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MEMORANDUM

Arizona Corporation Commission
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AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: December 10, 2010

RE: **STAFF'S SECOND SUPPLEMENTAL MEMO-** IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES LLC DBA JOHNSON UTILITIES COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES – PROPOSED CAGRD ADJUSTOR FEES (DOCKET NO. WS-02987A-08-0180)

In this supplemental filing, Utilities Division Staff ("Staff") presents its calculations for two alternative sets of fee amounts for the Johnson Utilities Company ("Johnson" or "Company") Central Arizona Groundwater Replenishment District ("CAGRD") adjustor fees for the Phoenix and Pinal Active Management Areas ("AMAs").

At the November Regular Utilities Division Commission Open Meeting the referenced item was pulled to allow the parties an opportunity to meet to discuss issues that had arisen regarding the implementation of the CAGRD adjustor. The basic primary issue was whether the adjustor fees should be based on water delivered or water pumped. The answer to the question depends on whether the Commission wishes to encourage water companies to obtain a Designation of Assured Water Supply ("DAWS") from the Arizona Department of Water Resources ("ADWR") as having a 100-year Assured Water Supply, or whether the Commission would prefer that each subdivision within a water company's certificated area prove up its own water supply by obtaining a Certificate of Assured Water Supply ("CAWS").

The CAGRD assesses its members for the excess groundwater reported to it by the water systems serving lands within its area. For those companies with a DAWS, the CAGRD billing is made directly to the water company based on the excess groundwater that is pumped. Within the area of those companies that do not have a DAWS, the billing is made to the individual water customers through the customers' property tax based on the excess groundwater sold to each customer. Based on this different method of billing, the charge to those customers in a CAWS area is less than those in a DAWS area.

Based on the above, it would seem obvious that the Commission should approve the lower cost of having a CAWS. However, both ADWR and CAGRD believe that the better way of doing long-term water planning and more efficient groundwater management method is through the use of DAWS rather than CAWS. Staff would defer to the groundwater management and groundwater hydrology expertise of both these agencies on this issue. Therefore, Staff has presented two alternative CAGRD adjustor fees below for the Commission's consideration. The selection that the Commission makes will depend on the policy that it wants to promote.

If this Commission wishes to promote the DAWS method it should approve the recovery of all CAGRD fees paid by the provider, i.e., fees related to all excess groundwater pumped, the CAGRD adjustor rate would be $0.747 per thousand gallons for Johnson's customers in the Phoenix AMA and $0.252 per thousand gallons for the Pinal AMA. These rates were obtained by taking the CAGRD invoice of $1,637,956 in the Phoenix AMA and dividing it by the thousand gallons sold of 2,191,644. For the Pinal AMA it was a $58,320 invoice divided by 231,545 thousand gallons sold.

If this Commission wishes to not promote the use of DAWS, but prefers that developers obtain their own CAWS for each subdivision and ratepayers be charged for only the water sold to them, the CAGRD adjustor rate would be $0.683 per thousand gallons for Johnson's customers in the Phoenix AMA and $0.113 per thousand gallons for the Pinal AMA. These rates were obtained by recalculating the fees that would have been imposed based only on groundwater sold, $1,496,692, in the Phoenix AMA and dividing it by the thousand gallons sold of 2,191,644. For the Pinal AMA the rate was obtained by dividing the recalculated fees of $26,050 by the 231,545, thousand gallons sold.

Steven M. Olea
Director
Utilities Division

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Originator: Nancy Scott