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COMMISSIONERS

KRISTIN K. MAYES - Chairman
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IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – PALO VERDE
UTILITIES COMPANY FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE
A REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF ITS PROPERTY
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. SW-20445A-09-0077

IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY – GREATER
BUCKEYE DIVISION FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE
A REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF ITS PROPERTY
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. W-02451A-09-0078

IN THE MATTER OF THE APPLICATION OF
WILLOW VALLEY WATER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE
A REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF ITS PROPERTY
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. W-01732A-09-0079

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – SANTA CRUZ WATER
COMPANY FOR THE ESTABLISHMENT OF
JUST AND REASONABLE RATES AND
CHARGES FOR UTILITY SERVICE
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA.

DOCKET NO. W-20446A-09-0080

Arizona Corporation Commission

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1 **I. INTRODUCTION.**

2 On February 5, 2010, Staff filed its initial post-hearing brief in the above captioned matter.
3 The initial brief was intended to be comprehensive of Staff's position. However, Global and the
4 Water Utility Association of Arizona ("WUAA") have made assertions in their initial post-hearing
5 briefs that Staff did not discuss in its initial brief and will therefore respond to in this reply. To the
6 extent that this brief does not restate all the arguments presented in the initial brief, Staff's position on
7 those issues has not changed and Staff incorporates those arguments herein.

8 **II. DISCUSSION.**

9 Owing to substantial agreement between parties with respect to the typical rate case issues of
10 operating income and expense adjustments and rate base adjustments most of the outstanding
11 disputes between the Staff and other parties relate to the treatment of ICFA fees, rate design, and the
12 various new tariffs the Company is proposing to add. Because the Company has not supplied new
13 arguments relating to the adjustor mechanisms and miscellaneous tariffs that Staff did not already
14 respond to in the initial brief, this brief will focus on the ICFA issue, rate design, the renewable
15 energy adjustor and other minor issues.

16 **A. ICFAs.**

17 Staff continues to assert that fees Global collected pursuant to the ICFA agreements are
18 developer supplied capital and should therefore be classified as CIAC for rate base purposes. Rather
19 than provide affirmative explanations and evidence clearly demonstrating how the ICFA fees are
20 something other than contributions, the Company simply contends that Staff's position is fraught with
21 inconsistencies. However, any such inconsistencies that exist, as Global has identified, are merely a
22 result of the painfully contorted accounting exercise the Company has engaged in to recast what
23 everyone would otherwise readily acknowledge as contributed capital into a novel and previously
24 unregulated form.

25 **1. ICFAs Are Properly Classified As CIAC.**

26 Global begins the substance of its ICFA discussion with a curious reference to measures such
27 as the proposed phase-in of rates that directly reduce the revenue requirement.¹ To summarize these

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¹ Global Initial Post-Hearing Brief at 6-8.

1 measures, the Company includes a table suggesting that the overall savings to ratepayers from these
2 measures totals \$42,488,924 over the time from 2010 to 2015.² Apparently, the inference to be drawn
3 is that Staff's proposed CIAC treatment for the ICFA fees is an inappropriate exercise to reduce the
4 revenue requirement in light of what Global has done to provide ratepayer relief as part of its
5 application. As Company witness Trevor Hill stated, "Well, I think Staff would like to say that ICFA's
6 are CIAC to diminish the rate base of this company, but -- to decrease the rates of the company."³

7 Staff would clarify that, although its proposed classification of ICFA fees as CIAC would
8 result in a reduction to the revenue requirement that was not the purpose of Staff's recommendation.
9 Rather, the revenue requirement Staff is recommending is the result of analysis and calculations of
10 the materials that the Company provided.⁴ Moreover, Staff's views regarding the treatment of ICFA
11 fees has been available to Global for more than three years now and so the suggestion that Staff's
12 recommendation is a *du jour* position taken solely to lower Global's rate increase is not supportable.⁵

13 Staff believes that the ICFA fees are properly considered contributed cost-free capital to the
14 Global Utilities because they are funds received by Global from developers to provide utility service.
15 The Company would agree with the Staff position provided that the developer funds it received were
16 used for "plant 'facilities' used to provide service."⁶ One significant distinction from the Company's
17 perspective is that some portion of the funds were used for the acquisition of various troubled water
18 utilities.⁷ As the Company asserts that CIAC cannot be used for acquisitions,⁸ and based on Ms.
19 Jaress' testimony to the effect that developer funds provided to a utility holding company for non-
20 utility service would not be CIAC,⁹ it believes that Staff's position is at odds with Staff's testimony.

21 Classifying developer provided funds that were used to procure water utility service for the
22 developer's development as CIAC is entirely consistent with the testimony provided by Staff. The
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24 ² *Id.* at 8.

25 ³ *See also*, Tr. at 149:16-18.

26 ⁴ Tr. at 636:14-637:9.

27 ⁵ *See* Staff Report dated October 6, 2006 filed in Docket No. W-00000C-06-0149.

28 ⁶ Global Initial Post-Hearing Brief at 25:13-14.

⁷ *Id.* at 12:5-13:20, 21:3-4.

⁸ *Id.* at Table appearing from 3:15-4:9. Staff notes that this table, while styled as a synthesis of the Company's position, contains new information, such as the assertion that rules prohibit use of CIAC for acquisitions that was not provided at hearing and was not subject to cross-examination.

⁹ *Id.* at 17:18-21 citing Tr. at 813:5-8.

1 Company would suggest that because it has expended approximately \$80 million in acquisitions,
2 including \$43 million based on ICFA agreements, that necessarily the ICFA money was used for
3 acquisitions.¹⁰ While Staff continues to believe that ICFA funds were used for the construction of
4 plant, regardless of how they were spent, the funds were not the Company's money but developer
5 supplied money used for developer requested purposes. As the Company has explained, the reason
6 developers enter the ICFAs is to acquire Total Water Management to ensure sustainable long term
7 water service.¹¹ Indeed, Total Water Management is the hallmark of Global's infrastructure plans.¹²
8 In that context, it is impossible for the Company to assert that the acquisition of water utilities to
9 advance its Total Water Management goals is a non-utility service.

10 To the extent that classifying the ICFA fees as CIAC would run afoul of alleged rule
11 restrictions that prohibit the use of contributed capital for the purpose of acquisitions, that is not a
12 sound basis to determine that the ICFA fees are not CIAC. Staff would note that the Company
13 engaged in using ICFA fees for acquisitions before obtaining a definitive Commission determination
14 on its appropriateness.¹³ The Company cannot now argue that reclassification as CIAC would be
15 inconsistent because it would place Global in noncompliance with rules regarding contributions when
16 Global did not wait for the Commission to determine whether the ICFAs are compliant before
17 entering them.

18 Likewise, the Company finds fault with another aspect of Staff's recommendation, relating to
19 taxes that is also at odds with the ordinary treatment of CIAC. Global contends that the entirety of
20 the ICFA fees could not be contributions because "Global Parent could invest in plant only after it
21 pays its expenses and satisfies *its* tax liabilities."¹⁴ On that basis, Global argues that it has been
22 subject to tax liabilities and as such the ICFAs cannot be considered cost-free capital.¹⁵

23 Staff would note that Global Parent is an LLC and as such does not have tax liabilities.¹⁶
24 Global's witness Matt Rowell also acknowledged this point and further clarified that ostensibly it is

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26 ¹⁰ Global Initial Post-Hearing Brief at 13:13-20.

¹¹ *Id.* at 5:20-6:4.

¹² *Id.*

¹³ *See e.g.*, Docket No. W-00000C-06-0149.

¹⁴ Global Initial Post-Hearing Brief at 33:17-18 (emphasis added).

¹⁵ *Id.* at 33:19-21.

¹⁶ Ex. S-11 at 4.

1 the LLC members who observe any purported tax liability.¹⁷ The Company has not provided any
2 evidence to support the proposition that the LLC members in fact realized a tax liability from the
3 ICFA fees. Rather, the Company distributed funds to the members based on the assumption that a tax
4 liability existed without consideration for the potential that offsetting losses elsewhere might have
5 eliminated any LLC member's alleged tax liability.¹⁸

6 Assuming for the sake of argument that the LLC members did not have offsetting losses, that
7 is still not a sound basis for reducing the ICFA funds and allocating only the remainder as CIAC.
8 The tax treatment of contributions to capital is set out by 26 U.S.C.A. § 118. Whereas gas and
9 electric utilities must include CIAC in gross taxable income, water and sewer utilities are specifically
10 exempted from this requirement.¹⁹ As such, contributions to water and sewer utilities are cost free
11 capital. Rather than demonstrating an inconsistency on Staff's part, the Company introduced a cost
12 to cost free capital by distributing money for a tax liability that did not exist. Therefore its argument
13 that ICFAs are not cost free due to a "real" tax liability is unpersuasive.

14 In addition to Global's early insistence that the ICFA fees are not CIAC because they were
15 used to pay the carrying costs of IDA bonds²⁰ that the Company used to fund the construction of
16 various improvements for the Palo Verde and Santa Cruz utilities,²¹ the Company asserts that because
17 IDA bonds were used to construct plant that necessarily precludes the potential that ICFA fees funded
18 the same plant.²² Staff believes that if the ICFAs were used to pay the carrying costs of the IDA
19 bonds, which Mr. Rowell described as the interest on the bonds,²³ then it has made the IDA bonds a
20 cost free source of capital. Under this scenario, it would be appropriate to apply the amount as a
21 negative adjustment to rate base.

22 Equally not compelling is the suggestion that use of IDA bonds to fund plant displaced ICFA
23 funds as a source for the money used to construct plant. Rather, as the Company recognizes, cash is
24 fungible and the Company has simply deposited the ICFA fees in the same account as investor
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26 ¹⁷ Tr. at 398:4-5.

¹⁸ Ex. S-11 at 4:12-16.

¹⁹ 26 U.S.C.A. § 118 (c).

²⁰ Tr. at 50:11-14, 165:13-17.

²¹ A-12 at 23:3-4.

²² Global Initial Post-Hearing Brief at 32:7-9.

²³ Tr. at 408:19-409:9.

1 proceeds and bond proceeds.²⁴ Consequently, it makes no difference if the IDA bond proceeds were
2 used²⁵ or the ICFA fees were used to fund the construction of the plant in question.²⁶ The outcome in
3 either case is that the IDA bonds become a cost-free source of capital for Global Parent. Therefore,
4 these developer-provided funds should be treated as CIAC regardless of how they are used.²⁷

5 2. Regional Plant Can Be Constructed Without ICFAs.

6 Global also devotes substantial portions of its brief to the argument that ICFAs should not be
7 treated as CIAC because doing so would dissuade investment necessary to implement its Total Water
8 Management vision. Staff is not against the Company's pursuit of Total Water Management.²⁸
9 However, the Company's position that it is only through the use of ICFAs that regional scale plant
10 necessary for Total Water Management becomes possible is not borne out by the evidence presented
11 in this case.

12 The Company would suggest that the Commission rules prevent using CIAC for regional
13 scale or "over-sized" plant.²⁹ Global refers to the main extension rules, A.A.C. R14-2-406 in
14 particular, for the proposition that rules prevent the use of developer supplied capital for constructing
15 over-sized plant.³⁰ The Company's association of the use limitations associated with on-site facilities
16 discussed by the main extension rules with regional, off-site facilities is mistaken. As the Company's
17 own witness acknowledged, regional, off-site facilities can be funded with developer supplied
18 capital.³¹ In fact, hook up fees which are treated as contributions can be used for off-site regional
19 scale plant as well as developers being able to construct regional scale plant and transfer it directly to
20 the utility.³² Clearly there is no prohibition against using contributed capital for purposes of
21 constructing regional plant necessary for Total Water Management.

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²⁴ Tr. at 152:15-24.

²⁵ Ex. A-9 at 18.

²⁶ Tr. at 885:17-24.

²⁷ Tr. at 810:13-16.

²⁸ Ex S-11 at 3.

²⁹ Global Initial Post-Hearing Brief at 19-21.

³⁰ *Id.* at 20:10-14

³¹ Tr. at 383:2-10.

³² *Id.* at 385:9-16.

1 Likewise, in contradiction of the Company's table suggesting that debt cannot be used for
2 acquisitions,³³ Global could have taken out loans to acquire these troubled utilities. For example,
3 when UniSource Energy Corporation acquired the electric and gas divisions of Citizens
4 Communications Company, UniSource was authorized to incur up to \$175 million to fund the
5 acquisition.³⁴ Clearly there is no prohibition on employing debt to acquire utilities either.

6 No less specious are the Company's arguments to the effect that Staff's recommendation
7 would destroy the incentive to invest in Total Water Management.³⁵ Again, Staff is not against the
8 goals of Total Water Management and, as was just explained, other means of funding Total Water
9 Management exist than use of ICFAs. The Company may argue that it is the employment of CIAC
10 even under the alternative funding means Staff identified that result in the undesired effects on the
11 incentive to invest in Total Water Management. Staff would first note that the negative rate base for
12 the Tonopah system is precisely why Staff proposed the use of an operating margin approach to
13 ensure a positive return for the WUGT system.³⁶ Additionally, the election to use ICFAs without first
14 obtaining a final Commission determination as to how it should be treated for accounting purposes
15 was a risk that the Company's management took. As has been noted repeatedly, Staff's position and
16 recommendation to the Commission has been known since 2006³⁷ and so the Company cannot claim
17 surprise regarding the potential that the ICFAs would be considered CIAC.

18 However, the most telling fact demonstrating that the Company's position is without merit is
19 that even when the Company was assuming ICFAs were revenues it was not using the ICFAs to fund
20 Total Water Management investment. Instead, the Company asserts it was using most of the ICFAs
21 to assist in the acquisition of distressed water systems at developers' behest.³⁸ To the extent that
22 ICFAs were used to cover carrying costs related to IDA bonds, the Company has simultaneously
23 argued vociferously that ICFAs were not used to fund plant.³⁹ Indeed, it was not until shortly before
24 the commencement of hearings that Staff learned Global has not put Total Water Management type

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26 ³³ Global Initial Post-Hearing Brief at 3:15-4:9.

27 ³⁴ Decision No. 66028 (July 3, 2003) at 19:18-24, 30:3-8, 31:4-10.

28 ³⁵ Global Initial Post-Hearing Brief at 26:17-28:12.

³⁶ Ex. S-10 at 15:9-16.

³⁷ See Staff Report dated October 6, 2006 filed in Docket No. W-00000C-06-0149.

³⁸ Global Initial Post-Hearing Brief at 13:13-20.

³⁹ *Id.* at 30:9-11.

1 plant, for example distribution to carry recycled water,⁴⁰ in most of its systems,⁴¹ thus necessitating a
2 revision to Staff's rate design to set a price parity between non-potable groundwater and recycled
3 water.⁴² It is difficult to conclude that CIAC treatment of ICFA fees would produce a disincentive for
4 the Company to invest in Total Water Management when its to-date unfettered use of ICFA funds was
5 not sufficient incentive to make such investment.

6 Finally, Staff would assert that adopting the Company's position regarding ICFA fees solely
7 for the purpose of advancing Total Water Management as a policy would be inappropriate. As
8 explained above, there are traditional financing methods for constructing the regional plant necessary
9 to fulfill these goals. However laudable are the goals underlying Total Water Management, they do
10 not justify the regulatory treatment of ICFA fees requested by the Company, especially considering
11 that traditional means of financing exist that provide better protection to both the utility and the
12 ratepayer to advance the program and instead allocate the risk of development failure to the
13 developers.

14 **B. Rate Design.**

15 **1. Conservation And Revenue Stability.**

16 There are numerous components to the Company's proposed rate structure that make it
17 unnecessarily complicated for the purposes it intends to serve. For the most part, the Global Utilities
18 each have rate structures that employ either a flat rate⁴³ or only two tiered rates⁴⁴ and the transition to
19 a six tiered rate structure risks great confusion on the part of customers who have little experience
20 working with inverted tier rates. The Company's conservation-encouraging volumetric rebate is
21 fundamentally flawed for a multitude of reasons including that it is presently designed such that most
22 customers would already qualify to receive it⁴⁵ (thereby not providing any additional incentive for
23 most customers to alter their present consumption behavior) and it greatly increases the Global
24 Utilities' ability to either under or over-earn.⁴⁶ This last concern prompted the Company to request a

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26 ⁴⁰ Tr. at 479:13-17.

⁴¹ *Id.* at 705:7-706:5.

⁴² *Id.* at 706:6-22.

27 ⁴³ Ex. S-9 attached Schedules DRE-3 (Santa Cruz) and DRE-13 (Valencia-Town); Tr. at 707:22-24.

⁴⁴ Ex. S-9 attached Schedules DRE-8 (Willow Creek), DRE-18 (Valencia-Buckeye), and DRE-23 (Tonopah).

28 ⁴⁵ Ex. A-1 at 3:7-13; Ex. A-24 at 47:16-18.

⁴⁶ Ex. S-9 at 5:18-23; Tr. at 709:9-21.

1 further layer of complication by moving toward revenue decoupling, by building more revenue
2 recovery into the monthly minimum, as a means to mitigate the negative consequences of the
3 Company's inordinately complex rate design proposal.⁴⁷

4 Rather than revise its rate design recommendation to resolve these problems, the Company
5 instead attacks Staff's and the Commission's methodology for developing a reasonable rate design
6 that both helps the Company recover its revenue requirement and promotes in customers an incentive
7 to make efficient use of scarce water resources.⁴⁸ Briefly stated, Global criticizes Staff's
8 recommendation regarding monthly minimums for exposing the Company to decreased revenues in
9 the event that conservation actually occurs.⁴⁹ Consequently, Global believes that Staff's
10 recommendation will undermine the Company's ability to retain earnings for further investment in
11 conservation infrastructure.⁵⁰

12 Staff disagrees. As part of its rate design recommendation, Staff is proposing inverted-tier
13 block rates just as RUCO and the Company are proposing. It is a well accepted proposition that
14 inverted-tier rates are structured so as to provide a financial incentive for consumers to conserve
15 water usage and thereby avoid moving into costlier higher use tiers. The only distinction between the
16 Company's and Staff's rate structure proposals in this regard is the number of tiers each party is
17 proposing.

18 With regard to monthly minimums, the Company freely acknowledges that increasing the
19 monthly minimums runs counter to promoting a conservation message because the consumer does
20 not face an increasing price signal with increased usage.⁵¹ It would thus clearly be counter to the
21 interest in promoting conservation choices by the consumer to increase monthly minimums greatly.
22 The Company, on the other hand is requesting a rate structure that stresses the fixed monthly
23 component more than the commodity charge. The Company claims that this will alleviate the
24 *Company's disincentive* to promote reduced consumption.⁵²

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26 ⁴⁷ Ex. A-24 at 48:22-23.

27 ⁴⁸ Global Initial Post-Hearing Brief at 41.

28 ⁴⁹ *Id.* at 42:2-4.

⁵⁰ *Id.*

⁵¹ *See e.g.*, Ex. A-24 at 39:12-14 (noting that movement toward full cost recovery through monthly minimums removes the incentive to conserve).

⁵² Global's Initial Post- Hearing Brief at 39:18-19, 42:2-4; Ex. A-26 at 11:2-4.

1 Global's argument on this point is unpersuasive. The risk of increased conservation by
2 ratepayers is a risk that all water utilities using inverted-tier rates faces. To the extent that the
3 Company faces an increased vulnerability to reduced commodity purchases, it is owing to the
4 introduction of the volumetric rebate mechanism that the Company proposes. The fallacy of the
5 Company's position, however, is that it has designed the rebate such that the most ratepayers *already*
6 qualify to obtain the rebate.⁵³ Clearly, any increased sensitivity to under-earning on the basis of
7 reduced consumption is a product of the Company's own making. Moreover, the Company's
8 arguments do not account for the equally troubling potential for the Company to over-earn under its
9 recommendation.⁵⁴

10 By contrast, Staff's rate design recommendation more reasonably balances the Company's
11 interest in a rate design that promotes relatively stable revenue recovery with providing ratepayers
12 with sufficient control over their bills that they will have a meaningful incentive to conserve. Staff
13 would note that it does agree with the Company that a movement toward greater recovery through
14 monthly minimums might provide a utility with greater flexibility to offer conservation incentives
15 due to increased revenue certainty.⁵⁵

16 However, Staff believes this increased flexibility for the Company decreases the
17 customers' flexibility and control over their rates and usage. Staff believes it has
18 derived an appropriate portion of revenues from the monthly minimum to promote
19 conservation efforts by the Company while allowing the customers to maintain some
20 control over their bill.⁵⁶

21 Moreover, as Staff noted, "several of the Global Companies currently derive a significant portion of
22 their revenue requirement from the monthly minimum."⁵⁷ As such, Staff believes that the monthly
23 minimums it proposes are sufficient to balance the potential for fluctuations in revenues that might
24 result from the conversion to an inverted-tier rate structure. For that reason, Staff recommends
25 adoption of its recommended monthly minimums.

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27 ⁵³ Ex. A-1 at 3:7-13; Ex. A-24 at 47:16-18.

⁵⁴ Tr. at 709:13-14; Ex. S-9 at 5:15-23.

⁵⁵ Ex. S-9 at 8:17-19.

⁵⁶ *Id.* at 8:20-24.

⁵⁷ *Id.* at 8:15-17.

1 **2. Construction Meters.**

2 The Company continues to dispute Staff's recommendation regarding construction meters.
3 Global proposes to apply a monthly minimum for construction meters as a means to deal with the
4 spot demands that a construction meter can place on the Company's distribution system.⁵⁸ Staff
5 believes that it is inappropriate to apply a monthly minimum to construction meters as they are
6 generally temporary meters. Instead, Staff resolves the cost problems that the Company identified by
7 increasing the rate to that charged for the highest tier for tiered meters.⁵⁹ Staff believes that its
8 recommendation is appropriate and should be adopted.

9 **3. Water Theft/Loss Tariffs.**

10 The Company continues to press for the addition of new tariffs in response to water theft and
11 security tab cutting issues.⁶⁰ Global states that under any of the circumstances where it occurs, the
12 cost for these illegal activities are borne by its customers.⁶¹ Staff continues to believe that Arizona
13 Administrative Code Rule R14-2-407(B)(4) is the applicable provision dealing with this
14 circumstance. Likewise, the Company recognizes that water theft is a Class 6 Felony.⁶² In the event
15 that the wrongdoers are not customers of the Global Utilities, Staff would direct the Company to the
16 relevant law enforcement agency to pursue these matters. As the Company has still not provided any
17 authority for the proposition that the Commission can fine non-ratepayers for criminal conduct, Staff
18 continues to recommend against creating the water theft and security tab cutting tariffs as the relevant
19 rule already exists in the form of A.A.C. R14-2-407(B)(4).

20 **C. Pass-Through And Adjustor Mechanisms.**

21 With respect to most of the arguments relating to the pass-through and adjustor mechanisms
22 that the Company is requesting, the Company has not provided additional arguments that Staff did
23 not already address in its initial brief. However, concerning the Distributed Renewable Energy
24 adjustor mechanism the Company has made certain inaccurate statements that Staff must correct. By
25 taking the testimony of Ms. Linda Jaress out of context, the Company would suggest that Staff does

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27 ⁵⁸ Global Initial Post-Hearing Brief at 43:10-15.

⁵⁹ Tr. at 713:7-13; Ex. S-8 at 6:11-12, 10:12-14, 14:14-15, 18:12-13, 22:12-13.

⁶⁰ Global Initial Post-Hearing Brief at 44:4-45:7, 45:15-46:11.

⁶¹ *Id.* at 44:14-15.

⁶² *Id.* at 44:7 citing A.R.S. § 13-3724.D.

1 not support the proliferation of renewable energy.⁶³ Staff fully supports the Commission's
2 Renewable Energy Standard (A.A.C. R14-2-1801 *et seq.*) as well as the spread of renewable
3 distributed generation.

4 Without reference to the nature and context of Ms. Jaress' testimony, the Company describes
5 Ms. Jaress as a "pessimist" with regard to renewable technologies.⁶⁴ As the transcript portion
6 immediately preceding the segment that the Company cited reflects, Ms. Jaress was discussing her
7 prefiled direct testimony on the subject of renewable distributed generation.⁶⁵ In prefiled direct, Ms.
8 Jaress explained some of the concerns Staff has with respect to water utilities like the Global Utilities
9 implementing distributed renewable generation on the scale that the Company envisions.

10 The [Global] Utilities' expertise in those areas would likely need to be significantly
11 expanded before attempting to implement all or some of those technologies. As these
12 technologies are still evolving, the plants could be incorrectly manufactured, sized or
13 installed, run in an inefficient manner or result in the generation of electricity at less
14 than prudent costs.⁶⁶

14 It was in reference to the above testimony that Ms. Jaress expressed reservations that because the
15 Global Utilities, having comparably less experience than an electric utility, would be able to
16 successfully implement distributed renewable generation on a scale that is contemplated and not
17 pessimism towards renewable generation in general. This is made clear by Ms. Jaress' prefiled direct
18 where it goes on to note the inappropriateness of using a pass-through or adjustor mechanism to
19 recover the costs of implementing the planned renewable generation because it would immunize the
20 Company from all of the risks of such a venture and place them on the ratepayer.⁶⁷

21 Even so, Staff does not oppose the Company's plan to pursue renewable distributed
22 generation.⁶⁸ Rather Staff recognizes that because Global does not have a requirement that it
23 implement renewable generation, that the Company should simply undertake the implementation of
24 distributed renewable generation in the same manner it would with any other plant additions. It
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26 ⁶³ *Id.* at 51:21-22.

27 ⁶⁴ *Id.*

28 ⁶⁵ Tr. at 879:17-19.

⁶⁶ Ex. S-10 at 40:13-17.

⁶⁷ *Id.* at 40:17-19.

⁶⁸ Tr. at 880:3-5.

1 would be inappropriate for the Company to utilize a mechanism that shields it from such risk of
2 implementing this renewable generation.

3 **D. Response To Additional Issues.**

4 The Company continues to dispute the Staff reclassification of Salaries & Wages and Pension
5 & Benefits to the uniform system of accounts account for Contract Services – Management Fees.⁶⁹
6 The Company acknowledges that this is a minor point insofar as it does not affect the revenue
7 requirement.⁷⁰ However, Global argues that Staff’s adjustment would obscure these expenses to a
8 reviewer. Staff continues to believe that its adjustment is appropriate because it is more accurate in
9 light of how Global and the Global Utilities do business. “All work performed for the Global
10 Companies is done through contract services, therefore, in accordance with the NARUC USOA,
11 labor costs incurred for management and operation should be reflected in the Contract Services-
12 Management Fees account.”⁷¹ As such, Staff continues to recommend that its adjustment be adopted.

13 **III. CONCLUSION.**

14 The Company, RUCO, and Staff are all proposing rate increases for the Global Utilities.
15 Although Staff’s position on the most contentious issue in this case, CIAC treatment for the ICFA
16 funds is not premised on producing a lower revenue requirement, Staff would note that should the
17 Commission adopt the Company’s recommendation, that the revenue requirement will increase
18 substantially. Because these funds were obtained from developers to provide service to the
19 developers, Staff’s proposed CIAC treatment for the ICFA funds is consistent with both ordinary
20 accounting methodology and Commission precedent. For all the above stated reasons and those

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⁶⁹ Global Initial Post-Hearing Brief at 60:17-61:4.

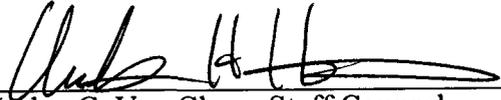
⁷⁰ *Id.*

⁷¹ Ex. S-6 at 11:1-4.

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1 expressed within Staff's initial post-hearing brief, Staff believes that its recommendations are
2 reasonable and should be adopted.

3 RESPECTFULLY SUBMITTED this 19th day of February, 2010.

4
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15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18 **Copy of the foregoing mailed this**
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