

**ORIGINAL**

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

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2010 AUG 10 P 4: 18

AZ CORP COMMISSION  
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Arizona Corporation Commission

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7  
8 IN THE MATTER OF THE APPLICATION OF  
JOHNSON UTILITIES, LLC FOR AN  
9 INCREASE IN ITS WATER AND  
WASTEWATER RATES FOR CUSTOMERS  
WITHIN PINAL COUNTY, ARIZONA.

Docket No. WS-02987A-08-0180

**RESIDENTIAL UTILITY CONSUMER OFFICE'S  
COMMENTS**

The Residential Utility Consumer Office ("RUCO") files these comments in response to Commissioner Pierce's letter of August 4, 2010. RUCO also includes Mayes 5 in the chart and labels it "option 10."

**CHART OF ALTERNATIVES**

Per Commissioner Pierce's Request, RUCO has calculated the dollar amounts in the chart contained in his letter and has inserted the amounts<sup>1</sup> as displayed below:

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1 RUCO would point out that in the case of Pierce Proposed Amendment #2, there is no provision to also remove the accumulated amortization of CIAC associated with the \$6,931,078 of unexpended HUFs. The rate base and revenue requirement figures listed in the chart only reflect the provisions in Pierce Proposed Amendment #2. Based on RUCO's calculation of rate base per the ROO, RUCO has estimated that there is approximately \$251,952 in accumulated amortization associated with the \$6,931,078 of unexpended HUFs that have been booked as CIAC. RUCO has further calculated that the removal of the \$251,952 in accumulated amortization would result in a rate base figure of (\$7,003,705). However, this would have no impact on the revenue requirement since an operating margin of 10 percent is being applied.

ALTERNATIVE	WATER RATE BASE	WASTEWATER RATE BASE	REVENUE REQUIREMENT	CAGR ADJUSTOR
ROO	(\$13,682,831)	\$136,562	\$23,533,291	N/A
ROO & HEARING 1	(\$13,682,831)	\$136,562	\$22,098,089	N/A
MAYES #3	\$0	\$136,562	\$20,868,632	N/A
MAYES #4	(\$13,682,831)	\$136,562	\$20,985,181	N/A
MAYES #5	(\$7,478,999)	\$9,481,084	\$20,829,089	N/A
JOHNSON #12	\$2,548,471	\$14,206,626	\$20,974,722	\$22,272,617
PIERCE #1	(\$13,682,831)	\$136,562	\$24,795,378	N/A
PIERCE #2	(\$6,751,753)	\$136,562	\$23,533,511	N/A

### MODIFIED JOHNSON 12

In regard to Commissioner Pierce's request for a modification of Johnson Utilities' Proposed Amendment #12 that disallows 2 percent and 2.5 percent of unsupported plant, RUCO has calculated the following:

ALTERNATIVE	WATER RATE BASE	WASTEWATER RATE BASE	REVENUE REQUIREMENT	CAGR ADJUSTOR
ADJUSTED JOHNSON #12 @ 2.00%	\$2,251,123	\$12,028,148	\$20,810,381	\$22,108,276
ADJUSTED JOHNSON #12 @ 2.50%	\$690,044	\$11,483,528	\$20,669,463	\$21,967,358

### RANKING THE OPTIONS

Among the nine options listed in Commissioner Pierce's letter, by order of preference, RUCO would support the following:

1. Option 7 -- Adopt Mayes 4 and Hearing 1
2. Option 1 -- Adopt the ROO and Hearing 1

1           3.     Option 10 – Adopt Mayes Proposed Amendment 5<sup>2</sup> and Hearing 1.

2                   RUCO would not support the remaining options.  However, if the Commission  
3 were to adopt one of the remaining options, RUCO's order of preference is as follows:

4           4.     Option 2 – Adopt the ROO and Mayes 2

5           5.     Option 6 -- Adopt Mayes 3 and Hearing 1

6           5.     Option 9 -- Adopt a Modified Johnson 12 (as described above) & Mayes 2

7           6.     Option 8 -- Adopt Johnson Utilities 12 & Mayes 2

8           7.     Option 3 -- Adopt the ROO, Mayes 2, and Pierce 1

9           8.     Option 5 -- Adopt the ROO, Mayes 2, and Pierce 2

10          9.     Option 4 -- Adopt the ROO, Mayes 2, and Pierce 1 & 2

11  
12           Briefly, RUCO would like to explain the reasons for the above order of preference.  
13 RUCO cannot support an option (Options 4,5,6,8,9) that would remove CIAC from rate base  
14 and set a precedent which distinguishes when CIAC is deducted from rate base for accounting  
15 purposes.  This can only harm ratepayers going forward and is inconsistent with this  
16 Commission's rules and prior decisions on this matter.  Likewise, RUCO cannot support an  
17 option (Options 2,3,4,8,9) that allows for the use of an extraordinary ratemaking mechanism  
18 (the CAGR adjutor) where the circumstances do not support it.  The Company has  
19 demonstrated poor record keeping and the ROO recommends an alternative which makes the  
20 Company whole by a standard methodology.  Nor can RUCO support an option (Options 3,4)  
21 that allows the Company to recover taxes when the utility has no tax liability.  The Company  
22 elected a corporate form (an L.L.C.) whose sole purpose was to benefit its shareholders.

23 \_\_\_\_\_  
24 <sup>2</sup> Mayes Proposed Amendment Five was filed after Commissioner Pierce's letter came out.

1 Finally, RUCO would like to make one final point. What makes the present case  
2 different from the normal situation where an operating margin is being considered is the  
3 amount of equity in this Company's capital structure. The Company's actual capital  
4 structure is almost all equity, which means that the Company has significant cash  
5 flows. The cash flow in this case will not be needed to pay off debt. Many of the above  
6 options will have the result of unjustly enriching the utility which is exactly what the  
7 Commission does not want to do.

8 Here, the Company has negative (water) and minimal (wastewater) rate bases, but  
9 again, the Company's capital structure is almost all equity and the Company has ample  
10 cash flow. There is not an operational concern here. RUCO explained in its Exceptions  
11 what the effect of a 10 percent operating margin will have on rate base. Operating  
12 income is equal to the rate base times the rate of return. We know the ROO's  
13 recommended operating income and the ROO recommends an operating margin of 10  
14 percent. The equivalent rate base analysis is as follows:

15  
16 PRO FORMA RATE BASE CALCULATION

17 Water Division

	<u>ROO</u>
Recommended Operating Income	\$ 1,307,438
Divided By: Recommended Operating Margin	<u>10.00%</u>
Pro Forma Rate Base	<u>\$ 13,074,380</u>

1 Wastewater Division

2 ROO

3 Recommended Operating Income \$ 1,045,913

4 Divided By: Recommended Operating Margin 10.00%

5 Pro Forma Rate Base \$ 10,459,130

6 The conclusion is for the water division, an operating margin of 10 percent would  
7 yield the same revenue requirement as awarding the Company a FVRB of \$13,074,380.  
8 For the wastewater division, an operating margin of 10 percent would yield the same  
9 revenue requirement as awarding the Company a FVRB as awarding the Company a  
10 FVRB of \$10,459,130. The concern over the negative rate base here really is a fiction,  
11 and the Commission should not be persuaded by creative and extraordinary ratemaking  
12 options in an attempt to deal with a problem that really does not exist under the  
13 circumstances of this case. The Commission should focus here on what is an  
14 appropriate operating margin that allows an appropriate equivalent fair value rate base.  
15 Option 7 is the best Option to do this.

16  
17 RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of August, 2010

18  
19   
20 Daniel W. Pozefsky  
21 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES  
of the foregoing filed this 10<sup>th</sup> day  
2 of August, 2010 with:

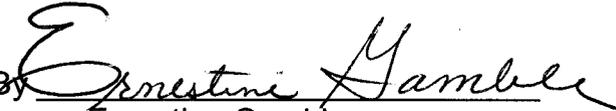
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