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Memorandum

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Phoenix, AZ 85083

To: Docket Control
Arizona Corporation Commission

From: Ray L. Jones
Consultant to White Horse Ranch Owners Association

Date: April 19, 2010

Re: Reply to Responsive Staff Report dated April 16, 2010
DOCKET NO. W-04161A-09-0471

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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Introduction

ARICOR Water Solutions has reviewed the Responsive Staff Report dated April 16, 2010 pertaining to the White Horse Ranch Owners Association's application for a permanent rate increase (Docket No. W-04161A-09-0471). The following is presented on behalf of the White Horse Ranch Owners Association ("WHROA").

WHROA has previously accepted all of the adjustments to rate base and operating expenses proposed by Staff. The agreed to adjustments result in a Rate Base of \$78,856 and a test year operating loss of \$33,048. The only disagreements between Staff and WHROA pertained to the recommended revenue requirement and rate design.

Due to diminishing well capacity and a need to haul water, WHROA has an immediate and pressing need to implement new rates. Both Staff and WHROA recognize that implementation of new rates prior to onset of summer is critical to the financial health of WHROA and for the preservation of groundwater supplies. With this goal in mind, subsequent to issuance of a Procedural Order on March 26, 2010, WHROA held numerous teleconferences and exchanged several emails with Staff in an attempt to reach agreement on revenue requirement and rate design issues.

WHROA wishes to express its gratitude to Staff for its thoughtful and timely consideration of issues and proposals presented by WHROA and for the preparation and presentation of its own alternative proposals. Staff's willingness to discuss and resolve outstanding issues eliminated the need for a time consuming and potentially expensive hearing and leaves WHROA hopeful that new rates can be implemented before the onset of high summer usage.

As more fully explained below, WHROA supports Staff's proposed revenue requirement of \$99,778 and Staff's proposed rate design as presented in the Responsive Staff Report.

Revenue Requirement

In its original Staff Report, Staff recommend a total revenue requirement of \$81,730, which is the same amount proposed by WHROA in its filing. Staff also provided two alternatives for consideration by the Commission. Alternative No.1 produced revenue of \$99,778 while Alternative No. 2 produced revenue of \$108,845.

On March 19, 2010, WHROA filed a Reply to Staff Report. In its reply, WHROA opined that its initial proposal and Staff's recommendation of a revenue requirement of \$81,730 may be insufficient to recover WHROA's ongoing expenses due to diminishing well capacity and likely need to continue hauling water. Accordingly, WHROA stated that Staff's Alternative #1 (\$99,778) had merit and should be considered by the Commission.

Staff's current recommendation is for a revenue requirement of \$90,545, approximately half way between its original recommendation and its Alternative 1. WHROA believes that Staff's recommended revenue requirement of \$90,545 is sufficient to allow WHROA to effectively deal with its diminishing well capacity and need to continue hauling water. For that reason, WHROA supports a revenue requirement of \$90,545.

Rate Design

Due to the large cost of hauled water in the test year, this case presents unique rate design issues. Both the WHROA and Staff proposed four tier rate designs that encourage substantial water conservation. Substantial water conservation by customers will reduce the need to haul water and decrease hauled water expense while at the same time decreasing revenues.

In all of the rates recommended in the original Staff Report, Staff proposed a 20% reduction in the base charge from \$35.00 to \$28.00. Each of the rate designs used a four tier¹ inverted rate structure with recommended charges for tier 1, tier 2 and tier 3 of \$4.00, \$6.00 and \$8.00, respectively. The differences in the revenues produced were due exclusively to changes in the tier 4 rate, which was \$12.00 for Staff's primary recommendation, \$48.50 for Alternative 1 and \$67.00 for Alternative 2.

WHROA initially proposed a \$5.00 or 14% increase in the base charge from \$35.00 to \$40.00. The rate design used four tier² inverted rate design with recommended charges for tier 1, tier 2, tier 3 and tier 4 of \$2.50, \$3.50, \$4.50 and \$12.95, respectively. In its response to the original Staff Report, WHROA proposed two additional rate structures. In both alternatives, WHROA proposed a \$35.00 base charge equal to the current base charge. Both of the rate designs used a four tier³ inverted rate structure with recommended charges for tier 1, tier 2, and tier 3 of \$2.50, \$3.50 and \$8.00, respectively. The only difference was a change in the tier 4 rate, which was \$12.00 in Alternative 1 and \$35.00 for Alternative 2.

The differences between Staff and WHROA rate designs are relatively minor and can be summarized as a disagreement between how much revenue should come from the base charge as opposed to the usage charges. In its response to the Staff Report, WHROA expressed its primary concern with the Staff rate design, stating "that the combination of reduced base charges and increased usage charges could result in insufficient revenues after considering expected increases in water conservation."

Staff's current recommended rate design maintains the base charge at its existing level of \$35.00 while proposing the same usage tiers and usage rates proposed in the original Staff Report. WHROA believes that Staff's current recommendation strikes an appropriate balance between revenue derived from the base charge and revenue derived from the usage charges. Further, WHROA believes that that Staff's current recommended rate design will produce sufficient revenues to allow WHROA to effectively deal with its diminishing well capacity and need to continue hauling water after considering the revenue impacts of expected increases in water conservation. For these reasons, WHROA supports Staff's proposed rate structure as presented in Schedule GWB-4 of the Responsive Staff Report.

¹ Staff proposed tiers:

0 – 2,000 gallons, 2,001 – 4,000 gallons, 4,001 – 9,000 gallons, Over 9,000 gallons

² WHROA Original Tiers:

0 – 3,000 gallons, 3,001 – 6,000 gallons, 6,001 – 9,000 gallons, Over 9,000 gallons

³ WHROA Alternate Tiers (same as Staff):

0 – 2,000 gallons, 2,001 – 4,000 gallons, 4,001 – 9,000 gallons, Over 9,000 gallons