

OPEN MEETING AGENDA ITEM



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AZ CORP COMMISSION
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Chairman Kristin K. Mayes
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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 27 2010

DOCKETED BY

Re: Global Water Rate Case; Docket Nos. SW-20445A-09-0077;
W-02451A-09-0078; W-01732A-09-0079; W-20446A-09-0080;
W-02450A-09-0081; W-01212A-09-0082

Dear Commissioners:

Global Water appreciates the diligence and concern of the Commissioners as they consider the broad implications of the Global Water rate case. But we are gravely concerned with the impacts looming in the ROO and in the proposed Mayes Amendment 2.

We would therefore like to focus the case on those elements, so we are hereby filing our responses on the other issues in the case: Mayes Amendment 1 and to the proposal to shift revenue requirement away from HOAs and towards residential homeowners.

In regards to Mayes Amendment 1, which would require our large water companies to meet at least ten of ADWR's Best Management Practices, and our smaller water companies to meet at least three; we would only point out that we don't think the Commission appreciates how well Total Water Management works. Global's utilities far exceed Mayes Amendment 1, Santa Cruz Water meets 17 BMPs today and will meet 32 BMPs with the adoption of Global's DSM plan proposed in this case. Valencia meets 11 BMPs today and will meet up to 30 with the adoption of Global's DSM plan proposed in this case. Our smaller systems, which have yet to be fully converted to Total Water Management because of the funding costs our approach requires, meet 8 BMPs today and will meet over 20 with the adoption of Global's DSM plan. Nonetheless, we appreciate that Chairman Mayes has long been committed to setting a uniform minimum standard for water conservation by offering this amendment in all water cases and we applaud her efforts and do not oppose its adoption.

With regard to proposal to shift revenue requirement away from HOAs and towards residential homeowners, we profoundly disagree because we believe that the average HOA will, under our proposal, see a per unit increase of \$4 a month which will be greatly offset by Global's DSM plan which would permanently shift them to more sustainable water use practices. Province will,

without question, see dramatic increases in their bills, which means they would have to work closely with Global's DSM plan to mitigate that increase. Nonetheless, it appears that a majority of Commissioners support the proposal and we have been asked by Staff to provide bill impacts – those are attached. We calculated two ways to achieve this option, the first approach would increase consumers' water bills by increasing the consumptive rates (except for the tier one rate). This approach would increase the average customer bill by \$3.63. The alternative approach would be to increase the monthly service charges. This would result in an increase of \$2.56 a month for the average customer.

We are profoundly concerned that the entire future of Global Water and its Total Water Management mission will be decided on Monday and we therefore request that the Commission make quick work of the two proposals outlined above so that Global may have one last chance to plead its case with regard to ICFAs.

The implications of the ROO and of Mayes Amendment 2 are extremely profound. Global knew in 2005 and after that it needed to perfectly account for ICFAs – there is no party in this case that has alleged a single accounting violation occurred. The “accounting” dispute that exists is simply this: when a developer-supplied dollar arrived, we booked it as revenue based on the terms of the agreement. Deloitte and Touche agreed with this treatment. Staff and RUCO are saying that all developer-supplied dollars have to be booked as CIAC, even if the funds are not spent on plant. That is the entirety of the “accounting” dispute and we urge the Commissioners to directly question Staff and RUCO on this point.

The decision on Infrastructure Coordination and Finance Agreements (“ICFAs”) will determine Global Water's future, and the future of Total Water Management in Arizona. In the interest of moving the discussion along on Monday, we are submitting in advance the concerns which we have with the proposed treatment in the ROO and in Mayes Amendment 2.

While we remain certain that our annually audited, GAAP-compliant accounting records are unquestionably accurate – we do understand the Commissioners' desire to see the ICFA funds in a wholly segregated account. That view is understandable and we accept it, but we do note that it was not the position of Staff's witness in this case, who testified that the *source* of the funds (developers) – not the actual use of the funds – drove her conclusion and that even putting the money into a wholly segregated account would not alleviate that concern.¹ Nonetheless, Global accepts the Commissioners' perspective that only through segregation of funds can clarity exist and we look forward to developing standards in the generic docket proposed by Chairman Mayes in Mayes Amendment 2.

Mayes Amendment 2 provides a pathway for fuller consideration of ICFAs, and the state would benefit from a discourse that results in ICFA clarity, and Global Water supports that portion of the Amendment.

However, Mayes Amendment 2 states in its opening sentence that the circumstances of this case dictate that all ICFA funds be treated as CIAC.

The circumstances of this case as agreed to by Staff and RUCO's witnesses are:

¹ See Jaress at Tr. Pg 812, Pg. 855

- Total Water Management achieves incredible water conservation results; 2 billion gallons of groundwater have been saved in Maricopa alone,
- Global acquired troubled utilities, the 387 Districts which were in full crisis, and the West Maricopa Combine which had sixty sections of CC&N and no rate base, and a developer-owned wastewater company with no plant, and infused them all with Total Water Management, and Global spent \$43,871,802² on those acquisitions.³

Global has tried, unsuccessfully, to explain the link between Global's debt, directly provided through the Pima Industrial Development Authority in coordination with Pinal County, and ICFA fees. At this point in the case, it appears that no party, besides the Water Utility Association of Arizona, agrees with our position. We will endeavor to explain that further in the generic docket should Mayes Amendment 2 pass. Because it is clear that the Commissioners are unwilling to accept Global Water's position on the IDA bonds, and in the interest of time, we will therefore tailor our final request to one narrow point:

Global Water requests that the Commissioners at least recognize that the \$43,871,802 of developer money spent to acquire the deeply troubled West Maricopa Combine and 387 Districts, NOT be treated as CIAC.

No party disputes that Global spent \$43,871,802 acquiring those companies; no party disputes that Global's Total Water Management is desperately needed in both the Pinal and Phoenix Active Management Areas ("AMAs").⁴ The effect of Mayes Amendment 2, as currently written, is to permanently create negative rate base in the Phoenix AMA service area of Global, and to remove \$51 million from rate base consideration in the Pinal AMA.

Whether Global deserves to "pay a price" for "taking a chance" and using ICFA's is something for the Commission to decide; but the effective death sentence implicated in the ROO or Mayes Amendment 2 cannot be justified under any reading of the facts in this case.

If the Commission accepts this one change, the Commission will still be removing \$16,212,231 million from rate base consideration – \$60,084,123 in ICFA funds minus \$43,871,802.⁵ The ROO currently applies a total of \$16,428,974 in imputed CIAC to Palo Verde and Santa Cruz, which significantly reduces rates for customers in Maricopa.⁶ The ROO also applies \$6,849,397 in imputed CIAC to WUGT (i.e., Belmont), creating a negative rate base of \$4,186,150.⁷ If the Commission were to limit its punishment of Global to "only" the \$16,212,231 not spent for acquisition it would still be able to impute CIAC to the Maricopa rate bases.

² ROO at page 13, Direct Testimony of Trevor Hill at page 32, Rebuttal Testimony of Matthew Rowell, page 35

³ See Rebuttal Testimony of Trevor Hill, Page 24

⁴ Q.v., e.g., Jaress at Tr. Pgs 848-849, 857, 880-881

⁵ See Rebuttal Testimony of Matthew Rowell, page 35

⁶ See ROO page 17

⁷ See ROO page 30

Furthermore, there will be no negative rate base in WUGT. To be fair to the ratepayers of WUGT they have not been prepared for a rate increase because Staff, RUCO, and the ALJ have consistently supported a massive negative rate base solution. Global therefore requests that the Commission NOT grant any rate increase greater than the operating margin allowed in the ROO for WUGT. Global accepts that a dramatically lower ROE for WUGT would be required to achieve that result but we implore the Commission to do so in order to avoid customers being completely shocked by the results of this case.

Under this proposal, Global will not have any of the ICFA revenues offsetting the \$24,057,683 in tax distributions.⁸ This is, obviously, a significant impact and we would urge the Commission to consider the tax implications of ICFAs in the proposed workshops. Whether Global was structured as a LLC or as a C corporation, the ICFA revenue was taxable.

Under this proposal, Global would see the \$32 million of plant that it left out of the case return to a typical stranded asset – it would remain out of rate base until the Commission, in some future case, made a determination of its used and useful status.

Under this proposal, Global will have to restate its books and records to account for the \$16,212,231 negative ratemaking decision – that will cost our shareholders at least \$1 million in accounting costs alone, on top of the impact to our balance sheet, and will delay further our efforts to infuse more equity into the company.

So there are significant provisions in this proposal that profoundly cost the shareholders. This is not a free pass, it removes \$16,212,231 from rate base and will cost shareholders at least \$1 million.

But, under this proposal, Global will be able to explain to its bondholders, banks, and potential equity investors (as Global remains under ACC order to infuse equity) the ramifications of CIAC and the potential, over a very long time, to have the \$32 million in currently unused plant considered for rate base.

Under this proposal, NO change to the ROO's revenue requirement is required, and only a *de minimis* change of \$216,653 is required to the ROO's proposed regulatory rate bases in Maricopa.

The Commission would hand Global Water a tremendous penalty, but Global would be able to continue its Total Water Management mission.

Alternatively, the Commission could consider Global's proposed Amendment 2 which was attached to our exceptions. That amendment, like the proposal above, would not increase the revenue requirement in the case, but it would provide a stronger signal on the Commission's willingness to support Total Water Management and the use of developer funds to achieve those goals.

⁸ See Rebuttal Testimony of Matthew Rowell, page 35

Finally, we should note that Total Water Management to achieve sustainability for water resources is, in our opinion, critical for the future of the state. Future developments like Belmont in the West Valley and our existing communities need this philosophy to ensure their viability. The Commission's role in establishing sustainability as a public interest test is important now, but is critical for the future.

Sincerely,
GLOBAL WATER



Trevor Hill
President

cc: ACC Docket Control

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OPTION 1 - Reduction in Non-Potable rate goes to Monthly Charge (PV & SC)

Palo Verde Utilities Company

ROO Rev Req \$ 13,088,713

| Meter Size | Mayes Proposed | ROO | Change |
|------------|----------------|-------------|-----------|
| 5/8" | \$ 63.10 | \$ 60.76 | \$ 2.34 |
| 3/4" | \$ 63.10 | \$ 60.76 | \$ 2.34 |
| 1" | \$ 157.75 | \$ 151.90 | \$ 5.85 |
| 1.5" | \$ 315.50 | \$ 303.80 | \$ 11.70 |
| 2" | \$ 504.80 | \$ 486.08 | \$ 18.72 |
| 3" | \$ 1,009.60 | \$ 972.16 | \$ 37.44 |
| 4" | \$ 1,577.50 | \$ 1,519.88 | \$ 57.62 |
| 6" | \$ 3,155.00 | \$ 3,038.00 | \$ 117.00 |
| 8" | \$ 5,048.00 | \$ 4,860.80 | \$ 187.20 |
| 10" | \$ - | \$ - | \$ - |
| 12" | \$ - | \$ - | \$ - |

Recycled Water Rate \$ 1.30 \$ 2.00 \$ (0.70)

Santa Cruz Water Company

ROO Rev Req \$ 11,245,509

| Meter Size | Mayes Proposed | ROO | Change |
|------------|----------------|-------------|-----------|
| 5/8" | \$ 28.97 | \$ 27.68 | \$ 1.29 |
| 3/4" | \$ 28.97 | \$ 27.68 | \$ 1.29 |
| 1" | \$ 72.43 | \$ 69.20 | \$ 3.22 |
| 1.5" | \$ 144.85 | \$ 138.40 | \$ 6.45 |
| 2" | \$ 231.76 | \$ 221.44 | \$ 10.32 |
| 3" | \$ 463.52 | \$ 442.88 | \$ 20.64 |
| 4" | \$ 724.25 | \$ 692.00 | \$ 32.25 |
| 6" | \$ 1,448.50 | \$ 1,384.00 | \$ 64.50 |
| 8" | \$ 2,897.00 | \$ 2,768.00 | \$ 129.00 |
| 10" | \$ - | \$ - | \$ - |
| 12" | \$ - | \$ - | \$ - |

Non-Potable Water Rate \$ 1.30 \$ 2.00 \$ (0.70)

OPTION 2 - Reduction in Non-Potable rate goes to PV Monthly Charge and SC Volumetric Charge (Tiers 2-6)

Palo Verde Utilities Company

ROO Rev Req \$ 13,088,713

| Meter Size | Mayes Proposed | ROO | Change |
|------------|----------------|-------------|-----------|
| 5/8" | \$ 63.10 | \$ 60.76 | \$ 2.34 |
| 3/4" | \$ 63.10 | \$ 60.76 | \$ 2.34 |
| 1" | \$ 157.75 | \$ 151.90 | \$ 5.85 |
| 1.5" | \$ 315.50 | \$ 303.80 | \$ 11.70 |
| 2" | \$ 504.80 | \$ 486.08 | \$ 18.72 |
| 3" | \$ 1,009.60 | \$ 972.16 | \$ 37.44 |
| 4" | \$ 1,577.50 | \$ 1,519.88 | \$ 57.62 |
| 6" | \$ 3,155.00 | \$ 3,038.00 | \$ 117.00 |
| 8" | \$ 5,048.00 | \$ 4,860.80 | \$ 187.20 |
| 10" | \$ - | \$ - | \$ - |
| 12" | \$ - | \$ - | \$ - |

Recycled Water Rate \$ 1.30 \$ 2.00 \$ (0.70)

Santa Cruz Water Company

ROO Rev Req \$ 11,245,509

| Meter Size | Mayes Proposed | ROO | Change |
|------------|----------------|-------------|--------|
| 5/8" | \$ 27.68 | \$ 27.68 | \$ - |
| 3/4" | \$ 27.68 | \$ 27.68 | \$ - |
| 1" | \$ 69.20 | \$ 69.20 | \$ - |
| 1.5" | \$ 138.40 | \$ 138.40 | \$ - |
| 2" | \$ 221.44 | \$ 221.44 | \$ - |
| 3" | \$ 442.88 | \$ 442.88 | \$ - |
| 4" | \$ 692.00 | \$ 692.00 | \$ - |
| 6" | \$ 1,384.00 | \$ 1,384.00 | \$ - |
| 8" | \$ 2,768.00 | \$ 2,768.00 | \$ - |
| 10" | \$ - | \$ - | \$ - |
| 12" | \$ - | \$ - | \$ - |

Non-Potable Water Rate \$ 1.30 \$ 2.00 \$ (0.70)

Volumetric Rate

| Volumetric Rate | Change |
|-----------------------|---------|
| 0-1000 gallons | \$ - |
| 1001 - 5000 gallons | \$ 1.30 |
| 5001 - 10000 gallons | \$ 2.22 |
| 10001 - 18000 gallons | \$ 3.08 |
| 18001 - 25000 gallons | \$ 3.94 |
| > 25000 gallons | \$ 4.80 |

| Item | ROO Rates | Mayes Option 1 Rates | Mayes Option 2 Rates |
|-----------------------|-----------------|----------------------|----------------------|
| PV Charge | \$ 60.76 | \$ 63.10 | \$ 63.10 |
| SC Charge (6474 gals) | \$ 32.62 | \$ 33.91 | \$ 32.84 |
| Total | \$ 93.38 | \$ 97.01 | \$ 95.94 |

Mayes OPTION 1
 Mayes OPTION 2
 Increase Monthly Minimums in PV and Tiers 2-6 in SC
 Increase Monthly Minimums in SC & PV

| Contribution Distribution | Mayes Option 1 Rates | Mayes Option 2 Rates |
|---------------------------|----------------------|----------------------|
| PVUC | \$ 2.34 | \$ 2.34 |
| SCWC | \$ 1.29 | \$ 0.22 |
| Total | \$ 3.63 | \$ 2.56 |