

ORIGINAL

OPEN MEETING



MEMORANDUM

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AZ CORP COMMISSION
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2012 NOV 29 PM 3 11

TO: THE COMMISSION

FROM: Utilities Division

DATE: November 29, 2012

RE: SAHUARITA WATER COMPANY'S CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ("CAGR") ADJUSTOR RESET (DOCKET NO. W-03718A-09-0359)

I. Introduction

On October 18, 2012, pursuant to Decision No. 72177 (February 11, 2011) and as modified by Decision No. 73283 (July 30, 2012), 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.

Decision No. 72177 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGR for replenishment of excess groundwater. The conditions as modified by Decision No. 73283 require the Company to submit, by October 25 of each year, for Commission consideration, its proposed CAGR 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 December 1.¹ Accordingly, the Company made the instant filing.

II. Background

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

III. Annual Membership Dues

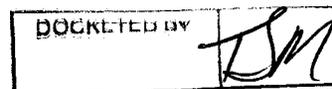
Subsequent to the implementation of the Company's initial adjustor, the Arizona legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR to charge

¹ Decision No. 73283, page 3, lines 2 through 8.

Arizona Corporation Commission

DOCKETED

NOV 29 2012



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.”²

The Commission in Decision No. 72635, concluded that the inclusion of the AMDs in the calculation of the CAGRDR adjustor is appropriate and in the public interest.

IV. Calculation of the CAGRDR Adjustor Fees

Decision No. 72177 specified nine conditions regarding the CAGRDR Adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: “The total CAGRDR 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 CAGRDR adjustor fee per 1,000 gallons.”³

Condition Nos. 2 and 3 ordered that the Company “place all CAGRDR monies collected from customers in a separate, interest bearing account,” only to be withdrawn for the annual payment to the CAGRDR, due on October 15 of each year.⁴

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 reset each year. This understanding was confirmed by the Commission’s provision for a true-up in Decision No. 72204.⁵

The Company proposes a rate of \$0.7256 per thousand gallons (“kgal”). Staff has reviewed the Company’s proposed calculations and the supporting documentation submitted with its request. Staff agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate, as discussed below.

True-up

The CAGRDR invoice to Sahuarita for the 2010 annual replenishment assessment was \$263,830.00. Sahuarita reports that, as of September 30, 2012, the Company will have total collections and interest of \$328,413.11.⁶

² Arizona Revised Statutes § 48-3779(B).

³ Decision. No. 72177 at 41.

⁴ Decision No. 73283, page 3, line 4.

⁵ Dec. No. 72204, page 2, lines 3-6.

⁶ Company’s application dated October 18, 2012.

This true-up calculation indicates an under-collection of approximately \$10,884.65 as follows:

A	2009 under-collection of CAGR D invoice	\$ 75,467.76
B	2010 CAGR D invoice	263,830.00
C	Less: Collections and interest through September 2012	<u>\$ 328,413.11</u>
D	2010 CAGR D under-collection [A+B-C]	<u>\$ 10,884.65</u>

Adjustor Fee

The CAGR D invoice to Sahuarita for 2011 indicates total fees and dues of \$327,698.28. The Company's 2011 annual report, as submitted to ADWR, indicates annual water sales (in kgal) of 466,647.96.

Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.7256.

A	2011 CAGR D invoice	\$ 327,698.28
B	Plus under collection from 2010	<u>10,884.65</u>
C	Amount to be recovered [A+B]	338,582.93
D	Total kgal sold in 2011	<u>466,647.96</u>
E	Charge per kgal [C ÷ D]	\$ <u>0.73</u>

V. Conclusions and Recommendations

Staff concludes that the Company has duly filed the appropriate request to revise the CAGR D adjustor fees, as required by Decision No. 73283.

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

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

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

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

Staff recommends that the CAGR D adjustor fees authorized herein become effective for all water sold after December 1, 2012.



Steven M. Olea
Director
Utilities Division

SMO:JA:sms\WVC

Originator: James Armstrong

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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'S
ARIZONA GROUNDWATER
REPLENISHMENT DISTRICT ("CAGR")
ADJUSTOR RESET

DOCKET NO. W-03718A-09-0359
DECISION NO. _____
ORDER

Open Meeting
December 11 and 12, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On October 18, 2012, pursuant to Decision No. 72177 (February 11, 2011) and as modified by Decision No. 73283 (July 30, 2012), 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.

2. Decision No. 72177 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGR for replenishment of excess groundwater. The conditions as modified by Decision No. 73283 require the Company to submit, by October 25 of each year, for Commission consideration, its proposed CAGR 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 December 1. Accordingly, the Company made the instant filing.

1 **Background**

2 3. The CAGR D was established by the Arizona legislature to serve as a groundwater
3 replenishment authority. It provides a mechanism for designated water supply providers such as
4 Sahuarita to demonstrate a 100-year water supply. Members pay the CAGR D to replenish any
5 groundwater pumped by the member that exceeds the specified pumping limits. The CAGR D is
6 recognized as an important tool in Arizona's groundwater conservation efforts.

7 **Annual Membership Dues**

8 4. Subsequent to the implementation of the Company's initial adjustor, the Arizona
9 legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR D to charge
10 annual membership dues ("AMDs") "on all parcels of member lands and on all municipal
11 providers having a member service area," in addition to the charges for replenishment of excess
12 groundwater. The sole purpose of the AMDs is "to pay costs associated with the acquisition, lease
13 or exchange of water or water rights and development of infrastructure necessary for the district to
14 perform its replenishment obligations."¹

15 5. The Commission in Decision No. 72635, concluded that the inclusion of the AMDs
16 in the calculation of the CAGR D adjustor is appropriate and in the public interest.

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

18 6. Decision No. 72177 specified nine conditions regarding the CAGR D Adjustor.
19 Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees
20 paid by the Company for the most current year . . . shall be divided by the gallons sold by the
21 Company in that year to determine a CAGR D adjustor fee per 1,000 gallons."²

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

25 _____
26 ¹ Arizona Revised Statutes § 48-3779(B).

27 ² Decision. No. 72177 at 41.

28 ³ Decision No. 73283, page 3, line 4.

1 8. In addition, although the order did not contain an explicit provision for a true-up,
2 the parties were in agreement that such an annual true-up would occur at the time of the adjustor
3 reset each year. This understanding was confirmed by the Commission's provision for a true-up in
4 Decision No. 72204.⁴

5 9. The Company proposes a rate of \$0.7256 per thousand gallons ("kgal"). Staff has
6 reviewed the Company's proposed calculations and the supporting documentation submitted with
7 its request. Staff agrees with the methodology employed by the Company to calculate the true-up
8 and the proposed adjustor rate, as discussed below.

9 True-up

10 10. The CAGR D invoice to Sahuarita for the 2010 annual replenishment assessment
11 was \$263,830. Sahuarita reports that, as of September 30, 2012, the Company will have total
12 collections and interest of \$328,413.11.⁵

13 11. This true-up calculation indicates an under-collection of approximately \$10,884.65
14 as follows:

15	A	2009 under-collection of CAGR D	\$ 75,467.76
16		invoice	
17	B	2010 CAGR D invoice	263,830.00
18	C	Less: Collections and interest	<u>\$ 328,413.11</u>
19		through September 2012	
20	D	2010 CAGR D under-collection	<u>\$ 10,884.65</u>
21		[A+B-C]	

22 Adjuster Fee

23 12. The CAGR D invoice to Sahuarita for 2011 indicates total fees and dues of
24 \$327,698.28. The Company's 2011 annual report, as submitted to ADWR, indicates annual water
25 sales (in kgal) of 466,647.96.

26 _____
27 ⁴ Dec. No. 72204, page 2, lines 3-6.

28 ⁵ Company's application dated October 18, 2012.

1 13. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is
2 \$0.7256.

3	A	2011 CAGR D invoice	\$ 327,698.28
4	B	Plus under collection from	<u>10,884.65</u>
5		2010	
6	C	Amount to be recovered	338,582.93
7		[A+B]	
8	D	Total kgal sold in 2011	<u>466,647.96</u>
9	E	Charge per kgal [C ÷ D]	\$ <u>0.73</u>

10

11 **Conclusions and Recommendations**

12 14. Staff concludes that the Company has duly filed the appropriate request to revise
13 the CAGR D adjustor fees, as required by Decision No. 73283.

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

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

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

19 18. Staff recommends that the Company notify its customers of the CAGR D adjustor
20 fee tariff approved herein within 30 days from the effective date of the Decision.

21 19. Staff recommends that the CAGR D adjustor fees authorized herein become
22 effective for all billings after December 1, 2012.

23 20. We find that Staff's conclusions and recommendations are reasonable and should
24 be adopted.

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CONCLUSIONS OF LAW

1. Sahuarita Water Company, L.L.C. is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over Sahuarita Water Company, L.L.C. and the subject matter of the application.

3. Approval of the proposed CAGR D adjustor fees is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Sahuarita Water Company, L.L.C.'s request for implementation of the CAGR D adjustor fees as discussed herein.

ORDER

IT IS FURTHER ORDERED that the application by Sahuarita Water Company, LLC to implement new CAGR D adjustor fees is approved for all customer billings for water sold after December 1, 2012.

IT IS FURTHER ORDERED that the CAGR D adjustor fees for Sahuarita Water Company, LLC shall be \$0.73 per 1,000 gallons.

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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 _____, 2012.

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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23

DISSENT: _____

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DISSENT: _____

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SMO:JA:sms

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

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