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BEFORE THE ARIZONA CORPORATION

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Arizona Corporation Commission

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JUL 30 2010

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE AND FOR CERTAIN RELATED APPROVALS BASED THEREON.

DOCKET NO. W-01445A-08-0440

STAFF'S CLARIFICATIONS TO THE RECOMMENDED OPINION AND ORDER

The Utilities Division of Arizona Corporation Commission ("Staff") files this proposed request for clarification to the Administrative Law Judge's ("ALJ") Recommended Opinion and Order ("ROO") dated July 12, 2010.

I. ENGINEERING ISSUES

A. Arsenic Treatment Plant for Valley Vista water system's well #55-212110

On page 87, line 12, of the ROO, it reads as follows:

114. With the exception of Valley Vista, AWC's other water systems have adequate production capacity to serve existing customers and a reasonable level of growth.

In 2008, the Company was in the process of designing a new arsenic treatment plant that would increase the production of well VV#13 (55-212110). Although the well has a pumping capacity of 300 GPM, the existing arsenic treatment plant limits pumping capacity to 50-60 GPM. The Company indicated that, upon completion of the new arsenic treatment plant, this well could utilize its full pumping capacity of 300 GPM.

Staff made the following recommendation in this case:

- 4. Staff recommends that the Company filed with Docket Control, as a compliance item in this docket, copies of the Approval of Construction by ADEQ (Arizona Department of Environmental Quality) for the proposed Arsenic Treatment Plant for the Valley Vista water system's well #55-212110 by May 31, 2010.

1 Staff believes this recommendation is necessary to ensure that the Commission is notified
2 when the new arsenic treatment plant is operational and the production capacity problem for Valley
3 Vista is resolved. Staff recommends that an ordering paragraph be added to the ROO that requires
4 the Company to file, as a compliance item, by a date certain in the future, the Approval of
5 Construction for the arsenic treatment plant for the Valley Vista Well #55-212110.

6 **B. Separate Reporting Requirement for Each Individual System**

7 The ROO in this case adopts the Company's consolidation proposal for ratemaking and
8 accounting purposes. Regardless of whether the Commission ultimately adopts the ALJ's
9 recommendation, Staff believes that it is necessary for the Company to continue reporting certain
10 information separately for each of the Company's individual Public Water Systems. Specifically
11 Staff made the following recommendation:

- 12 8. Staff recommends that in case any of the Company's water systems should be
13 consolidated for purpose of rate making and accounting, AWC be required to
14 continue reporting the information, including, but not limited to Water Use and
15 Plant Description Data, separately for each of its individual systems by Public
Water System, as defined by ADEQ (Arizona Department of Environmental
Quality), in future Annual Reports and rate filings.

16 Staff needs the Company to continue reporting this information by individual system in order
17 to determine the amount of water loss that each system is experiencing, to make "used and useful"
18 determinations regarding plant items, and to evaluate whether a particular system has adequate
19 production and storage capacities. If the Company is allowed to combine this information, it will
20 make Staff's task extremely difficult in any future rate applications that the Company may file. Staff
21 recommends that an ordering paragraph be added to the ROO that requires the Company, in future
22 annual reports and rate filings, to continue reporting separately, for each individual system,
23 information including, but not limited to, Water Use and Plant Description Data.

24 **II. RATE DESIGN**

25 **A. Capacity Multiplier**

26 The ROO in this case adopts the Company's rate design. Staff would like to clarify an issue
27 in the adopted rate design relating to the capacity multiplier for the 10-inch meter size. Staff noticed
28 during this case that, in those systems with 10-inch meters, the Company's proposed rate design for

1 some of those systems uses a capacity multiplier of 115 times and for other systems uses a capacity
2 multiplier of 160 times. Staff typically uses a capacity multiplier of 115, consistent with the
3 multipliers recommended by the American Water Works Association. During this case, through an
4 informal data request, Staff asked the Company why different 10-inch meter capacity multipliers
5 were used in different systems. The Company agreed that this discrepancy was a mistake, and
6 indicated that the Staff-recommended multiplier of 115 was acceptable. Staff understood that the
7 Company was going to correct this issue in its final schedules. However, it appears this issue was
8 overlooked. Staff therefore recommends that all systems with a 10-inch meter size use a capacity
9 multiplier of 115.

10 **B. Monthly Minimums for 6-inch and 8-inch industrial customers in the Casa**
11 **Grande/Coolidge systems**

12 Staff seeks to clarify the monthly minimums for the 6-inch and 8-inch industrial customers in
13 the Casa Grande/Coolidge systems. Specifically, under the adopted rate design, the monthly
14 minimums for both of these meter sizes are \$336.11. Staff believes this was an oversight by the
15 Company that was inadvertently incorporated into the ROO. Staff pointed out this issue at hearing
16 during the cross-examinations of witnesses for both the Company and for Abbott Laboratories.
17 Although Staff does not know what the actual charges should be, Staff believes the Company should
18 work with Staff to correct this issue in the rate design schedules.

19 **C. Cross Over Points**

20 Staff believes there are certain other errors contained in the rate design proposed by the
21 Company in this case and adopted by the ROO. During the hearing, Staff presented examples from
22 the Bisbee system where the Company's proposed tier break over points resulted in apparent errors.
23 In particular, Staff counsel questioned the Company about its work papers for the Bisbee system rate
24 design where the work paper indicated that certain tiers were "out of limit." The Company witness
25 responded that he had used Staff's work papers from Arizona-American's Mohave division rate case
26 in designing his proposed rates for this case.¹ When questioned further, the witness indicated that the

27
28

¹ Tr. at 581

1 “out of limit” reference meant that the tier needed to be adjusted until it indicated “good.”² Staff does
2 not believe the Company addressed this issue in its final schedules.

3 In further explanation of Staff’s typical rate design model, when a tier break over point results
4 in an “out of limit” reference, it is a warning that using that combination of break over point,
5 minimum charge, and commodity rate may, at some point, result in a crossover, i.e., a situation where
6 a smaller meter size will pay more than a larger meter size for the same amount of water usage. This
7 is contrary to a fundamental principle of rate design. While Staff presented only a few examples of
8 this flaw during the hearing, this issue pervades the Company’s rate designs for multiple systems in
9 this case.³ An example from the Company’s work papers for Stanfield system is attached as Exhibit
10 A. This excerpt demonstrates that the 3-inch meter tier is “out of limit.” This means that, at certain
11 usage levels a 2-inch meter customer could pay more than a 3-inch meter customer for the same
12 water usage.

13 Staff input the ROO’s monthly minimum, tier charges, and break over points for Stanfield into
14 Staff’s work papers to see if this issue still exists. For demonstrative purposes, Staff has prepared a
15 typical bill analysis using the ROO’s rates for the 2-inch and 3-inch meter customers.⁴ In these
16 examples, once the customers for both meter sizes use more than 300,000 gallons (the Company’s
17 second tier break over point), the 3-inch meter customer pays less for the same usage than the 2-inch
18 meter customer. This is where the cross over point occurs. While Staff did not have an opportunity
19 to determine exactly how many instances of this problem exist in the Company’s rate design, Staff
20 notes that, in the Company’s final schedules, there are numerous instances of crossovers in most of
21 the systems. Staff believes this problem exists throughout the rate design recommended in the ROO.

22 Adopting Staff’s recommended consolidation and rate design would resolve this issue in total.
23 However, to the extent the Commission is inclined to adopt the Company’s rate design, the
24

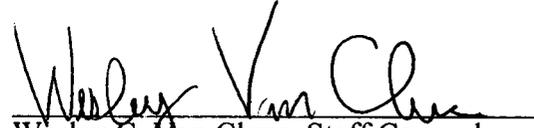
25 _____
26 ² Tr. at 582

27 ³ This crossover issue exists in the recommended rate design for the following systems, customer classes and meter sizes:
28 Bisbee/Sierra Vista – Residential 2”, 4”, 6”, and 8” Commercial/Construction 4”, 6”, 8” San Manuel, Oracle,
Winkleman, Sedona, Casa Grande/Coolidge, Ajo, Lakeside/Overgaard – Residential/Commercial/Construction 10”
Stanfield – Residential/Commercial/Construction 3”, 10” White Tank – Residential 4”, 10” Commercial/Construction 2”,
3”, 4”, 10” Pinewood and Rimrock – Residential/Commercial/Construction 3”, 10”

⁴ See attached Exhibit B

1 Commission should require the Company to work closely with Staff to develop rates that do not have
2 this crossover problem.

3 RESPECTFULLY SUBMITTED this 30th day of July, 2010.

4
5 

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11 of the foregoing were filed this
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15 Phoenix, Arizona 85007

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16 30th day of July, 2010 to:

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EXHIBIT A

EXHIBIT A

Docket No. W-01445A-08-0440
Stanfield System

Meter Size	Charges by Meter Size						Tier Breakovers	
	Multiplier	Basic Svc. Chg.	Block-1	Block-2	Block-3	Tier Limit	Proposed Tier	
5/8"	1	\$ 15.81	\$2.3102	\$2.8880	\$ 3.6103	3,000	3,000	
1"	2.5	39.52		2.8880	3.6103	15,000	10,000	
2"	8	126.45		2.8880	3.6103	15,000	10,000	Good
3"	16	252.91		2.8880	3.6103	130,000	125,000	Good
4"	25	395.17		2.8880	3.6103	300,000	325,000	Out of Limit
6"	50	790.34		2.8880	3.6103	521,000	500,000	Good
8"	80	1,264.54		2.8880	3.6103	1,047,000	925,000	Good
10"	160	2,529.09		2.8880	3.6103	1,581,000	1,500,000	Good
						3,250,000	3,000,000	Good

EXHIBIT B

Typical Bill Analysis
General Service 2-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,162	\$ 143.68	\$ 165.37	\$ 21.69	15.10%
Median Usage	7,262	138.19	159.85	\$ 21.66	15.67%
Staff Recommended					
Average Usage	9,162	\$ 143.68	\$ 152.91	\$ 9.23	6.43%
Median Usage	7,262	138.19	147.42	\$ 9.24	6.68%

Present & Proposed Rates (Without Taxes)
General Service 2-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 117.20	\$ 138.72	18.36%	\$ 126.45	7.89%
1,000	120.09	141.63	17.94%	129.34	7.70%
5,000	131.65	153.27	16.42%	140.89	7.02%
10,000	146.10	167.81	14.86%	155.33	6.32%
25,000	189.45	211.45	11.61%	198.65	4.86%
50,000	261.70	284.17	8.59%	270.85	3.50%
75,000	333.95	356.90	6.87%	343.05	2.72%
100,000	406.20	429.62	5.77%	415.25	2.23%
125,000	478.45	502.35	4.99%	487.45	1.88%
150,000	558.51	593.25	6.22%	577.71	3.44%
175,000	648.51	684.15	5.49%	667.97	3.00%
200,000	738.51	775.05	4.95%	758.22	2.67%
225,000	828.51	865.95	4.52%	848.48	2.41%
250,000	918.51	956.85	4.17%	938.74	2.20%
275,000	1,008.51	1,047.75	3.89%	1,029.00	2.03%
295,000	1,080.51	1,120.47	3.70%	1,101.20	1.91%
296,000	1,084.11	1,124.10	3.69%	1,104.81	1.91%
297,000	1,087.71	1,127.74	3.68%	1,108.42	1.90%
298,000	1,091.31	1,131.37	3.67%	1,112.03	1.90%
299,000	1,094.91	1,135.01	3.66%	1,115.64	1.89%
300,000	1,098.51	1,138.65	3.65%	1,119.25	1.89%
301,000	1,102.11	1,142.28	3.64%	1,122.86	1.88%
302,000	1,105.71	1,145.92	3.64%	1,126.47	1.88%
303,000	1,109.31	1,149.55	3.63%	1,130.08	1.87%
304,000	1,112.91	1,153.19	3.62%	1,133.69	1.87%
305,000	1,116.51	1,156.83	3.61%	1,137.30	1.86%
325,000	1,188.51	1,229.55	3.45%	1,209.51	1.77%
350,000	1,278.51	1,320.45	3.28%	1,299.77	1.66%
375,000	1,368.51	1,411.35	3.13%	1,390.03	1.57%
400,000	1,458.51	1,502.25	3.00%	1,480.28	1.49%
425,000	1,548.51	1,593.15	2.88%	1,570.54	1.42%
450,000	1,638.51	1,684.05	2.78%	1,660.80	1.36%
475,000	1,728.51	1,774.95	2.69%	1,751.06	1.30%
500,000	1,818.51	1,865.85	2.60%	1,841.31	1.25%

Typical Bill Analysis
General Service 3-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,162	\$ 260.88	\$ 304.09	\$ 43.21	16.56%
Median Usage	7,262	255.39	298.57	\$ 43.18	16.91%
Staff Recommended					
Average Usage	9,162	\$ 260.88	\$ 279.37	\$ 18.49	7.09%
Median Usage	7,262	255.39	273.88	\$ 18.50	7.24%

Present & Proposed Rates (Without Taxes)
General Service 3-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 234.40	\$ 277.44	18.36%	\$ 252.91	7.90%
1,000	237.29	280.35	18.15%	255.80	7.80%
5,000	248.85	291.99	17.33%	267.35	7.43%
10,000	263.30	306.53	16.42%	281.79	7.02%
25,000	306.65	350.17	14.19%	325.11	6.02%
50,000	378.90	422.89	11.61%	397.31	4.86%
75,000	451.15	495.62	9.86%	469.51	4.07%
100,000	523.40	568.34	8.59%	541.71	3.50%
125,000	595.65	641.07	7.62%	613.91	3.07%
150,000	667.90	713.79	6.87%	686.11	2.73%
175,000	740.15	786.52	6.26%	758.31	2.45%
200,000	812.40	859.24	5.77%	830.51	2.23%
225,000	884.65	931.97	5.35%	902.71	2.04%
250,000	956.90	1,004.69	4.99%	974.91	1.88%
295,000	1,086.95	1,135.60	4.48%	1,104.87	1.65%
296,000	1,089.84	1,138.50	4.47%	1,107.76	1.64%
297,000	1,092.73	1,141.41	4.46%	1,110.65	1.64%
298,000	1,095.62	1,144.32	4.45%	1,113.53	1.64%
299,000	1,098.51	1,147.23	4.44%	1,116.42	1.63%
300,000	1,101.40	1,150.14	4.43%	1,119.31	1.63%
301,000	1,104.29	1,153.05	4.42%	1,122.20	1.62%
302,000	1,107.18	1,155.96	4.41%	1,125.09	1.62%
303,000	1,110.07	1,158.87	4.40%	1,127.97	1.61%
304,000	1,113.67	1,161.78	4.32%	1,130.86	1.54%
305,000	1,117.27	1,164.69	4.24%	1,133.75	1.48%
325,000	1,189.27	1,222.87	2.82%	1,191.51	0.19%
350,000	1,279.27	1,313.77	2.70%	1,281.77	0.20%
375,000	1,369.27	1,404.67	2.58%	1,372.03	0.20%
400,000	1,459.27	1,495.57	2.49%	1,462.28	0.21%
425,000	1,549.27	1,586.47	2.40%	1,552.54	0.21%
450,000	1,639.27	1,677.37	2.32%	1,642.80	0.22%
475,000	1,729.27	1,768.27	2.25%	1,733.06	0.22%
500,000	1,819.27	1,859.17	2.19%	1,823.31	0.22%