

OPEN MEETING ITEM
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BOB STUMP



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ERNEST G. JOHNSON
Executive Director

ARIZONA CORPORATION COMMISSION

2010 OCT - 5 P 12: 17

DATE: OCTOBER 5, 2010

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DOCKET NOS.: SW-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116 and
W-01427A-09-0120

TO ALL PARTIES:

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

LITCHFIELD PARK SERVICE COMPANY
(RATES/FINANCE)

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:

OCTOBER 14, 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:

OCTOBER 19, 2010 and OCTOBER 20, 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.

Arizona Corporation Commission

DOCKETED

OCT 5 2010

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 LITCHFIELD PARK SERVICE COMPANY, AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE OF ITS
12 UTILITY PLANTS AND PROPERTY AND FOR
13 INCREASES IN ITS WASTEWATER RATES AND
14 CHARGES FOR UTILITY SERVICE BASED
15 THEREON.

DOCKET NO. SW-01428A-09-0103

16 IN THE MATTER OF THE APPLICATION OF
17 LITCHFIELD PARK SERVICE COMPANY, AN
18 ARIZONA CORPORATION, FOR A
19 DETERMINATION OF THE FAIR VALUE OF ITS
20 UTILITY PLANTS AND PROPERTY AND FOR
21 INCREASES IN ITS WATER RATES AND
22 CHARGES FOR UTILITY SERVICE BASED
23 THEREON.

DOCKET NO. W-01427A-09-0104

24 IN THE MATTER OF THE APPLICATION OF
25 LITCHFIELD PARK SERVICE COMPANY, AN
26 ARIZONA CORPORATION, FOR AUTHORITY
27 (1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN
28 AN AMOUNT NOT TO EXCEED \$1,755,000 IN
CONNECTION WITH (A) THE CONSTRUCTION
OF TWO RECHARGE WELL INFRASTRUCTURE
IMPROVEMENTS AND (2) TO ENCUMBER ITS
REAL PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0116

IN THE MATTER OF THE APPLICATION OF
LITCHFIELD PARK SERVICE COMPANY, AN
ARIZONA CORPORATION, FOR AUTHORITY
(1) TO ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$1,170,000 IN
CONNECTION WITH (A) THE CONSTRUCTION
OF ONE 200 KW ROOF MOUNTED SOLAR
GENERATOR INFRASTRUCTURE
IMPROVEMENTS AND (2) TO ENCUMBER ITS
REAL PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01427A-09-0120

DECISION NO. _____

OPINION AND ORDER

1 DATES OF HEARING:

December 17, 2009 (Procedural Conference), December 30, 2009 (Pre-Hearing Conference), January 4, 2010 (Public Comment); January 5, 6, 7, 8, 11, 14, and 15, 2010 (Evidentiary Hearing); January 25, 2010 (Public Comment, Litchfield Park).

2
3
4 PLACE OF HEARING:

Phoenix, Arizona

5 ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes¹

6 APPEARANCES:

7 Mr. Jay L. Shapiro and Mr. Todd C. Wiley,
8 FENNEMORE CRAIG, P.C., on behalf of Litchfield
9 Park Service Company;

10 Ms. Michelle L. Wood, on behalf of the Residential
11 Utility Consumer Office;

12 Mr. William P. Sullivan and Mr. Larry K Udall,
13 CURTIS, GOODWIN, SULLIVAN, UDALL &
14 SCHWAB, P.L.C., on behalf of the City of Litchfield
15 Park;

16 Mr. Craig A. Marks, CRAIG A. MARKS, P.L.C., on
17 behalf of Westcor/Goodyear, L.L.C., and Globe Land
18 Investors, L.L.C.; and

19 Mr. Kevin O. Torrey and Ms. Robin Mitchell, Staff
20 Attorneys, Legal Division on behalf of the Utilities
21 Division of the Arizona Corporation Commission.
22
23
24
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27

28 ¹ Administrative Law Judge Sarah Harpring assisted in drafting the Recommended Opinion and Order.

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1 **BY THE COMMISSION:**

2 **I. INTRODUCTION AND PROCEDURAL HISTORY**

3 On March 9, 2009, Litchfield Park Service Company ("LPSCO" or "Company") filed with
4 the Arizona Corporation Commission ("Commission") applications for rate increases for wastewater
5 and water service in above-captioned dockets SW-01428A-09-0103 and W-01427A-09-0104 ("Rate
6 Dockets"). By Procedural Order issued May 21, 2009, the Rate Dockets were consolidated.

7 On March 13, 2009, LPSCO filed financing applications in Docket Nos. W-01427A-09-0116
8 and W-01427A-09-0120 ("Finance Dockets"). By Procedural Order issued November 6, 2009, the
9 Finance Dockets were consolidated.

10 On April 8, 2009, the Commission's Utilities Division Staff ("Staff") filed Letters of
11 Insufficiency in the Rate Dockets indicating that LPSCO's applications did not meet the sufficiency
12 requirements set forth in Arizona Administrative Code ("A.A.C.") R14-2-103.

13 On April 20, 27, and 30, 2009, LPSCO filed responses to the Letters of Insufficiency.

14 On May 8, 2009, Staff filed Letters of Sufficiency stating that LPSCO's Rate Docket
15 applications, as supplemented by the subsequent filings, met the sufficiency requirements of A.A.C.
16 R14-2-103. Staff classified LPSCO as a Class A utility.

17 By Procedural Order issued May 21, 2009, the Rate Dockets were scheduled for hearing
18 commencing January 4, 2010, and testimony filing deadlines and various other procedural dates were
19 established.

20 On May 28, 2009, the Residential Utility Consumer Office ("RUCO") filed an Application to
21 Intervene.

22 By Procedural Order issued June 22, 2009, RUCO's intervention request was granted.

23 On June 30, 2009, Pebblecreek Properties Limited Partnership ("Pebblecreek") filed an
24 Application to Intervene.

25 On September 28, 2009, RUCO filed a Request to Continue Hearing for One Week.

26 By Procedural Order issued October 2, 2009, Pebblecreek's intervention request was granted
27 and RUCO's extension request was denied, except that the evidentiary hearing was pushed back one
28 day with the previously scheduled first day of hearing reserved for public comment.

1 On September 22, 2009, the City of Litchfield Park ("City" or "Litchfield Park") filed a
2 Motion to Intervene.

3 On October 1, 2009, Chad and Jessica Robinson filed a Motion to Intervene.

4 On October 6, 2009, RUCO filed a Motion to Reconsider its Request to Continue Hearing for
5 One Week.

6 On October 14, 2009, Westcor/Goodyear L.L.C. and Globe Land Investors, L.L.C.
7 (collectively "Westcor/Globe") filed a Motion to Intervene.

8 By Procedural Order issued October 30, 2009, intervention was granted to Litchfield Park,
9 Chad and Jessica Robinson, and Westcor/Globe.

10 With its Application, LPSCO filed the direct testimony of Greg Sorenson and Thomas
11 Bourassa.

12 On November 4, 2009, Staff filed the direct testimony of Jeffrey Michlik, Pedro Chaves, Juan
13 Manrique, and Marlin Scott, Jr.; the City filed the direct testimony of Richard Darnall; RUCO filed
14 the direct testimony of William Rigsby, Matthew Rowell, and Sonn Rowell; and Westcor/Globe filed
15 the direct testimony of Garrett Newland.

16 On November 10, 2009, Pebblecreek filed the direct testimony of Philip Zeblisky.

17 On November 12, 2009, LPSCO filed an Application for Subpoena, requesting that the
18 Commission issue a subpoena directing Matt Rowell, a witness for RUCO, to appear at a deposition
19 to be conducted on November 20, 2009.

20 On November 16, 2009, Staff filed a Motion to Consolidate the Rate and Finance Dockets.

21 On November 16, 2009, a telephonic procedural conference was conducted with counsel for
22 LPSCO, RUCO, and Staff to discuss the requested subpoena and RUCO's opposition to producing
23 Mr. Rowell for deposition.

24 On November 16, 2009, the Commission's Executive Director signed the requested subpoena
25 directing Mr. Rowell to appear for deposition.

26 On November 17, 2009, LPSCO filed a Motion to Bifurcate Issues. LPSCO requested that
27 the issues related to its proposed hook-up fee tariff be considered in a separate phase of this
28 proceeding after the issuance of a Decision regarding the rate aspects of the case.

1 On November 18, 2009, LPSCO filed an Unopposed Motion for Modified Procedural
2 Schedule requesting minor changes to the previously established procedural schedule.

3 On November 18, 2009, RUCO filed a Motion to Quash Subpoena seeking to prevent Mr.
4 Rowell from being deposed by LPSCO.

5 On November 18, 2009, LPSCO filed a Response to RUCO's Motion to Quash Subpoena.

6 By Procedural Order issued November 23, 2009, the Rate and Finance Dockets were
7 consolidated; RUCO's Motion to Quash was denied and Mr. Rowell was ordered to appear for
8 deposition; LPSCO's Motion to Bifurcate was granted; and LPSCO's request to modify the
9 procedural schedule was granted.

10 On December 2, 2009, LPSCO filed the rebuttal testimony of Mr. Sorenson, Mr. Bourassa,
11 and Brian McBride.

12 On December 4, 2009, LPSCO filed an errata to Mr. Sorenson's rebuttal testimony.

13 On December 17, 2009, Staff filed the surrebuttal testimony of Mr. Michlik, Mr. Chaves, Mr.
14 Manrique, and Mr. Scott; and RUCO filed the surrebuttal testimony of Mr. Rowell and Ms. Rowell.

15 On December 18, 2009, RUCO filed the surrebuttal testimony of Mr. Rigsby; and the City
16 filed the surrebuttal testimony of Mr. Darnall.

17 On December 17, 2009, a telephonic procedural conference was convened to discuss RUCO's
18 request for a one-day extension of the testimony filing deadline as well as a discovery issue.

19 On December 22, 2009, LPSCO filed a Motion to Strike Testimony of Matt Rowell.

20 On December 28, 2009, RUCO filed a Request to Extend Time to Respond to LPSCO's
21 Motion to Strike.

22 On December 28, 2009, LPSCO filed a Response to RUCO's Request to Extend Time.

23 On December 29, 2009, LPSCO filed the Rejoinder testimony of Mr. Sorenson, Mr.
24 Bourassa, Mr. McBride, and Gerald Tremblay.

25 On December 30, 2009, the pre-hearing conference was conducted to discuss scheduling of
26 witnesses and other procedural matters, including LPSCO's Motion to Strike, which was denied
27 during the prehearing conference.

28

1 On December 31, 2009, LPSCO and Pebblecreek filed a Stipulation regarding a proposed
2 Hook-Up Fee Tariff for consideration in Phase 2 of the case.

3 On January 4, 2010, the hearing was convened for the purpose of taking public comment. A
4 number of members of the public offered comments in opposition to the proposed rate increase.

5 On January 5, 2010, the evidentiary hearing in this matter commenced and continued on
6 January 6, 7, 8, 11, 14, and 15, 2010.

7 On January 20, 2010, a Procedural Order was issued scheduling an additional public comment
8 session for January 25, 2010, in Litchfield Park, Arizona.

9 On January 25, 2010, the local public comment session was held, as scheduled, before all five
10 Commissioners. A number of LPSCO's customers attended and offered public comments in this
11 matter.

12 On February 10, 2010, Initial Post-Hearing Briefs were filed by LPSCO, Staff, RUCO, and
13 Litchfield Park.

14 On February 24, 2010, Reply Briefs were filed by LPSCO, RUCO, and Litchfield Park. Staff
15 filed its Reply Brief on February 25, 2010.

16 On April 2, 2010, RUCO filed a Request for Reconsideration of the bifurcation of the
17 proceeding on the hook-up fee issue.

18 On April 7, 2010, RUCO filed a Notice of Withdrawal of its Motion for Reconsideration.

19 **II. FINAL REVENUE REQUIREMENT POSITIONS**

20 LPSCO's current rates and charges were authorized in Decision No. 65436 (December 9,
21 2002). During the test year (or "TY"), LPSCO served approximately 15,600 water customers and
22 14,600 wastewater customers in Goodyear, Litchfield Park, and adjacent unincorporated areas of
23 Maricopa County. LPSCO is a wholly owned subsidiary of Liberty Water,² which is a wholly owned
24 subsidiary of Algonquin Power Income Fund ("APIF"). APIF owns energy, water and wastewater,
25 and related assets in the United States and Canada. Liberty Water operates eight water and/or

26
27
28 ² Liberty Water was previously named Algonquin Water Resources ("AWR").

1 wastewater companies in Arizona,³ as well as other water and wastewater utilities in Texas, Illinois,
2 and Missouri. (Ex. S-14, at 2-3; S-16, at 2-3.)

3 According to LPSCO's final schedules, in the test year ended September 30, 2008, the
4 Company's water division had adjusted operating income of negative \$18,468 on an adjusted Fair
5 Value Rate Base ("FVRB") and Original Cost Rate Base ("OCRB") of \$37,762,676, for a negative
6 .05 percent rate of return. The Company's final schedules for the wastewater division show adjusted
7 operating income of \$156,938 on FVRB of \$28,222,289, for a 0.56 percent rate of return. LPSCO
8 seeks a gross revenue increase of \$6,356,374 (98.88 percent) for the water division and \$4,805,020
9 (75.59 percent) for the wastewater division.

10 Staff recommends a gross revenue increase of \$4,913,457 (71.43 percent) for the water
11 division and \$3,107,400 (48.89 percent) for the wastewater division. RUCO proposes a gross
12 revenue increase of \$4,753,178 (69.10 percent) for the water division and \$2,446,307 (38.47 percent)
13 for the wastewater division.⁴

14 III. RATE BASE ISSUES

15 As indicated above, LPSCO proposes a water OCRB of \$37,762,676 and a wastewater OCRB
16 of \$28,222,289; Staff recommends a water OCRB of \$37,401,639 and a wastewater OCRB of
17 \$27,746,122; and RUCO proposes a water OCRB of \$37,457,973 and a wastewater OCRB of
18 \$23,190,926. Each of the remaining disputed rate base issues is discussed below. LPSCO has
19 requested that its OCRB be used as its FVRB in this case. (*See, e.g.*, Ex. A-14 at 7, 39.)

20 A. Water Division Rate Base

21 In their final schedules, the parties proposed the following OCRB/FVRB figures for LPSCO's
22 water division:

	LPSCO	RUCO	Staff
Plant in Service	\$73,705,658	\$73,331,087	\$73,679,294
Less: Accum. Depreciation	9,027,020	8,993,738	9,007,587

25 ³ In addition to LPSCO, Liberty Water also controls Bella Vista Water Company, Black Mountain Sewer Company, Gold
26 Canyon Sewer Company, Rio Rico Utilities, Entrada Del Oro Sewer Company, Northern Sunrise Water Company and
Southern Sunrise Water Company.

27 ⁴ Intervenor Litchfield Park did not present an independent revenue requirement recommendation; Intervenor
28 Westcor/Globe and Pebblecreek did not participate in Phase 1 of the proceeding but intend to address hook-up fee tariff
issues in Phase 2; and Intervenor Chad and Jessica Robinson did not file or present testimony; nor did they appear at, or
participate in, the evidentiary hearing.

1	Net Plant in Service	64,678,638	64,337,349	64,671,707
	Less:			
	CIAC	3,096,180	3,096,180	3,096,180
2	Less: Accum. Amortization	860,706	860,706	860,706
	Net CIAC	2,235,474	2,235,474	2,235,474
3	AIAC	22,336,975	24,574,996	22,336,974
	Customer Deposits	2,238,022	0	2,362,132
4	ADIT	188,053	143,211	335,487
	Plus:			
	Unamortized Debt Issuance Costs	0	0	0
5	Deferred Regulatory Assets	82,561	74,305	0
	OCRB/FVRB	\$37,762,676	\$37,457,973	\$37,401,639

6 For the water division, the parties disagree on plant in service and thus accumulated
7 depreciation, on treatment of customer security deposits, on the correct amount of accumulated
8 deferred income taxes ("ADIT"), and on inclusion of deferred regulatory assets in rate base.

9 **1. Plant in Service**

10 **a. Capitalized Affiliate Labor**

11 RUCO asserts that capitalized affiliate labor should be removed from LPSCO's water division
12 plant in service because LPSCO provided inconsistent calculations for capitalized affiliate labor and
13 inadequate back-up documentation that could not be reconciled. (RUCO Initial Brief at 7-9.) Ms.
14 Rowell testified that she performed a detailed audit of LPSCO's invoices and data responses related
15 to capitalized affiliate labor and that the supporting data provided by LPSCO included significant
16 discrepancies and could not be reconciled. (Ex. R-15 at 18.) Ms. Rowell also asserted that LPSCO's
17 invoices for capitalized affiliate labor did not always identify the employee, the project upon which
18 the employee worked, the hours worked, the billed rate, and the plant account to which the work
19 applied, (Tr. at 738-40), which caused her to conclude that there was no way to determine whether
20 capitalization was the appropriate treatment for the affiliate billings, (Ex. R-15 at 19). Ms. Rowell
21 asserted that the supporting documentation provided by LPSCO was only sufficient to support
22 capitalization of the affiliate billings pertaining to the structures and improvements account and the
23 services account in 2008. (Ex. R-15 at 19.) Ms. Rowell drew her conclusions from the invoices
24 provided, not from the additional records that were also provided to support the invoices. (See Tr. at
25 739-41.) She testified that the only way LPSCO can support a plant item for inclusion in rate base is
26 to produce an invoice that has all of the information required. (Tr. at 741.) RUCO's final schedules
27 reverse LPSCO's adjustments to remove affiliate profit for 2004 through 2008, for an addition of
28

1 \$214,615 to plant in service, and then remove a total of \$508,512 in “unsupported affiliate labor” for
2 the same time period. (RUCO Final Sched. 3 at 2, 3:)

3 LPSCO asserts that RUCO’s disallowance of capitalized affiliate labor should be rejected
4 because RUCO failed to establish that the capitalized labor amounts were inadequately supported and
5 could only be supported by invoices. (LPSCO Initial Brief at 38-39.) Mr. Bourassa explained that
6 capitalized affiliate profit had been included in capitalized affiliate labor because affiliate labor had
7 been charged at market rates, but that LPSCO removed all capitalized affiliate profit from the plant in
8 service figures in this case, which is consistent with LPSCO’s current practice of charging all
9 capitalized affiliate labor at cost.⁵ (Ex. A-16 at 14.) Mr. Bourassa explained that capitalized affiliate
10 labor is first recorded to construction work in progress (“CWIP”) and then, when plant is placed into
11 service, transferred to plant in service, which results in year-to-year differences such as those
12 identified as discrepancies by Ms. Rowell. (*Id.*) Mr. Bourassa further explained that the details
13 regarding capitalized labor were provided to all of the parties as part of LPSCO’s work papers and
14 included the name of the National Association of Regulatory Utility Commissioners (“NARUC”) account,
15 the employee name, the project name and job number, the date, the hours, the rate, the
16 payroll burden, the total cost, and the related affiliate profit amount. (*Id.* at 15; Ex. A-18 at 8.) Mr.
17 Bourassa testified that the information contained in the work paper file came from LPSCO’s payroll
18 and job costing system and included more than 14,000 records. (Ex. A-18 at 8.) Mr. Bourassa also
19 testified that RUCO never asked LPSCO for additional information. (*Id.*)

20 Staff did not recommend that capitalized affiliate labor costs be excluded from plant in
21 service.

22 We are not persuaded by RUCO’s assertions that LPSCO’s capitalized affiliate labor costs
23 should be excluded from plant in service because they are not sufficiently supported and are
24 inconsistent. Although RUCO asserted that the capitalized affiliate labor costs should be excluded
25 because they were not sufficiently documented, Ms. Rowell testified that the back-up documentation
26 provided by LPSCO was consistent with the records admitted as Exhibit A-25. (Tr. at 759-60.) The

27 _____
28 ⁵ LPSCO had changed its practice on including profit when capitalizing affiliate labor in response to another Commission case. (Tr. at 477-78; 637; 1192.)

1 records admitted as Exhibit A-25, which LPSCO provided in October 2009 in response to a RUCO
2 data request, were identified as an Excel spreadsheet including a detailed list of all capitalized
3 engineering service labor. (Ex. A-25.) The detailed list includes a breakdown of labor by individual
4 name, hours, project number, job number, whether water or wastewater, asset ID, asset class,
5 NARUC account number, job name, beginning date, work date, payroll burden, overhead rate, pay
6 rate, total billed, total cost, and profit. (See Ex. A-25.) We find that LPSCO has provided sufficient
7 documentation to support inclusion of its capitalized affiliate labor costs, minus profit, in plant in
8 service and will not make RUCO's recommended adjustments to plant in service in this area.

9 **b. Capitalized Repair Costs**

10 RUCO's final schedules include removal of a total of \$44,536 in repairs from plant in service.
11 (RUCO Final Sched. 3 at 3-4.) RUCO recommends removal of the repair costs, asserting both that
12 LPSCO's policy for capitalizing repair expenses (to capitalize costs that either extend the life of
13 existing plant or have a benefit of more than one year) was not supported through any independent
14 source and that LPSCO has not complied fully with its own policy. (RUCO Initial Brief at 9.)
15 RUCO further asserts that LPSCO's policy is inconsistent with the standards set forth in the NARUC
16 Uniform System of Accounts for Class A Water Utilities ("USOA"), which requires substantial
17 betterment of the plant in order to capitalize. (*Id.* at 9-10.) Ms. Rowell testified that she determined
18 the plant items to be excluded as repairs based upon her review of the applicable invoices and her
19 own position on what should be capitalized versus expensed. (Tr. at 712-13, 714.) Ms. Rowell
20 testified that she classified items as repairs to be expensed if, in her opinion, the work done as
21 described on the invoice did not extend the life of the plant item. (Tr. at 714-15.) Ms. Rowell
22 explained that in her opinion, the determination of what is a repair versus what needs to be
23 capitalized can be quite subjective and is subject to interpretation, but in the absence of retirements
24 for plant additions, items are more likely an expense, because items that extend the life of a piece of
25 plant should have an associated retirement. (Tr. at 719-20.) Ms. Rowell testified that the disallowed
26 items must have been repairs and not made to extend the life of plant items because the old plant
27 items were kept in place and repaired without corresponding retirements. (Tr. at 720, 722, 804.) Ms.
28 Rowell testified that if LPSCO thought the items were capital expenditures instead of expenses, they

1 would have capitalized the items and retired the items replaced. (Tr. at 805.) Ms. Rowell also
2 testified that utilities are supposed to set capitalization policies, (Tr. at 721), and questioned how
3 LPSCO could follow a consistent practice and policy if it was not a written policy, (Tr. at 758).
4 RUCO provided Mr. Tremblay's response to a Staff data request asking whether LPSCO's
5 capitalization policy uses a dollar threshold for costs that are expensed rather than capitalized and
6 whether the threshold is in writing, to which Mr. Tremblay responded: "All capital is work order
7 driven . . . if a project is categorized as a capital job, all costs are capitalized, thus there is no dollar
8 threshold." (Ex. R-19.) RUCO also provided the following excerpt from the USOA:

9 When a minor item of depreciable property is replaced independently of the
10 retirement unit of which it is a part, the cost of replacement shall be charged to the
11 maintenance expense account appropriate for the item, except that if the
12 replacement effects a substantial betterment (the primary aim of which is to make
13 the property affected more useful, more efficient, of greater durability, or of
14 greater capacity), the excess cost of the replacement over the estimated cost at
15 current prices of replacing without betterment shall be charged to the appropriate
16 utility plant account.⁶

17 Ms. Rowell asserted that the USOA excerpt provides a guideline, that a utility should have a
18 capitalization policy that identifies what level of cost is considered to be minor, and that the treatment
19 of each item must be determined case by case. (Tr. at 810.) Ms. Rowell also acknowledged that not
20 every plant improvement results in a retirement. (*Id.*)

21 LPSCO asserts that it is a generally accepted accounting principle that repairs extending the
22 life of equipment or benefitting the utility for more than one year should be capitalized. (LPSCO
23 Initial Brief at 39; Ex. A-16 at 17.) Mr. Bourassa testified that he examined a number of the repair
24 invoices at issue and found that LPSCO was justified in capitalizing the repair costs that RUCO
25 would exclude. (Ex. A-16 at 17.) Mr. Bourassa asserted that the fact that the costs relate to repairs is
26 not sufficient justification to disallow the capitalization of the costs. (*Id.*) Mr. Tremblay testified that
27 LPSCO has a policy concerning how costs are capitalized or expensed, which is usually based on
monetary amounts, although he was not sure what the monetary limits were. (Tr. at 484.) Mr.
Tremblay explained that the treatment of a cost is usually contingent also on whether the repair
extends the life of the plant, although a very low amount of expense would not be capitalized even if

28 ⁶ NARUC, USOA for Class A Water Utilities (1996) at 32 (subsection (C)(3) on page), admitted as Ex. R-21.

1 it did extend the life of the asset.⁷ (*Id.*) Mr. Tremblay testified that the threshold amount is in the
 2 thousands. (Tr. at 485.) Mr. Tremblay further explained that if a job is determined to be capital, a
 3 capital form is issued and then goes through a series of approvals; if it is approved, a capital work
 4 order is set up, and the invoices for all of the costs associated with the job will be capitalized, without
 5 further scrutiny of each individual invoice associated with the job. (Tr. at 485-86.) LPSCO argues
 6 that it is following a consistent policy and practice, that it is not trying to game the system by
 7 capitalizing everything pre-TY and expensing everything during the TY, and that RUCO's position
 8 should be rejected as unsupported and unnecessarily confiscatory. (*See* LPSCO Initial Brief at 40.)

9 Staff recommends disallowance from plant in service of \$3,571 for costs that were capitalized
 10 but that should have been expensed. (Staff Initial Brief at 10; Staff Final Sched. JMM-W7.) The
 11 costs Staff recommends to exclude were also excluded by RUCO, which concluded that they were
 12 expense items rather than capital items. (*See* Staff Final Sched. JMM-W7; RUCO Final Sched. 3 at 4
 13 (ADJ 19 & 22).) Staff did not elaborate on its process for determining whether a cost should be
 14 expensed or capitalized or on its reasons for determining that the \$3,571 should be treated as
 15 operating expenses rather than capitalized costs. Staff's Final Schedules show that the reclassified
 16 items were transmission and distribution mains account items provided by Ram Pipeline and meters
 17 account items provided by MS Hernandez Construction and did not provide any explanation for the
 18 reclassification other than to refer to LPSCO Responses to Staff Data Requests that were not included
 19 in evidence. (Staff Final Sched. JMM-W7.)

20 LPSCO objects to Staff's \$3,571 exclusion and asserts that Staff has failed to explain that its
 21 position is a change from its surrebuttal schedules, why it changed its position, or why the
 22 Commission should adopt its position. (LPSCO Reply Brief at 27.) LPSCO asserts that it is
 23 insufficient for Staff to just cite its final schedules and nothing more because it means that LPSCO
 24 cannot respond. (*Id.*) LPSCO asserts that the Commission should not consider or adopt Staff's
 25 recommendation. (*Id.*)

26
 27
 28 ⁷ For example, Mr. Tremblay stated that a \$3 expense probably would not be capitalized even if it extended the life of the asset. (Tr. at 484.)

1 We are not persuaded by RUCO's arguments and evidence that LPSCO's policy for
2 capitalizing the costs of plant items is inconsistent with generally accepted accounting principles or
3 with the USOA. We interpret the portion of the USOA quoted above to be consistent with LPSCO's
4 espoused policy—that is, we find that “substantial betterment” can be found to exist when a repair or
5 replacement of a minor item is expected to benefit the utility for more than one year or to extend the
6 life of the affected plant item. We also are not persuaded that one can determine that a cost must be
7 expensed rather than capitalized solely by reviewing the invoice and seeing that the work was a repair
8 and not seeing that there has been a corresponding retirement. We believe that LPSCO's espoused
9 policy and its described practice of capitalizing costs based on a determination that an entire job is a
10 capital project is reasonable. It is often easier to see the benefit from an entire job (the big picture)
11 than it is from one particular invoice associated with the job (the little picture), and individual
12 invoices often will not provide all of the information that one needs to determine whether specific
13 plant-related work should or should not be capitalized. We caution LPSCO, however, that it should
14 not interpret this as carte blanche to capitalize every plant-related cost incurred by it. Rather, we
15 expect LPSCO to continue scrutinizing its proposed capital jobs through its approvals process and to
16 proceed with a job as a capitalized cost only after assessing whether the job will extend the life of the
17 plant or benefit the utility for more than one year. We will not adopt RUCO's \$44,536 in exclusions
18 or Staff's \$3,517 in exclusions for purportedly inappropriately capitalized costs, because the
19 exclusions are not sufficiently supported by the evidence. We will, however, require LPSCO to put
20 in writing its capitalization policy, which must comply with the NARUC USOA, and to file it as a
21 compliance item in this docket. In addition, we will require LPSCO, in its next rate case, to present
22 evidence and testimony to show how it implemented and documented its capitalization policy in
23 accordance with the NARUC USOA.

24 **c. Retirement of Plant**

25 Staff recommends disallowance from plant in service of \$17,150, which Staff stated is the
26 calculated value of retirements corresponding to certain plant items that were replaced and that had
27 their replacement costs included in plant in service without the corresponding retirements being
28 made. (Staff Initial Brief at 10; Staff Final Sched. JMM-W7.) Staff's final schedules show that the

1 plant items included in its retirement calculation are attributable to services account items provided
 2 by Pyramid, services account items provided by Yahweh, and transmission and distribution mains
 3 account items provided by Ram Pipeline and show how the retirement amounts were calculated, but
 4 do not provide any further explanation other than to refer to several LPSCO Responses to Staff Data
 5 Requests, which have not been entered into evidence. (Staff Final Sched. JMM-W7.) However,
 6 LPSCO has not objected to this disallowance. (See LPSCO Initial Brief; LPSCO Reply Brief.) Thus,
 7 we find that Staff's disallowance of \$17,150 is reasonable, and we adopt it.

8 **d. Inadequately Documented Plant**

9 Staff recommends disallowance of \$5,642 in plant in service for which Staff asserts LPSCO
 10 was unable to provide supporting invoices or other documentation. (Staff Initial Brief at 9; Staff
 11 Final Sched. JMM-W7.) In its final schedules, Staff supports the disallowance by citing to a LPSCO
 12 Response to a Staff Data Request, which was entered into evidence as Exhibit R-12. (Staff Final
 13 Sched. JMM-W7; Ex. R-12.) Exhibit R-12, along with its attachments, entered into evidence as
 14 Exhibit R-13, show that LPSCO was unable to find two or three invoices totaling \$5,642. (See Ex.
 15 R-12; Ex. R-13; Tr. at 687-88.) LPSCO has not objected to this disallowance. (See LPSCO Initial
 16 Brief; LPSCO Reply Brief.) We find that Staff's disallowance of \$5,642 is reasonable, and we adopt
 17 it.

18 **e. Summary of Water Plant in Service**

19 Based upon the foregoing discussion, we adopt a plant in service figure of \$73,682,866 for
 20 LPSCO's water division.

21 **2. Customer Security Deposits**

22 **a. Parties' Positions**

23 Staff recommends that customer deposits be increased by \$124,110, to include customer
 24 security deposits held by LPSCO, because security deposits represent funds received from ratepayers
 25 as security against potential losses arising from failure to pay for service and are available for use in
 26 support of rate base investment. (Staff Initial Brief at 9 (citing Ex. S-14 at 10; Ex. S-17 at 5).) Staff
 27 further asserts that including customer deposits as a deduction from rate base is consistent with both
 28 the NARUC USOA and Matthew Bender's *Accounting for Public Utilities* (1998), (See Ex. S-18; Ex.

1 S-19), and provided an excerpt from *Accounting for Public Utilities* stating that customer security
2 deposits are similar in nature to customer advances for construction and are available to the utility for
3 use in support of rate base investments, (Ex. S-18). The excerpt went on to state that non-interest-
4 bearing customer deposits are commonly deducted from rate base, whereas interest-bearing customer
5 deposits can be treated either of two ways: (1) they can be deducted from rate base with the
6 associated interest included as a cost of service, or (2) they can be included in the capital structure for
7 purposes of calculating the allowed rate of return without a rate base reduction. (Ex. S-18.) Staff
8 also provided an excerpt from the NARUC USOA stating that the customer deposits account shall
9 include all amounts deposited with the utility by customers as security for the payment of bills. (Ex.
10 S-19.) Staff added TY interest expense as an operating expense in its final schedules to be consistent
11 with its inclusion of security deposits in its rate base calculation. (*See* Staff Final Sched. Summary of
12 Adjustments; Staff Final Sched. JMM-W20.)

13 LPSCO asserts that customer security deposits are not a component of rate base, especially in
14 the absence of working capital, and should not be included therein. (LPSCO Initial Brief at 42.)
15 LPSCO asserts that customer security deposits were only included in its initial schedules
16 inadvertently and that they were removed as soon as the error became known. (*Id.*) LPSCO further
17 asserts that RUCO agrees with LPSCO's position as to customer security deposits. (*Id.* (citing Ex. R-
18 16 at 4).) LPSCO takes issue with Staff's reliance upon the NARUC USOA and Matthew Bender's
19 *Accounting for Public Utilities* because neither reference was disclosed as part of Staff's work papers
20 or cited in Staff's prefiled testimony; Mr. Michlik testified that he had found one of the documents
21 only after he had made his recommended adjustment; and Mr. Michlik had not made a corresponding
22 adjustment to account for security deposit interest. (*Id.* at 42-42 (citing Tr. at 1154-55, 1214-14).)
23 LPSCO acknowledged that Staff made the adjustment to include TY security deposit interest in
24 operating expenses in Staff's final schedules, but asserted that Staff still failed to account for the
25 amount of developer deposits included in the amount of security deposits and failed to offset the
26 accounts receivable balances associated with the security deposits included in rate base. (*Id.* at 43
27 (citing Tr. at 1238-39).) LPSCO asserts that Staff failed to meet its burden of proof on this issue.

28

1 In its Reply Brief, Staff referenced an additional NARUC publication, the NARUC Staff
2 Subcommittee on Accounting and Finance's *Rate Case and Audit Manual* (2003), which states that
3 there are three permissible methods to treat customer deposits, one of which reduces rate base by the
4 customer deposits balance and then classifies any interest accrued or paid on the deposits as an
5 operating expense that is included in the revenue requirement computation. (Staff Reply Brief at 4-
6 5.) Staff also refuted LPSCO's position concerning an offset for accounts receivable balances
7 associated with security deposits included in rate base, stating that there is no ratemaking literature to
8 support LPSCO's position and that LPSCO did not perform a lead-lag study to support recognition of
9 accounts receivable in rate base. (*Id.* at 5-6.) Staff asserts that its treatment is in line with generally
10 accepted ratemaking principles, that Staff has consistently treated customer deposits as a reduction
11 from rate base, and that to do otherwise would unfairly allow LPSCO to earn a return on money that
12 is not its own. (*Id.* at 6 (citing Docket No. W-01445A-08-0607, which concerns an Arizona Water
13 Company financing application).)

14 In its Reply Brief, LPSCO reiterates its argument that Staff's adjustment should be rejected.
15 (LPSCO Reply Brief at 25.)

16 RUCO agrees with LPSCO that security deposits should not be included in rate base. (RUCO
17 Initial Brief at 2.) RUCO's customer deposit figure differs from LPSCO's, however, because RUCO
18 has not reclassified a portion of advances in aid of construction ("AIAC") as customer deposits, as
19 both LPSCO and Staff have done.

20 **b. Resolution**

21 The appropriate rate base treatment of customer security deposits is an issue that does not
22 appear to have been fully litigated previously, although it has been dealt with. At least one previous
23 Commission decision has recognized that security deposits are appropriately removed from rate base,
24 (*see* Decision No. 59364 (November 1, 1995) at 4), and the Commission recently has recognized that
25 security deposit interest should be included as an above-the-line operating expense because the
26 deposits are deducted from rate base, (*see* Decision No. 71482 (February 3, 2010) at 22-23; W-
27
28

1 01412A-08-0586 Tr. of 9/15/2009 at 114).⁸ We are persuaded by Staff's testimony and by the USOA
 2 and *Accounting for Utilities* excerpts provided by Staff at hearing that it is appropriate to treat
 3 security deposits in the same manner as we would treat any other customer deposit—as a reduction
 4 from rate base. There are no constraints on a utility's use of the funds provided as a security deposit,
 5 and we see no reason why a utility should be permitted to earn a rate of return on any plant that may
 6 be purchased using those non-investor-supplied funds. Furthermore, we see no reason to treat
 7 security deposits differently than we have recently treated AIAC and contributions in aid of
 8 construction ("CIAC") in the face of arguments that AIAC and CIAC should not be deducted from
 9 rate base if there is not corresponding plant associated with the AIAC and/or CIAC included in rate
 10 base. (*See* Tr. at 1216-17; Decision No. 71414 (December 8, 2009) at 4-8.) All three types of funds
 11 are provided to a utility by persons other than investors, are available to be used to purchase plant
 12 items, and should be deducted from rate base to ensure that a utility is not permitted to earn a return
 13 on non-investor-provided plant. For the reasons provided, we adopt Staff's customer deposit figure
 14 of \$2,362,132 as a deduction from rate base. In addition, we adopt Staff's AIAC figure, which is
 15 consistent with LPSCO's AIAC figure, both of which reflect reclassification of a portion of AIAC as
 16 customer deposits.

17 3. ADIT

18 The Commission explained ADIT as follows in Decision No. 69164 (December 5, 2006):

19 Accumulated deferred income taxes ("ADIT") reflect the timing
 20 difference between when income taxes are calculated for ratemaking purposes
 21 and the actual federal and state income taxes paid by the Company. The
 22 timing difference is primarily due to the fact that straight line depreciation is
 23 used for ratemaking purposes, whereas accelerated depreciation is used for
 income tax reporting purposes. According to Staff witness Crystal Brown, the
 Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting
 for Income Taxes, requires companies to use deferred tax accounting to
 recognize income tax timing differences.⁹

24 ADIT can result in either an increase or decrease in rate base. (*See* Decision No. 69164 at 5-6.)

25 ...

26 ...

27 ⁸ Official notice is taken of Decision No. 59364 and of Decision No. 71482 and of the cited transcript from the rate
 28 case involving Valley Utilities Water Company, Inc. that resulted in Decision No. 71482.

⁹ Decision No. 69164 at 5 (citations omitted).

1 **a. Parties' Positions**

2 In its Initial Brief, LPSCO asserted that LPSCO and RUCO agree on the methodology to
3 calculate ADIT, a methodology that is consistent with ADIT calculations in other rate cases, and that
4 the differences in their ADIT figures arise solely from differences in rate base between the two
5 parties. (LPSCO Initial Brief at 41.) LPSCO asserted that Staff's calculation, which would have
6 deducted almost twice as much ADIT as proposed by LPSCO and RUCO, is admittedly flawed
7 because Mr. Michlik used data from a year other than the TY, failed to reconcile for the differences
8 between the TY and the year he used, failed to adjust for Staff's own plant adjustments, and refused
9 when offered the chance to correct those flaws in his calculation. (*Id.* (citing Tr. at 1218-19, 1222,
10 1225-26).) LPSCO asserts that ADIT calculations are complicated and subject to update whenever
11 rate base changes; that Mr. Bourassa has explained every step of his calculations in great detail; that
12 Mr. Bourassa has used the same methodology in this case as in all of his prior cases before the
13 Commission; and that Mr. Bourassa's methodology is consistent with SFAS No. 109 and prior
14 Commission decisions and should be adopted. (*Id.* at 41-42 (citing Ex. A-16 at 9-11, 22-23; Ex. A-
15 18 at 9-11, 20).)

16 In its Initial Brief, Staff asserts that its ADIT figure should be adopted because LPSCO
17 changed its position on the issue several times during the course of filing testimony in this case, and
18 Staff was unable to verify LPSCO's proposed numbers. (Staff Initial Brief at 6 (citing Tr. at 1159,
19 1160).) Staff recommended using the ADIT figure reported by LPSCO in its 2008 Annual Report.
20 (*Id.* (citing Tr. at 1161).)

21 In its Initial Brief, RUCO asserted that the ADIT calculations made by RUCO and Staff at the
22 rejoinder phase were based on the most recent tax year information available prior to the
23 commencement of the TY and were more reliable and accurate than those provided by LPSCO's
24 witness. (RUCO Initial Brief at 11-12.) RUCO asserted that RUCO and Staff's position should be
25 adopted. (*Id.* at 12.)

26 In its Reply Brief, LPSCO asserts that Staff has failed to meet its burden of proof on ADIT as
27 Staff has not explained how it calculated ADIT and has not cited to any evidence that supports
28 adoption of Staff's position on ADIT. (LPSCO Reply Brief at 26.) LPSCO asserts that its own

1 ADIT position changed during the proceeding because ADIT changes each time the components of
2 rate base change and that the most significant change in ADIT resulted from Mr. Bourassa's
3 modifying his ADIT calculation to use a roll back rather than a roll forward figure to be consistent
4 with Staff's position in the pending Black Mountain Sewer Corporation ("BMSC") rate case. (*Id.*
5 (citing Ex. A-18 at 9-10; Tr. at 1224-25; Ex. A-16 at 10).) LPSCO asserts that it is unfair for Staff to
6 take a position contrary to Staff's position in the BMSC rate case regarding the need to base ADIT on
7 a rolled back figure. (*Id.* at 26-27 (citing Tr. of November 25, 2009, hearing at 746-49, Docket No.
8 SW-02361A-08-0609).) LPSCO did not address the ADIT position taken by RUCO in RUCO's
9 Initial Brief.

10 In its Reply Brief, RUCO states that RUCO and LPSCO now agree on the method for
11 calculating ADIT and that the differences remaining result from RUCO's reductions from plant in
12 service. (RUCO Reply Brief at 2.)

13 In its Reply Brief, Staff asserts that Staff's ADIT calculation is reasonable and should be
14 adopted. (Staff Reply Brief at 3.) Staff asserts that Staff adopted the ADIT number from LPSCO's
15 2008 Annual Report and that Staff attempted to work with LPSCO to determine the methodology
16 LPSCO used to calculate ADIT, but that LPSCO's number was a "moving target." (*Id.* (citing Ex. S-
17 20; Ex. R-7; Tr. at 1159-60).) Staff explains that LPSCO changed its ADIT figure three times and
18 was unable to provide Staff an adequate reconciliation of any of the proposed calculations. (*Id.* at 3-4
19 (citing Tr. at 1159).) Staff also points out that LPSCO's external auditors, KMPG, derived a different
20 ADIT number than that calculated by Mr. Bourassa. (*Id.* at 4 (citing Tr. at 1225).) Staff asserts that
21 the Annual Report number Staff adopted is more reliable than the number now advocated by LPSCO
22 because it is identical to LPSCO's original TY amount, even though the Annual Report figure was for
23 three months beyond the TY. (*Id.* (citing Tr. at 1123, 1224).)

24 **b. Resolution**

25 LPSCO originally provided an actual end-of-TY ADIT book figure of \$335,487, which
26 LPSCO proposed to reduce to \$24,518 through a pro forma downward adjustment of \$310,969. (Ex.
27 A-14 at Sched. B-2 at 1, 5.) In his rebuttal testimony, Mr. Bourassa made a pro forma adjustment to
28 increase ADIT from an actual TY book figure of \$21,451 to \$448,160, which Mr. Bourassa explained

1 reflected LPSCO's proposed changes to plant in service, accumulated depreciation, AIAC, and
2 CIAC. (Ex. A-16 at 9-10.) Mr. Bourassa further explained that in its direct filing, LPSCO had rolled
3 forward the tax value at December 31, 2007, to September 30, 2008 (end of TY), but that LPSCO had
4 in its rebuttal changed to a "roll backward" approach to help eliminate disputes with Staff regarding
5 the computation of ADIT, such as occurred in the recent BMSC rate case. (*Id.* at 10 (citing
6 Transcript from June 25, 2009, BMSC rate case hearing at 743-44, 745, 749).) Mr. Bourassa
7 explained that LPSCO could not have used a "roll backward" approach in its direct filing because the
8 2008 consolidated tax return information was not yet available. (*Id.* at 10.) Mr. Bourassa also
9 testified that the primary reason for the increase in ADIT was recognition of the reclassification of
10 AIAC to customer deposits, which are excluded from the AIAC component of the ADIT
11 computation. (*Id.*) Mr. Bourassa added that had he not mistakenly assumed that security deposits
12 were meter deposits, the ADIT originally proposed would have been similar to the ADIT LPSCO
13 proposed in its rebuttal filing. (*Id.* at 11.) In his rejoinder schedules, Mr. Bourassa made an
14 adjustment to increase ADIT from an actual TY book figure of \$21,451 to \$188,053, which Mr.
15 Bourassa stated reflected LPSCO's proposed changes to plant in service, accumulated depreciation,
16 AIAC, and CIAC. (Ex. A-18 at 9-10, Sched. B-2 at 1, 5.) Mr. Bourassa stated that LPSCO's
17 calculation again started with the tax value at December 31, 2008, and then adjusted it to reflect the
18 tax value of plant in service at September 30, 2008. (*Id.* at 9-10.) Mr. Bourassa further explained
19 that his rebuttal computation had been incomplete because he neglected to incorporate prior year tax
20 depreciation and failed to reflect LPSCO's proposed changes to plant in service in this case. (*Id.* at
21 10.) Mr. Bourassa stated that Staff had adopted LPSCO's rebuttal ADIT figure, but had not had an
22 opportunity to review LPSCO's rejoinder computation and was still reviewing it. (*Id.*) LPSCO's
23 final ADIT figure is unchanged from its rejoinder figure. (*See* LPSCO Final Sched. B-2 at 1; Ex. A-
24 18 at Sched. B-2 at 1.)

25 At hearing, Mr. Michlik testified that LPSCO's 2008 Annual Report filed with Staff for the
26 water division showed an ADIT for calendar year 2008 of \$335,487, which was derived by taking the
27 total ADIT for LPSCO's two divisions and dividing it in half. (Tr. at 1161 (citing Ex. S-20 at 7).)
28 Mr. Michlik acknowledged that his ADIT figure did not take into account post-TY plant, but asserted

1 that he had requested LPSCO to provide supporting information for the original \$335,487 ADIT book
2 figure on multiple occasions to no avail. (Tr. at 1219-20.) Mr. Michlik stated that LPSCO responded
3 that the \$335,487 was a 2006 number that was then trued up by Mr. Bourassa per his Schedule B-2,
4 page 5, which was not responsive to Staff's data requests. (Tr. at 1220.) During his testimony, Mr.
5 Michlik also read a response in which LPSCO stated that the \$335,487 ADIT figure was irrelevant.
6 (*Id.* at 1221.) Mr. Michlik stated that LPSCO did not provide any documentation or any of the
7 component numbers that summed up to the total ADIT amount. (*Id.*) He acknowledged that Mr.
8 Bourassa's rejoinder schedules included ADIT calculations, but stated that they came pretty late in
9 rejoinder testimony and that he had been unable to review them fully. (*Id.*) Mr. Michlik also pointed
10 out that the KPMG independent auditor's report done for LPSCO on December 31, 2008, showed net
11 deferred tax liability of \$504,528, and added that, in his opinion, KPMG performed the calculation
12 correctly. (*Id.* at 1222.) Mr. Michlik testified that some of the information included in the KPMG
13 calculation was not included in Mr. Bourassa's calculation and that he would like to see the two
14 reconciled. (*Id.*) Mr. Michlik acknowledged that Mr. Bourassa's rejoinder analysis is probably
15 correct, but testified that he was unable to agree with Mr. Bourassa because of the unreconciled
16 inconsistent information. (*Id.* at 1223.)

17 Staff recommends adoption of the ADIT figure that was included in LPSCO's application as
18 the actual TY ADIT book value, which is the same figure provided by LPSCO in its 2008 Annual
19 Report. We note that the 2008 Annual Report states that the ADIT balance was \$335,487 at the
20 beginning of 2008 and was \$335,487 at the end of 2008, (Ex. S-20 at 7), and that this strongly
21 suggests that the ADIT balance on September 30, 2008, was also \$335,487. While Mr. Bourassa has
22 provided calculations in an attempt to show how he reached his ADIT figures, it is not clear how
23 LPSCO's TY ADIT book value went from \$335,487 to \$21,451. (*Compare* Ex. A-14 at Sched. B-2
24 at 1 *with* Ex. A-18 at Sched. B-2 at 1.) No party has satisfactorily explained that dramatic change.
25 LPSCO has changed its position on ADIT several times during this proceeding, apparently to correct
26 its mistakes or oversights. We are not convinced that its final position is correct. Therefore, we
27 believe that it is appropriate to hold LPSCO to the information that was provided to Staff in its 2008
28 Annual Report. LPSCO has a duty to keep accounting records necessary to give complete and

1 authentic information to the Commission and, we believe, a corresponding duty to include complete
 2 and authentic information in its Annual Report. (*See* A.A.C. R14-2-411(D)(1), (4).) We are not
 3 persuaded by the evidence provided herein that it is necessary or appropriate to make a pro forma
 4 adjustment to that figure. Thus, we adopt an ADIT figure of \$335,487.

5 **4. Deferred Regulatory Assets**

6 In Decision No. 69912 (September 27 2007), LPSCO was granted an accounting order that
 7 authorized LPSCO “to record, for accounting purposes, all increased costs incurred, and proceeds
 8 realized beginning July 1, 2006, for responding to the water supply contamination threat posed by the
 9 [trichloroethylene (“TCE”)] Plume associated with the Phoenix-Goodyear Airport North Superfund
 10 Site.”¹⁰ (Decision No. 69912 at 6.) In Decision No. 69912, the Commission found that “the
 11 appropriate forum in which to consider the deferred costs, as well as proceeds related to the TCE
 12 Plume threat, is in a future rate case when all parties will be entitled to litigate the appropriateness of
 13 recovery of the deferrals in rates.” (*Id.* at 5.) In the Decision, the Commission ordered LPSCO to
 14 “prepare and retain accounting records sufficient to permit detailed review, in a rate proceeding, of all
 15 deferred costs and proceeds recorded as authorized,” (*id.* at 6), but did not address whether the
 16 deferred costs and proceeds could only be considered in a single rate case once they had all been
 17 incurred and received, (*see id.*).

18 **a. Parties’ Positions**

19 LPSCO asserts that between the effective date of the accounting order authorized by Decision
 20 No. 69912 and the end of the TY herein, it incurred \$82,561 in testing and legal fees related to the
 21 threat of groundwater contamination from the TCE Plume. LPSCO proposes to recover these costs
 22 by including the entire amount in rate base as a deferred regulatory asset and amortizing the amount
 23 over 10 years as a miscellaneous expense. (LPSCO Final Sched. B-2 at 1; LPSCO Final Sched. C-1
 24 at 1; Ex. A-14 at Sched. C-1 at 1; Ex. A-14 at Sched. C-2 at 13.) LPSCO asserts that the amounts

25 ¹⁰ The Site was placed on the U.S. Environmental Protection Agency’s (“EPA’s”) National Priorities, or Superfund, list
 26 in 1983 as the Litchfield Airport Area Superfund Site and was subsequently renamed and then divided into the Phoenix-
 27 Goodyear Airport North Site (“North Site”) and the Phoenix-Goodyear Airport South Site (“South Site”). (Decision No.
 28 69912 at 3.) Crane Co. has responsibility for the cleanup of the North Site, and Goodyear Tire & Rubber Company has
 responsibility for the cleanup of the South Site. (*Id.*) LPSCO believes that there is a significant possibility for several of
 its wells to be contaminated from solvents such as TCE which have entered the groundwater in the area due to the
 activities of Unidynamic Phoenix, Inc., which is now owned by Crane Co. (*Id.*)

1 were reasonably and prudently incurred to monitor the proximity of the contamination to its water
2 supplies and to protect its right to seek redress in the event the TCE Plume impacts its wells.
3 (LPSCO Initial Brief at 44 (citing Ex. A-2 at 11-12).)

4 RUCO agrees that these costs should be included in rate base as a deferred regulatory asset,
5 but recommends that only \$74,305 (90 percent of the costs) be included in rate base and that
6 amortization of 10 percent of the costs be allowed each year until the full amount of \$82,561 is
7 recovered. (RUCO Initial Brief at 7; RUCO Final Sched. 2 at 1, 3.) Ms. Rowell testified that she
8 reduced the amount allowed in rate base by one year of amortization to ensure that LPSCO did not
9 get double recovery by having the full amount included in rate base and having the 10-percent
10 amortization expense included in operating expenses. (Tr. at 748-50.) Ms. Rowell acknowledged
11 that a similar adjustment would not be appropriate for a plant item included in rate base and
12 depreciated, because plant items degrade over time and are depreciated based on useful life, but
13 testified that this is a regulatory asset. (Tr. at 750.) Ms. Rowell also testified that in the next rate
14 case, the amount left in rate base will be the unamortized amount, (Tr. at 750-51), and that she is not
15 aware of any other rate cases in which a deferred regulatory asset's first year amortization amount
16 was deducted from rate base, (*id.* at 752).

17 Staff asserts that it is premature at this time to authorize recovery of the deferred regulatory
18 costs incurred to date under the accounting order. (Staff Initial Brief at 7-8.) Staff's position is that
19 the deferred regulatory costs should not be recovered by LPSCO until after all of the costs, as well as
20 any forthcoming reimbursements of costs or even damage awards from polluters, are known. (*Id.* at
21 8.) Staff noted that LPSCO has not filed any legal action against Crane Co. or any other party
22 associated with the TCE Plume and that LPSCO has acknowledged that the situation has not yet
23 reached a point at which legal action is appropriate. (*Id.* at 7.) Staff asserts that allowing LPSCO to
24 obtain recovery of the deferred regulatory costs now, when it could later receive recovery through
25 settlement or a lawsuit, would result in double recovery because ratepayers would have repaid
26 LPSCO already through its rates. (*Id.* at 8.) Staff disagrees with LPSCO's assertion that such a
27 situation could easily be corrected in a subsequent rate case. (*Id.*) Staff also argues that Decision No.
28 69912 contemplated that recovery would be allowed in a single rate case proceeding after all of the

1 TCE-Plume-related costs and any TCE-Plume-related proceeds had been determined, not
2 incrementally. (*Id.*) Staff describes the increased testing costs incurred by LPSCO as a reasonably
3 expected risk of operating a water utility, which LPSCO should not be permitted to shift to its
4 ratepayers by obtaining recovery of the deferred costs now. (*Id.*) Staff recommends that the
5 Commission order LPSCO to continue to defer the costs and to address the situation in its next rate
6 case when more information is available. (*Id.*) In the alternative, if the Commission decides that
7 recovery should be allowed now, Staff recommends that the costs be recovered on a forward basis
8 through traditional expenses such as water testing and legal expenses and that the accumulation of the
9 deferred costs be eliminated. (Staff Reply Brief at 6.)

10 **b. Resolution**

11 LPSCO has incurred testing expenses and legal expenses in an ongoing effort to ensure that
12 its water supply is safe for its customers and that its interests are protected in “ongoing TCE Plume
13 regulatory and related proceedings” and in interactions with the EPA and Crane Co. (Ex. A-2 at 11-
14 12.) Mr. Sorenson testified that these efforts have been successful in accelerating the clean-up effort
15 and in stressing the importance of reinjecting the treated water back into the local aquifer, which
16 helps to protect LPSCO’s and its customers’ long term water supply. (*Id.* at 12.) LPSCO has been
17 testing more frequently than the EPA, based on the EPA’s monitor well test results and the results for
18 other parties’ wells in the area, and has also stepped up testing since TCE was detected in the subunit
19 C aquifer. (*Id.*) LPSCO does not believe that it would be rational to file a lawsuit yet, as its wells
20 have not yet exceeded the maximum contaminant limit (“MCL”) for TCE, and instead has been
21 working with the EPA, Crane Co., and other interested parties in the area to address the TCE
22 situation and protect its customers. (*Id.* at 12-13.) Mr. Sorenson testified that the Commission’s
23 disallowing these costs now would indicate that the Commission does not believe it is reasonable and
24 prudent for LPSCO to spend its money testing its water to make sure it is not polluted with TCE or
25 for LPSCO to participate in the ongoing proceedings that may ultimately lead to damages if its wells
26 become contaminated with TCE. (*Id.* at 13.) Mr. Sorenson then stated: “So we will no longer incur
27 those costs and leave it to others to determine the future of our customers’ water supply.” (*Id.*) Mr.
28 Sorenson also stated that LPSCO believes that it needs to continue incurring the testing costs to

1 protect its ratepayers and the legal costs to protect its interests in the superfund matter, and that that
2 was the whole point of the accounting order granted in Decision No. 69912, “[b]ut if the Commission
3 now disallows these costs, then it will be telling us not to incur them, and we won’t.” (Ex. A-3 at
4 12.)

5 Staff does not dispute the necessity or reasonableness of these costs, only the timing of their
6 recovery. (See Ex. S-15 at 6-7.) Staff also seems to disagree with LPSCO’s decision not yet to
7 pursue legal action against Crane Co. or at least to seek recovery from Crane Co. for LPSCO’s
8 ongoing costs related to the TCE Plume. (See Ex. S-15 at 7; Ex. S-14 at 14.)

9 We find that LPSCO is taking reasonable and necessary steps to ensure that it remains
10 informed of the developments regarding the Superfund site and its effects on the surrounding water
11 supply and to protect its customers from TCE contamination. We do not believe that LPSCO should
12 be denied recovery of the costs incurred in taking these reasonable and necessary steps because it has
13 not yet seen fit to file a lawsuit, which could prove to be a significant drain on LPSCO’s resources
14 before it is ultimately resolved. We also do not find it surprising that the issues related to the TCE
15 Plume have not yet been completely resolved, such that a final accounting could be completed. It
16 would not be appropriate for LPSCO to discontinue its efforts to protect the health and safety of its
17 customers if LPSCO were not allowed recovery of the TCE-Plume-related costs in this case, and we
18 are disappointed that Mr. Sorenson essentially threatened to do so. However, we agree that recovery
19 of the costs incurred thus far should be allowed herein. We find that it is appropriate to allow
20 LPSCO to include the deferred regulatory assets in rate base herein and to amortize those assets over
21 10 years. We are not persuaded by RUCO’s argument that the deferred regulatory assets should be
22 reduced by the amount of the first year’s amortization in order to avoid double recovery, and we will
23 not adopt it. We also will not adopt Staff’s late alternative recommendation, which would essentially
24 modify the accounting order of Decision No. 69912, as that alternative was not fully litigated by the
25 parties herein, and that treatment may not adequately take into account any future recovery that
26 LPSCO may receive from Crane Co. or another entity. Our allowance of the \$82,561 in deferred
27 regulatory assets in this case is not intended and should not be interpreted as a negation of the
28 accounting order approved in Decision No. 69912 or of any other requirement of that Decision. In

1 accordance with that Decision, LPSCO shall continue recording all of its expenditures related to the
 2 TCE contamination and shall ensure that it records any amounts recovered from Crane Co. or any
 3 other entity related to the water supply contamination threat posed by the TCE plume. We will
 4 expect LPSCO to provide these records to the Commission for its consideration in LPSCO's next rate
 5 case.

6 5. Conclusion

7 In light of the foregoing discussion, we find that the OCRB for LPSCO's water division is
 8 \$37,468,339 and that its FVRB is equal to its OCRB.

9 B. Wastewater Division Rate Base

10 In their final schedules, the parties¹¹ have proposed the following OCRB/FVRB figures for
 11 LPSCO's wastewater division:

	LPSCO	RUCO	Staff
12 Plant in Service	\$59,612,964	\$54,929,478	\$59,444,074
Less: Accum. Depreciation	7,688,904	8,070,293	7,678,128
13 Net Plant in Service	51,924,060	46,859,185	51,765,946
Less:			
14 CIAC	18,643,786	18,643,786	18,642,786
Less: Accum. Amortization	2,072,117	2,072,117	2,072,117
15 Net CIAC	16,571,669	16,571,669	16,570,669
AIAC	6,989,559	6,989,559	6,989,559
Customer Deposits	0	0	124,110
16 ADIT	140,544	107,031	335,487
Plus:			
17 Unamortized Debt Issuance Costs	0	0	0
Cash Working Capital	0	0	0
18 OCRB/FVRB	<u>\$28,222,289</u>	<u>\$23,190,926</u>	<u>\$27,746,122</u>

19 For the wastewater division, the most significant disagreement concerns RUCO's proposed
 20 exclusion from plant in service of more than \$3 million in upgrades made to the Palm Valley Water
 21 Reclamation Facility ("PVWRF") during the TY. The parties also disagree on several other aspects
 22 of plant in service; on treatment of customer security deposits; and on the correct amount of ADIT.

23 ...
 24 ...
 25 ...
 26 ...
 27 ¹¹ Although the City of Litchfield Park criticized LPSCO for not coming in for a rate case sooner in light of its
 28 significant PVWRF expenditures, (City Initial Brief at 9-10), the City did not file schedules on or brief rate base issues
 and has not proposed an alternate OCRB/FVRB.

1 **1. Plant in Service**

2 **a. PVWRF Upgrades**

3 In 2002, shortly before LPSCO was purchased by AWR,¹² LPSCO completed construction of
4 the PVWRF, a 4.1 million gallons per day (“MGD”) wastewater treatment plant that uses Sequencing
5 Batch Reactor (“SBR”) technology, at a cost of approximately \$18 million. (Ex. A-1 at 4, 6.) In 2007
6 and 2008, LPSCO made significant upgrades to the PVWRF, at a cost of approximately \$7 million, to
7 address odor problems, increase plant reliability, and establish redundancy capability. (*Id.* at 7.) The
8 upgrades were completed after LPSCO’s customer base experienced rapid growth;¹³ after two spill
9 events in two consecutive days in June 2007 that sent approximately 500 gallons of sewage into a
10 parking area behind a restaurant and then approximately 25,000 gallons of sewage into an expanded
11 area behind additional restaurants and a hospital and into the street;¹⁴ and after the Commission, in
12 Decision No. 69165 (December 5, 2006), effectively ordered LPSCO to resolve ongoing odor issues
13 at the PVWRF.¹⁵ The upgrades included: (1) converting an aerobic digestion tank to a third SBR
14 tank for maintenance and redundancy purposes, converting the anoxic tanks to an equalization basin,
15 improving influent screening, adding a surge tank return line, installing additional and better UV
16 disinfection equipment, adding another dewatering centrifuge, upgrading electrical service to
17 accommodate added loads and to comply with applicable codes, and adding new odor control
18 devices.¹⁶ (Ex. A-1 at 7.) The upgrades have resolved the odor problem and have improved
19 PVWRF’s operations. (Ex. A-1 at 7-8.)
20

21 ¹² LPSCO was purchased by AWR in February 2003. (Ex. A-2 at 35.) The PVWRF was constructed in 2001 and 2002.
(Ex. A-2 at 19.)

22 ¹³ Between December 31, 2000, and the end of the TY, the number of LPSCO wastewater customers increased from
23 5,012 to more than 14,000. (Ex. A-1 at 5.) During the same time period, the number of LPSCO water customers
increased from 5,541 to more than 15,000. (*Id.*)

24 ¹⁴ Ex. A-2 at 23; Ex. A-8 at 1.

25 ¹⁵ In Decision No. 69165, the Commission approved an Off-Site Facilities Hook-Up Fee Tariff for LPSCO, but ordered
26 that the Tariff not become effective until a planned Phase 1 carbon adsorption unit was installed and operational and
LPSCO’s odor problem was resolved as verified by Staff. (Decision No. 69165 at 4.) The Commission further ordered
LPSCO to work with local businesses negatively affected by the odor problem to minimize economic harm “caused . . .
27 by the persistent odor issues.” (*Id.* at 5.) Previously, in Decision No. 68923 (August 29, 2006), the Commission had
suspended the Tariff docket to allow Staff to investigate the odor problems at the PVWRF. (Decision No. 69165 at 2.)

28 ¹⁶ Odor control was addressed in two stages—first by adding a Granulated Activated Carbon air polishing unit to the
PVWRF, at a cost of less than \$1 million, and second by adding a pilot Aerisa system that uses oxygen ion clusters to
bind with odor-causing agents and neutralize them, at a cost of \$600,000, significantly less than the cost of the more
traditional method contemplated. (Ex. A-1 at 8.) LPSCO has received only one odor complaint related to the PVWRF

1 RUCO asserts that \$3.5 million of the \$7 million in plant upgrades should be disallowed
2 because RUCO believes that the plant upgrades were necessitated by design errors, and it is
3 “inherently unfair” to require customers to bear the full cost of upgrades that are caused by design
4 errors. (RUCO Initial Brief at 4; Ex. R-22 at 4-5; Ex. R-23 at 13-14.) In its final schedules, RUCO
5 reduced this amount by \$213,771 to reflect retirements that correspond to the upgrades, for a total
6 exclusion of \$3,286,229 of the plant upgrades. (RUCO Final Sched. 3 at 4.) RUCO bases its
7 argument on Mr. Rowell’s interpretation of Mr. Sorenson’s prefiled testimony regarding the reasons
8 for the upgrades; on Mr. Rowell’s interpretation of a pre-upgrades draft McBride Engineering
9 Solutions (“MES”) LPSCO Water Reclamation Facilities Strategic Planning and Evaluation Report
10 (“MES Report”)¹⁷ describing and proposing potential improvements to address the “challenges” at
11 PVWRF; and Mr. Rowell’s conclusion that such extensive upgrades would not be necessary so soon
12 after a plant was built unless there was something wrong with the design of the original plant. (*See*,
13 *e.g.*, Ex. A-28 at 5-7; RUCO Initial Closing Brief at 4.) RUCO characterizes the upgrades as repairs
14 and argues that the shareholders should share equally in the burden of paying for them.¹⁸ (*See, e.g.*,
15 RUCO Initial Brief at 4.) RUCO is unpersuaded by the evidence showing that the original plant was
16 approved by all of the regulatory agencies whose approval was required and argues that LPSCO
17 should have discovered the problems at the time of purchase with the exercise of due diligence and
18 should have used the information as leverage in price negotiations. (RUCO Initial Brief at 4-5.)
19 RUCO further argues that, upon discovery of the problems, LPSCO should have “pursued its legal
20 rights against its predecessor instead of expecting to recover fully from captive ratepayers.” (*Id.* at
21 5.) RUCO also argues that public policy is on its side, because allowing LPSCO to include the entire
22 cost of the upgrades in rate base would give companies looking to purchase utilities in Arizona less
23 incentive to do proper due diligence before purchase and would diminish utilities’ incentive to build
24 plant properly in the first place. (*Id.*)

25
26 since adding the Aerisa system in February 2008. (*Id.*) That complaint occurred when a contractor left an overhead door
open for a prolonged period of time late in February 2008. (*Id.*)

27 ¹⁷ The MES Report was admitted as Ex. R-2.

28 ¹⁸ RUCO also asserts that LPSCO “claims that it should not be saddled with the costs of repairs because the former
owner, Suncor, built the plant.” (RUCO Initial Brief at 4.) RUCO purportedly cites to testimony by Mr. Sorenson to
support this assertion, but we found no such testimony in this record.

1 LPSCO asserts that the entire amount of the upgrades, minus \$213,771 in retirements,¹⁹
2 should be included in plant in service and in rate base for the following five reasons: (1) it is
3 undisputed that the upgrades were necessary and prudent and are used and useful in the provision of
4 utility service to LPSCO customers; (2) RUCO's proposed disallowance is not supported by any
5 evidence in the record and instead is premised on a lay person's supposition and interpretation; (3)
6 Mr. Rowell's testimony should be disregarded as a matter of law and fact because Mr. Rowell is
7 unqualified to offer testimony on design and engineering issues; (4) there has been no harm to
8 ratepayers from the upgrades; and (5) RUCO's disallowance would have a dramatic chilling effect on
9 utility acquisitions in Arizona and would be confiscatory. (LPSCO Initial Brief at 15-16.) LPSCO
10 points out that the PVWRF met all applicable engineering and regulatory standards, regulations, and
11 approval requirements when built and that the PVWRF engineering and construction was reviewed,
12 analyzed, and approved by the Maricopa County Environmental Services Division ("MCESD"), the
13 City of Goodyear, and ADEQ. (LPSCO Initial Brief at 17 (citing Ex. A-2 at 21; Ex. A-4 at 3-4; Ex.
14 A-5 at 1-2; Tr. at 227-28).) LPSCO asserts that the upgrades were made to address changed
15 conditions and "operational challenges" at PVWRF as the flow of influent increased and approached
16 design capacity, not to repair or remedy any design problems. (LPSCO Initial Brief at 19-20 (citing
17 Ex. A-2 at 20-24; Ex. A-4 at 4-6; Ex. A-5 at 2-3; Ex. A-3 at 2-4; Tr. at 30-32, 119-20, 122-23, 137-
18 41, 154-65, 183-90, 215-220, 225-30, 232-33, 1278-87, 1308, 1325-29, 1338-40, 1357).) LPSCO
19 asserts that there was a higher level of fats, oils, and grease ("FOG") than is typical; that the peaking
20 factors were different than anticipated; that the loading rates were different than anticipated; and that
21 odor control requirements changed when the area surrounding the plant changed from a golf course to
22 a residential development. (LPSCO Initial Brief at 21 (citing Tr. at 139-40, 155-56, 165-66).)
23 LPSCO asserts that it is not atypical for a plant to be built based on reasonable design assumptions
24 and at a lower cost, with incremental upgrades made as operational challenges arise, and that this
25 makes sense for ratepayers because they do not pay for unnecessary plant. (LPSCO Initial Brief at
26 21-22.) Furthermore, LPSCO points out that as none of the plant has thus far been included in rate

27 _____
28 ¹⁹ As part of the upgrades, one headworks screen, three units of UV equipment, and some electrical work were retired.
(Ex. A-39.)

1 base, its customers have not yet incurred any costs for the plant. (*Id.* at 22-23.) LPSCO asserts that
2 the timing and magnitude of the upgrades were not unusual or excessive in light of the increased flow
3 at the plant, the FOG level being higher than anticipated, the organic and total suspended loadings
4 being higher than anticipated, and the diurnal curve being different than anticipated, and asserts that
5 the only way to avoid operational issues would have been to build a plant that would have been much
6 more expensive initially. (LPSCO Initial Brief at 24 (citing Tr. at 196-97).) LPSCO also asserts that
7 the total cost of the PVWRF with the upgrades is still on the lower side of costs for comparable plant.
8 (LPSCO Initial Brief at 27 (citing Tr. at 217, 219-20).) LPSCO also points out that the Aerisa odor
9 control system installed with the upgrades was not available when the PVWRF was originally
10 constructed and asserts that it saved ratepayers more than \$1 million over the costs of a more
11 traditional odor control system that would have been available at that time. (LPSCO Initial Brief at
12 28 (citing Tr. at 219-20, 230-32).) Finally, LPSCO argues that adopting RUCO's disallowance
13 "would tell potential purchasers and existing owners of utilities that any investment made post-
14 acquisition or after original construction to fix the utility or upgrade facilities will have one-half of
15 the value confiscated by the Commission," which would result in buyers not acquiring Arizona
16 utilities under those circumstances and in customers suffering because operational problems would
17 never be addressed or resolved. (LPSCO Initial Brief at 33-34.)

18 Staff disagrees with RUCO's recommended disallowance of the PVWRF upgrades. (Staff
19 Initial Brief at 13.) Staff reasons that every utility must rely on engineering estimates in planning its
20 facilities and that if a plant is designed to meet estimated conditions, but actual operational conditions
21 are different, the cost of the repairs and the number of total projects needed to increase reliability are
22 irrelevant. (*See id.*) Staff asserts that LPSCO did not act unreasonably in relying on the design
23 assumptions provided when the PVWRF was first constructed and that the upgrades have improved
24 system reliability without increasing capacity, just as LPSCO asserts. (*Id.*) Staff asserts that the
25 PVWRF is currently used and useful, in service to LPSCO customers, and in compliance with all
26 applicable ADEQ and Commission requirements. (*Id.* at 13-14 (citing Ex. S-5 at 23).)

27 In its Introduction, the MES Report states the following:
28

1 According to Algonquin's own managers, engineers, and operators, the existing
 2 Palm Valley WRF has numerous operational shortcomings that need to be
 3 addressed. These include hydraulic issues, redundant capacity shortfalls, odor
 4 control problems, process control difficulties, equipment reliability concerns,
 5 trouble-shooting limitations, excessive maintenance requirements, and a lack of
 6 operational flexibility, among others. In addition, it is expected that the current
 7 rated capacity of the plant will be exceeded within one year.²⁰

8 The MES Report also states that "[w]hile none of the challenges presented below appear to be
 9 preventing the successful operation of the facility, they do show target areas where improvements
 10 could be made to enhance the overall operation, reliability, and cost effectiveness of the plant."²¹

11 Regarding the issues that were addressed by the upgrades, Mr. Sorenson testified:

12 In 2006 and 2007, through a series of customer complaints, internal investigations
 13 and Commission proceedings, it became apparent that given the siting of the plant
 14 and the changed zoning, the Company had an odor problem that needed to be
 15 addressed. Additionally, in the summer of 2007, the plant had two spill events that
 16 confirmed that the plant, as originally designed and constructed by our predecessor
 17 owners, was lacking certain redundancy capabilities and needed some upgrades to
 18 achieve an acceptable level of reliability.²²

19 The MES Report and Mr. Sorenson's direct testimony, both excerpted above, are the
 20 foundation of RUCO's argument that approximately 50 percent of the costs of the PVWRF upgrades
 21 should be excluded from rate base, although RUCO also relies upon *ipso facto* reasoning—if
 22 upgrades costing \$7 million are needed five years after a plant is built, the plant must be defective.
 23 To some extent, the argument between RUCO and LPSCO regarding these upgrades can be
 24 characterized as an argument over semantics. RUCO asserts that Mr. Sorenson and Mr. McBride
 25 identified design errors, and LPSCO, Mr. Sorenson, and Mr. McBride assert that they did not.
 26 Although Mr. Rowell's initial interpretation of the statements made by Mr. Sorenson in his direct
 27 testimony and by Mr. McBride in the MES Report was not completely unreasonable, and has even
 28 perhaps been fueled by the somewhat euphemistic terms²³ generally used by Mr. Sorenson and Mr.
 McBride to describe PVWRF's operational problems before the upgrades were made, both Mr.
 Sorenson and Mr. McBride have since testified that they never said there were design errors and that
 there were no design errors. (See Ex. A-4 at 5; Ex. A-2 at 19-20; Ex. A-5 at 1-2; Ex. A-3 at 3-4.) We

²⁰ Ex. R-2 at 1.

²¹ *Id.* at 4.

²² Ex. A-1 at 7.

²³ For example, both Mr. Sorenson and Mr. McBride repeatedly refer to "operational challenges," and Mr. Sorenson even referred to "operational improvement opportunities" as the reason for the June 2007 spills. (See Ex. A-2 at 22, 23.)

1 have no reason to believe that Mr. Sorenson and Mr. McBride were not being truthful in their
2 subsequent testimony about a lack of design errors.

3 RUCO has not provided any independent engineering evidence to support its conclusion that
4 there were design flaws in the PVWRF as originally constructed. Mr. Rowell testified that he did not
5 form any independent opinion with respect to design problems at PVWRF and that he is not qualified
6 to render an independent opinion about design problems because he is an accountant rather than a
7 contractor, engineer, or operator of a wastewater treatment plant. (*See, e.g.*, Ex. A-28 at 5.) RUCO
8 also has not cited any legal authority supporting its position that the costs incurred for plant upgrades
9 should be excluded if the upgrades remedy a design problem rather than an operational problem.
10 Even if RUCO had been able to establish that there were design flaws in the PVWRF as originally
11 designed and constructed, it is unclear what significance that would or should have.²⁴ In any event,
12 RUCO's evidence has not established that there were design errors in the PVWRF as originally
13 built,²⁵ that the cost of the upgrades was unreasonable, that the upgrades were unnecessary or an
14 imprudent expenditure, or that the upgrades are not used and useful.

15 The evidence establishes that RUCO's arguments are without merit. The PVWRF was built
16 using a design and in a manner that met all applicable regulatory requirements, and the plant's
17 engineering was reviewed, analyzed, and approved by MCESD and ADEQ. (Ex. A-2 at 20.) The
18 plant was designed by Pacific Advanced Civil Engineering ("PACE") to conform to the Maricopa
19 Association of Governments' Uniform Details and Standard Specifications for Public Works
20 Construction (1998), the City of Goodyear's Engineering Standards and Policies Manual, ADEQ
21 Engineering Bulletin 11 (1978), the Uniform Building Code (1997), the Uniform Plumbing Code

23 ²⁴ We note that although the PVWRF has never before been considered in a rate case, RUCO did not try to establish
24 that any of the plant's original construction cost was imprudent or should otherwise be excluded because it included
design errors. In fact, RUCO's witness did not review the original PVWRF design documents. (Ex. A-28 at 23.)

25 ²⁵ We are aware of RUCO's reliance on the "10 States Standards," not adopted in Arizona, in its attempt to demonstrate
26 that one aspect of the electrical system for the PVWRF was designed improperly because electrical equipment in the head
27 room may have been installed in a manner that was inconsistent with the 10 States Standards and was installed in a
28 manner that allowed for the occurrence of corrosion. (*See* Ex. R-32; Tr. at 1315-24.) Although it seems obvious in
hindsight that this installation was less than ideal, there is no evidence to establish that the installation was a violation of
any standard that was effective in Arizona, and it thus cannot clearly be characterized as a design error. Also, this seems
to have been rather a minor issue that was remedied with the PVWRF upgrades, as compared to the operational problems
that resulted in spillage of approximately 25,500 gallons of sewage and in long-term pervasive sewage odors in the
vicinity of the PVWRF.

1 (1997), and the Uniform Fire Code (latest edition). (Ex. A-2 at 20-21 (citing PACE Phase I Design
2 Report (October 2001), at 7).) As originally engineered and constructed, the PVWRF met all
3 applicable engineering and regulatory requirements. (Ex. A-4 at 4; Ex. A-5 at 2.) The plant was
4 designed using certain assumptions concerning the volume and content of influent that proved to be
5 inaccurate after several years of operation. The upgrades were necessary to enable the plant to handle
6 the level of influent received and the content of the influent so as to prevent future spills and to
7 eliminate a pervasive odor problem. The upgrades have been successful, and the PVWRF has not
8 experienced spills and has only had one odor incident (attributable to human error rather than
9 equipment malfunction) since the upgrades have gone into service. The entire cost of the plant,
10 including both the original construction cost and the upgrades cost, is reasonable for a plant of its
11 size. The plant upgrades were a prudent expenditure, are used and useful, and are in service and
12 benefiting LPSCO's customers. It is just, reasonable, and appropriate to allow LPSCO to include the
13 entire cost of the upgrades, minus the identified retirements, in plant in service and rate base, and we
14 will do so.

15 **b. PACE Design Report**

16 RUCO asserts that LPSCO should not be permitted to capitalize a 2004 expense of \$36,500
17 for a PACE Phase II Report used by LPSCO to obtain an amendment to its Aquifer Protection Permit
18 ("APP") to allow expansion of the PVWRF plant from 4.1 MGD to 8.2 MGD. (RUCO Initial Brief
19 at 6 (citing Ex. R-27 at 4).) RUCO asserts that because the plant has not been expanded to 8.2 MGD,
20 the costs of expanding the plant or designing the expansion of the plant are not used and useful and
21 should be excluded from rate base. (*Id.*) RUCO's final schedules include an exclusion of \$36,500
22 from plant in service. (*See* RUCO Final Sched. 3.)

23 LPSCO asserts that the \$36,500 in engineering costs was for reasonable, necessary, prudent,
24 and used and useful planning and design work relating to PVWRF Phase II. (LPSCO Initial Brief at
25 35-36 (citing Tr. at 55).) LPSCO asserts that the Phase II planning was required by ADEQ because
26 the PVWRF flows exceed 80 percent of its existing physical capacity. (LPSCO Initial Brief at 36
27 (citing Ex. A-2 at 13-14; Ex. A-36).) LPSCO further explains that the PACE Phase II Report
28 included a conceptual design for PVWRF at full build-out that was used to meet the design

1 requirement for the APP amendment that was required to complete the PVWRF upgrades. (*See id.* at
2 36 (citing Tr. at 54-55; A.A.C. R18-9-B202(A)(8)).) LPSCO asserts that the PACE Phase II Report
3 costs reflect prudent and mandatory utility planning and should be allowed. (*Id.* at 37.)

4 Staff did not address RUCO's proposed \$36,500 disallowance, other than to state that Staff
5 does not believe PVWRF currently has excess capacity,²⁶ (Staff Initial Brief at 14), and did not
6 include such a disallowance in its final schedules. However, Mr. Scott testified that LPSCO would
7 have been required by ADEQ or MCESD to submit plans for expansion once the PVWRF reached 80
8 percent of its rated capacity. (Tr. at 1119.)

9 The 2004 PACE Phase II Report has been used by LPSCO to satisfy ADEQ requirements,
10 (*see* Tr. at 54-55, 1119; Ex. R-3 at 41-101, 111, 152, 214-21, 249), and does not encompass all of the
11 engineering necessary for LPSCO to construct the expansion of the PVWRF from its current capacity
12 of 4.1 MGD to a capacity of 8.2 MGD. We reach this conclusion not just because LPSCO presented
13 testimony to this effect, but also in light of the changes to the original PVWRF design that were made
14 through the upgrades, which occurred subsequent to the 2004 PACE Phase II Report, and thus could
15 not be reflected therein. We are not persuaded by RUCO's assertions that the costs of the 2004
16 PACE Phase II Report are not used and useful and should be excluded because they do not benefit
17 LPSCO's current customers. Rather, we find that LPSCO has established that the costs are used and
18 useful and have benefited LPSCO's current customers (as it benefits LPSCO's customers to have
19 LPSCO comply with ADEQ requirements). Thus, we find that the \$36,500 should be allowed in
20 plant in service.

21 **c. MES Service Costs**

22 RUCO asserts that LPSCO incurred additional PVWRF expansion-related engineering
23 expense through a 2007 Change Order Request in which LPSCO agreed to pay MES \$552,100 for
24 programming to configure a third 5 MGD UV filter to work with two existing 5 MGD UV units in a
25 lead/lag/standby configuration and technical work to allow two new SBR units to work in
26 conjunction with existing SBR units to allow for operation of all four SBR units. (RUCO Initial
27

28 ²⁶ RUCO had characterized this as an excess capacity issue prior to its Initial Brief. (*See, e.g.*, Ex. R-27 at 3.)

1 Brief at 6 (citing Ex. R-35.) RUCO asserts that the MES expenses relate to the Phase II expansion
2 of the PVWRF from two trains to four trains and that because LPSCO claims the expansion has not
3 been built, these MES design costs and all related costs are not used and useful and should be
4 excluded from rate base. RUCO recommends that any and all costs of expanding the plant should be
5 excluded from rate base, including \$552,100 for the MES change order request. (*Id.* at 6-7.)
6 However, RUCO's final schedules do not include an exclusion of \$552,100 from plant in service,
7 (*see* RUCO Final Sched. 3), and RUCO does not explain this exclusion in its Reply Brief, (*see*
8 RUCO Reply Brief).

9 LPSCO asserts that the \$552,100 disallowance should be rejected as untimely and for lack of
10 disclosure prior to the hearing because RUCO did not assert it in its prefiled testimony, during
11 hearing, or in its final schedules, instead making the argument for the first and only time in its closing
12 brief.²⁷ (LPSCO Reply Brief at 17-18.) LPSCO further asserts that the disallowance should be
13 rejected "because RUCO once again has misinterpreted and misstated the facts." (*Id.* at 18.) LPSCO
14 asserts that the Change Order replied upon was the third change order for the PVWRF upgrade
15 project and only authorized payment of \$24,910 for additional engineering work necessary to
16 complete the PVWRF upgrades. (LPSCO Reply Brief at 18-20 (citing Ex. R-35).) LPSCO asserts
17 that the change order is not for a fourth future SBR train to be added to the PVWRF but for
18 engineering and programming work relating to the UV unit and SBR upgrades installed in 2007-
19 2008. (*Id.* at 20-21.)

20 Staff did not address RUCO's proposed \$552,100 disallowance and did not include such a
21 disallowance in its final schedules.

22 The Change Order Request, dated September 4, 2007, clearly states that the change order is
23 for an amount of \$24,910, to bring a previous contract amount of \$527,190 to a new contract amount
24 of \$552,100. (Ex. R-35.) It also identifies the project as the LPSCO PVWRF "Performance
25 Improvements Design Project" and the contract as an original agreement with MES dated August 9,
26 2006. (*Id.*) While the Change Order Request does speak to two new SBR units, for a total of four

27 ²⁷ LPSCO acknowledges that RUCO entered the change order into evidence during the hearing as Exhibit R-35, but
28 asserts that RUCO did not disclose any argument relating to a \$552,100 disallowance until its closing brief. (LPSCO
Reply Brief at 18 n. 84.)

1 SBR units at the PVWRF, Mr. Sorenson testified that no fourth SBR unit was ultimately added,
2 which he attributed to Mr. McBride's determining that a total of three SBR units would be sufficient
3 for the PVWRF's current capacity of 4.1 MGD. (See Ex. R-35; Tr. at 1391-96.) Mr. Sorenson's
4 explanation for the references to a fourth SBR unit are reasonable and consistent with the other
5 evidence in this case, which establishes that only a third SBR unit was added during the upgrades.
6 We are not persuaded by RUCO's assertions that the Change Order Request reflects costs attributable
7 to a future plant expansion and therefor must be excluded from plant in service. Rather, we find that
8 LPSCO has established that the \$24,910 in costs attributable to the Change Order Request relate to
9 the PVWRF upgrades, are used and useful, and should not be deducted from plant in service.

10 **d. Capitalized Affiliate Labor**

11 RUCO asserts that \$1,841,196 in capitalized affiliate labor should be removed from LPSCO's
12 wastewater division plant in service because LPSCO submitted inconsistent calculations and back-up
13 documentation that was inadequate and could not be reconciled. (RUCO Initial Brief at 7-9.)
14 RUCO's arguments for the exclusion as to wastewater division capitalized affiliate labor are the same
15 as those asserted for the water division capitalized affiliate labor. RUCO's final schedules for the
16 wastewater division show that RUCO added a total of \$651,161 to plant in service to reverse
17 LPSCO's deductions of affiliate profit for 2004 through 2008 and deducted a total of \$1,841,196 in
18 "unsupported affiliate labor costs" from plant in service for the same time period. (RUCO Final
19 Sched. 3.)

20 LPSCO's response to RUCO's recommended disallowance of capitalized affiliate labor for
21 the wastewater division plant in service was the same as its response for the water division plant in
22 service.

23 Staff did not recommend that capitalized affiliate labor costs for the wastewater division be
24 excluded from plant in service.

25 As we stated previously for the water division, we are not persuaded by RUCO's assertions
26 that LPSCO's capitalized affiliate labor costs should be excluded from plant in service because they
27 are not sufficiently supported and are inconsistent. Rather, we find that LPSCO has provided
28

1 sufficient documentation to support inclusion of its capitalized affiliate labor costs, minus profit, in
2 plant in service and will not make RUCO's recommended adjustments to plant in service in this area.

3 **e. Capitalized Repair Costs**

4 RUCO asserts that \$170,375 in capitalized repair costs should be removed from LPSCO's
5 wastewater division plant in service because LPSCO has failed to meet its burden of demonstrating
6 that the costs should be capitalized. (RUCO Initial Brief at 11.) RUCO's arguments for the
7 exclusion of capitalized repair costs for the wastewater division are the same as those provided
8 regarding the water division. RUCO's final schedules for the wastewater division show that RUCO
9 reclassified \$136,488 in repair invoices from Precision Electric during 2008 and \$33,887 in repair
10 invoices from Precision Electric during 2007 to contractual services – other. (RUCO Final Sched. 3
11 at 2-3.) Of the reclassified amount, \$151,179 was included by RUCO in TY expenses, and \$19,196
12 was determined to be a non-TY expense and disallowed altogether. (See RUCO Final Sched. 4 at 9.)
13 RUCO has not provided support for these exclusions in addition to that previously described
14 regarding the similar exclusions made to LPSCO's water division plant in service.

15 LPSCO's response to RUCO's recommended disallowance of capitalized repair costs for the
16 wastewater division plant in service was the same as its response for the water division plant in
17 service.

18 Staff recommends disallowance of \$169,136 in capitalized costs that Staff asserts should be
19 classified as operating expenses. (Staff Initial Brief at 10.) Staff's final schedules show that the
20 \$169,136 consists of the \$170,375 to Precision Electric excluded by RUCO, but with \$1,239
21 deducted as a remaining capital item. (Staff Final Sched. JMM-WW7.) In support of its exclusion,
22 Staff cites to LPSCO's Response to Staff Data Request JMM 14.6, which was not included in
23 evidence. Of the reclassified amount, \$149,940 was included by Staff in TY expenses, and \$19,196
24 was determined to be a non-TY expense and disallowed altogether. (See Staff Final Sched. JMM-
25 WW15 at 1.) Staff characterized the expenses as pumping expenses in its final schedules, but did not
26 elaborate beyond that or provide any additional information to support the disallowance. (See *id.*)

27 For the same reasons as provided for the water division, LPSCO objects to Staff's
28 recommended exclusion and urges the Commission not to consider or adopt Staff's recommendation.

1 We will not adopt RUCO's \$170,375 in exclusions or Staff's \$169,136 in exclusions for
2 purportedly inappropriately capitalized costs, because the exclusions are not sufficiently supported by
3 the evidence.

4 **f. Retirement of Plant**

5 Staff recommends disallowance of \$7,231 of plant in service for the calculated value of
6 retirements where LPSCO included the costs of replacing certain plant but made no corresponding
7 entry for the related retirements. (Staff Initial Brief at 10; Staff Final Sched. JMM-WW4; Staff Final
8 Sched. JMM-WW7.) Staff's Final Schedules show that the plant items included in its retirement
9 calculation are attributable to other plant and miscellaneous equipment account items provided by
10 Keogh Engineering and pumping equipment provided by Precision Electric, and show how the
11 retirement amounts were calculated, but do not provide any further explanation other than to refer to
12 two LPSCO Responses to Staff Data Requests, which have not been entered into evidence. (Staff
13 Final Sched. JMM-WW7.) However, LPSCO has not objected to this disallowance. (See LPSCO
14 Initial Brief; LPSCO Reply Brief.) Thus, we find that Staff's disallowance of \$7,231 is reasonable,
15 and we adopt it.

16 **g. Summary of Wastewater Plant in Service**

17 Based upon the foregoing discussion, we adopt a plant in service figure of \$59,605,733.

18 **2. Customer Security Deposits**

19 **a. Parties' Positions**

20 Staff recommends increasing customer deposits for the wastewater division to \$124,110 for
21 the same reasons as provided by Staff regarding inclusion of customer security deposits in rate base
22 for the water division. (Staff Initial Brief at 9; Staff Final Sched. JMM-W4; Staff Final Sched. JMM-
23 WW9.)

24 For the same reasons as set forth for the water division, LPSCO and RUCO both assert that
25 customer security deposits should not be included in rate base for the wastewater division. (LPSCO
26 Initial Brief at 42; RUCO Initial Brief at 2.) Both show a zero balance in customer deposits after
27 removing \$68,685 identified by Mr. Bourassa as security deposits. (See LPSCO Final Sched. B-2 at
28 2; RUCO Final Sched. 2 at 1.)

1 **b. Resolution**

2 For the reasons provided in the discussion regarding this issue for the water division, we
3 adopt Staff's customer deposit figure of \$124,110 as a deduction from rate base. We note that Staff
4 has included the interest on customer deposits as an adjustment to miscellaneous expenses. (Staff
5 Final Sched. JMM-WW17.)

6 **3. ADIT**

7 **a. Parties' Positions**

8 As with the water division, LPSCO and RUCO now agree on the method for calculating
9 ADIT for the wastewater division, and the differences in their ADIT figures result from RUCO's
10 reductions from plant in service. (See RUCO Reply Brief at 2.) Staff's recommended ADIT figure
11 of \$335,487 is derived from LPSCO's 2008 Annual Report and is consistent with the actual end-of-
12 TY ADIT figure provided by LPSCO in its application. (Ex. R-7 at 7; Ex. A-14 at Sched. B-2 at 1-2,
13 5.) In its application, LPSCO proposed a pro forma adjustment to bring its ADIT to \$18,292. (Ex.
14 A-14 at Sched. B-2 at 5.) In its rebuttal testimony, LPSCO changed its actual end-of-TY ADIT
15 figure to \$15,987 and proposed a pro forma adjustment to bring its ADIT to \$335,020, stating that its
16 ADIT computation reflected an updated tax value of assets starting with 2008 tax information and a
17 correction to the AIAC balance contained in the computation. (Ex. A-16 at 22-23.) In its rejoinder
18 testimony, LPSCO retained the actual end-of-TY ADIT figure of \$15,987, but proposed a pro forma
19 adjustment of \$124,556 to bring its ADIT total to \$140,544. (Ex. A-18 at Sched. B-2 at 1, 5.)
20 LPSCO retained this rejoinder ADIT figure in its final schedules. (LPSCO Final Sched. B-2 at 2, 5.)

21 The parties' arguments for adopting their respective ADIT figures are the same for the
22 wastewater division as they were for the water division.

23 **b. Resolution**

24 As with the water division, we find that LPSCO did not adequately explain why or how its
25 TY ADIT book value went from \$335,487 to \$15,987. (Compare Ex. A-14 at Sched. B-2 at 1 with
26 Ex. A-18 at Sched. B-2 at 1.) Although LPSCO provided calculations in an attempt to show how its
27 adjusted ADIT figures were reached, this change was not clearly explained. Thus, for the same
28

1 reasons as provided for the water division, we will adopt an ADIT figure of \$335,487 for the
2 wastewater division.

3 **4. Conclusion**

4 In light of the foregoing discussion, we find that the OCRB for LPSCO's wastewater division
5 is \$27,895,231 and that its FVRB is equal to its OCRB.

6 **C. Rate Base Summary**

7 We find that LPSCO's water division has a FVRB of \$37,468,339 and that LPSCO's
8 wastewater division has a FVRB of \$27,895,231.

9 **IV. OPERATING INCOME ISSUES**

10 **A. Test Year Operating Revenues**

11 There is no dispute between the parties regarding LPSCO's test year revenues. As agreed to
12 by the Company, Staff, and RUCO, LPSCO's test year water revenues in this proceeding are
13 \$6,878,710, and the test year wastewater revenues are \$6,356,374.²⁸ (LPSCO Final Sched. A-1; Staff
14 Final Sched. JMM-W1 and WW1; RUCO Final Sched. 1.)

15 **B. Operating Expenses**

16 **1. Shared Services Expense**

17 As discussed above, LPSCO does not operate as a stand-alone company but is operated by
18 Algonquin Water Services dba Liberty Water, along with six other water and wastewater companies
19 in Arizona and eleven other regulated water and wastewater companies in Texas, Missouri, and
20 Illinois. (Ex. A-1, at 1.) LPSCO does not have any employees, and Liberty Water provides all of the
21 administration and operations personnel for the regulated utilities operating in the United States.
22 Liberty Water is wholly owned by APIF, a Canadian entity that is the ultimate parent company of
23 approximately 71 companies,²⁹ 17 of which are part of the regulated utilities group, and the
24

25 ²⁸ RUCO's final schedules show a discrepancy of \$2,813 in the wastewater revenues compared to the Company and Staff
26 but there is no explanation in RUCO's brief for this slight difference. We will therefore adopt the test year revenues
27 proposed by LPSCO and Staff.

28 ²⁹ Staff proposed using the 71 total number of companies that were under the APIF umbrella at the end of the test year,
but LPSCO contends the proper allocation should be based on a total of 63 affiliate companies because APIF has only an
operating interest in 7 additional companies, but does not actually own them, and it owns 1 other electric company that
was not active in the test year and is not expected to be active in the foreseeable future. (Ex. S-16, at 16-17; Ex. S-14, at
18-19; Ex. A-9, at 3.)

1 remainder within the unregulated generation companies that produce and sell wholesale power,
 2 primarily from hydroelectric facilities, in Canada and the United States. (Ex. S-16, at 16-17; Ex. S-
 3 14, at 18-19.)

4 In prior rate cases involving LPSCO affiliates Black Mountain Sewer Company (“BMSC”)
 5 and Gold Canyon Sewer Company (“GCSC”), the affiliates sought recovery of central office costs
 6 billed by APIF, plus a profit margin on those services, as part of a non-negotiated “shared services”
 7 agreement between APIF and Liberty Water’s predecessor. (Decision No. 69164, at 12-13; Decision
 8 No. 69664, at 12-22.) In the prior BMSC case, we indicated that the allocation of central office
 9 expenses under a shared services model was an issue of first impression, and we disallowed only the
 10 clearly identified “profit” portion of the allocated expenses, stating:

11 We will not countenance a corporate shell game that allows companies to
 12 hide behind corporate structures in order to avoid scrutiny of what would
 13 normally be the function of the regulated public service company....We
 14 believe it is inherently unreasonable for an affiliate company that performs
 15 all of the operational functions of the utility company, under a non-
 16 negotiated contract, to seek an additional profit margin simply because the
 17 affiliate was structured as a separate corporate entity. The question that
 18 must be asked is whether an affiliate company under common ownership
 and control should be permitted to add an additional layer of profit, and to
 do what a regulated public service corporation is otherwise legally
 prohibited from doing (*i.e.*, recover an additional profit margin for its
 services), based solely on the parent company’s decision to create a
 separate affiliate company. Our answer is a resounding no.

19 (*Id.* at 17-18.)³⁰ Although we excluded only the “profit” portion of allocated central office expenses
 20 in the prior BMSC case, we also stated that:

21 [W]e make no finding as to the reasonableness of the Algonquin affiliate
 22 structure and, in future cases involving the Algonquin companies, we
 23 expect all affiliate salaries, expenses, and billings to be scrutinized to
 avoid potential abuses.

24 (*Id.* at 19.) It is against this background that we consider LPSCO’s request in this case to recover an
 25 allocated portion of operating expenses that flow through Liberty Water.

26
 27
 28 ³⁰ In Decision No. 69664 (June 28, 2007), we similarly disallowed the profit portion of APIF allocated central office
 expenses for LPSCO’s affiliate, GCSC.

1 **a. Liberty Water Allocations**

2 Company witness Tremblay described the shared services model employed by the Algonquin
3 companies for purposes of assigning cost responsibilities to the APIF subsidiaries. He explained that
4 the allocation methodology groups costs on two separate bases, direct costs and indirect costs. Mr.
5 Tremblay stated that the day-to-day operating costs associated with operating the utility companies
6 are provided by Liberty Water. According to Mr. Tremblay, Liberty Water provides to LPSCO, and
7 the other utilities owned by APIF: (1) operations labor; (2) customer service and finance personnel;
8 and (3) administrative support for day-to-day operations. (Ex. A-9, at 3.) He indicated that the
9 Liberty Water labor costs are allocated to LPSCO directly based on timesheets; customer service and
10 finance wages are allocated based on customer counts; and administrative costs are allocated based
11 on a four-factor formula. (*Id.*)

12 Liberty Water provides all of the day-to-day administrative and operations personnel for
13 LPSCO and each of the other 16 regulated utility companies in Arizona, Texas, Illinois and Missouri.
14 Liberty Water charges LPSCO and the other companies the dollar hourly rate per employee, grossed
15 up by 35 percent for payroll taxes, health benefits, retirement plans, and insurance. Other services,
16 such as accounting, billing, customer service, human resources, health and safety, and corporate
17 finance are not allocated on a timesheet basis but are, instead, allocated based on the customer counts
18 for each of the 17 utility companies. (*Id.* at 5.)

19 In addition to the direct labor allocations made by Liberty Water based on timesheets, LPSCO
20 is assessed expenses for items such as accounting, billing, customer service, and human resources.
21 LPSCO contends that these types of services are not capable of being allocated on a per company
22 timesheet basis because it is not practical to keep track of employee time that is devoted to multiple
23 companies in small increments. (*Id.* at 2) As an example, the Company points to the shared call
24 center that fields calls from customers of all of the regulated utilities and which costs are then
25 allocated to each of the Liberty Water utility companies on a customer count basis. For other
26 expenses such as rent, office furniture depreciation, and computers, the Company argues that its four-
27 factor allocation methodology is similar to methods used by other Arizona utilities such as Chaparral
28 City Water Company and Global Water. (*Id.*)

1 **b. Corporate Central Office Cost Allocations**

2 The second part of the allocation methodology assigns costs from the APIF operating arm,
3 Algonquin Power Trust ("APT"), that APT incurs for corporate administrative functions associated
4 with running a publicly traded company (APIF) to support all of the various subsidiary companies in
5 both the power generation and infrastructure (including utilities) categories. Mr. Tremblay states that
6 this second group of costs may be considered "indirect" costs, which include: rent for the APT central
7 office facilities; strategic planning costs; audit costs; tax service costs; unitholder (*i.e.*, shareholder)
8 communication costs; trustee fees; and other costs. (*Id.*) He indicated that the indirect APT costs are
9 allocated based on the number of utilities as a percentage of the total number of subsidiary
10 companies, and secondly, further allocated within the utility group of companies based on customer
11 counts. (*Id.* at 3-4.)

12 These central office allocations are billed to APT's subsidiaries, both regulated and
13 unregulated, through a recently developed formula. Mr. Tremblay testified that these indirect costs
14 are incurred by APT for executive management and corporate administrative costs, not labor costs,
15 and include accounting and finance, human resources, employee benefits, regulatory, and information
16 systems services. (*Id.* at 8-9.)

17 The Company asserts that the services provided by APT are necessary to allow the
18 subsidiaries to have access to capital markets for capital projects and operations, and for the affiliates
19 to provide a high level of service at the lowest cost. (*Id.*, Ex. GT-RJ1 ["Allocation Methodology
20 Report"], at 3.) The Allocation Methodology Report indicates that the expenses for the various
21 central office services are routine and recurring in nature, and are incurred as part of normal business
22 operations for the affiliated companies. (*Id.*)

23 The first step of the methodology involves an initial allocation of 26.98 percent of total
24 corporate overhead (approximately \$4,000,000 during the test year) to Liberty Water, based on it
25 being comprised of 17 of the 63 APIF affiliates (*i.e.*, $17/63=26.98$ percent). The remainder of the
26 \$4,000,000 is billed to the other 46 unregulated affiliates. (*Id.*)

27 The next step of the process is an allocation between the 17 Liberty Water operating
28 companies based on the number of customers served by each of the affiliates. The Company claims

1 that the general Liberty Water costs benefit all 17 companies, but the cost responsibility is assigned
2 on the basis of customer counts to ensure the costs are paid by the originator. (*Id.* at 3-4.)

3 The Allocation Methodology Report indicates that the fundamental principle of the allocation
4 methodology is that each of the regulated operating water and wastewater companies “should be
5 charged for all costs incurred by affiliates – both Liberty Water and APT – so that the [utility
6 affiliates] can provide a high level of safe and reliable water and wastewater utility service to
7 customers.” (*Id.* at 4.)

8 **c. LPSCO’s Position**

9 LPSCO’s Allocation Methodology Report indicates that it is appropriate for the operating
10 companies to be assessed an allocated share of APT central office costs because the services provided
11 by APT, and by extension APIF, allow even smaller companies like LPSCO to benefit from expertise
12 and resources that might not otherwise be available. (*Id.* at 3-4.) In addition to tax, accounting, legal,
13 and administrative services, the Company points to the access to capital markets and strategic
14 planning as examples of services that companies like LPSCO could not afford if operated as a stand-
15 alone entity. LPSCO contends that the allocated amount is minimal relative to the high levels of
16 expertise available, and that the inclusion of general administrative expenses incurred by APT at its
17 Canadian headquarters is reasonable.

18 LPSCO disputes Staff’s recommended adjustments to the allocation process. The Company
19 asserts that Staff’s and RUCO’s recommended disallowance of approximately 90 percent of the APT
20 affiliate costs represents a rejection of the APIF/APT/Liberty Water allocation model and if those
21 recommendations are adopted by the Commission, “Liberty Water will have to seriously consider
22 operating differently.” (*Id.* at 26.) LPSCO argues in its brief that if the Staff or RUCO proposals are
23 accepted by the Commission, the Commission “shouldn’t be surprised when the quality of services
24 provided by LPSCO declines, or LPSCO’s operating expenses increase.” (LPSCO Initial Brief at 48.)

25 The Company also disagrees with Staff’s claim that the allocation of APT expenses such as
26 administrative, central office, and third-party professional services does not benefit LPSCO. The
27 Company asserts that, unlike labor costs that are directly allocable by Liberty Water, the APT
28 expenses are incurred for the benefit of all APIF subsidiaries, regulated and unregulated, and that the

1 second allocation step based on customer counts provides assurance that each of the regulated
2 operating companies pays its fair share of those costs. (Ex. A-9, at 3-4, 7-9.)

3 **d. RUCO's Position**

4 RUCO contends that based on its review of the APT central office allocations, only a small
5 portion of those costs should be borne by LPSCO and its affiliate utility companies. RUCO witness
6 Matt Rowell testified that in the APT Audit category, only the costs of a KPMG invoice for
7 consultation on "US Tax Matters" should be allocated to LPSCO. RUCO proposes that \$405 be
8 allocated to LPSCO's wastewater division and \$413 be allocated to the water division. He indicated
9 that the remainder of the invoices related to audit or consulting services for APT or its non-LPSCO
10 affiliates. (Ex. R-23, at 9.)

11 With respect to tax services, Mr. Rowell stated that the majority of invoices he reviewed were
12 related to tax services provided to APIF/APT operations other than LPSCO. He identified \$586 in
13 invoices related directly to tax work done for LPSCO by Grant Thornton, and proposed that \$293 be
14 assigned to each of the LPSCO divisions. (*Id.* at 10.)

15 For the other professional services category, RUCO agreed that a portion of such costs should
16 reasonably be allocated to LPSCO because they are incurred for employee related expenses such as
17 the payroll system, 401(k) services, and health benefit services. Mr. Rowell proposed that the APT
18 costs for this category should be allocated evenly across 71 subsidiary companies, and then divided
19 equally between LPSCO's water and wastewater divisions, resulting in an assignment of \$3160 to
20 each division. (*Id.*)

21 RUCO would also allow a portion of APT central office rent expenses because APT "does
22 provide some services to LPSCO and the other utilities." (*Id.* at 11.) Mr. Rowell indicated that the
23 total \$295,887 rent expense should be split evenly between utility operations and APIF's non-
24 regulated sector, and the remaining \$147,944 would then be divided by the 71 Algonquin
25 subsidiaries, yielding a total allocation of \$1,042 to each of the LPSCO divisions. (*Id.*)

26 RUCO recommends that the proposed APT central office allocations for legal, management
27 fees, unitholder communications, trustee fees, escrow and transfer agent fees, licenses/fees & permits,
28 office expenses, and depreciation be disallowed in their entirety. According to RUCO, the

1 “management fees” are amounts paid by APIF/APT to another affiliate, APMI, for “advice and
 2 consultation concerning business planning, support, guidance and policy making and general
 3 management services,” which APMI expenses are then allocated to all of the APIF/APT subsidiaries.
 4 (Ex. R-11; Tr. 487.) Mr. Rowell stated that LPSCO did not establish that the management fees
 5 provide any benefit to the Company’s customers, and if customers do benefit from such services they
 6 should be direct billed rather than being part of an allocation formula. (Ex. R-23, at 7.)³¹

7 **e. Staff’s Position**

8 Staff witness Jeff Michlik recommended an allocation approach that differs substantially from
 9 the Company’s proposal. He stated that the costs of a regulated company, such as LPSCO, “should
 10 only include those costs that would have been incurred on a “stand-alone basis.” (Ex. S-14, at 16.)
 11 Mr. Michlik explained that, in Staff’s view, costs incurred primarily for the benefit of unregulated
 12 affiliates should not be shifted to the regulated companies owned by a parent company because such
 13 cost-shifting could result in captive utility customers subsidizing the unregulated business interests.
 14 (*Id.*) Mr. Michlik defined stand-alone basis as “reflecting the costs as if the regulated utility
 15 produced the service by itself.” (*Id.*)

16 Staff indicated that LPSCO is proposing to allocate \$518,441 for test year corporate overhead
 17 from APIF, as a result of the total \$3.95 million total allocated costs. (*Id.*) Mr. Michlik claims that
 18 Staff reviewed the underlying invoices supporting the allocated costs and determined that LPSCO did
 19 not identify the costs as “direct” (costs that can be identified with a particular service) or “indirect”
 20 (costs that can not be identified with a particular service), in accordance with NARUC Guidelines for
 21 Cost Allocation and Affiliate Transactions. He stated that the NARUC guidelines require that costs
 22 primarily attributable to a business should be, to the extent appropriate, directly assigned to that
 23 business operation. (*Id.* at 17.)

24 During its review, Staff identified \$191,828 of the \$3.95 million that it claims should not be
 25

26 ³¹ During the hearing, RUCO raised questions regarding allocations to LPSCO for the use of a corporate jet owned by
 27 Algonquin Airlink, an affiliate of APMI. Company witness Tremblay stated that the Airlink plane is often used to
 28 transport APT employees from Canada to Arizona for quarterly meetings that also include 20 to 30 Liberty Water
 employees from Arizona, Illinois, Missouri, and Texas. (Tr. 553-60.) After the corporate jet allocations were revealed,
 LPSCO agreed to remove those allocations from the Company’s requested expenses, as well as from expenses being
 sought in other pending Liberty Water rate cases in Arizona. (*Id.* at 561-63.)

1 considered. Mr. Michlik stated that the disallowed amounts included \$68,350 for charitable
 2 contributions, \$5,066 for hockey game tickets, \$3,500 for Super Bowl tickets, \$16,864 for gold
 3 watches and clocks, and \$33,000 for IRS taxes and penalties related to the affiliate's unregulated
 4 business.³² (*Id.* at 18.)

5 Based on its review of supporting documentation, Staff concluded that many of requested
 6 central office expense allocations should be disallowed in their entirety (*e.g.*, rent, other professional
 7 services, management fees, unitholder communications, trustee fees, office costs, fees and permits,
 8 escrow and transfer fees), and that others (*i.e.*, audit fees, tax services, legal fees, and depreciation
 9 expense) should be allocated 90 percent to APIF and 10 percent to the 71 companies owned or
 10 operated by APIF.³³ In other words, after Staff excluded 90 percent of the allowable type of costs, it
 11 then allocated the remaining 10 percent on an equal 1/71 basis to each affiliate company. The 1/71
 12 method produces an allocation factor of 1.41 percent for LPSCO that, as applied to the 10 percent of
 13 Staff's allowable service costs, results in a total allocation of \$1,594 to LPSCO (\$797 each for the
 14 water and wastewater divisions) for corporate central office expenses. (*Id.*, Sched. JMM-W14.)

15 In support of its recommended disallowances, Staff asserts that APIF's central office expenses
 16 are incurred primarily for the benefit of its unitholders, rather than the regulated utility companies.
 17 Mr. Michlik claims that the central office costs would have been incurred even if APIF did not own
 18 LPSCO and, as such, the benefit to LPSCO is only incidental to APIF's for-profit operations. (Ex. S-
 19 15, at 10.) With respect to specific service costs, such as for tax preparation and audits, Staff's
 20 recommended adjustments reflect Staff's claim that LPSCO would incur only minor expenses for
 21 those services if it were operated on a stand-alone basis. (Ex. S-14, Sched. JMM-W14.)

22 **f. Resolution**

23 Although we agree, as a general proposition, that a shared services model may provide
 24 economies of scale that result in more efficient operations, the common expenses that are incurred
 25 and allocated to regulated utility companies must provide a clearly defined benefit to customers to be
 26

27 ³² In rebuttal testimony, Mr. Bourassa agreed to remove the \$191,828 identified by Staff which, converted from Canadian
 to U.S. dollars, totals \$182,693. (Ex. A-16, at 33.)

28 ³³ Mr. Michlik used 71 companies in his allocation based on the number of total companies that APIF owned or operated,
 according to its 2007 Annual Report. (Ex. S-16, at 17.)

1 considered reasonably necessary for the provision of service. The cost of services provided by
2 affiliated entities, under non-negotiated no-bid agreements, must be given greater scrutiny because
3 the company being billed for those services is effectively without input regarding the types of
4 services provided, or the cost of those services. In addition, the subsidiary company has virtually no
5 recourse against the parent company's decision to assess common expenses that are incurred at the
6 parent level.

7 While the standard to be applied in consideration of common expenses may not necessarily be
8 what the utility would have required as a stand-alone company, the allocated costs must bear some
9 semblance of reasonableness considering the company's size and service area. For example, a water
10 and wastewater company with approximately 16,000 total combined customers, such as LPSCO, may
11 not require sophisticated legal, accounting, billing, and strategic management expertise at the same
12 level as a company with tens of thousands of customers and a large service territory; and it is not
13 sufficient to simply make the claim that there exists a nebulous, undefined benefit that may provide
14 value to the regulated subsidiary, and ultimately its customers. Rather, it is incumbent on the
15 company seeking recovery of a wide array of corporate office expenses to show that the type of costs
16 being allocated are reasonably necessary for the provision of utility service provided, and that the
17 level of such expenses is reasonable.

18 With these parameters in mind, we turn to consideration of LPSCO's requested corporate
19 central office expenses. We are in general agreement with the allocation methodology recommended
20 by Staff for corporate central office expenses incurred by APIF/APT. As Mr. Michlik points out, the
21 central office costs are related primarily to APIF's function as a holding company that controls both
22 regulated and unregulated businesses. Given the corporate structure that exists, with a series of
23 subsidiaries and affiliated companies, we believe that the central office expenses are intermingled
24 between the regulated and unregulated companies to such an extent that it is not appropriate to allow
25 an across-the-board recognition of all such expenses for purposes of setting rates. For example,
26 according to Staff, trustee fees and unitholder communication fees are incurred by APIF for the
27 purpose of unitholder (shareholder) activities, and are items that have traditionally been excluded
28 from operating expenses because they benefit shareholders almost exclusively.

1 We will therefore allow as reasonable common expenses in this case those items identified by
 2 Staff as properly allocable to LPSCO. As set forth in Staff's testimony, those expenses are a
 3 reasonable level of audit expenses, tax service expenses, general legal expenses, and depreciation
 4 expense. (*See*, Ex. S-14, Sched. JMM-W14; Ex. S-16, Sched. JMM-WW14.) With respect to the
 5 allocation methodology, however, we find that a modification of Staff's recommendation is
 6 appropriate.

7 Based on the record in this case, we adopt the following allocation of common corporate costs
 8 that we believe represents a level that may be considered reasonable and necessary for the provision
 9 of service by LPSCO.

- 10 1. Allowable common expenses for LPSCO in this case shall be
 11 limited to those items identified by Staff (*i.e.*, audit, tax, legal,
 depreciation);
- 12 2. The total company allocation for each item, as set forth in Staff's
 13 testimony, shall be allocated based on the number of regulated
 14 Liberty Water companies (17) divided by the total number of
 companies owned or operated by APIF (71) (*i.e.*, $17/71 = 23.94\%$
 allocated to Liberty Water)³⁴;
- 15 3. The Liberty Water allocation shall be further allocated to LPSCO
 16 on the basis of number of customers. The allocable percentage
 17 identified by the Company is 23.32% and 25.83% for the water
 and wastewater divisions, respectively, based on the number of
 18 customers relative to Liberty Water's other operating companies.³⁵

19 We believe allowing a total of \$75,100 of allowable common corporate central office
 20 expenses for LPSCO represents a reasonable amount in this proceeding based on consideration of the
 21 Company's overall size, the level of necessary services, and efficiencies available through the APIF
 22 shared services methodology. The expenses allowed for LPSCO in this case, and the methodology
 23 employed for determination of appropriate central office allocations, is not necessarily applicable to

24 ³⁴ In accordance with Staff's testimony, this initial Liberty Water allocation results in \$121,376 for audit expenses
 25 (23.94% of \$507,000); \$63,441 for tax expenses (23.94% of \$265,000); \$71,820 for general legal expenses (23.94% of
 \$300,000); and \$48,896 for depreciation expense (23.94% of \$204,242). (Ex. S-14, Sched. JMM-W14.)

26 ³⁵ Because the vast majority of customers on LPSCO's systems receive both water and wastewater services, we believe it
 27 is appropriate to use an average percentage for the customer count (*i.e.*, 24.58%), and then divide the result equally
 28 between the water and wastewater divisions for purposes of determining the total central office allocation. Based on this
 methodology, we find that appropriate total central office expenses for LPSCO in this proceeding to be \$75,100 (24.58%
 of \$305,533), based on \$29,834 for audit expenses (24.58% of \$121,376); \$15,594 for tax expenses (24.58% of \$63,441);
 \$17,653 for general legal expenses (24.58% of \$71,820); and \$12,019 for depreciation expense (25.58% of \$48,896). The
 total LPSCO amounts for these central office expenses will be allocated equally to the water and wastewater divisions.

1 other water and wastewater companies that are operated under a shared services structure.

2 As a final matter on this issue, we wish to point out that whether a public service corporation
3 in Arizona operates as a stand-alone entity, or as part of a much larger multi-level corporate structure,
4 we expect that it will operate in the most efficient manner possible. Denial of a portion of the APIF
5 corporate expenses should not be interpreted as an invitation to set up each Arizona company as a
6 wholly independent utility, or to shun opportunities to share common costs where it is appropriate.
7 For the Algonquin companies, certain efficiencies are inherent in its operation of multiple systems,
8 and we anticipate that LPSCO and the other Arizona affiliates will continue to provide quality service
9 at the lowest possible cost.

10 2. Performance Pay/Bonuses

11 Staff recommended that \$52,954 be excluded from LPSCO's test year (\$26,477 for each of
12 the divisions) operating expenses for "bonuses" paid to the Company's employees as part of their
13 compensation. (Ex. S-15 at 11; Ex. S-17, at 9.) Staff witness Michlik stated that including bonuses in
14 operating expenses is not appropriate because "performance incentives...should not be passed on to
15 ratepayers." (*Id.*)

16 LPSCO disputes Staff's proposed adjustments, claiming that the employee pay above base
17 salaries is more accurately characterized as "pay at risk." (Ex. A-3, at 13.) Mr. Sorenson claimed that
18 the issue is one of total employee compensation, and whether salaries are commensurate with those
19 paid for comparable jobs in the local and national job market. He stated that the Company pays
20 wages at prevailing rates, including the pay that remains at risk if performance falls below certain
21 standards. (*Id.*)

22 We agree with Staff that the performance pay, or bonus pay, should not be included as part of
23 expenses included in rates. Although the Company seeks to offer assurance that its incentive pay
24 structure is beneficial to ratepayers because it encourages employee performance, LPSCO does not
25 explain that if rates are set based on the assumption that performance pay/bonuses will always be
26 paid, only shareholders benefit from non-payment of bonuses while customers continue to pay for
27 salaries based on superior service even if employee performance is sub-standard. Staff's
28 recommendation is therefore adopted.

1 **3. “Non-Recurring” or “Unnecessary” Expenses**

2 LPSCO requests inclusion in test year expenses of \$19,784 for effluent clean up, \$16,428 for
3 grounds maintenance and line cleaning, and a normalized amount of \$37,838 for fuel for power
4 production. The Company claims in its brief that the effluent clean up costs are for maintaining the
5 site where it legally disposes of effluent, located in an open farm field where the effluent is
6 discharged to irrigate crops or seep back into the ground to recharge the aquifer. (LPSCO Initial Brief
7 at 72.) Mr. Bourassa stated that the requested expenses for these items reflect the nature and level of
8 expenses the Company expects to incur on a going forward basis, and they should therefore be
9 allowed in this case. (Ex. A-16, at 41.) LPSCO argues that RUCO’s proposed exclusion of these
10 costs is inappropriate because Ms. Rowell made no effort to ascertain why the Company’s costs for
11 these items were normal and recurring.

12 Staff did not oppose LPSCO’s requested expenses for effluent clean up or grounds
13 maintenance and line cleaning. Staff witness Michlik accepted the Company’s proposed
14 normalization for fuel for power production. (Ex. S-15, at 8.)

15 RUCO proposed exclusion of each of these expenses as either non-recurring or unnecessary in
16 the provision of service to customers. (RUCO Final Sched. 4, 1 of 4 (water), 5 of 20 (wastewater).)
17 Regarding the effluent clean up and an “oat crop planting” invoice, RUCO witness Sonn Rowell
18 stated that ratepayers should not have to pay for these expenses. She conceded that she did not know
19 the meaning of the term “beneficial reuse,” and she did not attempt to inquire about the underlying
20 basis of the expenses. Rather, RUCO’s proposed disallowance was based solely on Ms. Rowell’s
21 interpretation of invoices she reviewed regarding these expense items. (Tr. 771-74.)

22 We agree with LPSCO that the requested expenses for these items are properly included in
23 rates. Although it was entirely appropriate for RUCO to question the nature of the expenses based on
24 a review of invoices, it appears that they are legitimate costs related to disposal and recharge of
25 effluent. Ms. Rowell admitted that she made no attempt to understand the basis of the costs, and
26 simply used her “judgment” based on the description listed on invoices. (*Id.* at 771.) Staff, on the
27 other hand, questioned the expenses through discovery requests and was satisfied by the Company’s
28 underlying explanation regarding the costs. (*Id.* at 772-74.) Although RUCO had access to the same

1 data responses, Ms. Rowell stated that she relied only on the invoices in formulating RUCO's
2 position. (*Id.*) RUCO's proposed adjustments on this issue are therefore denied.

3 4. Bad Debt Expense

4 LPSCO originally sought recovery of \$43,889 for bad debt expense for its wastewater
5 division, but later agreed to Staff's proposed normalization amount of \$22,098. (LPSCO Final Sched.
6 C-2, at 6 (wastewater); Ex. S-16, at 19.) For the water division, the Company and Staff agreed to
7 increase the test year bad debt expense from \$3,264 to \$8,548, as a normalization adjustment. (Staff
8 Final Sched. JMM-W13.) Staff recommended normalization, over a three-year period, of the water
9 division's "abnormally low" and the wastewater division's "abnormally high" test year levels of bad
10 debt expense. (Ex. S-14 at 21; Ex. S-16, at 19.)

11 RUCO proposes to disallow \$40,848 of bad debt expense for LPSCO's wastewater division,
12 claiming that there was not a sufficient explanation for a substantial increase from 2006 to the test
13 year. (Ex. R-15, at 16.) Ms. Rowell stated that the water division did not experience a similar
14 increase in bad debt expense, and RUCO believed it was appropriate to adjust the wastewater
15 division's expense level to bring it into a "more typical range." (*Id.*) For the water division, RUCO
16 proposes adoption of the Company's actual test year level of \$3,264. (Ex. R-16, Sched. 4, at 1.)

17 We agree with the Staff normalization adjustments that were accepted by LPSCO. As Mr.
18 Michlik points out, the adjustments are appropriate to more accurately reflect a reasonable level of
19 bad debt expense that was actually incurred by the Company over a three-year period, and which is
20 likely to be experienced on an ongoing basis. RUCO's proposed adjustment is one-sided to the
21 extent that it seeks to make a substantial reduction to the higher than normal test year bad debt
22 expense on the wastewater side, but fails to recognize the lower than normal expense level on the
23 water side. Staff's recommendation, on the other hand, gives proper recognition to the abnormality
24 of bad debt expenses for both divisions. We therefore decline to adopt RUCO's proposal on this
25 issue.

26 5. Rate Case Expense

27 The Company initially estimated its rate case expense to be \$420,000, and requested that it be
28 recovered over a normalized three-year period. (Tr.1375.) At the hearing, Mr. Sorenson testified

1 that the Company's final position on rate case expense is for \$500,000, again normalized over three
2 years. (*Id.*) LPSCO contends that the requested increase is due to complications related to issues
3 raised by three different intervenors; the length of the hearing and associated consultant and legal
4 fees; and additional expenses related to positions taken by RUCO. (*Id.*) The Company claims that as
5 of January 15, 2010, it had incurred rate case expenses of more than \$435,000, exclusive of costs for
6 transcripts, final schedules, briefing, exceptions, Open Meeting, and Phase 2 regarding the hook-up
7 fee tariff.

8 LPSCO argues that the rate case expense recommendations made by Staff and RUCO, to
9 allow \$420,000 amortized over five years, would not compensate the Company for its actual
10 expenses. According to Mr. Sorenson, Liberty Water plans to file rate cases for all of its systems
11 more frequently than every five years, and using a five-year amortization would place unrecovered
12 rate case expense at risk under Staff's recommendation. (Ex. A-2, at 11; Ex. A-3, at 1-2.) LPSCO
13 cites to other water companies, such as Global Water, that have not filed rate cases for many years;
14 yet, according to the Company, Staff and RUCO proposed a three-year amortization of rate case
15 expense in the recent Global case. Finally, the Company suggests that the Commission could set up a
16 rate case expense surcharge as a means of ensuring that LPSCO recovers no more or less than its
17 actual expenditures. (Tr. 1370-73.)

18 Staff witness Michlik testified that Staff typically recommends that rate case expense be
19 recovered over a three to five year period, in accordance with the general frequency of rate case
20 filings by the applicant. He stated that because LPSCO had not filed a rate case for approximately
21 nine years, Staff believes a five-year amortization of the original \$420,000 rate case expense request
22 is appropriate in this case. (Tr. 1153-54.)

23 RUCO similarly argues for allowing the original \$420,000 requested by the Company,
24 amortized over five years. RUCO claims that the recommendation made in the Global Water cases is
25 distinguishable because Global was not incorporated until 2003 and previously had little plant and
26 few customers. RUCO also contends that any delays that occurred in the discovery and hearing
27 process were due to incomplete data responses provided by LPSCO.

28 We agree with Staff and RUCO that LPSCO should be granted rate case expense in the

1 amount of its original request of \$420,000. Although there were undoubtedly issues raised in this
2 proceeding that were not anticipated at the time of the application's filing, it is not unusual for issues
3 to be developed by individual parties as preparation of the case unfolds. We believe that \$420,000 is
4 a reasonable level of rate case expense that is consistent with amounts authorized in other cases of
5 similar length and difficulty.

6 With respect to the amortization period, however, we believe a three-year amortization of rate
7 case expense should be authorized. LPSCO indicates that it intends to file rate cases for all of the
8 Liberty Water affiliates in Arizona on a more regular basis, and the approximate three-year gap
9 between rate filings for Black Mountain Sewer Company lends a measure of support to the
10 Company's claim. Although RUCO attempts to distinguish the Global Water cases on the basis that
11 Global did not commence operations until 2003, Global's subsidiary operating companies Palo Verde
12 Utilities Company and Santa Cruz Water Company were granted their original CC&Ns in 1999 but
13 did not file rate applications until 2009. (Decision No. 61943, September 17, 1999.)

14 LPSCO is therefore authorized rate case expenses of \$420,000, amortized over three years.

15 **6. Operating Income Summary**

16 Based on the discussion of operating income expenses set forth above, we find the total test
17 year operating expenses for the water division to be \$6,648,297, which based on adjusted test year
18 revenues of \$6,878,710, results in test year adjusted operating income of \$230,413 for the water
19 division. For the wastewater division, we find the total test year operating expenses for the water
20 division to be \$5,847,814, which based on adjusted test year revenues of \$6,356,374, results in test
21 year adjusted operating income of \$508,560.

22 **V. COST OF CAPITAL**

23 Staff witness Juan Manrique explained that the concept of cost of capital relates to the
24 opportunity cost associated with choosing one investment over others with equivalent risk. He
25 indicated that the cost of capital represents "the return that stakeholders expect for investing in a
26 determined business venture over another business venture." (Ex. S-12, at 4.)

27 **A. Capital Structure and Cost of Debt**

28 A company's capital structure consists of the relative proportion of each component that

1 makes up its total capitalization. These components include both short-term and long-term debt
2 (including capital leases), preferred stock, and common stock.

3 For purposes of calculating LPSCO's overall cost of capital, the Company proposes using a
4 capital structure consisting of 17.7 percent debt and 82.3 percent equity; Staff recommends a ratio of
5 17.2 percent debt and 82.8 equity; and RUCO proposes a capital structure of 17.86 percent debt and
6 82.14 percent equity. (Ex. A-19, at 2; Ex. S-12, at 7; Ex. R-29, at 5.) The slight difference between
7 the parties' proposals is a function of the timing of when LPSCO's actual capital structure was
8 calculated.

9 Because there is no significant difference between the parties on the issue of capital structure,
10 we will use an average of the three recommendations. For purposes of determining LPSCO's cost of
11 capital, we therefore determine that the Company's capital structure consists of 17.6 percent debt and
12 82.4 percent equity.

13 With respect to the cost of debt, the parties are also in general agreement. Both LPSCO and
14 RUCO propose using 6.39 percent, and Staff recommends 6.40 percent, as the Company's cost of
15 debt for purposes of calculating the overall cost of capital. We find that LPSCO's cost of debt in this
16 case is 6.39 percent.

17 **B. Cost of Common Equity**

18 Determining a company's cost of common equity for purposes of setting its overall cost of
19 capital requires an estimation of costs. As evidenced by the competing methodologies employed in
20 this case, and most other rate cases, there is no clear-cut answer as to which formula should be used
21 for reaching the appropriate outcome. Rather, the three expert cost of capital witnesses, Messrs.
22 Bourassa, Manrique, and Rigsby, each rely on various analyses for their recommendations.

23 As described by Mr. Manrique, two methodologies are typically used for estimating a
24 company's cost of equity: the discounted cash flow ("DCF") model and the capital asset pricing
25 model ("CAPM"). He stated that the DCF method of stock valuation is based on the theory that the
26 value of an investment is equal to the sum of the future cash flows generated from the investment,
27 discounted to the present time. Mr. Manrique indicated that the DCF method is widely used to
28 estimate the cost of equity for public utilities "due to its theoretical merit and simplicity." The DCF

1 uses expected dividends, market price and dividend growth rate to calculate cost of equity. (Ex. S-12,
2 at 14-15.)

3 The CAPM is used to determine the prices of securities in a competitive market. The model
4 reflects the relationship between a security's investment risk and its market rate of return. Mr.
5 Manrique stated that under the CAPM an investor requires the expected return of a security to equal
6 the rate on a risk-free security, plus a risk premium. (*Id.* at 27-28.)

7 1. LPSCO's Position

8 The Company's final common equity cost recommendation of 12.00 percent is derived from
9 the results of both constant growth and multi-stage growth DCF models and the CAPM for six proxy
10 companies (American States Water, Aqua America, California Water, Connecticut Water, Middlesex
11 Water, and SJW Corp.) (Ex. A-15; LPSCO Final Sched. D-4.) Mr. Bourassa also based his
12 recommendation on a review of economic conditions that he expects to occur while the rates from
13 this case are in effect; his judgments about risks associated with smaller companies like LPSCO; and
14 his view of the financial risk associated with debt in LPSCO's capital structure. (Ex. A-15, at 4; Ex.
15 A-17, at 5-7; Ex. A-19, at 5.)

16 The Company's DCF analysis produced return on equity ("ROE") results for the proxy
17 companies ranging from 9.7 to 13.7 percent, while the CAPM analysis produced ROE results of 9.3
18 to 23.5 percent. (Ex. A-15, at 3.) In his rebuttal testimony, Mr. Bourassa described the economic
19 upheaval in financial markets, the uncertainty that exists regarding economic recovery, and a lack of
20 available capital for small and mid-sized companies. (Ex. A-17, at 3-4.) He explained that his
21 updated DCF and CAPM analyses produced results that were lower than originally calculated and, as
22 a result, the Company lowered its ROE recommendation from 14.1 percent to its current 12.0 percent
23 level. Mr. Bourassa stated that the average DCF mid-point of his sample companies was 11.4
24 percent, and the average CAPM mid-point was 12.5 percent, which produced an overall average mid-
25 point of 12.0 percent, which is LPSCO's ROE recommendation in this case. (*Id.* at 2.)

26 LPSCO criticizes the recommendations of both Staff and RUCO (9.2 and 9.0 percent ROE,
27 respectively) claiming that adoption of either of their recommendations would make it difficult for
28 LPSCO to attract capital to Arizona considering the returns being earned on other investments by

1 LPSCO's parent company. The Company contends that ROE models should not be used to mask
2 evidence as to what real investors are doing in the real world. LPSCO argues that it must be able to
3 earn a competitive return in order to attract capital for investment in Arizona. The Company also
4 asserts that Staff's application of the Hamada methodology for determining LPSCO's risk is
5 improper because LPSCO's risk is higher, not lower, than the proxy companies due to its smaller
6 size.

7 The Company is even more critical of RUCO's ROE recommendation, and the underlying
8 analysis that formed RUCO's proposal. In addition to several water companies, Mr. Rigsby utilized
9 10 natural gas utilities in his proxy group, which the Company claims are not comparable to LPSCO
10 because the gas companies have significantly less risk. (Ex. A-17, at 15-16.)

11 LPSCO also disputes RUCO's use of a geometric mean in its CAPM calculation. Company
12 witness Bourassa claims that only the arithmetic mean should be used in calculating the market risk
13 premium of the CAPM, in accordance with the opinions of experts on regulatory finance. (Ex. A-19,
14 at 8-9.) In addition, the Company asserts that Mr. Rigsby improperly included U.S. Treasury *total*
15 return in his CAPM calculation, rather than the average *income* return. According to Mr. Bourassa,
16 the Treasury income return provides an unbiased estimate of the riskless rate of return because an
17 investor can hold the Treasury to maturity and receive fixed interest payments with no capital loss or
18 gain; whereas use of the total return on a Treasury security injects additional risk into the CAPM
19 estimate, which Mr. Bourassa asserts is inconsistent with treating the security as a riskless asset. (Ex.
20 A-17, at 18-20.) Mr. Bourassa contends that the net result of these errors is a reduction in RUCO's
21 overall CAPM result to 6.29 percent, which is below the cost of Baa investment grade bonds. (*Id.* at
22 23.)

23 With respect to arguments raised in the City's brief, LPSCO asserts that there is no evidence
24 in the record to support the City's proposal for a 7.5 percent cap and adoption of such a low rate of
25 return would constitute a taking of the Company's property without just compensation, in violation of
26 the Fifth and Fourteenth Amendments of the Constitution. LPSCO acknowledges that the
27 Commission has broad authority to prescribe rates, but contends the Commission's power to set rates
28 is a quasi-judicial function that must be based on substantial evidence. The Company claims that

1 adoption of the City's recommendation would not result in just and reasonable rates.

2 **2. RUCO's Position**

3 RUCO witness Rigsby based his ROE recommendation on the results of his DCF and CAPM
4 analyses, which ranged from 5.25 percent to 9.94 percent for his sample group of publicly traded
5 water and gas companies. RUCO's 9.0 percent ROE recommendation is the result of the average of
6 Mr. Rigsby's DCF and CAPM analyses for his proxy group of gas and water companies, as adjusted
7 for Mr. Rigsby's opinion regarding "the improving state of the economy." (Ex. R-28, Sched. WAR-1,
8 p.3.; Ex. R-29, at 6.)

9 RUCO contends that Mr. Rigsby's DCF model relied on objective estimates of dividend
10 growth using *Value Line* analyst projections as a guide. (*Id.* at 25-30.) RUCO disagrees with the
11 Company's assertion that use of a historic market risk premium in the CAPM is inappropriate.
12 RUCO argues that past performance is a better indicator of risk than use of analyst projections of
13 market return and Treasury yields. RUCO also points out that Staff's witness used a historic market
14 risk premium in his CAPM analysis.

15 With respect to the geometric mean argument, RUCO asserts that its historic market risk
16 premium was based on both a geometric and arithmetic mean analysis of historic returns on the S&P
17 500 index from 1926 to 2007. Mr. Rigsby stated that it is appropriate to consider both means because
18 they are widely available to the investment community. (Ex. R-28, at 35.) Mr. Rigsby referenced a
19 panel discussion he attended in 2007 in which certain regulatory financial analysts concluded that a
20 reasonable market risk premium would fall between 4.0 and 5.5 percent. He stated that using such a
21 risk premium in his CAPM analysis would produce ROE results substantially lower than his
22 proposed 9.0 percent ROE, thus confirming the reasonableness of RUCO's recommendation. (Ex. R-
23 29, at 18-20.)

24 RUCO contends that the Company's criticism of Mr. Rigsby's proxy group is misplaced.
25 According to Mr. Rigsby, natural gas local distribution companies ("LDCs") have similar operating
26 characteristics to companies such as LPSCO, and the LDCs are a good proxy for water and
27 wastewater cost of capital evaluations. (*Id.* at 10-11.) He also claims that LDCs have a comparable
28 level of risk to water and wastewater companies. (*Id.*) Mr. Rigsby stated that given the current state

1 of the economy, it is not necessary to make an upward adjustment to his proposed ROE despite his
2 use of gas LDCs with generally lower betas than water and wastewater companies. (*Id.* at 11.)

3 RUCO asserts that its 9.0 ROE recommendation is reasonable and should be adopted.

4 3. Staff's Position

5 In formulating its ROE recommendation in this case, Staff employed a constant growth DCF
6 model, a multi-stage DCF model, and a two-part CAPM analysis. The two CAPM estimates were
7 based on a historical market risk premium and a current market risk premium. Staff's DCF model
8 produced an average ROE of 9.7 percent; the average of its two CAPM results was 10.2 percent; and
9 the average of the DCF and CAPM results was 10.0 percent which, after subtracting 0.8 percent as an
10 indicator of LPSCO's lower risk compared to the proxy group,³⁶ produced Staff's 9.2 percent ROE
11 recommendation in this proceeding. (Ex. S-12, at 14-41, Sched. JCM-3.)

12 Staff's cost of capital witness, Juan Manrique, calculated the growth factor for his DCF model
13 by averaging the results of six growth projection methods.³⁷ Mr. Manrique explained that Staff's
14 DCF analysis included two versions; constant growth (assumes dividends will grow indefinitely at
15 the same rate) and multi-stage (assumes dividend growth will change at some point in the future. (*Id.*
16 at 15.)

17 Mr. Manrique agreed with LPSCO that, in general, smaller companies have higher betas than
18 larger companies. However, he stated that the *Ibbotson* reports underlying the Company's argument
19 are not specific to the utility industry. Mr. Manrique cited to an article that he claims supports Staff's
20 position that there is no need to adjust for firm size in utility rate regulation. (Ex. S-13, at 3.) In
21 response to other criticisms of Staff's methodologies, Staff contends that its recommendation reflects
22 a properly balanced analysis that takes into account both high and low outcomes. Mr. Manrique
23 points out that Mr. Bourassa selectively eliminated historical DPS growth rates that produced results
24 unfavorable to the Company, which Mr. Manrique claims is inconsistent with Staff's cost of equity
25 estimation analysis that includes a balance of inputs. (*Id.*) In response to the Company's assertion

26 ³⁶ Staff's proxy group is comprised of the same six water companies used by BMSC in its cost of capital analysis. (Ex. S-
27 12, at 13.) The six companies are American States Water, California Water, Aqua America, Connecticut Water,
Middlesex Water, and SJW Corp. (*Id.*)

28 ³⁷ The six methods involve calculations of historical and projected dividends per share ("DPS"), historical and projected
earnings per share ("EPS"), and historical and projected sustainable growth (*Id.*, Sched. JCM-8).

1 that only forecasted growth rates should be employed to determine cost of equity, Mr. Manrique
2 stated that investors also factor into investment decisions considerations such as historic growth rates.
3 (*Id.* at 4.)

4 **4. City's Position**

5 Although Litchfield Park did not present testimony or evidence on the issue of LPSCO's cost
6 of capital or rate of return, in the City's post-hearing briefs it recommends that the Commission cap
7 the Company's rate of return on FVRB at 7.5 percent. (City Initial Brief, at 4-10; City Reply Brief, at
8 1-4.)

9 According to the City, a 7.5 percent overall rate of return cap (which equates to an
10 approximate 7.75 percent return on equity) is justified for several reasons. First, the City claims that
11 because the cost of equity formulas produce a wide range of results, and due to LPSCO having more
12 than 80 percent of its capital structure comprised of equity, the Commission could use its discretion
13 to set the ROE at a level lower than that proposed by any of the other parties. Litchfield Park also
14 argues that its rate of return cap proposal is justified by the magnitude of LPSCO's rate request;
15 uncertainty regarding Liberty Water's shared services allocations; and due to the level of upgrades
16 required for the PVWRF.

17 **5. Resolution**

18 We believe that Staff's average cost of equity capital calculations produce an appropriate
19 result that is supported by the evidence in the record. The DCF and CAPM are methodologies that
20 have been used for many years by this Commission, as well as other regulatory commissions across
21 the country.

22 With respect to the methodology employed for calculating the return on common equity, we
23 believe Staff's analysis is appropriate and consistent with prior Commission decisions regarding cost
24 of capital. The companies included in Staff's sample group are the same as those used by LPSCO's
25 witness, and they are appropriate because they have objective data that is publicly available through
26 *Value Line* and other investor publications. Although we make no finding as to RUCO's
27 employment of gas LDCs, we believe Staff's sample group of water companies is a better proxy for
28 assessing LPSCO's cost of equity in this proceeding.

1 Article 15, Section 3 of the Arizona Constitution provides in relevant part that the
 2 Commission “shall have full power to, and shall, prescribe just and reasonable classifications to be
 3 used and just and reasonable rates and charges to be made and collected, by public service
 4 corporations within the State for service rendered therein.” In determining just and reasonable rates,
 5 the Commission has broad discretion subject to the obligation to ascertain the fair value of the
 6 utility’s property, and establishing rates that “meet the overall operating costs of the utility and
 7 produce a reasonable rate of return.” *Scates, et al. v. Arizona Corp. Comm’n*, 118 Ariz. 531, 534, 578
 8 P.2d 612 (Ct. App. 1978). Under the Arizona Constitution, a utility company is entitled to a fair rate
 9 of return on the fair value of its properties, “no more and no less.” *Litchfield Park Service Co. v.*
 10 *Arizona Corp. Comm’n*, 178 Ariz. 431, 434, 874 P.2d 988 (Ct. App. 1994), *citing Arizona Corp.*
 11 *Comm’n v. Citizens Utilities Co.*, 120 Ariz. 184 (Ct. App. 1978). The oft cited *Hope*, *Bluefield*, and
 12 *Duquesne* cases³⁸ provide that the return determined by the Commission must be equal to an
 13 investment with similar risks made at generally the same time, and should be sufficient under
 14 efficient management to enable the Company to maintain its credit standing and raise funds needed
 15 for the proper discharge of its duties.

16 Staff’s average DCF and CAPM results produce a 10.0 percent cost of equity capital, which
 17 after Staff’s 80 basis point adjustment for LPSCO’s relatively lower risk, produces a recommendation
 18 of 9.2 percent as the Company’s estimated cost of equity. In the recent case involving LPSCO’s
 19 affiliate, BMSC, we adopted a hypothetical capital structure of 80 percent equity and 20 percent debt,
 20 and did not make the Hamada adjustment recommended by Staff.³⁹ In this case, however, we believe
 21 that Staff’s 80 basis point adjustment is appropriate to recognize the high level of equity in LPSCO’s
 22 capital structure. In addition, we find that it is appropriate, in setting the Company’s cost of equity,
 23 to consider the magnitude of the requested increase that is attributable, in part, to LPSCO’s decision
 24 to delay filing of a rate application for approximately 9 years, as well as the overall state of the
 25 economy and the effect on customers as a result of LPSCO’s decision not to seek rate relief in

26 _____
 27 ³⁸ *Federal Power Commission et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Bluefield Waterworks &*
Improvement Co. v. Public Service Commission of West Virginia, et al., 262 U.S. 679 (1923); *Duquesne Light Co. v.*
Barasch, 488 U.S. 299 (1989).

28 ³⁹ Decision No. 71865 (September 1, 2010, at 35.)

1 smaller increments. We believe that adoption of Staff's recommended downward adjustment gives
 2 proper consideration to the City's proposal to cap the Company's cost of equity as a means of
 3 lessening the impact of LPSCO's rate request in this proceeding.

4 Applying the 9.20 percent cost of equity and 6.39 percent cost of debt to the capital structure
 5 adopted herein results in an overall weighted average cost of capital for LPSCO of 8.70 percent.

6 **C. Cost of Capital Summary**

	<u>Percentage</u>	<u>Cost</u>	<u>Wtd. Avg. Cost</u>
8 Common Equity	82.4%	9.20%	7.58%
9 Long-Term Debt	17.6%	6.39%	<u>1.12%</u>
10 Weighted Avg. Cost of Capital			8.70%

11 **VI. AUTHORIZED REVENUE INCREASE**

12 Based on our findings herein, we determine that LPSCO is entitled to a gross revenue increase
 13 of \$4,994,986 for its water division.

14 Fair Value Rate Base	\$37,468,339
15 Adjusted Operating Income	230,413
16 Required Rate of Return	8.70%
17 Required Operating Income	3,259,745
18 Operating Income Deficiency	3,029,333
Gross Revenue Conversion Factor	1.6489
Gross Revenue Increase	\$4,994,986

19 For the wastewater division, we determine that LPSCO is entitled to a gross revenue increase
 20 of \$3,145,094.

21 Fair Value Rate Base	\$27,895,231
22 Adjusted Operating Income	508,560
23 Required Rate of Return	8.70%
24 Required Operating Income	2,426,885
25 Operating Income Deficiency	1,918,325
Gross Revenue Conversion Factor	1.6489
Gross Revenue Increase	\$3,145,094

26 ...

27 ...

28

1 **VII. RATE DESIGN ISSUES**

2 **A. Wastewater Rate Design**

3 With the exception of the rate for effluent, there is no dispute between the parties regarding
4 LPSCO's proposed wastewater rate design. The Company, Staff, and RUCO all recommend
5 spreading the revenue requirement equally across all service classes. (Ex. A-14, at 43-45; Ex. A-16,
6 at 59.) We agree that the wastewater division rate increase authorized herein should be distributed to
7 each service class equally.

8 **1. Effluent Rate**

9 LPSCO currently has the ability under its tariff to establish effluent rates for customers based
10 on market prices. Both the Company and Staff recommend that effluent rates should continue to be
11 set at market rates.

12 RUCO opposes continuing to allow market based effluent rates. Ms. Rowell stated that most
13 of LPSCO's effluent customers are currently paying \$0.17 per thousand gallons, which she believes
14 is excessively low given effluent's value as a resource. (Ex. R-15, at 23-24.) RUCO instead proposes
15 that LPSCO's effluent rate be set at \$1.50 per thousand gallons as a means of partially offsetting the
16 rate impact on other customer classes. (*Id.*)

17 LPSCO witness Sorenson claims that adoption of RUCO's recommendation would result in a
18 decrease in usage by effluent customers thereby causing an increase in the use of groundwater for
19 irrigation, as well as the Company's costs of disposing of the effluent. He stated that the long-term
20 cost to the Company of raising the effluent price by a substantial amount outweighs the short-term
21 benefit of shifting revenue recovery to effluent customers. (Ex. A-2, at 30.) LPSCO argues that
22 RUCO's proposal does not take into account the fact that effluent customers have other alternatives,
23 including pumping groundwater at a lower cost than the effluent rate proposed by RUCO. According
24 to Mr. Sorenson, even the A+ quality effluent produced by LPSCO is inferior to groundwater because
25 the effluent contains higher total dissolved solids ("TDS") which can damage turf grass if not blended
26 with groundwater. He indicated that golf courses would lose the incentive to use effluent under
27 RUCO's proposed rate because they could pump groundwater from private wells at a lower cost. (Ex.
28 A-3, at 2-3.)

1 We find that LPSCO should be permitted to continue selling effluent to customers using
2 market based rates. Although we agree with RUCO that effluent is a valuable commodity, the record
3 indicates that adoption of RUCO's proposed \$1.50 rate would likely cause many current customers to
4 reduce or eliminate effluent usage and turn to alternative sources of groundwater for turf irrigation.
5 Such a result would be inconsistent with the Commission's policy of encouraging effluent usage to
6 the greatest extent possible. Approval of a substantial increase to the effluent rate, and the
7 corresponding likelihood of decreased usage, would also result in additional disposal costs for unsold
8 effluent, a fact that was not considered by RUCO in making its recommendation. The ability of
9 LPSCO to tailor effluent sales to meet customer demand is appropriate in this instance because of the
10 alternatives that exist for those customers. However, LPSCO should make every reasonable effort to
11 maximize the revenues received from effluent sales in order to ensure that all customers receive a
12 benefit from those sales.

13 B. Water Rate Design

14 In its application, LPSCO proposed a three-tier, inverted block rate design for 5/8-inch and
15 3/4-inch residential customers, and a two-tier inverted block structure for all other meter sizes. (Ex.
16 A-14, at 17-21.) Mr. Bourassa stated that inverted tier rate designs are intended to advance the public
17 policy of encouraging conservation, but are not cost-based. (*Id.*) In preparation for this case, the
18 Company prepared a cost of service study as a measure of determining how costs should be allocated
19 between customers and classes. (*Id.* at 20.)

20 Unlike many water service providers, LPSCO's residential customers are served primarily by
21 3/4-inch and 1-inch meters rather than the typical 5/8-inch x 3/4-inch meters (aka "5/8-inch meters").
22 For example, during the test year LPSCO served only 58 residential 5/8-inch meter customers, but
23 had 8,919 3/4-inch meter residential customers and 5,209 1-inch meter residential customers. (LPSCO
24 Final Sched. H-2.) According to Mr. Bourassa, the Company's cost of service study shows that the
25 3/4-inch and 1-inch residential customers provide the lowest returns (negative 19 percent and negative
26 10 percent, respectively) under current rates, and the larger meter size customers are subsidizing the
27 majority of residential customers. (Ex. A-14, at 32.) He indicated that even under the Company's
28 proposed rates, the 3/4-inch and 1-inch residential customers would continue to provide the lowest

1 returns, although LPSCO's proposed rate design would move those customers closer to cost of
2 service. (*Id.* at 33.)

3 1. Settlement Between LPSCO and the City

4 During the course of the hearing, LPSCO and Litchfield Park negotiated a rate design
5 agreement that they claim would: move the rate classes closer to cost of service; reduce the amount
6 collected from the monthly minimum charge from 44 percent to approximately 37 percent; add a
7 third tier to the inverted block structure for 1-inch and smaller meters; use the City's proposed tier
8 break-over points in the volumetric charges; and treat the City of Goodyear as an 8-inch customer
9 with a monthly minimum charge and a commodity rate. (Exs. A-2, A-21, A-22; Exs. LP-4 and LP-5;
10 Tr. 510, 611, 652.)

11 LPSCO argues that the agreement provides advantages over the rate designs recommended by
12 Staff and RUCO because the LPSCO/City proposal encourages water conservation by adding a third
13 rate tier; reduces the subsidy being provided by commercial and irrigation customers; smoothes rate
14 increases to customers who are unable to undertake additional conservation efforts; and allows
15 Goodyear continued access to lower cost water supplies, thereby reducing the risk that Goodyear will
16 leave the system and cause a revenue shortfall for LPSCO of nearly \$900,000. (Tr. 656-57, 660-65,
17 672-76.)

18 a. Proposed Tier Break-Over Points

19 Currently, all residential customers are assessed commodity charges under a two-tier inverted
20 block rate structure of \$0.87 per thousand gallons for the first 5,000 gallons, and \$1.32 per thousand
21 gallons for all usage over 5,000 gallons per month. Under the LPSCO/City proposal, 5/8-inch
22 residential customers would be changed to a three-tier structure with break points of 3,000, 7,000,
23 and 10,000 gallons per month.⁴⁰ The rate design agreement also provides for an inverted tier
24 structure for 3/4-inch and 1-inch residential customers, but at vastly different break points.

25 The LPSCO/City proposal would set the following rates and tier break points for 3/4-inch
26 residential customers (assuming adoption of Staff's recommended revenue requirement): \$1.65 per

27 ⁴⁰ As stated above, there are very few residential customers in LPSCO's service area served by 5/8-inch meters (58
28 customers during the test year). The vast majority of residential customers receive service through larger 3/4-inch and 1-
inch meters (8,919 and 5,209 customers, respectively, during the test year).

1 thousand for the first 15,000 gallons per month; \$2.10 per thousand for usage between 15,000 and
2 50,000 gallons per month; and \$2.60 per thousand for all usage in excess of 50,000 gallons per
3 month. For residential customers served by 1-inch meters, the rates and break points would be:
4 \$1.65 per thousand for the first 15,000 gallons per month; \$2.10 per thousand for usage between
5 15,000 and 100,000 gallons per month; and \$2.95 per thousand for all usage in excess of 100,000
6 gallons per month. (Ex. LP-4, at 2.)

7 City witness Richard Darnall claims that the substantially higher break points for the majority
8 of residential customers are appropriate because approximately 85 percent of the total volume sold
9 would be collected from low and mid use customers with less than 15,000 gallons of usage per
10 month. He indicated that the only significant conservation that could be achieved is from the high
11 use customers in the upper blocks, and therefore the break points of 15,000, 50,000, and over 50,000
12 gallon tiers for ¾-inch customers, and the 15,000, 100,000, and over 100,000 gallon tiers for 1-inch
13 customers, are reasonable. (Tr. 661-62.) Mr. Darnall conceded that he did not know of any other
14 company for which the Commission had approved residential tiers of the magnitude proposed by the
15 LPSCO/City agreement. (*Id.* at 664-65.) The City contends that Litchfield Park is “a small, green
16 oasis in the desert” and the City and its residents should not be penalized “for maintaining the
17 environment that attracted residents to the area in the first place.” (City Initial Brief, at 10.)
18 According to Litchfield Park, adoption of the Staff or RUCO rate designs would penalize City
19 residents for using more water than the average LPSCO customer.

20 LPSCO also argues that the rate designs proposed by Staff and RUCO are intended to shift
21 revenue recovery away from residential customers served by smaller meters to commercial and
22 irrigation customers. The Company suggests that the concerns with rate impacts on residential
23 customers would be better addressed through a low-income tariff and rate phase-ins, rather than
24 through revenue recovery shifts between customer classes. LPSCO claims that Staff’s and RUCO’s
25 stated conservation goals are a smokescreen for ignoring cost of service principles; their proposed
26 inverted block rate designs may not result in conservation of water; and the rate designs are
27 accompanied by shifts in revenue recovery between classes. According to the Company, Staff’s and
28

1 RUCO's inverted block rate design recommendations "won't do much for conservation; but they will
2 signal the death of cost of service rate making in Arizona." (LPSCO Initial Brief, at 83.)

3 **b. RUCO's Position**

4 RUCO did not address the issue of rate design in its post-hearing briefs and presumably is
5 relying on Staff's position on the issue.

6 **c. Staff's Position**

7 Staff contends that it used the Company's cost of service study as a tool in establishing Staff's
8 rate design, but also relied on other factors in developing its recommendation. (Ex. S-3, at 4.) Staff
9 witness Pedro Chaves presented Staff's rate design proposal which provides for \$10.00 monthly
10 service charges for both 5/8-inch and 3/4-inch residential customers, and a \$25.00 basic monthly
11 charge for 1-inch residential customers. Commodity charges for the 5/8-inch and 3/4-inch residential
12 customers would be the same, with a three-tier inverted block design and break points from 0 to
13 3,000 gallons (\$1.00 per thousand gallons), 3,000 to 9,000 gallons (\$1.88 per thousand gallons), and
14 over 9,000 gallons per month (\$2.88 per thousand gallons). For 1-inch residential customers, Staff
15 recommends a two-tier structure with all usage under 20,000 gallons priced at \$1.88 per thousand
16 gallons and all usage over 20,000 gallons charged at \$2.88 per thousand gallons. (Ex. S-4, at 1.)

17 At the hearing, the administrative law judge requested that Staff prepare an alternative rate
18 design that takes into account the primarily larger meter sizes for LPSCO's residential customers.
19 (Tr. 1059-60). In response, Mr. Chaves presented an alternative that would narrow the gap between
20 the rates for 3/4-inch and 1-inch residential customers in recognition of the unusual makeup of
21 LPSCO's residential customer base that consists almost entirely of 3/4-inch and 1-inch meters. (Tr.
22 1242-47, Ex. S-21.) Mr. Chaves testified that the alternative rate design does not supplant Staff's
23 primary recommendation described in his surrebuttal testimony. (*Id.*) As set forth in Ex. S-21 (the
24 alternative rate design developed by Staff), the monthly customer charge for 5/8-inch and 3/4-inch
25 residential customers would be set at \$12.00, rather than \$10.00 under Staff's primary
26 recommendation, and the 1-inch residential customer charge would be \$22.50 compared to Staff's
27 primary recommendation of \$25.00. (Ex. S-21.) Under the alternative rate design, the commodity
28 charges would stay the same for 5/8-inch and 3/4-inch residential customers; however, the 1-inch

1 residential commodity charges would be changed to a three-tier structure with inverted blocks of 0 to
2 4,000 gallons, 4,000 to 13,000 gallons, and over 13,000 gallons per month, rather than the two-tier
3 structure (0 to 20,000 and over 20,000) contained in Staff's primary recommendation. (*Id.*)

4 Staff opposes the LPSCO/City rate design because, according to Staff, it would eliminate the
5 incentive to conserve. Staff claims that customers that reduce usage under the proposal would not
6 experience savings due to the increased customer charges. Staff also contends that the LPSCO/City
7 proposal contains inequitable "crossovers" (*i.e.*, usage levels at which the bill for a smaller meter is
8 higher than that for a larger meter). Although Staff prefers that its primary rate design
9 recommendation be approved, it recommends the alternative Staff design be accepted if the
10 Commission does not adopt the Staff recommendation.

11 **d. Resolution**

12 We believe the alternative Staff recommendation represents the most equitable rate design
13 presented in this case. The alternative rate design gives proper recognition to the unique meter-size
14 makeup of LPSCO's residential customer base. As indicated above, almost 9,000 of those customers
15 are served by ¾-inch meters and more than 5,000 are served by 1-inch meters, with only a fraction of
16 residential customers served by typical 5/8-inch meters. By reducing the significant rate disparity
17 between the ¾-inch and 1-inch meter sizes, the Staff alternative results in a residential rate structure
18 that is more equitable and does not further punish the substantial number of 1-inch meter customers
19 for the size of the meter installed at their homes.

20 With respect to the rate design agreement between LPSCO and the City, we do not believe it
21 would send a proper message regarding water usage and conservation goals. Under that agreement,
22 the first rate block for ¾-inch residential customers is 0 to 15,000 gallons, despite average test year
23 usage of 9,537 gallons and median usage of 7,000 gallons per month. Thus, the vast majority of such
24 customers would have virtually no chance to reduce their overall bills through conservation efforts.
25 Moreover, the second block of the proposed rate structure would include only a \$0.45 per thousand
26 gallons increase for all usage between 15,000 and 50,000 gallons, and an additional \$0.50 per
27 thousand for usage above 50,000 gallons per month. For the 1-inch meter residential group of
28 customers, who have average monthly usage of 14,556 gallons, the LPSCO/City rate design provides

1 for a first block of 0 to 15,000 gallons, with a second block consisting of usage of 15,000 to 100,000
2 gallons and a third block for all usage over 100,000 gallons per month. With the same \$0.45 per
3 thousand gallon price increase for usage in the second block, and an additional increase of \$0.85 per
4 thousand for usage over 100,000 gallons per month, residential customers would have little incentive
5 to reduce consumption due to any meaningful price signals. Rather, the rate structure proposed by
6 LPSCO and the City would effectively signal extremely high usage residential customers that they
7 may continue irrigating large swaths of turf grass without adequate consideration of the value of the
8 resource being used.

9 Accordingly, we will adopt Staff's alternative rate design in this case.

10 2. City of Goodyear

11 During the test year the City of Goodyear paid LPSCO \$403,707 for bulk water that
12 Goodyear then resold to customers on its municipal system. (LPSCO Final Sched. H-1.) Mr.
13 Sorenson testified that Goodyear purchases water for resale because it is less expensive than pumping
14 water from one of its wells.⁴¹ (Tr. 108.) LPSCO proposes to increase slightly the rate charged to
15 Goodyear for bulk water sales as an 8-inch meter customer from the current rate of \$1.32 per
16 thousand gallons⁴² to \$1.50 per thousand gallons. (Ex. LP-4, at 5; Ex. S-4, at 2.)

17 LPSCO argues that the rate design proposed by Staff would more than double the revenue
18 coming from bulk sales to Goodyear, and would cause Goodyear to cease its bulk purchases resulting
19 in an immediate revenue deficiency for LPSCO of nearly \$900,000. (Tr. 108; Ex. A-18, Ex. TJB-
20 RJ5.) According to the Company, Goodyear's departure as a customer would require LPSCO to seek
21 immediate rate relief.

22 We believe that the revenues generated from bulk water sales to the City of Goodyear are
23 important to LPSCO's ability to mitigate rate increases for all customers, and every reasonable effort
24 should be made by LPSCO to retain Goodyear as a customer. The record indicates that LPSCO

25 ⁴¹ Goodyear submitted a letter docketed February 19, 2010 that, among other things, requested that the Commission not
26 establish bulk water rates as part of this proceeding but instead allow LPSCO and Goodyear to negotiate those rates.
27 Goodyear claims that it has contributed a substantial amount of property, easements, and rights-of-way to LPSCO to
28 allow a quicker response to the TCE plume (see discussion above), and that Goodyear's contributions have not been
adequately valued at this time. Goodyear believes allowing a negotiated bulk rate would enable the parties to take into

⁴² The first 5,000 gallons per month are charged currently at a rate of \$0.87 per thousand gallons.

1 received more than \$400,000 in revenues from Goodyear for bulk water during the test year, and that
2 Goodyear is likely to reduce substantially, or eliminate completely, its water purchases from LPSCO
3 if the bulk water rates are increased by a significant amount.

4 It is not entirely clear what Goodyear's public comment letter is suggesting as a remedy for
5 this issue, other than that it be given an opportunity to negotiate a deal privately with LPSCO to
6 obtain a better bulk water rate. It appears that Goodyear wishes to use its claimed contributions of
7 property to LPSCO associated with the joint LPSCO/Goodyear efforts to address the TCE plume
8 superfund issue as a bargaining tool in its proposed bulk water negotiations. We note that Goodyear
9 did not intervene in this case to present evidence regarding bulk water prices or its non-LPSCO
10 alternatives.

11 Although we do not believe, in this instance, that the bulk water rate should be left to a future
12 negotiated agreement, we agree with LPSCO that establishing a rate for Goodyear's 8-inch meter
13 sales at a level comparable to the current rate is reasonable. We will therefore adopt a rate for 8-inch
14 bulk water sales of \$501.00 for the monthly customer charge, plus \$1.50 per thousand gallons for all
15 usage, in accordance with the rate proposed in the LPSCO/City agreement. Any revenue deficiency
16 resulting from this 8-inch bulk water rate and Staff's recommended rate design should be allocated to
17 all other classes on an equal basis.

18 C. Low Income Tariff

19 In its application, LPSCO requested approval of a low income tariff that is modeled after a
20 similar tariff approved recently for Chaparral City Water Company.⁴³ (Ex. A-14, at 33; Tr. at 1248.)
21 According to Mr. Bourassa, the proposed tariff would allow customers with gross annual household
22 incomes of 150 percent of federal poverty guidelines to receive a 15 percent discount on their water
23 bills. (*Id.* at 33-36.) Under the Company's proposal, customers would submit an application to
24 determine eligibility. Notification of the existence of the program would be made through the
25 customer notice resulting from this case. He indicated that new customers would also be made aware
26 of the low-income tariff at the time service is requested. (*Id.*)

27
28 ⁴³ Decision No. 71308, at 53-54.

1 LPSCO proposes to fund the low income tariff program through a commodity surcharge that
 2 would be paid by non-participants, and which funds would be maintained in a balancing account to
 3 track costs and collections. Mr. Bourassa stated that the Company intends to track the program costs
 4 for one year after implementation at which time the surcharge would be calculated based on costs
 5 incurred, plus a 10 percent fee for administrative and carrying costs. LPSCO indicated that if the
 6 low-income tariff is approved, it would submit an annual report to the Commission showing the
 7 number of participants for the preceding year, discounts given, administrative and carrying costs, and
 8 collections made through the commodity surcharge.⁴⁴ (*Id.*) Given that the Company does not
 9 currently have in place a low income tariff, LPSCO does not know how many customers would
 10 participate in the program; however, based on an assumption that \$20,000 in program costs would be
 11 incurred in a given year, and that non-participants purchased 500,000 gallons of water during the
 12 same year, LPSCO estimates that the commodity surcharge would be \$0.04 per thousand gallons for
 13 the following year. (*Id.* at 35.)

14 According to Staff witness Chaves, Staff does not oppose LPSCO's proposed low-income
 15 tariff. (Tr. at 1248.) No other party expressed disagreement with the proposed tariff.

16 We find that LPSCO's proposed low-income tariff is reasonable and should be approved.
 17 LPSCO should file, along with the tariff of rates and charges approved herein, a copy of the low
 18 income tariff set forth in its application and reproduced and attached hereto as "Exhibit A." The
 19 Company should implement the low income tariff in accordance with the guidelines set forth in Mr.
 20 Bourassa's testimony. (Ex. A-14, at 33-36.)

21 **D. Phase-In Proposals**

22 During the public comment portion of the hearing, on January 4, 2010, Chairman Mayes
 23 requested that the parties present proposals during the hearing for phasing in the rates established in
 24 this case. (Tr. at 33-34.) In response, LPSCO proposed a phase-in of the revenue requirement in a
 25 three-step process for both water and wastewater. Under the Company's proposal, rates would
 26 initially be set to collect 80 percent of the revenue requirement established by this Order for the first
 27

28 ⁴⁴ LPSCO should also report any interest earned on amounts collected from the surcharge, which may be used to offset partially the administrative and carrying charges incurred by the Company.

1 year; after the first year, rates would increase to the full amount determined in this Decision; and,
2 two years after the effective date of the rates established in this Decision, rates would increase to 129
3 percent of the full amount, in order to allow LPSCO to recover the 20 percent of revenues foregone
4 during the first year, as well as carrying costs associated with the first year deferral. (*See, e.g.*, Ex. A-
5 40; Tr. at 1384.) Mr. Sorenson testified that LPSCO would not accept a phase-in of rates “without
6 being made whole;” nor would the Company agree to a phase-in that was longer than three years. (Tr.
7 at 1379, 1383.) He stated that the Company considered a phase-in with a lower percentage of
8 recovery in the first year, but the carrying costs and rates that would result in the third year of the
9 phase-in would cause customers to pay significantly higher rates on the back end of the plan. (*Id.*)

10 RUCO did not offer a phase-in proposal prior to the close of the hearing; however, RUCO’s
11 final schedules contain a phase-in proposal that would further mitigate the initial impact of the rate
12 increase by implementation of 50 percent of the increase for the first six months, with the other 50
13 percent of the increase put in place after the initial six-month period. (RUCO Final Sched. 5.)
14 RUCO’s description of its phase-in proposal in its final schedules states that a six-month phase-in
15 balances the competing goals of limiting initial rate shock and limiting the interest (*i.e.*, carrying
16 charges) that customers would be required to fund for a longer phase-in period. (*Id.*) Under RUCO’s
17 proposal, the foregone revenues and interest would be amortized over a three-year period and
18 collected through separate water and wastewater surcharges in order mitigate the “whiplash effect” of
19 a sudden recovery of the deferred revenues and interest at one time. (*Id.*) RUCO’s proposal would
20 discontinue recovery of the carrying charges on the deferred revenues after the first six months.

21 In its brief, LPSCO indicates that it would accept RUCO’s alternative phase-in proposal, as
22 long as the Company is able to recover the full amount of the carrying charges on the foregone
23 revenue. (LPSCO Initial Brief, at 86.) The Company also suggests that a variation on RUCO’s
24 proposal could be adopted whereby rates collecting 60 percent of the authorized revenues would be
25 put in place for the first six months; rates collecting 80 percent of authorized revenues would be put
26 in place for the following six months; and rates collecting the full amount of authorized revenues
27 would be made effective one year after this Decision. LPSCO also agrees that the foregone revenues
28 and carrying costs could be amortized over a three-year period through a surcharge, as long as the

1 Company is made whole by the end of the three years. (*Id.* at 86-87.) RUCO did not address this
2 issue in either of its briefs, so it is unclear whether it opposes LPSCO's suggested alternative.

3 In its brief, the City suggests that, in addition to its 7.5 percent rate of return cap, the
4 Commission should adopt a phase-in that consists of rates reflecting 60 percent of the revenue
5 requirement initially; an additional 20 percent after five months, along with accrued carrying charges;
6 and the final 20 percent five months later, along with accrued carrying charges. (City Initial Brief, at
7 11.) In its reply brief, the City appears to accept the alternatives suggested by LPSCO and RUCO.
8 (City Reply Brief, at 8.)

9 Staff did not propose a separate phase-in plan, and appears to argue against adoption of a
10 phase-in based on Staff's concern for the overall costs that would be borne by ratepayers as a result
11 of carrying charges. (Staff Reply Brief, at 10-12.) Mr. Chaves testified that "phased-in rates result in
12 a higher increase in the long term for customers." (Tr. at 1035.) Staff contends that a phase-in could
13 create an even greater financial hardship for customers in the future, and urges the Commission to
14 consider unknown future economic conditions. Staff concludes that whether to adopt a phase-in "is a
15 policy decision for the Commission." (Staff Reply Brief, at 12.)

16 1. Resolution

17 If the full rate effect were to be implemented without a phase-in of rates, a $\frac{3}{4}$ -inch residential
18 water customer with average usage of 9,537 gallons per month would experience an increase of
19 \$10.49, from the current \$18.64 to \$29.13 (56.27 percent). For a 1-inch residential water customer
20 with average usage of 14,556 gallons per month, the monthly rate increase would be \$18.57, from the
21 current \$31.56 to \$50.13 (58.83 percent). For wastewater service, implementation of the full revenue
22 requirement absent a phase-in would result in even greater increases. For example, residential
23 customers would experience an increase from the current monthly rate of \$27.20 to a rate of \$40.95,
24 an increase of \$13.75 per month (50.55 percent), without the assistance of a rate phase-in.

25 Given the magnitude of the combined water and wastewater revenue increases determined in
26 this case, as well as current economic difficulties being experienced in LPSCO's service area and
27 throughout the state, we find that the implementation of a rate phase-in is not only justified but is
28

1 necessary to at least partially mitigate the sudden rate shock that will be experienced by LPSCO's
2 customers.

3 We are not persuaded, however, that LPSCO's initial proposal is the best means of mitigating
4 the impact of the rate increase on customers. Rather, we believe that a variation on the proposal
5 described in RUCO's final schedules offers a better method of limiting rate shock and reducing the
6 overall carrying costs imposed on LPSCO's customers.

7 We will therefore adopt a phase-in of rates that will allow collection of 50 percent of the
8 authorized revenues for the first six months; an additional 25 percent (75 percent of authorized
9 revenues) for the second six months rates are in effect; and the full rates one year after the effective
10 date of the rates in this Decision.

11 **a. Step One Rate Impact (First Six Months)⁴⁵**

12 In accordance with this three step phase-in of rates, for the first six months a ¾-inch
13 residential water customer with average usage of 9,537 gallons per month would experience an
14 increase of \$4.00, from the current \$18.64 to \$22.64 (21.48 percent). For a 1-inch residential water
15 customer with average usage of 14,556 gallons per month, the monthly rate increase in the first step
16 of the phase-in would be \$7.42, from the current \$31.56 to \$38.99 (23.52 percent). The first step of
17 the wastewater rate phase-in for residential customers would increase the monthly charge from the
18 current \$27.20 to \$34.03, or \$6.83 (25.11 percent).

19 **b. Step Two Rate Impact (Following Six Months)**

20 In the second phase (between months 6 and 12), a ¾-inch residential water customer with
21 average usage of 9,537 gallons per month would experience an additional increase of \$3.24, from the
22 Phase 1 rate of \$22.64 to 25.88 (14.3 percent over Phase 1). For a 1-inch residential water customer
23 with average usage of 14,556 gallons per month, the additional monthly rate increase would be \$5.55,
24 from the Phase 1 rate of \$38.99 to \$44.54 (14.2 percent over Phase 1). The second step of the
25 wastewater rate phase-in for residential customers would increase the monthly charge from the Phase
26 1 rate of \$34.03 to 37.49, or an additional \$3.46 (10.2 percent over Phase 1).

27 ⁴⁵ Typical Bill Analyses for ¾-inch and 1-inch residential customers, in all three steps of the phase-in, are attached hereto
28 as "Exhibit B." Rate Schedules for all customer classes, in all three steps of the phase-in, are attached hereto as "Exhibit
C."

1 **c. Step Three Rate Impact (After One Year)**

2 In the third phase (after 12 months), a ¾-inch residential water customer with average usage
3 of 9,537 gallons per month would experience an additional increase of \$3.25, from the Phase 2 rate of
4 \$25.88 to \$29.13 (12.6 percent over Phase 2). For a 1-inch residential water customer with average
5 usage of 14,556 gallons per month, the additional monthly rate increase would be \$5.59, from the
6 Phase 2 rate of \$44.54 to \$50.13 (12.6 percent over Phase 2). The third step of the wastewater rate
7 phase-in for residential customers would increase the monthly charge from the Phase 2 rate of \$37.49
8 to 40.95, or \$3.46 (9.2 percent over Phase 2).

9 **d. Surcharge Mechanism**

10 We also find that collection of the foregone revenues and associated carrying charges should
11 be accomplished through separate water and wastewater surcharges, pursuant to a three-year
12 amortization. However, we do not agree that the Company should be permitted to collect additional
13 administrative fees associated with the implementing or maintaining the phase-in or surcharge.

14 With the exception of LPSCO's initial recommendation,⁴⁶ the various phase-in proposals
15 were presented through final schedules and post-hearing briefs. As a result, there was no opportunity
16 to develop the record fully regarding the phase-in proposals in order determine in greater detail how
17 they would be implemented.

18 In order to implement the phase-in approved herein, we direct LPSCO to file tariffs reflecting
19 initial rates based on recovery of 50 percent of the authorized revenue increase, as well as tariffs
20 reflecting the subsequent 75 percent and 100 percent steps. The Company should discuss its
21 proposed tariffs with the other parties prior to filing in order to minimize errors or disagreements
22 regarding compliance with this Decision.

23 In order to implement the phase-in surcharge, LPSCO will be required to comply with the
24 following requirements:

- 25 a. LPSCO shall track all foregone revenues and carrying
26 charges,⁴⁷ as well as surcharge revenues collected from
27 customers.

28 ⁴⁶ The Company's initial proposal was presented in a draft format. (See, Ex. A-40.)

⁴⁷ Carrying charges shall be based on the WACC authorized in this Decision.

- 1 b. LPSCO shall provide notice of the surcharge, and any
2 subsequent adjustments, on customer bills in a form
3 acceptable to Staff.
4 c. LPSCO shall not collect more than the amount of its
5 foregone revenues and carrying charges, and shall not
6 assess the surcharge for a period longer than three years
7 following implementation of the initial surcharge.
8 d. LPSCO shall cooperate with Staff and provide all
9 information requested by Staff to review the revenues,
10 carrying charges and collections associated with the phase-
11 in surcharge.

12 With these additional requirements, we find that phase-in surcharge mechanism properly
13 balances the interests of the Company in recovering its authorized revenues with the competing
14 interests of mitigating the rate shock to customers.

15 **VIII. FINANCING APPLICATIONS**

16 On March 19, 2009, LPSCO filed financing applications for authority to obtain loans from the
17 Water Infrastructure Finance Authority ("WIFA") for two separate projects. In Docket No. W-
18 01427A-09-0116 ("Recharge Wells Docket"), the Company requests approval to obtain from WIFA a
19 loan for \$1,755,000 to be used for construction of two recharge wells. In Docket No. W-01427A-09-
20 0120 ("Solar Generator Docket"), LPSCO requests approval to obtain a loan for \$1,170,000 to
21 construct a 200 kW roof mounted solar generator.

22 On November 4, 2009, Staff filed a Staff Report recommending approval of both financing
23 applications. Staff concluded that the capital projects are appropriate and the cost estimates for both
24 projects are reasonable. (Ex. S-6, at Ex. MJS-1.)

25 Staff also indicated that ADEQ and MCESD regulate the water system operated by the
26 Company. Staff found that, based on data submitted by ADEQ and MCESD, it has determined that
27 the Company's system is currently delivering water that meets water quality standards required by
28 Title 18, Chapter 4 of the Arizona Administrative Code. Staff stated that LPSCO had no compliance
29 delinquencies with the Commission.

30 The Times Interest Earned Ratio ("TIER") represents the number of times earnings will cover
31 interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating
32 income is greater than interest expense. A TIER of less than 1.0 is not sustainable in the long term

1 but does not necessarily mean that debt obligations cannot be met in the short term.

2 The Debt Service Coverage ("DSC") ratio represents the number of times internally generated
3 cash will cover required principal and interest payments on long-term debt. A DSC ratio greater than
4 1.0 means that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means
5 that debt service obligations cannot be met from operations and that another source of funds is
6 needed to avoid default.

7 Based on its analysis of the Company's financial results as of November 4, 2009, and
8 assuming approval of Staff's recommended operating income for LPSCO in this case, Staff
9 determined that LPSCO had a DSC of 5.96 percent and a TIER of 5.57 percent. (Ex. S-14, at 25-27;
10 Ex. S-15, at Sched. JMM-W25.) Based on these projections, Staff stated that the pro forma TIER and
11 DSC ratios show that the Company would have operating income sufficient to cover interest expense
12 and would be able to meet all obligations with cash generated from operations. (*Id.*)

13 Staff recommended approval of the Company's application for authorization to obtain WIFA
14 financing totaling \$2,925,000, for the purposes described in the application. Staff stated that no
15 "used and useful" determination of the proposed project items was made and no particular treatment
16 should be inferred for ratemaking purposes in the future. (*Id.*)

17 Staff also recommended LPSCO be required to file by December 31, 2010, with Docket
18 Control, as a compliance item in this case, a copy of the Certificate for Approval to Construct
19 ("ATC") for the well recharge project. (*Id.*)

20 Staff's recommendations are reasonable and should be adopted. However, given the passage
21 of time, we will extend the ATC compliance deadline until March 31, 2011.

22 * * * * *

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

25 **FINDINGS OF FACT**

26 1. On March 9, 2009, LPSCO filed an application with the Commission for an increase in
27 water and wastewater rates in Docket Nos. W-01427A-09-0103 and W-01427A-09-0104.

28 2. On March 13, 2009, LPSCO filed financing applications in Docket Nos. W-01427A-09-

1 0116 and W-01427A-09-0120.

2 3. On April 8, 2009, Staff filed Letters of Deficiency in the Rate Dockets. Following the
3 submission of additional information by LPSCO, Staff filed Letters of Sufficiency stating that
4 LPSCO's application, as supplemented by the subsequent filings, met the sufficiency requirements of
5 A.A.C. R14-2-103.

6 4. By Procedural Order issued May 21, 2009, the Rate Dockets were scheduled for
7 hearing commencing January 4, 2010, and testimony filing deadlines and various other procedural
8 dates were established.

9 5. Intervention was granted to RUCO, Pebblecreek, the City of Litchfield Park, Chad and
10 Jessica Robinson, and Westcor/Globe.

11 6. On November 4, 2009, Staff filed the direct testimony of Jeffrey Michlik, Pedro
12 Chaves, Juan Manrique, and Marlin Scott, Jr.; the City filed the direct testimony of Richard Darnall;
13 RUCO filed the direct testimony of William Rigsby, Matthew Rowell, and Sonn Rowell; and
14 Westcor/Globe filed the direct testimony of Garrett Newland.

15 7. On November 10, 2009, Pebblecreek filed the direct testimony of Philip Zeblicky.

16 8. On November 12, 2009, LPSCO filed an Application for Subpoena, requesting that the
17 Commission issue a subpoena directing Matt Rowell, a witness for RUCO, to appear at a deposition
18 to be conducted on November 20, 2009.

19 9. On November 16, 2009, Staff filed and Motion to Consolidate the Rate and Finance
20 Dockets.

21 10. On November 16, 2009, at LPSCO's request, a telephonic procedural conference was
22 conducted with counsel for LPSCO, RUCO, and Staff to discuss the requested subpoena and
23 RUCO's opposition to producing Mr. Rowell for deposition.

24 11. On November 16, 2009, the Commission's Executive Director signed the requested
25 subpoena directing Mr. Rowell to appear for deposition.

26 12. On November 17, 2009, LPSCO filed a Motion to Bifurcate Issues. LPSCO requested
27 that the issues related to its proposed hook-up fee tariff be considered in a separate phase of this
28 proceeding after the issuance of a Decision regarding the rate aspects of the case.

1 13. On November 18, 2009, LPSCO filed an Unopposed Motion for Modified Procedural
2 Schedule requesting minor changes to the previously established procedural schedule.

3 14. On November 18, 2009, RUCO filed a Motion to Quash Subpoena seeking to prevent
4 Mr. Rowell from being deposed by LPSCO.

5 15. On November 18, 2009, LPSCO filed a Response to RUCO's Motion to Quash
6 Subpoena.

7 16. By Procedural Order issued November 23, 2009, the Rate and Finance Dockets were
8 consolidated; RUCO's Motion to Quash was denied and Mr. Rowell was ordered to appear for
9 deposition; LPSCO's Motion to Bifurcate was granted; and LPSCO's request to modify the
10 procedural schedule was granted.

11 17. On December 2, 2009, LPSCO filed the rebuttal testimony of Mr. Sorenson, Mr.
12 Bourassa, and Brian McBride.

13 18. On December 4, 2009, LPSCO filed an errata to Mr. Sorenson's rebuttal testimony.

14 19. On December 17, 2009, Staff filed the surrebuttal testimony of Mr. Michlik, Mr.
15 Chaves, Mr. Manrique, and Mr. Scott; and RUCO filed the surrebuttal testimony of Mr. Rowell and
16 Ms. Rowell.

17 20. On December 18, 2009, RUCO filed the surrebuttal testimony of Mr. Rigsby; and the
18 City filed the surrebuttal testimony of Mr. Darnall.

19 21. On December 17, 2009, a telephonic procedural conference was convened to discuss
20 RUCO's request for a one-day extension of the testimony filing deadline as well as a discovery issue.

21 22. On December 22, 2009, LPSCO filed a Motion to Strike Testimony of Matt Rowell.

22 23. On December 29, 2009, LPSCO filed the Rejoinder testimony of Mr. Sorenson, Mr.
23 Bourassa, Mr. McBride, and Gerald Tremblay.

24 24. On December 30, 2009, the pre-hearing conference was conducted to discuss
25 scheduling of witnesses and other procedural matters, including LPSCO's Motion to Strike, which
26 was denied during the prehearing conference.

27 25. On December 31, 2009, LPSCO and Pebblecreek filed a Stipulation regarding a
28 proposed Hook-Up Fee Tariff for consideration in Phase 2 of the case.

1 26. On January 4, 2010, the hearing was convened for the purpose of taking public
2 comment. A number of members of the public offered comments in opposition to the proposed rate
3 increase.

4 27. On January 5, 2010, the evidentiary hearing in this matter commenced and continued
5 on January 6, 7, 8, 11, 14, and 15, 2010.

6 28. On January 20, 2010, a Procedural Order was issued scheduling an additional public
7 comment session for January 25, 2010, in Goodyear, Arizona.

8 29. On January 25, 2010, the local public comment session was held, as scheduled, before
9 all five Commissioners. A number of LPSCO's customers attended and offered public comments in
10 this matter.

11 30. On February 10, 2010, Initial Post-Hearing Briefs were filed by LPSCO, Staff,
12 RUCO, and Litchfield Park.

13 31. On February 24, 2010, Reply Briefs were filed by LPSCO, RUCO, and Litchfield
14 Park. Staff filed its Reply Brief on February 25, 2010.

15 32. On April 2, 2010, RUCO filed a Request for Reconsideration of the bifurcation of the
16 proceeding on the hook-up fee issue.

17 33. On April 7, 2010, RUCO filed a Notice of Withdrawal of its Motion for
18 Reconsideration.

19 34. As set forth in its final schedules, the Company requested a water division gross
20 revenue increase of \$6,801,405, based on FVRB/OCRB of \$37,762,676, and a recommended
21 weighted average cost of capital of 11.01 percent. LPSCO requested a wastewater division gross
22 revenue increase of \$4,805,020, based on FVRB/OCRB of \$28,222,289, and a recommended
23 weighted average cost of capital of 11.01 percent.

24 35. In its final schedules, Staff recommended a water division gross revenue increase of
25 \$4,913,457, based on FVRB/OCRB of \$37,401,639, and a weighted average cost of capital of 8.70
26 percent. Staff recommended a wastewater division gross revenue increase of \$3,107,400, based on
27 FVRB/OCRB of \$27,746,122, and a weighted average cost of capital of 8.70 percent.

28 36. RUCO recommends a water division gross revenue increase of \$4,753,178, based on

1 FVRB/OCRB of \$37,457,973, and a weighted average cost of capital of 8.54 percent. RUCO
2 recommends a wastewater division gross revenue increase of \$2,446,307, based on FVRB/OCRB of
3 \$23,190,926, and a weighted average cost of capital of 8.54 percent.

4 37. For purposes of this proceeding, we determine that LPSCO has a water division FVRB
5 of \$37,468,339 and a wastewater division FVRB of \$27,895,231.

6 38. A rate of return on FVRB of 8.70 percent, based on an actual capital structure of 82.4
7 percent common equity and 17.6 percent debt, is reasonable and appropriate.

8 39. LPSCO is entitled to a water division gross revenue increase of \$4,994,986 and a
9 wastewater division gross revenue increase of \$3,145,094.

10 40. The alternative rate design developed by Staff should be adopted in this proceeding,
11 except that the City of Goodyear should be treated as an 8-inch customer with a monthly customer
12 charge of \$501.00 and a commodity charge of \$1.50 per thousand gallons for all usage, in accordance
13 with the agreement between LPSCO and the City.

14 41. A phase-in of rates that will allow rates reflecting 50 percent of authorized rates for
15 the first six months; an additional 25 percent (75 percent of authorized revenues) for the second six
16 months rates are in effect; and the full rates one year after the effective date of the rates in this
17 Decision, is reasonable and shall be adopted. Collection of the foregone revenues and associated
18 carrying charges should be accomplished through separate water and wastewater surcharges, pursuant
19 to a three-year amortization.

20 42. If the full rate effect were to be implemented without a phase-in of rates, a $\frac{3}{4}$ -inch
21 residential water customer with average usage of 9,537 gallons per month would experience an
22 increase of \$10.49, from the current \$18.64 to \$29.13 (56.27 percent). For a 1-inch residential water
23 customer with average usage of 14,556 gallons per month, the monthly rate increase would be
24 \$18.57, from the current \$31.56 to \$50.13 (58.83 percent). For wastewater service, implementation
25 of the full revenue requirement absent a phase-in would result in even greater increases. For
26 example, residential customers would experience an increase from the current monthly rate of \$27.20
27 to a rate of \$40.95, an increase of \$13.75 per month (50.55 percent), without the assistance of a rate
28 phase-in. Therefore, given the magnitude of the combined water and wastewater revenue increases

1 determined in this case, as well as current economic difficulties being experienced in LPSCO's
2 service area and throughout the state, we find that the implementation of a rate phase-in is not only
3 justified but is necessary to at least partially mitigate the sudden rate shock that will be experienced
4 by LPSCO's customers.

5 43. In accordance with this three step phase-in of rates, for the first six months a ¾-inch
6 residential water customer with average usage of 9,537 gallons per month would experience an
7 increase of \$4.00, from the current \$18.64 to \$22.64 (21.48 percent). For a 1-inch residential water
8 customer with average usage of 14,556 gallons per month, the monthly rate increase in the first step
9 of the phase-in would be \$7.42, from the current \$31.56 to \$38.99 (23.52 percent). The first step of
10 the wastewater rate phase-in for residential customers would increase the monthly charge from the
11 current \$27.20 to \$34.03, or \$6.83 (25.11 percent).

12 44. In the second phase (in months 7 through 12), a ¾-inch residential water customer
13 with average usage of 9,537 gallons per month would experience an additional increase of \$3.24,
14 from the Phase 1 rate of \$22.64 to 25.88 (14.3 percent over Phase 1). For a 1-inch residential water
15 customer with average usage of 14,556 gallons per month, the additional monthly rate increase would
16 be \$5.55, from the Phase 1 rate of \$38.99 to \$44.54 (14.2 percent over Phase 1). The second step of
17 the wastewater rate phase-in for residential customers would increase the monthly charge from the
18 Phase 1 rate of \$34.03 to 37.49, or an additional \$3.46 (10.2 percent over Phase 1).

19 45. In the third phase (after 12 months), a ¾-inch residential water customer with average
20 usage of 9,537 gallons per month would experience an additional increase of \$3.25, from the Phase 2
21 rate of \$25.88 to \$29.13 (12.6 percent over Phase 2). For a 1-inch residential water customer with
22 average usage of 14,556 gallons per month, the additional monthly rate increase would be \$5.59,
23 from the Phase 2 rate of \$44.54 to \$50.13 (12.6 percent over Phase 2). The third step of the
24 wastewater rate phase-in for residential customers would increase the monthly charge from the Phase
25 2 rate of \$37.49 to 40.95, or \$3.46 (9.2 percent over Phase 2).

26 46. The discussions, analyses and conclusions described in detail in the body of this
27 Decision shall be considered findings of fact as if fully incorporated in this section.

28 ...

CONCLUSIONS OF LAW

1
2 1. LPSCO is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§40-250, 40-251, 40-367, 40-202, 40-321, 40-331, 40-281, 40-
4 282, 40-301, 40-302 and 40-361.

5 2. The Commission has jurisdiction over LPSCO and the subject matter contained in the
6 Company's rate and financing applications.

7 3. The rates, charges and conditions of service established herein are just and reasonable
8 and in the public interest.

9 4. Notice of the applications was given in accordance with the law.

10 5. Staff's recommendations regarding the financing applications, as described above, are
11 reasonable and should be adopted.

12 6. The financings approved herein are for lawful purposes within LPSCO's corporate
13 powers, are compatible with the public interest, with sound financial practices, and with the proper
14 performance by LPSCO of service as a public service corporation, and will not impair LPSCO's
15 ability to perform that service.

16 7. The financings approved herein are for the purposes stated in the application and are
17 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
18 chargeable to operating expenses or to income.

19 **ORDER**

20 IT IS THEREFORE ORDERED that Litchfield Park Service Company is hereby authorized
21 and directed to file with the Commission, on or before October 29, 2010, revised schedules of rates
22 and charges consistent with the discussion herein, as set forth in Exhibit C attached hereto.

23 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
24 for all service rendered on and after November 1, 2010.

25 IT IS FURTHER ORDERED that Litchfield Park Service Company shall notify its customers
26 of the revised schedules of rates and charges authorized herein by means of an insert in its next
27 regularly scheduled billing, or by separate mailing, in a form acceptable to Staff. The notice shall
28 include a description of the phase-in plan approved herein, as well as a form of notice that will be

1 given to customers at the time subsequent increases are implemented under the phase-in plan,
2 including the surcharge notice.

3 IT IS FURTHER ORDERED that Litchfield Park Service Company shall, within 60 days
4 after the effective date of this Decision, as a compliance item in this docket, memorialize its
5 capitalization policy in writing and file a copy of the written capitalization policy with Docket
6 Control. The Company shall also, in its next rate case, present evidence and testimony showing how
7 it implemented and documented its capitalization policy in accordance with the NARUC USOA.

8 IT IS FURTHER ORDERED that Litchfield Park Service Company is hereby authorized to
9 incur long-term indebtedness in a total amount not to exceed \$2,925,000, in the form of a loan or
10 loans from the Water Infrastructure Financing Authority, at terms and interest rates not in excess of
11 the then-current WIFA rates and terms, for the purposes of funding construction of recharge wells
12 (\$1,755,000) and a 200 kW roof mounted solar generator (\$1,170,000), and related facilities as
13 described in the application.

14 IT IS FURTHER ORDERED that such authority is expressly contingent on Litchfield Park
15 Service Company's use of the proceeds for the purposes set forth in its application.

16 IT IS FURTHER ORDERED that Litchfield Park Service Company is hereby authorized to
17 engage in any transactions and execute any documents necessary to effectuate the authorization
18 granted hereinabove.

19 IT IS FURTHER ORDERED that Litchfield Park Service Company shall file with Docket
20 Control, as a compliance item in this case within 60 days of the closing of the WIFA loans, a copy of
21 all executed documents associated with the financing authorized herein.

22 IT IS FURTHER ORDERED that the financing approved herein shall not guarantee or imply
23 any specific treatment of any capital additions for rate base or rate making purposes.

24 ...
25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that this docket shall remain open for purposes of considering
2 issues concerning LPSCO's hook-up fee tariff in a separate Phase 2 of this proceeding.

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

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
5
6

7 CHAIRMAN

COMMISSIONER

9 COMMISSIONER

COMMISSIONER

COMMISSIONER

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

16 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

17 DISSENT _____
18

19 DISSENT _____
20
21
22
23
24
25
26
27
28

1 SERVICE LIST FOR: LITCHFIELD PARK SERVICE COMPANY
2 DOCKET NOS.: SW-01428A-09-0103, W-01427A-09-0104, W-01427A-
3 09-0116 and W-01427A-09-0120

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LITCHFIELD PARK SERVICE COMPANY

Sheet No. 31

DOCKET NO. _____

EXHIBIT A

Cancelling Sheet No. _____

Applies to all WATER and WASTEWATER service areas

**PART FIVE
ALTERNATE RATES FOR WATER (ARW)
DOMESTIC SERVICE - SINGLE FAMILY ACCOMMODATION**

APPLICABILITY

Applicable to residential water service for domestic use rendered to low-income households where the customer meets all the Program qualifications and Special Conditions of this rate schedule.

TERRITORY

Within all Customer Service Areas served by the Company.

RATES

Fifteen percent (15%) discount applied to the regular filed tariff.

PROGRAM QUALIFICATIONS

1. The LPSCO bill must be in your name and the address must be your primary residence or you must be a tenant receiving water service by a sub-metered system in a mobile home park.
2. You may not be claimed as a dependent on another person's tax return.
3. You must reapply each time you move.
4. You must renew your application every two years, or sooner, if requested.
5. You must notify LPSCO within 30 days if you become ineligible for ARW.
6. Your total gross annual income of all persons living in your household cannot exceed the income levels below:

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Litchfield Park Service Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DECISION NO. _____

LITCHFIELD PARK SERVICE COMPANY

Sheet No. 32

DOCKET NO. _____

Cancelling Sheet No. _____

Effective January 1, 2008

<u>No. of Person in Household</u>	<u>Total Gross Annual Income</u>
1	\$15,600
2	21,000
3	26,400
4	31,800
5	37,200
6	42,600

For each additional person residing in the household, add \$5,400

For the purpose of the program the "gross household income" means all money and non cash benefits, available for living expenses, from all sources, both taxable and non taxable, before deductions for all people who live in my home. This includes: but is not limited to:

Wages or salaries	Social Security, SSI, SSP	Rental or royalty income
Interest or dividends from:	Scholarships, grants, or other aid	Profit from self-employment
Savings account, stocks or bonds	used for living expenses	(IRS form Schedule C, Line 29)
Unemployment benefits	Disability payments	Worker's Compensation
TANF (AFDC)	Food Stamps	Child Support
Pensions	Insurance settlements	Spousal Support
Gifts		

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Litchfield Park Service Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DECISION NO. _____

LITCHFIELD PARK SERVICE COMPANY

Sheet No. 33

DOCKET NO. _____

Cancelling Sheet No. ____

SPECIAL CONDITIONS

1. Application and Eligibility Declaration: An Application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration will be required, at least, every two years.
2. Commencement of Rate: Eligible customers shall be billed on this schedule commencing with the next regularly scheduled billing period that follows receipt of application by the Utility.
3. Verification: Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Utility, upon request by the Utility, shall result in removal from this rate schedule.
4. Notice From Customer: It is the customer's responsibility to notify the Utility if there is a change of eligibility status.
5. Rebilling: Customers may be re-billed for periods of ineligibility under the applicable rate schedule.
6. Mobile Home Park and Master-metered: A reduction will be calculated in the bill of mobile home park and master-metered customers, who have sub-metered tenants that meet the income eligibility criteria, so an equivalent discount (15%) can be passed through to eligible customer(s).

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
 Litchfield Park Service Company
 12725 W. Indian School Road, Suite D-101
 Avondale, AZ 85392

DECISION NO. _____

LITCHFIELD PARK SERVICE COMPANY

Sheet No. 35

DOCKET NO. _____

Cancelling Sheet No. ____

Mail completed application to:

FOR LITCHFIELD PARK SERVICE COMPANY USE ONLY

Date received _____ Date Verified _____ Verified By _____

Issued: _____

Effective : _____

ISSUED BY:

Greg Sorensen, Director Of Operations
Litchfield Park Service Company
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

DECISION NO. _____

EXHIBIT B

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO 50 PERCENT OF INCREASE

Typical Bill Analysis
 3/4" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,537	\$ 18.64	\$ 37.12	\$ 18.48	99.16%
Median Usage	7,000	15.29	32.30	\$ 17.01	111.25%
Recommended Order					
Average Usage	9,537	\$ 18.64	\$ 22.64	\$ 4.00	21.48%
Median Usage	7,000	15.29	18.32	\$ 3.03	19.82%

Present & Proposed Rates (Without Taxes)
 3/4" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 8.30	\$ 19.00	128.92%	\$ 9.77	17.71%
1,000	9.17	20.90	127.92%	10.58	15.38%
2,000	10.04	22.80	127.09%	11.39	13.45%
3,000	10.91	24.70	126.40%	12.20	11.82%
4,000	11.78	26.60	125.81%	13.73	16.55%
5,000	12.65	28.50	125.30%	15.26	20.63%
6,000	13.97	30.40	117.61%	16.79	20.19%
7,000	15.29	32.30	111.25%	18.32	19.82%
8,000	16.61	34.20	105.90%	19.85	19.51%
9,000	17.93	36.10	101.34%	21.38	19.24%
9,537	18.64	37.12	99.16%	22.64	21.48%
10,000	19.25	38.00	97.40%	23.73	23.27%
11,000	20.57	39.90	93.97%	26.08	26.79%
12,000	21.89	41.80	90.95%	28.43	29.88%
13,000	23.21	43.70	88.28%	30.78	32.62%
14,000	24.53	45.60	85.89%	33.13	35.06%
15,000	25.85	47.50	83.75%	35.48	37.25%
16,000	27.17	49.95	83.84%	37.83	39.23%
17,000	28.49	52.40	83.92%	40.18	41.03%
18,000	29.81	54.85	84.00%	42.53	42.67%
19,000	31.13	57.30	84.07%	44.88	44.17%
20,000	32.45	59.75	84.13%	47.23	45.55%
25,000	39.05	72.00	84.38%	58.98	51.04%
30,000	45.65	84.25	84.56%	70.73	54.94%
35,000	52.25	96.50	84.69%	82.48	57.86%
40,000	58.85	108.75	84.79%	94.23	60.12%
45,000	65.45	121.00	84.87%	105.98	61.93%
50,000	72.05	133.25	84.94%	117.73	63.40%
75,000	105.05	209.50	99.43%	176.48	68.00%
100,000	138.05	285.75	106.99%	235.23	70.39%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO 50 PERCENT OF INCREASE

Typical Bill Analysis
 1" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	14,556	\$ 31.56	\$ 59.33	\$ 27.76	87.96%
Median Usage	10,000	25.55	50.67	\$ 25.12	98.32%
Recommended Order					
Average Usage	14,556	\$ 31.56	\$ 38.99	\$ 7.42	23.52%
Median Usage	10,000	25.55	30.74	\$ 5.19	20.32%

Present & Proposed Rates (Without Taxes)
 1" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 14.60	\$ 31.67	116.92%	\$ 18.32	25.48%
1,000	15.47	33.57	117.00%	19.13	23.66%
2,000	16.34	35.47	117.07%	19.94	22.04%
3,000	17.21	37.37	117.14%	20.75	20.57%
4,000	18.08	39.27	117.20%	21.56	19.25%
5,000	18.95	41.17	117.26%	23.09	21.85%
6,000	20.27	43.07	112.48%	24.62	21.46%
7,000	21.59	44.97	108.29%	26.15	21.12%
8,000	22.91	46.87	104.58%	27.68	20.82%
9,000	24.23	48.77	101.28%	29.21	20.56%
10,000	25.55	50.67	98.32%	30.74	20.32%
11,000	26.87	52.57	95.65%	32.27	20.10%
12,000	28.19	54.47	93.22%	33.80	19.90%
13,000	29.51	56.37	91.02%	35.33	19.72%
14,000	30.83	58.27	89.00%	37.68	22.22%
14,556	31.56	59.33	87.96%	38.99	23.52%
15,000	32.15	60.17	87.15%	40.03	24.51%
16,000	33.47	62.62	87.09%	42.38	26.62%
17,000	34.79	65.07	87.04%	44.73	28.57%
18,000	36.11	67.52	86.98%	47.08	30.38%
19,000	37.43	69.97	86.94%	49.43	32.06%
20,000	38.75	72.42	86.89%	51.78	33.63%
25,000	45.35	84.67	86.70%	63.53	40.09%
30,000	51.95	96.92	86.56%	75.28	44.91%
35,000	58.55	109.17	86.46%	87.03	48.64%
40,000	65.15	121.42	86.37%	98.78	51.62%
45,000	71.75	133.67	86.30%	110.53	54.05%
50,000	78.35	145.92	86.24%	122.28	56.07%
75,000	111.35	207.17	86.05%	181.03	62.58%
100,000	144.35	268.42	85.95%	239.78	66.11%

DECISION NO. _____

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO 75 PERCENT OF INCREASE

Typical Bill Analysis
 3/4" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,537	\$ 18.64	\$ 37.12	\$ 18.48	99.16%
Median Usage	7,000	15.29	32.30	\$ 17.01	111.25%
Recommended Order					
Average Usage	9,537	\$ 18.64	\$ 25.88	\$ 7.24	38.85%
Median Usage	7,000	15.29	20.94	\$ 5.65	36.95%

Present & Proposed Rates (Without Taxes)
 3/4" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 8.30	\$ 19.00	128.92%	\$ 11.15	34.34%
1,000	9.17	20.90	127.92%	12.08	31.73%
2,000	10.04	22.80	127.09%	13.01	29.58%
3,000	10.91	24.70	126.40%	13.94	27.77%
4,000	11.78	26.60	125.81%	15.69	33.19%
5,000	12.65	28.50	125.30%	17.44	37.87%
6,000	13.97	30.40	117.61%	19.19	37.37%
7,000	15.29	32.30	111.25%	20.94	36.95%
8,000	16.61	34.20	105.90%	22.69	36.60%
9,000	17.93	36.10	101.34%	24.44	36.31%
9,537	18.64	37.12	99.16%	25.88	38.85%
10,000	19.25	38.00	97.40%	27.12	40.88%
11,000	20.57	39.90	93.97%	29.80	44.87%
12,000	21.89	41.80	90.95%	32.48	48.38%
13,000	23.21	43.70	88.28%	35.16	51.49%
14,000	24.53	45.60	85.89%	37.84	54.26%
15,000	25.85	47.50	83.75%	40.52	56.75%
16,000	27.17	49.95	83.84%	43.20	59.00%
17,000	28.49	52.40	83.92%	45.88	61.04%
18,000	29.81	54.85	84.00%	48.56	62.90%
19,000	31.13	57.30	84.07%	51.24	64.60%
20,000	32.45	59.75	84.13%	53.92	66.16%
25,000	39.05	72.00	84.38%	67.32	72.39%
30,000	45.65	84.25	84.56%	80.72	76.82%
35,000	52.25	96.50	84.69%	94.12	80.13%
40,000	58.85	108.75	84.79%	107.52	82.70%
45,000	65.45	121.00	84.87%	120.92	84.75%
50,000	72.05	133.25	84.94%	134.32	86.43%
75,000	105.05	209.50	99.43%	201.32	91.64%
100,000	138.05	285.75	106.99%	268.32	94.36%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO 75 PERCENT OF INCREASE

Typical Bill Analysis
 1" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	14,556	\$ 31.56	\$ 59.33	\$ 27.76	87.96%
Median Usage	10,000	25.55	50.67	\$ 25.12	98.32%
Recommended Order					
Average Usage	14,556	\$ 31.56	\$ 44.54	\$ 12.98	41.11%
Median Usage	10,000	25.55	35.12	\$ 9.57	37.46%

Present & Proposed Rates (Without Taxes)
 1" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 14.60	\$ 31.67	116.92%	\$ 20.90	43.15%
1,000	15.47	33.57	117.00%	21.83	41.11%
2,000	16.34	35.47	117.07%	22.76	39.29%
3,000	17.21	37.37	117.14%	23.69	37.65%
4,000	18.08	39.27	117.20%	24.62	36.17%
5,000	18.95	41.17	117.26%	26.37	39.15%
6,000	20.27	43.07	112.48%	28.12	38.73%
7,000	21.59	44.97	108.29%	29.87	38.35%
8,000	22.91	46.87	104.58%	31.62	38.02%
9,000	24.23	48.77	101.28%	33.37	37.72%
10,000	25.55	50.67	98.32%	35.12	37.46%
11,000	26.87	52.57	95.65%	36.87	37.22%
12,000	28.19	54.47	93.22%	38.62	37.00%
13,000	29.51	56.37	91.02%	40.37	36.80%
14,000	30.83	58.27	89.00%	43.05	39.64%
14,556	31.56	59.33	87.96%	44.54	41.11%
15,000	32.15	60.17	87.15%	45.73	42.24%
16,000	33.47	62.62	87.09%	48.41	44.64%
17,000	34.79	65.07	87.04%	51.09	46.85%
18,000	36.11	67.52	86.98%	53.77	48.91%
19,000	37.43	69.97	86.94%	56.45	50.81%
20,000	38.75	72.42	86.89%	59.13	52.59%
25,000	45.35	84.67	86.70%	72.53	59.93%
30,000	51.95	96.92	86.56%	85.93	65.41%
35,000	58.55	109.17	86.46%	99.33	69.65%
40,000	65.15	121.42	86.37%	112.73	73.03%
45,000	71.75	133.67	86.30%	126.13	75.79%
50,000	78.35	145.92	86.24%	139.53	78.09%
75,000	111.35	207.17	86.05%	206.53	85.48%
100,000	144.35	268.42	85.95%	273.53	89.49%

DECISION NO. _____

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO FULL AMOUNT OF INCREASE

Typical Bill Analysis
 3/4" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,537	\$ 18.64	\$ 37.12	\$ 18.48	99.16%
Median Usage	7,000	15.29	32.30	\$ 17.01	111.25%
Recommended Order					
Average Usage	9,537	\$ 18.64	\$ 29.13	\$ 10.49	56.27%
Median Usage	7,000	15.29	23.57	\$ 8.28	54.15%

Present & Proposed Rates (Without Taxes)
 3/4" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 8.30	\$ 19.00	128.92%	\$ 12.54	51.08%
1,000	9.17	20.90	127.92%	13.59	48.20%
2,000	10.04	22.80	127.09%	14.64	45.82%
3,000	10.91	24.70	126.40%	15.69	43.81%
4,000	11.78	26.60	125.81%	17.66	49.92%
5,000	12.65	28.50	125.30%	19.63	55.18%
6,000	13.97	30.40	117.61%	21.60	54.62%
7,000	15.29	32.30	111.25%	23.57	54.15%
8,000	16.61	34.20	105.90%	25.54	53.76%
9,000	17.93	36.10	101.34%	27.51	53.43%
9,537	18.64	37.12	99.16%	29.13	56.27%
10,000	19.25	38.00	97.40%	30.52	58.55%
11,000	20.57	39.90	93.97%	33.53	63.00%
12,000	21.89	41.80	90.95%	36.54	66.93%
13,000	23.21	43.70	88.28%	39.55	70.40%
14,000	24.53	45.60	85.89%	42.56	73.50%
15,000	25.85	47.50	83.75%	45.57	76.29%
16,000	27.17	49.95	83.84%	48.58	78.80%
17,000	28.49	52.40	83.92%	51.59	81.08%
18,000	29.81	54.85	84.00%	54.60	83.16%
19,000	31.13	57.30	84.07%	57.61	85.06%
20,000	32.45	59.75	84.13%	60.62	86.81%
25,000	39.05	72.00	84.38%	75.67	93.78%
30,000	45.65	84.25	84.56%	90.72	98.73%
35,000	52.25	96.50	84.69%	105.77	102.43%
40,000	58.85	108.75	84.79%	120.82	105.30%
45,000	65.45	121.00	84.87%	135.87	107.59%
50,000	72.05	133.25	84.94%	150.92	109.47%
75,000	105.05	209.50	99.43%	226.17	115.30%
100,000	138.05	285.75	106.99%	301.42	118.34%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103 et al.
 Test Year Ended September 31, 2008

ROO FULL AMOUNT OF INCREASE

Typical Bill Analysis
 1" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	14,556	\$ 31.56	\$ 59.33	\$ 27.76	87.96%
Median Usage	10,000	25.55	50.67	\$ 25.12	98.32%
Recommended Order					
Average Usage	14,556	\$ 31.56	\$ 50.13	\$ 18.57	58.83%
Median Usage	10,000	25.55	39.54	\$ 13.99	54.75%

Present & Proposed Rates (Without Taxes)
 1" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Recommended Order Rates	% Increase
-	\$ 14.60	\$ 31.67	116.92%	\$ 23.52	61.09%
1,000	15.47	33.57	117.00%	24.57	58.82%
2,000	16.34	35.47	117.07%	25.62	56.79%
3,000	17.21	37.37	117.14%	26.67	54.96%
4,000	18.08	39.27	117.20%	27.72	53.31%
5,000	18.95	41.17	117.26%	29.69	56.67%
6,000	20.27	43.07	112.48%	31.66	56.19%
7,000	21.59	44.97	108.29%	33.63	55.76%
8,000	22.91	46.87	104.58%	35.60	55.39%
9,000	24.23	48.77	101.28%	37.57	55.05%
10,000	25.55	50.67	98.32%	39.54	54.75%
11,000	26.87	52.57	95.65%	41.51	54.48%
12,000	28.19	54.47	93.22%	43.48	54.24%
13,000	29.51	56.37	91.02%	45.45	54.01%
14,000	30.83	58.27	89.00%	48.46	57.18%
14,556	31.56	59.33	87.96%	50.13	58.83%
15,000	32.15	60.17	87.15%	51.47	60.09%
16,000	33.47	62.62	87.09%	54.48	62.77%
17,000	34.79	65.07	87.04%	57.49	65.25%
18,000	36.11	67.52	86.98%	60.50	67.54%
19,000	37.43	69.97	86.94%	63.51	69.67%
20,000	38.75	72.42	86.89%	66.52	71.66%
25,000	45.35	84.67	86.70%	81.57	79.87%
30,000	51.95	96.92	86.56%	96.62	85.99%
35,000	58.55	109.17	86.46%	111.67	90.72%
40,000	65.15	121.42	86.37%	126.72	94.50%
45,000	71.75	133.67	86.30%	141.77	97.59%
50,000	78.35	145.92	86.24%	156.82	100.15%
75,000	111.35	207.17	86.05%	232.07	108.41%
100,000	144.35	268.42	85.95%	307.32	112.90%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

Typical Bill Analysis (50 PERCENT PHASE IN)
 WASTEWATER

Residential	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company Proposed	\$ 27.20	\$ 48.21	\$ 21.01	77.24%
Recommended Order	27.20	34.03	\$ 6.83	25.11%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

Typical Bill Analysis (75 PERCENT PHASE IN)
 WASTEWATER

Residential

Company Proposed	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
	\$ 27.20	\$ 48.21	\$ 21.01	77.24%
Recommended Order	27.20	37.49	\$ 10.29	37.83%

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

Typical Bill Analysis - Full Rate
 WASTEWATER

Residential

Company Proposed	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
	\$ 27.20	\$ 48.21	\$ 21.01	77.24%
Recommended Order	27.20	40.95	\$ 13.75	50.55%

EXHIBIT C

Litchfield Park Service Company
 Docket Nos: W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 50 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
Monthly Usage Charge			
5/8 x3/4" Meter - All Classes	\$ 6.75	\$ 10.20	\$ 9.77
3/4" Meter - All Classes	8.30	19.00	9.77
1" Meter - Residential	14.60	31.67	18.32
1" Meter - All Classes	14.60	31.67	20.36
1 1/2" Meter - All Classes	28.60	69.67	40.71
2" Meter - All Classes	56.50	111.47	65.14
3" Meter - All Classes	NT	NT	130.28
4" Meter - All Classes	132.00	348.33	203.56
6" Meter - All Classes	NT	NT	407.13
8" Meter - All Classes	225.00	501.00	671.76
10" Meter - All Classes	330.00	960.00	936.39
12" Meter - All Classes but irrigation	450.00	1,500.00	1,750.64
12" Meter - Irrigation	450.00	960.00	1,750.64
Construction Water - Hydrants	100.00	By Meter Size	-
Commodity Rates			
5/8 x3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 3,000 Gallons			\$ 0.81
3,001 to 9,000 Gallons			\$ 1.53
Over 9,000 Gallons			\$ 2.35
3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 50,000 Gallons		\$ 2.45	
Over 50,000 Gallons		\$ 3.05	
0 to 3,000 Gallons			\$ 0.81
3,001 to 9,000 Gallons			\$ 1.53
Over 9,000 Gallons			\$ 2.35
1" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.05	
0 to 4,000 Gallons			\$ 0.81
4,001 to 13,000 Gallons			\$ 1.53
Over 13,000 Gallons			\$ 2.35
5/8 x3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 10,000 Gallons			\$ 1.53
Over 10,000 Gallons			\$ 2.35
1" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.30	
0 to 20,000 Gallons			\$ 1.53
Over 20,000 Gallons			\$ 2.35

DECISION NO. _____

Litchfield Park Service Company
Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 50 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
1½" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 90,000 Gallons		\$ 2.75	
Over 90,000 Gallons		\$ 3.47	
0 to 30,000 Gallons			\$ 1.53
Over 30,000 Gallons			\$ 2.35
2" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 140,000 Gallons		\$ 2.75	
Over 140,000 Gallons		\$ 3.47	
0 to 50,000 Gallons			\$ 1.53
Over 50,000 Gallons			\$ 2.35
3" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 120,000 Gallons	NT	NT	\$ 1.53
Over 120,000 Gallons	NT	NT	\$ 2.35
4" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 180,000 Gallons		\$ 2.75	\$ 1.53
Over 180,000 Gallons		\$ 3.47	\$ 2.35
6" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 360,000 Gallons	NT	NT	\$ 1.53
Over 360,000 Gallons	NT	NT	\$ 2.35
8" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 670,000 Gallons		\$ 2.75	\$ 1.53
Over 670,000 Gallons		\$ 3.47	\$ 2.35
8" Meter (Bulk resale only)			
All Gallons	NT	\$ 1.50	NT
10" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 940,000 Gallons		\$ 2.75	\$ 1.53
Over 940,000 Gallons		\$ 3.47	2.35
12" Meter (Residential, Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 1,248,000 Gallons		\$ 2.75	
Over 1,248,000 Gallons		\$ 3.47	
0 to 1,248,000 Gallons			\$ 1.53
Over 1,248,000 Gallons			\$ 2.35
Construction Water			
All Gallons	\$ 2.50	\$ 3.47	\$ 2.35

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 50 PERCENT PHASE IN

Service Line and Meter Installation Charges	Present Rates			Company Proposed			Recommended Order		
	Line	Meter	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter			\$ 300	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter			300	385	215	600	385	215	600
1" Meter			325	435	255	690	435	255	690
1½" Meter			500	470	465	935	470	465	935
2"			675	-	-	-	-	-	-
Over 2"			At Cost	-	-	-	-	-	-
2" Turbine Meter			NT	630	965	1,595	630	965	1,595
2" Compound Meter			NT	630	1,690	2,320	630	1,690	2,320
3" Turbine Meter			NT	805	1,470	2,275	805	1,470	2,275
3" Compound Meter			NT	845	2,265	3,110	845	2,265	3,110
4" Turbine Meter			NT	1,170	2,350	3,520	1,170	2,350	3,520
4" Compound Meter			NT	1,230	3,245	4,475	1,230	3,245	4,475
6" Turbine Meter			NT	1,730	4,545	6,275	1,730	4,545	6,275
6" Compound Meter			NT	1,770	6,280	8,050	1,770	6,280	8,050
8" & Larger			NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
Service Charges									
Establishment (a)			\$ 20.00			\$ 20.00			\$ 20.00
Establishment (After Hours) (a)			40.00			40.00			40.00
Re-Establishment of Service (a)			(b)			(b)			(b)
Reconnection (Regular Hours) (a)			50.00			50.00			50.00
Reconnection (After Hours) (a)			65.00			65.00			65.00
Meter Test (If correct) (c)			25.00			25.00			25.00
Meter Re-Read (If correct)			5.00			5.00			5.00
NSF Check			25.00			25.00			25.00
Deferred Payment, Per Month			1.50%			1.50%			1.50%
Late Charge			(d)			(d)			(d)
Service Calls - Per Hour/After Hours (e)			40.00			40.00			40.00
Deposit Requirement			(f)			(f)			(f)
Deposit Interest			3.50%			3.50%			3.50%
* Hydrant Meter Deposit									
5/8" x 3/4" Meter			\$ 1,500.00			\$ 1,500.00			\$ 135.00
3/4" Meter			1,500.00			1,500.00			215.00
1" Meter			1,500.00			1,500.00			255.00
1½" Meter			1,500.00			1,500.00			465.00
2" Turbine Meter			1,500.00			1,500.00			965.00
2" Compound Meter			1,500.00			1,500.00			1,690.00
3" Turbine Meter			1,500.00			1,500.00			1,470.00
3" Compound Meter			1,500.00			1,500.00			2,265.00
4" Turbine Meter			1,500.00			1,500.00			2,350.00
4" Compound Meter			1,500.00			1,500.00			3,245.00
6" Turbine Meter			1,500.00			1,500.00			4,545.00
6" Compound Meter			1,500.00			1,500.00			6,280.00
8" & Larger			NT			At Cost			At Cost

NT = No Tariff

(a) Service charges for customers taking both water and sewer service are not duplicative.

(b) Minimum charge times number of months disconnected.

(c) \$25 plus cost of test.

(d) Greater of \$5.00 or 1.5% of unpaid balance.

(e) No charge for service calls during normal working hours.

(f) Per Rule R14-2-403(B): Residential - two times the average bill. Commercial - two and one-half times the average bill.

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 75 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
Monthly Usage Charge			
5/8 x 3/4" Meter - All Classes	\$ 6.75	\$ 10.20	\$ 11.15
3/4" Meter - All Classes	8.30	19.00	11.15
1" Meter - Residential	14.60	31.67	20.90
1" Meter - All Classes	14.60	31.67	23.22
1 1/2" Meter - All Classes	28.60	69.67	46.44
2" Meter - All Classes	56.50	111.47	74.31
3" Meter - All Classes	NT	NT	148.62
4" Meter - All Classes	132.00	348.33	232.22
6" Meter - All Classes	NT	NT	464.44
8" Meter - All Classes	225.00	501.00	766.33
10" Meter - All Classes	330.00	960.00	1,068.21
12" Meter - All Classes but irrigation	450.00	1,500.00	1,997.09
12" Meter - Irrigation	450.00	960.00	1,997.09
Construction Water - Hydrants	100.00	By Meter Size	-
Commodity Rates			
5/8 x 3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 3,000 Gallons			\$ 0.93
3,001 to 9,000 Gallons			\$ 1.75
Over 9,000 Gallons			\$ 2.68
3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 50,000 Gallons		\$ 2.45	
Over 50,000 Gallons		\$ 3.05	
0 to 3,000 Gallons			\$ 0.93
3,001 to 9,000 Gallons			\$ 1.75
Over 9,000 Gallons			\$ 2.68
1" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.05	
0 to 4,000 Gallons			\$ 0.93
4,001 to 13,000 Gallons			\$ 1.75
Over 13,000 Gallons			\$ 2.68
5/8 x 3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 10,000 Gallons			\$ 1.75
Over 10,000 Gallons			\$ 2.68
1" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.30	
0 to 20,000 Gallons			\$ 1.75
Over 20,000 Gallons			\$ 2.68

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 75 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
1½" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 90,000 Gallons		\$ 2.75	
Over 90,000 Gallons		\$ 3.47	
0 to 30,000 Gallons			\$ 1.75
Over 30,000 Gallons			\$ 2.68
2" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 140,000 Gallons		\$ 2.75	
Over 140,000 Gallons		\$ 3.47	
0 to 50,000 Gallons			\$ 1.75
Over 50,000 Gallons			\$ 2.68
3" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 120,000 Gallons	NT	NT	\$ 1.75
Over 120,000 Gallons	NT	NT	\$ 2.68
4" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 180,000 Gallons		\$ 2.75	\$ 1.75
Over 180,000 Gallons		\$ 3.47	\$ 2.68
6" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 360,000 Gallons	NT	NT	\$ 1.75
Over 360,000 Gallons	NT	NT	\$ 2.68
8" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 670,000 Gallons		\$ 2.75	\$ 1.75
Over 670,000 Gallons		\$ 3.47	\$ 2.68
8" Meter	(Bulk resale only)		
All Gallons	NT	\$ 1.50	NT
10" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 940,000 Gallons		\$ 2.75	\$ 1.75
Over 940,000 Gallons		\$ 3.47	\$ 2.68
12" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 1,248,000 Gallons		\$ 2.75	
Over 1,248,000 Gallons		\$ 3.47	
0 to 1,248,000 Gallons			\$ 1.75
Over 1,248,000 Gallons			\$ 2.68
Construction Water			
All Gallons	\$ 2.50	\$ 3.47	\$ 2.68

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 75 PERCENT PHASE IN

Service Line and Meter Installation Charges	Present Rates			Company Proposed			Recommended Order		
	Line	Meter	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter			\$ 300	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter			300	385	215	600	385	215	600
1" Meter			325	435	255	690	435	255	690
1½" Meter			500	470	465	935	470	465	935
2"			675	-	-	-	-	-	-
Over 2"			At Cost	-	-	-	-	-	-
2" Turbine Meter			NT	630	965	1,595	630	965	1,595
2" Compound Meter			NT	630	1,690	2,320	630	1,690	2,320
3" Turbine Meter			NT	805	1,470	2,275	805	1,470	2,275
3" Compound Meter			NT	845	2,265	3,110	845	2,265	3,110
4" Turbine Meter			NT	1,170	2,350	3,520	1,170	2,350	3,520
4" Compound Meter			NT	1,230	3,245	4,475	1,230	3,245	4,475
6" Turbine Meter			NT	1,730	4,545	6,275	1,730	4,545	6,275
6" Compound Meter			NT	1,770	6,280	8,050	1,770	6,280	8,050
8" & Larger			NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
Service Charges									
Establishment (a)			\$ 20.00			\$ 20.00			\$ 20.00
Establishment (After Hours) (a)			40.00			40.00			40.00
Re-Establishment of Service (a)			(b)			(b)			(b)
Reconnection (Regular Hours) (a)			50.00			50.00			50.00
Reconnection (After Hours) (a)			65.00			65.00			65.00
Meter Test (if correct) (c)			25.00			25.00			25.00
Meter Re-Read (if correct)			5.00			5.00			5.00
NSF Check			25.00			25.00			25.00
Deferred Payment, Per Month			1.50%			1.50%			1.50%
Late Charge			(d)			(d)			(d)
Service Calls - Per Hour/After Hours (e)			40.00			40.00			40.00
Deposit Requirement			(f)			(f)			(f)
Deposit Interest			3.50%			3.50%			3.50%
* Hydrant Meter Deposit:									
5/8" x 3/4" Meter			\$ 1,500.00			\$ 1,500.00			\$ 135.00
3/4" Meter			1,500.00			1,500.00			215.00
1" Meter			1,500.00			1,500.00			255.00
1½" Meter			1,500.00			1,500.00			465.00
2" Turbine Meter			1,500.00			1,500.00			965.00
2" Compound Meter			1,500.00			1,500.00			1,690.00
3" Turbine Meter			1,500.00			1,500.00			1,470.00
3" Compound Meter			1,500.00			1,500.00			2,265.00
4" Turbine Meter			1,500.00			1,500.00			2,350.00
4" Compound Meter			1,500.00			1,500.00			3,245.00
6" Turbine Meter			1,500.00			1,500.00			4,545.00
6" Compound Meter			1,500.00			1,500.00			6,280.00
8" & Larger			NT			At Cost			At Cost

NT = No Tariff

(a) Service charges for customers taking both water and sewer service are not duplicative.

(b) Minimum charge times number of months disconnected.

(c) \$25 plus cost of test.

(d) Greater of \$5.00 or 1.5% of unpaid balance.

(e) No charge for service calls during normal working hours.

(f) Per Rule R14-2-403(B): Residential - two times the average bill. Commercial - two and one-half times the average bill.

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

Monthly Usage Charge	Present Rates	Company Proposed	Recommended Order
5/8 x3/4" Meter - All Classes	\$ 6.75	\$ 10.20	\$ 12.54
3/4" Meter - All Classes	8.30	19.00	12.54
1" Meter - Residential	14.60	31.67	23.52
1" Meter - All Classes	14.60	31.67	26.13
1 1/2" Meter - All Classes	28.60	69.67	52.27
2" Meter - All Classes	56.50	111.47	83.62
3" Meter - All Classes	NT	NT	167.25
4" Meter - All Classes	132.00	348.33	261.33
6" Meter - All Classes	NT	NT	522.65
8" Meter - All Classes	225.00	501.00	862.37
10" Meter - All Classes	330.00	950.00	1,202.10
12" Meter - All Classes but irrigation	450.00	1,500.00	2,247.40
12" Meter - Irrigation	450.00	950.00	2,247.40
Construction Water - Hydrants	100.00	By Meter Size	-
Commodity Rates			
5/8 x3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 3,000 Gallons			\$ 1.05
3,001 to 9,000 Gallons			\$ 1.97
Over 9,000 Gallons			\$ 3.01
3/4" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 50,000 Gallons		\$ 2.45	
Over 50,000 Gallons		\$ 3.05	
0 to 3,000 Gallons			\$ 1.05
3,001 to 9,000 Gallons			\$ 1.97
Over 9,000 Gallons			\$ 3.01
1" Meter (Residential)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.05	
0 to 4,000 Gallons			\$ 1.05
4,001 to 13,000 Gallons			\$ 1.97
Over 13,000 Gallons			\$ 3.01
5/8 x3/4" and 3/4" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 3,000 Gallons		\$ 1.25	
3,001 to 10,000 Gallons		\$ 1.80	
Over 10,000 Gallons		\$ 2.40	
0 to 10,000 Gallons			\$ 1.97
Over 10,000 Gallons			\$ 3.01
1" Meter (Commercial, Industrial, Irrigation)			
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 15,000 Gallons		\$ 1.90	
15,001 to 100,000 Gallons		\$ 2.45	
Over 100,000 Gallons		\$ 3.30	
0 to 20,000 Gallons			\$ 1.97
Over 20,000 Gallons			\$ 3.01

DECISION NO. _____

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

	Present Rates	Company Proposed	Recommended Order
1½" Meter	(Residential; Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 90,000 Gallons		\$ 2.75	
Over 90,000 Gallons		\$ 3.47	
0 to 30,000 Gallons			\$ 1.97
Over 30,000 Gallons			\$ 3.01
2" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 140,000 Gallons		\$ 2.75	
Over 140,000 Gallons		\$ 3.47	
0 to 50,000 Gallons			\$ 1.97
Over 50,000 Gallons			\$ 3.01
3" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 120,000 Gallons	NT	NT	\$ 1.97
Over 120,000 Gallons	NT	NT	\$ 3.01
4" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 180,000 Gallons		\$ 2.75	\$ 1.97
Over 180,000 Gallons		\$ 3.47	\$ 3.01
5" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 360,000 Gallons	NT	NT	\$ 1.97
Over 360,000 Gallons	NT	NT	\$ 3.01
6" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 670,000 Gallons		\$ 2.75	\$ 1.97
Over 670,000 Gallons		\$ 3.47	\$ 3.01
8" Meter	(Bulk resale only)		
All Gallons	NT	\$ 1.50	NT
10" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 940,000 Gallons		\$ 2.75	\$ 1.97
Over 940,000 Gallons		\$ 3.47	\$ 3.01
12" Meter	(Residential, Commercial, Industrial, Irrigation)		
0 to 5,000 Gallons	\$ 0.87		
Over 5,000 Gallons	\$ 1.32		
0 to 1,248,000 Gallons		\$ 2.75	
Over 1,248,000 Gallons		\$ 3.47	
0 to 1,248,000 Gallons			\$ 1.97
Over 1,248,000 Gallons			\$ 3.01
Construction Water			
All Gallons	\$ 2.50	\$ 3.47	\$ 3.01

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 30, 2008

WATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

Service Line and Meter Installation Charges	Present Rates			Company Proposed			Recommended Order		
	Line	Meter	Total	Line	Meter	Total	Line	Meter	Total
5/8" x 3/4" Meter			\$ 300	\$ 385	\$ 135	\$ 520	\$ 385	\$ 135	\$ 520
3/4" Meter			300	385	215	600	385	215	600
1" Meter			325	435	255	690	435	255	690
1 1/2" Meter			500	470	465	935	470	465	935
2"			675	-	-	-	-	-	-
Over 2"			At Cost	-	-	-	-	-	-
2" Turbine Meter			NT	630	965	1,595	630	965	1,595
2" Compound Meter			NT	630	1,690	2,320	630	1,690	2,320
3" Turbine Meter			NT	805	1,470	2,275	805	1,470	2,275
3" Compound Meter			NT	845	2,265	3,110	845	2,265	3,110
4" Turbine Meter			NT	1,170	2,350	3,520	1,170	2,350	3,520
4" Compound Meter			NT	1,230	3,245	4,475	1,230	3,245	4,475
6" Turbine Meter			NT	1,730	4,545	6,275	1,730	4,545	6,275
6" Compound Meter			NT	1,770	6,280	8,050	1,770	6,280	8,050
8" & Larger			NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges

Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	40.00	40.00	40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
Meter Test (if correct) (c)	25.00	25.00	25.00
Meter Re-Read (if correct)	5.00	5.00	5.00
NSF Check	25.00	25.00	25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(d)	(d)	(d)
Service Calls - Per Hour/After Hours (e)	40.00	40.00	40.00
Deposit Requirement	(f)	(f)	(f)
Deposit Interest	3.50%	3.50%	3.50%

* Hydrant Meter Deposit:

5/8" x 3/4" Meter	\$ 1,500.00	\$ 1,500.00	\$ 135.00
3/4" Meter	1,500.00	1,500.00	215.00
1" Meter	1,500.00	1,500.00	255.00
1 1/2" Meter	1,500.00	1,500.00	465.00
2" Turbine Meter	1,500.00	1,500.00	965.00
2" Compound Meter	1,500.00	1,500.00	1,690.00
3" Turbine Meter	1,500.00	1,500.00	1,470.00
3" Compound Meter	1,500.00	1,500.00	2,265.00
4" Turbine Meter	1,500.00	1,500.00	2,350.00
4" Compound Meter	1,500.00	1,500.00	3,245.00
6" Turbine Meter	1,500.00	1,500.00	4,545.00
6" Compound Meter	1,500.00	1,500.00	6,280.00
8" & Larger	NT	At Cost	At Cost

NT = No Tariff

- (a) Service charges for customers taking both water and sewer service are not duplicative.
- (b) Minimum charge times number of months disconnected.
- (c) \$25 plus cost of test.
- (d) Greater of \$5.00 or 1.5% of unpaid balance.
- (e) No charge for service calls during normal working hours.
- (f) Per Rule R14-2-403(B): Residential - two times the average bill. Commercial - two and one-half times the average bill.
- * Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of final bill.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WASTEWATER DIVISION RATE DESIGN 50 PERCENT PHASE IN

Monthly Usage Charge	Present	Company Proposed	Recommended Order 50 percent phase in
Residential - Per Unit / Month	\$ 27.20	\$ 48.21	\$ 34.03
Multiple Unit Service - Per Unit / Month	25.25	44.76	\$ 31.59
Small Comm. ¹	46.00	81.54	\$ 57.56
Regular Domestic ²	25.75	45.64	\$ 32.22
Restaurants, Motels, Grocery, DC	25.75	45.64	\$ 32.22
Wig. Resort/ Room	25.25	44.76	\$ 31.59
Wig. Resort/ Main	1,000.00	1,772.50	\$ 1,251.25
Element. School	680.00	1,205.30	\$ 850.85
Mid. & High School	800.00	1,418.00	\$ 1,001.00
Community College	1,240.00	2,197.90	\$ 1,551.55
Effluent Sales ³	Market	Market	Market

¹ Small commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.

² Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of 10,000 gallons of water usage per month.

³ Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand gallons and shall not be less than \$0.17 per thousand gallons.

Commodity Charge (per 1,000 gallons of water)			
Regular Domestic	\$ 2.25	\$ 3.99	\$ 2.82
Restaurants, Motels, Grocery, DC	3.00	5.32	3.75

Litchfield Park Service Company
Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
Test Year Ended September 31, 2008

WASTEWATER DIVISION RATE DESIGN 50 PERCENT PHASE IN

Service Charges	Present	Company Proposed	Recommended Order
Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	\$ 40.00	\$ 40.00	\$ 40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(c)	(c)	(c)
Service Calls - Per Hour/After Hours (d)	40.00	40.00	40.00
Deposit Requirement	(e)	(e)	(e)
Deposit Interest	3.50%	3.50%	3.50%
Service Lateral Connection Charge- All Sizes	(f)	(f)	(f)
Main Extension Tariff	(g)	(g)	(g)

- (a) Service charges for customers taking both water and sewer service are not duplicative.
- (b) Minimum charge times number of months disconnected.
- (c) Greater of \$5.00 or 1.5% of unpaid balance.
- (d) No charge for service calls during normal working hours.
- (e) Per Rule R14-2-603B: Residential - two times the average bill.
Non-residential - two and one-half times the average bill.
- (f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution-in-aid of construction.
- (g) All Main Extensions shall be completed at cost and shall be treated as non-refundable contribution-in-aid of construction.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WASTEWATER DIVISION RATE DESIGN 75 PERCENT PHASE IN

Monthly Usage Charge	Present	Company Proposed	Recommended Order 75 percent phase in
Residential - Per Unit / Month	\$ 27.20	\$ 48.21	\$ 37.49
Multiple Unit Service - Per Unit / Month	25.25	44.76	\$ 34.81
Small Comm. ¹	46.00	81.54	\$ 63.41
Regular Domestic ²	25.75	45.64	\$ 35.49
Restaurants, Motels, Grocery, DC	25.75	45.64	\$ 35.49
Wig. Resort/ Room	25.25	44.76	\$ 34.81
Wig. Resort/ Main	1,000.00	1,772.50	\$ 1,378.43
Element. School	680.00	1,205.30	\$ 937.33
Mid. & High School	800.00	1,418.00	\$ 1,102.74
Community College	1,240.00	2,197.90	\$ 1,709.25
Effluent Sales ³	Market	Market	Market

¹ Small commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.

² Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of 10,000 gallons of water usage per month.

³ Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand gallons and shall not be less than \$0.17 per thousand gallons.

Commodity Charge (per 1,000 gallons of water)			
Regular Domestic	\$ 2.25	\$ 3.99	\$ 3.10
Restaurants, Motels, Grocery, DC	3.00	5.32	4.14

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WASTEWATER DIVISION RATE DESIGN 75 PERCENT PHASE IN

	Present	Company Proposed	Recommended Order
Service Charges			
Establishment (a)	\$ 20.00	\$ 20.00	\$ 20.00
Establishment (After Hours) (a)	\$ 40.00	\$ 40.00	\$ 40.00
Re-Establishment of Service (a)	(b)	(b)	(b)
Reconnection (Regular Hours) (a)	50.00	50.00	50.00
Reconnection (After Hours) (a)	65.00	65.00	65.00
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment, Per Month	1.50%	1.50%	1.50%
Late Charge	(c)	(c)	(c)
Service Calls - Per Hour/After Hours (d)	40.00	40.00	40.00
Deposit Requirement	(e)	(e)	(e)
Deposit Interest	3.50%	3.50%	3.50%
Service Lateral Connection Charge- All Sizes	(f)	(f)	(f)
Main Extension Tariff	(g)	(g)	(g)

- (a) Service charges for customers taking both water and sewer service are not duplicative.
- (b) Minimum charge times number of months disconnected.
- (c) Greater of \$5.00 or 1.5% of unpaid balance.
- (d) No charge for service calls during normal working hours.
- (e) Per Rule R14-2-603B: Residential - two times the average bill.
Non-residential - two and one-half times the average bill.
- (f) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution-in-aid of construction.
- (g) All Main Extensions shall be completed at cost and shall be treated as non-refundable contribution-in-aid of construction.

Litchfield Park Service Company
 Docket Nos. W-01427A-09-0104, SW-01428A-09-0103, et al.
 Test Year Ended September 31, 2008

WASTEWATER DIVISION RATE DESIGN 100 PERCENT PHASE IN

Monthly Usage Charge	Present	Company Proposed	Recommended Order Full Rates
Residential - Per Unit / Month	\$ 27.20	\$ 48.21	\$ 40.95
Multiple Unit Service - Per Unit / Month	25.25	44.76	\$ 38.01
Small Comm. ¹	46.00	81.54	\$ 69.25
Regular Domestic ²	25.75	45.64	\$ 38.76
Restaurants, Motels, Grocery, DC	25.75	45.64	\$ 38.76
Wig. Resort/ Room	25.25	44.76	\$ 38.01
Wig. Resort/ Main	1,000.00	1,772.50	\$ 1,505.33
Element. School	680.00	1,205.30	\$ 1,023.63
Mid. & High School	800.00	1,418.00	\$ 1,204.27
Community College	1,240.00	2,197.90	\$ 1,866.61
Effluent Sales ³	Market	Market	Market

¹ Small commercial is a wastewater commercial customer that averages a maximum of 10,000 gallons of water usage per month.

² Regular Domestic is a wastewater commercial customer that averages a minimum of 10,000 gallons of water usage per month.

³ Market Rate - Maximum effluent rate shall not exceed \$430 per acre foot based on a potable water rate of \$1.32 per thousand gallons and shall not be less than \$0.17 per thousand gallons.

Commodity Charge (per 1,000 gallons of water)			
Regular Domestic	\$ 2.25	\$ 3.99	\$ 3.39
Restaurants, Motels, Grocery, DC	3.00	5.32	4.52

