

ORIGINAL



0000145375

OPEN MEETING AGENDA ITEM
BEFORE THE ARIZONA CORPORATION COMMISSION

2013 JUN -6 P 4:00

BOB STUMP
CHAIRMAN

GARY PIERCE
COMMISSIONER

BRENDA BURNS
COMMISSIONER

SUSAN BITTER SMITH
COMMISSIONER

BOB BURNS
COMMISSIONER

CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

JUN 06 2013

DOCKETED BY

IN THE MATTER OF THE APPLICATION)
OF ARIZONA WATER COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND)
PROPERTY AND FOR ADJUSTMENTS)
TO ITS RATES AND CHARGES FOR)
UTILITY SERVICE FURNISHED BY ITS)
EASTERN GROUP ANDFOR CERTAIN)
RELATED APPROVALS.)

Docket No. W-01445A-11-0310

EXCEPTIONS

The Water Utility Association of Arizona (WUAA) is a signatory to the Settlement Agreement in this docket, and files these exceptions to the Recommended Opinion and Order (“ROO”) dated May 28, 2013. Unfortunately, WUAA is not able to support the ROO in its current form and if the changes contemplated by the ROO are adopted by the Commission, the WUAA will be forced to withdraw from the Settlement Agreement.

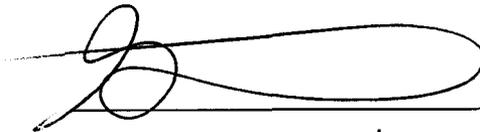
In theory, one could certainly argue that the addition of a SIB mechanism to an otherwise complete rate case serves to reduce risk and should be accompanied by a commensurate reduction in ROE. The ROO adopts this reasoning. However, this methodology fails in two respects—one failure is unique to this case and one failure is

1 systemic to the entire regulated water industry. In this case, parties have already
2 accounted for any potential risk reduction by establishing a 5% efficiency credit. The
3 parties created this mechanism as a compromise solution to the very problem that the ROO
4 seeks to address. The Settlement represents a comprehensive agreement in which parties
5 crafted a solution that balanced the concerns of the participants. The parties confronted
6 the argument that the SIB had the potential to reduce risk and they reflected a solution to
7 that issue in the Settlement Agreement. The ROO unwinds that compromise and upsets
8 the balance that was crafted by the parties.

9 The second failure of the methodology proposed by the ROO has industry-
10 wide implications and is frankly more troubling than the ROO's unwinding of this
11 particular Settlement. The methodology suggested in the ROO assumes the need to offset,
12 or otherwise balance the ratemaking tools that are designed to improve the overall status of
13 the private water industry. Arizona Water Co. demonstrated that it has not been earning
14 its approved rate of return. Parties who have practiced in front of the ACC for many years
15 understand that the private water industry has been under earning for decades. Indeed, this
16 Commission convened a task force in 1999 in an effort to develop mechanisms that would
17 provide companies with a genuine opportunity to achieve their authorized rate of return.
18 The ACC has been slow to adopt these changes; however, we were encouraged that the
19 Commission seems to have recognized that the SIB mechanism is a tool that allows the
20 Commission to incentivize companies to make needed investments while protecting
21 consumers from rate shock. Unfortunately, the ROO appears to represent the mentality
22 that the ratemaking process needs to be true up so that items that provide the company
23 with an opportunity to achieve its authorized rate of return are offset by rate reductions
24 elsewhere. This ratemaking theory might be acceptable if companies were actually
25 earning their authorized rate of return, however the proposed offset only serves to true up
26 the returns to the 5% or so that the companies have historically earned.

1 For these reasons, the WUAA urges the Commission to approve the
2 Settlement that was agreed to by the parties and to use the SIB methodology approved in
3 this case as a template for other similarly situated companies. Furthermore, the WUAA
4 urges the Commission to resist the temptation to offset its own incentive mechanisms in a
5 way that trues up rates at a level that deprives a company of a genuine opportunity to earn
6 its authorized rate of return.

7
8
9 RESPECTFULLY SUBMITTED this 6th day of June, 2013.

10
11 

12
13 Greg Patterson

14 ORIGINAL AND thirteen (13) copies
15 of the foregoing hand-delivered this
16 6th day of June, 2013, to:

17 The Arizona Corporation Commission
18 Utilities Division – Docket Control
19 1200 W. Washington Street
20 Phoenix, Arizona 85007

21 Copy of the foregoing hand-delivered
22 this 6th day of June, 2013, to:

23 Steve Olea
24 Utilities Division
25 Arizona Corporation Commission
26 1200 W. Washington Street
Phoenix, Arizona 85007

Lyn A. Farmer, Chief Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Charles Hains

1 Legal Department
Arizona Corporation Commission
2 1200 W. Washington Street
Phoenix, Arizona 85007

3
4 Copy of the foregoing mailed
this 6th day of June, 2013, to:

5 Steven A. Hirsch
Stanley B. Lutz
6 Bryan Cave, LLP
Two North Central, Suite 2200
7 Phoenix, AZ 85004

8 Daniel W. Pozefsky, Chief Counsel
Residential Utility Consumer Office
9 1110 W. Washington Street, Suite 220
Phoenix, AZ 85007

10 Jay L. Shapiro
11 Fennemore Craig PC
2394 E. Camelback Road, Suite 600
12 Phoenix, AZ 85016-3429
Attorneys for Intervenor Liberty Utilities

13 Christopher D. Krygier
14 Liberty Utilities
12725 W. Indian School Road, Suite D101
15 Avondale, AZ 85392

16 Michael Grant
Gallagher & Kennedy
17 2575 E. Camelback Road
Phoenix, AZ 85016-9225
18 Attorneys for Intervenor Arizona-Investment Council

19 Gary Yaquinto
Arizona Investment Council
20 2100 N. Central Avenue, Suite 210
Phoenix, AZ 85004

21 Michael W. Patten
22 Timothy J. Sabo
Roshka Dewulf & Patten, PLC
23 One Arizona Center
400 E. Van Buren, Suite 800
24 Phoenix, AZ 85004-2262
Attorneys for Intervenor Global Water

25 Ron Fleming
26 Global Water Utilities

1 2140 N. 19th Avenue, Suite 201
Phoenix, AZ 85027

2
3 Garry D. Hays
4 The Law Offices of Gary D. Hays
5 1702 E. Highland Avenue, Suite 204
6 Phoenix, AZ 85016
7 Attorneys for Intervenor City of Globe

8
9 Greg Patterson
10 916 W. Adams, Suite 3
11 Phoenix, AZ 85007
12 Attorney for Intervenor Water Utility
13 Association of Arizona

14
15 Kathie Wyatt
16 1940 N. Monterey Drive
17 Apache Junction, AZ 85120

18
19
20
21
22
23
24
25
26