

OPEN MEETING AGENDA ITEM



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- GARY PIERCE - Chairman
- BOB STUMP
- SANDRA D. KENNEDY
- PAUL NEWMAN
- BRENDA BURNS

2011 MAR 24 P 3:44

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF BELLA VISTA WATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02465A-09-0411

IN THE MATTER OF THE APPLICATION OF NORTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-20453A-09-0412

IN THE MATTER OF THE APPLICATION OF SOUTHERN SUNRISE WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-20454A-09-0413

Arizona Corporation Commission

DOCKETED

MAR 24 2011

DOCKETED BY

IN THE MATTER OF THE JOINT APPLICATION OF BELLA VISTA WATER CO., INC., NORTHERN SUNRISE WATER COMPANY, INC., AND SOUTHERN SUNRISE WATER COMPANY, INC. FOR APPROVAL OF AUTHORITY TO CONSOLIDATE OPERATIONS, AND FOR THE TRANSFER OF UTILITY ASSETS TO BELLA VISTA WATER CO., INC., PURSUANT TO ARIZONA REVISED STATUTES § 40-285.

DOCKET NO. W-02465A-09-0414

DOCKET NO. W-20453A-09-0414

DOCKET NO. W-20454A-09-0414

STAFF'S CLARIFICATIONS TO RECOMMENDED OPINION AND ORDER

Pursuant to Arizona Administrative Code R14-3-110(B), the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") respectfully submits the following clarifications

1 in response to the Recommended Opinion and Order (“ROO”) issued by Administrative Law Judge
2 Jane Rodda on March 15, 2011.

3 **I. AFTER HOURS SERVICE CHARGE.**

4 On page 42, line 8.5 there is a footnote “(d)”, with the corresponding explanation found on
5 line 15.5. Staff would request deletion of the footnote. This was an inadvertent reference found in
6 Staff’s final schedules and should be removed.

7 **II. DEPRECIATION METHODOLOGY.**

8 Staff is concerned that the ROO does not provide enough guidance to Bella Vista Water
9 Company, Northern Sunrise Water Company, Southern Sunrise Water Company (collectively the
10 “Company”) to ensure that the calculation of the Company’s depreciation expense and accumulated
11 depreciation will, on a going forward basis, be correct.

12 As noted in the ROO, the Company was not recording plant that was retired from service.
13 Staff further noted that the Company was not recognizing plant groups by vintage year, and the
14 Company was not recognizing when plant had been fully-depreciated.¹ These actions result in
15 inaccurate calculations of accumulated depreciation and depreciation expense.

16 While the ROO directs the Company to properly record all retirements in the future and
17 authorizes the use of group depreciation, the ROO does not specify that the accounting for group
18 depreciation going forward shall be consistent with the method used to derive the adopted
19 depreciation expense and accumulated depreciation in the instant case. Staff requests that language
20 be added to the ROO to clarify that, not only for purposes of setting rates in this rate case, but on a
21 going-forward basis as well, the Company shall employ a depreciation methodology that recognizes
22 vintage year plant groups and ceases calculation of depreciation expense when the original cost of the
23 plant composing the vintage year plant group has been fully recovered. Under rate regulation, where
24 depreciation rates are established only in rate cases, group depreciation should utilize vintage year
25 plant groups by account to avoid premature depreciation and to avoid negative accumulated
26 depreciation balances.

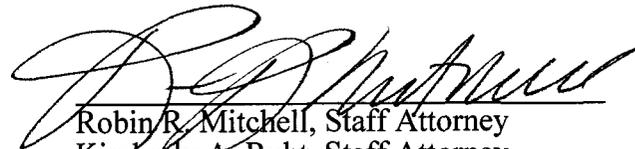
27

28 ¹ Tr. at 1032:5-1033:7.

1 Staff clarified at hearing that it would be acceptable for the Company to group assets by plant
2 account by vintage year for purposes of applying depreciation, as long as retirements were properly
3 recorded and fully-depreciated vintage groups were recognized (i.e., depreciation ceases when the
4 vintage group reaches the end of its useful life.)² This approach removes the possibility of negative
5 net plant balances. Once the plant group in a given vintage year is fully depreciated, the calculation
6 of depreciation expense ceases. This methodology is how Staff typically applies depreciation and is,
7 in fact, how Staff calculated the depreciation expense and accumulated depreciation that were
8 adopted in the ROO.³

9 For the reasons above, Staff respectfully requests that its clarifications be adopted. Attached is
10 Staff's proposed amendment.

11 RESPECTFULLY SUBMITTED this 24th day of March, 2011.

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14 

15 Robin R. Mitchell, Staff Attorney
16 Kimberly A. Ruht, Staff Attorney
17 Bridget A. Humphrey, Staff Attorney
18 Legal Division
19 Arizona Corporation Commission
20 1200 West Washington Street
21 Phoenix, Arizona 85007
22 (602) 542-3402

23 Original and thirteen (13) copies
24 of the foregoing filed this
25 24th day of March, 2011, with:

26 Docket Control
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007

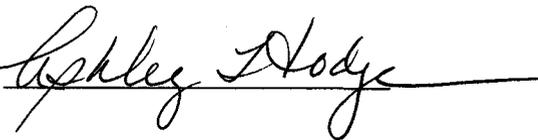
² Tr. at 896:24-897:4; 1032:5-1033:24.

³ Brown Surrebuttal at 14:21-26.

1 Copy of the foregoing mailed and/or
2 emailed this 24th day of March, 2011 to:

3 Jay L. Shapiro, Esq.
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STAFF PROPOSED AMENDMENT NO. 1

TIME/DATE PREPARED: March 24, 2011, 4:00 p.m.

COMPANY: Bella Vista Water Company, et al. AGENDA ITEM NO.: U-14

DOCKET NO: W-02465A-09-0411 et al. OPEN MEETING DATE: March 29 and 30, 2011.

Page 16, Lines 18-22:

DELETE: "As long as the Company properly accounts for plant retirements, the group depreciation methodology appears to be an acceptable methodology which has been used in this jurisdiction. The group methodology is not inconsistent with the requirement to use the straight-line depreciation methodology. Accordingly, we will not require the Company to use the individual asset depreciation methodology on a going-forward basis."

INSERT: "As long as the Company properly accounts for plant retirements, and recognizes vintage year plant groups and ceases depreciation expense when the original cost of the plant composing the vintage year plant group has been fully recovered, the group depreciation methodology appears to be an acceptable methodology for use by the Company, we will not require the Company to use the individual asset depreciation methodology on a going-forward basis."

Page 42, Line 8.5:

DELETE: "(d)"

Page 42, Line 15.5:

DELETE: (d) Commission Rules provide for recovery of damage to meter.

Make all conforming changes.

**** Make All conforming changes**

| | | |
|------------------------|----------------------------|-----------------------|
| THIS AMENDMENT: | | |
| _____ Passed _____ | Passed as amended by _____ | |
| _____ Failed _____ | _____ Not Offered _____ | _____ Withdrawn _____ |