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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

2013 MAR 14 A 11:06

Arizona Corporation Commission  
**DOCKETED**

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

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

MAR 14 2013

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IN THE MATTER OF THE APPLICATION OF  
RAY WATER COMPANY, INC. FOR A RATE  
INCREASE.

DOCKET NO. W-01380A-12-0254

PROCEDURAL ORDER

**BY THE COMMISSION:**

On June 14, 2012, Ray Water Company, Inc. ("Ray" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase. A hearing on the application was held on January 16 and February 27, 2013. At the conclusion of the hearing, the matter was taken under advisement pending submission of late-filed exhibits and closing briefs. The parties were advised that a Procedural Order would be issued outlining the topics to be addressed in the closing briefs and setting filing deadlines.

RATE BASE ISSUES

In the Commission's Utilities Division's ("Staff") Direct and Surrebuttal Testimony, Staff made several adjustments to Ray's proposed rate base including removal of plant Staff deemed excess capacity or not used and useful. Ray objected to some of Staff's adjustments and presented Hearing Exhibit A-6, which is a map and general description of the wells, and Company witnesses testified about the necessity, status and condition of each facility.

A question arose at hearing about the correct classification of some of the wells and related plant for purposes of rate base calculations. In response, the Company presented Hearing Exhibit A-8—Summary of Costs by Well Number—reflecting Ray's removal of the original costs for certain wells and related plant from its proposed rate base, listing these items as retired. Ray submitted its Final Schedules to reflect the flow-through of these revisions. Staff testified it had not considered accounting for certain plant as retired and believed it might be necessary to revise the rate base accounting reflected in Staff's Revised Surrebuttal Schedules.

1 INCOME STATEMENT AND RATE DESIGN ISSUES

2 The Company's final income statement schedules presented at hearing included a *pro-forma*  
 3 purchased power expense based on Tucson Electric Power Company's pending rate application. Ray  
 4 also included a revised rate case expense to reflect an increase in the amount originally projected.  
 5 Staff's testimony and/or schedules have not addressed Ray's revised positions on these issues.

6 Ray and Staff disagree about the most effective rate design to achieve recommended revenues  
 7 and the impact of the proposed rate designs on higher-use commercial customers. Depending on the  
 8 parties' final rate base adjustments, their respective proposed rate design could change.

9 INFORMATION SHARING TARIFF

10 Wastewater services in Ray's certificated area are provided by the Pima County Department  
 11 of Wastewater Management ("PCDWM"). Pursuant to a General Services Contract ("Contract"),<sup>1</sup>  
 12 PCDWM pays Ray for customers' water usage information in order to determine applicable sewer  
 13 service charges. Staff recommended that the Company file a tariff with the Commission reflecting  
 14 certain terms of the Contract and attached a Form of Tariff as Exhibit A to Staff's testimony.<sup>2</sup>

15 The Company objects to the tariff as unnecessary and burdensome.

16 IT IS THEREFORE ORDERED that, given the testimony and evidence presented, the parties  
 17 shall address the following issues and provide the required schedules in their closing briefs:

18 1. For each well, the Company and Staff shall provide the following information listed by  
 19 Well Number as depicted in Hearing Exhibit A-6:

- 20 a. Whether the well (including, for example, land and land rights, structures and  
 21 improvements, pumping equipment, water treatment equipment, if applicable)  
 22 should be classified as: (1) plant in service, (2) excess capacity, (3) plant not used  
 23 and useful, (4) plant held for future use,<sup>3</sup> or (5) construction work-in-process;<sup>4</sup>

24  
 25 <sup>1</sup> Staff docketed a copy of the Contract as a late-filed exhibit on March 1, 2013.

26 <sup>2</sup> Staff's Form of Tariff states that the Contract is "subject to [Commission] review as set forth in Section 5 of the agreement."  
 (Surrebuttal Testimony of Crystal Brown, Exhibit A.) Section 5 (or, Article V) of the Contract requires compliance with all federal,  
 27 state, and local laws, rules and regulations. There is no specific stipulation that the Contract is subject to Commission review, nor does  
 it refer to a specific Commission rule or regulation requiring such a tariff.

28 <sup>3</sup> According to *Principles of Utility Corporate Finance*, Giacchino, Leonard R., Jonathan A. Lesser, Public Utilities Reports, Inc., 2011,  
 property held for future use "should consist of the original cost of plant that is owned but held for future use. This account includes  
 property that has never been used by the utility but that is subject to a definite plan for future use; this account also includes property  
 that has previously been used by the utility, retired from service, and is now subject to a definite plan for future use." (Pages 484-485.)

- 1           b. The basis for each classification if different from that previously presented in  
2           testimony and evidence; and,
- 3           c. A separate schedule listing by Well Number any adjustments to rate base due to  
4           accumulated depreciation, AIAC, CIAC and accumulated amortization resulting  
5           from the specific plant's classification.
- 6           2. The Company and Staff shall address the propriety of including a *pro-forma* adjustment  
7           to purchased power expense based on Tucson Electric Power Company's pending rate  
8           application.
- 9           3. If necessary, the Company shall update its proposed rate case expense amount. Staff  
10          shall provide a written explanation supporting any adjustments to the Company's revised  
11          proposed rate case expense.
- 12          4. The Company and Staff shall provide updated schedules reflecting any changes to rate  
13          base and income statement, as well as schedules demonstrating the flow-through of the  
14          changes to cost of capital and revenue requirement.
- 15          5. The Company and Staff shall provide updated schedules reflecting any changes to their  
16          respective proposed rate design resulting from revisions to rate base, income statement  
17          and revenue requirement calculations.
- 18          6. The Company and Staff shall prepare a detailed Typical Bill Analysis broken by meter  
19          size and customer class, stating the dollar amount and percent of increase in the monthly  
20          bill for each.<sup>5</sup>
- 21          7. The Company and Staff shall brief why their respective proposed rate design is the most  
22          effective and reasonable manner to achieve recommended revenues.
- 23          8. A review of the PCDWM Contract raised questions not asked at hearing and the parties  
24          shall provide the following information:
- 25               a. The amount of test year non-water revenues attributable to the Contract;
- 26

27 <sup>4</sup> The Company's various Schedules E-5 show a construction work-in-process adjusted test year balance of \$8,298, but it is not clear  
28 what plant this applies to.

<sup>5</sup> See Ray Hearing Exhibit A-10 for the total number of customers by class and meter size in the test year.

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- b. Whether PCDWM passes the Contract fees to its wastewater customers (if known), and if so, whether the amount is identified on the customer's bill; and,
- c. The Contract end date was January 31, 2013. Assuming the Contract has been renewed, whether the Contract rates described in Article III and Exhibit B the same.

9. The Company and Staff shall discuss the need for a Commission-approved information sharing tariff.

10. Any Final Schedules comparing the Company's and Staff's respective positions shall reflect both parties' most recent adjusted numbers.

11. The Company and Staff may address any other legal issues in their briefs they deem important that have not been covered by this Procedural Order.

IT IS FUTHER ORDERED that the Company shall file its **Opening Brief and revised schedules no later than April 12, 2013.**

IT IS FURTHER ORDERED that Staff shall file its **Responsive Brief and Final Schedules no later than May 3, 2013. In the interest of efficiency, Staff shall list all of its final recommendations at the conclusion of the Responsive Brief.**

IT IS FURTHER ORDERED that the Company shall file its **Reply Brief and Final Schedules no later than May 24, 2013.**

IT IS FURTHER ORDERED that depending on the information provided in the parties' briefs, additional testimony or hearing may be necessary.

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1 IT IS FURTHER ORDERED that the Presiding Administrative Law Judge may rescind, alter,  
2 amend, or waive any portion of this Procedural Order either by subsequent Procedural Order or by  
3 ruling at hearing.

4 DATED this 12<sup>th</sup> day of March, 2013.

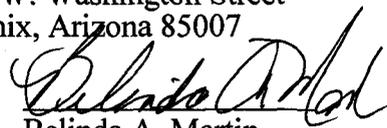
6   
7 BELINDA A. MARTIN  
8 ADMINISTRATIVE LAW JUDGE

9 Copies of the foregoing mailed  
10 this 12<sup>th</sup> day of March, 2013, to:

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25 By:   
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28