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BEFORE THE ARIZONA CORPORATION COMMISSION

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EXCEPTION

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISM FOR ITS
CASA GRANDE AND STANFIELD
SYSTEMS IN ITS WESTERN GROUP

Docket No. W01445A-04-0650

EXCEPTIONS TO COMMISSION STAFF'S
RECOMMENDATION AND PROPOSED
ORDER

Arizona Water Company (the "Company"), the applicant in this docket, files its exceptions to the December 31, 2008 Staff Recommendation (the "Recommendation") and the corresponding proposed order. Specifically, the Company objects to Staff's form of surcharge and its rejection of the Company's proposed partial consolidation of the Step-2 ACRM Surcharge for the Casa Grande system and the Step-1 ACRM Surcharge for the Stanfield system. Staff recommends that residential customers in Stanfield pay a 94.2% increase (\$36.30 per month) in their average bill rather than have residential customers in Casa Grande pay an additional 26¢ per month. Staff's recommendation conflicts with the public interest, and as RUCO correctly concludes, consolidation under Alternative B is in the public interest. The Company recommends adoption of either Alternative B or C, as detailed below.

1 Full rate consolidation of Stanfield, Casa Grande and Coolidge is already the subject of
2 the Company's pending general rate application (Docket W-01445A-08-0440) and the
3 Company's proposed interim rate consolidation in this matter will not preclude the Commission
4 from reviewing this matter fully therein and adopting different rates, if it sees fit to do so.
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7 Staff's recommendation also fails to demonstrate any sensitivity to the significant
8 impacts its recommendations will impose on the Stanfield customers or to the lack of impact on
9 the Casa Grande customers.
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11 THE COMPANY'S PROPOSAL

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13 The Company's application, filed on August 19, 2008 included a Step-2 surcharge for
14 the Casa Grande system and a Step-1 surcharge for the Stanfield system. The Company
15 estimated that the Step-2 surcharge would increase the average monthly bill for a Casa Grande
16 customer by 4.3% (Company amended application, Schedule 10), without the recommended
17 consolidation. In contrast, the Company estimated that the Step-1 surcharge would increase the
18 average monthly bill for a customer in the Stanfield system by 94.2%, without the
19 recommended consolidation.
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22 Recognizing the obvious magnitude of the difference of the proposed increases and the
23 effect on its Stanfield customers, the Company suggested reasonable alternatives. The
24 Company provided two alternative surcharge proposals for the Stanfield system, B and C, both
25 of which include a partial consolidation of the Stanfield and Casa Grande surcharges.
26 Alternative B would limit the Stanfield surcharge to 10.5% (for an average residential bill) and
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1 slightly increase the Casa Grande surcharge by 26¢ per month (Company amended application,
2 Schedule 10). Alternative C would limit the Stanfield surcharge to 25%, while increasing the
3 Casa Grande surcharge by 22¢ per month. The Commission must recognize that the
4 Company's proposed alternatives for Stanfield of 10.5% or 25% average increases are much
5 more reasonable than the 94.2% increase which Staff recommends (Staff Report, pages 3 and
6 6). Staff does not dispute and, in fact, supports the amounts requested for recovery by the
7 Company in its Stanfield Step-1 filing (Staff Report, page 6), so there is no dispute about the
8 costs the Company is entitled to recover.
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11 Thus, the Company made a reasonable proposal for the implementation of the Step-2
12 Casa Grande and Stanfield Step-1 surcharges that would fairly and reasonably (and in the public
13 interest) implement ACRM surcharges under a mechanism approved by the Commission in a
14 way that would minimize the rate impacts on the Company's Stanfield and Casa Grande
15 customers.
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17 ARGUMENT

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20 Staff's recommendation for the Stanfield system is untenable. Several reasons support
21 this conclusion:
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- 23 1. Staff does not present a single reason, and thus does not refute, the Company's
24 arguments supporting the reasonableness and necessity of using a partial
25 consolidation for surcharge purposes in this case. Staff simply concludes that the
26 issue will be dealt with in the Company's pending rate case. However, that
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1 would result in a 94.2% Step-1 increase for the Stanfield customers, followed by
2 a rate decrease once the general rate case is concluded.
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4 2. The Staff report accepts all of the Company's schedules, confirms that the
5 Company filed the supporting documents required by Decision No. 68302,
6 agrees that the Company's surcharge revenue will not result in a return
7 exceeding the return authorized in Decision No. 68302 and concludes that the
8 Company has adequately supported the amounts requested for the Step-2 and
9 Step-1 surcharges. Thus, the Staff report concludes that the Company's
10 application is supportable in every respect, but then Staff arbitrarily rejects the
11 Company's reasonable proposals for the Stanfield surcharges. The Company's
12 filing fully supported its recommendations, and the Staff report confirms that.
13 Therefore, Staff's recommendation on the surcharge rates is unfounded, arbitrary
14 and capricious, and should be disregarded.
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18 3. Staff underplays the significant increase it is recommending for the Stanfield
19 customers (94.2%) and the minimal impact that the Company's Alternatives B or
20 C would have on increases for the Casa Grande surcharges (26¢ per month and
21 22¢ per month, respectively). But, Staff does not dispute, and thus concedes the
22 correctness of each of the bases for the Company's position for partial
23 consolidation, i.e., that the Casa Grande and Stanfield system are now
24 functionally one unit, and that the systems' share management, personnel,
25 operations, and sources of water. Staff has thus conceded that there is no reason
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1 why the systems should not be considered to be consolidated at least for the
2 purpose of this case.

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4 4. The Staff report also fails to inform the Commission that RUCO supports the
5 Company's position. RUCO performed an audit to "determine if the
6 consolidated rate increases for the Casa Grande and Stanfield systems is in the
7 public interest" (RUCO Audit Report, page 1, filed December 31, 2008). RUCO
8 concluded that "(t)he Casa Grande/Stanfield Consolidated ACRM fling is in the
9 public interest" (id., at page 1) and recommends that the Company's Alternative
10 B methodology be adopted by the Commission. As RUCO notes:

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13 Alternative B reduces the rate increase to a reasonable level
14 (10.5% for a 5/8" meter) for the ratepayers of Stanfield, while burdening
15 the [Casa Grande] ratepayers with an insignificant raise in their monthly
16 bill (0.9% for a 5/8" meter). An additional average monthly increase in
17 rates of just \$0.26 for customers of the Casa Grande system will result in
18 monthly savings of \$32.24 for customers of the Stanfield system (id., at
19 page 1).

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22 Also, the Company would point out a technical correction to Staff's Schedule DRR-2 for
23 the Company's Stanfield system. Staff inadvertently used the tier levels established for the
24 Company's Casa Grande system. The final order in this matter should accurately reflect
25 Stanfield's tier levels as approved in Decision No. 68302.
26

1 An original and 13 copies of the foregoing were delivered this 9th day of
2 of January, 2009 to:

3 Docketing Supervisor
4 Docket Control
5 Arizona Corporation Commission
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8 A copy of the foregoing was mailed this 9th day of January, 2009 to:

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