OPEN MEETING ITEM

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ORIGINAL

ARIZONA CORPORATION COMMISSION

DATE: JULY 13, 2010

DOCKET NOS.: SW-20445A-09-0077; W-02451A-09-0078; W-01732A-09-0079; W-20446A-09-0080; W-02450A-09-0081 and W-01212A-09-0082

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

GLOBAL WATER – PALO VERDE UTILITIES COMPANY; VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION; WILLOW VALLEY WATER COMPANY; GLOBAL WATER – SANTA CRUZ WATER COMPANY; WATER UTILITY OF GREATER TONOPAH; and VALENCIA WATER COMPANY – TOWN DIVISION
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 22, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JULY 27, 2010 and JULY 28, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH FOR THE ESTABLISHMENT OF JUST AND	DOCKET NO. W-02450A-09-0081

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.	
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN 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-01212A-09-0082 DECISION NO. ______________ **OPINION AND ORDER**

PUBLIC COMMENTS: December 1, 2009, Maricopa, Arizona.

DATES OF HEARING: December 10 (Pre-Hearing Conference), 14, 17, 18, 21 and 28, 2009

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Wolfe

IN ATTENDANCE:

Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

APPEARANCES:

Mr. Timothy Sabo and Mr. Michael W. Patten, ROSHKA, DeWULF & PATTEN, PLC, on behalf of Applicants;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office;

Mr. Garry D. Hays, GARRY D. HAYS, PC, on behalf of New World Properties;

Mr. Greg Patterson, on behalf of the Water Utility Association of Arizona;

Mr. Court S. Rich and Mr. Ryan Hurley, ROSE LAW GROUP, INC., on behalf of the City of Maricopa;

Mr. Rick Fernandez, *in propria persona*; and

Mr. Wesley Van Cleve, Ms. Ayesha Vohra, and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

I. PROCEDURAL HISTORY

On February 20, 2009, Global Water – Palo Verde Utilities Company ("Palo Verde"); Valencia Water Company – Greater Buckeye Division ("Valencia-Greater Buckeye"); Willow Valley Water Company, Inc. ("Willow Valley"); Global Water – Santa Cruz Water Company ("Santa Cruz"); Water Utility of Greater Tonopah, Inc. ("WUGT"); and Valencia Water Company – Town Division ("Valencia-Town"),[1] (collectively "Applicants," "Utilities," or "Company") filed with the Arizona Corporation Commission ("Commission") applications in the above-captioned dockets seeking increases in their respective permanent base rates and other associated charges.

On March 23, 2009, the Commission's Utilities Division Staff ("Staff") filed Letters of Deficiency in each of the dockets, indicating that the applications did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103.

On April 7, 13, and 20, 2009, Applicants filed various responses to Staff's Deficiency Letters, and certain updated schedules for the applications.

On April 30, 2009, Staff filed Letters of Sufficiency stating that each of the above-captioned applications, as supplemented by the subsequent filings, met the sufficiency requirements of A.A.C. R14-2-103.

On May 28, 2009, a Procedural Order was issued consolidating the six applications, setting a hearing, requiring mailing and publication of notice of the application and hearing, and setting associated procedural deadlines.

On August 31, 2009, Applicants filed affidavits of mailing and affidavits of publication indicating Applicants' compliance with the public notice requirements of the May 28, 2009 Procedural Order.

Intervention in this proceeding was granted to the Residential Utility Consumer Office ("RUCO"), the Water Utility Association of Arizona ("WUAA"), New World Properties ("NWP"), the City of Maricopa ("Maricopa"), and Rick Fernandez.

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[1] Valencia Water Company is one company. Separate rate applications were filed for its Greater Buckeye and Town Divisions.

On December 1, 2009, a public comment hearing was held in Maricopa. Local elected officials and numerous members of the public appeared and provided public comment on the application.

On December 14, 2009, the hearing commenced as scheduled, and concluded on December 28, 2009. Initial closing briefs were filed by Applicants, WUAA, NWP, Maricopa, RUCO, and Staff, and reply closing briefs were filed by Applicants, Maricopa, RUCO, and Staff.

II. APPLICATION

A. Applicants

Applicants and all other Global Utilities are organized as Arizona C corporations, and all are wholly owned by Global Water Resources, LLC ("Global Parent"), a Delaware limited liability company ("LLC"), through its direct subsidiary Global Water, Inc, a Delaware C corporation. The corporate structure of Global Parent and its associated and subsidiary entities ("Global") is illustrated in Exhibit A, attached hereto.[2] The LLC members of Global Parent are also the members of Global Water Management, LLC, a Delaware LLC.[3] Global Water Management, LLC provides growth-related services to its subsidiary utility companies ("Global Utilities"), such as engineering of new facilities, system planning, construction management, inspection of new facilities, regional and project permitting, and regional planning.[4] Global Water Management, LLC is funded through fees for its growth services to the Global Utilities, its members, and third party services.[5] Global Water, Inc., provides the operational and administrative staff for the day-to-day activities of the Global Utilities and is funded through utility revenues.[6] The Global Utilities have no employees of their own.[7]

Together, the Global Utilities serve more than 68,000 people at more than 41,000 connections.[8] From an accounting perspective, the Global Utilities are organized into five regions:

[2] Exhibit A is a copy of "Exhibit Hill-4" which was attached to the Direct Testimony of Company witness Trevor Hill (Exh. A-7).
[3] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 2.
[4] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 3.
[5] *Id.*
[6] *Id.*
[7] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 2.
[8] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 2.

the West Valley Region, which includes WUGT, Valencia Water Company (Town and Greater Buckeye Divisions), and Water Utility of Northern Scottsdale.[9] These Global Utilities are all served by operators working out of the West Valley Regional office in Buckeye, Arizona.[10] The Maricopa-Casa Grande Region includes Santa Cruz, Palo Verde, CP Water Company and Francisco Grande Water Company.[11] The Willow Valley Region includes only Willow Valley, which is located in Mohave County.[12] An Eloy Region may be established once Global Water – Picacho Cove Utilities Company and Global Water – Picacho Cove Water Company become active.[13] For accounting purposes, corporate headquarters are in the Deer Valley Region, and costs from this region are allocated partly to the Global Utilities through Global Water, Inc., partly to Global Water Management, LLC, and partly to Global Parent.[14] Global Parent has its own region for accounting purposes which is comprised of costs that are allocated solely to Global Parent.[15]

The consolidated rate applications include Palo Verde, which is a wastewater utility, and four water utilities: Valencia (which has two divisions, Valencia-Greater Buckeye and Valencia-Town); Santa Cruz; Willow Valley; and WUGT. In total, the consolidated rate applications affects about 25,000 customers.[16]

B. Summary of Revenue Recommendations

By utility/division, Applicants' proposed revenues and the revenue recommendations of the parties who submitted schedules are as follows:

Palo Verde

Applicants recommend a revenue requirement of $15,602,936, which is an increase of $8,959,123, or 134.85 percent, over its adjusted test year revenues of $6,643,813. Applicants' recommendation would result in an approximate $39.90 increase for the average 5/8 x 3/4 inch and 3/4 inch water meter residential customers, from $33.00 per month to $72.90 per month, or

[9] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 4.
[10] *Id.*
[11] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 4-5.
[12] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 5.
[13] *Id.*
[14] *Id.*
[15] *Id.*
[16] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 7.

approximately 120.91 percent. Applicants propose a three year phase in of the rate increase, with 1/3 of the increase, or $45.33, to be effective now, 2/3 of the rate increase, or $58.16 to be effective in one year, and 100 percent, or $72.90, to be effective in the third year.

RUCO recommends a revenue requirement of $12,682,373, which is an increase of $6,038,560, or 90.89 percent, over its adjusted test year revenues of $6,643,813. RUCO's recommendation would result in an approximate $25.63 increase for the average 5/8 x 3/4 inch and 3/4 inch water meter residential customers, from $33.00 per month to $58.63 per month, or approximately 77.66 percent. RUCO recommends that the phase in of the rate increase proposed by Applicants be adopted, with 1/3 of the increase, or $41.54, to be effective now, 2/3 of the rate increase, or $50.09 to be effective in one year, and 100 percent, or $58.63, to be effective in the third year.

Staff recommends a revenue requirement of $12,762,050, which is an increase of $6,118,237, or 92.09 percent, over its adjusted test year revenues of $6,643,813. Staff's recommendation would result in an approximate $25.51 increase for the average 5/8 x 3/4 inch and 3/4 inch water meter residential customers, from $33.00 per month to $58.51 per month, or approximately 77.30 percent. Staff recommends that the phase in of the rate increase proposed by Applicants be adopted, with 1/3 of the increase, or $41.50, to be effective now, 2/3 of the rate increase, or $50.01 to be effective in one year, and 100 percent, or $58.51, to be effective in the third year.

The revenue requirement authorized herein is $13,088,713, which is an increase of 6,444,900, or 97.01 percent, over adjusted test year revenues of $6,643,813. The rates approved herein will result in an approximate $27.76 increase for the average 5/8 x 3/4 inch and 3/4 inch water meter residential customers, from $33.00 per month to $60.76 per month, or approximately 84.12 percent. In accordance with Applicants' phase-in proposal, 1/3 of the increase, or $42.25, will be effective August 1, 2010; 2/3 of the rate increase, or $51.51, will be effective August 1, 2011; and 100 percent, or $60.76, will be effective August 1, 2012.

Valencia-Greater Buckeye

Applicants recommend a revenue requirement of $489,370, which is an increase of $108,896, or 28.62 percent, over its adjusted test year revenues of $380,474. Applicants' recommendation would result in an approximate $10.67 increase for the average usage (9,068 gallons per month) 5/8 x 3/4 inch meter residential customer, from $40.94 per month to $51.61 per month, or approximately 26.06 percent.

RUCO recommends a revenue requirement of $451,869, which is an increase of $71,395, or 18.76 percent, over its adjusted test year revenues of $380,474. RUCO's recommendation would result in an approximate $13.66 increase for the average usage (9,068 gallons per month) 5/8 x 3/4 inch meter residential customer, from $40.94 per month to $54.60 per month, or approximately 33.37 percent.

Staff recommends a revenue requirement of $464,182, which is an increase of $83,708, or 22.0 percent, over its adjusted test year revenues of $380,474. Staff's recommendation would result in an approximate $7.12 increase for the average usage (9,068 gallons per month) 5/8 x 3/4 inch meter residential customer, from $40.94 per month to $48.06 per month, or approximately 17.40 percent. Under Staff's four tier alternative rate design, the increase for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $3.32, from $40.94 per month to $44.26 per month, or approximately 8.11 percent.

The revenue requirement authorized herein is $463,261, which is an increase of $82,787, or 21.76 percent, over adjusted test year revenues of $380,474. The rates approved herein will result in an approximate $14.49 increase for the average usage (9,068 gallons per month) 5/8 x 3/4 inch meter residential customer, from $40.94 per month to $55.43 per month, or approximately 35.41 percent.

Willow Valley

Applicants recommend a revenue requirement of $941,059, which is an increase of $467,532, or 98.73 percent, over its adjusted test year revenues of $473,527. Applicants' recommendation would result in an approximate $14.44 increase for the average usage (5,142 gallons per month) 5/8 x 3/4 inch meter residential customer, from $21.91 per month to $36.35 per month, or approximately 65.94 percent.

RUCO recommends a revenue requirement of $886,591, which is an increase of $413,064, or 87.23 percent, over its adjusted test year revenues of $473,527. RUCO's recommendation would result in an approximate $16.22 increase for the average usage (5,142 gallons per month) 5/8 x 3/4 inch meter residential customer, from $21.91 per month to $38.13 per month, or approximately 74.07 percent.

Staff recommends a revenue requirement of $923,874, which is an increase of $450,347, or 95.10 percent, over its adjusted test year revenues of $473,527. Staff's recommendation would result in an approximate $18.66 increase for the average usage (5,142 gallons per month) 5/8 x 3/4 inch meter residential customer, from $21.91 per month to $40.57 per month, or approximately 85.19percent. Under Staff's four tier alternative rate design, the increase for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $14.34, from $21.91 per month to $36.25 per month, or approximately 65.46 percent.

The revenue requirement authorized herein is $919,414, which is an increase of $445,887, or 94.16 percent, over adjusted test year revenues of $473,527. The rates approved herein will result in an approximate $14.52 increase for the average usage (5,142 gallons per month) 5/8 x 3/4 inch meter residential customer, from $21.91 per month to $36.43 per month, or approximately 66.31 percent.

Santa Cruz

Applicants recommend a revenue requirement of $12,996,221, which is an increase of $3,586,360, or 38.11 percent, over its adjusted test year revenues of $9,409,861. Applicants' recommendation would result in no change for the average usage (6,474 gallons per month) 3/4 inch meter residential customer bill, which would remain at $39.23.

RUCO recommends a revenue requirement of $11,000,572, which is an increase of $1,590,711, or 16.90 percent, over its adjusted test year revenues of $9,409,861. RUCO's recommendation would result in an approximate $0.26 increase for the average usage (6,474 gallons per month) 3/4 inch meter residential customer, from $39.23 per month to $39.49 per month, or approximately 0.66 percent.

Staff recommends a revenue requirement of $10,986,388, which is an increase of $1,576,527, or 16.75 percent, over its adjusted test year revenues of $9,409,861. Staff's recommendation would result in an approximate $1.73 increase for the average usage (6,474 gallons per month) 3/4 inch meter residential customer, from $39.23 per month to $40.96 per month, or approximately 4.40 percent. Under Staff's four tier alternative rate design, the average usage 3/4 inch meter residential customer would have a decrease of approximately $0.84, from $39.23 per month to $38.39 per month, or approximately 2.14 percent.

The revenue requirement authorized herein is $11,245,409, which is an increase of $1,835,548, or 19.51 percent, over adjusted test year revenues of $9,409,861. The rates approved herein will result in an approximate $2.56 increase for the average usage (6,474 gallons per month) 3/4 inch meter residential customer, from $39.23 per month to $41.79 per month, or approximately 6.53 percent.

WUGT

Applicants recommend a revenue requirement of $883,134, which is an increase of $623,830, or 24.06 percent, over its adjusted test year revenues of $259,304. Applicants' recommendation would result in an approximate $52.21 increase for the average usage (7,346 gallons per month) 5/8 x 3/4 inch meter residential customer, from $47.62 per month to $99.83 per month, or approximately 109.65 percent.

RUCO recommends a revenue requirement of $306,627, which is an increase of $47,323, or 18.25 percent, over its adjusted test year revenues of $259,304. RUCO's recommendation would result in an approximate $5.85 decrease for the average usage (7,346 gallons per month) 5/8 x 3/4 inch meter residential customer, from $47.62 per month to $41.77 per month, or approximately 12.28 percent.

Staff recommends a revenue requirement of $245,204, which is a decrease of $14,100, or 5.44 percent, from its adjusted test year revenues of $259,304. Staff's recommendation would result in an approximate $5.44 decrease for the average usage (7,346 gallons per month) 5/8 x 3/4 inch meter residential customer, from $47.62 per month to $42.18 per month, or approximately 11.41 percent. Under Staff's four tier alternative rate design, the decrease for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $8.77, from $47.62 per month to $38.85 per month, or approximately 18.42 percent.

The revenue requirement authorized herein is $236,991, which is a decrease of $22,313, or 8.60 percent, from adjusted test year revenues of $259,304. The rates approved herein will result in an approximate $8.41 decrease for the average usage (7,346 gallons per month) 5/8 x 3/4 inch meter residential customer, from $47.62 per month to $39.21 per month, or approximately 17.66 percent.

Valencia-Town

Applicants recommend a revenue requirement of $4,656,687, which is an increase of $1,619,225, or 53.31 percent, over its adjusted test year revenues of $3,037,462. Applicants' recommendation would result in an approximate $10.38 increase for the average usage (5,817 gallons per month) 5/8 x 3/4 inch meter residential customer, from $29.64 per month to $40.02 per month, or approximately 35.05 percent.

RUCO recommends a revenue requirement of $4,554,498, which is an increase of $1,517,036, or 49.94 percent, over its adjusted test year revenues of $3,037,462. RUCO's recommendation would result in an approximate $17.18 increase for the average usage (5,817 gallons per month) 5/8 x 3/4 inch meter residential customer, from $29.64 per month to $46.82 per month, or approximately 57.99 percent.

Staff recommends a revenue requirement of $4,553,937, which is an increase of $1,516,475, or 49.93 percent, over its adjusted test year revenues of $3,037,462. Staff's recommendation would result in an approximate $11.83 increase for the average usage (5,817 gallons per month) 5/8 x 3/4 inch meter residential customer, from $29.64 per month to $41.47 per month, or approximately 39.93 percent. Under Staff's four tier alternative rate design, the increase for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $6.80, from $29.64 per month to $36.44 per month, or approximately 22.97 percent.

The revenue requirement authorized herein is $4,544,122, which is an increase of $1,506,660, or 49.60 percent, over adjusted test year revenues of $3,037,462. The rates approved herein will result in an approximate $12.72 increase for the average usage (5,817 gallons per month) 3/4 inch meter residential customer, from $29.64 per month to $42.36 per month, or approximately 42.93 percent.

III. RATE BASE

A. Rate Base Recommendations

The parties recommend the following rate bases in their final schedules:

. . .

	Palo Verde	Valencia-Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia-Town
Applicants	$64,011,238	$895,377	$2,207,149	$45,902,454	$2,563,849	$4,443,607
Staff	$53,314,083	$929,057	$2,251,164	$39,155,692	($4,186,150)	$4,240,018
RUCO	$53,844,005	$895,377	$2,207,149	$39,797,227	($4,220,560)	$4,443,607

The disparity in the parties' rate base recommendations for Palo Verde, Santa Cruz, and WUGT are due to the differing proposed ratemaking treatment of funds received by Global Parent from developers pursuant to Infrastructure Coordination and Financing Agreements ("ICFAs") that Utilities entered into with developers. Staff and RUCO treat the ICFA proceeds collected from landowners and developers from the areas serve by those Utilities as Contributions in Aid of Construction ("CIAC") and deduct them from rate base, while Applicants do not.

B. Infrastructure Coordination and Financing Agreements ("ICFAs")

1. Overview

Global Parent has entered into 157 ICFAs with developers in the service areas of Global Utilities.[17] Under the ICFAs, Global Parent has collected funds from developers in exchange for Global Parent's agreement to provide utility service to the developments through its subsidiaries, the Global Utilities companies.[18] Applicants' witness Trevor Hill, President and CEO of Global Parent, describes the ICFAs as follows:

> An ICFA (Infrastructure Coordination and Financing Agreement) is a voluntary contract between Global Parent and a landowner. These contracts provide for Global Parent to coordinate the planning, financing and construction of off-site water, wastewater and recycled water plant. The Global Utilities will own and operate this plant when construction is complete. Under the ICFAs, Global Parent is responsible for funding both the planning and construction of water, wastewater and recycled water plant. This is a significant investment for Global Parent. The landowners who enter into the ICFAs agree to cooperate with Global Parent's plant planning and construction process. ICFAs formalize the cooperation between the landowner and Global, but also provide fees which allow Global Parent to impress conservation and consolidation into the regional planning initiatives. These fees are intended to recover

[17] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at Exhibit Hill-10; Tr. at 65.

[18] *See, e.g.*, Exhs. A-48, A-49, and A-50. Applicants state that landowners always have the choice to enter into standard main and line extension agreements. Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 33.

a portion of the carrying costs for the very expensive facilities required to implement effective water conservation and, in some cases, to fund Global Parent's acquisition of existing utilities.[19]

The amount Global Parent has received in ICFA funds is $60,084,123.[20] In their direct filing, Applicants asserted that the fees collected through ICFAs should not be a factor in determining rates for the Utilities.[21] NWP and WUAA are in agreement with Applicants' proposed treatment of the ICFA fees.[22] Maricopa, RUCO, and Staff contend that for ratemaking purposes, ICFA funds should be treated as developer-supplied CIAC and imputed to the rate bases of the Utilities affected by ICFAs in these consolidated applications, as recommended by Staff.[23]

2. Global's Use of ICFA Fees for its Total Water Management Approach

Applicants assert that Global's total water management approach is the rationale behind Global's structure, its vision, its utility infrastructure, and its ICFAs;[24] that its pursuit of total water management has resulted in significant achieved and planned groundwater savings;[25] and that its use of ICFAs is integral to its ability to maximize water conservation and the use of recycled water; and in its acquisition of problematic small water companies.[26] Applicants state that if the ICFA fees are treated as CIAC as recommended by RUCO and Staff, Global Parent will be unable to continue its commitment to total water management, which entails significant carrying costs.[27]

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[19] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 31.

[20] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 32. Mr. Hill's testimony also broke down the ICFA fees received by year as follows:

2004	$ 4,998,556
2005	20,543,310
2006	25,939,677
2007	4,656,470
2008	3,946,100
2009	0

[21] Direct Testimony of Matthew Rowell (Exh. A-12) at 17. Applicants later stated that if ICFA funds were used to fund plant, they should be considered CIAC (less taxes and expenses), but that ICFA funds used for other purposes, such as acquisitions or carrying costs of total water management, should not be treated as CIAC. Rebuttal Testimony of Company witness Trevor Hill (Exh. A-8) at 22, 26-29.

[22] NWP Br. at 2; WUAA Br. at 4.

[23] Staff's methodology is described in section 3, below.

[24] Co. Br. at 6. Global defines its total water management approach as "a comprehensive approach to water management, planning, and use that relies on water infrastructure but combines it with improvements in the overall productivity of water use." Global Br. at 6, citing to (Gleick 2002, 2003; Wolff and Gleick 2002; Brooks 2005), *The World's Water 2008-2009,* Chapter 1, Peak Water by Meena Palaniappan and Peter H. Gleick.

[25] Co. Br. at 18

[26] Co. Br. at 1.

[27] Co. Br., at 19, citing to Direct Testimony of Company witness Matthew Rowell (Exh. A-12) at 8-9 and Tr. at 866; Co. Br. at 21, citing to Tr. at 78.

Applicants assert that "ICFAs are an important new way of financing acquisitions using developer funds."[28] Applicants argue that Arizona badly needs acquisitions [of small water utilities by large water utilities] to consolidate its water utility sector;[29] that traditional ratemaking methods do not successfully promote such acquisitions;[30] that Global used ICFA proceeds to fund such acquisitions;[31] and that the ICFA proceeds used for acquisitions should not be deducted from rate base, because doing so would discourage such acquisitions.[32] From 2004 through year-end 2008 Global spent a total of $83,080,153 for acquisitions and consolidations, $43,871,802 of which came from ICFA fees.[33] Applicants state that developers paid ICFA fees in order to help fund Global's acquisitions.[34] Applicants contend that because the ICFA funds were used to purchase utilities, rather than to provide utility service, the developer funds provided to Global should not be treated as CIAC.[35] Applicants state that Staff and RUCO concede that the rate base of a utility should not change as the result of an acquisition,[36] and argue that this should be the case even if the acquisition premium was funded by developer-provided ICFA fees. Applicants state that because the utility companies Global acquired[37] had negligible rate bases at the time of purchase, the entire purchase price of the utilities essentially constituted an acquisition premium.[38] Applicants contend that because almost all of the purchase prices paid by Global Parent were acquisition premiums, they should not be deducted from rate base under any circumstances.[39] Applicants assert that since they are not requesting an acquisition adjustment in this case and will not be earning a return on the

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[28] Co. Reply Br. at 11.
[29] Co. Br. at 9-10.
[30] Co. Br. at 10-12; Co. Reply Br. at 9-10.
[31] Co. Br. at 12-13.
[32] Co. Br. at 14.
[33] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 32. Mr. Hill's testimony states that the initial acquisition cost of Palo Verde and Santa Cruz was $33,762,427, and that Global also spent $5,445,924 to acquire Cave Creek Water Company and its affiliate Pacer Equities, and that those acquisitions did not involve ICFA funds. Thus Global's ICFA related acquisitions costs for that time period were $43,871,802.
[34] Co. Br. at 17, 28.
[35] Co. Br. at 17.
[36] Co. Br. at 18, citing to Exh. A-40; Tr. at 795; Tr. at 661; Co. Reply Br. at 10, citing to Tr. at 802-804.
[37] Global Parent used ICFA revenues to acquire West Maricopa Combine, the 387 Domestic Water and Wastewater Improvement Districts, CP Water Company, and Francisco Grande. Direct Testimony of Company Witness Trevor Hill (Exh. A-7) at 29.
[38] Co. Br. at 16, citing to Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 24; Co. Reply Br. at 10, citing also to Tr. at 304.
[39] Co. Reply Br. at 10, citing to Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 24 and Tr. at 304.

acquisition premium, to the extent that the ICFA fees went to paying for acquisitions, the Global Utilities will not be receiving a return from ratepayers on those ICFA fees.[40]

Applicants propose that the ICFA fees collected be allocated to the carrying costs of regional scale utility facilities built based on the total water management approach, rather than allocated to the facilities themselves,[41] and argue that the fact that ICFA fees are much lower than the cost of the infrastructure facilities built supports its position that ICFAs cover carrying costs, not the costs of the facilities.[42] Applicants contend that the ICFA model allows Global Parent to shield the Global Utilities companies from development risk, and provides a means for Global Parent to fund some of the carrying costs of regional plant not in rate base until it can be placed into service.[43] Applicants assert that the construction of efficient regional infrastructure pursuant to its total water management approach serves to protect ratepayers from higher long-term operating costs which Global Utilities maintains are associated with plant built using the traditional AIAC and CIAC forms of plant financing.[44] Applicants profess that the use of developer advances in aid of construction ("AIAC") through main extension agreements is an impractical as a means of implementing total water management, due to strict limits on the extent that plant can be oversized.[45] Applicants submit that traditional methods approved by the Commission have not resulted in total water management or acquisitions, and that developers have little incentive to spend the extra money on a total water management plan or to cooperate and coordinate with neighboring developers on such a plan.[46] Applicants assert that other large utilities are aware of the total water management concept but are not practicing it, and that the only plausible explanation is that it is not economically feasible under

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[40] Co. Br. at 26, citing to Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 25-26.
[41] Co. Br. at 21.
[42] Co. Reply Br. at 8.
[43] Co. Reply Br. at 14; Co. Br. at 22-23 citing to Direct Testimony o f Company witness Trevor Hill (Exh. A-7) at 34 and Tr. at 13, and citing to the following testimony of its witness Trevor Hill:

> So in light of the fact that there is no alternative tool to allow for this regional infrastructure, we use the ICFAs to carry the cost of financing that regional infrastructure, build it correctly the first time to achieve these overarching goals, and then we use the ICFA revenue to carry the cost of carrying that infrastructure until we can bring it appropriately into rate base.
> Tr. at 59.

[44] Co. Br. at 23, citing to Tr. at 353; Co. Br. at 24-25, citing to Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 17-23 and Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 11-16..
[45] Co. Br. at 20.
[46] Co. Br. at 19, citing to Tr. at 144 and Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 3; Co. Reply Br. at 25.

traditional ratemaking.[47] Applicants state that Global Parent cannot pursue acquisitions or total water management if ICFA fees are treated as CIAC.[48]

Maricopa contends that the benefits of ICFAs touted by Applicants in regard to efficiencies achieved by regional planning can be accomplished without ICFAs,[49] and that it is not self-evident that the benefits Applicants claim come from allowing ICFAs to be treated as revenues outweigh the risks.[50] Maricopa argues that when traditional AIAC and CIAC are used, the risk of stalled growth falls squarely on developers, but that if ICFAs are allowed to be treated as revenues instead of CIAC, ratepayers will be left to shoulder the financial burden.[51] Maricopa states that Applicants have not presented any evidence as to why regulatory means other than ICFAs cannot be used to support better regional planning and achieve greater efficiencies.[52] Maricopa believes development growth risk should be rightfully borne by developers themselves,[53] and that regional water infrastructure planning is not a goal worth pursuing if it means exposing the ratepayers to the inherent risks of development growth.[54]

Staff does not believe that Applicants' total water management program should be the basis for a determination whether ICFAs are in the public interest, and asserts that it would be inappropriate for the Commission to adopt Applicants' position regarding ICFA fees solely for the purpose of advancing total water management as a policy.[55] Staff does not take issue with Global's total water management program, but believes its goals can be accomplished through traditional regulatory means.[56] Staff states that traditional means of financing provide better protection to both the utility and the ratepayer, by allocating the risk of development failure to developers.[57] Staff states that AIAC and CIAC could be used to finance the total water management program in place of ICFA

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[47] Co. Reply Br. at 7.

[48] Co. Br. at 19, citing to Tr. at 144 and Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 3; Co. Reply Br. at 25.

[49] Maricopa Br. at 11.

[50] *Id.*

[51] *Id.* at 12.

[52] *Id.* at 12-13, Maricopa Reply Br. at 8.

[53] Maricopa Br. at 13.

[54] *Id.*

[55] Staff Br. at 27; Staff Reply Br. at 7.

[56] Staff Br. at 22; Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 3.

[57] Staff Reply Br. at 7.

fees,[58] and that debt can also be employed to acquire utilities.[59] Staff submits that there is no prohibition against using contributed capital for purposes of constructing regional plant necessary for total water management, and that Applicants' association of the use limitations associated with on-site facilities discussed by the main extension rules with regional, off-site facilities is mistaken.[60] Staff points out that Applicants have acknowledged that regional, off-site facilities can be funded with developer supplied capital, and that developers can construct regional scale plant and transfer it directly to the utility.[61]

In regard to the issue of carrying costs, Staff states that no evidence has been presented showing that the ICFA revenues were used for carrying costs, and that Staff believes the ICFA fees were used to finance plant and were not used for carrying costs.[62] Staff submits that it does not seem reasonable to assume that developers paid Global Parent millions of dollars, not for plant, but as a sort of donation to insure that the Global Parent members receive a return on non rate-based plant and amounts sufficient to pay taxes on the return.[63]

RUCO is in agreement with Maricopa and Staff that Applicants have not shown that Global's proposed solutions to issues facing the water industry in Arizona cannot or should not be addressed by normal regulatory accounting means.[64] RUCO submits that while the total water management concept is a wonderful idea that deserves attention, its implementation should not come at a cost that is unfair to Applicants' ratepayers.[65] RUCO does not agree with Applicants' position, as RUCO describes it, that Global's "vision for total water management in Arizona somehow trumps traditional ratemaking practices that have been established to insure that utilities do not earn a recovery on and a recovery of capital that is provided by third parties as opposed to utility investors."[66]

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[58] Staff Br. at 22; Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 3.
[59] Staff Reply Br. at 6.
[60] Staff Br. at 31; Staff Reply Br. at 5.
[61] Staff Reply Br. at 5, citing to Tr. at 383, 385.
[62] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 11.
[63] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 11.
[64] RUCO Br. at 3.
[65] *Id.* at 2.
[66] Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-7) at 7.

3. Ratemaking Treatment of ICFA Fees

a. Staff's Proposed Rate Base Adjustment

Staff recommends that $10,991,128 be deducted from Palo Verde's rate base, $6,600,076 be deducted from Santa Cruz's rate base, and $7,085,645 be deducted from WUGT's rate base, as shown in Exhibit LAJ-2, attached hereto and incorporated herein as Exhibit B.[67] In conjunction with its proposed CIAC adjustments to the rate bases of Palo Verde, Santa Cruz, and WUGT, Staff proposes accompanying adjustments increasing the level of CIAC amortization.[68] Staff proposes an increase in CIAC amortization for Palo Verde of $667,381, for Santa Cruz of $494,849, and for WUGT of $309,366.[69] As a result, Staff's total rate base adjustments related to its proposed ICFA-related CIAC imputation are reductions of $10,323,747 for Palo Verde, $6,105,227 for Santa Cruz, and $6,849,397 for WUGT.[70]

Using information provided by Applicants in a data response, Staff determined which ICFA contracts were entered by landowners and developers in the West Valley, and which ICFA contracts were entered by landowners and developers in the Maricopa area.[71]

Staff determined that the four West Valley ICFA contracts totaling $9,226,100 applied to both WUGT and Hassayampa Utility Company ("HUC"). To avoid reducing rate base for ICFA funds which might have been applied to a utility not included in this rate case, Staff allocated the proceeds of the four contracts between WUGT (76.8 percent) and HUC (23.2 percent) based on total plant, as shown in Exhibit B.[72]

Staff determined that the ICFA fees collected from the Maricopa area, excluding Picacho Cove, totaled $49,982,522.[73] Because the information provided by Applicants was not segregated by water or wastewater service, Staff allocated the proceeds of the Maricopa area ICFA to Palo Verde

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[67] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11), Exhibit LAJ-2. Exhibit LAJ-2 was docketed on December 8, 2009, attached to "Staff's Notice of Errata Regarding the Testimony of Linda Jaress."
[68] Staff Br. at 7.
[69] Staff Final Sched. Palo Verde CSB-3 through CSB-6, Santa Cruz CSB-3 through CSB-6, and .WUGT CSB-3 through CSB-6.
[70] *Id.*
[71] Direct Testimony of Staff witness Linda Jaress (S-10) at 14.
[72] *Id*; Surrebuttal Testimony of Staff witness Linda Jaress (S-11) at 22 and Exhibit LAJ-2.
[73] Direct Testimony of Staff witness Linda Jaress (S-10) at 14; Surrebuttal Testimony of Staff witness Linda Jaress (S-11) at Exhibit LAJ-2.

(50.9 percent) and Santa Cruz (49.1 percent) based on test year plant amounts provided in Schedule E-1 of the Palo Verde and Santa Cruz applications.[74] Then Staff reduced the resulting allocated ICFA fees by the voluntary rate base reductions that Palo Verde and Santa Cruz made based upon excess capacity, resulting in a $10,991,128 reduction to Palo Verde's rate base and a $6,600,076 reduction to Santa Cruz's rate base.[75]

While RUCO appears to have accepted Staff's methodology for determining the ICFA CIAC imputation, RUCO did not update its recommendation for WUGT to comport with the changes reflected in Staff's Surrebuttal Testimony and Schedule LAJ-2,[76] and RUCO's proposed amortization of CIAC differs from Staff's for Santa Cruz.[77] However, RUCO did not object to Staff's methodology for amortization of CIAC, or to the change in the WUGT imputation amount.

b. ICFA Fees are Developer Supplied Funds

Staff takes the position that the ICFA agreements are a cost free source of capital which by their very nature are non-investor supplied,[78] and that they "create CIAC by another name."[79] Staff believes that the ICFA fees are properly considered contributed cost free capital to the Utilities because they are funds received by Global Parent from developers to provide utility service.[80] Staff states that the fees generated through the ICFAs should therefore be treated as contributions to the Utilities and removed from rate base.[81] Staff urges that the ratemaking treatment of the ICFAs in this case "will have far reaching implications for **all** Arizona public corporations (not just water)."[82]

Staff cautions the Commission not to confuse Applicants' claimed ICFA fee accomplishments with the fact that the fees are developer provided funds.[83] Staff states that however laudable the goals underlying total water management approach, they do not justify the regulatory treatment of ICFA

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[74] *Id.*
[75] *Id.*
[76] *See* RUCO Br. at 8, citing to Surrebuttal Testimony of RUCO witness Rodney Moore (Exh. R-2) at Schedules Palo Verde SURR RLM-3, Santa Cruz SURR RLM-3 and WUGT SURR RLM-3.
[77] Surrebuttal Testimony of RUCO witness Rodney Moore (Exh. R-2) at Schedule Santa Cruz SURR RLM-3.
[78] Staff Br. at 21-22.
[79] *Id.* at 2.
[80] Staff Reply Br. at 2.
[81] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 12.
[82] Staff Br. at 21.
[83] *Id.* at 28.

fees requested by Applicants.[84] Staff explains the importance of its recommended removal of ICFA fees from rate base as follows:

> It is important because utility customers should pay for the cost of their service and no more. Customers should not be required to pay a return on plant which was built with cost-free capital. Staff concludes that ICFA fee revenues that are invested as equity in Global Utilities is cost-free capital and that this cost-free capital was used to pay for the Utilities' plant.
>
> Also, treating ICFA fees as contributions is essential to protect ratepayers from a rush by other public utility holding companies to contrive similar transactions that serve to circumvent the Commission's ability to regulate the earnings of utilities under its jurisdiction by recognizing cost-free capital as equity. It is doubtful that the ratepayers of Arizona Public Service Company ("APS") would benefit by Pinnacle West Capital Corporation executing similar arrangements with developers and infusing the collections in APS as equity. The ICFA or ICFA-like contracts further blur the line between the holding company and the utility; a line which is already blurred by the use of a common management company and common officers and directors.
>
> Finally, when the Global Parent accepts ICFA fees from developers and uses the proceeds to make equity investments in the Global Utilities to pay for plant to serve those developers, it is essentially transferring the risk that the development will be unsuccessful to the ratepayers. By adjusting rate base for imputed ICFA fees, the ratepayers are protected from the financial impact of plant installed for the developers but not used.[85]

Maricopa agrees with Staff, asserting that if the Applicants are allowed to earn a return on landowner-supplied ICFA money simply because it spends different dollars on plant, that it is likely all utilities would employ an ICFA model, and ratepayers across the State would suffer from paying a rate of return on plant for which the utilities expend no real capital.[86] Maricopa states that Applicants are attempting to frame the issue of whether or not to treat ICFAs as CIAC and deduct them from Applicants' rate base as a determination of whether or not the State of Arizona should engage in responsible water management, when the true issue is whether the rates resulting from the regulatory treatment will be fair and just.[87]

Applicants assert that they have proposed strict limits on how ICFA funds should be used, and that Staff and RUCO have the skills and experience to audit and enforce compliance with those

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[84] Staff Reply Br. at 7.
[85] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 13.
[86] Maricopa Br. at 6-7; Maricopa Reply Br. at 19.
[87] Maricopa Reply Br. at 7.

limits.[88] Applicants contend that "[i]f other utilities use ICFA funds to pay for acquisition adjustments or to cover the carrying costs of total water management infrastructure, so much the better . . . if the fees are not used for those purposes, the Commission is free to determine an appropriate CIAC imputation."[89]

RUCO states that the ICFA issue is about the accepted ratemaking treatment of CIAC, and nothing more.[90] RUCO describes Applicants' proposed accounting treatment of the ICFA proceeds as a transparent attempt to avoid the effect on rate base that normally occurs when a utility receives contributions.[91] RUCO states that if the ICFA fees are not treated as CIAC and imputed to rate base, both the recovery of and recovery on the ICFA fees provided by developers will be embedded in the rates paid by the Utilities' customers.[92] RUCO describes that typically, a utility earns a rate of return on utility plant in service that has been financed either by capital provided by its investors (i.e., equity) or by capital provided through the issuance of debt (i.e., bonds or loans).[93] RUCO explains that in addition to receiving a ratemaking "return on" this invested capital through operating income, utilities are also permitted a dollar-for-dollar recovery of, or "return of" the equity or debt investment, over the life of the plant assets, through annual depreciation expense.[94] The "return of and return on" the equity or debt investment is embedded in customers' rates.[95] RUCO states that ordinarily, if a developer provides capital to construct plant needed to serve its development projects, with no arrangement to be paid back over time, the third party-supplied capital is booked as CIAC which is subsequently treated as a deduction to rate base.[96] Deducting the CIAC from rate base ensures that the utility does not earn a return on developer supplied funds through rates, and because CIAC is amortized over time, there is no utility recovery of developer supplied funds through depreciation expense.[97] RUCO explains that this ratemaking practice insures that utilities do not recover from

[88] Co. Reply Br. at 21.
[89] *Id.* at 21-22.
[90] Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-7) at 8.
[91] RUCO Br. at 3.
[92] Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-7) at 7-8.
[93] *Id* at 8.
[94] *Id.*
[95] *Id.*
[96] *Id.*
[97] *Id.*

ratepayers funds that were never provided by the utility's investors, which is what would happen if ICFAs were not treated as CIAC.[98] RUCO also agrees with the point made by Staff that using developer supplied funds, and not investor supplied capital, in order to build plant to serve customers who may or may not materialize, shifts risk away from the utility and its ratepayers and puts it onto the third party developers, who must put their own funds at risk.[99]

RUCO contends that since the traditional ratemaking treatment of developer supplied funds is to treat them as CIAC, Applicants should not have assumed that their radically different ratemaking treatment would be approved.[100] Maricopa agrees,[101] and takes issue with a statement made by Applicant's witness at the hearing that it would be "punitive" to treat the ICFA funds as a reduction to rate base.[102] Maricopa argues that Global Parent entered into the ICFAs with full knowledge that their ratemaking treatment was unresolved and that it was the only utility it knew of that was using such a mechanism.[103] Maricopa contends that the record in this proceeding demonstrates that Global has known for years that the status of IFCA agreements and their treatment was unresolved, but that it continued to enter into numerous ICFAs.[104] Maricopa contends that the language of the ICFAs acknowledges that the ratemaking status of the ICFAs was in question, making clear that Global was aware of uncertainty related to ratemaking treatment of the ICFAs.[105] Maricopa submits that the appearance of such language in the ICFAs further makes clear that Global was willing to enter into the ICFAs even with the risk that the money would receive a different regulatory treatment and that

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[98] *Id.*
[99] *Id* at 7, 9.
[100] RUCO Br. at 7, citing to Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-7) at 11.
[101] Maricopa Br. at 8-11.
[102] Maricopa Br. at 10, citing to Tr. at 173.
[103] Maricopa Br. at 11.
[104] *Id.* at 9.
[105] *Id.* at 9. The language cited by Maricopa is as follows:

> Coordinator shall be responsible for and assume the risk of any future regulatory treatment of this Agreement by the ACC, including (without limitation) the imposition of hook-up fees or other charges related to the extension of Utility Services to the Land, and shall indemnify and hold harmless Current Owner and Landowners for, from and against the consequences of same. Without limiting the foregoing, Current Owner and Landowner shall not be liable for any additional costs in the event that the ACC treats any payments under this Agreement as contributions or advances in aid of construction, or in the event the ACC imposes hook-up fees or other charges related to the Off-Site Facilities, and Coordinator shall be responsible for payment of same.
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> Exh. A-48 at 8.

Global might be liable for additional costs in the event of such occurrence.[106] Maricopa contends that it would not be punitive to correctly classify the ICFA funds as a deduction from rate base, because Global was fully aware that its use of ICFAs was a risky and unresolved approach.[107] Maricopa states that the City understands Global's need to make money, and the important role Global plays in making Maricopa a great place to live and work, but urges that its citizens not be made to suffer as a result of Global's decision to use ICFAs despite knowing the risks entailed.[108]

Staff states that public utilities commonly perceive disallowances or other ratemaking adjustments as "punishment," but that Staff is not recommending that Global Utilities or Global Parent be punished for whatever innovations they have made.[109] Staff states that it wants to insure that the risk of innovation is borne by the innovators, and not the ratepayers.[110] Staff states that while its ratemaking recommendation regarding the ICFA fees would result in a reduction to the revenue requirement, its recommendation was not made for that purpose, but rather, its recommendation resulted from its analysis and calculations of the materials that Applicants provided.[111]

c. Lack of Accounting for ICFA Fees

In rebuttal testimony, Applicants stated that if ICFA funds were used to fund plant, they should be considered CIAC (less taxes and expenses), but that ICFA funds used for other purposes, such as acquisitions or carrying costs of total water management, should not be treated as CIAC.[112] WUAA states that it takes no position on whether ICFA fees should or should not be classified as CIAC,[113] but argues that "CIAC should only [be] 'removed' from rate base if it was used to finance a purchase that was actually placed into rate base."[114]

Staff states that while Applicants claim that ICFA fees were used to pay for carrying costs and for the acquisition of utilities, Applicants acknowledge that it cannot be demonstrated that the ICFA

[106] *Id.* at 9, referring to Exh. A-48 at 8.
[107] Maricopa Br. at 10.
[108] Maricopa Reply Br. at 8
[109] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 2.
[110] *Id.*
[111] Staff Reply Br. at 2, citing to Tr. at 636.
[112] Co. Br. at 26, citing to Rebuttal Testimony of Company witness Trevor Hill (Exh. A-8) at 22 and Tr. at 46-47; Co. Reply Br. at 16, citing to Rebuttal Testimony of Company witness Trevor Hill (Exh. A-8) at 26-29 and Rebuttal Testimony of Matthew Rowell (Exh. A-13) at 34-35.
[113] WUAA Br. at 4.
[114] *Id.*

fees were used only for that purpose.[115] Staff notes that the ICFA fees are accounted for only on Global Parent's books, and not on the books of Global Utilities, and are not kept separate from other funds available to Global Parent.[116] Global Parent has been depositing the ICFA fees in the same bank account as money provided by investors, bond proceeds, and revenues from the utilities.[117] Staff states that the problem with such accounting for the ICFA fees, as Applicants acknowledged, is that cash is fungible.[118] Staff states that the end result of such accounting is that there is no way to determine whether the ICFA fees were used for the acquisition of utilities and to cover carrying costs, or whether they were in fact used to construct plant.[119] Staff points out, however, that the ICFA fees are only collected in instances where a developer or landowner needs plant for utility service, and this is why Staff views the ICFA fees as an integral part of Global Utilities' financing of plant used to supply utility service.[120] As evidence in support of its position that ICFA fees were used to construct plant, Staff also points to the fact that the Utilities' books show high plant balances, but zero CIAC balances, for types of plant that are normally paid for by developers with contributions, such as 8 and 10 inch mains.[121] Staff states that since Global ownership, the Global Utilities have not accepted "meaningful" CIAC, and the two largest Global Utilities have accepted none at all.[122]

RUCO urges that the Commission not be persuaded by Applicants' argument that there is no accounting relationship between the ICFAs and utility plant.[123] RUCO states that it is not reasonable to assume that Global Parent could collect the ICFA fees absent its relationship to the Utilities.[124] RUCO argues that if adopted, Applicants' proposal to treat the developer contributions not as CIAC, but as a Global Parent "investment" of ICFA proceeds in the form of equity, would result in Global Parent earning a return on cost-free, non-investor supplied capital.[125]

Maricopa points to the language of the ICFAs themselves as proof that the ICFAs are a

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[115] Staff Br. at 28, citing to Tr. at 172-173.
[116] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 9, 12.
[117] Staff Br. at 23, citing to Tr. at 152; Tr. at 153.
[118] Staff Br. at 23, citing to Tr. at 152.
[119] Staff Br. at 23.
[120] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 12.
[121] *Id.*
[122] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 12.
[123] RUCO Br. at 5.
[124] RUCO Br. at 4, citing to Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 12.
[125] RUCO Reply Br. at 6.

promise to provide plant in exchange for the money from developers.[126] Maricopa states that the ICFAs provide, in clear terms, that Global Parent will construct or cause the construction of plant to serve developments in exchange for the payment to Global Parent and that under no circumstances will Global Parent ever require additional payments for plant.[127]

Applicants assert that the proposed imputation of CIAC for all the ICFA fees is erroneous because the imputation ignores that some of the plant existed prior to the collection of ICFA fees; the imputation ignores that some of the plant was funded with AIAC; the imputation ignores that some plant was funded by Industrial Development Authority ("IDA") debt; the imputation does not allocate any of the ICFA fees to acquisitions; the imputation is for gross ICFA fees instead of for after-tax net income to Global Parent from ICFAs; and the imputation does not consider the carrying costs associated with total water management facilities.[128] WUAA argues that money that comes from a specific source and is earmarked for a specific purpose must be spent on that purpose, and that to the extent IDA bonds were used to finance a portion of plant, then that same portion of plant was not also financed by another source.[129] WUAA argues, and Applicants agree, that if items purchased by CIAC are not placed into rate base "it would be an accounting error to simply assign, or somehow impute CIAC to rate base and subtract it."[130]

Staff points out that while Applicants were aware of Staff's position taken in the Staff Report issued in Docket No. W-00000C-06-0149 ("Generic Docket"),[131] Applicants included no substantive

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[126] Maricopa Reply Br. at 2-4
[127] Maricopa Reply Br. at 4
[128] Co. Br. at 30.
[129] WUAA Br, at 8.
[130] WUAA Br. at 5; Co. Reply Br. at 23.
[131] Docket No. W-00000C-06-0149, *In the matter of the Commission's generic evaluation of the regulatory impacts from the use of non-traditional financing arrangements by water utilities and their affiliates*, was opened on March 8, 2006. Staff solicited comments from water utilities and issued a Staff Report on October 6, 2006, to which responses were filed in February 2007. No further action has been taken in that docket. The Staff Report concluded as follows:

> With respect to the appropriate regulatory treatment of the nontraditional funding mechanisms, Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development. Staff concludes that ICFA type arrangements can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization. If such costs are incurred at the parent level and subsequently contributed to the regulated utility, the cost of such contributed capital should be determined on a case by case basis. However, based on the scenarios contained in this report, Staff would recommend that these costs be treated as advances or contributions instead of equity for ratemaking purposes.
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> Exh. A-38 at 7.

documentation with its direct testimony evidencing the ICFA fees were used for the purposes Applicants assert, to cover carrying costs and fund the acquisition of utilities.[132] Staff states that as Applicants acknowledge, until Applicants filed rejoinder testimony, Applicants presented no detailed information showing that it used the fees received pursuant to the ICFAs for acquisitions and to cover carrying costs.[133] In rejoinder testimony, as evidence that the ICFA fees were used to fund the acquisition of utilities and to cover carrying costs, Applicants presented a table that its witness stated "spells out the use of the ICFA funds since Global's inception."[134] Attached to the testimony was an excerpt from an audited financial statement for 2008 and some bank statements.[135] RUCO states that the exhibits, which address only a small portion of the ICFA proceeds, fail to disclose what the ICFA proceeds were used for.[136] Staff points out that Applicants' witness acknowledged that the documents only provide a few examples of how Global used the ICFA fees.[137]

RUCO argues that while no direct accounting link of the ICFA proceeds to the Utilities has been demonstrated, neither has a direct accounting link to acquisitions.[138] RUCO argues that even if Applicants could prove that the ICFA proceeds were used for acquisition and associated carrying costs, it is a distinction that makes little difference, because there is no dispute that developers are the providers of the ICFA proceeds.[139] RUCO states that when developers make contributions in exchange for current or future service, and a utility uses the developer contributions to fund acquisitions, those developer-provided funds free up other utility funds for other uses.[140]

Staff states that even if, for the sake of argument, the Commission were to agree that Applicants have demonstrated that the ICFA fees were used to fund the acquisition of water utilities and to cover carrying costs and that none of the ICFA fees were used for utility plant, Staff's recommendation remains unchanged, for the following reasons: First, Staff believes that Applicants' attempted distinction between constructing plant with developer funds, in order to provide service,

[132] Staff Br. at 25, citing to Direct Testimony of Company witness Matthew Rowell (Exh. A-12) at 8, 12.
[133] Staff Br. at 26, citing to Tr. at 151.
[134] Rejoinder Testimony of Company witness Trevor Hill (Exh. A-9) at 18.
[135] *Id.* at Hill-1 and Hill-2.
[136] RUCO Reply Br. at 4-5.
[137] Staff Br. at 26, citing to Tr. at 129.
[138] RUCO Reply Br. at 6.
[139] *Id.* at 5.
[140] *Id.* at 5, 6.

and the acquisition of a utility with developer funds, in order to provide service, is without merit.[141] Second, Staff does not believe there is a discrepancy or contradiction between using the ICFA fees directly to construct plant and using the ICFA fees to pay the interest on the IDA bonds that Applicants claim were used to pay for the Southwest Plant,[142] because the result is the IDA bonds become a cost free source of capital for Global Parent.[143] Staff states that neither would it make a difference if it could be shown that the use of IDA bonds to fund plant displaced ICFA funds as a source for the money used to construct plant.[144] Staff asserts that because cash is fungible and ICFA fees were deposited into the same account as investor proceeds and bond proceeds, it makes no difference if the IDA bond proceeds were used or the ICFA fees were used to fund the construction of plant.[145] Staff states that ultimately, it is Staff's position that developer provided funds should be treated as CIAC regardless of how they are used.[146] Staff states that no matter how the transaction is structured, the developer ultimately receives service from one of the Global Utilities in return for paying the ICFA fees.[147]

d. Tax Liability and Global Parent Expenses

Applicants assert that the proposed imputation of CIAC for all the ICFA fees is erroneous because the imputation is for gross ICFA fees instead of for after-tax net income to Global Parent

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[141] Staff Br. at 28.
[142] *Id.* at 28, citing to Rejoinder Testimony of Company witness Trevor Hill (Exh. A-9) at 18.
[143] Staff Br. at 28, citing to Tr. at 885. Staff's witness addressed this issue in response to questions from Staff's attorney as follows:

Q. "Does whether or not evidence is present in this case as to whether those bonds were used to construct plant, does that change Staff's representation in this case as far as the treatment of the ICFA fees?
A. No. No. The company has mentioned that they were using ICFA funds to repay debt, which was used to build plant. So to me they are using the ICFA funds to build plant.
Q. So is this – and again, the bonds that we are talking of, speaking about, have some sort of a cost to them; is that correct?
A. The interest, yes.
Q. And in effect what the company has done is use these fees that it's collected through these ICFA agreements that have no cost; correct?
A. Yes.
Q. Okay. And that is why it doesn't have an impact on the Staff's recommendation in this case?
A. That's correct.

Tr. at 885-886.
[144] Staff Reply Br. at 4.
[145] *Id.* at 4-5.
[146] Staff Br. at 28.
[147] *Id.* at 29.

from ICFAs.[148] Applicants contend that Global Parent could invest ICFA revenues in plant only after it paid its expenses and satisfied its tax liabilities, and that only then would the ICFA fees be available for utility purposes.[149] Applicants state that Global Parent incurred $24,057,683 in tax liability from the total $60,084,123 in ICFA revenues, and therefore calculate net ICFA revenues of $34,859,816.[150] Global Applicants argue that under the matching principle, Global Parent expenses must also be deducted from the ICFA revenues before any imputation of CIAC is made.[151]

i. Tax Liability on ICFA Fees

In regard to the issue of ICFA related tax liability, Staff states that because Global Parent is organized as an LLC, a non-taxable entity, the income from Global Parent flows through to the members untaxed.[152] If a member does not have offsetting tax losses from other sources, the member pays taxes on his or her share of the earnings of the LLC, or if the LLC suffers net losses, those losses can offset the profits from the members' other business interests.[153] Staff states that it appears that members of Global Parent decided that the LLC would make distributions to the members in amounts sufficient to pay the income tax on the earnings of the LLC allocated to each member.[154] Staff states that another decision made by the members was for the Global Parent to account for the ICFA fees received from developers as revenue to the Global Parent, and not as contributions to the Global Utilities, and that this decision resulted in the proceeds from the ICFAs becoming taxable to the members.[155] Staff does not believe that the choice to structure Global Parent and the ICFA contracts in such a way that makes the ICFA proceeds taxable to the members constitutes a valid reason for the Commission to recognize the income tax effect of the ICFA fees on the members' personal income taxes.[156] Staff contends that the ICFA fees replace contributions and advances which are not taxable to a utility and therefore, taxes on the fees should not be recognized.[157]

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[148] Co. Br. at 30.
[149] *Id.* at 33-34.
[150] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 32.
[151] Co. Reply Br. at 19; Co. Br. at 33, citing to Rebuttal Testimony of Matthew Rowell at 35 and Rejoinder Testimony of Matthew Rowell (Exh. A-15) at 6-7.
[152] Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 4.
[153] *Id.*
[154] *Id.*
[155] *Id.*
[156] *Id* at 5.
[157] *Id.*

Applicants argue that Global Parent's choice of corporate structure is irrelevant, because even if Global Parent were organized as a corporation, the ICFA fees would still generate a tax liability for Global Parent.[158] WUAA argues that "taxes paid to the IRS on ICFAs did not go into rate base and are not a component of the items to be removed from rate base,"[159] and that if ICFAs are determined to be taxable CIAC, then it should be treated net of taxes.[160]

Applicants argue that the only difference is that instead of Global Parent directly paying the government, the funds are paid to the members, who then pay the government.[161] However, as Staff points out, Applicants provided no evidence to show whether the LLC members in fact realized a tax liability on the ICFA fees.[162] The tax liability of $24,057,683 represents Global Parent's calculated estimation of the personal tax liability of its members.[163] Global Parent chose to distribute this amount to its members as a means of compensating its members in the amount of an estimated personal income tax liability of the members.[164] The $24,057,683 in "income tax expense" referenced by Applicants is not an expense of Global Parent at all, but instead represents only the estimated expense of its individual members, which Global Parent chose to distribute to them as compensation. Staff correctly notes that the ICFA fees replace contributions and advances which are not taxable to a utility and therefore, taxes on the fees should not be recognized. As Staff states, the issue of the members' tax liability generated by the ICFA fees need not be addressed for the same reason the Commission does not address the tax liability of the shareholders of a utility formed as a corporation: the tax liability of investors is not part of the calculation of revenue requirement.[165] For these reasons, it would be inappropriate to recognize the "tax liability" as a deduction to developer provided funds.

ii. Other Global Parent Expenses

Applicants assert that Staff's imputation of CIAC "effectively leaves all expenses at the

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[158] Co. Br. at 34.
[159] WUAA Br. at 8.
[160] *Id.* at 9.
[161] Co. Reply Br. at 20
[162] Staff Reply Br. at 4.
[163] Tr. at 169-170.
[164] *Id.*
[165] *See* Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 5.

Global Parent, many of which would be borne by the utilities if Global parent wasn't carrying them."[166] Applicants' witness testified that the Global Parent annual "expenses not allocated to utilities" was $3,930,676,[167] but also testified that Global Parent's 2008 financial statements showed that Global Parent incurred "up to $9.13 million of expenses which could have been passed down to the utilities were it not for the revenue provided by the ICFAs. This example only considers 2008; similar expenses were borne by Global Parent in previous years as well."[168]

Other than income tax expenses, Applicants fail to specify which Global Parent expenses they contend should go to offset the ICFA fees. Applicants do not document the type of such expenses, or even the exact amount of such expenses, and therefore provide no basis upon which to make a deduction from the developer-supplied ICFA funds.

4. Conclusion

There is no dispute that Global has exercised its total water management approach in providing utility service within the service territories of the Utilities included in these consolidated rate applications. Neither is it disputed that landowners and developers in the service territories of WUGT, Palo Verde, and Santa Cruz paid Global Parent ICFA fees pursuant to ICFA agreements, through which Global Parent agreed to provide utility service to the landowners/developers. Applicants request that the Commission put aside the normal regulatory ratemaking treatment of contributions that were given in exchange for utility service, because Global's innovative means of collecting and spending the contributions allows it to pursue total water management goals. This Commission is tasked with protecting the interests of utilities and ratepayers alike, and this important task requires a careful balancing. One of the foremost tenets of ratemaking is unchanging, however, when making a determination that affects both utility and ratepayer, and that is the inclusion in rates of the cost of providing utility service. We must ensure that captive monopoly ratepayers pay for the costs of providing utility service, but no more. Part of that cost of service includes a fair and reasonable return to the provider of the utility service on funds that it has invested in the utility in order to provide reasonable and adequate service to its ratepaying customers. Here, Applicants have

166 Rejoinder Testimony of Matthew Rowell (Exh. A-15) at 6.
167 Rebuttal Testimony of Matthew Rowell at 35.
168 Rejoinder Testimony of Matthew Rowell (Exh. A-15) at 6.

not "invested" ICFA funds for the purpose of providing utility service. Rather, developers have provided ICFA funds to Global Parent which, commingled with equity and debt provided by Applicants' parent company, have been used for the provision of utility service, whether through acquisitions, carrying costs, or plant construction. Allowing developer contributed funds to remain in rate base would require captive ratepayers to pay Applicants a return on developer-provided ICFA funds, which would violate fundamental ratemaking principles and would unjustly and unreasonably enrich Applicants at ratepayer expense. For the reasons set forth in the arguments of Maricopa, RUCO and Staff, Staff's CIAC adjustments are just, reasonable, and in the public interest, and will be adopted.

C. Fair Value Rate Base Summary

Applicants did not prepare schedules showing the elements of Reconstruction Cost New Rate Base ("RCND").[169] Instead, Applicants requested that their Original Cost Rate Base ("OCRB") be treated as their Fair Value Rate Base ("FVRB").[170] Based on the discussion of rate base issues set forth above, we find the Applicants' FVRB to be as follows:

Palo Verde	Valencia-Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia-Town
$53,314,083	$929,057	$2,251,164	$39,155,692	($4,186,150)	$4,240,018

IV. OPERATING INCOME

A. Test Year Revenues

The parties agreed that the Utilities' adjusted test year revenues were as follows:

	Palo Verde	Valencia - Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia - Town
Adjusted Test Year Revenues	$6,643,813	$380,474	$473,527	$9,409,861	$259,304	$3,037,462

B. Test Year Operating Expenses

Applicants, RUCO and Staff propose several uncontested adjustments to the Applicants' test year operating expenses including the Applicants' proposed cost allocation methodology, which were

[169] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 16.
[170] *Id.*

adopted. Applicants state that their filings reflect that Global laid off 40 percent of its staff since September 1, 2008, eliminated all bonuses during the test year, reduced overtime, and eliminated all cost of living increases and pay raises.[171] Applicants further states that Global's shareholders continued to pay 84 percent of executive compensation costs, which led to the Applicants requesting recovery of only $162,428 in executive compensation expense in this case.[172]

Operating income issues remaining in dispute are discussed below.

1. Bad Debt Expense

Applicants and Staff disagree on the amount of bad debt expense to be recovered in rates. The parties recommendations on an appropriate level of bad debt expense, according to their final schedules, is as follows:

	Palo Verde	Valencia-Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia-Town
Applicants	$95,689	$4,120	$473,527	$86,450	$2,451	$42,898
RUCO[173]	$95,689	$4,120	$473,527	$86,450	$1,191	$42,898
Staff	$58,293	$1,154	$787	$41,960	$864	$6,417

Applicants' proposed bad debt expense is based on its test year bad debt expense account balance, and not on actual test year bad debt write offs.[174] RUCO states that the actual, unadjusted test year bad debt expense is a fair and reasonable reflection of the historical annual amount.[175] RUCO does not address the issue raised by Staff, that actual bad debt expense is demonstrated by actual write-offs.[176]

Staff recommends that Applicants' allowable bad debt expense recovery be based on actual uncollectible accounts receivable, as determined by examining Applicants' bad debt write-offs.[177]

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[171] Global Br. at 6-7, citing to Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 17, and to Direct Testimony of Company witness Jamie Moe (Exh. A-21) at 4.
[172] Co. Br. at 7, citing to Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 17, and Rejoinder Testimony of Company witness Trevor Hill (Exh. A-9) at 3, 5, and Tr. at 35, 235.
[173] RUCO's amounts differ from Applicants only for WUGT, and this sole difference appears to be due to a clerical error, as RUCO's final schedules show a different "as filed" amount than does Applicants' for WUGT only.
[174] Co. Br. at 59.
[175] RUCO Br. at 14.
[176] *Id.*
[177] Staff Br. at 5, citing to Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 23.

Staff asserts that Applicants' proposed bad debt expense is an estimate, as opposed to its actual experienced test year bad debt expense as demonstrated through write-offs.[178] Staff argues that Applicants' proposal should be rejected in favor of a methodology that determines the amount of bad debt expense recovered in rates to instead be based on actual uncollectible accounts receivable.[179]

Applicants state that under the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") bad debt write offs are not defined the same as bad debt expense,[180] and that while it did not occur in this case, a utility could manipulate bad debt write offs to increase them during a test year.[181] Applicants assert that its proposal is based on the more sound practice of basing bad debt expense on its actual test year bad debt expense account balance, and not on actual test year bad debt write offs.[182] Applicants are correct that the NARUC USOA definitions differ, and that it would be possible to manipulate write offs. However, the NARUC USOA provides that the purpose of the bad debt expense account is to be charged with an amount sufficient to provide for losses from uncollectible utility revenues.[183] The uncollectible accounts receivable account is to be credited for actual losses, with records maintained to show write offs.[184] While attempted manipulation might be possible, in that event, an audit would demonstrate whether the timing of write offs was made in bad faith, and corresponding adjustments could be made to prevent overcollection of expenses. A utility's bad debt expense is best measured by test year uncollectible account actual write offs, and not by the balance of its bad debt expense account. We therefore adopt Staff's bad debt expense adjustments.

2. Property Tax Expense

Applicants propose a property tax adjustor mechanism. For the reasons discussed below, we do not adopt the adjustor mechanism. The computation of test year property tax expense is not in dispute, and therefore allowable property tax expense will be calculated in the usual manner.

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[178] Staff Br. at 6, citing to Tr. at 633-634, Exh. A-41 at 65, 144, and Exh. A-42 at 68, 144.
[179] Staff Br. at 6.
[180] Co. Br. at 59.
[181] *Id*, citing to Tr. at 634.
[182] Co. Br. at 59.
[183] *See* Exhs. A-41, A-42.
[184] *See id.*

3. Wages and Expenses Reclassification

Staff proposed adjustments reclassifying Salaries and Wages expense, and Pension and Benefits expense to the NARUC USOA account for Contract Services – Management Fees.[185] This adjustment has no net effect on operating income, but Staff made it in recognition of the fact that all work performed for the Global Utilities is done through contract services.[186] Applicants object to the adjustment on the basis that the reclassification would lump employee expenses with other outside contract services typically found in this account.[187] Applicants argue that keeping the accounts in the manner it does provides more transparency.[188] RUCO does not oppose Applicants' proposal to leave the expenses in Salaries and Wages and Pension and Benefits accounts.[189] As regards transparency, it is incumbent upon Applicants to ensure that adequate records are kept to support its expenses, whether at the utility level or at the level of the corporate structure which Global has chosen to implement. Applicants have no employees, and therefore no Salaries and Wages expense, or Pension and Benefits expense. Staff's adjustment is in keeping with the NARUC USOA and will be adopted.

4. Depreciation Expense

In conjunction with their reclassification of ICFA fees as CIAC, Staff and RUCO made adjustments to test year depreciation expense for Palo Verde, Santa Cruz and WUGT to account for amortization of CIAC.[190] Staff's final schedules include an explanation of the basis of its adjustments, and RUCO did not take issue with Staff's recommended adjustments. Staff's adjustments to depreciation expense will be adopted.

5. Operating/Licensing Agreements Fees (Franchise Fees)

Applicants request authority to pass through fees associated with Operating/License agreements. As discussed below, we find it more appropriate to allow recovery of test year franchise fee-type expenses in rates, as recommended by RUCO. Global Utilities states that if its proposed pass through surcharge is rejected, it would accept RUCO's proposed adjustments. RUCO's

[185] Direct Testimony of Staff witness Crystal Brown (Exh. S-60) at 10-11.
[186] *Id.*
[187] Co. Br. at 60.
[188] *Id.*
[189] RUCO Reply Br. at 11.
[190] Staff Final Scheds. CSB-14 for Palo Verde, Santa Cruz and WUGT; RUCO Br. at 15, citing to Surrebuttal Testimony of Rodney Moore (Exh. R-2) at 5-6, and Sched. SURR RLM-7.

proposed adjustments will therefore be adopted, in the amount of $380,471 for Palo Verde and $330,017 for Santa Cruz.[191]

C. Pass-Through and Adjustor Mechanism Expense Recovery Requests

1. Central Arizona Groundwater Replenishment District ("CAGRD") Fees

a. CAGRD Fee Pass Through Request

CAGRD assesses fees directly on utilities that possess a Designation of Assured Water Supply ("DAWS").[192] Applicants propose that they be permitted to recover CAGRD fees as a pass through expense, as it is a tax levied on actual consumption of water.[193] The CAGRD rate would be applied to individual customers' consumption.[194] Applicants assert that a pass through mechanism is appropriate because the fees are based on consumption and therefore entirely caused by the end-user, and the amount of the assessment is known and measureable based on a particular user's consumption, given the structure of the CAGRD fees.[195] Applicants state that while none of the Utilities are currently paying CAGRD fees, WUGT is working on the completion of a DAWS, and thus WUGT expects to be paying the CAGRD fees in the near future.[196] Applicants state that the CAGRD is currently proposing legislation that would establish bonding authority for the acquisition of water to meet its replenishment obligations, and the proposal includes fees associated with the enrollment in the CAGRD based on the obligations undertaken by the CAGRD as a consequence of that enrollment, such that the bonds would be funded by fees assessed to designated providers.[197] Applicants state that if the bonding levy is passed, those costs should also be passed through.[198] Applicants argue that implementation of a CAGRD pass through will assist Utilities in converting to a DAWS.[199] Applicants state that in the West Valley, a DAWS is critical for coordinating numerous interested parties and ensuring long term availability of groundwater.[200] Applicants propose that in

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[191] RUCO Final Scheds. SURR RLM-7, Adj. 3 to "Contractual Services – Other" for the Palo Verde and Santa Cruz utilities.
[192] Direct Testimony of Company witness Jamie Moe (Exh. A-21) at 16-18.
[193] *Id.*
[194] *Id.*
[195] Co. Brief at 52-53, citing to Rebuttal Testimony of Company witness Jamie Moe (Exh. A-21) at 10.
[196] Co. Brief at 52, citing to Direct Testimony of Company witness Jamie Moe (Exh. A-21) at 19 and Tr. at 112, 435.
[197] Direct Testimony of Company witness Jamie Moe (Exh. A-21) at 19.
[198] *Id.*
[199] Co. Br. at 53.
[200] *Id.*

the alternative to a pass through, that the Commission authorize it to implement an adjustor mechanism similar to that recommended by Staff in the pending rate case in Docket No. WS-02987A-08-0180.[201]

Santa Cruz is the only Global Utilities water company that has received a DAWS.[202] WUGT has filed an application for, but has not yet received a DAWS.[203] Staff recommends that Applicants' request for pass through recovery of CAGRD fees be denied because no Global Utilities are currently being directly charged the CAGRD fees, and it is unknown when the CAGRD fees will need to be paid, how much the fees will be, or which of the Utility customers will need to pay the fee.[204] Staff argues that because the volume of excess groundwater that will be pumped in 2010 is not known, the CAGRD fees cannot be known with any degree of certainty.[205] Staff states that in the event the Commission determines that a mechanism should be in place for Applicants to recover future CAGRD assessments, that it would be more appropriate to develop an adjustor mechanism similar to that Staff recommended in the pending rate case in Docket No. WS-02987A-08-0180.[206]

Maricopa argues that Applicants should not be permitted to take advantage of an accelerated cost recovery process for unsubstantiated costs not yet incurred.[207] Maricopa also states that it concurs with Staff's position regarding CAGRD fees in its entirety as presented by the testimony of Staff's witness.[208]

RUCO objects to implementation of a CAGRD adjustor mechanism for the same reasons it objects to the proposed Distributed Energy Recovery Tariff, discussed below.[209] RUCO does not oppose Applicants' recovery of CAGRD fees as an operating expense, once the fees are actually assessed.[210] RUCO recommends that this issue be addressed in a subsequent rate case filing after Applicants have enrolled in the CAGRD program and are paying fees.[211]

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201 *Id.*
202 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 31.
203 *Id.*
204 Staff Br. at 38.
205 *Id*, citing to Tr. at 431, 436.
206 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 38.
207 Maricopa Br. at 18.
208 *Id*, citing to Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 37-38.
209 RUCO Reply Br. at 11.
210 *Id.* at 17, RUCO Reply Br. at 11.
211 RUCO Br. at 17.

b. Long Term Storage Credits

In its discussion of Applicants' requested CAGRD fee recovery, Staff raised an issue and made recommendations on an issue related to the CAGRD.[212] Staff states that one way for a utility to reduce the amount of groundwater it pumps is to participate in the Arizona Department of Water Resource's ("ADWR") water recharge program and accumulate long term water storage credits for later use.[213] This program was established by the Arizona Legislature to encourage the use of renewable water supplies, and it provides a vehicle by which surplus supplies of water can be stored underground and recovered at a later date.[214] Persons who desire to store water through the Recharge Program must receive appropriate permits from ADWR.[215] The type of permit received depends on the type of the storage facility, i.e. storage of water or in-lieu water.[216] Under the program, as water is stored and not withdrawn, long term water storage credits can be earned by the permit holder storing the water.[217] These credits can be used to establish an Assured Water Supply for a CAWS or DAWS necessary to acquire a property report from the Arizona Department of Real Estate.[218] These credits may also be bought and sold like any other commodity. The owner of the long term storage credit may never take delivery of the water and the water storage credit may be purchased and sold any number of times.[219]

In its investigation of this issue, Staff reviewed the Annual Status Report on the Underground Water Storage, Savings and Replenishment Program for 2008 published by ADWR's Water Management Division.[220] Staff states that the report lists the parties who participate in the program and the permits they have received.[221] Staff explains that a permit is required to operate a water storage facility, to store water and to create a water storage account in which to accumulate water storage credits, and that according to the report, during 2008, in the Phoenix AMA, West Maricopa

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212 *See* Staff Br. at 37-38.
213 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 34.
214 *Id.*
215 *Id.*
216 *Id.*
217 *Id.*
218 *Id.*
219 *Id.*
220 *Id* at 34-35.
221 *Id* at 35.

Combine, the intermediate parent of the three West Valley Utilities, held permits for underground water storage facilities.[222] The report indicates that WUGT, Valencia Water Company and Santa Cruz held water storage permits, and WUGT, Water Utility of Greater Buckeye (now Valencia-Greater Buckeye), and Valencia Water Company held permits for wells to recover stored water.[223] The report also shows that only WUGT, Valencia Water Company and West Maricopa Combine held long term storage accounts.[224] WUGT and Valencia enter incentive recharge contracts with the Central Arizona Project ("CAP") which give the two Utilities the right to withdraw a certain amount of "excess" water from the CAP canal for the purposes of recharge.[225] After the water has been stored for one year, recharged, the Utilities earn water storage credits.[226]

Staff states that according to a purchase agreement filed with ADWR, on December 31, 2008, Global sold 2007 and 2008 long term water storage credits to Aqua Capital Management, LP ("Aqua Capital") for $3,392,263.[227] Attached to the purchase agreement is a form required by ADWR for the transfer of the credits.[228] The transfer document indicates that the seller of the credits is WUGT, and not Global Parent.[229] Staff states that the Global Parent consolidated financial statements indicate a value of the stored water credits at $1,175,675.[230] Staff indicates that the Global Utilities have not received any compensation from Global Parent for the sale, transfer or use of their water storage credits.[231]

Based on its understanding that holders of water storage credits can use them to reduce the amount of groundwater the holder pumps, thus reducing the amount they pay in CAGRD assessments, Staff states that the Utilities have given away the right to withdraw water they could use when they receive membership in the CAGRD.[232] Staff concluded that in order to preserve the benefits of the sale of storage credits for ratepayers, the Utilities should recognize (i.e., record) a

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[222] *Id* at 34-35.
[223] Direct *Id* at 35.
[224] *Id.*
[225] *Id.*
[226] *Id.*
[227] *Id.*
[228] *Id.* at 35-36.
[229] *Id* at 36.
[230] *Id.*
[231] *Id.*
[232] *Id* at 37.

regulatory liability equal to the net sales proceeds, so that the Commission can determine the appropriate method for ratepayers to benefit from the regulatory liability in a future rate proceeding.[233] Staff also concluded that the Utilities should file, every year, as a compliance filing in this docket, the revenue received by Global Parent or its assignee(s) from the sale of water storage credits generated by each Utility during the current year and for each prior year.[234]

Applicants state that the Utilities have "absolutely not" given away their right to withdraw water they could use when they receive membership in the CAGRD.[235] Applicants state that Global Parent and its subsidiary West Maricopa Combine owned and operated the Hassayampa Recharge Facility, located in the West Valley.[236] Applicants state that in order to be the beneficiary of sales of long term storage credits, a utility must acquire the water, pay to recharge that water, and pay for the administration of the process, and that none of the Global Utilities do that.[237] Applicants further state that none of the Global Utilities incur any costs as a result of the long term storage credits.[238] Applicants state that the long term storage credits sold to Aqua Capital were created with incentive recharge water, and involve no long term right to withdraw water.[239] Applicants state that WUGT and Valencia-Greater Buckeye have subcontract rights associated with CAP water, and in no case was that water used to create recharge credits.[240] Applicants state that through incentive recharge, Global replaced every drop of water pumped by the Utilities with renewable CAP water.[241]

Applicants explain that incentive recharge water is available for use only as it is flowing down the CAP canal, that there is no right to it unless one has paid for it, and that once past, it is gone and cannot be accessed.[242] Applicants state that the Global Utilities do not have the capacity to acquire the incentive recharge water at the temporal instant it is available.[243] Applicants state that the Utilities do not own the recharge facility, do not acquire the water, do not pay to recharge the water,

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[233] *Id.*
[234] *Id.*
[235] Rebuttal Testimony of Graham Symmonds (Exh. A-25) at 9.
[236] *Id* at 8.
[237] *Id.*
[238] *Id.*
[239] *Id.* at 9.
[240] *Id.*
[241] *Id.*
[242] *Id* at 10.
[243] *Id.*

do not administer the recharge project, and have not paid to have their groundwater pumping nullified through recharge, and in no way are financially involved in the long term storage credits transaction.[244]

Applicants are opposed to Staff's recommendation because while it would not immediately impact rate base, the recording of a regulatory liability would have an immediate impact on the Utilities' balance sheets, as well as a future impact on rate base.[245] In addition, Applicants assert that the recommendation has not been explained in sufficient detail for Applicants to be able to comply with it, such as how to calculate "net sales proceeds," or which Utilities should record the liabilities or how the net sale proceeds should be allocated between the Utilities.[246] In regard to the reporting requirements, Applicants assert that they would make no sense because Global Parent and West Maricopa Combine sold the Hassayampa Recharge Facility effective November 30, 2009, at a loss of $5,856,764.[247]

c. Conclusion

It is clear is that the relationship between Global Parent's rights, benefits and obligations associated with the ownership, operation and sale of the Hassayampa Recharge Facility and the expenses that the Utilities may incur as a result of membership in the CAGRD requires further exploration prior to Commission approval of Global Utilities' recovery of yet-to-be-incurred CAGRD expenses. After considering Applicants' response to Staff's conclusions stemming from its investigation of the sale of long term storage credits, we do not find it necessary at this time to adopt Staff's recommendations.

Under the facts of this case, we also do not believe it is in the public interest to approve a CAGRD adjustor mechanism for the Utilities involved in this rate application at this time. Instead, the CAGRD fee expense recovery issue should be addressed, as RUCO recommends, in a subsequent rate case filing after Applicants have enrolled in the CAGRD program and are paying fees. At that time, actual costs would be known, and the relationship between Global Parent's water storage

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244 *Id* at 10-11.
245 Co. Br. at 57.
246 *Id.*
247 *Id.* at 58, citing to Rejoinder Testimony of Company witness Graham Symmonds (Exh. A-27) at 9-10.

benefits and CAGRD fees paid by the Utilities can be better explored.

2. MOU Operating/Licensing Agreements Fees

Global Parent entered into Memoranda of Understanding ("MOU") with the City of Maricopa, the City of Casa Grande, and the City of Eloy.[248] Applicants request approval of the pass through of some of the expenses incurred pursuant to the MOUs.[249] Pursuant to the MOUs, Global Parent makes two types of payments, one based on a set amount for each new hook-up, and the second based on revenues.[250] Applicants are not requesting any rate recovery of the payments it makes based on new hook-ups.[251] The second fee is a "franchise-like" fee specifically linked to the MOU that allows the Global Utilities to use the public rights of way.[252] Applicants assert that because the fee is based on gross revenues, it is like sales taxes, and it is therefore appropriate for recovery via a pass through mechanism.[253] Applicants state that Global Parent entered into these MOUs in good faith to obtain the numerous benefits to its customers that they provide, recognizing that the municipalities would be entitled to franchise fees upon their demand for a franchise agreement.[254] Applicants state that the Maricopa and Casa Grande City Councils voted to approve the MOUs, and have not chosen to pursue franchise elections at this time.[255]

Staff recommends denial of the requested pass through because the fees are not in fact franchise fees.[256] Staff states that they have not been voted on by the public.[257] Staff contends that permitting such fees to be recovered via a pass through mechanism risks allowing the municipality to place its expenses into utility rates, and that it would discourage complete disclosure of costs on ratepayers' utility bills.[258]

RUCO recommends that Applicants be allowed to recover only franchise fees through an

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[248] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 24 and Hill-7, Hill-8, and Hill-9.
[249] *Id* at 25.
[250] *Id.*
[251] Co. Br. at 55.
[252] *Id.*
[253] *Id.*
[254] *Id* at 56.
[255] RUCO Br. at 8, citing to Direct Testimony of William Rigsby (Exh. R-4) at 16-18.
[256] Staff Br. at 32, citing to Tr. at 876.
[257] Staff Br. at 35.
[258] *Id.*

increase in operating expenses.[259] RUCO recommends that any portion of the franchise fees negotiated through the MOU agreements that are not associated with services typically included in a municipal franchise fee not be recovered in rates.[260] RUCO is concerned with the potential for over-recovery if a pass-through is allowed.[261] RUCO recommends that recovery be limited to three percent of operating revenues, and that a direct pass through to ratepayers not be allowed, in order to ensure that Applicants will recover only franchise fee expenses.[262] RUCO further recommends that the fees be subject to review in the next rate case to ensure that only costs associated with franchise fees are recovered.[263]

Applicants argue that while the fees are not being collected pursuant to a franchise election, elected representatives made the decision to enter into the MOUs.[264] Applicants request that if pass through treatment is denied, that they be allowed recovery through rates as recommended by RUCO.[265] RUCO's recommendations are reasonable and will be adopted.

3. Distributed Energy Recovery Tariff

Applicants request approval of a Distributed Energy Recovery Tariff to provide financing for constructing renewable energy facilities at its wastewater facilities.[266] The methodology would be similar to that of the Arsenic Cost Recovery Mechanism ("ACRM") approved for water utilities in recent years.[267] Under the proposed tariff, the Global Utility would construct the plant, and after construction of the renewable energy plant is completed, the Utility would file an application detailing the cost of the plant, the technical specifications of the plant's operational characteristics and capacities, and its related expenses.[268] Through the application, the Utility would request recovery of a return on the plant, depreciation expense and related expenses, after which a renewable energy surcharge would be imposed, consisting of a monthly minimum and commodity charge

[259] RUCO Br. at 8, citing to Direct Testimony of William Rigsby (Exh. R-4) at 16-18.
[260] *Id.* citing to Direct Testimony of William Rigsby (Exh. R-4) at 14.
[261] *Id.* citing to Direct Testimony of William Rigsby (Exh. R-4) at 16-17.
[262] *Id.* citing to Direct Testimony of William Rigsby (Exh. R-4) at 16-18; RUCO Reply Br. at 8.
[263] RUCO Br. at 8, citing to Direct Testimony of William Rigsby (Exh. R-4) at 16-18.
[264] Co. Br. at 55.
[265] *Id.* at 56.
[266] Direct Testimony of Company witness Jamie Moe (Exh. A-21) at 10.
[267] *Id* at 10-11.
[268] *Id* at 11.

component.[269] Applicants propose that only projects that utilize technologies that qualify as renewable under the Commission's REST rules be allowed recovery under its proposed tariff.[270] In conjunction with providing the Utility with accelerated recovery of the cost of installing the facilities, Applicants propose that customers be provided a credit associated with the Utility's decreased purchased power expense.[271] The credit would be deducted from the return and expenses passed through the tariff's monthly minimum and commodity charges.[272]

Global is currently working to develop a project installing photovoltaic panels in the setback area of the Palo Verde Campus 1 Water Reclamation Facility.[273] The initial phase of the facility is anticipated to be a $1.5 million to $2.0 million installation capable of providing 750 kW to 1 MW of solar power, which represents a production of over 1,500,000 kWh of power annually, and approximately 25 percent of the current annual power consumption of the Water Reclamation Facility.[274]

Maricopa, RUCO, and Staff all oppose approval of the proposed tariff. Staff recommends that the Commission determine the treatment of the costs of installed and operating distributed renewable energy assets during a rate case instead of through Applicants' proposed ACRM-like surcharge mechanism.[275] Staff states that because Applicants have no requirement to implement renewable generation, they should undertake the implementation of distributed renewable generation in the same manner as for any other plant addition.[276] Staff contends that it would be inappropriate for Applicants to be authorized to utilize a mechanism that would shield it from the risk of implementing renewable generation.[277] Staff responds to Applicants' concerns regarding Staff's different position in the recent APS rate case settlement by stating that the issues in this case are very different, and that under Global Utilities' proposal here, all the costs and risks of the distributed

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[269] *Id.*
[270] *Id.*
[271] *Id.*
[272] *Id* at 12.
[273] *Id* at 13.
[274] *Id.*
[275] Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 10.
[276] Staff Br. at 11.
[277] *Id.* at 12.

energy plant would be transferred from the utility to the customers.[278] Staff asserts that because Applicants are not required to generate renewable energy, and because many of its customers are already paying APS, or will soon be paying ED3, a REST adjustor in their monthly electric bill, Applicants' customers should not be required to pay an additional renewable energy adjustor to their water provider as well.[279]

In addition, Staff does not believe that Applicants have adequately demonstrated that the proposed renewable energy generation will result in actual savings to ratepayers.[280] According to Staff's analysis of the example provided in Applicants' testimony, it would take 33 years of ratepayers paying a return on and return of the $2.0 million investment before the savings on the Utilities' electric bill would exceed the size of the investment.[281]

RUCO also recommends denial.[282] RUCO states that while it does not oppose the use of plant additions that employ renewable resources such as solar, or the recovery of their reasonable and prudent costs, RUCO opposes such recovery through the use of an adjustor mechanism.[283] RUCO argues that if approved, the adjustor mechanism would only consider cost increases in one category of expenses and would ignore changes in revenues.[284] RUCO asserts that it has not been shown that the plant costs associated with solar technology are not normal plant expenditures or that they are volatile such that they would justify the extraordinary ratemaking treatment of an adjustor mechanism.[285]

Maricopa states that while it encourages and supports the use and implementation of renewable energy by all utilities providing services to its residents, it concurs with RUCO and Staff that the proposed tariff is not a responsible mechanism for recovery of the associated costs, and asserts that recovery of such costs should instead be addressed in a regular rate case.[286] Maricopa states that it agrees with RUCO's reasoning regarding the lack of necessity for employing an ACRM-

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[278] Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 10.
[279] Staff Br. at 40.
[280] *Id.* at 41.
[281] *Id.*, citing to Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 40-41.
[282] RUCO Br. at 13.
[283] *Id.* at 9, citing to Direct Testimony of William Rigsby (Exh. R-4) at 5.
[284] *Id.* at 9.
[285] RUCO Br. at 13.
[286] Maricopa Br. at 17-18.

like adjustor as a means of recovering such costs, and that it agrees with Staff that Staff's position in the recent APS Settlement does not provide support for Global Utilities' proposed tariff.[287]

Applicants respond that Global cannot pursue renewable projects through the traditional rate process, as recommended by the parties opposing the tariff.[288] Applicants argue that not all adjustors implemented are approved to meet government mandated standards or when an expense is both large and highly variable, and provides as examples APS's DSM adjustor, and adjustors for water utility low-income tariffs.[289] Applicants state that while adjustors should not be approved haphazardly or for every expense, adjustors that support policy objectives such as renewable energy or support for low income customers are particularly appropriate.[290]

We applaud Applicants' initiatives in conservation and environmental stewardship. We also agree that in some cases, adjustors that support policy objectives are appropriate. However, the proposed plant additions not only are not required to meet government mandated standards, but they are also not essential to the provision of utility service by Applicants, and would come at the expense of increased costs to customers at a time when some customers are already finding it difficult to meet their household expenses. We find that in today's economic climate, the benefits of the proposed adjustor do not outweigh the costs to customers, which costs include having them bear the risk of Applicants' plant investments. The proposed adjustor will therefore not be approved.

4. Property Tax Expense Adjustor Mechanism

Applicants believe that property tax expense, which is not within their control, will become increasingly volatile in the near future.[291] Between 2006 and 2008, Santa Cruz's property tax expense increased from $106,204 to $423,523, or 298%.[292] Applicants originally requested a pass through mechanism, but in rebuttal testimony, requested an adjustor mechanism instead.[293]

Staff believes that both the pass-through mechanism as Applicants originally proposed, and

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[287] *Id.*, citing to Direct Testimony of William Rigsby (Exh. R-4) at 6, 7-9, 10; and citing to Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 10.
[288] Co. Reply Br. at 5, citing to Rebuttal Testimony of Company witness Trevor Hill (Exh. A-8) at 5.
[289] Co. Br. at 4.
[290] *Id.* at 6.
[291] *Id.* at 53.
[292] Co. Final Schedule Santa Cruz E-2.
[293] Co. Br. at 53, citing to Rebuttal Testimony of Company witness Jamie Moe (Exh. A-22) at 8.

the adjustor mechanism would be inappropriate and unnecessary.[294] Maricopa concurs with Staff, and states that it wishes to clarify that the Company's reference to a fluctuation in the construction sales tax rate is misleading because the construction sales tax neither relates to nor has any effect upon property taxes.[295] RUCO is also in agreement with Staff that an adjustor mechanism is not an appropriate method of recovery for such a routine expense as property tax.[296]

Staff and RUCO both recommend a property tax adjustment to operating income instead.[297] For the same reasons that it argues against approval of the proposed distributed renewable energy tariff, RUCO recommends denial of the proposed property tax adjustor.[298] Staff asserts that pass through mechanisms are used for items that are known and measurable, easily calculated, or based only on a single factor, such as sales or revenue, and that Applicants' property taxes do not satisfy this criteria as the revenue input is an estimate.[299] Staff explains that property tax expense is clearly not known and measurable, because the gross revenue is only one variable in the property tax expense calculation.[300] Staff also argues that an adjustor mechanism would also be inappropriate, because Applicants' property tax expenses do not meet the criteria of constituting a highly volatile expense, because they are not fluctuating to a degree that would be considered volatile.[301] Staff also argues that Applicants' property tax expenses, which according to Applicants, range from 2.7 percent to 6.4 percent of operating expenses, do not constitute a significantly large percentage of total operating expenses to merit an adjustor mechanism.[302]

The evidence presented demonstrates an increase in property tax expense, but not volatility. Neither a pass through nor an adjustor mechanism are appropriate methods for recovery for such a routine expense as property tax, and neither will be authorized at this time. We will instead authorize property tax expense recovery in the usual forward looking manner for Applicants in this proceeding.

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[294] Staff Br. at 5.
[295] Maricopa Br. at 18.
[296] RUCO Reply Br. at 9.
[297] Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 25; Surrebuttal Testimony of Staff witness Crystal Brown (Exh. S-7) at 10; RUCO Reply Br. at 9.
[298] RUCO Reply Br. at 9.
[299] Staff Br. at 5, citing to Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 25-26.
[300] *Id.*
[301] *Id.*, citing to Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 26.
[302] *Id.*

If property taxes become volatile as predicted by Applicants, they can present evidence of volatility in a future rate proceeding and renew their request.

D. Operating Income Summary

	Palo Verde	Valencia - Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia - Town
Adjusted Test Year Revenues	$6,643,813	$380,474	$473,527	$9,409,861	$259,304	$3,037,462
Adjusted Test Year Operating Expenses	$6,128,842	$355,865	$561,703	$7,231,606	$226,183	$3,585,808
Adjusted Test Year Operating Income	$514,971	$24,609	($88,176)	$2,178,255	$33,121	($548,346)

V. COST OF CAPITAL

The parties' rate of return recommendations based on their weighted average cost of capital ("WACC") recommendations for each of the utilities/divisions are as follows:

	Applicants	RUCO	Staff
Palo Verde	8.34%	8.03%	8.30%
Valencia-Greater Buckeye	8.65%	8.03%	8.10%
Willow Valley	8.65%	8.03%	8.20%
Santa Cruz	8.49%	8.03%	8.50%
WUGT	8.65%	N/A (8.03% Operating Margin)	N/A (10.0% Operating Margin)
Valencia-Town	8.65%	8.03%	8.70%

A. Capital Structure

1. Parties' Capital Structure Recommendations

	Applicants	RUCO	Staff
	% Debt/Equity	% Debt/Equity	% Debt/Equity
Palo Verde	45.30 / 54.70	37.89 / 62.11	45.30 /54.70
Valencia- Greater Buckeye	37.89 / 62.11	37.89 / 62.11	54.90 /45.10
Willow Valley	37.89 / 62.11	37.89 / 62.11	40.00 /60.00
Santa Cruz	43.90 / 56.10	37.89 / 62.11	43.90 /56.10
WUGT	37.89 / 62.11	N/A	N/A
Valencia-Town	37.89 / 62.11	37.89 /62.11	40.00 /60.00

2. Discussion

Palo Verde and Santa Cruz have 100 percent equity on their books, but for purposes of this rate case, Applicants have agreed to impute Industrial Development Authority of Pima County tax-free bond debt issued by Global Parent ("IDA Bonds") to those utilities, as the IDA Bond proceeds were used to fund projects for Palo Verde and Santa Cruz.[303] For the remaining utilities, Applicants originally proposed their actual capital structures, but now accept RUCO's proposed hypothetical capital structure as a compromise.[304]

RUCO's capital structure recommendation is a composite based on the combined amounts of long term debt and common equity of each of the six utilities/divisions.[305] RUCO states that its recommended capital structure produces a lower weighted cost of common equity which is consistent with the lower risk that the Global Utilities face when compared to the more leveraged companies used in RUCO's proxy.[306] RUCO further states that its composite capital structure recommendation is close to the 40 percent debt/60 percent equity capital structure the Commission has stated is in line with the industry average.[307]

Staff's recommended capital structures for Palo Verde and Santa Cruz are based on Applicants' proposed capital structures for those utilities.[308] For Willow Valley and Valencia Town, Staff proposed hypothetical capital structures of 40 percent debt/60 percent equity in lieu of the actual capital structure of 18.7 percent debt/83.3 percent equity for Willow Valley, and 32.8 percent debt/67.2 percent equity for Valencia-Town originally proposed by Applicants.[309] As a starting point for Valencia-Buckeye, Willow Valley and Valencia-Town, Staff removed the amount of the acquisition adjustments paid for those utilities, which brought the capital structures down to 54.9 percent debt/45.1 percent equity for Valencia-Buckeye, 23.3 percent debt/76.7 percent equity for

[303] From 2006 through 2008 Global Parent acquired a total of $115,180,000 in IDA Bonds. The IDA Bonds were issued in three series: 2006, 2007, and 2008. At the time of issuance for each series, Global Parent identified specific capital expansion and improvements to Santa Cruz's water system and Palo Verde's wastewater and recycled water systems. Direct Testimony of Company witness Matthew Rowell (Exh. A-12) at 23, Attachment MJR-3.
[304] Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 40.
[305] RUCO Br. at 18.
[306] *Id*, citing to Direct Cost of Capital Testimony of RUCO witness William Rigsby (Exh. R-6) at 51.
[307] *Id.* at 19.
[308] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 26-28.
[309] *Id.*

Willow Valley and 32.8 percent debt/67.2 percent equity for Valencia Town.[310] Because the resulting structures for Willow Valley and Valencia Town would still be weighted heavily toward equity, Staff instead recommends a 40 percent debt/60 percent equity structure for them.[311] Staff believes the hypothetical capital structures are necessary to protect Willow Valley and Valencia-Town ratepayers from inefficient capital structures, and Staff chose 40 percent debt/60 percent equity as a hypothetical structure because 60 percent is the maximum level of equity Staff considers reasonable for a for-profit water utility with access to the capital markets.[312] Staff recommends the 54.9 percent debt/45.1 percent equity capital structure for Valencia-Buckeye, as it does not exceed Staff's standard.[313]

Applicants disagree with Staff's proposed hypothetical 40 percent debt/60 percent equity capital structures for Willow Valley and Valencia-Town.[314] Applicants contend that there is no firm 60 percent cap on equity ratios, and state that the Commission has approved 100 percent equity ratios. Applicants argue that their acceptance of RUCO's composite 37.89 percent debt/62.11 percent equity capital structure for Willow Valley and Valencia-Town brings them very close to Staff's recommendation.[315]

Staff argues that the capital structure proposed by RUCO and agreed to by Applicants should be rejected in favor of Staff's recommendations.[316] Staff points out that RUCO developed its composite capital structure prior to RUCO's decision to treat the ICFAs as CIAC, and RUCO has acknowledged the that the composite capital structure would be different if it had been determined after that decision.[317]

3. <u>Conclusion</u>

While we understand the rationale behind RUCO's "blanket" capital structure recommendation, we find it more reasonable to use the imputed IDA Bond debt to the Palo Verde

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[310] *Id.* at 27-28.
[311] *Id.* at 26-28.
[312] *Id.*
[313] *Id.* at 28.
[314] Co. Reply Br. at 24.
[315] *Id.*
[316] Staff Br. at 9.
[317] *Id.*, citing to Tr. at 593.

and Santa Cruz capital structures as proposed by Applicants and accepted by Staff. Global Utilities' proposal to apply RUCO's composite to the remaining utilities/divisions would provide a less realistic alternative than that proposed by Staff, as the composite would only be applied to two of the utilities upon which it is based. Of the three proposals, we therefore find Staff's to be the more reasonable, in that it more closely reflects the actual capital structures of each utility while still protecting ratepayers from capital structures that exceed a reasonable equity ratio. We therefore adopt the following capital structures to be used in determining the rate of return for Global Utilities:

	% Debt/Equity
Palo Verde	45.30 / 54.70
Valencia – Greater Buckeye	54.90 / 45.10
Willow Valley	40.00 / 60.00
Santa Cruz	43.90 / 56.10
WUGT	N/A
Valencia – Town	40.00 / 60.00

B. Cost of Debt

1. Parties' Cost of Debt Recommendations

	Applicants	RUCO	Staff
Palo Verde	6.34%	6.44%	6.3%
Valencia – Greater Buckeye	6.44%	6.44%	6.6%
Willow Valley	6.44%	6.44%	5.5%
Santa Cruz	6.57%	6.44%	6.6%
WUGT	6.44%	N/A	N/A
Valencia – Town	6.44%	6.44%	6.7%

2. Discussion

For Palo Verde and Santa Cruz, Applicants propose using the actual weighted interest cost associated with the imputed IDA bonds as the cost of debt.[318] For the other utilities/divisions, Applicants are accepting RUCO's composite cost of debt as a compromise.[319]

RUCO reached its proposed 6.44 percent "blanket" cost of debt by calculating a weighted average of Applicants' proposed cost of debt using the projected dollar amounts of long-term debt for each of the six utilities/divisions.[320] RUCO states that using the weighted average of the six utilities/divisions provides a result in line with the industry average.[321]

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[318] Global Br. at 35, citing to Direct Testimony of Company witness Matthew Rowell (Exh. A-12) at 30.
[319] Rebuttal Testimony of Company witness Matthew Rowell (Exh. A-13) at 40.
[320] RUCO Br. at 19-20, citing to Direct Cost of Capital Testimony of RUCO witness William Rigsby (Exh. R-6) at 52.
[321] RUCO Br. at 20.

Staff's recommendation bases cost of debt on the actual costs of debt of each individual utility/division, as Applicants originally proposed.[322] Staff states that its method of setting debt cost recognizes the specific financing and cost of financing, thus reducing cross-utility subsidization.[323]

3. Conclusion

We find Staff's cost of debt recommendation to be the more reasonable of the recommendations presented, because it recognizes the specific financing and cost of financing for each utility/division. For purposes of this rate case, we therefore adopt the following costs of debt:

Palo Verde	6.34%
Valencia-Greater Buckeye	6.60%
Willow Valley	5.50%
Santa Cruz	6.57%
WUGT	N/A
Valencia-Town	6.70%

C. Cost of Equity

1. Parties' Cost of Equity Recommendations

Unlike the cost of debt, which can be based on actual costs, Applicants' cost of equity must be estimated. Applicants propose a 10 percent return on the cost of common equity, based on Staff's cost of equity recommendation in Docket No. W-01303A-08-0227 et al. as presented in the January 12, 2009 Direct Testimony of Staff witness David Parcell in Commission Docket No. W-01303A-08-0227 *et al.*[324] Staff recommends adoption of Applicants' proposed 10 percent cost of equity for this case.[325] RUCO's cost of equity recommendation of 9.0 percent, based on the cost of equity analysis performed by its witness William Rigsby.

2. Discussion

Applicants state that their 10 percent cost of equity proposal is consistent with Staff's cost of equity recommendation in Docket No. W-01303A-08-0227 et al., with more recent Staff cost of

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[322] Staff Br. at 10, citing to Surrebuttal Testimony of Staff witness Linda Jaress (Exh. S-11) at 21.
[323] *Id.*
[324] Co. Br. at 36, citing to Exh. A-16.
[325] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 29.

equity recommendations, and with the Commission's Decision No. 71308 (October 21, 2009) in the most recent rate case for Chaparral City Water Company, Inc.[326] Applicants state that they proposed this cost of equity to reduce the issues in dispute, and thus reduce the expense for all parties involved in the case.[327]

Staff's witness states that Staff recently conducted a cost of equity analysis based on a sample of six water utilities and filed its related cost of capital testimony on September 21, 2009, in Commission Docket No. SW-02361A-08-0609 for Black Mountain Sewer Corporation ("Black Mountain").[328] Staff asserts that although differences in circumstances between utilities can cause differing results in the specific estimated equity costs for each utility, the fundamental analysis is essentially the same, and Staff's cost of equity analysis in the Black Mountain case used the same methodology Staff would have used if it had performed an analysis in this case.[329] Staff's witness testified that the underlying analysis from the Black Mountain case can reasonably be applied to this case, because that analysis is current and is based on a sample of water utilities.[330] Staff's cost of equity estimates for the sample companies ranged from 9.8 percent for the capital asset pricing model ("CAPM") to 10.7 percent for the discounted cash flow method ("DCF").[331] Staff's witness testified that since Applicants' proposed 10.0 percent return on equity is within Staff's recent estimated cost of equity range and because Staff supports Applicants' efforts to reduce unnecessary activities and costs, Staff recommends adoption of Applicants' proposed 10 percent cost of equity for this case.[332] As further support for its recommendation, Staff states that Decision No. 71308 recently adopted a 9.9 percent cost of equity.[333] In response to questioning from RUCO as to whether the economy is a factor to be considered in a cost of equity analysis, Staff's witness testified in the affirmative, and

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326 Co. Br. at 36, citing to Exh. A-17, September 21, 2009 Direct Testimony of Staff witness Juan Manrique in Commission Docket No. SW-02361A-08-0609 (Black Mountain Sewer Corporation); and citing to Exh. A-18, June 12, 2009 Direct Testimony of Staff witness David Parcell in Commission Docket No. W-01445A-08-0440 (Arizona Water Company).
327 Co. Br. at 36.
328 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 29.
329 *Id.*; Staff Br. at 11, citing to Tr. at 757.
330 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 29; *see* Exh, A-17 at 13.
331 Exh, A-17 at 34.
332 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 29.
333 *Id.* at 30.

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stated that the current state of the economy was considered in the recent Commission discussions and recent Staff testimony.[334]

RUCO initially recommended a cost of equity of 8.01 percent, which Mr. Rigsby reached by taking the mean average of its DCF and CAPM estimates.[335] Mr. Rigsby's analysis was based on sample water and natural gas distribution companies.[336] Based on RUCO's opinion that the financial markets are improving, RUCO increased its recommended cost of equity capital from 8.01 percent to 9.00 percent.[337] At the hearing, Mr. Rigsby explained that he revised his 8.01 percent recommendation upward based on the recommendation he was making in testimony in another rate case pending before the Commission.[338]

RUCO is critical of the fact that Applicants and Staff based their cost of equity recommendation on analysis performed in prior rate cases, going so far as to state that "neither Staff nor the Company's recommendation is supported by substantial evidence . . . based on the record in this case."[339] In response to RUCO's criticism that it did not perform a cost of equity analysis specifically for this case in reaching its recommendation, Staff pointed out that RUCO's cost of equity analysis in this case is also based on RUCO's cost of equity analysis it conducted in recent rate cases.[340] RUCO disagrees with Staff that a similarity exists between Mr. Rigsby's consideration of his analysis in one case to revise his cost of equity estimate in another case, and what RUCO terms Staff's and Applicants' "lack of analysis" in this case.[341]

Applicants contend that the Staff testimony entered into the record in this proceeding provides solid evidentiary support for adoption of a 10 percent cost of equity.[342] Applicants also point out that the differences cited by RUCO between those cases and this case, such as differing operating

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[334] Tr. at 759.
[335] RUCO Br. at 20, citing to Direct Testimony of RUCO witness William Rigsby on Cost of Capital (Exh. R-6) at 7.
[336] Direct Testimony of RUCO witness William Rigsby on Cost of Capital (Exh. R-6) at 17-22.
[337] RUCO Br. at 21.
338 Tr. at 588.
[339] RUCO Br. at 22-25; RUCO Reply Br. at 11-12.
[340] Staff Br. at 11, citing to Tr. at 587-589.
[341] RUCO Reply Br. at 12, citing to Tr. at 588.
[342] Co. Reply Br. at 24, citing to Exh. A-16, January 12, 2009 Direct Testimony of Staff witness David Parcell in Commission Docket No. W-01303A-08-0227 *et al.*; Exh. A-17, September 21, 2009 Direct Testimony of Staff witness Juan Manrique in Commission Docket No. SW-02361A-08-0609 (Black Mountain Sewer Corporation); and citing to Exh. A-18, June 12, 2009 Direct Testimony of Staff witness David Parcell in Commission Docket No. W-01445A-08-0440 (Arizona Water Company).

expenses, operating revenues, rate bases, parent companies, and total water management, were not relied on by RUCO's cost of equity witness in his testimony.[343] Applicants state that RUCO is also recommending the same cost of equity for each of the Utilities, despite the fact that each has differing operating expenses, operating revenues, and rate bases.[344]

We find that the evidence presented by RUCO as a basis for its cost of equity recommendation constitutes substantial evidence in support of its cost of equity recommendation. We further find that the evidence presented by the Company as a basis for its cost of equity recommendation,[345] contrary to RUCO's assertion, constitutes evidence that is no less substantial in support of its recommendation and of Staff's acceptance thereof. The methodologies on which each of the parties relied in making their cost of equity recommendations are clearly set forth in the hearing exhibits. Based on a consideration of all the evidence presented in this proceeding, we find a cost of common equity of 9.8 percent to be reasonable in this case. This level of return on equity reasonably and fairly balances the needs of Applicants and their ratepayers, is reflective of current market conditions, and results in the setting of just and reasonable rates.

D. Cost of Capital Summary

Palo Verde

	Percentage	**Cost**	**Weighted Cost**
Debt	45.30%	6.34%	2.87%
Common Equity	54.70%	9.80%	5.36%
Weighted Average Cost of Capital			**8.23%**

Valencia-Greater Buckeye

	Percentage	**Cost**	**Weighted Cost**
Debt	54.90%	6.60%	3.62%
Common Equity	45.10%	9.80%	4.42%
Weighted Average Cost of Capital			**8.04%**

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343 Co. Reply Br. at 24-25, citing to Direct Testimony of RUCO witness William Rigsby on Cost of Capital and Surrebuttal Testimony of RUCO witness William Rigsby (Exhs. R-6 and R-7).
344 Co. Br. at 25.
345 Exhs. A-16, A-17, A-18, and A-19.

Willow Valley

	Percentage	Cost	Weighted Cost
Debt	40.00%	5.50%	2.20%
Common Equity	60.00%	9.80%	5.88%
Weighted Average Cost of Capital			**8.08%**

Santa Cruz

	Percentage	Cost	Weighted Cost
Debt	43.90%	6.57%	2.88%
Common Equity	56.10%	9.80%	5.50%
Weighted Average Cost of Capital			**8.38%**

Valencia-Town

	Percentage	Cost	Weighted Cost
Debt	40.00%	6.70%	2.68%
Common Equity	60.00%	9.80%	5.88%
Weighted Average Cost of Capital			**8.56%**

E. WUGT Operating Margin

Due to the negative rate base that has resulted from the contribution of developer funds to WUGT, there is insufficient investment upon which to grant WUGT a return. Staff recommends an operating margin of 10 percent for WUGT. Global Utilities states that if the CIAC imputation for WUGT as recommended by Staff and RUCO is accepted, it agrees with the use of Staff's recommended operating margin of 10 percent.[346] RUCO recommends an operating margin of 8.03 percent, which is the same as RUCO's cost of capital recommendation for the other five utilities/districts.

Authorizing an operating margin for WUGT presents a regulatory challenge, as any part of an operating margin that is not used to cover legitimate utility expenses would accrue to the utility as

[346] Co. Br. at 36.

income. Allowing a utility to collect an operating margin in rates has the potential to allow the utility to accrue a net income similar to the return earned by a utility that has made an investment in plant. In other words, authorizing an operating margin when there is no rate base investment has the potential of allowing the utility to realize a profit without making any investment, creating a windfall for the utility, without the utility having put any capital at risk.

We do not wish to reward WUGT for having a negative rate base. However, neither do we wish to risk placing its customers in the position of being served by a utility that is unable to meet its legitimate operating expenses. Therefore, in order to protect WUGT's customers, we will authorize an operating margin that will allow WUGT to meet its legitimate operating expenses while it works to build its equity investment. The issue of whether an operating margin remains suitable, and whether the size of the operating margin is appropriate, will be re-evaluated in WUGT's next rate filing if it still has a negative rate base such that authorizing an operating margin in lieu of a rate of return calculation would be necessary in order to prevent operating losses.

In keeping with the basis for RUCO's operating margin recommendation, we find it reasonable to provide WUGT with an operating margin equivalent to the average of the rates of return granted to the other utilities/divisions in this proceeding, or 8.26 percent.

VI. REVENUE REQUIREMENT

A. Summary

Based on the discussion herein, revenue increases for each of the utilities/divisons are authorized as follows:

Palo Verde

Based on our findings herein, we determine that Palo Verde's gross revenue should increase by $6,444,900, or 97.01 percent.

Fair Value Rate Base	$53,314,083
Adjusted Operating Income	514,971
Required Fair Value Rate of Return	8.23%
Required Operating Income	4,387,749
Operating Income Deficiency	3,872,778
Gross Revenue Conversion Factor	1.66415
Gross Revenue Increase	$ 6,444,900

Valencia-Greater Buckeye

Based on our findings herein, we determine that Valencia-Greater Buckeye's gross revenue should increase by $82,787, or 21.76 percent.

Fair Value Rate Base	$929,057
Adjusted Operating Income	24,609
Required Fair Value Rate of Return	8.04%
Required Operating Income	74,696
Operating Income Deficiency	50,087
Gross Revenue Conversion Factor	1.65286
Gross Revenue Increase	$ 82,787

Willow Valley

Based on our findings herein, we determine that Willow Valley's gross revenue should increase by $445,887, or 94.16 percent.

Fair Value Rate Base	$2,251,164
Adjusted Operating Income	(88,176)
Required Fair Value Rate of Return	8.08%
Required Operating Income	181,894
Operating Income Deficiency	270,070
Gross Revenue Conversion Factor	1.65100
Gross Revenue Increase	$ 445,887

Santa Cruz

Based on our findings herein, we determine that Santa Cruz's gross revenue should increase by $1,835,548, or 19.51 percent

Fair Value Rate Base	$39,155,692
Adjusted Operating Income	2,178,255
Required Fair Value Rate of Return	8.38%
Required Operating Income	3,281,247
Operating Income Deficiency	1,102,992
Gross Revenue Conversion Factor	1.66415
Gross Revenue Increase	$ 1,835,548

WUGT

The adjusted test year operating income for WUGT was $33,121. An 8.26 percent operating margin results in operating income of $19,575. Based on our findings herein, we determine that the WUGT's gross revenue should decrease by $22,313, or 8.60 percent.

Fair Value Rate Base	($4,186,150)
Adjusted Operating Income	33,121

Operating Margin	8.26%
Required Operating Income	19,575
Operating Income Surplus	($13,546)
Gross Revenue Conversion Factor	1.65332
Gross Revenue Increase	($22,313)

Valencia-Town

Based on our findings herein, we determine that Valencia-Town's gross revenue should increase by $1,506,660, or 49.60 percent.

Fair Value Rate Base	$4,240,018
Adjusted Operating Income	($548,346)
Required Fair Value Rate of Return	8.56%
Required Operating Income	362,946
Operating Income Deficiency	911,291
Gross Revenue Conversion Factor	1.65332
Gross Revenue Increase	$ 1,506,660

VII. RATE DESIGN

A. Water

Applicants propose a rate design structure it calls "Rebate Threshold Rates" that is based on a combination of six volumetric tiers, a volumetric rebate, and an increased monthly minimum charge.[347] Applicants assert that their proposed rate design meets the three core rate design goals of revenue neutrality, equity and conservation.[348] Applicants state that the goal of the proposed rate design is to provide clear incentives to both the utility and the customer to conserve.[349] Applicants state that they intend to provide feedback, guidance and support to its customers in their conservation efforts, in the form of: (1) educational materials delivered via its website and monthly bills; (2) courses on xeriscaping and desert vegetation; (3) instruction on landscape irrigation; and (4) feedback on their personal water use.[350]

1. Tier Structure

All parties proposing rate designs proposed inverted tier block rates. Applicants' proposal includes a six tier rate design. Staff recommends a three tier rate design, but has also provided a four

[347] Co. Reply Br. at 23; Direct Testimony of Company witness Graham Symmonds at 35-52.
[348] Direct Testimony of Company witness Graham Symmonds at 36.
[349] Co. Reply Br. at 23; Direct Testimony of Company witness Graham Symmonds at 35-52.
[350] Co. Reply Br. at 23.

tier rate design for consideration. RUCO agrees with the Company-proposed six tier structure.[351]

The tier breakpoints for the proposed rate designs are as follows:[352]

Global Utilities and RUCO 6 tier	Staff 3 tier	Staff 4 tier alternative
0-1,000	0-3,000	0-2,000
1,000-5,000	3,000-10,000	2,000-5,000
5,000-10,000	Over 10,000	5,000-10,000
10,000-18,000		Over 10,000
18,000-25,000		
Over 25,000		

Applicants assert that the six tier rate design allows for more granularity between tiers than a 3 tier rate design, which allows customers to manage their own usage to minimize their costs.[353] Applicants assert that limiting rate design to three tiers means that the tiers are necessarily broad, which limits customers' opportunities to realize true cost savings.[354] Global Utilities believes that a six tier rate design furnishes the customer with an opportunity to actively manage consumption and receive the benefit of the lower rate of a lower tier, giving the customer greater control over his or her costs.[355] Applicants are critical of Staff's rate design proposal, stating that in comparison to their proposal, Staff's rate design has lower volumetric charges for higher consumers, and higher volumetric charges for lower consumers, which sends the wrong price signal.[356] Applicants argue that under Staff's rate design proposal, higher tier users have less of a financial incentive to adjust their consumption, and no financial incentive to conserve beyond 10,000 gallons of consumption per month.[357]

Staff states that it does not have a fundamental disagreement with Applicants regarding the

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[351] RUCO Br. at 27; RUCO Reply Br. at 13.
[352] Exh. A-44.
[353] Direct Testimony of Company witness Graham Symmonds at 38.
[354] *Id.*
[355] *Id.*
[356] Co. Br. at 37.
[357] *Id.*

number of tiers it proposes.[358] Staff is concerned, however, with the customers' transition to a six tier rate design.[359] Staff points out that Santa Cruz and Valencia-Town currently have single tier rates, and Willow Valley, Valencia-Buckeye and WUGT currently have only two tier rate designs.[360] Staff expresses concern that customer confusion may result from the implementation of Global Utilities' proposed rate design, and that the confusion may undermine the efficient commodity usage goals that inverted tier rate structures exist to promote.[361] Staff recommends "a more modest immediate conversion to three tiers and would recommend deferring implementation of more tiers until a future rate case when the Company's customers have had an opportunity to educate themselves on how inverted multi-tier rate designs function so they can make efficient choices."[362] Staff believes that it will be difficult for customers to understand how the volumetric rebate (discussed below) and the implementation of a multi-tiered rate structure may be combined to secure financial benefits.[363] Staff states that in the event it is determined that circumstances warrant using more than three tiers, Staff developed an alternative four tiered rate structure.[364]

While it is true that any change in rate structure may result initially in customer confusion and will require customer education, it is not apparent that a more "modest" conversion to first three tiers in this case, then later to more tiers in a subsequent case, as recommended by Staff, would result in less overall customer confusion. It is clear, however, that a rate design that gives customers greater control over their costs by allowing them to tailor their water usage, if they so choose, does provide a benefit to customers. The benefits of implementation of a conservation-oriented rate design that will give customers the ability to control their costs outweigh the negative aspect of initial customer confusion over the new rate design. We therefore find that implementation of the six tier rate design proposed by Applicants is in the public interest at this time.

As Staff pointed out, the implementation of a six tier rate design may initially result in customer confusion. We do not disagree, and believe the issue must be addressed proactively.

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[358] Staff Reply Br. at 15, citing to Tr. at 707.
[359] Staff Reply Br. at 15.
[360] *Id.* at 14.
[361] *Id.*
[362] *Id.* at 15.
[363] *Id.* at 15-16.
[364] *Id.*

Global Utilities has stated an intent to make customer education a part of its "Rebate Threshold Rate" program. We will require that the customer notification of the new rates to be implemented as a result of this Decision include a specific and comprehensive explanation of the new method by which the customers' bills will be calculated, and a means to contact the utility to learn more about how the rate design will affect their specific usage patterns. Global Utilities shall provide adequate training to all its customer service representatives to ensure that customers who make inquiries will receive adequate, timely, and accurate explanation of the effects the new rate design will have on their bills.

2. Volumetric Rebate Threshold

As part of its conservation-oriented rate design, Global Utilities proposes a volumetric rebate program that establishes a rebate threshold volume for customers' commodity rates.[365] The rebate functions by establishing a consumption threshold.[366] Applicants state that it is primarily designed to provide a benefit to residential customers, but that if commercial and industrial accounts are able to reduce their consumption below the rebate threshold, they would be eligible for the rebate.[367] Under the proposed mechanism, when a customer achieves a consumption level below the rebate threshold, that customer is entitled to receive a reduction in commodity charges.[368] Applicants propose a rebate threshold at 90 percent of the average residential consumption for the period November 2007 to October 2008.[369] The amount of the reduction for each utility varies, ranging from 45 percent to 65 percent.[370] Applicants state that providing customer feedback on the attainment of the rebate threshold standard will allow residential ratepayers an opportunity to benefit financially, and thereby be more motivated to conserve resources, which will in turn result in the environmental benefit of reduced water withdrawals.[371] According to Applicants' analysis, as an example, 57.6 percent of Santa Cruz's accounts would currently be eligible for the proposed volumetric rebate.[372]

Staff expresses concerns with regard to the rebate mechanism and the potential that this novel

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[365] Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 37.
[366] Staff Br. at 16.
[367] Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 49.
[368] *Id* at 37.
[369] *Id.*
[370] *Id.*
[371] *Id.* at 46.
[372] *Id.* at 47.

rate design device could cause the Applicants to substantially either over earn or under earn.[373] Staff notes that the Applicants included anticipated payout of rebates in its proposed revenue requirement, thereby making it possible for the Applicants to exceed its revenue requirement under certain circumstances, such as if customer water usage were to increase due to abnormal weather variations thus leading to fewer customers meeting the rebate threshold.[374] Staff points out that Applicants recognize the risk of possible under recovery of revenues due to success of the rebate mechanism, and that this is why the proposed rate design projects the volumetric rebates that Global Utilities expect to occur.[375] Staff argues that the need for this additional mechanism demonstrates that the rebate is unduly complicated and introduces unnecessary complexity, and should therefore be rejected.[376]

RUCO states that it supports programs to encourage conservation, but that RUCO believes that the six tier rate structure and the increased monthly minimum alone will send a proper price signal to conserve water.[377] RUCO does not believe that the volumetric rebate proposal would encourage conservation, and therefore does not support it.[378] RUCO asserts that the volumetric rebate proposal is flawed because it would award rebates to all customers who consume less than the median amount, whether they have always had usage below the median or not; and also because high use customers who reduce their usage demonstrably, but still have usage exceeding the minimum, would not benefit from the rebate.[379]

Applicants acknowledge Staff and RUCO's point that the volumetric rebate program already applies to customers with usage levels below the threshold. Applicants disagree with the arguments of RUCO and Staff that it provides no conservation incentive to such customers, however, and assert that those customers will be deterred from increasing their usage for fear of losing their rebate.[380] Applicants assert that the volumetric rebate program offers customers the option of being able to

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[373] Staff Br. at 16.
[374] *Id.*; Surrebuttal Testimony of Staff witness Darak Eaddy (Exh. S-9) at 5.
[375] Staff Br. at 17; Surrebuttal Testimony of Staff witness Darak Eaddy (Exh. S-9) at 5.
[376] Staff Br. at 17.
[377] Direct Rate Design Testimony of RUCO witness William Rigsby (Exh. A-5) at 9.
[378] RUCO Br. at 27; RUCO Reply Br. at 13.
[379] RUCO Reply Br. at 13.
[380] Co. Reply Br. at 24.

manage their usage to achieve cost reductions.[381] Testimony submitted on behalf of Applicants also acknowledges RUCO's point that high use customers will not benefit from the program.[382] Funding of the volumetric rebate program is skewed toward large water consumers, such that "heavier users of water pay more for that service."[383] Applicants further point out that the incentive needs to be there to encourage conservation options such as internal re-use of water, or for heavy irrigation customers, switching to more efficient irrigation practices or xeriscape.[384]

Based on our analysis of the proposed volumetric rebate proposal, and of the arguments presented, we find that the volumetric rebate program as proposed by Applicants can provide a valuable conservation incentive and a welcome means for residential customers to limit the impact of the necessary revenue increases imposed in this Decision. As we stated in our discussion of the impact on customers of implementation of six tier rates, it is very important that the water Utilities provide adequate, timely, and accurate information to customers regarding the specific impact of the volumetric rebate program on the way customers' bills are calculated. We will require that the customer notification of the new rates to be implemented as a result of this Decision include a specific and comprehensive explanation of the new method by which the customers' bills will be calculated, and a means to contact the utility to learn more about how the rate design will affect their specific usage patterns. We will further require the water Utilities to provide adequate training to all its customer service representatives to ensure that customers who make inquiries will receive adequate, timely, and accurate explanation of the effects the new rate design, including the volumetric rebate threshold, will have on their bills.

Because the rate design we adopt includes projected revenues required to fund the volumetric rebates, we will require each water Utility to make quarterly volumetric threshold rebate reports as a compliance item in this docket. The quarterly filings shall commence on December 15, 2010, and shall continue until rates approved in the Utility's next rate case are effective. The quarterly volumetric threshold rebate report shall indicate, by month, the number of invoices prepared, the

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[381] Co. Br. at 41.
[382] Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 50.
[383] *Id.*
[384] *Id.*

number of those invoices with consumption below the rebate threshold and thus entitled to the volumetric rebate, and the dollar amount of rebates provided to customers on those invoices.

3. Increased Monthly Minimum Charge

Applicants propose moving more recovery of fixed costs into the monthly minimum charge, asserting that doing so allows a utility to effect meaningful, measurable and repeatable resource conservation without the chance of utility revenue reduction.[385] Applicants argue that to achieve conservation goals, the cycle of selling more water [to attain increased revenue] must be broken.[386] Applicants assert that the way to do so is to allow for the recovery of fixed utility costs by establishing a reasonable apportionment of costs to the monthly minimum and commodity charges, with a bias toward the monthly minimum.[387] Applicants state that under Staff's rate design, using Santa Cruz as an example, a 4.6 percent reduction in consumption would result in an 11 percent reduction in revenue, while under Applicants' model, a 4.58 percent reduction in consumption would only result in a 5 percent reduction in revenue.[388] Applicants designed their proposed residential monthly minimum charges to generate 50 percent of gross revenues from monthly minimum charges for all the water utilities/divisions in this application.[389]

RUCO agrees with the proposed increase in the minimum monthly charge.[390]

Staff agrees with Applicants that a movement toward greater recovery through monthly minimums might provide a utility with greater flexibility to offer conservation incentives due to increased revenue certainty.[391] However, Staff also argues that the need to increase the monthly minimums in the manner proposed by Applicants and accepted by RUCO demonstrates that the proposal is cumbersome and overly complex, and recommends that Staff's rate design be adopted instead[392]

We find that in conjunction with the six tier rate structure and volumetric rebate threshold

[385] *Id.* at 39.
[386] *Id.*
[387] *Id.*
[388] Co. Br. at 37-38.
[389] Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 41, 51.
[390] RUCO Br. at 27; RUCO Reply Br. at 13.
[391] Staff Br. at 18, citing to Surrebuttal Testimony of Staff witness Darak Eaddy (Exh. S-9) at 18.
[392] Staff Br. at 18.

program we adopt herein, the monthly minimum charges should recover 50 percent of the utilities' revenue requirement, as proposed by Applicants and RUCO. This component of the rate design proposed by Applicants will be adopted.

4. Construction Meters

Applicants propose monthly minimum charges for construction meters in addition to commodity charges. Applicants assert that the fixed monthly minimum charge goes toward utility costs in providing system capacity for the construction meters[393] Staff disagrees with the proposals, arguing that it is inappropriate to apply a monthly minimum to construction meters as they are generally temporary meters.[394] Staff recommends to instead increase construction meter commodity rates to that charged for the highest tier for tiered meters.[395] We agree with Applicants that their construction water customers have meters and cause capacity and administrative costs which should be recovered through monthly minimum charges, with commodity rates the same as all other customers, based on usage, and will adopt Applicants' proposal.

5. Partial Consolidation Proposal

Applicants propose consolidating rates for WUGT, Valencia-Town and Valencia-Greater Buckeye.[396] Under Applicants' proposed revenue requirement, WUGT would face a significant rate increase, and Applicants asserted that consolidating WUGT's rates would provide significant benefits to WUGT customers while not significantly impacting the rates of the two Valencia divisions.[397]

RUCO does not believe that the proposed partial rate consolidation is in the best interests of all the ratepayers, and in particular of the Valencia-Town and Valencia-Greater Buckeye ratepayers.[398] RUCO states that Valencia-Greater Buckeye's ratepayers would more than likely bear the brunt of subsidizing WUGT, and that Valencia-Town and Valencia-Greater Buckeye's ratepayers are unlikely to derive any meaningful contribution toward any reciprocal infrastructure improvements

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393 Co. Br. at 43.
394 Staff Reply Br. at 10.
395 *Id.*
396 Co. Br. at 42, citing to Direct Testimony of Company witness Matthew Rowell (Exh. A-12) at 3.
397 Co. Br. at 42.
398 RUCO Br. at 25, citing to Direct Rate Design Testimony of RUCO witness William Rigsby (Exh. R-5) at 4.; RUCO Reply Br. at 12.

from the small number of WUGT's ratepayers in the future.[399] RUCO therefore takes the position that a rate design based on cost of service is more appropriate in this case.[400]

Staff states that as a consequence of Staff's ICFA recommendation, consolidation would result in an increase in WUGT's rates that would effectively subsidize the Valencia-Town system, which has approximately 5,000 customers, a far larger customer base than WUGT, which has approximately 350 customers.[401] Staff states that if its ICFA proposal is adopted, consolidation would result in a small utility bearing a substantial portion of the rate increase burden with little benefit to the larger utility, and therefore Staff recommends against consolidation at this time.[402]

The revenue requirement authorized herein for WUGT is much lower than that proposed by Applicants. Therefore, the basis for the consolidation as expressed by Applicants no longer exists. The consolidation proposal will not be adopted.

B. Wastewater

Applicants proposed a three-year phase-in of rates for its Palo Verde district. Under this proposal, one third of Palo Verde's revenue requirement would be recognized at the time of this Decision, two-thirds one year later, and the full revenue requirement two years following this Decision, without recovery of the foregone revenue at a later date.[403] RUCO recommends that, given the magnitude of the increases and the current economic conditions, that the Commission adopt Applicants' phase in proposal.[404] We agree that the phase in as proposed by Applicants for the Palo Verde wastewater rates is reasonable, and adopt it.

VIII. OTHER ISSUES

A. Low Income Program

Applicants propose a Low Income Tariff to provide direct assistance to qualified families, which is modeled on similar programs in place at APS and Tucson Electric Power and will be administered by the Arizona Community Action Association ("ACAA"). Applicants propose

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[399] Direct Rate Design Testimony of RUCO witness William Rigsby (Exh. R-5) at 4-5.
[400] *Id.* at 6.
[401] Staff Br. at 18-19, citing to Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 29.
[402] Staff Br. at 19, citing to Direct Testimony of Staff witness Crystal Brown (Exh. S-6) at 30.
[403] Co. Br. at 7, citing to Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 20; Exh. A-1 at Schedule H-3, Page 2 of 2; and Co. Final Schedules, Palo Verde, Schedule H-3, Page 2 of 2.
[404] RUCO Br. at 26; RUCO Reply Br. at 13.

funding the program 50 percent by Global Parent and 50 percent by the application of a charge on existing ratepayers.[405] Assuming that ratepayers funded $50,000, and Global Parent provided matching funds to increase the available relief and to cover administrative overhead costs, there would be $90,000 per year for possible allocation.[406] Applicants state that the program would therefore be capped at $90,000.[407] Under Applicants' proposed limit of $250 per year, the program could assist 360 families per year, or about 1 percent of Global Utilities' connections.[408]

Staff recommends that Applicants file the Low Income Relief Tariff within 60 days for Staff's review and the Commission's consideration.[409] Staff's recommendation is reasonable and will be adopted.

B. Demand Side Management ("DSM") Program

Global has designed a DSM Program to augment the rebate threshold rate structure, and allow for large consumers to achieve meaningful conservation with the assistance of the Utilities.[410] Under the program, the Utilities will allocate 15 percent of the revenue generated from the sale of recycled water to the DSM Program.[411] In areas where a Utility does not control recycled water, a similar pre-connection revenue amount will be allocated from revenues generated from the highest tier.[412] There is no customer surcharge associated with the proposed DSM Program.[413] The program is directed at large consumers, including HOA customers with large usage, who can benefit from sophisticated irrigation management and appropriate turf replacement.[414] Applicants state that in addition, residential customers can benefit from turf replacement, rainwater catchment, toilet replacement, and other program elements.[415] Applicants state that they strongly believe that the Commission should formally approve the program[416]

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[405] Co. Br. at 49.
[406] *Id.*
[407] *Id.* at 50.
[408] *Id.*
[409] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. A-11) at 18.
[410] Co. Br. at 48.
[411] Co. Br. at 48, citing to Rebuttal Testimony of Company witness Graham Symmonds (Exh. A-25) at 17.
[412] *Id.*
[413] *Id.* at 48, citing to Rebuttal Testimony of Company witness Graham Symmonds (Exh. A-25) at 17 and Tr. at 45.
[414] *Id.* at 48, citing to Rebuttal Testimony of Company witness Graham Symmonds (Exh. A-25) at 20-21.
[415] *Id.*
[416] Co. Br. at 49.

RUCO does not oppose the Company's proposal.[417]

Staff states that after an initial review of the proposed DSM Program, Staff concludes that many of its elements are similar to the ADWR's Best Management Practices ("BMPs").[418] Staff states that it sees potential positive results from such a program but that because the tariff was filed in the rebuttal testimony phase of the proceeding, Staff requires more time and information to obtain a complete understanding of the program.[419] Staff recommends that Applicants file the DSM Program tariffs within 60 days for Staff's review and the Commission's consideration.[420] Staff's recommendation is reasonable and will be adopted.

C. Changes to Service and Miscellaneous Charges and Tariffs

1. Meter Exchange Fee

Meter size is determined by the home builder based on flow and pressure requirements.[421] At initial installation, the home builder requests a meter of sufficient size to ensure acceptable flow and pressure throughout the operational envelope.[422] Applicants propose the creation of a Customer Meter Exchange Fee (Size) that applies when a homeowner requests that the meter be changed to a different size. Under this tariff, the homeowner will be responsible for:

> 1. Determining the appropriate size of the meter. Further, the homeowner agrees to hold harmless and release Global Water, its affiliated companies together with the employees, agents and assigns of such companies from any responsibility for direct or collateral damage, losses or operational impacts associated with the meter size change or the size of the meter being inadequate or insufficient for the needs of the homeowner.
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> 2. Reimbursement of utility costs associated with that change, including cost of new meter and installation costs in accordance with A.A.C. R14-2-405(B)(5). See Service Line and Meter Installation Charges Tariff.

Applicants and Staff are in agreement on the Meter Exchange Fee language.[423] Applicants should file within 60 days with the Commission's Docket Control, as a compliance item in this

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[417] RUCO Reply Br. at 11.
[418] Surrebuttal Testimony of Staff witness Linda Jaress (Exh. A-11) at 18.
[419] *Id.*
[420] *Id.*
[421] Co. Br. at 43.
[422] *Id.*, citing to Direct Testimony of Graham Symmonds (Exh. A-24) at 56.
[423] Staff Br. at 20; Tr. at 489.

matter, a copy of its Meter Exchange Fee Tariff for Staff's review and the Commission's consideration.

2. Water Theft/Loss Tariffs

Applicants request approval of a water theft tariff that would allow the utility to charge a fee of $500 for water theft. In the case of a homeowner, the fee would be added to their account, and in the case of water trucks stealing from utility hydrants, the fee would be presented in the form of an invoice to the responsible party. Staff disagrees with Applicants' proposal, stating that the relevant rule already exists in the form of A.A.C. R14-2-407(B)(4) which provides that "[e]ach customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter." Applicants respond that in the absence of equipment damage, the rule does not apply. While Applicants state that there is no way for the utility to recover its costs associated with managing these instances, Staff points out that Applicants have recourse with the relevant law enforcement entities, as water theft is a Class 7 Felony. Applicants have provided no authority for the proposition that the Commission can fine non-ratepayers for criminal conduct. We agree with Staff. Approval of such a tariff would not be in the public interest, and it will not be approved.

3. Hydrant Meter Deposit Charge

Applicants and Staff are in agreement on Applicants' proposed refundable Hydrant Meter Deposit Charge that reflects the replacement cost of these large expensive pieces of equipment. Applicants should file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of its Hydrant Meter Deposit Charge Tariff for Staff's review and the Commission's consideration.

4. Lock/Security Tab Cutting Charge

Applicants request authority to impose a Lock/Security Tab Cutting Charge designed to defray the costs associated with dealing with such events. Staff disagrees with Applicants' proposal, stating that the relevant rule already exists in the form of A.A.C. R14-2-407(B)(4) which provides that "[e]ach customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter." Staff points out that if the perpetrators are not customers of the utility, then Applicants have recourse with the relevant law enforcement entities, and that Applicants have provided no authority for the proposition that the Commission can fine non-ratepayers for criminal conduct. We agree with Staff. Approval of such a tariff would not be in the public interest, and it will not be approved.

5. Source Control Tariff

Applicants have prepared a comprehensive Source Control Program Tariff for its Palo Verde Utility.[424] The purposes of the tariff are to protect the collection systems from blockages and damages, to protect the treatment system from process upsets, to protect the quality of recycled water, to protect the quality of biosolids (sludge), and to protect human health and the environment from damage.[425] Staff agrees that the requested Source Control Program Tariff is appropriate, including the $250 fee for commercial customers found to be violating source control requirements. The Source Control Program Tariff attached to Mr. Symmonds' Direct Testimony at GSS-3 is reasonable and appropriate and will be adopted.

6. Unauthorized Discharge Fee

To discourage unauthorized discharges into sewers, Applicants propose an Unauthorized Discharge Fee Tariff. Applicants state that septic tank haulers and grease trap haulers, who charge a fee for removal services, then pay a fee to facilities for environmentally sound disposal in landfills. Applicants state that some haulers choose instead to dump their loads into a sewer system, and that some of the materials that haulers carry have the potential to seriously disrupt its wastewater treatment processes, in some cases for many days or even weeks. Staff agrees that the Unauthorized Discharge Fee Tariff is appropriate, including a $5,000 charge for violations plus all costs of collection and remediation. Applicants should file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of its Unauthorized Discharge Fee Tariff for Staff's review and the Commission's consideration.

7. Deposit Interest

Staff disagrees with Applicants' proposals regarding customer deposit interest, including its

[424] Direct Testimony of Company witness Graham Symmonds (Exh. A-24) at 63 and GSS-3.
[425] *Id.* at 63.

proposal to use the one year Certificate of Deposit rate as the interest rate to apply to customer deposits at the time they are made. Staff believes that the methodology would be unduly cumbersome. Staff further believes that over a long period of time the 6 percent interest rate fairly approximates a reasonable interest rate, and recommends against adopting the modifications Applicants propose. We agree with Staff that the 6 percent interest rate is reasonable and will not approve the requested change.

8. Other Miscellaneous Fees

Applicants and Staff are in agreement on minor changes to the following existing fees: Establishment Fees, After Hours Fees, Reconnect Fees and NSF Fees. The agreed-upon changes are reasonable and will be adopted.

D. Staff's Engineering Recommendations

1. WUGT- Roseview Storage

Staff recommends that WUGT install a storage tank with a minimum storage capacity of 3,750 gallons for WUGT's Roseview system (PWS 07-082), and file within 12 months, with the Commission's Docket Control, as a compliance item in this matter, Arizona Department of Environmental Quality ("ADEQ") or Maricopa County Environmental Services Division ("MCESD") Approval of Construction for a storage tank with a minimum storage capacity of 3,750 gallons for WUGT's Roseview system (PWS 07-082).[426] Applicants are in agreement with this recommendation, which is reasonable and will be adopted.

2. Water Loss

Staff recommends that Valencia-Greater Buckeye file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the Sun Valley/Sweetwater I (PWS 07-195) and Sweetwater II (PWS 07-129) water systems will reduce their water loss to less than 10 percent. Staff recommends that if Valencia-Greater Buckeye finds that reduction of water loss to less than 10 percent is not cost effective in a system, that Valencia-Greater Buckeye be required to submit within 90 days, as a compliance item with the Commission's Docket

[426] Staff Br. at 12.

Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. Staff recommends that in any event, water loss shall not exceed 15 percent.

Staff recommends that WUGT file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the Garden City (PWS 07-037), West Phoenix Estates #1, West Phoenix Estates #6, (PWS 07-733), Tufte (PWS 07-617), Buckeye Ranch (PWS 07 618), and Dixie (PWS 07-030) water systems will reduce their water loss to less than 10 percent. Staff recommends that if WUGT finds that reduction of water loss to less than 10 percent is not cost effective in a system, that WUGT be required to submit within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. Staff recommends that in any event, water loss shall not exceed 15 percent.

Staff recommends that Willow Valley file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the King Street (PWS 08-040), and Lake Cimarron, (PWS 08-129) water systems will reduce their water loss to less than 10 percent. Staff recommends that if Willow Valley finds that reduction of water loss to less than 10 percent is not cost effective in a system, that Willow Valley be required to submit within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. Staff recommends that in any event, water loss shall not exceed 15 percent.

In rebuttal testimony, Applicants' witness discussed the Gallons per Hour per Mile per Inch ("GPHMI") and Unavoidable Real Losses ("UARL") methodologies used for measuring water loss.[427] Staff states that neither the UARL nor the GPHMI methods apply to any of the systems in this case that are experiencing excessive water loss.[428] Staff contends that acceptable water loss levels should not be determined based on system length and diameter.[429]

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[427] Co. Br. at 66 and Staff Br. at 13, citing to Rebuttal Testimony of Company witness Graham Symmonds (Exh. A-25) at 23-31
[428] Staff Br. at 13, citing to Surrebuttal Testimony of Staff witness Jian Liu (Exh. S-5) at 2.
[429] *Id.*, citing to Tr. at 613.

Applicants agree to provide the recommended report.[430] Applicants state that as part of its water loss report, Applicants will include a discussion of results under different metrics.

Staff's recommendations are reasonable and will be adopted. While Applicants may include a discussion of results under different metrics, for purposes of compliance, Applicants shall use the metrics used by Staff to measure water loss.

3. Depreciation Rates

Staff recommends that the water utilities/divisions be required to use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit D, and that Palo Verde be required to use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit E. Applicants did not object. Staff's recommendation is reasonable and will be adopted.

E. NWP's Concern for Uniform Treatment of Developers

NWP is the only party to this matter who has executed an ICFA with Global Parent.[431] NWP asserts that when development resumes in its area, there is a "real possibility" of unequal treatment of developers if there is no mechanism in place to protect from such treatment," and advocates for a mechanism to allow the Commission to ensure that all developers are treated in a uniform manner similar to a Main Extension Agreement.[432] Global Utilities asserts that NWP does not cite to the record to support its concerns, and that NWP did not state that it was treated unequally.[433]

NWP's request was made on brief following the close of the hearing, and therefore the parties did not have an opportunity to elicit further information from NWP on the record, or to respond to NWP's concerns. Staff's witness testified that a review of ICFAs revealed that the fees charged by Global Parent under the ICFAs per equivalent dwelling unit ("EDU") differ by ICFA contracts, depending on the year the ICFA was entered and on the particular development.[434] As Global Utilities points out, Staff's witness also testified that Staff is unaware of any complaints by

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430 Co. Br. at 66.
431 NWP Br. at 2.
432 *Id.* at 3.
433 Co. Reply Br. at 23.
434 Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 8.

developers regarding unequal treatment under ICFAs.[435]

Developers receive uniform treatment under main extension agreements and hook-up fee tariffs approved by the Commission.[436] Applicants state that landowners always have the choice to enter into standard main and line extension agreements.[437] We urge developers who have any questions or issues regarding ICFAs, main and line extension agreements, hook-up fees, or any other issues related to establishing service to their developments, to contact Staff with their concerns, and we likewise instruct Staff to insure that the Commission is promptly informed, either through a filing by the developer or by Staff, if it appears that there is a need for the Commission to take action.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

PROCEDURAL HISTORY

1. On February 20, 2009, Palo Verde, Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town filed with the Commission rate applications seeking increases in their permanent base rates and other associated charges.

2. Palo Verde is located in Pinal County and provided wastewater utility service to approximately 14,997 service connections as of July 2009. Palo Verde's present rates were established in Decision No. 61943 (September 17, 1999).

3. Valencia Greater Buckeye is located approximately 40 miles west of downtown Phoenix in Maricopa County with a certificated area covering approximately 4,300 acres in and around the Town of Buckeye, and provided water utility service to approximately 653 service connections as of August 2009. Valencia Greater Buckeye's present rates were established in Decision No. 60386 (August 29, 1997).

4. Willow Valley is located in Mohave County and provided water utility service to approximately 1,528 service connections as of July 2009. Willow Valley's present rates were established in Decision No. 63612 (April 27, 2001).

[435] Co. Reply Br. at 23.
[436] Direct Testimony of Staff witness Linda Jaress (Exh. S-10) at 8.
[437] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 33.

5. Santa Cruz is located in Pinal County and provided water utility service to approximately 15,196 service connections as of July 2009. Santa Cruz's present rates were established in Decision No. 61943 (September 17, 1999).

6. WUGT is located approximately 60 miles west of downtown Phoenix in Maricopa County with a certificated area covering approximately 65,600 acres, or approximately 102 square miles. WUGT provided water utility service to approximately 363 service connections as of August 2009. WUGT's present rates were established in Decision No. 62092 (November 19, 1999).

7. Valencia-Town is located 40 miles west of downtown Phoenix in Maricopa County with a certificated area of approximately 7,500 acres and provided water utility service to approximately 5,019 service connections as of July 2009. Valencia Town's present rates were established in Decision No. 60832 (May 11, 1998).

8. On February 24, 2009, Applicants filed Motions to Consolidate in all six rate application dockets.

9. On February 27, 2009, Applicants filed Notices of Errata in each of the dockets.

10. On March 23, 2009, Staff filed Letters of Deficiency in each of the dockets, indicating that the applications did not meet the sufficiency requirements of A.A.C. R14-2-103.

11. On April 7, 13, and 20, 2009, Applicants filed various responses to Staff's Deficiency Letters, and certain updated schedules for the applications.

12. On April 30, 2009, Staff filed Letters of Sufficiency stating that each of the applications, as supplemented by the subsequent filings, met the sufficiency requirements of A.A.C. R14-2-103.

13. On April 13, 2009, Valencia-Town filed a Motion for Approval of Arsenic Surcharge. However, on April 20, 2009, Valencia-Town Division filed a Notice of Filing Withdrawal of Motion, stating that it re-filed the arsenic surcharge request as a separate application.[438]

14. On May 8, 2009, Applicants filed compliance reports from ADWR for Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town.

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[438] On April 17, 2009, Valencia -Town Division filed an application for approval of an arsenic surcharge (Docket No. W-01212A-09-0186). On May 8, 2009, Valencia - Town Division filed in that same docket a Notice of Filing Withdrawal of Application "in order for Staff to focus on the pending rate cases for the Global."

15. On May 12, 2009, Staff filed Motions to Consolidate in all six rate application dockets.

16. On May 19, 2009, RUCO filed an Application to Intervene.

17. On May 28, 2009, a Procedural Order was issued consolidating the applications, setting a hearing, requiring mailing and publication of notice of the application and hearing, and setting associated procedural deadlines. The Procedural Order also granted intervention to RUCO.

18. On August 13, 2009, Commissioner Stump filed a letter in the docket.

19. On August 31, 2009, Applicants filed affidavits of mailing and affidavits of publication indicating compliance with the public notice requirements of the May 28, 2009 Procedural Order.

20. On October 13, 2009, WUAA filed an Application to Intervene.

21. On October 19, 2009, Staff filed a Motion for Extension of Time Regarding Rate Design Testimony (as modified by a Notice of Errata filed on the same date).

22. On October 21, 2009, a Procedural Order was issued granting intervention to WUAA and granting Staff's requested extension of filing deadlines.

23. On October 21, 2009, Applicants filed a Response to "CopaNews" articles.

24. On November 5, 2009, a Procedural Order was issued setting a public comment meeting to be held on December 1, 2009 in Maricopa, Arizona, and ordering Applicants to provide public notice thereof.

25. On November 23, 2009, Applicants filed an affidavit of publication indicating compliance with the public notice requirements of the November 5, 2009 Procedural Order.

26. In total, including petition signatures, the Commission has received 3,006 customer comments in opposition to the Utilities' proposed rate increases.

27. On November 24, 2009, Applicants filed a Notice of Filing Errata to Rebuttal Testimony.

28. On December 1, 2009, a public comment hearing was held in Maricopa. Local elected officials and numerous members of the public appeared and provided public comment on the application.

29. Also on December 1, 2009, Applicants docketed correspondence and communication between Global, the Maricopa staff, the City Council of Maricopa, and community members. The filing also included a copy of a City Council of Maricopa emergency resolution.

30. Also on December 1, 2009, NWP filed an Application to Intervene.

31. On December 2, 2009, Staff filed a Response to NWP' Application to Intervene.

32. Also on December 2, 2009, Staff filed a Motion for Extension of Time Re: Rate Design Surrebuttal Testimony.

33. On December 4, 2009, a Procedural Order was issued granting Staff's request for an extension of time to file surrebuttal testimony. The Procedural Order also granted intervention to NWP, and ordered that due to the lateness of NWP' intervention request, NWP would not be allowed to introduce new evidence.

34. On December 8, 2009, Rick Fernandez filed a Motion to Intervene. Mr. Fernandez claimed in his Motion that as President of the Santarra Homeowners Association, he represented 311 residential customers.

35. On December 9, 2009, Staff filed a Response opposing Mr. Fernandez's Motion to Intervene. Staff opposed the Motion as untimely filed, and because granting the intervention might broaden the issues in this proceeding. Staff stated that unless Mr. Fernandez is an attorney, he cannot represent the interests of either the Santarra Homeowners Association or the 311 residential customers who are members of the Santarra Homeowners Association. Staff requested that in the event Mr. Fernandez's untimely Motion was granted, Mr. Fernandez be allowed to only represent his own interests, and that he not be permitted to introduce new evidence, either through pre-filed testimony or at the hearing through other parties' witnesses.

36. Also on December 9, 2009, Applicants filed an Opposition to Mr. Fernandez's Motion to Intervene. The Applicants requested that the Motion be denied as untimely, and because granting the intervention might broaden the issues in this proceeding.

37. Also on December 9, 2009, the Maricopa filed an Application to Intervene. Maricopa requested that it be permitted to intervene subject to the requirements that it not introduce its own evidence or call its own witnesses in this matter, consistent with the Procedural Order issued on

December 4, 2009, granting intervention to NWP. Maricopa stated that it does not believe its intervention will lengthen the proceeding or burden any of the other intervenors.

38. The Pre-Hearing Conference convened as scheduled on December 10, 2009. Counsel for Applicants, WUAA, NWP, RUCO, and Staff appeared. Counsel representing Maricopa also appeared and responded to questions in regard to Maricopa's Application for Leave to Intervene. Arguments in opposition to Maricopa's intervention request were heard and considered, and Maricopa was granted intervention on a limited basis. Due to the lateness of its intervention request, Maricopa was granted intervention subject to the requirement that it shall not present any witnesses or introduce any new evidence, either through prefiled testimony, or at the hearing through other parties' witnesses. Mr. Fernandez did not appear at the Pre-Hearing Conference.

39. On December 11, 2009, a Procedural Order was issued granting intervention to Mr. Fernandez for the purpose of representing his own interests, and to Maricopa. Due to the lateness of Mr. Fernandez's and Maricopa's Motions to Intervene, they were granted intervention subject to the requirement that they not present any witnesses or introduce any new evidence, either through prefiled testimony, or at the hearing through other parties' witnesses.

40. On December 11, 2009, Rick Fernandez filed a Response to the oppositions to his Motion to Intervene.

41. On December 14, 2009, the hearing commenced as scheduled. Applicants, NWP, WUAA, Maricopa, RUCO and Staff appeared through counsel, and Rick Fernandez appeared on his own behalf. Global Utilities, RUCO and Staff presented evidence for the record.

42. On December 17, 2009, Mr. Fernandez filed a second Motion to Intervene, to which was attached a document titled "Santarra Homeowners Association Resolution of the Board of Directors" that included four signatures, each dated December 9, 2009.

43. On December 31, 2009, Global Utilities filed a Notice of Filing Corrected Exhibit A-3.

44. On February 5, 2010, Applicants, WUAA, NWP, Maricopa, RUCO, and Staff filed initial closing briefs.

45. On February 19, 2010, Applicants, Maricopa, RUCO, and Staff filed reply closing

briefs.

46. On March 22, 2010, Applicants filed a Notice of Filing Late-Filed Exhibit A-51, a report on financing of solar projects by regulated water utilities.

FINDINGS OF FACT

47. The fair value rate base of Palo Verde is $53,314,083, and a rate of return of 8.23 percent is reasonable and appropriate.

48. The fair value rate base of Valencia-Greater Buckeye is $929,057, and a rate of return of 8.04 percent is reasonable and appropriate.

49. The fair value rate base of Willow Valley is $2,251,164, and a rate of return of 8.08 percent is reasonable and appropriate.

50. The fair value rate base of Santa Cruz is $39,155,692 and a rate of return of 8.38 percent is reasonable and appropriate.

51. The fair value rate base of WUGT is ($4,186,150) and an operating margin of 8.26 percent is reasonable and appropriate.

52. The fair value rate base of Valencia-Town is $, 240,018 and a rate of return of 8.56 percent is reasonable and appropriate.

53. The revenue increases requested by Applicants would produce an excessive return on FVRB.

54. The gross revenues of Palo Verde should increase by $6,444,900.

55. The gross revenues of Valencia-Greater Buckeye should increase by $82,787.

56. The gross revenues of Willow Valley should increase by $445,887.

57. The gross revenues of Santa Cruz should increase by $1,835,548.

58. The gross revenues of WUGT should decrease by $22,313.

59. The gross revenues of Valencia-Town should increase by $1,506,660.

60. The rate designs adopted herein are just and reasonable.

61. Because the rate design we adopt herein is new, it is very important that the water Utilities provide adequate, timely, and accurate information to their customers regarding the specific impact of the six tier rates and the volumetric rebate program on the way water customers' bills are calculated. Therefore, the customer notification of the new rates to be implemented as a result of this Decision should include a specific and comprehensive explanation of the new method by which the customers' bills will be calculated, and a means to contact the Utility to learn more about how the rate design will affect their specific usage patterns. The Utilities shall provide adequate training to all its customer service representatives to ensure that customers who make inquiries will receive adequate, timely, and accurate explanation of the effects the new six tier rate design and the volumetric rebate threshold will have on their bills.

62. Because the rate design we adopt includes projected revenues required to fund the volumetric rebates, each water Utility should make quarterly volumetric threshold rebate reports as a compliance item in this docket, to commence on December 15, 2010, and to continue until rates approved in the Utility's next rate case are effective. The quarterly volumetric threshold rebate report should indicate, by month, the number of invoices prepared, the number of those invoices with consumption below the rebate threshold and thus entitled to the volumetric rebate, and the dollar amount of rebates provided to customers on those invoices.

63. Valencia-Greater Buckeye is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff Engineering states that ADWR reported in May 2009 that Valencia-Greater Buckeye is in compliance with its requirements.

64. MCESD, the formally delegated agent of ADEQ, has determined that Valencia Greater Buckeye has no deficiencies and is currently delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

65. Willow Valley is not located in any AMA and is not subject to any AMA reporting and conservation requirements. Staff Engineering states that ADWR reported in April 2009 that Willow Valley is in compliance with its requirements.

66. ADEQ has determined that Willow Valley has no deficiencies and is currently delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

67. Santa Cruz is located in the Pinal AMA and is subject to its AMA reporting and conservation requirements. Staff Engineering states that ADWR reported in April 2009 that Santa Cruz is in compliance with its requirements.

68. ADEQ has determined that Santa Cruz has no deficiencies and is currently delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

69. WUGT is located in the Phoenix AMA and is subject to its AMA reporting and conservation requirements. Staff Engineering states that ADWR reported in May 2009 that WUGT is in compliance with its requirements.

70. MCESD, the formally delegated agent of ADEQ, has determined that WUGT has no deficiencies and is currently delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

71. Valencia-Town is located in the Phoenix AMA and is subject to its AMA reporting and conservation requirements. Staff Engineering states that ADWR reported in May 2009 that Valencia-Town is in compliance with its requirements.

72. MCESD, the formally delegated agent of ADEQ, has determined that Valencia-Town has no deficiencies and is currently delivering water that meets water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

73. Palo Verde's wastewater treatment facilities are regulated by ADEQ. Staff Engineering states that ADEQ reported in January 2009 that the Palo Verde wastewater treatment plant is in full compliance with ADEQ requirements.

74. Palo Verde should be required to file within 60 days with the Commission's Docket

Control, as a compliance item in this matter, a copy of its Unauthorized Discharge Fee Tariff for Staff's review and the Commission's consideration.

75. Palo Verde, Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town should be required to file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Low Income Relief Tariff for Staff's review and the Commission's consideration.

76. Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town should be required to file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Demand Side Management Program Tariffs for Staff's review and the Commission's consideration.

77. Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town should be required to file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Meter Exchange Fee Tariffs for Staff's review and the Commission's consideration.

78. Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town should be required to file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Hydrant Meter Deposit Charge Tariffs for Staff's review and the Commission's consideration.

79. WUGT should be required to file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the Garden City (PWS 07-037), West Phoenix Estates #1, West Phoenix Estates #6, (PWS 07-733), Tufte (PWS 07-617), Buckeye Ranch (PWS 07 618), and Dixie (PWS 07-030) water systems will reduce their water loss to less than 10 percent. If WUGT finds that reduction of water loss to less than 10 percent is not cost effective in a system, that WUGT shall file within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event, water loss should not exceed 15 percent.

80. Willow Valley should be required file with within 90 days, as a compliance item with

the Commission's Docket Control, a detailed plan demonstrating how the King Street (PWS 08-040), and Lake Cimarron, (PWS 08-129) water systems will reduce their water loss to less than 10 percent. If Willow Valley finds that reduction of water loss to less than 10 percent is not cost effective in a system, Willow Valley should submit within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event, water loss should not exceed 15 percent.

81. WUGT should be required to file, within 12 months, with the Commission's Docket Control as a compliance item in this matter, the ADEQ or MCESD Approval of Construction for a storage tank with a minimum storage capacity of 3,750 gallons for WUGT's Roseview system (PWS 07-082).

82. Valencia-Greater Buckeye, Willow Valley, Santa Cruz, WUGT, and Valencia-Town should be required to use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit D.

83. Palo Verde should be required to use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit E.

CONCLUSIONS OF LAW

1. Applicants are public service corporations pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Applicants and the subject matter of the application.

3. Notice of the proceeding was provided in conformance with law.

4. The fair value of Global Water – Palo Verde Utilities Company's rate base is $53,314,083, and applying an 8.23 percent rate of return on this fair value rate base produces rates and charges that are just and reasonable.

5. The fair value of Valencia Water Company – Greater Buckeye Division's rate base is $929,057, and applying an 8.04 percent rate of return on this fair value rate base produces rates and charges that are just and reasonable.

6. The fair value of Willow Valley Water Company, Inc.'s rate base is $2,251,164, and applying an 8.08 percent rate of return on this fair value rate base produces rates and charges that are just and reasonable.

7. The fair value of Global Water – Santa Cruz Water Company's rate base is $39,155,692, and applying an 8.38 percent rate of return on this fair value rate base produces rates and charges that are just and reasonable.

8. The fair value of Water Utility of Greater Tonopah, Inc.'s rate base is ($4,186,150), and applying an operating margin of 8.26 percent produces rates and charges that are just and reasonable.

9. The fair value of Valencia Water Company – Town Division's rate base is $4,240,018, and applying an 8.56 percent rate of return produces rates and charges that are just and reasonable.

10. The rates and charges approved herein are reasonable.

ORDER

IT IS THEREFORE ORDERED that Global Water – Palo Verde Utilities Company, Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division are hereby authorized and directed to file with the Commission, on or before July 30, 2010, the schedules of rates and charges attached hereto and incorporated herein as Exhibit F, which shall be effective for all service rendered on and after August 1, 2010.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company, Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall notify their customers of the revised schedules of rates and charges authorized herein by means of an insert in their next regularly scheduled billing in a form and manner acceptable to the Commission's Utilities Division Staff. The customer notification shall include a specific and comprehensive explanation of the new method by which the customers' bills will be calculated, including the six tier rate design and the volumetric rebate threshold, and a means to contact the utility to learn more about how the rate design will affect their specific usage patterns and consequently, their bills.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company, Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall provide adequate training to all customer service representatives to ensure that customers who make inquiries will receive adequate, timely, and accurate explanation of the effects the new six tier rate design and the volumetric rebate threshold will have on their bills.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company, Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division make quarterly volumetric threshold rebate reports as a compliance item in this docket. The quarterly filings shall commence on December 15, 2010, and shall continue until rates approved in the Utility's next rate case are effective. The quarterly volumetric threshold rebate report shall indicate, by month, the number of invoices prepared, the number of those invoices with consumption below the rebate threshold and thus entitled to the volumetric rebate, and the dollar amount of rebates provided to customers on those invoices.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company shall file, along with the new schedules of rates and charges ordered above, the Source Control Program Tariff attached to Mr. Symmonds' Direct Testimony at GSS-3.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company, Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Low Income Relief Tariffs for Staff's review and the Commission's consideration.

IT IS FURTHER ORDERED that Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Demand Side Management Program Tariffs for Staff's review and the Commission's consideration.

IT IS FURTHER ORDERED that Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Meter Exchange Fee Tariffs within 60 days for Staff's review and the Commission's consideration.

IT IS FURTHER ORDERED that Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of their Hydrant Meter Deposit Charge Tariffs within 60 days for Staff's review and the Commission's consideration.

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company Division shall file within 60 days with the Commission's Docket Control, as a compliance item in this matter, a copy of its Unauthorized Discharge Fee Tariff within 60 days for Staff's review and the Commission's consideration.

IT IS FURTHER ORDERED that Water Utility of Greater Tonapah shall file, within 12 months, with the Commission's Docket Control as a compliance item in this matter, the ADEQ or MCESD Approval of Construction for a storage tank with a minimum storage capacity of 3,750 gallons for its Roseview system (PWS 07-082).

IT IS FURTHER ORDERED that Global Water – Palo Verde Utilities Company shall use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit C.

IT IS FURTHER ORDERED that Valencia Water Company – Greater Buckeye Division, Willow Valley Water Company, Inc., Global Water – Santa Cruz Water Company, Water Utility of Greater Tonopah, Inc., and Valencia Water Company – Town Division shall use the depreciation rates delineated on the schedule attached hereto and incorporated herein as Exhibit D.

IT IS FURTHER ORDERED that Valencia Water Company – Greater Buckeye Division shall file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the Sun Valley/Sweetwater I (PWS 07-195) and Sweetwater II (PWS 07-129) water systems will reduce their water loss to less than 10 percent. If Valencia Water Company – Greater Buckeye Division finds that reduction of water loss to less than 10 percent is not cost effective in a system, it shall file within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event, water loss shall not exceed 15 percent.

IT IS FURTHER ORDERED that Willow Valley Water Company, Inc. shall file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the King Street (PWS 08-040), and Lake Cimarron, (PWS 08-129) water systems will reduce their water loss to less than 10 percent. If Willow Valley Water Company, Inc. finds that reduction of water loss to less than 10 percent is not cost effective in a system, it shall file within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event, water loss shall not exceed 15 percent.

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IT IS FURTHER ORDERED that Water Utility of Greater Tonopah, Inc. shall file with within 90 days, as a compliance item with the Commission's Docket Control, a detailed plan demonstrating how the Garden City (PWS 07-037), West Phoenix Estates #1, West Phoenix Estates #6, (PWS 07-733), Tufte (PWS 07-617), Buckeye Ranch (PWS 07 618), and Dixie (PWS 07-030) water systems will reduce their water loss to less than 10 percent. If Water Utility of Greater Tonopah, Inc. finds that reduction of water loss to less than 10 percent is not cost effective in a system, it shall file within 90 days, as a compliance item with the Commission's Docket Control, a detailed cost analysis and explanation for each system demonstrating why water loss reduction to less than 10 percent is not cost effective. In any event, water loss shall not exceed 15 percent.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ______ day of __________, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT ______________________

DISSENT ______________________

SERVICE LIST FOR: GLOBAL WATER – PALO VERDE UTILITIES COMPANY; VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION; WILLOW VALLEY WATER COMPANY; GLOBAL WATER – SANTA CRUZ WATER COMPANY; WATER UTILITY OF GREATER TONOPAH; and VALENCIA WATER COMPANY – TOWN DIVISION

DOCKET NOS.: SW-20445A-09-0077; W-02451A-09-0078; W-01732A-09-0079; W-20446A-09-0080; W-02450A-09-0081 and W-01212A-09-0082

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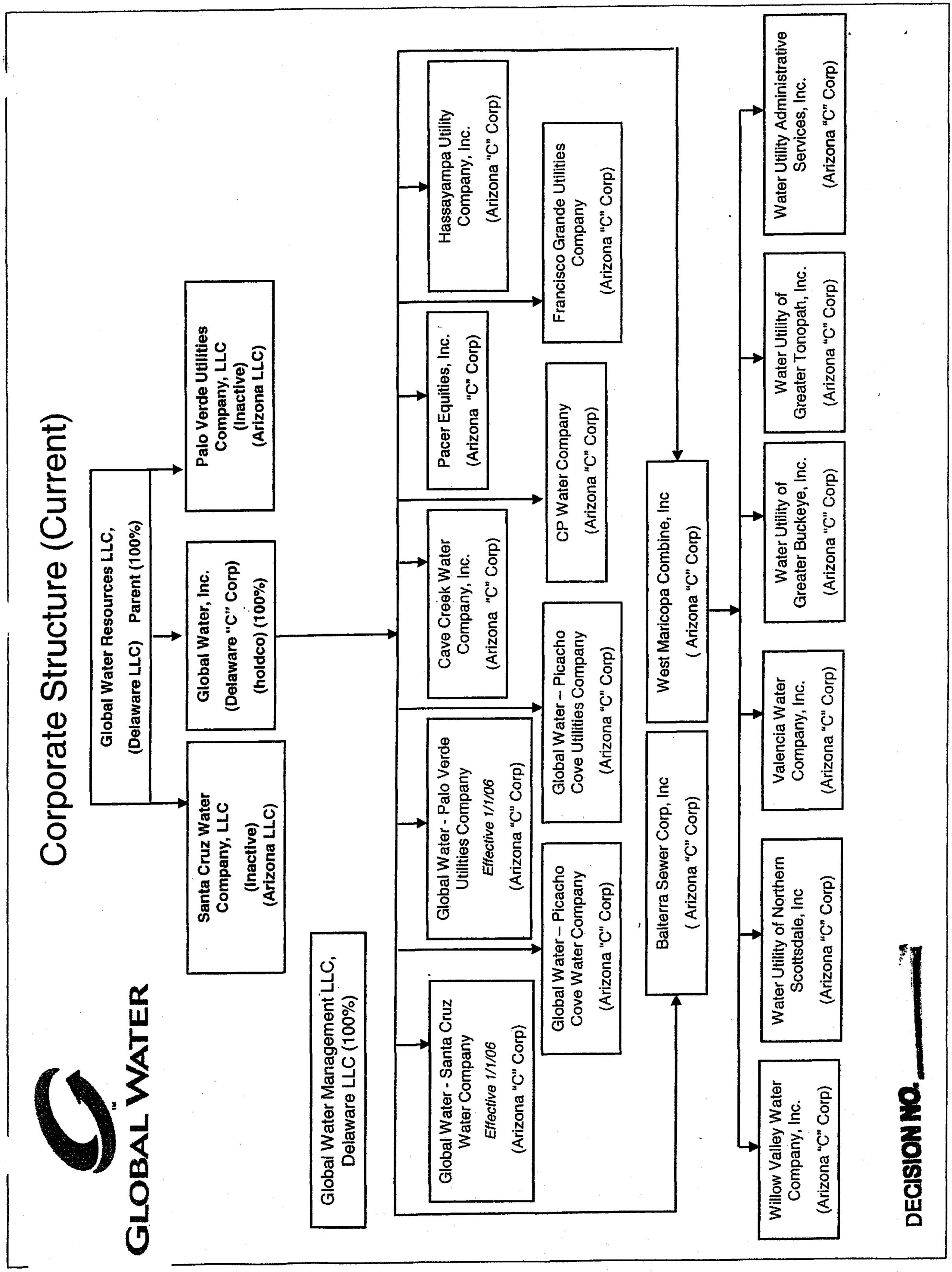
EXHIBIT A



DECISION NO.

EXHIBIT B

CALCULATION OF ICFA RATE BASE ADJUSTMENTS
(Source: Company response to LJ-3.10a)

WATER UTILITY OF GREATER TONOPAH

ICFA Fees Collected by Contract:

2006-0939440	HUC and WUGT	$ 5,819,850		
2006-0939366	HUC and WUGT	$ 2,531,250		
2008-0061205	HUC and WUGT	$ 500,000		
2008-0679693	HUC and WUGT	$ 375,000		
		$ 9,226,100		
Hassayampa Utilities Net Plant (a)		$ 1,440,781	23.2%	
Water Utility Greater Tonopah Net Plant		$ 4,764,594	76.8%	
Total Plant		$ 6,205,375		
2006-0939440	WUGT Allocation	$ 5,819,850	76.8%	$ 4,469,645
2006-0939366	WUGT Allocation	$ 2,531,250	76.8%	$ 1,944,000
2008-0061205	WUGT Allocation	$ 500,000	76.8%	$ 384,000
2008-0679693	WUGT Allocation	$ 375,000	76.8%	$ 288,000
Total WUGT Rate Base Adjustment				**$ 7,085,645**

PALO VERDE AND SANTA CRUZ
(Source: Company response to LJ-3.10a)

ICFA fees Collected from Maricopa (Excluding Picacho Cove)	$ 49,982,522		
Palo Verde Net Plant (Schedule E-1)	$ 108,965,553	50.9%	
Santa Cruz Net Plant (Schedule E-1)	$ 105,113,290	49.1%	
Total	$ 214,078,843		
Palo Verde Allocation	$ 49,982,522	50.9%	$ 25,441,104
Santa Cruz Allocation	$ 49,982,522	49.1%	$ 24,541,418
Palo Verde excess capacity RB reduction - Company	$ 14,449,976		
Santa Cruz excess capacity RB reduction - Company	$ 17,941,342		
Total	$ 32,391,318		
Total Palo Verde Rate Base Adjustment (Allocated ICFA fees less excess capacity adj.) ($25,440,969 minus $14,449,976)			**$ 10,991,128**
Total Santa Cruz Rate Base Adjustment (Allocated ICFA fees less excess capacity adj.) ($24,541,553 minus $17,941,342)			**$ 6,600,076**

(a) Hassayampa Utilities (HUC) is a Global subsidiary not included in this rate case.

EXHIBIT C

Table G-1. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

EXHIBIT D

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

EXHIBIT "E"

GLOBAL WATER - PALO VERDE UTILITIES COMPANY

BASIC SERVICE CHARGE:	
5/8" x 3/4" Meter	$ 60.76
3/4" Meter	60.76
1" Meter	151.90
1-1/2" Meter	303.80
2" Meter	486.08
3" Meter	972.16
4" Meter	1,519.88
6" Meter	3,038.00
8" Meter	4,860.80

PHASE IN RATES:	August 1, 2010	August 1, 2011	August 1, 2012
5/8" x 3/4" Meter	$ 42.25	$ 51.51	$ 60.76
3/4" Meter	42.25	51.51	60.76
1" Meter	105.63	128.77	151.90
1-1/2" Meter	211.27	257.53	303.80
2" Meter	338.03	412.05	486.08
3" Meter	676.05	824.11	972.16
4" Meter	1,056.33	1,287.67	1,519.88
6" Meter	2,112.67	2,575.33	3,038.00
8" Meter	1,620.27	3,240.53	4,860.80

EFFLUENT CHARGE:	
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons)	2.00

SERVICE CHARGES:	
Establishment	$ 35.00
Establishment (After Hours)	50.00
Re-establishment of Service (Within 12 Months)	(a)
Reconnection of Service (Delinquent)	35.00
Reconnection of Service-After Hours (Delinquent)	50.00
Meter Move at Customer Request	(b)
After Hours Service Charge, Per Hour *	50.00
Deposit	(c)
Meter Re-Read (If Correct)	30.00
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.

VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x 3/4" Meter	$ 27.72
3/4" Meter	27.72
1" Meter	69.30
1-1/2" Meter	138.60
2" Meter	221.76
3" Meter	443.52
4" Meter	693.00
6" Meter	1,386.00

COMMODITY RATE CHARGES (Per 1,000 Gallons):

Potable Water – All Meter Sizes and Classes	Rate Block	Volumetric Charge
Tier One Breakover	1,000 Gallons	$ 1.45
Tier Two Breakover	5,000 Gallons	2.65
Tier Three Breakover	10,000 Gallons	3.85
Tier Four Breakover	18,000 Gallons	5.05
Tier Five Breakover	25,000 Gallons	6.25
Tier Six Breakover	999,999,999	7.45

Conservation Rebate Threshold ("CRT")	9,001 Gallons
Commodity Rate Rebate (applied if consumption is below the CRT):	45%

Non-Potable Water – All Meter Sizes and Classes	Volumetric Charge
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons))	2.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine	830.00	1,045.00	1,875.00
2" Compound	830.00	1,890.00	2,720.00
3" Turbine	1,045.00	1,670.00	2,715.00
3" Compound	1,165.00	2,545.00	3,710.00
4" Turbine	1,490.00	2,670.00	4,160.00
4" Compound	1,670.00	3,645.00	5,315.00
6" Turbine	2,210.00	5,025.00	7,235.00
6" Compound	2,330.00	6,920.00	9,250.00
8" and Larger	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$ 35.00
Establishment (After Hours)	50.00
Re-establishment of Service (Within 12 Months)	(a)
Reconnection of Service (Delinquent)	35.00
Reconnection of Service-After Hours (Delinquent)	50.00
Meter Move at Customer Request	(b)
After Hours Service Charge, Per Hour *	50.00
Deposit	(c)
Meter Re-Read (If Correct)	30.00
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.

WILLOW VALLEY WATER COMPANY, INC.

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x 3/4" Meter	$ 21.12
3/4" Meter	21.12
1" Meter	52.80
1-1/2" Meter	105.60
2" Meter	168.96
3" Meter	337.92
4" Meter	528.00
6" Meter	1,056.00
8" Meter	2,112.00

COMMODITY RATE CHARGES (Per 1,000 Gallons):

Potable Water – All Meter Sizes and Classes	Rate Block	Volumetric Charge
Tier One Breakover	1,000 Gallons	$ 1.65
Tier Two Breakover	5,000 Gallons	3.25
Tier Three Breakover	10,000 Gallons	4.65
Tier Four Breakover	18,000 Gallons	6.15
Tier Five Breakover	25,000 Gallons	7.65
Tier Six Breakover	999,999,999	9.25

Conservation Rebate Threshold ("CRT")	6,401 Gallons
Commodity Rate Rebate (applied if consumption is below the CRT):	45%

Non-Potable Water – All Meter Sizes and Classes	Volumetric Charge
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons))	2.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine	830.00	1,045.00	1,875.00
2" Compound	830.00	1,890.00	2,720.00
3" Turbine	1,045.00	1,670.00	2,715.00
3" Compound	1,165.00	2,545.00	3,710.00
4" Turbine	1,490.00	2,670.00	4,160.00
4" Compound	1,670.00	3,645.00	5,315.00
6" Turbine	2,210.00	5,025.00	7,235.00
6" Compound	2,330.00	6,920.00	9,250.00
8" and Larger	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$ 35.00
Establishment (After Hours)	50.00
Re-establishment of Service (Within 12 Months)	(a)
Reconnection of Service (Delinquent)	35.00
Reconnection of Service-After Hours (Delinquent)	50.00
Meter Move at Customer Request	(b)
After Hours Service Charge, Per Hour *	50.00
Deposit	(c)
Meter Re-Read (If Correct)	30.00
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.

GLOBAL WATER – SANTA CRUZ WATER COMPANY

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x 3/4" Meter	$ 27.68
3/4" Meter	27.68
1" Meter	69.20
1-1/2" Meter	138.40
2" Meter	221.44
3" Meter	442.88
4" Meter	692.00
6" Meter	1,384.00
8" Meter	2,768.00

COMMODITY RATE CHARGES (Per 1,000 Gallons):

Potable Water – All Meter Sizes and Classes	Rate Block	Volumetric Charge
Tier One Breakover	1,000 Gallons	$ 1.30
Tier Two Breakover	5,000 Gallons	2.12
Tier Three Breakover	10,000 Gallons	2.94
Tier Four Breakover	18,000 Gallons	3.76
Tier Five Breakover	25,000 Gallons	4.58
Tier Six Breakover	999,999,999	5.48

Conservation Rebate Threshold ("CRT")	7,001 Gallons
Commodity rate rebate applied if consumption is below the CRT:	55%

Non-Potable Water – All Meter Sizes and Classes	Volumetric Charge
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons)	2.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8"x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine	830.00	1,045.00	1,875.00
2" Compound	830.00	1,890.00	2,720.00
3" Turbine	1,045.00	1,670.00	2,715.00
3" Compound	1,165.00	2,545.00	3,710.00
4" Turbine	1,490.00	2,670.00	4,160.00
4" Compound	1,670.00	3,645.00	5,315.00
6" Turbine	2,210.00	5,025.00	7,235.00
6" Compound	2,330.00	6,920.00	9,250.00
8" and Larger	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$ 35.00
Establishment (After Hours)	50.00
Re-establishment of Service (Within 12 Months)	(a)
Reconnection of Service (Delinquent)	35.00
Reconnection of Service-After Hours (Delinquent)	50.00
Meter Move at Customer Request	(b)
After Hours Service Charge, Per Hour *	50.00
Deposit	(c)
Meter Re-Read (If Correct)	30.00
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.

WATER UTILITY OF GREATER TONOPAH, INC.

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x 3/4" Meter	$ 22.55
3/4" Meter	22.55
1" Meter	56.38
1-1/2" Meter	112.75
2" Meter	180.40
3" Meter	360.80
4" Meter	563.75
6" Meter	1,127.50
8" Meter	2,255.00

COMMODITY RATE CHARGES (Per 1,000 Gallons):

Potable Water – All Meter Sizes and Classes	Rate Block	Volumetric Charge
Tier One Breakover	1,000 Gallons	$ 1.25
Tier Two Breakover	5,000 Gallons	2.11
Tier Three Breakover	10,000 Gallons	2.97
Tier Four Breakover	18,000 Gallons	3.83
Tier Five Breakover	25,000 Gallons	4.69
Tier Six Breakover	999,999,999	5.55

Conservation Rebate Threshold ("CBT")	7,401 Gallons
Commodity Rate Rebate 9applied if consumption is below the CBT0:	45%

Non-Potable Water – All Meter Sizes and Classes	Volumetric Charge
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons)	2.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine	830.00	1,045.00	1,875.00
2" Compound	830.00	1,890.00	2,720.00
3" Turbine	1,045.00	1,670.00	2,715.00
3" Compound	1,165.00	2,545.00	3,710.00
4" Turbine	1,490.00	2,670.00	4,160.00
4" Compound	1,670.00	3,645.00	5,315.00
6" Turbine	2,210.00	5,025.00	7,235.00
6" Compound	2,330.00	6,920.00	9,250.00
8" and Larger	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$ 35.00
Establishment (After Hours)	50.00
Re-establishment of Service (Within 12 Months)	(a)
Reconnection of Service (Delinquent)	35.00
Reconnection of Service-After Hours (Delinquent)	50.00
Meter Move at Customer Request	(b)
After Hours Service Charge, Per Hour *	50.00
Deposit	(c)
Meter Re-Read (If Correct)	30.00
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.

VALENCIA WATER COMPANY TOWN DIVISION

MONTHLY USAGE CHARGE:

Meter Size (All Classes)	
5/8" x 3/4" Meter	$ 30.88
3/4" Meter	30.88
1" Meter	77.20
1-1/2" Meter	154.40
2" Meter	247.04
3" Meter	494.08
4" Meter	772.00
6" Meter	1,544.00
8" Meter	3,088.00

COMMODITY RATE CHARGES (Per 1,000 Gallons):

Potable Water – All Meter Sizes and Classes	Rate Block	Volumetric Charge
Tier One Breakover	1,000 Gallons	$ 1.15
Tier Two Breakover	5,000 Gallons	2.00
Tier Three Breakover	10,000 Gallons	2.85
Tier Four Breakover	18,000 Gallons	3.85
Tier Five Breakover	25,000 Gallons	4.95
Tier Six Breakover	999,999,999	6.15

Conservation Rebate Threshold ("CBT")	6,701 Gallons
Commodity Rate Rebate (applied if consumption is below the CBT):	59%

Non-Potable Water – All Meter Sizes and Classes	Volumetric Charge
All Gallons (Per Acre Foot)	$ 651.70
All Gallons (Per 1,000 Gallons)	2.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine	830.00	1,045.00	1,875.00
2" Compound	830.00	1,890.00	2,720.00
3" Turbine	1,045.00	1,670.00	2,715.00
3" Compound	1,165.00	2,545.00	3,710.00
4" Turbine	1,490.00	2,670.00	4,160.00
4" Compound	1,670.00	3,645.00	5,315.00
6" Turbine	2,210.00	5,025.00	7,235.00
6" Compound	2,330.00	6,920.00	9,250.00
8" and Larger	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	
Establishment (After Hours)	$ 35.00
Re-establishment of Service (Within 12 Months)	50.00
Reconnection of Service (Delinquent)	(a)
Reconnection of Service-After Hours (Delinquent)	35.00
Meter Move at Customer Request	50.00
After Hours Service Charge, Per Hour *	(b)
Deposit	50.00
Meter Re-Read (If Correct)	(c)
Meter Test Fee (If Correct)	30.00
NSF Check	30.00
Late Payment Charge (Per Month)	30.00
Deferred Payment (Per Month)	1.5%

(a) Number of Months off System times the Monthly Minimum per A.A.C. R14-2-403(D).
(b) Cost to include parts, labor, overhead and all applicable taxes per A.A.C. R14-2-405(B)(5)
(c) Per A.A.C. R14-2-403(B)
* Not to be charged in addition to an establishment or a reconnection after hours.