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OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner

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IN THE MATTER OF THE APPLICATION OF)
ARIZONA-AMERICAN WATER COMPANY,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES BASED THEREON)
FOR UTILITY SERVICE BY ITS ANTHEM)
WATER DISTRICT AND ITS SUN CITY)
WATER DISTRICT.)

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF)
ARIZONA-AMERICAN WATER COMPANY,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES BASED THEREON)
FOR UTILITY SERVICE BY ITS)
ANTHEM/AGUA FRIA WASTEWATER)
DISTRICT, ITS SUN CITY WASTEWATER)
DISTRICT AND ITS SUN CITY WEST)
WASTEWATER DISTRICT.)

DOCKET NO. SW-01303A-09-0343

EXCEPTIONS

OF ARIZONA-AMERICAN WATER COMPANY

1 **I. INTRODUCTION**

2 On November 30, 2010, the Administrative Law Judge (“ALJ”) in the above-
3 captioned proceeding issued a Recommended Opinion and Order (“ROO”). Pursuant to
4 A.A.C. R14-3-110(B), Arizona-American Water Company (“Arizona-American” or the
5 “Company”) files its limited exceptions to the ROO.

6 Throughout this proceeding and during the fourteen days of hearings in this
7 case, the Company provided ample and credible support for its request for a total increase
8 in annual revenues of \$16,599,227.¹ The credibility and sufficiency of this evidence was
9 recognized by Commission Staff, which recommended a total increase in annual revenues
10 of \$16,003,384, and now has been recognized by a well-reasoned and fully-supported
11 ROO, which adopts Staff’s recommendation.²

12 The Company files these exceptions to address certain issues in the ROO and
13 respectfully requests that the Commission adopt appropriate amendments to the ROO at the
14 Open Meeting.

15 **A. Exception 1--The ROO’s Tariffs Do Not Produce the**
16 **Authorized Revenue Requirement**

17 The ROO adopts a new tariff for effluent in the Anthem/Agua Fria
18 Wastewater District of \$0.77 per 1000 gallons, which several parties proposed and the
19 Company later accepted. This new tariff would allow those currently using effluent in this
20 district to purchase effluent at this rate, including the Anthem Golf & Country Club.
21 Currently, because a **wastewater** effluent tariff does not exist, certain users of effluent pay
22 at the non-potable irrigation rate under the Anthem **Water** District tariff. Although the
23 **non-potable** irrigation rate for Anthem’s Water District is eliminated under the ROO, the
24 parties, including Staff, did not anticipate this change in their final schedules, and because
25 the ROO relied on Staff’s final rate design schedules, the status quo is carried forward, thus

26 ¹ Company’s Final Schedules; Recommended Opinion and Order (“ROO”) at 10.

² Staff’s Revenue Requirement Schedules (GWB-1 Schedules and GTM-1 Schedules); ROO at 62.

1 creating a mis-match such that the ROO's tariffs do not produce the authorized revenue
2 requirement. In error, the ROO assigned revenue requirement to the Anthem Water
3 District's current effluent customers at \$2.56 per thousand gallons, or \$1,497,587, which
4 must now be eliminated from the Anthem Water District and established in the
5 Anthem/Agua Fria Wastewater District at \$0.77 per thousand gallons, or \$449,603, with the
6 difference between the two figures needing to be made up by other Anthem Water District
7 customers.

8 In summary, the revenues associated with effluent sales were not
9 incorporated in the ROO properly in determining appropriate rates for both the
10 Anthem/Agua Fria Wastewater District (which would slightly decrease that district's rates
11 to other customers to achieve the authorized revenue requirement) and the Anthem Water
12 District (which would increase certain rates to other Anthem Water customers) to achieve
13 the authorized revenue requirement.

14 The Company is currently working on revised schedules to address these
15 changes (including the impact on other customers) and will make a filing in the docket as
16 soon as possible to address the adjustments to the rates schedules set forth in Exhibit A of
17 the ROO.

18 **B. Exception 2--Pension Expense**

19 The ROO adopts the pension expense proposed by the Company and
20 accepted by Staff.³ The ROO, however, utilizes Staff's final schedules, which included one
21 minor error in relation to the Sun City Wastewater district. As set forth on page 45 of the
22 ROO, Staff's schedules included an amount of \$64,196 for the Sun City Wastewater
23 District. The correct amount should be \$86,994, which comports with the Company's
24 proposal, which Staff supported.⁴ The Company has discussed this correction with Staff,

25 ³ ROO at 48.

26 ⁴ *Id.* at 45. Upon review of Staff's final schedules, the Company notes that adjustment GTM-11 for the Sun City Wastewater District included a negative \$11,399 and it should have included a positive \$11,399. This adjustment would conform to Staff's adjustments for the other water and wastewater districts.

1 and Staff agrees that this adjustment should be made and that Staff's recommendation for
2 the Sun City Wastewater District should match the Company's request of \$86,994. The
3 Company respectfully requests that the Commission amend the ROO to adopt this
4 modification and a suggested amendment is set forth in Attachment 1. The effect of this
5 correction is an increase in the revenue requirement for Sun City Wastewater of \$22,798.

6 **C. Exception 3--Sun City Low Income Program**

7 The ROO appropriately recommends the need for the continuation of the high
8 block funding mechanism for the funding of the existing Sun City Low Income Program:
9 "We find that the current high block funding mechanism remains a reasonable means of
10 funding the Sun City Low Income Program, and will order the Company to continue it."⁵
11 However, Exhibit A does not include the funding of the program in Sun City's high block
12 recommended commodity rate of \$2.046 per 1,000 gallons. Therefore, the amount of
13 \$0.026 per 1,000 gallons must be added to the recommended high block rate of \$2.046 in
14 order to fund the program, which would further adjust the total high block rate to \$2.072.⁶
15 The Company has discussed this issue with Staff, and Staff agrees that a modification is
16 appropriate.

17 The Company respectfully requests that the Commission adopt an
18 amendment to address this necessary increase to fund the Sun City Low Income Program
19 and a suggested amendment is attached as Attachment 2.

20 **D. Exception 4--Non-Account Water (Sun City Water)**

21 The ROO recommends the following in relation to the Company's non-
22 account water in the Sun City Water District's PWS 07-099:

23 IT IS FURTHER ORDERED that Arizona-American Water Company shall reduce
24 water loss in the Sun City Water district's PWS No. 07-099 to below 10 percent

25 ⁵ ROO at 87.

26 ⁶ The program serves up to 1,000 customers at a recommended discount of \$4.50 per month at an annual
cost of \$54,000 (1,000 times \$4.50 times 12 bills). The thousands of gallons used by the residential and
commercial Sun City high block customers in the test year was 2,093,842.

1 before it files its next rate case, CC&N, or financing application, whichever comes
2 first; and shall continue tracking the water loss for PWS No. 07-099 for three years
3 and submit the data collected every six months; and shall file within 180 days, with
4 the Commission's Docket Control, as a compliance item in this docket, the first
water loss tracking report for PWS No. 07-099.⁷

5 As demonstrated during the hearing in this matter, Arizona-American has taken and
6 continues to take many steps to reduce unaccounted-for water in the Sun City Water
7 District.⁸ These include annual testing and calibration of production meters, change-out of
8 customer meters on a 15 year cycle, annual testing of large customer meters, systematic
9 roll-out of automatic meter reading devices, leak detection, and other remedial steps.⁹ As a
10 result, the unaccounted-for water for the Sun City Water District was already reduced to
11 8.31% at the time of the hearing, which demonstrates Arizona-American's commitment to
12 this program.¹⁰

13 The Company did not object to Staff's recommended condition, which
14 required the Company to continue to track its water loss for three additional years and
15 submit data collected every six months. It also required the Company to reduce water loss
16 to below ten percent by the sooner of December 31, 2010 or the filing of the Company's
17 next rate case, CC&N and/or financing application.¹¹ Given the Company's compliance
18 with this requirement prior to December 31, 2010, the Company had met Staff's second
19 recommended condition and accepted it as appropriate.

20 The Company continues to support Staff's condition but is concerned that the
21 ordering paragraph in the ROO, which does not include the December 31, 2010 date (or
22 any specific date), could be read to require the Commission to reject a new filing by the
23

24 ⁷ ROO at 118. The Order should also make clear that the filing should be made within 180 days.

25 ⁸ ROO at 54.

25 ⁹ Ex. A-23 at Ex. BJC-1; Transcript, Phase I Hearing ("TR.I"). at 556.

26 ¹⁰ ROO at 54.

1 Company if water loss exceeds ten percent at some future date. The Company respectfully
 2 requests that the Commission amend this condition to allow the Company to include an
 3 explanation of the increased water loss (in the unlikely event it exceeded 10%) and allow
 4 the Commission the discretion – based on that explanation – to process the filing. This is
 5 consistent with prior Commission decisions for the Company and with recent Commission
 6 decisions, which each have required the filing of such explanations and/or plans if
 7 compliance cannot be met.¹² The Company also requests that it be made explicit that the
 8 “rate case” referenced in the condition is a Sun City Water District rate case. The
 9 Company has attached a suggested amendment as Attachment 3.

10 **E. Exception 5--Corporate Depreciation Rates**

11 The ROO adopts Staff’s recommended depreciation rates as set forth in
 12 Exhibit C to the ROO. The Company accepts those rates but further requests that the ROO
 13 adopt a specific schedule of depreciation rates for corporate plant. In the past, the
 14 Company has looked to Commission Staff’s final schedules for the appropriate corporate
 15 depreciation rates. However, in this case, there are discrepancies used by Staff for certain
 16 districts as set forth in the table below:

	Anthem Water	Sun City Water	Anthem/AF WW	Sun City WW	Sun City West WW
	Sch GWB- 14	Sch GWB- 16	Sch GTM- 16	Sch GTM-14	Sch GTM- 16
304620 Struct & Imp Leasehold	14.28%	14.28%	14.28%	14.28%	14.28%
339600 Other P/E CPS	3.30%	3.30%	3.30%	3.30%	3.30%
340100 Office Furniture & Equip	4.04%	3.87%	4.04%	4.04%	4.04%
340200 Comp & Periph Equip	10.00%	10.00%	10.00%	10.00%	10.00%

12 ¹² See, e.g. Decision No. 71878 (Global Water Rate Case) at 88. This Decision also recognized that 15 percent was an appropriate maximum in certain districts.

340300 Computer Software	37.71%	25.00%	25.00%	25.00%	25.00%
340330 Computer Software Other	37.71%	25.00%	25.00%	25.00%	25.00%
346100 Comm Equip NonTelephone	9.76%	8.25%	8.25%	8.25%	8.25%
346200 Comm Equip Telephone	9.76%	8.25%	8.25%	8.25%	8.25%
346300 Comm Equip Other	7.91%	5.35%	5.35%	5.35%	5.35%

The Company requests that Exhibit C include a specific, consistent set of approved depreciation rates for corporate plant as follows:

	Corporate Rate
304620 Struct & Imp Leasehold	14.28%
339600 Other P/E CPS	3.30%
340100 Office Furniture & Equip	4.04%
340200 Comp & Periph Equip	10.00%
340300 Computer Software	25.00%
340330 Computer Software Other	25.00%
346100 Comm Equip NonTelephone	8.25%
346200 Comm Equip Telephone	8.25%
346300 Comm Equip Other	5.35%

1 RESPECTFULLY SUBMITTED this 9th day of December, 2010.

2 LEWIS AND ROCA LLP

3
4 

5 _____
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7 Michael T. Hallam
8 40 North Central Avenue
9 Phoenix, AZ 85004

10 Attorneys for Arizona-American Water Company

11 ORIGINAL and thirteen (13) copies
12 of the foregoing filed this 9th day
13 of December, 2010, with:

14 The Arizona Corporation Commission
15 Utilities Division – Docket Control
16 1200 W. Washington Street
17 Phoenix, Arizona 85007

18 Copy of the foregoing hand-delivered
19 this 9th day of December, 2010, to:

20 Teena Jibilian, Administrative Law Judge
21 Hearing Division
22 Arizona Corporation Commission
23 1200 W. Washington Street
24 Phoenix, Arizona 85007

25 Steve Olea
26 Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

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Robin Mitchell
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Jayne Williams

ATTACHMENT 1

Page 45, Line 21:

Replace "\$64,196" with "\$86,994"

MAKE ALL CONFORMING CHANGES TO REVISE THE REVENUE
REQUIREMENT TO \$16,026,182.

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ATTACHMENT 2

Exhibit A, Page iii and iv:

Replace all instances of "\$2.0460" with "\$2.0720".

ATTACHMENT 3

Page 110, Lines 15 ½ to 20 ½

DELETE:

“It is reasonable and in the public interest to require the Company to reduce water loss in the Sun City Water district’s PWS No. 07-099 to below 10 percent before it files its next rate case, CC&N, or financing application, whichever comes first, and to require that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket within 180 days of this Order.”

INSERT:

“It is reasonable and in the public interest to require the Company to reduce water loss in the Sun City Water district’s PWS No. 07-099 to below 10 percent before it files its next rate case, CC&N, or financing application, whichever comes first, and to require that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket within 180 days of this Order. If the Company’s water loss in the Sun City Water district’s PWS No. 07-099 exceeds 10 percent at the time the Company files its next Sun City Water District rate case, CC&N, or financing application, whichever comes first, the Company shall include an explanation of the reasons for the excessive water loss and if Staff accepts those reasons as valid, temporary or beyond the Company’s control, the Commission shall have the discretion to allow the application to be processed.”

Page 116, Lines 18 ½ to 23 1/2 :

DELETE:

“It is reasonable and in the public interest to require the Company to reduce water loss in the Sun City Water district’s PWS No. 07-099 to below 10 percent before it files its next rate case, CC&N, or financing application, whichever comes first, and to require that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a compliance item in this docket within 180 days of this Order.”

INSERT:

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1 Company continue tracking the water loss for PWS No. 07-099 for three years and submit
2 the data collected every six months, with the first water loss tracking report for PWS No.
3 07-099 to be filed as a compliance item in this docket within 180 days of this Order. If the
4 Company's water loss in the Sun City Water district's PWS No. 07-099 exceeds 10 percent
5 at the time the Company files its next Sun City Water District rate case, CC&N, or
6 financing application, whichever comes first, the Company shall include an explanation of
the reasons for the excessive water loss and if Staff accepts those reasons as valid,
temporary or beyond the Company's control, the Commission shall have the discretion to
allow the application to be processed."

7 **Page 118, Lines 18 ½ to 23 ½ :**

8 **DELETE:**

9 "IT IS FURTHER ORDERED that Arizona-American Water Company shall reduce water
10 loss in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its
11 next rate case, CC&N, or financing application, whichever comes first; and shall continue
12 tracking the water loss for PWS No. 07-099 for three years and submit the data collected
13 every six months; and shall file within 180 days, with the Commission's Docket Control, as
14 a compliance item in this docket, the first water loss tracking report for PWS No. 07-099."

15 **INSERT:**

16 "IT IS FURTHER ORDERED that Arizona-American Water Company shall reduce water
17 loss in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its
18 next rate case, CC&N, or financing application, whichever comes first; and shall continue
19 tracking the water loss for PWS No. 07-099 for three years and submit the data collected
20 every six months; and shall file within 180 days, with the Commission's Docket Control, as
21 a compliance item in this docket, the first water loss tracking report for PWS No. 07-099 to
22 be filed as a compliance item in this Docket within 180 days of this Order. If the
23 Company's water loss in the Sun City Water district's PWS No. 07-099 exceeds 10 percent
24 at the time the Company files its next rate case, CC&N, or financing application, whichever
25 comes first, the Company shall include an explanation of the reasons for the excessive
26 water loss and if Staff accepts those reasons as valid, temporary or beyond the Company's
control, the Commission shall have the discretion to allow the application to be processed."