ORIGINAL

	THIS AMENDMENT:	0000105194
_____ Passed	_____ Passed as amended by _____	
_____ Failed	_____ Not Offered	_____ Withdrawn

PIERCE PROPOSED AMENDMENT #1

DATE PREPARED: November 18, 2009

COMPANY: H2O, Inc.

DOCKET NOs: W-02234A-07-0557

OPEN MEETING DATES: November 19th & 20th, 2009 AGENDA ITEM: U-21

Page 6, line 24

STRIKE the paragraph beginning "The Company's attempt . . ." through page 8, line 12.

INSERT the following:

"While the Company's attempts to distinguish the UNS Gas case from this case are not especially compelling, we do agree with the Company's fundamental premise: it is unfair to subtract customer-supplied funds and plant from rate base before those funds and plant have been used to provide utility service to customers. This is because CWIP is already excluded from rate base. Staff's approach would result in the double-subtraction of customer-supplied funds and plant in CWIP.

The Company illustrates this double-subtraction in Exhibit 1 of its exceptions. However, we think we can illustrate the point even more concisely. Suppose ABC Water Company has plant in service that is entirely financed by equity and has a fair value of $10 million. Suppose XYZ Development Company wants to connect to ABC Water Company's system and constructs and contributes to ABC Water Company plant that is also worth $10 million. Now suppose that the test year ended after XYZ Development Company had contributed its plant to ABC Water Company but, importantly, before ABC Water Company actually began serving customers through the contributed plant. Although ABC Water Company owns $20 million of plant at the end of the test year, the $10 million contributed by XYZ Development Company would be excluded from rate base as CWIP, because it is not yet "used and useful" in the provision of utility service to its customers. Staff's approach in this case would subtract the $10 million from rate base again, resulting in the Company having $0 fair value rate base on which to earn a rate of return. This result defies logic though because ABC Water Company financed the initial $10 million of plant, and is entitled to earn a rate of return on that investment.

We note that the NARUC Uniform System of Accounts for water utilities seems to avoid this problem of double-subtraction by defining[1] CIAC as contributed money or plant that is "*used to*

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[1] The NARUC Uniform System of Accounts for water utilities defines CIAC as follows:

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provide utility service to customers." By definition, therefore, it appears that CIAC cannot exist in CWIP. Only after the contributed money or plant becomes "used and useful" (i.e., put into rate base) does it become CIAC. This solves the matching problem identified by the Company, and it avoids the double-subtraction problem identified above. Under the example above, the contributed plant would be deducted from rate base as CWIP in the instant rate case, and in ABC Water Company's next rate case—after the plant has become used and useful—the plant would be deducted from rate base again, this time as CIAC. In both rate cases, though, only $10 million would be deducted from rate base and ABC Water Company would be allowed to earn a rate of return on its initial $10 million investment, as it should.

In prior cases dealing with this issue, Staff has rightly been concerned with the prospect of the utility earning a return on CIAC in CWIP[2] via the accumulation of AFUDC. While Staff's concern has merit, we do not believe the concern is irresolvable. Firstly, in its exceptions, H2O, Inc. states that it does not have, nor has it requested, an AFUDC account. Thus, any concern about H2O, Inc. over-recovering through AFUDC appears moot. Secondly, even if H20, Inc. could recover AFUDC on its CWIP balance, the solution to Staff's concern would be to disallow AFUDC accumulation on the CIAC portion of the Company's CWIP balance, not a double-subtraction of that CIAC amount from rate base.

Accordingly, we will adopt the Company's position on this issue of subtraction from rate base of customer supplied funds and plant that have not yet been put into use serving customers.[3]

Conforming changes.

A. This account shall include:

i. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, **and** which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities or equipment **used to provide utility service to customers**. [Emphasis added]

[2] As noted above, under the NARUC uniform system of accounts, there technically cannot be CIAC in CWIP. However, for ease of reference, we will continue to refer to customer-supplied funds and plant as CIAC, even when it's in CWIP.

[3] We recognize the potential difficulty of ascertaining whether customer-supplied funds have been used to provide utility service to customers. Money, by its nature, is fungible. To the extent that there is ambiguity over whether funds have been used to pay expenses or construct infrastructure in the provision of utility services to customers, this matter may need to be sent back to hearing to examine the issue more closely. However, where it is clear that funds and plant have not yet been used to provide utility service to customers, we agree with the Company that it is inappropriate to double-subtract those amounts from rate base.