun City Water Company and Sun City West Utilities Company files the tariffs in this Docket indicating Staff's approval of the tariffs".

INSERT New Ordering Paragraph, Page 20, line 16:

"IT IS FURTHER ORDERED THAT Sun City Water Company and Sun City West Utilities Company shall file with the Commission within 60 days from the effective date of this Decision a copy of the notice it sends to its customers of the new rates and charges".

THIS AMENDMENT:		
_____ Passed	_____ Passed as amended by	_____
_____ Failed	_____ Not Offered	_____ Withdrawn

RECEIVED
AZ CORP COMMISSION
JAN 24 3 05 PM '00
DOCUMENT CONTROL

COMMISSIONER MUNDELL PROPOSED AMENDMENT # 1

TIME/DATE PREPARED: 9:30 A.M./Jan. 24, 2000

COMPANY: Sun City & Sun City West Util. Co. AGENDA ITEM NO. U-41

DOCKET NO. W-01656A-98-0577 ET AL. OPEN MEETING DATE: Jan. 25 & 26, 2000

Page 21, Line 7: INSERT new Ordering paragraphs:

"IT IS FURTHER ORDERED that within 30 days of the filing of the preliminary design/updated cost estimates by Citizens Utilities Company, the Commission's Utilities Division as well as the remaining parties shall have 30 days in which to file any comments/objections/recommendations regarding the preliminary design/updated cost estimates.

IT IS FURTHER ORDERED that Citizens Utilities Company shall within 15 additional days file any response to the filings of Staff and other parties.

IT IS FURTHER ORDERED that the Hearing Division shall within another 30 days set the matter for hearing or submit a recommended Opinion and Order for Commission consideration."