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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- BOB STUMP, Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

2013 FEB -6 A 11:44 P

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01049A-11-0300
 MORENCI WATER AND ELECTRIC)
 COMPANY FOR APPROVAL OF A RATE)
 INCREASE.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01049A-11-0311
 MORENCI WATER AND ELECTRIC)
 COMPANY FOR THE ESTABLISHMENT OF)
 JUST AND REASONABLE RATES FOR ITS)
 WATER DEPARTMENT.)

EXCEPTIONS

Morenci Water and Electric Company ("MWE" or the "Company") files exceptions to the Recommended Opinion and Order ("ROO") issued January 28, 2013, regarding one issue. The Company appreciates and understands the reasoning in the proposed ROO and agrees with the vast majority of its findings and conclusions. The only issue MWE takes exception to concerns the outcome regarding the water rates for those customers served by MWE's Morenci townsite system, and the conclusion reached on this issue in Finding of Fact 94. The ROO adopted Staff's proposed rates; instead, MWE believes that the ROO should be amended to adopt the Company's proposed rate design for the Morenci system as put forth in its Rejoinder Testimony. Attached as Exhibit 1 is a proposed amendment for the Commission's consideration that would adopt MWE's proposed rate design from its Rejoinder filing.

Arizona Corporation Commission

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Argument

1. MWE put the interests of ratepayers first when it filed its rate application.

The Company filed a rate application in July of 2011 for both its Electric and Water Departments – in large part because the Commission required it to come in with an electric rate application. MWE also decided to file a rate application for its Water Department at the same time and to efficiently address both departments at once. Cognizant that many (if not all) of its electric customers are also water customers and being sensitive to this fact, the Company believes it fashioned a rate proposal that kept ratepayers at the forefront of consideration:

- Requesting rates that result in a zero base rate increase for most of its electric customers. The *only* increases are to: (1) recover an under-collected fuel and purchase power balance through a surcharge (this is essentially a holdover from Decision No. 73261 (July 30, 2012)¹); and (2) to adjust the monthly service charge for a new class of large commercial customers (those using over 60,000) kWh in an attempt to modernize the rate design.²
- Proposing to restructure the Purchased Power and Fuel Adjustor Clause (“PPFAC”) so that large fluctuations in the bank balance could be avoided (and consequently reduce large swings in the adjustor rate). The Company further agreed to Staff’s recommended cap on any increase to the PPFAC rate.
- Gradually phasing in a rate increase that still leaves MWE with a significant negative net income for its Water Department. The third step would not take place until March 2015. MWE is able to, and has willingly agreed, to absorb this loss, due to its unique position in Arizona amongst other utilities. This is yet another way MWE’s ultimate parent company provides a benefit to MWE customers. In any event, the Company

¹ Noted on page 7 of the ROO at Finding of Fact 46.

² As Mr. Archer explained during the evidentiary hearing, most of the customers that would fall under the large commercial class would be mining operations facilities. See Transcript of Evidentiary Hearing (Tr.) at 25

1 proposed a three-step phase-in of water rates for both its Morenci and Clifton
2 systems.

3 Further, MWE accepts Staff's rate design for the Clifton water system – including a
4 \$0.85 per 1,000 gallons rate for the first tier for all three steps. As explained by Mr. Dan
5 Neidlinger during the evidentiary hearing, that rate does approach recovering the pumping and
6 treatment costs for the Clifton system; the pumping and treatment costs for the Clifton system
7 are approximately \$1.00 per thousand gallons.³ Because of that, MWE can accept Staff's
8 proposed rates for the Clifton system.⁴ In short, MWE believes these facts and circumstances
9 show how customer interests were already taken into consideration – independent of how rates
10 are ultimately designed for the Morenci townsite water system.

11 **2. The Company's proposed rate design in Rejoinder for the Morenci**
12 **water system is a better balancing of all relevant factors.**

13 First, MWE's proposal does better preserve the price-to-cost relationship for the Morenci
14 system. True, no Class Cost of Service Study ("CCOSS") has been submitted in this case; but it
15 is also true that Staff did not dispute the Company's evidence on the cost of providing water
16 service.⁵ Mr. Neidlinger provided testimony that the cost of treated water alone delivered to the
17 distribution system is over \$2.00, and that the total cost per 1,000 gallons of water sold equals
18 \$6.50.⁶ What the Company's proposal includes is a first-tier rate, after the third step, which is
19 still well below \$2.00 at \$1.27. But this is closer to the actual cost than Staff's first-tier rate of
20 \$0.85, which Staff recommends for all three steps.

21 Second, MWE understands that Staff proposed its rate design – including basic service
22 charges, block sizes, and price differentials – that carefully balances various factors. The

23 _____
24 ³ Rebuttal Testimony of Dan L. Neidlinger (Ex. A-6) at 3. Of course, the total cost to serve Clifton
25 customers is significantly above \$0.85 per 1,000 gallons; in fact, Mr. Neidlinger testified that the total cost
26 to serve Clifton customers is approximately \$4.09 per 1,000 gallons. See Rejoinder Testimony of Dan L.
27 Neidlinger (Ex. A-7) at 2.

⁴ In addition, Mr. Neidlinger testified that the Morenci system is "more expensive" than the Clifton system.
See Tr. at 36-37.

⁵ Tr. at 80.

⁶ See e.g. Neidlinger Rebuttal at 3; Neidlinger Rejoinder at 2.

1 Company reviewed Staff's rate design and adopted much of what Staff proposed (including
 2 having three tiers, the break-over points and including no minimum gallons in the monthly
 3 charge for any of the three steps). MWE's rate design also has an interrelationship that is
 4 carefully crafted to balance competing factors (encouraging conservation, affordability and
 5 gradualism) while allowing the Company an opportunity to meet its revenue requirement.
 6 Further, given that there is no CCOSS in this case, the Company believes its proposal to increase
 7 rates more evenly (*i.e.*, on more of an equal-percentage basis) is appropriate. The following
 8 breaks down the comparison of the percent-revenue increases, between the Company's proposal
 9 and Staff's proposal, after the third step⁷:

	<i>Company</i>	<i>Staff</i>
10		
11	5/8" x 3/4"	32.02%
12	1"	36.06%
13	1-1/2"	35.87%
14	2"	42.04%
15	3"	49.49%
16	4"	782.50%
17	6"	1382.50%
		807.50% ⁸

18 In other words, MWE's proposal spreads the rate increase more evenly than Staff's.
 19 Given the other steps the Company and Staff have taken to mitigate the impacts to residential
 20 and smaller commercial customers, the Company believes its proposal is superior because it does
 21 spread the increase more proportionally, while also preserving Staff's tiers and break-over
 22 points. Further, Staff admits the Company's proposal from Rejoinder Testimony meets all four
 23 of the objectives Staff listed in its testimony for establishing rate design: (1) eliminating
 24

25 ⁷ Neidlinger Rejoinder at Ex. DLN-2.

26 ⁸ Those customers on larger meters (4" and 6") are receiving such a large percentage increase under both
 27 proposals – predominantly resulting from modernizing the rates and establishing separate monthly
 customer charges that reflect a more modern rate design. Because the larger meters were so underpriced,
 any attempt to move the monthly customer charges towards cost and what would typically be
 recommended results in large percentage increases. See Tr. at 40, 96.

1 embedded water usage; (2) promoting gradualism through a three step phase-in; (3) promoting
2 the economically efficient use of water; and (4) having an inverted-block structure.⁹

3
4 **3. The Commission could consider a three-step phase in that moves the**
5 **first tier from \$0.85 towards \$1.27 over the three steps.**

6 At the least, the Commission could consider a first-tier commodity rate of \$0.85 per
7 1,000 gallons for the first step – and gradually increasing that rate across the next two steps.
8 Keeping the first-tier rate the same across all three steps is unusual, if not unprecedented. This
9 will help to address Staff’s concern for a lower first-tier rate given the significantly new design
10 as customers adjust to the new structure. At the same time, a gradual increase from \$0.85 to
11 \$1.27 across three steps – with corresponding adjustments to the other tiers – can improve the
12 price-to-cost relationship. While not the Company’s first choice, this option is also available for
13 the Commission’s consideration and would be an improvement in its opinion.

14 **Conclusion**

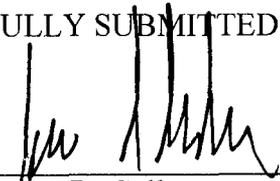
15 MWE appreciates the findings in the ROO about its proposed rate design from Rejoinder
16 being reasonable. In fact, when compared to nearby water utilities, water utilities of similar size
17 or water utilities in similar rural areas, MWE believes its proposed rates are favorable. While the
18 Company can appreciate and understand the concerns that led to the ROO adopting Staff’s
19 proposal, MWE believes its rate design is simply a better balancing. The Company
20 acknowledges that it is voluntarily agreeing to a negative net income (and a significantly
21 negative return); but that should not be a reason to not adopt a more balanced rate design that
22 spreads the increase more proportionally. The Company therefore respectfully requests that the
23 Commission approve its proposal for the Morenci water system. “Exhibit A” attached to this
24 filing does that, and is provided for the Commission’s consideration.

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⁹ Tr. at 74-75.

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RESPECTFULLY SUBMITTED this 6th day of February, 2013.

By 
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Original and 13 copies of the foregoing
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By 

Exhibit 1

**Morenci Water and Electric Company's Proposed Amendment
Rate Design – Water Department – Morenci System**

- (1) **DELETE** Page 20, line 12 starting at “While there is” **THROUGH** line 24.
- (2) Page 76, line 12 after “. . . being included in the monthly charge.” **INSERT** the following: “We find the Company’s proposal to be reasonable and will approve it for the Morenci system customers.”
- (3) **DELETE** Page 24, Line 18 **THROUGH** Page 25, Line 17.
- (4) **INSERT** on Page 24, starting at line 18:

<u>MORENCI WATER SYSTEM</u>	<u>PHASE 1</u>	<u>PHASE 2</u>	<u>PHASE 3</u>
MONTHLY CHARGE:			
5/8” X 3/4” Meter	\$9.25	\$10.25	\$11.20
1” Meter	\$10.50	\$11.60	\$12.70
1-1/2” Meter	\$20.00	\$22.15	\$24.20
2” Meter	\$25.00	\$27.70	\$30.25
3” Meter	\$35.00	\$38.75	\$42.35
4” Meter	\$50.00	\$55.35	\$60.50
6” Meter	\$75.00	\$83.00	\$90.75
 COMMODITY CHARGE:			
5/8” X 3/4” & 3/4” Meters (per 1,000 gal)			
0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-8,000 gallons	\$1.65	\$1.83	\$2.00
Over 8.000 gallons	\$2.18	\$2.41	\$2.67

1" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-8,000 gallons	\$1.65	\$1.83	\$2.00
Over 8.000 gallons	\$2.18	\$2.41	\$2.67

1-1/2" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-37,000 gallons	\$1.65	\$1.83	\$2.00
Over 37.000 gallons	\$2.18	\$2.41	\$2.67

2" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-65,000 gallons	\$1.65	\$1.83	\$2.00
Over 65.000 gallons	\$2.18	\$2.41	\$2.67

3" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-108,000 gallons	\$1.65	\$1.83	\$2.00
Over 108.000 gallons	\$2.18	\$2.41	\$2.67

4" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-142,000 gallons	\$1.65	\$1.83	\$2.00
Over 142.000 gallons	\$2.18	\$2.41	\$2.67

6" Meters (per 1,000 gal)

0-3,000 gallons	\$1.05	\$1.16	\$1.27
3,001-245,000 gallons	\$1.65	\$1.83	\$2.00
Over 245,000 gallons	\$2.18	\$2.41	\$2.67
Industrial Water Sales (per 1,000 gallons)	\$0.55	\$0.6050	\$0.6655

(5) Make all Conforming Changes.