

OPEN MEETING AGENDA ITEM



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MEMORANDUM
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Arizona Corporation Commission

DOCKETED

FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

AUG 26 2011

DOCKETED BY

DATE: August 26, 2011

RE: JOHNSON UTILITIES, L.L.C. DBA JOHNSON UTILITIES COMPANY - INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN PINAL COUNTY, ARIZONA (DOCKET NO. WS-02987A-08-0180)

Staff files this memorandum related to possible changes to Decision No. 71854 if the Arizona Corporation Commission ("Commission") approves amendment of the decision pursuant to Arizona Revised Statutes ("A.R.S.") § 40-252. This memorandum is not a recommendation by Staff concerning amendment of Decision No. 71854, but instead is offered to aid the Commission in its consideration of these matters. Staff also notes that the analysis and impacts of modifying Decision No. 71854 reflected in attached Exhibit A were prepared jointly by Staff and the Company, again for the convenience of the Commission in its further consideration of these matters.

On February 28, 2011, Johnson Utilities, L.L.C. dba Johnson Utilities Company ("Johnson Utilities" or "Company") filed a Petition to Amend Decision No. 71854 pursuant to A.R.S § 40-252. Johnson Utilities' Petition to Amend requested that the Commission modify Decision No. 71854 in the following manner:

- a. Change the \$40 per month late fee in the Company's wastewater division tariff to a late fee of 1.5 percent per month on the unpaid account balance, consistent with the Company's water division tariff.
- b. Add back into rate base wastewater division plant of \$18,244,755 which was disallowed in the rate case. This sum includes the addition back into rate base the \$10,892,391 disallowance for inadequately supported plant cost and the \$7,352,364 disallowance related to affiliate profit.
- c. Remove from the water division rate base \$6,931,078 in unexpended test year hook-up fees.
- d. Reinstate the Company's previously authorized hook-up fees for new water and wastewater divisions' connections.
- e. Establish a rate of return for the Company based upon its weighted average cost of capital in the range of 8.18 percent to 11.89 percent.

- f. Reclassify \$2,201,386 of wastewater plant identified as post test year plant to test year plant-in-service.
- g. Include in plant-in-service post test-year wastewater plant at \$1,021,108, which the Company alleges is necessary to serve the test year-end level of customers.
- h. Include explicit language for Johnson Utilities to request income tax expense prospectively in a future A.R.S. § 40-252 Petition if the Commission changes its policy on imputed income tax expense.

At the July 12, 2011 Open Meeting, the Commission voted to reopen Decision No. 71854, and directed the Company to notice its customers concerning: (a) the rate impacts of granting the relief requested, (b) a public comment session in Pinal County, and (c) the August 11, 2011 Open Meeting at which the Commission would consider the Company's request for relief. Johnson Utilities noticed its customers as directed by the Commission and filed proof of notice in the docket.

On July 26, 2011, Johnson Utilities filed an Amendment to Petition to Amend Decision No. 71854. The amendment modified its Petition to Amend to request a rate of return based upon a weighted average cost of capital of 8.0 percent.

On August 4, 2011, Chairman Pierce mailed and docketed a letter to the parties requesting proposed amendments to aid in the Commission's consideration of the Petition. On August 9, 2011, Johnson Utilities filed a proposed amendment modifying Decision No. 71854 concerning the relief requested. The amendment was adopted by Chairman Pierce for purposes of discussion and consideration at the August 11, 2011 Open Meeting.

At the August 11, 2011 Open Meeting, the Commission discussed and considered the proposed amendment to Decision No. 71854 in accordance with A.R.S. § 40-252, and provided all parties an opportunity to be heard concerning the requested relief. The Commission determined that certain of the Company's requested modifications to Decision No. 71854 did not warrant further Commission consideration, but voted to direct Staff to prepare and docket an order incorporating the following requested modifications to be considered at September Open Meeting:

- a. The change of the wastewater late fee from \$40 per month to 1.5 percent per month.
- b. The addition back of \$18,244,755 in disallowed wastewater plant, which includes the \$10,892,391 disallowance for inadequately supported plant and the \$7,352,364 disallowance related to affiliate profit.
- c. The reinstatement of hook-up fee tariffs for water and wastewater divisions.

- d. The determination of a rate of return of 8.0 percent for the wastewater division.
- e. The inclusion of language permitting the Company to request income tax expense prospectively in a future A.R.S. § 40-252 Petition if the Commission changes its policy relating to imputed income tax expense.

The Commission also determined that if the relief requested was granted, that new rates should go into effect October 1, 2011, and that the Company could not file a rate case with a test year ending earlier than December 31, 2012. The Commission directed Staff and the Company to meet, discuss and analyze the rate impacts concerning the remaining requested modifications to Decision No. 71854, and thereafter for Staff to docket a report concerning the resulting revenue and rate design analysis.

Staff and the Company have jointly prepared the attached Exhibit A that shows the impact of changes to Johnson's wastewater rate base, revenue requirement and rate design, if the above four modifications to Decision No. 71854 are approved by the Commission. The Company's Gross Utility Plant in Service was increased by \$18,244,755 to reflect inclusion of \$10,892,391 and \$7,352,364 previously disallowed by Decision No. 71854 as unsupported sewer plant and affiliate profit, respectively. If this change is approved by the Commission, the Company's adjusted Fair Value Rate Base ("FVRB") for its wastewater division would be \$17,270,554, an increase of \$17,133,992 over \$136,562 authorized in Decision No. 71854.

As directed by the Commission, Exhibit A includes an analysis for operating income that uses an 8.0 percent rate of return for the wastewater division, instead of the 3 percent operating margin authorized in Decision No. 71854. This 8.0 percent rate of return applied to the Company's adjusted wastewater division FVRB results in an increase to the Company's Required Operating Income in the amount of \$1,091,034 over the \$290,610 authorized in Decision No. 71854. As a result, the Company's new Required Operating Income would be \$1,381,644. Based on these modifications, the Company's new revenue requirement would be \$11,591,861, which is an increase of \$1,904,866 over the \$9,686,995 authorized in Decision No. 71854.

Further, Staff and the Company have revised the Company's rate design with new rates intended to provide the Company the opportunity to earn the return authorized herein if the Commission modifies Decision No. 71854 as stated above. These new rates are set forth in Exhibit A attached hereto. If approved by the Commission, the Company should be required to file new tariffs reflecting these rates. Under the new rates set forth in Exhibit A, a residential wastewater customer on a ¾-inch meter would experience an increase of \$6.56 or approximately 20 percent over the rates approved in Decision No. 71854, from \$32.79 to \$39.35 per month.

Conclusions

If the Commission modifies Decision No. 71854 on the matters the Commission indicated it would consider further, Staff makes the following recommendations:

The Commission should approve the rates and charges set-forth in Exhibit A, as amendments to Decision No. 71854 and that the Commission order the Company to notice its customers of any new rates and changes approved in this proceeding, no later than September 3, 2011.

The Commission order that Johnson Utilities shall not file for an increase in rates using a test year ending earlier than December 31, 2012.

The Commission order that all other matters set forth in Decision No. 71854 continue to be in full force and effect except where inconsistent with the decision.

The Commission order that Johnson Utilities shall file a tariff in conformance with this decision for rates to go into effect for all service rendered on and after October 1, 2011.

The Commission order that Johnson Utilities shall file new hook-up fee tariffs for both water and sewer with wording conforming to the wording on the Commission's hook-up fee templates on its website and the charges shall be the same as those on Johnson Utilities' former hook-up fee tariffs.

SMO:All:lhM\RM

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SERVICE LIST FOR: Johnson Utilities, L.L.C. dba Johnson Utilities Company
Docket No. WS-02987A-08-0180

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EXHIBIT A
WASTEWATER DIVISION

Monthly Minimum Charge	PER DECISION NO. 71854	NEW RATES PER ARS 40-252
Meter Sizes (All Zones and Classes)		
5/8 Inch	\$ 29.8100	\$ 35.7700
3/4 Inch	\$ 32.7900	\$ 39.3500
1 Inch	\$ 41.7300	\$ 50.0800
1 1/2 Inch	\$ 53.6508	\$ 64.3900
2 Inch	\$ 86.4400	\$ 103.7300
3 Inch	\$ 327.8700	\$ 393.4700
4 Inch	\$ 625.9300	\$ 751.1700
6 Inch	\$ 864.3700	\$ 1,037.3300
8 Inch	\$ 1,092.6000	\$ 1,430.8000
10 inch	\$ 1,748.3300	\$ 2,056.7800
Effluent per 1,000 gallons	\$ 0.5280	\$ 0.6300
per acre foot	\$ 170.3200	\$ 205.2900
Service Charges		
Establishment	\$ 25.00	\$ 25.00
Establishment (After hours)	\$ 40.00	\$ 40.00
Deposit Requirement (Residential)	(a)	(a)
Deposit Requirement (Non Residential Meter)	(a)	(a)
Deposit Interest	(b)	(b)
Re-Establishment (With-in 12 months)	(c)	(c)
Re-Establishment (After Hours)	(c)	(c)
NSF Check	15.00	15.00
Deffered Payment, Per Month	1.50%	1.50%
After Hours service charge, per Rule R14-2-603D	Refer to Above Charges	Refer to Above Charges
Late Charge per month	40.00	1.50%
Service Line Connection Charge	350.00	350.00
Main Extension Tariff, per Rule R14-2-606B except refunds shall be based upon five percent (5%) of gross revenues from bonafide customers, until all advances are fully refunded to Developer.	Cost	Cost
Off-site Facilities Hook-up Fee	N/A	(d)

- (a) Residential - two times the estimated average monthly bill. Non-residential - two and one-half times the estimated maximum monthly bill.
- (b) Interest per Rule R14-2-603(B).
- (c) Minimum charge times number of full months off the system. per Rule R14-2-603(B).
- (d) New wastewater installations. May be assessed only once per parcel, service connection, or lot within a sub-division.

COMPARISON OF RATE BASE AND REVENUE REQUIREMENT PER DECISION NO 71854 AND ARS 40-252

	[A] DECISION NO. 71854	[B] ARS 40-252	[C] CHANGE
Gross Plant-in-Service	\$ 95,566,588	\$ 113,811,344	\$ 18,244,756
Accumulated Depreciation	(6,375,814)	(7,486,577)	(1,110,763)
Net Plant in Service	\$ 89,190,774	\$ 106,324,766	\$ 17,133,992
Advances in Aid of Construction	(52,231,631)	(52,231,631)	-
Net Contribution in Aid of Construction	(36,822,582)	(36,822,582)	-
Rate Base	\$ 136,562	\$ 17,270,554	\$ 17,133,992
Required Operating Margin/Rate of Return	Operating Margin 3.00%	Rate of Return 8.00%	
Required Operating Income	\$ 290,610	\$ 1,381,644	\$ 1,091,034
Operating Income Deficiency	\$ (1,631,136)	\$ 232,727	\$ 1,863,863
Tax Gross-up Factor	1.0220	1.0220	
Gross Revenue Increase (Decrease)	\$ (1,667,020)	\$ 237,847	\$ 1,904,867
Adjusted Test Year Revenue	\$ 11,354,014	\$ 11,354,014	-
Revenue Requirement	\$ 9,686,995	\$ 11,591,861	\$ 1,904,866
Percentage Increase in Revenue Requirement(Decrease)	-14.68%	2.09%	19.66%
<u>Impact on 3/4 Inch Residential Bill</u>			
Average 3/4 Inch Residential Bill	\$ 32.79	\$ 39.35	\$ 6.56