

ORIGINAL

OPEN MEETING AGENDA ITEM



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ARIZONANS FOR RESPONSIBLE WATER POLICY

2012 OCT 16 P 2:11

October 16, 2012

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

OCT 16 2012

Arizona Corporation Commission
Docket Control
1200 West Washington Avenue
Phoenix, AZ 85007

DOCKETED BY *DM*

In Re: Docket No. W-00000C-06-0149

Dear Interested Parties:

The attached is a revised version of Responsible Water's paper "Beyond Rate Shock & Regulatory Lag." Subsequent to our initial paper (Sept. 2012) we met and consulted extensively with Arizona Public Service and the attached, revised paper, better explains the decisions and rate treatment APS has received from the Commission over the past several years.

Our intent is not criticism of APS or of the Commission – APS faced a downgrade to "junk" status from its debt ratings agencies, its stock price was faltering, and its customers were faced with the choice between higher rates now, or receiving service from a company on the verge of financial crisis. The Commission worked with APS to resolve the situation – and APS worked with the Commission to achieve the policy goals of the Commission. Today, APS customers have stable rates that won't change much over the next five years. APS has the financial ability to plan and invest in Arizona's future – and that sort of utility strength is a prerequisite to economic growth.

Our point is that if the Commission can find ways to solve APS' situation, and benefit APS customers and Arizona when the numbers involved reached into the billions of dollars, and hundreds of millions of dollars flow through adjustors each and every year – then the Commission can find a way to enact a simple, tried, and proven mechanism that dramatically reduces rate case frequency, the size of rate hikes, and the regulatory lag that undermines water companies' ability to plan and invest in Arizona's future. And the primary beneficiaries of that step are the nearly 90% of Arizonans who told us in a statewide poll that small, annual rate hikes are easier for their family than large, infrequent hikes every few years.

Our customers, and our companies, need consistent regulatory policy – and just as it worked for APS, the Commission, and APS' customers, it will work for ours and for the betterment of Arizona's ability to get its economy back on track.

Sincerely,

Paul Walker
Chairman

**Moving Beyond Rate Shock & Regulatory Lag
How Distribution and Collection System Improvement Charges benefit
customers, investors, and regulators.**

October 2012

Abstract

Arizonans for Responsible Water Policy is a trade group whose members serve nearly one million people in Arizona. Our members operate water and wastewater systems in over 60 communities and have been actively involved in every water commission and study group in the state over the past 30 years.

In this paper, Responsible Water looks at the arguments used against DSICs and the wastewater form, the CSIC. We find that the arguments used against DSICs are often disingenuous, frequently hyperbolic, and in the end do not reflect the simple fact that well-regulated DSIC programs reduce rate case filings, streamline the regulatory process so that utility commissioners can focus on larger policy issues instead of “firefighting”, and DSICs provide customers with manageable rate adjustments that almost never exceed a few dollars a month.

We close the paper with a recommended process for implementing and regulating DSICs, and by providing sample schedules for utilities’ use in DSIC implementation.

Authors

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Note: Throughout the paper we use the DSIC and “Distribution System Improvement Charge” to include the CSIC or “Collection System Improvement Charge” which is the wastewater utility version of the DSIC.

Distribution System Improvement Charges

ARIZONANS FOR RESPONSIBLE WATER POLICY

("DSIC")

For over 13 years, the Arizona Corporation Commission has considered and denied implementing Distribution System Improvement Charges (and the equivalent for sewer utilities, the Collection System Improvement Charge) for the water and wastewater utilities it regulates. DSICs and CSICs are used in a dozen other states, from California to Pennsylvania, and time and again have been proven to reduce the frequency of rate cases, lower the size of rate hikes, and incent a smoother and more consistent infrastructure replacement program that deals with aging and failing infrastructure.

Organizations like Food & Water Watch have attacked DSICs. RUCO and others have mischaracterized DSICs. Organizations like NARUC and the Council of State Governments have endorsed DSICs.¹ The Commission has supported the end goals of DSICs for the state's largest utilities while denying them to the water industry.

The end goals of DSICs echo the Commission's support for APS Settlements, i.e., "that APS's customers will have the benefit of rate stability...while also providing the Company with adequate revenue to enable it to provide safe and reliable electric service."² The end goals of a DSIC are:

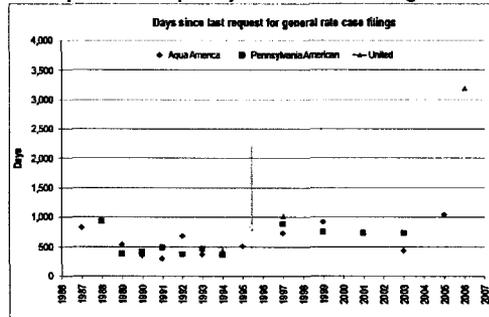
- Reduced rate case frequency and cost,
- Smaller rate hikes and increased rate stability,
- Improved infrastructure, and an
- Improved regulatory climate for investment.

This paper explores the benefits of DSICs and contrasts the Commission's supportive positions with regard to energy utilities against its opposition to DSICs for water utilities and closes by recommending a procedural process for DSICs and a set of 11 schedules that the Commission could easily adopt as a template and begin moving Arizona towards a more reliable and sustainable water future.

It is inarguably true that DSICs reduce the frequency of rate cases, and the size of rate hikes.

The gold vertical arrow in the middle of the graph denotes the start of Pennsylvania's DSIC era – as one can see, rate cases are less frequent. This means less rate case expense for the company, the customers, and the Commission; increased efficiency as the Commission deals with continuing staffing and budget pressures; and ultimately the customers benefit as rates become stable with gradual and manageable increases.

Focus on Pennsylvania:
Potential Impact on Frequency of Rate Case Filings



(Source: Presentation of Dr. Jan Beecher, Executive Director, Institute for Public Utilities, Michigan State University, to the 2006 Eastern NARUC Water Committee Rate School)

¹ NARUC Resolution, February 24, 1999; NARUC Best Practice Resolution, July 27, 2005; Council of State Governments, Publications of Suggested State Legislation, 1999.

² See, e.g., Staff's Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 14-16

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Regulatory lag leads to larger rate hikes and creates “rate shock.”

Some argue that regulatory lag is a “benefit” to customers because it provides them the use of infrastructure without them having to pay for that infrastructure. But that is only the ‘seen’ aspect of the economics of utility investment, the ‘unseen’ aspect is that there is no such thing as a free lunch: With lag, those assets will go into rate base in one fell swoop – and the customers are always shocked and upset when that bill comes due because it includes several years’ of plant investment. How many thousands of water customers have to ask the Commission the same question (“why does my bill have to go up by so much at one time?”) before it realizes that the supposed regulatory lag benefit is, in fact, worse for customers.

Under a DSIC approach, plant would not “stack up” for the next rate case – it would incrementally flow into rates, the model used by Arizona’s cities and municipal water providers. This incremental approach, which some call rate gradualism, is also the basis for APS, TEP, and Unisource recovering their investment in renewable energy, transmission, and pollution control flow through their adjustor mechanisms – each of which is based on utility plant.

Customers overwhelmingly support small, annual rate adjustments instead of large, infrequent ones.

Responsible Water commissioned a poll of 4,000 Arizonans in September of 2012 – in that poll we asked “when utility rates have to go up, would you prefer: 1) small annual changes, or b) large changes every few years?” **89.4% of Arizonans said they preferred rate gradualism – small annual changes.** This approach has the least impact on their household budget and allows them to adjust to cost increases as they occur instead of bundling several years’ of those increases into one large hike.

The impact to customer rates from DSICs is small and manageable for customers, and reduces rate hike request size and frequency. Actual DSIC adjustor surcharges from around the nation:



DSIC Charges – Examples of Approximate Impact on Typical Customer Bill

State	DSIC MAX (% of revenues)	Typical Avg. Monthly Residential Bill	MAX DSIC Surcharge Per Month	% Current Surcharge	Current Surcharge Per Month
IL	5%	\$40.33 (Peoria)	\$2.02	0.00%*	\$0.00
IN	5%	\$30.53	\$1.53	2.49%	\$0.76
OH	3%/filing 3 filings between rate cases	\$35.07 (Franklin Co)	\$1.05 (each yr for 3 yrs)	0.00%*	\$0.00
MO (St Louis Co)	10%	\$21.50	\$2.15	2.10%	\$0.45
NY	Capped at \$3 million over routine spend	\$48.99	X	X	\$0.35
PA	7.50%	\$42.64	\$3.20	2.44%	\$1.04

* Surcharges worked into general rates pursuant to general rate cases

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In particular, let’s focus on Pennsylvania; the state most aggressively trying to consolidate and reform its water industry. It has gone from regulating and overseeing 500 water companies to 125 in under a decade and is on its way to 50 companies.³ In that most pro-investor state, the DSIC surcharge is averaging \$1.04 a month.

³ Arizona Regulatory Reports, Issue 11-4, August 5, 2011, “Time for Action – Regulatory Leadership Can Create A Better Future”

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DSICs, like other adjustors for known and measurable costs, are not single issue ratemaking.

The other criticism is that while DSICs provide for gradualism, they risk “single issue ratemaking.” This is interesting when contrasted with the Commission’s support of APS settlements that include a host of adjustor mechanisms, each largely based on ensuring “that APS’s customers will have the benefit of rate stability...while also providing the Company with adequate revenue to enable it to provide safe and reliable electric service.”⁴

It is worth highlighting that APS’ non-fuel and non-power related adjustor-based revenues are nearly two and a half times larger than the DSIC proposal offered by Responsible Water. Arizona Public Service (far and away the largest utility in Arizona) provided Responsible Water with the following information regarding their estimates of bill adjustor amounts (excluding fuel and power costs which we will describe later in the paper.)

APS Adjustors (Excluding Fuel and Power)	% of APS 2011 Revenues [\$2.992 BN]	Estimated Annual Impact
Demand Side Management ⁵	2.2%	\$66 MM
Retail Transmission Cost ⁶ Adjustor ⁷	2.5%	\$76 MM
Renewable Energy ⁸	2.4%	\$71 MM
Lost Fixed Cost Revenue ⁹	0.2%	\$7 MM
Non-fuel/Non-Power Adjustors	7.3%	\$220 MM

In addition to those adjustors, APS was provided with post-test year plant adjustments to rate base in both its 2009 and 2012 Rate Case Settlements. In dollars, and as a percent of rate base, APS saw significant Commission steps to reduce regulatory lag on its investments into plant:

APS Plant Adjustments	% of APS Rate Base [\$8.167 BN]	Rate Base Added
Four Corners ¹⁰	3.4%	\$279 MM
2012 Post-TY Plant ¹¹	1.4%	\$116.3 MM
Solar Transfer from Renewable Surcharge to Base Rates ¹²	2.8%	\$226.7 MM
Total Post-TY Rate Base Adjustments, 2012	7.6%	\$622 MM

⁴ Staff’s Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 14-16

⁵ Data provided to Responsible Water from APS

⁶ Data provided to Responsible Water from APS

⁷ Data provided to Responsible Water from APS

⁸ Data provided to Responsible Water from APS

⁹ These numbers were provided to Responsible Water from APS – however, the 2012 APS Settlement allows APS to flow up to 1% of its revenues thru the LFCR, which would raise its annual impact from APS’ \$7 MM figure, to \$29 MM.

¹⁰ Data provided to Responsible Water from APS.

¹¹ Data provided to Responsible Water from APS.

¹² APS 2012 Settlement, Docket No. 11-0224, “Renewable Energy Projects Transferred from the Renewable Energy Surcharge (‘RES’) to Base Rates,” Attachment D to Settlement, Page 1 of 1.

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This of course leaves out the question of the APS power and fuel supply adjustor. The so-called PSA has been supported by many parties, including Commission Staff, RUCO, and APS as being essential given the size and importance of fuel and power supply costs.

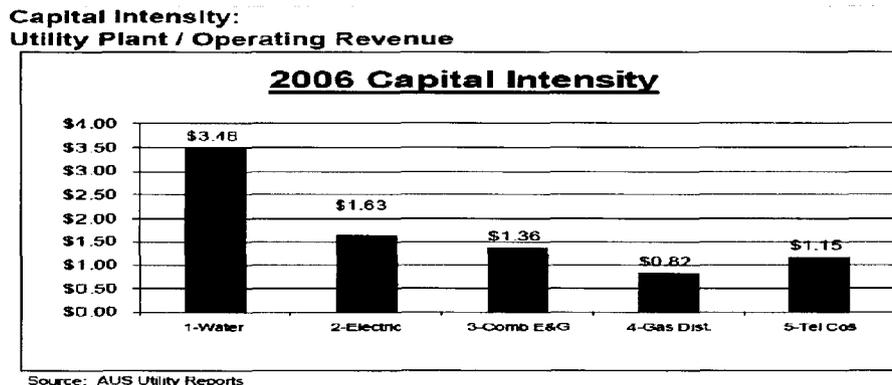
The PSA is provided to APS (and other electric utilities in Arizona) despite the fact that those utilities have abilities that no water company has with regard to power costs: Electric utilities can purchase power in a competitive market, we cannot. And electric utilities can sign long-term contracts with different providers, we cannot. Which entirely raises the question of: Why does the Commission deny power supply adjustor requests from water companies while simultaneously: a) approving double-digit price hikes in water pumping tariffs, *and* b) preventing water companies from having electric choice and competition?¹³

In trying to estimate the “value” of the PSA, there seems to be only one number that is meaningful – APS can pass thru changes in its power and fuel costs of up to \$0.004/kWh.¹⁴ APS’ retail sales were 28,210,326,000 kWh in 2011.¹⁵

Therefore, APS’ 2012 Settlement provides it with the opportunity to pass thru PSA adjustments of \$112MM per year – based on \$2.992BN of revenues **APS’ PSA alone could add an additional 3.7% per year to customer bills.**¹⁶

Despite the fact that the DSICs proposed by Responsible Water would be limited to 3% of revenues for normally operating systems, and 7% for systems facing critical infrastructure demands, those who oppose DSICs argue that adjustors that improve investor attitudes are not in the public interest when they apply to water companies. From the bases of consistency and relative impact, opposition to the DSIC cannot be squared with support for the adjustors and post-test year plant adjustments granted to energy companies like APS.

When compared with APS’ Commission-approved adjustors and post-test year plant adjustments, the DSIC is miniscule – but relativity and consistency aren’t the only reasons to implement a DSIC policy. Water and wastewater utilities face a much higher degree of capital intensity than electric utilities:



¹³ This is a question that will be explored in future studies by Responsible Water.

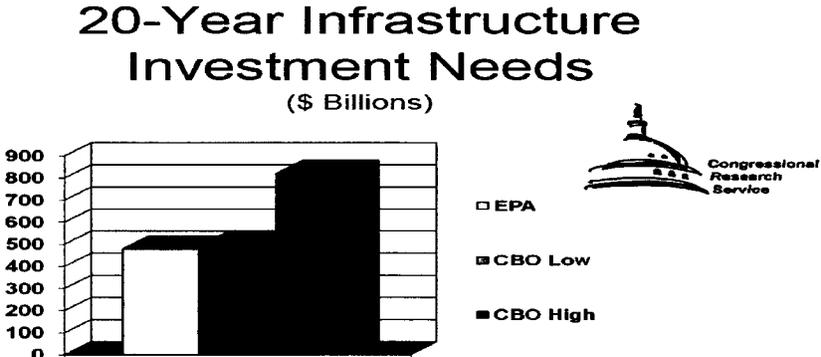
¹⁴ APS 2012 Settlement, Docket No. 11-0224, “Power Supply Adjustor Plant of Administration,” Attachment C to Settlement, Page 1 of 20, Section 1.

¹⁵ APS’ 2011 Renewable Energy Standard Compliance Report dated March 20, 2012, Page 3, Footnote 10 which says “Based on 2011 retail sales of 28,210,326 MWH.” Our calculation is as follows: 1,000 kWh = 1 MWH. Thus 28,210,326 MWH = 28,210,326,000 kWh. 28,210,326,000 * \$0.004 = \$112,842,304.

¹⁶ \$112,000,000 / \$2,992,000,000 = 3.74%

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That increased capital intensity faces a major challenge: the increasing need for capital to repair and replace infrastructure that has been in the ground for decades. **While we often think of Arizona as a young state, it's worth noting that a water main put in the ground when Ronald Reagan took office is now fully depreciated and is entering old age and facing line break and water loss issues.** In fact, across the U.S. the need for water and wastewater investment has been studied by the EPA and the Congressional Budget Office, with each finding at least \$25 billion a year in capital needs:



Surcharge mechanisms, like the DSIC, don't guarantee earnings, they encourage investment.

A primary attack on the DSIC is based on the theory that it “ensures” companies earn their ROE. Claiming that a DSIC would “ensure” ROEs in Arizona is simply incorrect; DSICs reduce the amount of ROE under-recovery by reducing regulatory lag. To do that, a DSIC provides a return on invested capital in the form of used and useful plant – thus while revenues increase under a DSIC, so has investment in used and useful plant and the only return allowed is the rate of return on used and useful plant. It is not mathematically possible to guarantee ROE earnings by allowing rate of return recovery on invested capital.

This opposition to the DSIC stands in contrast to Commission support for APS settlements since 2009 in which the improvement in investor attitudes resulting from adjustors was cited as a public benefit. For example, Commission Staff argued in the APS 2012 rate case that a reason for its support was that “[t]he proposed Settlement Agreement builds on the progress made in APS’s last rate case by including provisions designed to improve the Company’s financial condition so that it can compete in attracting capital for investments to meet the needs of its customers.”¹⁷

RUCO supported the series of APS Settlements and the adoption of numerous adjustors by arguing that “a stable rate base with the ability for the Company to remain financially healthy through changes in its adjustors is in the public interest.”¹⁸ Commission Staff then cited and highlighted that RUCO position as a reason why the Commission should support the APS 2012 Settlement.^{19,20}

¹⁷ Staff’s Opening Brief, APS Rate Case, 11-0224, Page 10, Lines 19-23
¹⁸ Transcript, APS, 11-0224, at Pg. 130
¹⁹ Staff’s Opening Brief, APS Rate Case, 11-0224, Page 12, Lines 9-10
²⁰ See also, Dec. No. 73183, May 2012, at Page 18, Lines 21.5 thru 25.5

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RUCO and Staff's concern should extend to the water industry: For the period, 2006-2010, the average earned ROE of the Class A Responsible Water companies was only 1.96%.²¹

Finally, this argument misstates the very nature of risk: by reducing regulatory lag for used and useful plant investments, the Commission does not reduce risk compensated for in ROE. According to the text books Commission Staff relies upon, risk is related to *variability* of operating income, not the *level* of operating income.²²

A DSIC increases revenues by an amount that is directly based on additional fixed costs that are actually incurred. A DSIC does not reduce the variability of operating income, which varies mainly as a result of fluctuating sales (e.g. weather) and variable costs (e.g. power, chemicals). Reducing the amount of regulatory lag (and as a result the level of under-recovery) does not equate to a reduction in the variability of operating earnings. And it certainly doesn't reduce the variability of that portion of operating earnings that Staff would claim is "systematic," or "non-diversifiable," and therefore affects the cost of capital.

We are not suggesting that the Commission turn a blind eye to earnings; in fact our proposed DSIC schedules provide explicit data on earnings.

The argument that ROEs must be cut in "exchange" for DSICs is one-sided and asymmetrical.

An ROE is the incentive for an investor to take on risk – the possibility of making a return on her investment impels an investor to put capital at risk. So, it is important to clearly understand what "risk" means from an investment perspective: According to Harry Markowitz, the father of the Efficient Market Hypothesis which led to, among other things, the Capital Asset Pricing Model (CAPM), "Efficient portfolios minimize that 'undesirable thing' called variance while simultaneously maximizing that 'desirable thing' called getting rich... That is what Markowitz meant when he introduced the concept of variance to measure risk, or the uncertainty of return."²³

But in the past several years, the average return for the class A water companies which comprise Responsible Water has been 1.96% - while allowed ROEs in Arizona over that period averaged 9.60%.²⁴

In Arizona, the variance between what water utilities actually earn and what utilities are authorized to earn is staggering. It is that variance, Markowitz's "risk" that has led several investment analysts to rank the state among the worst in the nation for utility investment.²⁵

Furthermore, regulatory lag, in an environment of rising infrastructure-related costs, will cause a utility to under-recover its cost of service. The Commission has never added a premium to a utility's authorized ROE to account for regulatory lag (i.e. the fact that the utility likely will not earn its cost of capital under the traditional ratemaking framework in Arizona the "historic test year"). **Mechanisms that are designed to reduce regulatory lag, such as the DSIC, do not warrant a downward adjustment to the authorized ROE, as such a reduction would defeat the purpose of the DSIC (reducing regulatory lag) and render it useless.**

²¹ Data provided by Desert Mountain Analytical Services

²² See, for example, Emery, Douglas R., Finnerty, John D. *Principles of Corporate Finance with Corporate Applications*, (1991), Pages 157 - 158.

²³ Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk*, (1998), Page 256

²⁴ Data provided by Desert Mountain Analytical Services; and Insight Consulting

²⁵ See, e.g., Janney Montgomery Scott, "Introducing the Janney RCI" (2011); and also, S&P, "Assessment of US Regulatory Climates" (2008, 2010)

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Behind all these arguments, there seems to be a general attitude among some parties that if water utilities recover their costs of service (including a return on invested capital), the Commission has somehow failed. This is in contrast with the Commission's decisions to allow APS to recover revenues through adjustors, and over half a billion dollars of post-test year plant adjustments in the explicit interest of minimizing APS' earnings variability and making APS better able to serve customers.

Reducing the ROE in exchange for DSIC approval eliminates the benefit of DSICs and increases "Rate Shock" challenges.

Some suggest that if water companies receive DSICs they should be required to accept lower ROEs – this is premised on a) the misunderstanding of what risk is (i.e., variability in returns), and b) the theory that utility ratemaking is a zero-sum game in which anything improving a utility's financial condition has to be tied to something that harms its financial condition. In the end, the zero-sum approach means that the Commission will never improve financial conditions, because the lost revenue resulting from a reduced ROE in a general rate case could be greater than any potential revenues resulting from a subsequent DSIC filing (depending on the utility's rate base and operating revenues).

A utility in need of a DSIC is likely riskier.

To the extent a utility is faced with an infrastructure crisis (i.e. the need to replace large amounts of infrastructure), and is therefore in need of a DSIC, it is *more* risky, and warrants a higher ROE to enable it to attract capital on reasonable terms for the purpose of replacing such infrastructure. Complicating matters is the fact that the interest coverage requirements required by lenders and contained in bond indentures, which can be as high as 2.5 times total interest expense, are remnants of the days before volumetric and tiered rates were in effect. These coverage requirements and other covenants have not been adjusted to accommodate the newer conservation rate structures with declining revenues over time or the increasing burden of infrastructure replacement programs. (See "The Pendulum Swing of Revenue Stability and Conservation" Journal AWWA, Aug. 2010, p. 26) As a result, potential lenders are less likely to loan significant amounts of money to water utilities with low authorized ROEs, historical test years, and conservation-based rates.

Proposed DSIC Process - Overview.

One of the key challenges in implementing a new policy is the question of how to do so – Responsible Water proposes the following process as a proper beginning for the implementation of DSICs. Without question, over time the Commission, the customers, and the regulated utilities will identify opportunities and ways to improve the process. With biennial workshops on water policy, the Commission should include a review of this and other processes.

ARIZONANS FOR RESPONSIBLE WATER POLICY

Proposed DSIC and CSIC Process

1. Utilities shall apply for and obtain generic approval of a DSIC or CSIC in the context of a rate case.
2. Once approved generically, DSICs and CSICs shall not have annual adjustments greater than either 3% or 7% of annual revenues. Utilities requesting 7% annual caps must show that the infrastructure replacement needs in the affected utility require an investment of greater than 50% of existing rate base in less than a five-year period; or greater than 100% over a ten-year period.
3. Each utility granted a DSIC shall comply with the following process and requirements:
 - a. To initiate a DSIC or CSIC adjustment, the utility shall file Schedules (See Attached) which show the following:
 - i. DSIC-eligible plant installed through the period for which recovery is sought, by NARUC account type;
 - ii. Proposed surcharge for all DSIC-eligible plant;
 - iii. Prior year DSIC collections and Over/ Under collected amounts;
 - iv. Balance sheet before and after DSIC plant inclusion;
 - v. Income statement before and after DSIC surcharge inclusion;
 - vi. Revenue requirement calculations;
 - vii. Surcharge Calculation;
 - viii. Construction Ledger;
 - ix. Earnings test;
 - x. Typical bill analysis.
 - b. As part of its DSIC adjustor filing, the utility shall make readily available documentation which shows the following:
 - i. Approval Of Construction and Invoices for DSIC-eligible plant installed;
 - ii. DSIC-eligible plant and projects the utility plans to install in the then-current year , by NARUC account type;
 - iii. Actual and estimated in-service dates for said plant.
 - c. Concurrent with its DSIC adjustor filing, the utility shall notify customers of its proposed DSIC adjustment and its potential impact on rates; the notice shall include information on how to contact the Commission's consumer services section and how to contact the utility for more information.
4. The adjustor is automatically effective within 30 days of receipt of the DSIC adjustor filing, unless Staff notifies the utility whether it believes it needs more time to review or issue a report or if a hearing is required to adjudicate the DSIC proposal.
 - a. If a hearing is required, it shall be completed within 45 days, and a ROO shall be issued within 45 days of the conclusion of the hearing(s). The Commission shall issue an order at the next open meeting.

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXXX-XX-XXXX
 Balance Sheet
 As of December 31, 20XX

Page 1

Proposed D&C Schedules Form 1

Line No.		(A)
	SYSTEM	
1	<u>ASSETS BUILT IN PAST YEAR BY NARUC ACCOUNT</u>	
2	309 SUPPLY MAINS	
3	Project Name & Location	
4	Gross Utility Plant	
5	Less: Accumulated Depreciation	
6	Net Utility Plant	\$ -
7	332 DISTRIBUTION AND TRANSMISSION MAINS	
8	Project Name & Location	
9	Gross Utility Plant	
10	Less: Accumulated Depreciation	
11	Net Utility Plant	\$ -
12	333 SERVICES	
13	Project Name & Location	
14	Gross Utility Plant	
15	Less: Accumulated Depreciation	
16	Net Utility Plant	\$ -
17	334 METERS	
18	Project Name & Location	
19	Gross Utility Plant	
20	Less: Accumulated Depreciation	
21	Net Utility Plant	\$ -
	TOTAL D&C PLANT	\$ -
	LESS: ACCUMULATED DEPRECIATION	\$ -
22	NET D&C PLANT	\$ -
23	AUTHORIZED WACC, DECISION NO.	
24	D&C BURCHARGE	\$ -
	AUTHORIZED ROE, DECISION NO.	_____
	EARNED ROE WITH BURCHARGE	_____

Page 1

Proposed D&C Schedules Form 1

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. WF-20000-200-2000
 Balance Sheet
 As of December 31, 2000

1-Balance Sht

		(A)	(B)	(C)
Line No.		TOTAL COMPANY	REGION	DISTRICT
1	ASSETS			
2				
3	UTILITY PLANT			
4	Gross Utility Plant	\$ -		
5	Less: Accumulated Depreciation	-		
6	Net Utility Plant	\$ -		
7				
8	CURRENT ASSETS			
9	Cash on Hand and in Banks	-		
10	Investments and Special Deposits	-		
11	Accounts Receivable	-		
12	Materials & Supplies	-		
13	Other	-		
14	Total Current Assets	\$ -		
15				
16	DEFERRED DEBITS	\$ -		
17				
18	TOTAL ASSETS	\$ -		
19				
20				
21	LIABILITIES			
22				
23	CAPITALIZATION			
24	Common Stock	-		
25	Capital Surplus	-		
26	Retained Earnings	-		
27	Common Stockholders Equity	\$ -	\$ -	\$ -
28	Long-Term Debt	-	-	-
29	Total Capitalization	\$ -	\$ -	\$ -
30				
31	CURRENT LIABILITIES			
32	Notes Payable	-		
33	Accounts Payable	-		
34	Accrued Expenses	-		
35	Other	-		
36	Total Current Liabilities	\$ -		
37				
38	DEFERRED CREDITS			
39	Advances for Construction	-		
40	Contributions in Aid of Construction	-		
41	Deferred Income Taxes	-		
42	Other	-		
43	Total Deferred Credits	\$ -		
44				
45	TOTAL CAPITAL AND LIABILITIES	\$ -		
46				
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1-Balance Sht

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. WF-00000-000-0000
 Income Statement
 As of December 31, 2000

2-Income Stmt

Line No.	(A) TOTAL COMPANY	(B) SYSTEM
1		
2	\$ -	\$ -
3		
4		
5		
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8		
9	\$ -	\$ -
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18	\$ -	\$ -
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2-Income Stmt

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. WF-XXXXX-XX-XXXX
 Earnings Test
 As of December 31, 20XX

3-Earnings Test

Line No.	(A)
Line No.	DISTRICT
1	
2	REVENUE
3	Total Operating Revenue \$ -
4	
5	OPERATING EXPENSES
6	Operation and Maintenance -
7	Depreciation -
8	Taxes Other than Income -
9	Income Taxes -
10	Total Operating Expenses \$ -
11	
12	OPERATING INCOME/(LOSS) \$ -
13	
14	RATE BASE - O.C.L.D. (Includes DSIC Plant)
15	(Sect. 7, Ln. 33) \$
16	
17	RATE OF RETURN - O.C.L.D. %
18	(Ln. 12 / Ln. 14)
19	
20	AUTHORIZED RATE OF RETURN %
21	(Decision No. _____)
22	
23	OPERATING MARGIN %
24	(Ln. 12 / Ln. 3)
25	
26	Interest Expense - Net \$ -
27	
28	INTEREST COVERAGE
29	[(Ln. 12 + Ln. 9) / Ln. 26]
30	
31	Other (Income) and Deductions \$ -
32	
33	Equity Ratio
34	(Decision No. _____)
35	
36	Allocated Equity
37	(Ln. 14 x Ln. 33)
38	
39	RETURN ON EQUITY %
40	[(Ln. 12 - Ln. 26 - Ln. 31) / Ln. 36]
41	
42	AUTHORIZED RETURN ON EQUITY
43	(Decision No. _____)
44	
45	
46	
47	
48	
49	
50	
51	
52	
53	
54	
55	

3-Earnings Test

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXXX-XX-XXXX
 Rate Review
 As of December 31, 20XX

4-Rate Review

(A)

DISTRICT A

Line No.	Per Dec. No. XXXXX	12 Mos. Ending 12/31/2011	DSIC Increase	Adjusted with DSIC
1				
2	REVENUE			
3	\$ -	\$ -	\$ -	\$ -
4	<hr/>			
5	OPERATING EXPENSES			
6	-	-	-	-
7	-	-	-	-
8	-	-	-	-
9	-	-	-	-
10	\$ -	\$ -	\$ -	\$ -
11	<hr/>			
12	\$ -	\$ -	\$ -	\$ -
13	<hr/>			
14	RATE BASE - O.C.L.D.			
15	(Sch. 7, Ln. 33)			
16				
17	RATE OF RETURN - O.C.L.D.			
18	(Ln. 12 / Ln. 14)			
19				
20	AUTHORIZED RATE OF RETURN			
21	(Decision No. 71845)			
22				
23	OPERATING MARGIN			
24	(Ln. 12 / Ln. 3)			
25				
26	\$ -	\$ -	\$ -	\$ -
27	<hr/>			
28	INTEREST COVERAGE			
29	[(Ln. 12 + Ln. 9) / Ln. 26]			
30				
31				
32				
33	Equity Ratio			
34	(Decision 71845)			
35				
36	\$ -	\$ -	\$ -	\$ -
37	<hr/>			
38				
39	RETURN ON EQUITY			
40	[(Ln. 12 - Ln. 26) / Ln. 36]			
41				
42	AUTHORIZED RETURN ON EQUITY			
43	(Decision No. 71845)			
44				
45	THREE FACTOR RATIO			
46	<hr/>			
47				
48				
49				
50				
51				
52				
53				
54				
55				

4-Rate Review

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXX-XX-XXXX
 Revenue Requirement
 As of December 31, 20XX

5-Revenue Req

		(A)	(B)	(C)	(D)
Line No.					
1	TEST YEAR DATA				
2					
3	Eligible DSIC Plant in Service				
4	Accumulated Depreciation				
5	(Sch. 8, p. 1)				
6	Eligible DSIC Plant Rate Base	\$ -			
7	Required Rate of Return				
8					
9	Required Operating Income	\$ -			
10	(Ln. 6 x Ln. 7)				
11	Revenue Conversion Factor				
12					
13	Revenue Requirement - Return on Eligible DSIC Plant	\$ -			
14	(Ln. 9 x Ln. 11)				
15					
16	Depreciation on Eligible DSIC Plant				
17	(Sch. 8, p. 1)				
18					
19	Total Revenue Requirement	\$ -			
20	(Ln. 13 + Ln. 16)				
21					
22	Total Operating Revenue	\$ -			
23					
24	Maximum Increase cap				
25					
26	Maximum Increase	\$ -			
27	(Ln 22 X Ln 24)				
28					
29	Total Revenue Requirement lesser of Ln19 or Ln26	\$ -			
30					
31					
32					
33					
34					

35					
36					
37					
38					
39					
40	5/8 X 3/4-INCH RESIDENTIAL METER				
41	Basic Service Charge				
42	Commodity Rate (Per M Gallon)				
43	0 - X,000 Gallons				
44	X,001 - X,000 Gallons				
45	Over X,000 Gallons				
46					
47					
48					
49					
50	Average Residential Bill (5/8 x 3/4 meter) - (____ gallons of usage)				
51					
52					
53					
54					
55					

DISTRRICT			
	Current Rates	Proposed Rates	
Decision No.		DSIC	Total (B+C)
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$

5-Revenue Req

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-30000-12-3000
 Surcharge Calculation
 As of December 31, 2011

6-Schg Calc

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	DISTRICT								
1									
2									
3	GROWTH	<u>Customers</u>	<u>M Gallons Sold</u>	<u>M Gallons Sold Per Cust.</u>					
4	12/31/2010 (Year 1)								
5	12/31/2011 (Year 2)								
6	Increase/(Decrease)								
7	Percentage Change								
8	Average M Gallons								
9									
10									
11	INCREMENTAL FIXED COSTS TO BE RECOVERED PER BILL								
12									
13									
14		<u>Customers by Meter Size</u>	<u>Est. Average Customers (A + B) / 2</u>		<u>Basic Service Charge</u>	<u>Meter Multiplier</u>	<u>Equivalent Meters (C X F)</u>	<u>Fixed Increment</u>	
15	<u>Size</u>	<u>12/31/2010</u>	<u>12/31/2011</u>					<u>Monthly (G39 X F)</u>	<u>Annual (C X G) X 12</u>
16									
17	5/8"						-		
18	1"						-		
19	1.5"						-		
20	2"						-		
21	3"						-		
22	4"						-		
23	6"						-		
24	8"						-		
25	10"						-		
26	Totals							\$	-
27									
28									
29	CALCULATION OF SURCHARGE								
30									
31									
32									
33									
34	Total Revenue Requirement of DSIC Eligible Plant Capital Costs				\$	-			
35	100% of Total Revenue Requirement on Line 34 Recoverable through Basic Service Charge				\$	-			
36									
37									
38	Equivalent Meters (Col. G, Ln. 26 X 12 Mos.)								
39	Increment Per Equivalent 5/8" Meter (Col. G, Ln. 35 / Col. G, Ln. 38)								
40									
41	Average M Gallons (Col. C, Ln. 8)								
42	Increment Per M Gallon (Col. H, Ln. 36 / Col. H, Ln. 41)								
43									
44									
45									
46									
47									
48									
49									
50									
51									
52									
53									
54									
55									

6-Schg Calc

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXXX-XX-XXXX
 Rate Base
 As of December 31, 20XX

7-Rate Base

Line No.	[A]	[B]	[C]	[D]
	DISTRICT			
	Per Dec. No. _____	DSIC Plant Increase	Year End Balance (A + B)	Current Balance 12/31/20XX
1				
2	\$ -			\$ -
3				
4		-		
5	\$ -	\$ -		\$ -
6				
7				
8				
9	\$ -	\$ -	\$ -	\$ -
10				
11				
12	-	-		-
13				
14	-	-		-
15				
16	-	-		-
17				
18	-	-		-
19				
20	-	-		-
21				
22				
23	-			
24				
25	\$ -	\$ -	\$ -	\$ -
26				
27				

48
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7-Rate Base

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 District No. W-XXXXX-XX-XXXX
 CWIP Ledger
 As of December 31, 20XX

8-CWIP Lgr

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	DISTRICT									
	<u>W.A. No.</u>	<u>Month/Year</u>	<u>Date</u>	<u>Description</u>	<u>Vendor Name</u>	<u>Invoice No's.</u>	1	2	3	<u>Total</u>
1										
2										
3										
4	X-									-
5										-
6										-
7							\$	-	\$	-
8										
13										
14										
15										
16										
17										
18							\$	-	\$	-
19										
20						Project Totals	\$	-	\$	-
21										
22						Depreciation Rate				
23										
24						Annual Depreciation Expense	\$	-	\$	-
25										
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
36										
37										
38										
39										
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52										
53										
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55										

8-CWIP Lgr

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXX-XX-XXXX
 Three Factor Calculation
 As of December 31, 20XX

9-Three Fac

Line No.	System	20XX			Ratios			Total
		Customers	Gross Plant Less Intangibles	Gross Payroll	Customers	Gross Plant Less Intangibles	Gross Payroll	
1								
2								-
3								-
4								-
5								-
6								-
7								-
8								-
9								-
10								-
11								-
12								-
13								-
14								-
15								-
16								-
17								-
18								-
19								-
20								-
21	Totals	-	\$ -	\$ -	\$ -	\$ -	\$ -	-
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
32								
33								
34								
35								
36								
37								
38								
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9-Three Fac

ARIZONANS FOR RESPONSIBLE WATER POLICY

ABLE WATER COMPANY
 Docket No. W-XXXXX-XX-XXXX
 Typical Bill Analysis
 As of December 31, 20XX

10-Typical Bill

		[A]	[B]	[C]	[D]
DISTRICT					
Line No.	<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Proposed DSIC Surcharge</u>	<u>New Rates</u>	<u>Percent Increase</u>
1					
2	-	\$	\$	\$	
3	1,000				
4	2,000				
5	3,000				
6	4,000				
7	5,000				
8	6,000				
9	7,000				
10	8,000				
11	9,000				
12	10,000				
13	11,000			-	
14	12,000			-	
15	13,000			-	
16	14,000			-	
17	15,000			-	
18	20,000			-	
19	25,000			-	
20					
21					
22	Average Residential Consumption				
23					
24	Residential Bill at Average Consumption	\$	\$	\$	
25					
26					
27					
28					
29					
30	Basic Service Charge	\$	\$		
31					
32	Commodity Rate (per M Gallon)				
33	0 - 3,000 Gallons	\$	\$		
34	3,001 - 10,000 Gallons	\$	\$		
35	Over 10,000 Gallons	\$	\$		
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					
49					
50					
51					
52					
53					
54					
55					

10-Typical Bill