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1 FENNEMORE CRAIG, P.C.
2 Norman D. James (No. 006901)
3 Jay L. Shapiro (No. 014650)
4 3003 N. Central Avenue
5 Suite 2600
6 Phoenix, Arizona 85012
7 Attorneys for Chaparral City
8 Water Company, Inc.

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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

8 IN THE MATTER OF THE APPLICATION
9 OF CHAPARRAL CITY WATER
10 COMPANY, INC., AN ARIZONA
11 CORPORATION, FOR A
12 DETERMINATION OF THE CURRENT
13 FAIR VALUE OF ITS UTILITY PLANT
14 AND PROPERTY AND FOR INCREASES
15 IN ITS RATES AND CHARGES FOR
16 UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02113A-07-0551

CHAPARRAL CITY WATER COMPANY, INC.

CLOSING BRIEF

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

January 28, 2009

Arizona Corporation Commission

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2 **PRE-FILED TESTIMONY**

3 Pre-Filed Testimony	Hearing Exhibit	Abbreviation
4 Direct Testimony of 5 Robert N. Hanford	A-1	Hanford Dt.
6 Rebuttal Testimony of 7 Robert N. Hanford	A-2	Hanford Rb.
8 Direct Testimony (Rate Base) of 9 Thomas J. Bourassa	A-3	Bourassa Dt.
10 Supplemental Testimony (Rate Base) 11 of Thomas J. Bourassa	A-4	Bourassa Supp. Dt.
12 Rebuttal Testimony (Rate Base) 13 of Thomas J. Bourassa	A-5	Bourassa Rb.
14 Supplemental Rebuttal Testimony 15 (Lower Income Tariff) of 16 Thomas J. Bourassa	A-6	Bourassa Supp. Rb.
17 Rejoinder Testimony 18 of Thomas J. Bourassa	A-7	Bourassa Rj.
19 Rebuttal Testimony 20 of Robert J. Sprowls	A-8	Sprowls Rb.

21 **RESIDENTIAL UTILITY CONSUMER OFFICE**
22 **PRE-FILED TESTIMONY**

23 Pre-Filed Testimony	Hearing Exhibit	Abbreviation
24 Direct Testimony 25 of William Rigsby	R-6	Rigsby Dt.
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Direct Testimony of Timothy Coley	R-8	Coley Dt.
Surrebuttal Testimony of Timothy Coley	R-9	Coley Sb.

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**STAFF
PRE-FILED TESTIMONY**

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Marlin Scott, Jr.	S-1	Scott Dt.
Direct Testimony of Marvin Millsap	S-2	Millsap Dt.
Surrebuttal Testimony of Marvin Millsap	S-3	Millsap Sb.

OTHER PORTIONS OF THE RECORD

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Hearing Transcript		Tr.

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1 **I. PRELIMINARY STATEMENT**

2 All parties agree that Chaparral City Water Company (“Chaparral City” or “the
3 Company”) is entitled to an increase in revenue based on the evidence in the record. Only
4 the magnitude of the increase remains to be determined. In their final schedules, the
5 Company, the Utilities Division (“Staff”) and the Residential Utility Consumer Office
6 (“RUCO”) recommend revenue increases of \$2.9 million, \$1.9 million and \$1.1 million,
7 respectively. The difference in the parties’ recommendations is primarily the result of
8 their proposed returns on equity, and the determination of an appropriate rate of return to
9 be applied to the Company’s fair value rate base. These issues will be addressed in the
10 Company’s separate brief on cost of capital and rate of return.

11 Only a small number of issues remain in dispute with respect to rate base, revenue
12 and expenses. This is due largely to the Company’s willingness to accept adjustments
13 proposed by Staff and RUCO. Examples include its acceptance of RUCO’s negative cash
14 working capital allowance, and its acceptance of Staff’s reduction to purchased water
15 expense, as well as its own decision to forgo unrecovered rate case expense. Other
16 examples of Chaparral City’s cooperative attitude include its acceptance of RUCO’s
17 adjustment to revenue annualization, its acceptance of various reclassifications of
18 operating expenses to capital, and its acceptance of RUCO’s adjustment to outside
19 services for \$71,000 for services now performed by an employee. Still, there are several
20 hundred thousand dollars in dispute due to recommended adjustments by Staff and RUCO
21 to rate base and operating expenses. Resolution of these issues should be based on the
22 evidence before the Commission and result in rates that include a fair return on fair value
23 rate base and an opportunity to actually earn that return.

24 This was not the case with the Company’s current rates. In 2006, the test year in
25 this case and first full calendar year in which the current rates were in effect, Chaparral
26

1 City earned a return on equity of only 3.47 percent.¹ No party disputed this evidence, or
2 that Chaparral City's returns have continued to spiral downward each year.² The use of
3 an historical test year, with limited post-test year adjustments, makes it difficult for
4 utilities to actually earn their authorized returns. This case is an all too clear illustration
5 of the problem.

6 The Company will be unable to implement permanent rate increases until
7 sometime in mid-2009 – approximately 20 months after the Company's rate application
8 was filed and more than 30 months after the end of the 2006 test year. Until new rates are
9 approved, the Company will be forced to charge rates that are based on its 2003 operating
10 expenses. The delays that have occurred in this case were not caused by the Company,
11 but were imposed at the request of Staff. Despite this, Staff recommends that certain
12 expense levels be based on 2004 and 2005 data. Adoption of these sorts of backward-
13 looking recommendations in the Company's prior case contributed to the Company's
14 current losses.³ Rejection of similar efforts to shave the revenue requirement, and
15 adoption of the Company's fair value rate base and operating expenses, would go a long
16 way to ensuring that Chaparral City has an adequate opportunity to earn the authorized
17 return on rate base this time around.

18 **II. BRIEF SUMMARY AND ORGANIZATION**

19 Chaparral City submits this first of four closing briefs in this rate case. In this
20 brief, the Company addresses the issues in dispute regarding rate base, operating expenses
21

22 ¹ Sprowls Rb. at 3-4. Citations to a witness' pre-filed testimony are abbreviated using the format
23 set forth on pages iii to v, above, following the Table of Contents, which also lists the hearing
24 exhibit numbers of the parties' pre-filed testimony. Other hearing exhibits are cited by the
hearing exhibit number and, where applicable, by page number, e.g., A-R13 at 2. The transcript
of the hearings is cited by page number, e.g., Tr. at 1.

25 ² *Id.*

26 ³ Tr. at 158.

1 and rate design. Chaparral City will follow with a reply brief on February 11, 2009 to the
2 closing arguments by the other parties. In separate closing and reply briefs (to be filed
3 February 13 and February 27, 2009, respectively), the Company will address cost of
4 capital and the rate of return used to determine the Company's operating income.

5 The Company has focused primarily on issues that either remain in dispute or
6 require further clarification. Chaparral City's specific rate base and operating expense
7 levels, along with its rate design, are set forth in the Company's Final Schedules filed
8 January 16, 2009. The Company is requesting a gross revenue increase of \$2,905,731,
9 which is an increase of 38.72 percent over test year (2006) revenues. The following is a
10 summary of the Company's calculation of its proposed revenue requirement:

11	Fair Value Rate Base	\$ 27,751,114
12	Adjusted Operating Income	\$ 979,859
13	Current Rate of Return	3.53%
14	Required Operating Income	\$ 2,764,011
15	Required Rate of Return	9.96%
16	Operating Income Deficiency	\$ 1,784,152
17	Gross Revenue Conversion Factor	1.6286
18	Increase in Gross Revenues	\$ 2,905,731

19 The Company is proposing the same rate design that was proposed by Staff and
20 approved by the Commission in the Company's prior rate case, with the exception of
21 increasing the commodity rate for exterior irrigation and construction water. Under the
22 Company's proposed rates, a typical residential customer on a 3/4-inch meter using 8,450
23 gallons of water during a month (average usage) would experience an increase of \$10.90
24 (about 34 percent), from \$32.38 per month to \$43.27 per month.

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1 The issues addressed in this brief are as follows:

2 A. Rate Base.

- 3 1. Treatment of the FHSD Settlement Proceeds.
4 2. Treatment of Additional CAP Water Allocation Acquisition Cost.
5 3. Staff's "Working Capital" Adjustment.
6 4. CIAC Amortization Rate.

7 B. Income Statement.

- 8 1. Property Tax Expense.
9 2. Staff's Averaging of Expenses.
10 3. CAP M&I Charges
11 4. Rate Case Expense.

12 C. Rate Design.

- 13 1. Irrigation Rates.
14 2. Low Income Tariff.
15 3. Delay Surcharge.

16 **III. OVERVIEW OF CHAPARRAL CITY AND THIS RATE FILING**

17 Chaparral City's service territory is located in the northeastern portion of the
18 Phoenix metropolitan area, in the Town of Fountain Hills and in a small portion of the
19 City of Scottsdale.⁴ During the test year, the Company served 13,333 customers,
20 including 12,431 residential, 375 commercial and 442 irrigation customers.⁵ Chaparral
21 City is in compliance with all federal, state, county and Commission requirements.⁶
22 There have been no customer service issues in this rate case, nor has there been any
23 negative public comment regarding the quality of service.

24 ⁴ Hanford Dt. at 3-5.

25 ⁵ Bourassa Dt., Schedule H-2 at 1.

26 ⁶ Scott Dt., Exhibit MSJ at 5-6.

1 Chaparral City's primary water supply is imported Colorado River water, which is
2 delivered by means of the Central Arizona Project ("CAP").⁷ Chaparral City's service
3 area is within the Phoenix Active Management Area, which subjects the Company to
4 certain water conservation requirements imposed by the Third Management Plan to
5 reduce groundwater pumping. CAP water is transported to the Company's service
6 territory, and, because it is surface water, it must be treated before being used for potable
7 water service. The Company also blends groundwater to augment its CAP water
8 deliveries.⁸ Additional groundwater use could result in the need for additional arsenic
9 treatment.⁹

10 The Company's current rates were approved in Decision No. 68176
11 (September 30, 2005) based on a test year ending December 31, 2003. The Company has
12 not earned its authorized return on rate base since these rates went into effect.¹⁰
13 Meanwhile, Chaparral City has experienced increases in operating expenses, and has
14 continued to make needed plant investment; over \$6 million of rate base has been added
15 since the last rate case.¹¹

16 The Company's application in this case was filed on September 26, 2007, seeking
17 a \$3,063,400 increase in its revenue requirement, an increase of 41.14 percent over test
18 year revenues. Unfortunately, this case has been delayed by more than six months, first
19 due to Staff's request that this case be stayed pending completion of the proceedings
20 concerning the remand of Decision No. 68176,¹² and second due to Staff's decision to

21 ⁷ Hanford Dt. at 3-5.

22 ⁸ *Id.*

23 ⁹ Tr. at 102.

24 ¹⁰ Bourassa Dt. (Rate Base) at 3.

25 ¹¹ Hanford Dt. at 3-4.

26 ¹² See Procedural Order dated January 22, 2008. As a result of this request, this case was stayed through July 2008. See Procedural Order dated July 24, 2008.

1 switch cost of capital witnesses shortly before the hearing.¹³

2 In its Final Schedules, the Company requests a \$2,905,731 increase in its revenue
3 requirement, an increase of 38.72 percent over test year revenues. This revenue
4 requirement is based on a fair value rate base equal to \$27,751,113, total operating
5 expenses of \$7,646,730, and a weighted average cost of capital equal to 9.96 percent.

6 **IV. DISCUSSION OF ISSUES IN DISPUTE**

7 **A. Rate Base.**

8 **1. The FHSD Settlement Proceeds Should Be Shared Equally.**

9 Explanation of the Dispute. The Fountain Hills Sanitary District (“FHSD”)
10 provides wastewater collection and treatment throughout the bulk of the Company’s
11 certificated area. FHSD constructed an aquifer storage and recovery well in the vicinity
12 of the Company’s Well No. 9.¹⁴ Although the Company relies primarily on surface water
13 obtained under its CAP contracts, water from Well No. 9 was blended with CAP water,
14 and water from two other wells.¹⁵ The Company was forced to take Well No. 9 off-line
15 as a result of its proximity to the effluent storage and recovery site, and FHSD attempted
16 to provide Chaparral City with a replacement well.

17 Efforts to drill a replacement well were unsuccessful, and, ultimately, the
18 Company and FHSD entered into a settlement agreement to avoid litigation.¹⁶ Under this
19 agreement, FHSD paid Chaparral City \$1.52 million, and the Company agreed to cap
20 Well No. 9, and another nearby well, Well No. 8.¹⁷ Well No. 8 was historically used as a

21 _____
22 ¹³ See Procedural Order dated December 2, 2008. Staff’s new witness was not available during
the week of December 8-12, 2008, and the hearing was bifurcated.

23 ¹⁴ Tr. at 118.

24 ¹⁵ Hanford Dt. at 3; Tr. at 101.

25 ¹⁶ Hanford Dt. at 10.

26 ¹⁷ Exh. R-10.

1 raw water source for Fountain Hills park and lake, but was never used to provide potable
2 water service.¹⁸ The Company disclosed this payment in this rate case, and proposed that
3 the proceeds be shared equally between ratepayers and shareholders.¹⁹ The dispute in this
4 case is whether those proceeds should be credited solely to the benefit of the customers.

5 Positions of the Parties. The Company took two aged assets and turned them into
6 cash, which it proposed to share with its customers. The Company felt, and still feels,
7 that its proposed treatment of the FHSD settlement proceeds is fair.²⁰ The Commission
8 addressed treatment of proceeds from a similar settlement in Decision No. 66849
9 (March 19, 2004) for Arizona Water Company's Eastern Group. In that case, the utility
10 had sought to retain all of a \$1.4 million settlement payment from a group of mining
11 companies, whose activities had contaminated Arizona Water Company's well field.
12 Staff recommended that all of the proceeds be used to benefit ratepayers. RUCO asserted
13 that "requiring an equal allocation strikes a balance between encouraging the Company to
14 pursue legitimate legal remedies, while at the same time preventing the company from
15 attaining an unjustified windfall."²¹

16 Agreeing with RUCO's reasoning, the Commission ordered the settlement
17 proceeds to be shared equally between Arizona Water and its ratepayers, explaining that
18 "an equal sharing of the settlement proceeds provides a reasonable balance between the
19 rights of shareholders and ratepayers and will provide the Company with a sufficient
20 incentive to pursue future settlement or litigation of claims that the Company and its
21 customers may be entitled to receive."²² The Company followed this reasoning in

22 ¹⁸ Tr. at 101.

23 ¹⁹ Bourassa Dt. at 10-11; Bourassa Rb. at 13-15; Hanford Rb. at 1-4.

24 ²⁰ Hanford Rb. at 4-5.

25 ²¹ Decision No. 66849 at 33.

26 ²² *Id.*

1 proposing the same treatment of the FHSD settlement proceeds. The Company further
2 offered that in the unlikely event that either of the wells or wellsites is sold in the future,
3 such proceeds would also be divided equally.²³

4 In its direct filing, RUCO recommended that Wells No. 8 and 9 be retired from
5 plant in service, adjustments that all parties agreed to in this case.²⁴ RUCO did not
6 oppose equal sharing of the FHSD settlement proceeds. Staff did. Staff's primary
7 assertion was that because the two wells are fully depreciated, 100 percent of the
8 settlement proceeds should be credited to the benefit of ratepayers.²⁵ Unfortunately,
9 RUCO found Staff's reasoning so compelling that it forgot what it had recommended in
10 the Arizona Water case and adopted Staff's position in its surrebuttal testimony.²⁶ Then,
11 after RUCO presented its witness at trial, Staff changed its position and supported an
12 equal sharing of the settlement proceeds for "policy reasons."²⁷ Ironically, RUCO is now
13 the only party opposed to equal sharing of the FHSD settlement proceeds.

14 Chaparral City's Proposed Resolution. RUCO argues that the settlement proceeds
15 here should be treated differently than in Arizona Water's case because here the wells
16 were fully depreciated and there was no replacement water.²⁸ RUCO's reasoning is
17 flawed for several reasons. First, RUCO's position is based on its view that ratepayers

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19
20 ²³ Hanford Rb. at 3-4.

21 ²⁴ Bourassa Rb. at 8. Although the two wells remained in rate base since the last rate case, it is
22 unlikely that there was any impact on the revenue requirement because of the age of the assets.
Tr. at 170. The retirements have zero net impact on rate base because accumulated depreciation
is also adjusted.

23 ²⁵ Millsap Dt. at 15.

24 ²⁶ Coley Sb. at 18-19; Tr. at 247.

25 ²⁷ Tr. at 351-52.

26 ²⁸ E.g., Tr. at 270.

1 take “implicit” ownership of the utility’s assets by paying rates for utility service.²⁹ This
2 is not the case. The United States Supreme Court has explained:

3 Customers pay for service, not for the property used to render
4 it. Their payments are not contributions to depreciation or
5 other operating expenses or to the capital of the company. By
6 paying bills for service they do not acquire any interest, legal
7 or equitable, in the property used for their convenience or in
8 the funds of the company. Property purchased out of moneys
9 received for service belongs to the company just as does that
10 purchased out of proceeds of its bonds and stock.³⁰

11 Second, only one of the two wells capped pursuant to the FHSD settlement was
12 ever used to provide potable water service, and the amount of that water was not
13 established in the record. Thus, the issue of “replacement” water appears to be a red-
14 herring. In fact, RUCO could not explain how the issues of replacement water and/or
15 depreciation impacted the Commission’s decision in the Arizona Water case.³¹ Nor could
16 RUCO reconcile its position with the Commission’s rejection in Decision No. 66849 of
17 arguments by Staff that the customers should take all the proceeds because customers had
18 paid for the wells and they had not been retired.³²

19 Third, RUCO’s flawed logic is readily apparent from its contrary position on the
20 regulatory treatment in the event of a sale. According to RUCO’s witness, the proceeds
21 of a sale would likely be shared equally.³³ Thus, if the Company had transferred
22 ownership to the district, there would be no issue regarding the disposition of the
23 proceeds. But because the Company retained ownership, the proceeds of the settlement

24 ²⁹ Tr. at 263-64.

25 ³⁰ *Bd. of Pub. Utility Comm’rs v. New York Tele. Co.*, 271 U.S. 23, 32 (1926).

26 ³¹ Tr. at 259, 266-67.

³² Decision No. 66849 at 33.

³³ Tr. at 264-265.

1 should be allocated entirely to customers by reducing the Company's rate base. This
2 makes no sense.

3 Boiled down, what RUCO now advocates is that the utility take all the risk of
4 pursuing settlement or litigation, but get none of the reward if successful.³⁴ Chaparral
5 City would be better off next time walking away from the assets.³⁵ Obviously, this would
6 be a poor policy for the Commission to adopt, and would provide a strong disincentive to
7 utilities, the opposite of the Commission's message in the Arizona Water Company-
8 Eastern Group decision relied upon by the Company. Staff seemingly recognized this
9 when it changed its position. Utilities need to be encouraged to pursue litigation or
10 settlement with parties that harm their interests. The position advocated by the Company
11 and Staff provides this encouragement. It is also fair and equitable to utility consumers.

12 **2. The Total Cost of Acquiring the Additional CAP Allocation**
13 **Should Be Afforded Rate Base Treatment.**

14 Explanation of the Dispute. As stated, Chaparral City's primary source of water
15 supply is CAP water. Historically, the Company had a CAP water allocation allowing it
16 to take up to 6,978 acre-feet of Colorado River water annually.³⁶ As a result of the
17 Arizona Water Settlement Act of 2004, Chaparral City was given the opportunity to
18 purchase an additional CAP allocation of 1,931 ac-ft/year.³⁷ Given the unavailability of
19 additional CAP water and other, renewable water supplies, the Company took advantage
20 of this unique opportunity and paid \$1.28 million for the additional allocation in

21 _____
22 ³⁴ Tr. at 138.

23 ³⁵ Hanford Rb. at 3.

24 ³⁶ Scott Dt., Exhibit MSJ at 11. The Company also has the right to buy excess CAP water under
25 its contract. Tr. at 140-41. The Company has exercised that right each of the last two years. *See*
26 *Reconciliation Invoices, Cl. Br. Ex. 1* (this information was requested by Judge Wolfe during the
hearing).

³⁷ Hanford Dt. at 5.

1 December, 2007. Going-forward, Chaparral City will also be responsible to pay annual
2 M&I capital charges based on the size of the allocation, and to pay purchased water
3 charges based on annual water use.³⁸ This arrangement is identical to the Company's
4 existing CAP contract. The rate base issue in this case concerns the appropriate treatment
5 of the cost to acquire the additional allocation of CAP water. There is also an issue
6 concerning the treatment of the annual M&I capital charges, which issue is also addressed
7 in the Income Statement section.

8 Positions of the Parties. The Company proposed that (1) the total cost of acquiring
9 this allocation be afforded rate base treatment; and (2) that the full amount of the annual
10 M&I charges be included in operating expenses.³⁹ It is undisputed that Chaparral City
11 made this investment to ensure its long-term water supply, including increasing its
12 drought-buffer, and to reinforce and continue its reliance on renewable water supplies.⁴⁰
13 The Company further maintains that full cost recovery is warranted because the additional
14 CAP allocation was in a fixed-amount and was a one-time only opportunity at a fixed
15 price.⁴¹

16 Staff agrees that the entire acquisition cost for the additional CAP allocation
17 should be included in rate base, although Staff would reclassify the asset to a different
18 plant account.⁴² The Company has accepted this reclassification. Staff also reduced the
19 recovery of annual M&I charges through operating expenses by 50 percent on the basis
20
21

22 ³⁸ Bourassa Dt. at 16 and Schedule C-2, page 6. The capital charges must be paid each year
23 regardless of the amount of CAP water actually used each year.

24 ³⁹ Bourassa Dt. at 11-12, 16.

25 ⁴⁰ Hanford Dt. at 5-7; Scott Dt., Exhibit MSJ at 11.

26 ⁴¹ Hanford Dt. at 5-7; Hanford Rb. at 5-7; Tr. at 137.

⁴² Millsap Dt. at 16-18.

1 that the additional allocation is only 50 percent used and useful.⁴³ The Company has
2 accepted all of Staff's proposed adjustments.

3 RUCO initially took the position that no portion of the acquisition cost should be
4 included in rate base because the allocation is not immediately used and useful to serve
5 existing customers.⁴⁴ In surrebuttal, RUCO changed its position and argued that
6 50 percent of the cost of acquiring the additional allocation be included in rate base.
7 RUCO reasoned that some of the costs should be afforded rate base treatment in
8 recognition of the "decision to help reduce and conserve groundwater usage with surface
9 water" and "in deference to the Company's future source of supply concerns."⁴⁵ RUCO,
10 however, did not include any of the costs (annual M&I charges) of the allocation in
11 operating expenses.

12 Chaparral City's Proposed Resolution. RUCO recognizes the importance of the
13 State's groundwater conservation policy, reflected in the Groundwater Code, and
14 acknowledges that the Company's decision to secure additional renewable water supplies
15 for customers was prudent, including the potential drought buffer provided by the
16 additional allocation.⁴⁶ RUCO also admits that this was a one-time, all or nothing
17 proposition.⁴⁷ But that seems to be the limit of RUCO's thinking. Chaparral City, whose
18 business is the provision of water service, must plan for the next several decades and
19 longer, not simply for next year.⁴⁸ For example, the Southern Nevada Water Authority is
20 spending billions of dollars to ensure its access to long-term water supplies from the

21 ⁴³ Millsap Dt. at 27-28.

22 ⁴⁴ Coley Dt. at 20-22.

23 ⁴⁵ Coley Sb. at 22.

24 ⁴⁶ Coley Sb. at 21-23; Tr. at 279-80.

25 ⁴⁷ Tr. at 283.

26 ⁴⁸ Tr. at 131-133.

1 Colorado River, and the long-term prospects for the Colorado River are not good. The
2 river is already overcommitted, and future reductions in CAP water deliveries are a very
3 real possibility.⁴⁹ This acquisition must be viewed as an indivisible whole producing
4 benefits to the ratepayers that could not have been obtained had Chaparral City not paid
5 the \$1.28 million acquisition price. This makes the entire acquisition cost used and useful
6 and the amount should be afforded full rate base treatment.

7
8 **3. Staff's Removal of Debt Costs, Prepayments and Materials and**
9 **Supplies from Rate Base is an Unsupported and Unsound**
10 **Adjustment.**

11 Explanation of the Dispute/Positions of the Parties. RUCO prepared a lead-lag
12 study and recommended total working capital of \$95,400, which included a negative Cash
13 Working Capital allowance of (\$111,606), Prepayments in the amount of \$192,485, and
14 Materials and Supplies of \$14,521.⁵⁰ The Company accepted RUCO's working capital,
15 including its negative Cash Working Capital allowance.⁵¹ Staff, in contrast, chose to
16 ignore RUCO's recommendation,⁵² and proposed no Cash Working Capital allowance.
17 Instead, Staff removed Prepayments in the amount of \$192,485 and Materials and
18 Supplies of \$14,521 from the Company's rate base, as well as Unamortized Debt Issuance
19 Costs of \$424,010 (which have no relationship to working capital). The overall impact of
20 Staff's adjustments is a reduction to rate base of \$631,016.⁵³ Staff first asserted that these
21 were all components of working capital, and that without a lead-lag study to determine

22

⁴⁹ *Id.*

23 ⁵⁰ Coley Dt. at 23-24.

24 ⁵¹ Bourassa Rb. at 12.

25 ⁵² Tr. at 380-81.

26 ⁵³ Millsap Dt. at 22-23.

1 the Cash Working Capital component, the other components must be excluded from rate
2 base.⁵⁴

3 Chaparral City's Proposed Resolution. RUCO prepared a lead-lag study that
4 estimated the Company's Cash Working Capital requirements. RUCO's Cash Working
5 Capital allowance is negative and reduces rate base. This eliminates the justification for
6 Staff's adjustments.

7 In addition, Cash Working Capital, Prepayments, and Materials and Supplies are
8 separate components of working capital. Regardless of whether the Company is entitled
9 to an allowance for Cash Working Capital, the Company is entitled to include
10 Prepayments, and Materials and Supplies in rate base. No party has challenged the
11 propriety or the amounts of those costs, and there is no legitimate basis to remove them.

12 Finally, Unamortized Debt Issuance Costs are not part of working capital, but were
13 incurred by the Company in obtaining its long-term debt financing. These costs were
14 included in rate base in order to match rate base with the debt used to derive the rate of
15 return.⁵⁵ Staff's witness, Mr. Millsap, admitted he had mischaracterized these costs by
16 including them in his working capital adjustment.⁵⁶ He argued instead that these costs
17 should be removed from rate base and included in calculating the cost of debt. Even if
18 that approach were acceptable, Staff's cost of capital witness failed to include these costs
19 in Staff's recommended cost of debt.⁵⁷ As a result, under Staff's recommendation,
20 Unamortized Debt Issuance Costs would not be recovered, even though, once again, there
21 is no dispute as to their amount or their reasonableness.

22 In short, Staff's recommendation would effectively confiscate over \$600,000 of

23 ⁵⁴ *Id.*

24 ⁵⁵ Bourassa Rb. at 12.

25 ⁵⁶ Tr. at 375-76.

26 ⁵⁷ Staff Final Schedule PMC-10.

1 the Company's rate base through adjustments that were admittedly mischaracterized and
2 theoretically unsound. Therefore, Staff's "working capital" adjustment should be
3 rejected. RUCO's working capital recommendation, which includes a negative Cash
4 Working Capital allowance, is reasonable and should be approved.

5 **4. CIAC Amortization Rate.**

6 Explanation of the Dispute/Positions of the Parties. RUCO has recommended an
7 adjustment to increase contributions-in-aid of construction ("CIAC") by about \$1,500.⁵⁸
8 According to RUCO, this adjustment is necessary because the CIAC amortization rate
9 "authorized" in the last rate case remains in effect in perpetuity unless changed.⁵⁹ In fact,
10 the Commission did not authorize a specific CIAC rate in Decision No. 68176, nor are
11 specific amortization rates normally authorized when account-specific depreciation rates
12 are used.⁶⁰

13 Chaparral City's Proposed Resolution. The reason no specific amortization rates
14 are authorized in perpetuity is that the amortization rate is expected to be adjusted to
15 match the composite depreciation rate for each year. Using a fixed composite rate for
16 amortization of CIAC over lengthy intervals between rate cases can result in significant
17 mismatches between net plant-in-service and net CIAC. This mismatch distorts the rate
18 base because plant-in-service can depreciate faster than CIAC is amortized and vice
19 versa.⁶¹ Consequently, RUCO's adjustment should be rejected. It doesn't make sense,
20 from a matching perspective, to keep the amortization rate fixed while the overall
21 composite depreciation rate varies from year to year.

22
23 ⁵⁸ Coley Dt. at 18-19.

24 ⁵⁹ Tr. at 288-89.

25 ⁶⁰ Bourassa Rj. at 10-11.

26 ⁶¹ *Id.*

1 **B. Income Statement.**

2 **1. Property Tax Expense.**

3 Explanation of the Dispute/Positions of the Parties. To determine the appropriate
4 level of property tax expense, the Company and Staff utilized the method employed by
5 the Arizona Department of Revenue – Centrally Valued Properties.⁶² This method
6 determines full cash value by using twice the average of three years of revenue, plus an
7 addition for CWIP and deducting the book value of transportation equipment. The three
8 years used in this case were two years with adjusted test year revenues and one year with
9 revenues at proposed rates. This is the same methodology used by the Commission in the
10 last rate case for the Company.⁶³ This method has been used consistently by the
11 Commission in determining property tax expense for water and sewer utilities.⁶⁴

12 RUCO, in contrast, proposes use of two historical years (2004 and 2005) and one
13 year of its proposed revenues to determine property tax expense.⁶⁵ This is a change from
14 past cases where RUCO utilized only historical revenues, a position that was repeatedly
15 rejected by the Commission.⁶⁶ Even though RUCO continues to use historic revenues,
16 RUCO argues that its methodology is superior because the Company has been “over-
17 collecting” property taxes since the last decision.⁶⁷

18 Chaparral City’s Proposed Resolution. RUCO’s claim that the Company has over-

19
20 ⁶² Bourassa Dt. at 14-15; Millsap Dt. at 37.

21 ⁶³ Decision No. 68176 at 13-15.

22 ⁶⁴ *E.g., Black Mountain Sewer Corporation*, Decision No. 69164 (December 5, 2006), at 10-12;
23 *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004), at 8; *Arizona-American Water*
24 *Company*, Decision No. 67093 (June 30, 2004), at 9-10; *Bella Vista Water Company*, Decision
25 No. 65350 (November 1, 2002), at 16.

26 ⁶⁵ Coley Dt. at 38-39.

⁶⁶ Coley Dt. at 36.

⁶⁷ Coley Dt. at 37-38.

1 recovered property taxes is simplistic and misleading. RUCO's arguments reflect the
2 difficulty of singling out one expense and evaluating over- or under-recovery in
3 isolation.⁶⁸ Chaparral City has consistently failed to earn sufficient revenue to earn its
4 authorized rate of return every year since the current rates went into effect.⁶⁹ Thus, the
5 Company has not over-recovered anything.

6 Moreover, RUCO's analysis ignores several critical factors that impacted the
7 actual property taxes assessed since the last rate case. First, RUCO used 2004 and 2005,
8 which were prior to the rate increases approved in Decision No. 68176 becoming
9 effective. Property tax assessments are revenue driven. Use of historical revenues to
10 calculate property taxes fails to capture the effects of future revenue increases from new
11 rates, and can result in an understatement of property tax expense.⁷⁰ Second, since the
12 last rate order, the assessment ratio and tax rates applicable to Chaparral City were
13 lowered, reducing the actual property taxes.⁷¹ These changes were not known and
14 measurable at the time of the last rate case. They are now, nevertheless, RUCO didn't
15 account for these changes in its analysis.⁷² Thus, RUCO has again failed to provide a
16 sufficient basis, evidentiary or otherwise, for deviating from the Commission's
17 established methodology for determining an appropriate property tax expense level.

18 2. Staff's Averaging of Expenses

19 Explanation of the Dispute/Positions of the Parties. Rather than use test year
20 expense levels, Staff averaged Chemical Expense and Repairs and Maintenance Expense
21

22 ⁶⁸ See Tr. at 158-59.

23 ⁶⁹ E.g., Sprowls Rb. at 3-4.

24 ⁷⁰ E.g., Decision No. 67093 at 9-10.

25 ⁷¹ Bourassa Rb. at 19-20; Tr. at 171-72.

26 ⁷² Tr. at 298-99.

1 using the test year (2006) and the two prior years (2004 and 2005).⁷³ According to Staff,
2 these are “basic” adjustments necessary to “normalize” the Company’s 2006 expense
3 levels.⁷⁴ In total, Staff’s adjustments reduced operating expenses by more than \$47,000 a
4 year in order “to mitigate any extenuating circumstances which may have led” to increase
5 in the test year.⁷⁵

6 Chaparral City’s witness disagreed with Staff’s adjustments: “Averaging does not
7 reflect a known and measurable change to the test year. It is, at best, a guess.”⁷⁶ He
8 further explained that averaging is a backward-looking means of adjusting an expense,
9 requiring the analyst to subjectively determine which expenses to average and which
10 years (historical or future) to include in the average.⁷⁷ By way of illustration, in the prior
11 case (which used a 2003 test year), Staff proposed averaging to normalize Outside
12 Services, Office Supplies, Transportation Expense, and Miscellaneous Expense, using the
13 test year and two historical years. In this case, Staff is proposing to average Chemicals,
14 Repairs and Maintenance, and Insurance Expense. In addition, Staff used the test year
15 and two historical years (2004 and 2005) to normalize Chemicals and Repairs and
16 Maintenance Expense, while using the test year, three historical years (2003, 2004, and
17 2005), and one future year (2007) to normalize insurance expense.⁷⁸

18
19
20 ⁷³ Tr. at 384.

21 ⁷⁴ Millsap Sb. at 5.

22 ⁷⁵ Millsap Dt. at 33-34 (emphasis supplied).

23 ⁷⁶ Bourassa Rb. at 31-32.

24 ⁷⁷ *Id.*

25 ⁷⁸ Staff also averaged insurance expenses, an adjustment that increased operating expenses by
26 approximately \$3,600. Millsap Dt. at 34-35. The Company disagrees with this adjustment as
well.

1 Chaparral City's Proposed Resolution. The test year is presumed to be normal,
2 and adjustments should be based on known and measurable changes.⁷⁹ Staff agrees that
3 averaging is subjective, and is not based on known and measurable changes.⁸⁰ This
4 should end the inquiry. But, Staff will likely assert that normalizing is “basic” ratemaking
5 and then point to Decision No. 68176. It is true that the Commission approved Staff’s
6 averaging of Miscellaneous Expense in the last case. But it is also undisputed in this case
7 that adoption of Staff’s adjustment resulted in an expense level more than \$300,000 lower
8 than the amount actually incurred the first year the rates were in effect.⁸¹ Thus, the party
9 proposing an adjustment to “average” expenses should bear a heavy burden to show why
10 the adjustment will lead to a normal or more realistic relationship between revenues,
11 expenses and rate base.⁸² Staff fell woefully short of meeting this burden.

12 Staff did not identify any “extenuating circumstances” in its testimony to justify
13 averaging Chemicals and Repairs and Maintenance Expenses. On cross-examination,
14 Mr. Millsap admitted that Staff knew of no extenuating circumstances impacting Repairs
15 and Maintenance expense. Regarding Chemical Expense, Mr. Millsap disclosed for the
16 first time that he found some invoices that might represent future expenses.⁸³ But he
17 conducted no inquiry into the issue; he simply assumed that the situation was
18 “anomalous” and decreased Chemical Expense.⁸⁴ Mr. Millsap ignored Mr. Hanford’s
19 testimony that Chemical Expense has increased substantially and will likely continue to
20

21 ⁷⁹ Tr. at 163.

22 ⁸⁰ Tr. at 383, 388. *See also* Exh. A-12.

23 ⁸¹ Tr. at 158, 389-90.

24 ⁸² A.A.C. R14-2-103.A.3.i.

25 ⁸³ Tr. at 384-387.

26 ⁸⁴ *Id.*

1 do so in the future.⁸⁵ Operating expenses must be based on something more than the
2 superficial assumptions and subjective guesses of the analyst, lest the Company again be
3 denied an opportunity to earn its rate of return. Staff's adjustments should be rejected as
4 not being based on known and measurable changes to the test year.

5 **3. Deferral of CAP M&I Charges.**

6 Explanation of the Dispute/Positions of the Parties. As discussed above, the
7 Company is incurring CAP M&I capital charges of approximately \$40,000 per year
8 associated with the additional CAP allocation.⁸⁶ These charges must be paid each year
9 regardless of whether additional CAP water is taken in order to retain the allocation.
10 Consistent with its finding that the allocation is currently 50 percent used and useful,
11 Staff recommended that Chaparral City be allowed to recover only 50 percent of the
12 annual M&I costs, or \$20,306, as an operating expense. Although the Company does not
13 agree that the allocation is only 50 percent used and useful (for the reasons explained
14 above), consistent with its decision to accept Staff's rate base treatment of the full
15 acquisition cost, the Company accepted Staff's proposed amount of this expense.⁸⁷
16 Because it does not consider any portion of the additional CAP allocation "used and
17 useful," RUCO objects to any recovery of the additional M&I charges that must be paid.⁸⁸

18 Chaparral City's Proposed Resolution. The Company will not repeat its arguments
19 here on why the entire additional CAP allocation is "used and useful"⁸⁹ Put simply,
20 RUCO's view of "used and useful" is overly narrow and conflicts with business reality.⁹⁰

21 ⁸⁵ Tr. at 115.

22 ⁸⁶ *E.g.*, Millsap Dt. at 27-28.

23 ⁸⁷ Bourassa Rb. at 29-30.

24 ⁸⁸ Coley Sb. at 35.

25 ⁸⁹ *See* Section IV.A.2, *supra*.

26 ⁹⁰ Sprowls Rb. at 5.

1 It is undisputed that Chaparral City could not acquire the additional CAP allocation
2 without paying the total acquisition cost, and Chaparral City cannot retain the allocation
3 without paying M&I capital charges each year. Since all parties agree the acquisition was
4 beneficial and prudent, some cost recovery should be allowed. The position advocated by
5 Staff and the Company, that 50 percent of the annual CAP M&I charges should be
6 recovered now and 50 percent deferred, is a reasonable compromise in light of all the
7 relevant facts and circumstances.

8 The Company and Staff do have some disagreement over the accounting order
9 language necessary to implement the deferral of 50 percent of the CAP M&I charges.
10 First, Staff's proposed language artificially limits the deferral period.⁹¹ There is no
11 reason for preset, artificial limits on the deferral period; the charges and any subsequent
12 recovery will be evaluated in a future rate case. Additionally, Staff's proposed
13 accounting order eliminates any recovery of interest or carrying costs. Again, this is an
14 issue that can be addressed in a future rate case. In the meantime, however, the Company
15 should be allowed to accrue reasonable carrying costs. As a consequence, the Company
16 has modified Staff's proposed accounting order. Its proposed language is attached hereto
17 as Cl. Br. Ex. 2.

18 In sum, the Company should be allowed to recover 50 percent of the annual CAP
19 M&I capital charges associated with the recently acquired additional CAP allocation,
20 which must be paid in order to retain the allocation. The failure to allow such recovery is
21 unfair to the Company given the parties' recognition that the Company acted prudently to
22 secure additional renewable water supplies, and would create a financial incentive for the
23 Company to dispose of the allocation or utilize it for other, non-utility purposes. The
24 Company also maintains it should be allowed to defer the remaining 50 percent of the

25 _____
26 ⁹¹ See Staff Proposed Accounting Order Language filed January 6, 2009.

1 annual CAP M&I capital charges pursuant to the attached proposed accounting order.

2 **4. Rate Case Expense.**

3 Explanation of the Disputes. There are actually two rate case expense issues in
4 this case – the amount of rate case expense for this proceeding and an award of rate case
5 expense for the appeal and remand proceeding, Docket No. W-02113A-04-0616. In
6 Decision No. 70441 (July 28, 2008), the Commission deferred the issue of remand rate
7 case expense to this proceeding so that Staff and RUCO could analyze the Company's
8 request.⁹² The Company has withdrawn its request to recover rate case expense awarded
9 in its last rate case but not yet recovered when new rates go into effect.⁹³

10 Positions of the Parties. The Company requested rate case expense of \$280,000
11 for this rate case. The Company based its decision largely on its last rate case in which it
12 was awarded \$285,000.⁹⁴ Besides comparing this case with Chaparral City's last rate
13 case, the Company's witness also looked at other similar rate cases and the amount of rate
14 case expense awarded.⁹⁵ Despite the delays, substantial discovery by Staff, late filings
15 and additional witnesses by Staff, the Company has not modified its request. Although
16 the Company has already incurred more than \$280,000, its shareholders will absorb the
17 additional expense.⁹⁶

18 The Company also incurred a substantial amount of rate case expense in the appeal
19 and remand, over \$500,000.⁹⁷ Chaparral City requested recovery of \$258,511, which
20 amount roughly covered one-half of the cost of the appeal, the Company's expert witness

21

⁹² *Id.* at 39.

22 ⁹³ Bourassa Rb. at 22.

23 ⁹⁴ Bourassa Dt. at 15.

24 ⁹⁵ Bourassa Rb. at 26.

25 ⁹⁶ Hanford Rb. at 10.

26 ⁹⁷ Bourassa Supp. Dt. at 2.

1 fees, hard costs (copying costs, mailing and publication costs), and less than 40 percent of
2 the legal fees.⁹⁸ The Company proposed a surcharge mechanism to recover this amount
3 over roughly one-year, separate from the rate case expense from this proceeding, so that
4 this expense will have no impact on the revenue requirement to be determined in this rate
5 case.⁹⁹ In an effort to further reduce controversy and issues in dispute, the Company is
6 now willing to modify its request and accept Staff's recommended level of rate case
7 expense for the appeal and remand equal to \$100,000. Given the Commission's failure to
8 follow the Arizona Constitution, the Court's remand, and the costs of the complex
9 remand proceeding that resulted, this is clearly a fair and reasonable amount to allow the
10 Company recover.

11 RUCO does not oppose the Company's request for rate case expense of \$280,000.
12 However, RUCO asserted that no rate case expense should be awarded for the appeal and
13 remand because it was a "business decision" of the Company intended to earn more
14 operating income, a decision that did not benefit ratepayers.¹⁰⁰ Staff's position is the
15 opposite. Staff agrees that the Company should recover rate case expense for the appeal
16 and remand proceeding, but no more than \$100,000, and through operating expenses, not
17 a surcharge.¹⁰¹ Staff reasoned that this amount was "appropriate," seemingly for no other
18 reason that it was the amount the Company initially sought in the remand proceeding.¹⁰²
19 But Staff opposed the Company's requested rate case expense of \$280,000. Mr. Millsap
20 instead recommended that the amount of rate case expense for this proceeding be limited
21

22 ⁹⁸ *Id.* at 4.

23 ⁹⁹ *Id.* at 6-7.

24 ¹⁰⁰ Rigsby Sb. at 4-5.

25 ¹⁰¹ Millsap Dt. at 32-33.

26 ¹⁰² *Id.*

1 to \$150,000.¹⁰³ This recommendation was based on Mr. Millsap's unspecified experience
2 with some rate cases for electric companies in Kansas in the mid-1990s and his
3 "professional" belief that rate case expense should never exceed \$150,000.¹⁰⁴

4 Chaparral City's Proposed Resolution. Staff's opposition to the Company's rate
5 case expense was unsupported by competent evidence. Mr. Millsap gave no
6 consideration to the specifics of this rate case, to the Commission's rate case process, or
7 to the similar rate case expense awards relied upon by the Company.¹⁰⁵ Mr. Millsap
8 could not even provide specifics regarding the Arizona cases he claimed he considered, or
9 the Kansas electric companies he claimed to have relied on in reaching his "professional"
10 recommendation.¹⁰⁶ Staff's recommendation simply cannot be sustained on the record in
11 this case.

12 RUCO's opposition to remand rate case expense should also be rejected.
13 Regardless of the differing positions on the merits, it cannot be disputed that the
14 Commission set the Company's rates in a manner that the court found unlawful. The
15 Company was not responsible for this decision, and it is entirely in the public interest to
16 ensure that the Commission's decisions comport with the law of the land. Chaparral City
17 should not bear the entire burden of rate case expense. The \$100,000 sought herein is
18 reasonable under the circumstances, and recovery through a separate surcharge will allow
19 this recovery to be tracked and terminated when the amount awarded is recovered, with
20 no impact on the revenue requirement in this rate case.

21
22
23

¹⁰³ *Id.* at 32.

24 ¹⁰⁴ Exh. A-14; Tr. at 395-96, 398.

25 ¹⁰⁵ Tr. at 390-98.

26 ¹⁰⁶ *Id.*

1 **C. Rate Design.**

2 **1. Irrigation Rates.**

3 Explanation of Dispute/Positions of the Parties. Staff, RUCO and the Company all
4 agree that the rate design approved in Decision No. 68176 should be retained. This rate
5 design utilizes inverted-tier rates in order to encourage water conservation, consistent
6 with State water policy. The parties agree that test year revenues must be adjusted to
7 account for the reduction in water use by the Company's golf course customers.¹⁰⁷ The
8 Company has accepted RUCO's annualization adjustment, which uses a full year of water
9 sales to the golf courses.

10 The Company also has proposed an adjustment to its irrigation rate. Presently, the
11 irrigation and construction customer class have the lowest commodity charge – in fact,
12 lower than the first tier of the 3/4-inch metered residential customers.¹⁰⁸ From a water
13 conservation standpoint, customers using potable water for irrigating turf and landscaping
14 should be charged more.

15 Based on these circumstances, and the Commission's policy of encouraging water
16 conservation, the Company proposes to eliminate the disparity by increasing the irrigation
17 and construction water commodity rate so that it is the same as the first tier rate for
18 commercial and industrial customers. Staff also adjusted the irrigation rate.

19 Chaparral City's Proposed Resolution. All parties agree that the disparity between
20 the commodity rate for irrigation and construction water customers and other customers
21 needs to be addressed. Staff's approach would be more gradual than the Company's and,
22 therefore, would have a smaller impact on the golf courses and other customers that

23

¹⁰⁷ Bourassa Rb. at 28 *citing* Coley Dt. at 45.

24 ¹⁰⁸ Bourassa Dt. at 39. *See also* Decision No. 68176 at 41-42. The commodity charge for the
25 irrigation and construction water customers is only \$1.56 per 1,000 gallons, while the commodity
26 charge for the first 3,000 gallons of water for residential customers is \$1.68 per 1,000 gallons.
Moreover, the first tier commodity rate for all other customers is \$2.52 per 1,000 gallons.

1 purchase potable water for turf and landscape purposes and for construction. In the end,
2 the Commission must decide, and ensure that the rate design recovers the new revenue
3 requirement.

4 **2. Low Income Tariff.**

5 Explanation of Issue. The Company has proposed a Low Income Tariff.¹⁰⁹ The
6 tariff is based on the Federal poverty level guidelines. Qualifying applicants would
7 receive a flat 15 percent discount on their water utility bills.¹¹⁰ The lost revenue will be
8 tracked and recovered the following year from non-participants.¹¹¹ Staff and RUCO have
9 not opposed the Company's proposed tariff in this proceeding.

10 Chaparral City's Proposed Resolution. The Company's proposed low income
11 tariff, attached at Cl. Br. Ex. 3, should be approved and included in the Company's tariff
12 of rates and charges on file with the Commission.

13 **3. Surcharge for Delay.**

14 Explanation of the Issue. Staff sought and received a stay in this case that delayed
15 this case for six months.¹¹² This delay occurred through no fault of the Company, but was
16 sought for the convenience of Staff.

17 In addition, Staff's decision to bring in an outside consultant to provide cost of
18 capital testimony caused additional delay. Staff asked for permission to file Mr. Parcell's
19 testimony on December 3, 2009 – one day before the Company's rejoinder testimony was
20 due and three business days before the hearing began. Staff's request was granted over
21 the Company's objection.¹¹³ This unusual request further delayed the case by forcing the

22 ¹⁰⁹ Bourassa Supp. Rb.

23 ¹¹⁰ Tr. at 175-177.

24 ¹¹¹ Bourassa Supp. Rb.; Tr. at 175-177.

25 ¹¹² Procedural Order dated January 22, 2008.

26 ¹¹³ Procedural Order dated December 2, 2008.

1 bifurcation of the hearing due to Staff's tardy filing and Mr. Parcell's unavailability
2 during the week of December 8-12.

3 Chaparral City's Proposed Resolution. In order to ameliorate the injury due to this
4 delay, a surcharge should be included in its rates to allow for the recovery of revenue
5 increases it should have but did not recover for a six-month period, plus appropriate
6 carrying costs. The Company further suggests that such surcharge remain in effect for
7 one year or until the necessary revenues are recovered.

8 RESPECTFULLY SUBMITTED this 28th day of January, 2009.

9 FENNEMORE CRAIG, P.C.

10
11 By 

12 Norman D. James
13 Jay L. Shapiro
14 3003 North Central Avenue, Suite 2600
15 Phoenix, Arizona 85012
16 Attorneys for Chaparral City Water Company

17 **ORIGINAL** and thirteen (13) copies
18 of the foregoing were filed
19 this 28th day of January, 2009, with:

20 Docket Control
21 Arizona Corporation Commission
22 1200 W. Washington St.
23 Phoenix, AZ 85007

24 **Copy of the foregoing was hand delivered**
25 this 28th day of January, 2009, to:

26 Teena Wolfe, Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

1 Robin Mitchell, Esq.
2 Legal Division
3 Arizona Corporation Commission
4 1200 W. Washington Street
5 Phoenix, AZ 85007

6 Michelle Wood, Esq.
7 Residential Utility Consumer Office
8 1110 W. Washington Street, Ste. 200
9 Phoenix, AZ 85007

10 **Copy of the foregoing mailed**
11 this 28th day of January, 2009, to:

12
13 Craig A. Marks, Esq.
14 10645 N. Tatum Blvd.
15 Suite 200-676
16 Phoenix, AZ 85028
17 Attorney for Pacific Life
18
19
20
21
22
23
24
25
26

By: *Maria San Jose*

DOCKET NO. W-02113A-07-0551

CHAPARRAL CITY WATER COMPANY, INC.

CLOSING BRIEF
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

JANUARY 28, 2009

Exhibit 1



CENTRAL ARIZONA PROJECT

P.O. Box 42447
Phoenix, AZ 85080-2447

Invoice

BILL TO: ROBERT HANFORD ENGINEERING/PLANNING
MANAGER
CHAPARRAL CITY WATER COMPANY
12021 N PANORAMA DR
FOUNTAIN HILLS AZ 85268-4616

NUMBER 44938
BILL DATE 10-FEB-07
DUE DATE 20-MAR-07
CUSTOMER NUMBER 1050

DESCRIPTION	QTY	UOM	UNIT COST	TOTAL								
WATER; EXCESS M&I	356	A/F	106.00	37,736.00								
<table border="1"> <tr><td>Vendor #</td><td>23186</td></tr> <tr><td>Batch #</td><td></td></tr> <tr><td>Voucher #</td><td></td></tr> <tr><td>Acct #</td><td>516.8010</td></tr> </table> <p><i>R. Hanford 2/15/07</i></p>				Vendor #	23186	Batch #		Voucher #		Acct #	516.8010	
Vendor #	23186											
Batch #												
Voucher #												
Acct #	516.8010											
TOTAL DUE				\$37,736.00								

SPECIAL INSTRUCTIONS
2006 WATER RECONCILIATION

Refer questions to Financial Services: 623-869-2149 • inquiries@cap-az.com

REMIT TO:

CENTRAL ARIZONA PROJECT
FINANCIAL SERVICES
P.O. BOX 42447
PHOENIX, AZ 85080-2447

NUMBER 44938
BILL DATE 10-FEB-07
DUE DATE 20-MAR-07
CUSTOMER NUMBER 1050

AMOUNT DUE: \$37,736.00

CHAPARRAL CITY WATER CO

PAYMENT:

If you have any changes on the back of this stub please check this box.

PLEASE RETURN THIS PORTION WHEN MAILING YOUR PAYMENT



P.O. Box 43020 • Phoenix, AZ 85080-3020
23636 N. 7th Street • Phoenix, AZ 85024

623-869-2333 • www.cap-az.com

February 20, 2007

2006 WATER ACCOUNT RECONCILIATION
(Excess M&I - Non-Subcontractor)

For

CHAPARRAL CITY WATER COMPANY

Your 2006 water delivery schedule and actual use is as follows:

<u>Month</u>	<u>Scheduled Acre-feet</u>	<u>Delivered Acre-feet</u>
January	0	0
February	0	0
March	0	0
April	0	0
May	0	0
June	0	0
July	0	0
August	0	0
September	0	0
October	0	0
November	0	0
<u>December</u>	<u>0</u>	<u>356</u>
Total	0	356

Based on the above totals, and as outlined in your CAP excess contract, you were billed \$106/AF for total annual deliveries exceeding your schedule or credited \$33/AF (pump energy) for projections not delivered. Your CY 2006 water account reconciliation has been calculated as follows:

$$0 - 356 = 356 \times \$106.00 = \$37,736.00$$

Refer invoice questions to Tina Brown at (623)869-2149.



P.O. Box 43020 • Phoenix, AZ 85080-3020
23636 North Seventh Street • Phoenix, AZ 85024

623-869-2333 • www.cap-az.com

February 20, 2008

2007 WATER ACCOUNT RECONCILIATION
(Excess M&I - Non-Subcontractor)

For

CHAPARRAL CITY WATER COMPANY

Your 2007 water delivery schedule and actual use is as follows:

<u>Month</u>	<u>Scheduled Acre-feet</u>	<u>Delivered Acre-feet</u>
January	0	0
February	0	0
March	0	0
April	0	0
May	0	0
June	0	0
July	0	0
August	0	0
September	0	0
October	0	0
November	318	0
<u>December</u>	<u>549</u>	<u>102</u>
Total	867	102

Based on the above totals, and as outlined in your CAP excess contract, you were billed \$108/AF for total annual deliveries exceeding your schedule or credited \$35/AF (pump energy) for projections not delivered. Your CY 2007 water account reconciliation has been calculated as follows:

$$867 - 102 = 765 \times \$35.00 = \langle \$26,775.00 \rangle$$

Refer invoice questions to Tina Brown at (623)869-2149.

DOCKET NO. W-02113A-07-0551

CHAPARRAL CITY WATER COMPANY, INC.

CLOSING BRIEF
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

JANUARY 28, 2009

Exhibit 2

Chaparral City Proposed CAP M & I Cost Deferral Account Order

IT IS ORDERED that Chaparral City Water Company Inc. is authorized to defer, for possible later recovery through rates, fifty-percent of its costs, including any interest or other carrying charges, incurred for the annual Central Arizona Project ("CAP") Municipal and Industrial ("M & I") charges related to the "not used and useful" portion of the additional CAP allocation purchased in 2007. Absolutely nothing in this Decision shall be construed in any way to limit this Commission's authority to review the entirety of the acquisition and to make any disallowances thereof due to imprudence, error or inappropriate application of the requirements of this Decision.

IT IS FURTHER ORDERED that the cost deferral authorization granted herein will allow consideration of, but not guarantee recovery of these costs in future ratemaking proceedings.

IT IS FURTHER ORDERED that the Company is authorized to create a deferral account to accrue these charges beginning on January 1, 2008, which is the first time the M & I charges are applicable according to the contract.

IT IS FURTHER ORDERED that the Company may seek to include the accumulated deferred balance associated with all amounts deferred pursuant to this Decision in the cost of service for rate-making purposes in future general rate cases. Nothing in this Decision shall be construed to limit this Commission's authority to review such balance and to make disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision.

IT IS FURTHER ORDERED that the Company shall prepare and retain accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred costs recorded as authorized above.

DOCKET NO. W-02113A-07-0551

CHAPARRAL CITY WATER COMPANY, INC.

CLOSING BRIEF
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

JANUARY 28, 2009

Exhibit 3

**CHAPARRAL CITY WATER COMPANY (CCWC)
ALTERNATE RATES FOR WATER (ARW)
DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION**

APPLICABILITY

Applicable to residential water service for domestic use rendered to low-income households where the customer meets all the Program Qualifications and Special Conditions of this rate schedule.

TERRITORY

Within all Customer Service Areas served by the Company.

RATES

Fifteen percent (15%) discount applied to the regular filed tariff.

PROGRAM QUALIFICATIONS

1. The CCWC bill must be in your name and the address must be your primary residence or you must be a tenant receiving water service by a sub-metered system in a mobile home park.
2. You may not be claimed as a dependent on another person's tax return.
3. You must reapply each time you move.
4. You must renew your application every two years, or sooner, if requested.
5. You must notify CCWC within 30 days if you become ineligible for ARW.
6. Your total gross annual income of all persons living in your household cannot exceed the income levels below:

Effective January 1, 2008

<u>No. of Person In Household</u>	<u>Total Gross Annual Income</u>
1	\$15,600
2	21,000
3	26,400
4	31,800
5	37,200
6	42,600

For each additional person residing in the household, add \$5,400.

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For the purpose of the program the "gross household income" means all money and non cash benefits, available for living expenses, from all sources, both taxable and non taxable, before deductions for all people who live in my home. This includes, but is not limited to:

Wages or salaries	Social Security, SSI, SSP	Rental or royalty income
Interest or dividends from:	Scholarships, grants, or other aid	Profit from self-employment
Savings accounts, stocks or bonds	used for living expenses	(IRS form Schedule C, Line 29)
Unemployment benefits	Disability payments	Worker's Compensation
TANF(AFDC)	Food Stamps	Child Support
Pensions	Insurance settlements	Spousal Support
Gifts		

SPECIAL CONDITIONS

1. **Application and Eligibility Declaration:** An Application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration will be required, at least, every two years.
2. **Commencement of Rate:** Eligible customers shall be billed on this schedule commencing with the next regularly scheduled billing period that follows receipt of application by the Utility.
3. **Verification:** Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Utility, upon request by the Utility, shall result in removal from this rate schedule.
4. **Notice From Customer:** It is the customer's responsibility to notify the Utility if there is a change of eligibility status.
5. **Rebilling:** Customers may be re-billed for periods of ineligibility under the applicable rate schedule.
6. **Mobile home Park and Master-metered:** A reduction will be calculated in the bill of mobile home park and master-metered customers, who have sub-metered tenants that meet the income eligibility criteria, so an equivalent discount (15%) can be passed through to eligible customer(s).