

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

SEP 22 2011

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FROM: Utilities Division

DOCKETED BY *Ross*

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 22, 2011

RE: SAHUARITA WATER COMPANY, L.L.C. FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCINGS AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY (DOCKET NO. W-03718A-09-0359)

**I. Introduction**

On August 24, 2011, pursuant to Decision No. 72177 (February 11, 2011), Sahuarita Water Company, L.L.C. ("Sahuarita" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGRDR") adjustor fees.

Decision No. 72177 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGRDR for replenishment of excess groundwater. The conditions require the Company to submit, by August 25 of each year, for Commission consideration, its proposed CAGRDR fees for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after October 1.<sup>1</sup> Accordingly, the Company made the instant filing.

**II. Background**

The CAGRDR was established by the Arizona legislature to serve as a groundwater replenishment entity for its members and provides a mechanism for designated water supply providers such as Sahuarita to demonstrate a 100-year water supply. Members pay the CAGRDR to replenish any groundwater pumped by the member that exceeds the specified pumping limits. The CAGRDR is recognized as an important tool in Arizona's groundwater conservation efforts.

<sup>1</sup> Dec. No. 72177 at 39, Condition Nos. 1 and 7.

### III. Annual Membership Dues

Subsequent to the implementation of the Company's initial adjustor, the Arizona legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR D to charge annual membership dues ("AMDs") "on all parcels of member lands and on all municipal providers having a member service area," in addition to the charges for replenishment of excess groundwater. The sole purpose of the AMDs is "to pay costs associated with the acquisition, lease or exchange of water or water rights and development of infrastructure necessary for the district to perform its replenishment obligations."<sup>2</sup>

On May 5, 2011, a meeting was held at the Commission's offices, attended by members of CAGR D staff, Commission Utilities Division ("Staff"), Sahuarita and Johnson Utilities, LLC dba Johnson Utilities Company ("Johnson").<sup>3</sup> CAGR D staff presented the AMD policy, the methodology in which it is calculated and the timing of the charges (the AMDs are included as a line item on the annual invoice, along with the assessment for excess groundwater).

As noted by the Commission in Decision No. 71854 regarding approval of the replenishment assessment, "Conservation and wise stewardship of increasingly stressed water supplies is a matter of paramount concern in Arizona, and we believe that it is important to send appropriate signals to water companies regarding their duty to fully engage in conservation programs administered by the ADWR."<sup>4</sup> And, like the already-approved CAGR D fees, the AMDs are not discretionary for the designated provider. Therefore, Staff concludes that the inclusion of the AMDs in the calculation of the CAGR D adjustor is appropriate and in the public interest.

### IV. Calculation of the CAGR D Adjustor Fees

Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons."<sup>5</sup>

Condition Nos. 2 and 3 ordered that the Company "place all CAGR D monies collected from customers in a separate, interest bearing account," only to be withdrawn for the annual payment to the CAGR D, due on October 15 of each year.<sup>6</sup>

In addition, although the order did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor

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<sup>2</sup> Arizona Revised Statutes § 48-3779(B).

<sup>3</sup> As designated providers with member service areas, both Sahuarita and Johnson are subject to the newly-imposed membership dues.

<sup>4</sup> Dec. No. 71854 (issued Aug. 25, 2010, Docket No. WS-02987A-08-0180) at 43:23-44:2.

<sup>5</sup> Dec. No. 72177 at 41.

<sup>6</sup> *Id.* at 39.

reset each year. This understanding was confirmed by the Commission's provision for a true-up in Decision No. 72204.<sup>7</sup>

The Company proposes a rate of \$0.794 per thousand gallons ("kgal"). Staff has reviewed the Company's proposed calculations and the supporting documentation submitted with its request. Staff generally agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate; however, Staff disagrees with the collection period used by the Company in its calculation.

Decision No. 72204 (issued March 3, 2011) set the Company's initial adjustor rate at \$0.394 per kgal and authorized the Company to begin its initial collection period for the adjustor on March 1, 2011, which would apply the rate to gallons sold during the month of February. Recognizing that this start date would not provide for a full twelve months in the initial recovery year, the Commission directed that "any under collection in the initial year should be included in the amount recognized for recovery in the following year."<sup>8</sup> However, Decision No. 72204 mistakenly stated that the March 1 start date would only allow for seven months of recovery when, actually, it would allow for eight months.<sup>9</sup>

Consequently, in reporting the amount of fees collected, the Company used a seven-month recovery period as follows: actual collections from March through July 2011, estimated collections for August 2011 based on amount billed, and estimated collections for September 2011 based on gallons sold in August 2010. As the new adjustor rate will be effective for all water sold after October 1, the calculation should have included an estimate for October collections based on gallons sold in September. The Company's use of a shortened collection period results in a slight understatement of the total estimated fees collected.

Therefore, Staff hereby provides its calculation and recommended rate for Sahuarita's CAGR D adjustor fees, discussed below and illustrated in the attached Exhibit A.

#### True-up

The CAGR D invoice to Sahuarita for the 2009 annual replenishment assessment was \$200,489. Sahuarita reports that, as of September 30, 2011, the Company will have total estimated collections and interest of \$110,124.<sup>10</sup> Staff has additionally calculated an estimate for the month of October by applying the present adjustor rate of \$0.394 per kgal to the Company's water sales during September 2010.

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<sup>7</sup> Dec. No. 72204 at 2:3-6.

<sup>8</sup> *Id.*

<sup>9</sup> The adjustor fees would apply to all water sold in the months of February through September, with collections during the months of March through October.

<sup>10</sup> Company's application dated Aug. 24, 2011, Exhibit #1.

This true-up calculation indicates an under-collection of approximately \$74,933 as follows:

A	2009 CAGR D invoice	\$200,489	
B	Collections and interest through Sept. 2011	110,124	
C	October collections (estimated)	<u>15,432</u>	39,167 kgal <sup>11</sup> x \$0.394/kgal
D	Total collections for 2009	125,556	
E	2009 CAGR D over/(under) collected [D-A]	\$(74,933)	

Adjustor Fee

The CAGR D invoice to Sahuarita for 2010 indicates total fees and dues of \$263,830. The Company's 2010 annual report as submitted to ADWR indicates annual water sales of 1,369.64 af, or 446,299 kgal.<sup>12</sup>

Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.76 per kgal.

A	2010 CAGR D invoice	\$263,830
B	Plus under-collection for 2009	<u>74,933</u>
C	Amount to be recovered [A + B]	338,763
D	Total kgal sold in 2010	446,299
E	Charge per kgal [C ÷ D]	\$0.76

**V. Filing Dates**

The conditions set forth in Decision No. 72177 established certain dates regarding the CAGR D adjustor. As previously noted, the Company is required to file for its annual adjustor re-set by August 25 each year and the new adjustor rate is applicable to all water sold after October 1. Additionally, Condition No. 4 requires the Company to file a semi-annual report due during the last week of October and the last week of April of each year, detailing the CAGR D fees collected and assessments paid.<sup>13</sup>

Since the adjustor was a newly-created mechanism for both Sahuarita and Johnson, the current reset applications are the first to be submitted. Upon review of the submissions, Staff now has some concerns regarding the appropriateness of the filing dates. Staff originally recommended the August 25 date to correspond to the CAGR D's invoicing of its members. However, as is apparent from the calculations, filing on that date requires the Company to estimate several months of collections and essentially necessitates a "true-up" of the true-up in

<sup>11</sup> Per the Company's 2010 annual report to ADWR: 120.2 acre-feet ("af") sold x 325.851 kgal/af = 39,167 kgal sold.

<sup>12</sup> 1,369.64 af x 325.851 kgal/af = 446,299 kgal.

<sup>13</sup> Dec. No. 72177 at 39.

the following year. Also, it may be more efficient to time the filing of the semiannual report to coincide with the reset filing.

Therefore, Staff intends to meet with both Sahuarita and Johnson to discuss alternatives that might streamline the process and eliminate the use of estimates in the calculations. If it is determined that changes to the conditions in the original order are appropriate, Staff will bring those recommendations to the Commission at a later date.

## **VI. Conclusions and Recommendations**

Staff concludes that the Company has duly filed the appropriate request to revise the CAGR adjutor fees, as required by Decision No. 72177.

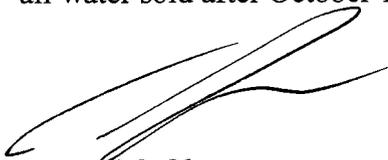
Staff concludes that inclusion of the AMDs in the calculation of the CAGR adjutor fees is appropriate.

Staff recommends approval of the CAGR adjutor fees as described herein.

Staff recommends that the Company file, within 7 days of a Decision in this matter, a CAGR adjutor fee tariff consistent with the rates approved herein.

Staff recommends that the Company notify its customers of the CAGR adjutor fee tariff approved herein within 30 days from the effective date of the Decision.

Staff recommends that the CAGR adjutor fees authorized herein become effective for all water sold after October 1, 2011.



Steven M. Olea  
Director  
Utilities Division

SMO:NLS:lh\RM

Originator: Nancy Scott

Exhibit A

Sahuarita Water Company, LLC  
 Docket No. W-03718A-09-0359

2009 invoice	\$ 200,489	
<u>Received</u>		
March collections	11,475	(for water sold in Feb, per Co's reported collections)
April collections	11,212	(for water sold in Mar, per Co's reported collections)
May collections	18,449	(for water sold in Apr, per Co's reported collections)
June collections	12,869	(for water sold in May, per Co's reported collections)
July collections	22,818	(for water sold in Jun, per Co's reported collections)
August	17,505	(for water sold in Jul, based on Co's reported amount billed 8/1/11)
September	15,785	(for water sold in Aug, based on Aug 2010 sales: 122.95 af x 325.851 kgal/af x \$0.394/kgal)
October	15,432	(for water sold in Sep, based on Sep 2010 sales: 120.2 af x 325.851 kgal/af x \$0.394/kgal)
Estimated interest	<u>11</u>	(per Co's estimate)
Total	125,556	
Under recovery	74,933	(200,489 - 125,556)
2010 invoice	263,830	
To be recovered	338,763	(263,830 + 74,933)
2010 kgal sold	446,299	(1369.64 af x 325.851 kgal/af)
Adjustor fee	\$ 0.76	(338,763 ÷ 446,299)

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

SAHUARITA WATER COMPANY, L.L.C. )  
 FOR AN OPINION AND ORDER OF THE )  
 COMMISSION (i) DETERMINING THE )  
 FAIR VALUE OF THE UTILITY )  
 PROPERTY FOR RATEMAKING )  
 PURPOSES, (ii) FIXING A JUST AND )  
 REASONABLE RATE OF RETURN )  
 THEREON, (iii) APPROVING RATES AND )  
 CHARGES DESIGNED TO PRODUCE )  
 REVENUES SUFFICIENT TO RECOVER )  
 COST OF SERVICE AND AUTHORIZED )  
 RATE OF RETURN, AND (iv) PROVIDING )  
 FOR THE RECOVERY OF CERTAIN )  
 FINANCINGS AND OPERATING )  
 EXPENSES THROUGH A SURCHARGE )  
 AND A PASS-THROUGH TARIFF, )  
 RESPECTIVELY )

DOCKET NO. W-03718A-09-0359  
 DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
 October 11 and 12, 2011  
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On August 24, 2011, pursuant to Decision No. 72177 (February 11, 2011), Sahuarita Water Company, L.L.C. ("Sahuarita" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR") adjustor fees.

...

1           2.       Decision No. 72177 authorized the Company to implement an adjustor mechanism,  
2 subject to certain conditions, to recover the costs paid to the CAGR D for replenishment of excess  
3 groundwater.

4           3.       The conditions require the Company to submit, by August 25 of each year, for  
5 Commission consideration, its proposed CAGR D fees for the next twelve-month period (along  
6 with documentation from the relevant state agencies to support the calculations), to apply to all  
7 water sold after October 1.<sup>1</sup>

8           4.       Accordingly, the Company made the instant filing.

9       **Background**

10          5.       The CAGR D was established by the Arizona legislature to serve as a groundwater  
11 replenishment entity for its members and provides a mechanism for designated water supply  
12 providers such as Sahuarita to demonstrate a 100-year water supply.

13          6.       Members pay the CAGR D to replenish any groundwater pumped by the member  
14 that exceeds the specified pumping limits.

15          7.       The CAGR D is recognized as an important tool in Arizona's groundwater  
16 conservation efforts.

17       **Annual Membership Dues**

18          8.       Subsequent to the implementation of the Company's initial adjustor, the Arizona  
19 legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR D to charge  
20 annual membership dues ("AMDs") "on all parcels of member lands and on all municipal  
21 providers having a member service area," in addition to the charges for replenishment of excess  
22 groundwater.

23          9.       The sole purpose of the AMDs is "to pay costs associated with the acquisition, lease  
24 or exchange of water or water rights and development of infrastructure necessary for the district to  
25 perform its replenishment obligations."<sup>2</sup>

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28       <sup>1</sup> Dec. No. 72177 at 39, Condition Nos. 1 and 7.

<sup>2</sup> Arizona Revised Statutes § 48-3779(B).

1           10.    On May 5, 2011, a meeting was held at the Commission’s offices, attended by  
 2 members of CAGR D staff, Commission Utilities Division (“Staff”), Sahuarita and Johnson  
 3 Utilities, LLC dba Johnson Utilities Company (“Johnson”).<sup>3</sup> CAGR D staff presented the AMD  
 4 policy, the methodology in which it is calculated and the timing of the charges (the AMDs are  
 5 included as a line item on the annual invoice, along with the assessment for excess groundwater).

6           11.    As noted by the Commission in Decision No. 71854 regarding approval of the  
 7 replenishment assessment, “Conservation and wise stewardship of increasingly stressed water  
 8 supplies is a matter of paramount concern in Arizona, and we believe that it is important to send  
 9 appropriate signals to water companies regarding their duty to fully engage in conservation  
 10 programs administered by the ADWR.”<sup>4</sup> And, like the already-approved CAGR D fees, the AMDs  
 11 are not discretionary for the designated provider.

12           12.    Therefore, Staff concludes that the inclusion of the AMDs in the calculation of the  
 13 CAGR D adjustor is appropriate and in the public interest.

14    **Calculation of the CAGR D Adjustor Fees**

15           13.    Condition No. 6 ordered that the adjustor fees be calculated as follows: “The total  
 16 CAGR D fees for the most current year . . . shall be divided by the gallons sold in that year to  
 17 determine a CAGR D fee per 1,000 gallons.”<sup>5</sup>

18           14.    Condition Nos. 2 and 3 ordered that the Company “place all CAGR D monies  
 19 collected from customers in a separate, interest bearing account,” only to be withdrawn for the  
 20 annual payment to the CAGR D, due on October 15 of each year.<sup>6</sup>

21           15.    In addition, although the order did not contain an explicit provision for a true-up,  
 22 the parties were in agreement that such an annual true-up would occur at the time of the adjustor

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26    <sup>3</sup> As designated providers with member service areas, both and Sahuarita and Johnson are subject to the  
 newly-imposed membership dues.  
 27    <sup>4</sup> Dec. No. 71854 (issued Aug. 25, 2010, Docket No. WS-02987A-08-0180) at 43:23-44:2.  
 28    <sup>5</sup> Dec. No. 72177 at 41.  
<sup>6</sup> *Id.* at 39.

1 reset each year. This understanding was confirmed by the Commission's provision for a true-up in  
2 Decision No. 72204.<sup>7</sup>

3 16. The Company proposes a rate of \$0.794 per thousand gallons ("kgal").

4 17. Staff reviewed the Company's proposed calculations and the supporting  
5 documentation submitted with its request. Staff generally agrees with the methodology employed  
6 by the Company to calculate the true-up and the proposed adjustor rate; however, Staff disagrees  
7 with the collection period used by the Company in its calculation.

8 18. Decision No. 72204 (issued March 3, 2011) set the Company's initial adjustor rate  
9 at \$0.394 per kgal and authorized the Company to begin its initial collection period for the adjustor  
10 on March 1, 2011, which would apply the rate to gallons sold during the month of February.

11 19. Recognizing that this start date would not provide for a full twelve months in the  
12 initial recovery year, the Commission directed that "any under collection in the initial year should  
13 be included in the amount recognized for recovery in the following year."<sup>8</sup> However, Decision  
14 No. 72204 mistakenly stated that the March 1 start date would only allow for seven months of  
15 recovery when, actually, it would allow for eight months.<sup>9</sup>

16 20. Consequently, in reporting the amount of fees collected, the Company used a seven-  
17 month recovery period as follows: actual collections from March through July 2011, estimated  
18 collections for August 2011 based on amount billed, and estimated collections for September 2011  
19 based on gallons sold in August 2010.

20 21. As the new adjustor rate will be effective for all water sold after October 1, the  
21 calculation should have included an estimate for October collections based on gallons sold in  
22 September.

23 22. The Company's use of a shortened collection period results in a slight  
24 understatement of the total estimated fees collected.

25 ...

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27 <sup>7</sup> Dec. No. 72204 at 2:3-6.

28 <sup>8</sup> *Id.*

<sup>9</sup> The adjustor fees would apply to all water sold in the months of February through September, with  
collections during the months of March through October.

1 23. Consequently, Staff provided its calculation and recommended rates for Sahuarita's  
2 CAGR D adjustor fees, as described below.

3 *True-up*

4 24. The CAGR D invoice to Sahuarita for the 2009 annual replenishment assessment  
5 was \$200,489.

6 25. Sahuarita reports that, as of September 30, 2011, the Company will have total  
7 estimated collections and interest of \$110,124.<sup>10</sup> Staff has additionally calculated an estimate for  
8 the month of October by applying the present adjustor rate of \$0.394 per kgal to the Company's  
9 water sales during September 2010.

10 26. This true-up calculation indicates an over-collection of approximately \$74,933, as  
11 follows:

12	A	2009 CAGR D invoice	\$200,489	
	B	Collections and interest through Sept. 2011	110,124	
13	C	October collections (estimated)	<u>15,432</u>	39,167 kgal <sup>11</sup> x \$0.394/kgal
14	D	Total collections for 2009	125,556	
15	E	2009 CAGR D over/(under) collected [D-A]	\$(74,933)	

16 *Adjustor Fee*

17 27. The CAGR D invoice to Sahuarita for 2010 indicates total fees and dues of  
18 \$263,830.

19 28. The Company's 2010 annual report as submitted to ADWR indicates annual water  
20 sales of 1,369.64 af, or 446,299 kgal.<sup>12</sup>

21 29. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is  
22 \$0.76 per kgal.

23	A	2010 CAGR D invoice	\$263,830
	B	Plus under-collection for 2009	<u>74,933</u>
24	C	Amount to be recovered [A + B]	338,763
	D	Total kgal sold in 2010	446,299
25	E	Charge per kgal [C ÷ D]	\$0.76

26  
27 <sup>10</sup> Company's application dated Aug. 24, 2011, Exhibit #1.

28 <sup>11</sup> Per the Company's 2010 annual report to ADWR: 120.2 acre-feet ("af") sold x 325.851 kgal/af = 39,167 kgal sold.

<sup>12</sup> 1,369.64 af x 325.851 kgal/af = 446,299 kgal.

**Filing Dates**

30. The conditions set forth in Decision No. 72177 established certain dates regarding the CAGR D adjustor. As previously noted, the Company is required to file for its annual adjustor re-set by August 25 each year and the new adjustor rate is applicable to all water sold after October 1. Additionally, Condition No. 4 requires the Company to file a semi-annual report due during the last week of October and the last week of April of each year, detailing the CAGR D fees collected and assessments paid.<sup>13</sup>

31. Since the adjustor was a newly-created mechanism for both Sahuarita and Johnson, the current reset applications are the first to be submitted. Upon review of the submissions, Staff now has some concerns regarding the appropriateness of the filing dates. Staff originally recommended the August 25 date to correspond to the CAGR D's invoicing of its members. However, as is apparent from the calculations, filing on that date requires the Company to estimate several months of collections and essentially necessitates a "true-up" of the true-up in the following year. Also, it may be more efficient to time the filing of the semiannual report to coincide with the reset filing.

32. Therefore, Staff intends to meet with both Sahuarita and Johnson to discuss alternatives that might streamline the process and eliminate the use of estimates in the calculations. If it is determined that changes to the conditions in the original order are appropriate, Staff will bring those recommendations to the Commission at a later date.

**Conclusions and Recommendations**

33. Staff concludes that the Company has duly filed the appropriate request to revise the CAGR D adjustor fees, as required by Decision No. 72177.

34. Staff concludes that inclusion of the AMDs in the calculation of the CAGR D adjustor fees is appropriate.

35. Staff recommends approval of the CAGR D adjustor fees as described herein.

...

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<sup>13</sup> Dec. No. 72177 at 39.



1 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC docket with the  
2 Commission as a compliance matter, within seven (7) days of the effective date of this Decision, a  
3 CAGR D adjustor fee tariff consistent with the rates approved herein.

4 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC shall notify its  
5 customers of the CAGR D adjustor fees approved herein within 30 days of the effective date of this  
6 Decision.

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

8

9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive  
Director of the Arizona Corporation Commission, have hereunto, set  
my hand and caused the official seal of this Commission to be  
affixed at the Capitol, in the City of Phoenix, this  
\_\_\_\_\_ day of \_\_\_\_\_, 2011.

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\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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DISSENT: \_\_\_\_\_

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DISSENT: \_\_\_\_\_

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SMO:NLS:lh\RM

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1 SERVICE LIST FOR: Sahuarita Water Company, LLC  
2 DOCKET NO. W-03718A-09-0359

3 Mr. Lawrence V. Robertson, Jr.  
4 Post Office Box 1448  
5 Tubac, Arizona 85646

6 Mr. Steven M. Olea  
7 Director, Utilities Division  
8 Arizona Corporation Commission  
9 1200 West Washington Street  
10 Phoenix, Arizona 85007

11 Ms. Janice M. Alward  
12 Chief Counsel, Legal Division  
13 Arizona Corporation Commission  
14 1200 West Washington Street  
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