

OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION RECEIVED

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DOCKET CONTROL

DATE: AUGUST 27, 2013

DOCKET NO.: W-01380A-12-0254

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

RAY WATER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

SEPTEMBER 5, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

SEPTEMBER 10, 2013 AND SEPTEMBER 11, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

AUG 27 2013

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nr

Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

DOCKET NO. W-01380A-12-0254

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING:

January 16 and February 27, 2013

PLACE OF HEARING:

Tucson, Arizona

ADMINISTRATIVE LAW JUDGE:

Belinda A. Martin

APPEARANCES:

Steve Wene, Moyes Sellers & Hendricks,
LTD., on behalf of Ray Water Company,
Inc.; and

Scott Hesla, Staff Attorney, Legal
Division, on behalf of the Utilities
Division of the Arizona Corporation
Commission.

BY THE COMMISSION:

PROCEDURAL HISTORY

On June 14, 2012, Ray Water Company, Inc. ("RWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase ("Application"), which included the Direct Testimony of the Company's financial witness, Sonn Rowell, and RWC's cost of capital witness, Matthew Rowell.

On July 13, 2012, the Commission's Utilities Division ("Staff") filed its Letter of Sufficiency stating that the Application was sufficient under Arizona Administrative Code ("A.A.C.") R14-2-103(B)(7), and classifying RWC as a Class C public water utility.

On July 24, 2012, a Procedural Order was issued setting the hearing for January 16, 2013, and establishing other procedural deadlines.

On September 13, 2012, RWC filed an Affidavit of Publication stating that the notice of

1 hearing had been published on September 5, 2012, in *The Daily Territorial* and mailed to all
2 customers by first class U.S. Mail on August 21, 2012. The Commission did not receive any
3 customer comments in response to the notice.

4 On November 21, 2012, Staff filed a Request for Extension of time to file the Direct
5 Testimony of John Cassidy, Staff's cost of capital witness, and the Company did not object to Staff's
6 Request. Staff's Request for Extension was granted pursuant to a Procedural Order docketed
7 December 11, 2012.

8 Staff submitted the Direct Testimony of its financial witness, Crystal Brown, and its
9 engineering witness, Dorothy Hains, on November 26, 2012, and Mr. Cassidy's Direct Testimony on
10 December 19, 2012.

11 On December 21, 2012, RWC filed the Rebuttal Testimony of Ms. Rowell and the
12 Company's management witness, Rhonda Rosenbaum. RWC also docketed the testimony of its
13 engineering witnesses Kara Festa and Marvin Glotfelty. The Company submitted Mr. Rowell's
14 Rebuttal Testimony on January 4, 2013.

15 Staff docketed the Surrebuttal Testimony of Ms. Brown and Ms. Hains on January 8, 2013,
16 and Mr. Cassidy's Surrebuttal Testimony on January 11, 2013.

17 The hearing convened on January 16, 2013. RWC and Staff were represented by counsel.
18 Ms. Rowell, Mr. Rowell, Ms. Festa and Mr. Glotfelty testified on behalf of the Company. No
19 members of the public were present to provide public comment.

20 On January 18, 2013, Staff docketed Ms. Brown's Revised Surrebuttal Schedules.

21 A Procedural Order docketed January 23, 2013, set the second day of hearing for February 27,
22 2013, and suspended the time clock in this matter.

23 The hearing reconvened as scheduled and Ms. Rosenbaum testified on behalf of RWC and
24 Ms. Rowell and Ms. Festa provided additional testimony. Ms. Hains, Ms. Brown and Mr. Cassidy
25 testified on behalf of Staff. At the conclusion of the hearing, the parties were advised that a
26 Procedural Order would be issued outlining the topics to be addressed in the closing briefs and setting
27 the respective filing deadlines.

28 On March 1, 2013, Staff filed a copy of a general service contract between RWC and Pima

1 County Department of Wastewater Management regarding provision of water usage data for the
2 Company's customers connected to the wastewater collection system.

3 A Procedural Order was filed on March 14, 2013, advising the parties of the issues to be
4 addressed in their post-hearing briefs and setting the filing deadlines.

5 On April 12, 2013, RWC filed its Post-Hearing Brief, Staff filed its Responsive Brief on May
6 3, 2013, and the Company filed its Post-Hearing Reply Brief on May 24, 2013.

7 * * * * *

8 Having considered the entire record herein and being fully advised in the premises, the
9 Commission finds, concludes, and orders that:

10 **FINDINGS OF FACT**

11 **BACKGROUND**

12 **COMPANY HISTORY**

13 1. The Commission granted RWC¹ its Certificate of Convenience and Necessity
14 ("CC&N") to provide water service in Pima County pursuant to Decision No. 27546 (April 23,
15 1953). RWC is an Arizona 'C' corporation and a Class C public water utility, serving approximately
16 1,500 customers located partially within the City of Tucson and partially within an unincorporated
17 area of Pima County, mostly south of Interstate 10. The Commission approved RWC's current rates
18 in Decision No. 61610 (April 1, 1999).

19 2. RWC is a family-owned company and the current board members and officers are
20 Rhonda Rosenbaum, its vice-president, general manager and certified operator; her husband, Joseph
21 Rosenbaum, who is a vice-president also; and Ms. Rosenbaum's mother, Dorleen Mallis, who is the
22 Company's president. Ms. Rosenbaum and Ms. Mallis are also general partners of R & M Real
23 Estate, L.L.P.² In addition to RWC, the family owns H & D Enterprises.³

24 3. According to the Commission's Consumer Services Section, between 2010 and 2012,
25 the Company had two complaints regarding service quality and three billing complaints. All
26

27 ¹ The CC&N was originally granted to Herman Ray d/b/a Ray Water Company. The Commission approved the transfer
of the assets and CC&N to Ray Water Company in Decision No. 31491 (April 27, 1959).

28 ² Transcript of Hearing, Volume II, February 27, 2013, at pages 260-261. (Hereinafter, "Tr. at ___").

³ Tr. at 258-259.

1 complaints have been resolved and closed. Staff reported that RWC has no delinquent Commission
2 compliance issues.

3 COMPANY SYSTEM

4 4. The Company's system includes seven active wells and four inactive or abandoned
5 wells. Of the active wells, Well Nos. 2D and 7, both drilled in 2007, and Well No. 8 drilled in 2010,
6 produce over 80 percent of the water used by customers over the course of the year.⁴ According to
7 RWC, Well Nos. 3, 4, 5 and 6 are between 30 and 50 years old.⁵ Well No. 3 produces the rest of the
8 water supply and provides additional pressure for the north end of the system where it is located.⁶
9 The other wells are used for back up or are maintained as a sample point for the Arizona Department
10 of Environmental Quality ("ADEQ").⁷ However, the Company asserts that all of the older wells are
11 in extremely poor condition and are not reliable sources for meeting peak demand and they cannot be
12 operated at, or even near, capacity.⁸ In addition to the wells, RWC's system consists of four pressure
13 tanks, six storage tanks with a total capacity of 775,000 gallons, ten booster pumps, 70 fire hydrants
14 and a fully interconnected distribution system. The Company reported non-account water in the test
15 year of 10.1 percent. Ms. Rosenbaum testified that RWC's certificated area is approximately 95
16 percent built out, so there is little room for growth.⁹

17 5. Ms. Rosenbaum described RWC's customer base as lower/middle class, mostly living
18 in single family homes. There are some mobile home parks and multi-family complexes, one of
19 which is one of the Company's biggest customers with approximately 400 or 500 apartment and
20 condominium units. RWC also has a number of commercial customers on meters of varying sizes.¹⁰

21 6. A Compliance Status Report from ADEQ dated April 2, 2012, indicated that RWC's
22

23 ⁴ Rebuttal Testimony of Kara Festa, pages 3, 5.

24 ⁵ In mid-2012, the pump in Well No. 4 failed. RWC had initially planned to replace the pump, but during video
25 inspection of the wells in August 2012, the Company learned that the casing has a number of holes, some of which are
26 much larger since the prior video inspection. Ms. Rosenbaum testified that based on the fragile condition of the well
casing, the Company has not yet decided whether to attempt to replace the pump and bring the well back online. She
stated that once the rate case is complete, the Company will evaluate the financial viability and cost effectiveness or
trying to repair Well No. 4. (Tr. at 257-258; Rebuttal Testimony of Kara Festa, page 5.)

⁶ Tr. at 108-109.

⁷ Tr. at 268, 286, 346.

⁸ See e.g., Rebuttal Testimony of Kara Festa and Rebuttal Testimony of Marvin Glotfelty.

⁹ Tr. at 270-271.

¹⁰ Tr. at 265-266.

1 water system PWS No. 10-112 has no major deficiencies and is currently delivering water that meets
2 water quality standards required by 40 CFR 141 and A.A.C., Title 18, Chapter 4.

3 7. RWC's water system is located in Arizona Department of Water Resources'
4 ("ADWR") Tucson Active Management Area ("AMA"). In a Compliance Status Report dated July
5 27, 2012, ADWR indicated that the Company is currently in compliance with departmental
6 requirements governing water providers and/or community water systems.

7 8. The Company has on file Commission-approved curtailment and backflow tariffs.

8 RATE APPLICATION

9 SUMMARY

10 9. RWC used the twelve-month period ending December 31, 2011, as its test year. The
11 Company's proposed adjusted original cost rate base ("OCRB") did not provide reconstruction cost
12 new less depreciation information, and its fair value rate base ("FVRB") is deemed to be the same as
13 its OCRB. As its final position, RWC seeks a gross revenue requirement of \$873,905, for a \$293,091
14 increase, or 50.46 percent, over adjusted test year revenues of \$580,814, resulting in operating
15 income of \$103,045, and a 10.22 percent rate of return on its proposed FVRB of \$1,008,013.

16 10. In its final position, Staff recommended a gross revenue requirement of \$729,787, for
17 a \$148,973 increase, or 25.65 percent, over test year revenues of \$580,814, providing an operating
18 income of \$57,005, resulting in a 9.1 percent rate of return on Staff's proposed \$626,424 FVRB.

19 11. The unresolved issues relate to rate base components, operating expenses, cost of
20 capital, revenue requirement, rate design and certain tariff filing requirements.

21 12. In its Post-Hearing Reply Brief ("Reply Brief"), RWC stated that, although it stood by
22 its position on the contested issues as stated in its Opening Post-Hearing Brief, the Company offered
23 a compromise position and supporting schedules proposing that the Commission should: 1) Include
24 Well No. 8 in rate base, 2) approve the Company's proposed rate case expense, 3) adopt RWC's *pro*
25 *forma* purchased power expense, 4) apply the Company's 10.22 percent rate of return, and 5) utilize
26 the Company's rate design. In return, RWC would agree to Staff's remaining adjustments and
27 recommendations except for Staff's information sharing tariff recommendation, which RWC
28 continues to oppose.

1 **RATE BASE**

2 13. As reflected in their respective final schedules,¹¹ RWC proposed an FVRB of
3 \$1,008,013 and Staff recommended an FVRB of \$626,424. The main differences between RWC's
4 and Staff's amounts relate to disagreements over plant in service components and balances for
5 advances in aid of construction ("AIAC"), contributions in aid of construction ("CIAC") and
6 accumulated CIAC amortization.¹²

7 **Plant in Service**

8 14. In its Final Schedules, RWC claimed gross plant in service of \$5,142,927, less
9 accumulated depreciation of \$1,716,790, for a total adjusted test year net plant in service of
10 \$3,426,137. Staff proposed gross plant in service of \$4,676,727, accumulated depreciation of
11 \$1,717,129, for an adjusted net plant in service of \$2,959,598. The Company objected to the removal
12 of \$459,450 in costs related to Well No. 8 that Staff deemed excess capacity, the \$20,250 reduction to
13 transportation equipment, and the related \$14,130 adjustments to accumulated depreciation.

14 **Construction of Well No. 8**

15 15. On March 11, 2009, RWC filed a finance application with the Commission for
16 authority to borrow up to \$500,000 from its unregulated affiliate, R & M Real Estate, to support the
17 engineering and construction costs of a new well. The Company claimed the new well was vital
18 because an existing well was failing. In its Staff Report for the finance application, Staff found the
19 projected costs were reasonable, but asserted that RWC had sufficient water production and storage
20 to meet its customers' needs without the new well and recommended denial of the application.

21 16. In Decision No. 71691 (May 3, 2010), the Commission noted that under the facts of
22 that case, RWC's proactive efforts to replace a failing well before provision of water to customers
23 was jeopardized were appropriate. The Decision noted that the Company had no debt at that time, it
24 was not seeking a rate increase to repay the loan, and RWC had done extensive research to determine
25 whether a new well was necessary. The Commission determined it was in the public interest to

26 ¹¹ RWC's Post-Hearing Brief, Final Schedule A-1; Staff's Responsive Brief, Final Schedule CSB-1.

27 ¹² In its Application, RWC proposed \$3,404 in working capital related to prepayments. (Application, Direct Testimony of
28 Sonn Rowell, Schedule B-2.) Staff removed the amount because the Company had not performed a lead/lag study.
(Direct Testimony of Crystal Brown, Schedule CSB-14.) RWC disagreed with Staff's adjustment, but due to its
immaterial nature, the Company did not dispute its removal. (Rebuttal Testimony of Sonn Rowell, page 5, Schedule B-2.)

1 authorize the loan. However, the Commission cautioned the Company that Staff's position that the
2 well was not currently needed should put RWC on notice that the new plant could be deemed not
3 used and useful in a future rate case and disallowed from rate base.¹³ Of the \$500,000 loan
4 authorization, the Company borrowed \$100,000 from R & M Real Estate and paid for the remainder
5 with cash on hand.¹⁴ The unused \$400,000 loan authorization expired on April 29, 2011. RWC
6 constructed Well No. 8 at a cost of \$459,450 and placed it into service in late 2010. In its
7 Application, the Company reported the cost of Well No. 8 in its test year utility plant and included
8 corresponding depreciation of \$10,586.

9 Classification of Well No. 8

10 17. Based on the well information and pumping capacity data provided by the Company
11 for RWC's active wells, Staff gauged that RWC had sufficient production capability to serve its
12 existing customer base without Well No. 8. Staff concluded that the well represents excess capacity
13 and advocated for its removal from rate base, along with the depreciation and expenses related to
14 Well No. 8's operation.¹⁵

15 18. In her Rebuttal Testimony, Ms. Rosenbaum disputed Staff's conclusions, insisting
16 Well No. 8 is a critical supply well and is used regularly.¹⁶ Ms. Rosenbaum testified that RWC
17 reached the decision to construct the new well after consultation with engineers who had assessed the
18 condition of the Company's existing wells, stressing that she would not have installed the well unless
19 she believed it was vital to the Company's provision of safe and reliable service to customers.¹⁷ She
20 asserted that installation of Well No. 8 was prudent and reasonable.¹⁸

21 19. RWC presented testimony from two witnesses, Ms. Festa and Mr. Glotfelty, to
22 respond to Staff's conclusions regarding well capacity and sufficient peak demand production, and to
23 provide evidence about the need for Well No. 8 as a dependable and essential source of water.

24 20. Ms. Festa is a Registered Professional Engineer and a principal of WestLand
25

26 ¹³ Decision No. 71691, page 8.

27 ¹⁴ Tr. at 263.

28 ¹⁵ Direct Testimony of Dorothy Hains, Exhibit DMH-1, page 9.

¹⁶ Tr. at 237.

¹⁷ Tr. at 238, 241.

¹⁸ Tr. at 243.

1 Resources, Inc. and has been working with RWC on the Company's water system engineering
2 projects since 2000. Over the past five years, Ms. Festa has managed the site and plant design for the
3 Company's three new wells, assisted RWC during well outages, aided in selection of its new well
4 equipment and provided other engineering support.¹⁹

5 21. Ms. Festa presented extensive testimony regarding calculation of sufficient well
6 capacity and peak day demand for a water system. She explained that because a company does not
7 know when a well outage may occur, the accepted engineering recommendation is to be able to
8 supply peak day demand with the largest well out of service. Ms. Festa pointed out that peak day
9 demand must be distinguished from the average day of the peak month (as used by Staff in its
10 calculations) because peak day demand is approximately 1.5 times higher than the average day of the
11 peak month usage.²⁰ According to Ms. Festa, Staff's use of average day of the peak month is more
12 appropriate for determining adequate storage tank capacity; as such, Staff's peak use calculations
13 underestimate the production necessary for RWC to meet peak day demand.²¹ She also noted that
14 Staff's well capacity computations were based on the general plant information provided by the
15 Company. Ms. Festa stated determination of a well's production capacity based solely on the plant's
16 technical specifications ignores its actual condition and fails to consider whether the plant is capable
17 of operating at sufficient levels or duration to satisfy customer demand or that a high level of demand
18 may result in a well's failure.²² In Ms. Festa's opinion, if the Company takes Well No. 8 offline, the
19 system will not have adequate capacity to meet peak demand and service will be compromised. Ms.
20 Festa maintained that Well No. 8 is not excess capacity and emphasized her belief that "the water
21 company is just trying to get out in front of the failure of their infrastructure and replace things in a
22 reasonable, prudent, and timely fashion."²³

23 22. Mr. Glotfelty is a hydrologist with Clear Creek Associates and a registered
24 professional geologist and a licensed well driller. For over 30 years, Mr. Glotfelty has participated in
25

26 ¹⁹ Rebuttal Testimony of Kara Festa, page 2.

27 ²⁰ *Id.*, page 7.

28 ²¹ Tr. at 138-141.

²² Tr. at 105, 123.

²³ Tr. at 129.

1 various hydrological studies in the southwestern United States.²⁴ He asserts that older wells, which
2 are typically constructed using low carbon steel casings, have an economic useful life of
3 approximately 25 years, although some may last longer while others may corrode and collapse before
4 that time.²⁵ Mr. Glotfelty also noted that through his research and experience, he determined that the
5 average duty cycle for pumping of public supply wells was 65 percent.²⁶

6 23. In his work as a hydrologist for RWC, Mr. Glotfelty has evaluated its existing wells
7 and has overseen installation of new wells to replace those that have exceeded their useful life.²⁷
8 Applying his experience and research to RWC's infrastructure, Mr. Glotfelty provided testimony
9 demonstrating that the older wells lack the structural stability critical for their use as a reliable water
10 source for the Company. He asserted these wells "may structurally fail (collapse) at essentially any
11 time, and such a well failure would probably occur during peak water pumping periods when the
12 wells are being relied upon by [the] Company to the greatest extent."²⁸ Using images taken during an
13 August 2012 video inspection of the wells' interiors, Mr. Glotfelty described on the damage depicted,
14 the cause of the damage, and whether repairs were feasible or advisable.²⁹ Because of their
15 condition, Mr. Glotfelty cautioned that it would not be prudent to rely on these wells as primary water
16 sources and that if they were used as a main source to meet peak day demand, these wells would
17 collapse. He felt they could be used intermittently, but because of each well's instability, RWC would
18 have to be prudent in their use and exercise caution as the well is cycled off and on.³⁰

19 24. Mr. Glotfelty prepared a table depicting several scenarios of the Company's
20 production capabilities if different wells are taken offline. He stressed that reported pump yields for
21 the wells are annual averages and do not represent actual daily or hourly values. Mr. Glotfelty stated
22 assuming a 65 percent duty cycle and a 25-year life expectancy for the Company's older wells, the
23 data outlined in the table shows that if Well No. 8 is excluded, "the water system is compromised to
24 the extent that it cannot meet the summertime monthly demands at a 65 percent duty cycle, and

25 ²⁴ Rebuttal Testimony of Marvin Glotfelty, page 1.

26 ²⁵ *Id.*, page 7.

26 ²⁶ *Id.*, page 6.

27 ²⁷ *Id.*, page 1.

27 ²⁸ *Id.*, page 2.

28 ²⁹ Tr. at 155-166; Rebuttal Testimony of Marvin Glotfelty, Exhibit 2.

28 ³⁰ Tr. at 163, 166, 169-170.

1 would even struggle to meet those demands at a 100 percent duty cycle.”³¹ If Well No. 8 is excluded,
2 the additional production burden on Well No. 3 could potentially lead to its failure.³²

3 25. On cross-examination, Mr. Glotfelty testified that he could not state whether the older
4 wells were in imminent danger of immediate failure, but explained that he could not know without
5 knowing what pump operations were occurring.³³ Mr. Glotfelty admitted that the older wells have
6 lasted longer than the typical economic life of low carbon steel well casings.³⁴ However, he claimed
7 this longevity demonstrates RWC’s prudent and effective system management in maximizing the
8 utility plant beyond the typical useful life and reducing well replacement costs, which ultimately
9 benefits the customers.³⁵ Nevertheless, he stated it would be advisable for RWC to begin planning a
10 replacement for Well No. 3 in the near future since it is needed to provide additional water pressure.³⁶

11 26. Mr. Glotfelty concluded:

12 [T]he structural conditions of Wells No. 3, No. 4, and No. 6 are extremely poor.
13 Thus, Wells 3, 4, and 6 should not be relied upon as critical water sources for the
14 Company system, because these wells could structurally fail at essentially any
15 time. Well No. 8 is useful to provide a reliable water supply for the Company
16 system, and it is demonstrably used during periods of peak demand, and also to
17 enable [the] Company to maintain operational flexibility to conduct routine well
maintenance without disruption of service to its customers. Additionally, Well
No. 8 provides a necessary water supply in the event of a failure of one of the
older wells in the system. Well No. 8 is necessary and increases the reliability
and cost-efficiency of the Company system.³⁷

18 27. Ms. Hains testified that one reason for the difference in the parties’ demand
19 calculations is the impact of varying peak day demand multipliers, noting that Staff calculates peak
20 demand as 1.25 times the average day of the peak month, rather than the higher numbers employed
21 by consultants and engineers. She noted that use of a lower multiplier lessens the economic impact
22 because if the calculated average day demand is higher, more storage will be required. Additionally,
23 Ms. Hains observed that different engineers adopt different multipliers; as a result, the Commission
24

25 ³¹ Rebuttal Testimony of Marvin Glotfelty, page 8; Exhibit 3.

26 ³² *Id.*, page 8-9; Exhibit 3.

27 ³³ Tr. at 183.

28 ³⁴ Tr. at 184.

³⁵ Tr. at 186.

³⁶ Tr. at 186.

³⁷ Rebuttal Testimony of Marvin Glotfelty, page 8.

1 decided that a factor of 1.25 would be used for all regulated water utilities.³⁸ She noted another
2 difference is that Staff calculates duty cycle at 85 percent of well production capacity.³⁹

3 28. Although she stated she had no reason to doubt the evidence presented by Ms. Festa
4 and Mr. Glotfelty regarding the condition of the older wells, Ms. Hains testified that when conducting
5 her analysis of adequate capacity and production, she did not take the condition of the wells into
6 consideration, stating that as long as a well can run, it can provide water to meet demand.⁴⁰

7 29. The Company's witnesses have presented substantial and credible evidence
8 demonstrating that Well No. 8 is a critical component of the Company's provision of safe and reliable
9 water service to its customers. We believe RWC has met its burden of showing that Well No. 8 does
10 not constitute excess capacity.

11 30. We find that Well No. 8 is used and useful plant and should be included in rate base
12 reflecting a cost of \$459,450 and accumulated depreciation of \$10,586.

13 Transportation Equipment

14 31. RWC proposed total plant in service for transportation equipment of \$72,235. This
15 included a 2004 Ford truck used by the field technician, a 2005 Toyota Tundra used by Mr.
16 Rosenbaum when performing job duties for RWC, and a Lexus SUV driven by Ms. Rosenbaum.

17 32. During its audit, Staff determined the trucks were used for Company purposes and
18 included the full cost claimed by RWC for these vehicles less depreciation; however, Staff had
19 concerns about including the entire cost for the SUV. According to Staff, Ms. Rosenbaum's job
20 responsibilities that necessitate travel, and the frequency with which they are performed, do not
21 justify including the entire cost of the vehicle in rate base. Staff learned that Ms. Rosenbaum uses the
22 SUV to perform duties related to R & M Real Estate, for commuting, and also for her own personal
23 use. Staff discovered that Company employees do not maintain travel logs and Ms. Rosenbaum had
24 no documentation indicating how often she uses the vehicle for Company purposes versus personal or
25 affiliate use.⁴¹ Staff recommended that only 25 percent of the vehicle's \$27,500 cost and the
26

27 ³⁸ Tr. at 321-324.

³⁹ Tr. at 308.

⁴⁰ Tr. at 325.

28 ⁴¹ Direct Testimony of Crystal Brown, page 10-11.

1 associated depreciation should be assigned to RWC. The remaining 75 percent Staff apportioned to
2 the unregulated affiliates and to Ms. Rosenbaum personally. This allocation resulted in a \$20,250
3 decrease to RWC's proposed transportation equipment, for a total vehicle cost of \$51,985 and a
4 related decrease of \$3,544 to accumulated depreciation.

5 33. Ms. Rosenbaum testified about the various duties she performs for RWC using the
6 SUV and insisted that 50 percent was a more appropriate allocation based on her "educated guess."
7 Although she acknowledged she used this car to take care of her responsibilities for the affiliated
8 entities, Ms. Rosenbaum was unable to say with a reliable degree of certainty how much time she
9 spent carrying out this work.⁴²

10 34. Other than Ms. Rosenbaum's assertion that she uses the SUV for the Company's
11 purposes at least 50 percent of the time, RWC did not present any evidence supporting this position.
12 Without additional documentation or travel logs supporting adoption of the higher percentage, it
13 would be inequitable and improper to set rates based on transportation plant that is being used for
14 unregulated affiliates and personal purposes as well as Company duties. RWC has not refuted Staff's
15 recommended 25 percent allocation to the Company for the SUV and 75 percent to the affiliates and
16 Ms. Rosenbaum personally and we adopt Staff's recommendation.

17 35. Based on our findings relating to plant in service, we adopt a gross plant in service
18 amount of \$5,142,927 and accumulated depreciation of \$1,716,790, for net plant in service of
19 \$3,426,137.

20 AIAC, CIAC and CIAC Amortization

21 36. As its final position, RWC proposed AIAC of \$1,590,890 and CIAC of \$982,352 less
22 amortized CIAC of \$260,433, for a net CIAC of \$721,919.⁴³

23 37. Staff recommended AIAC of \$1,474,900 and CIAC of \$1,140,839 less amortized
24 CIAC of \$387,970, for a net CIAC balance of \$752,869.⁴⁴

25 38. The dispute between the Company and Staff regarding AIAC and CIAC relates to the
26 treatment of AIAC that had not been fully refunded after 10 years. Although RWC provided Staff

27 ⁴² Tr. at 253-256; Rebuttal Testimony of Rhonda Rosenbaum, page 3.

28 ⁴³ RWC's Post-Hearing Brief, Final Schedule B-2.

⁴⁴ Staff's Responsive Brief, Final Schedule CSB-3.

1 with a schedule listing its AIAC contracts, the Company did not have copies of the specific line
 2 extension agreements to support the schedule.

3 39. RWC claimed that line extension agreements may adopt a 15 or 20 year refunding
 4 period and transferring the unpaid AIAC balances to CIAC might not always be appropriate. RWC
 5 claimed that the Company and its accountant maintained very detailed records of AIAC and refunds;
 6 therefore, no adjustments to AIAC, CIAC or CIAC amortization are required.⁴⁵

7 40. Staff testified that it attempted to locate copies of the line extension agreements,
 8 including a request to the State of Arizona Records Retention section, but found no copies.⁴⁶ In the
 9 absence of an actual line extension agreement, Staff applies the terms of A.A.C. R14-2-406(D),
 10 which state any AIAC not refunded within 10 years of the advance becomes non-refundable and the
 11 balance is recorded as CIAC,⁴⁷ and affecting the CIAC amortization amount.

12 41. We agree with Staff's conclusions regarding RWC's AIAC, CIAC and CIAC
 13 amortization and find Staff's recommended adjustments reasonable.

14 42. Based on our foregoing findings, we adopt an OCRB and FVRB of \$1,075,288 for
 15 RWC as follows:

16 Commission Approved:

17 Plant in Service	\$ 5,136,177
18 Less: Accumulated Depreciation	<u>1,727,715</u>
Net Plant in Service	3,408,462

19 Deductions:	
20 CIAC	1,140,839
Less Accumulated Amortization	<u>387,970</u>
21 Net CIAC	752,869

22 AIAC	1,474,900
Customer Deposits	<u>105,405</u>

23 Total OCRB	1,075,288
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24 ...

25 ...

26 ...

27 ⁴⁵ Rebuttal Testimony of Sonn Rowell, page 4.

28 ⁴⁶ Surrebuttal Testimony of Crystal Brown, page 9.

⁴⁷ *Id.*, page 10.

1 **INCOME STATEMENT ADJUSTMENTS**

2 **Operating Revenues**

3 43. Both RWC and Staff proposed final test year operating revenues of \$580,814 and we
4 adopt that amount.

5 **Operating Expenses**

6 44. RWC proposed final adjusted operating expenses of \$674,552. Staff recommended
7 adjustments to salaries and wages, pensions and benefits, purchased power, water testing, rents,
8 transportation, rate case expense, depreciation, other taxes and income tax expenses, resulting in final
9 adjusted test year operating expenses of \$635,824. The Company disputed Staff's position on the
10 purchased power, rents, transportation, rate case expense, depreciation and income tax expense.

11 **Purchased Power Expense**

12 45. In its Application, RWC stated an actual test year purchased power expense of
13 \$82,011, but claimed the actual 2012 cost of \$106,874 as its proposed *pro forma* power expense. The
14 Company believed this amount more accurately reflected its power expense because it included a full
15 year of costs including Well No. 8 operations. At hearing, RWC noted Tucson Electric Power
16 ("TEP") had filed for a rate increase and the parties in that matter had reached a settlement. Using
17 the rates proposed in the TEP settlement agreement, RWC performed an analysis of its 2012 TEP
18 bills and calculated an adjustment to the Company's 2012 costs, reducing its proposed *pro forma*
19 purchased power expense to \$96,821, for a \$14,810 increase over the test year expense.⁴⁸

20 46. Staff advocated for denial of the Company's use of the 2012 costs since they included
21 the expenses related to Well No. 8, which Staff had excluded as excess capacity. Staff also
22 contended that the *pro forma* adjustment overstated the purchased power expense because the
23 Commission had not approved the TEP settlement agreement; therefore, the amount was not known
24 and measurable. Staff recommended adoption of the actual test year purchased power expense of
25 \$82,011.⁴⁹

26 47. We have concluded that Well No. 8 should be included in rate base and we must

27 ⁴⁸ RWC's Final Schedule C-2c contains a math error. The Company calculated total power costs after the rate increase,
plus associated taxes and fees, of \$97,281, for an adjustment of \$15,270. The corrected calculations are reflected above.

28 ⁴⁹ Staff's Responsive Brief, pages 4-5.

1 consider whether a *pro forma* purchased power adjustment is appropriate. We note that at the time of
2 the hearing and of the parties' submission of post-hearing briefs, the Commission had not yet acted
3 on TEP's rate application and the proposed settlement agreement. We have since approved without
4 amendment the portions of the settlement that impact the Company.⁵⁰ Since RWC calculated the
5 adjustment using the rates outlined in the TEP settlement approved by the Commission, we believe
6 the purchased power expense going forward is reliably known and reasonably measurable.
7 Accordingly, we approve a purchased power expense of \$96,821.

8 Rents Expense

9 48. RWC rents an office building in downtown Tucson from its affiliate, R & M Real
10 Estate, at a claimed expense of \$22,000. In addition to RWC, R & M Real Estate and another
11 affiliated entity, H & D Enterprises,⁵¹ conduct business at the location. Staff concluded that because
12 these unregulated affiliates use the building for business, a portion of the rents expense should be
13 allocated to them. Based on its evaluation, Staff determined that 10 percent of the rent should be
14 apportioned to the affiliates and adjusted the rents expense by \$2,200 to \$19,800. At hearing Ms.
15 Rosenbaum testified that the Company was willing to accept the 10 percent adjustment.⁵²

16 49. We find that Staff's 10 percent apportionment of the rents expense to the Company's
17 unregulated affiliates is reasonable and we adopt Staff's adjustment.

18 Transportation Expense

19 50. Based on its conclusions and adjustments to transportation equipment in rate base,
20 Staff made corresponding reductions to RWC's transportation expense for a recommended adjusted
21 amount of \$9,206.

22 51. Having adopted Staff's allocation of 75 percent of the vehicle cost for the SUV to the
23 unregulated affiliates and Ms. Rosenbaum, we conclude Staff's corresponding adjustments to the
24 expenses attributable to the SUV are reasonable and we will adopt them.

25 Rate Case Expense

26 52. RWC originally proposed a \$50,000 rate case expense normalized over five years. At

27 ⁵⁰ Decision No. 73912 (June 27, 2013).

28 ⁵¹ Tr. at 258-259.

⁵² Tr. at 256. We note that RWC's Final Schedule C-1 still reflects a rents expense of \$22,000.

1 hearing, the Company updated its rate case expense claiming a revised estimated total of \$74,007 for
 2 an annual amount of \$14,801. According to the Company, Staff's categorization of Well No. 8 as
 3 excess capacity and its removal from rate base compelled the Company to hire Ms. Festa and Mr.
 4 Glotfelty to provide testimony rebutting Staff's conclusions.⁵³ In addition, RWC stated that Staff
 5 issued more data requests than initially expected, requiring far more involvement from RWC's
 6 accountant, witnesses, consultants and legal counsel, resulting in higher-than-anticipated costs.⁵⁴

7 53. Staff did not present any testimony at hearing regarding RWC's updated rate case
 8 costs, and in its Responsive Brief, stated only: "The Company claims that it incurred additional rate
 9 case expense to defend its inclusion of Well No. 8 which Staff had previously determined was excess
 10 capacity and not used and useful. Staff has not changed its position on the wells. Accordingly, Staff
 11 recommends no increase to rate case expense."⁵⁵

12 54. Given the number and complexity of the issues, we find RWC's proposed rate case
 13 expense of \$74,007 recovered over five years for an annual rate case expense of \$14,801 is
 14 reasonable.

15 Depreciation and Taxes

16 55. The flow through of the modifications we have made to the parties' positions relating
 17 to rate base and operating expenses result in an adjusted test year depreciation expense of \$153,539
 18 and income taxes of \$(37,028).

19 56. Based on our discussion, we find that RWC's test year operating revenues of \$580,814
 20 and its operating expenses of \$662,751 resulted in a test year operating loss of \$(81,937).

21 COST OF CAPITAL

22 57. The parties' final positions on the cost of capital and capital structure components are
 23 as follows:

	<u>Debt</u>	<u>Cost of Debt</u>	<u>Equity</u>	<u>Cost of Equity</u>	<u>WACC</u>
RWC ⁵⁶	7.41%	6.25%	92.59%	10.55%	10.22%
Staff ⁵⁵	7.61%	6.30%	92.39%	9.30%	9.10%

27 ⁵³ Tr. at 241-242, 290-291; RWC's Post-Hearing Brief, pages 4-5.

⁵⁴ *Id.*

⁵⁵ Staff's Responsive Brief, page 5.

28 ⁵⁶ RWC's Post-Hearing Brief, Final Schedule D-1.

1 58. The cost of capital is the opportunity cost represented by anticipated returns that are
2 foregone by choosing one investment over another, or, in other words, the return that investors expect
3 from a venture. The weighted average cost of capital ("WACC") is the average of the cost rates on all
4 issued securities adjusted to reflect their relative amounts in the company's capital structure; the
5 WACC for a particular company is determined based on the cost of its debt and the cost of its equity,
6 multiplied by the proportion of the debt and equity that comprise its total capital.⁵⁸

7 59. The cost of equity ("COE") is determined by the market, and represents investors'
8 expected returns, not realized accounting returns.⁵⁹ The COE is estimated using various
9 methodologies; two of the more common are the Discounted Cash Flow ("DCF") method and the
10 Capital Asset Pricing Model ("CAPM"). The DCF uses the present value of the current average
11 market price of the sample group and shareholder expected future cash flows (primarily dividends) to
12 determine the stock value of the subject utility.⁶⁰ There are two versions of the DCF model: 1) The
13 constant-growth DCF model, which assumes that a company's dividends will increase indefinitely
14 and at the same rate, and 2) the multi-stage DCF model, which assumes that a company's dividend
15 yield will vary in the future. The CAPM describes the relationship between a security's investment
16 risk and its market rate of return and assumes that investors require a return that is commensurate
17 with the level of risk associated with a particular security.⁶¹ Under the CAPM, the expected return is
18 equal to the risk-free interest rate plus the product of the market risk premium, multiplied by beta,
19 where beta represents the riskiness of the investment relative to the market.⁶²

20 60. Although Staff opted to rely on these methodologies for its COE estimates, Mr.
21 Rowell chose to calculate the COE using a Comparable Earnings approach as one component, as well
22 as two DCF models and three different CAPM estimations.

23 61. Mr. Rowell testified that the Comparable Earnings approach is a simpler COE
24 methodology in which an analyst selects a sample group of companies and calculates their actual or
25

26 ⁵⁷ Staff's Responsive Brief, Final Schedule JAC-1.

⁵⁸ Direct Testimony of John Cassidy, pages 3-4.

27 ⁵⁹ *Id.*, page 11.

⁶⁰ *Id.*, page 15.

28 ⁶¹ *Id.*, page 27.

⁶² *Id.*, page 28.

1 expected returns on equity. The average of the returns on equity is used as proxy for the specific
 2 utility's required rate of return.⁶³ According to Mr. Rowell, the benefit to the Comparable Earnings
 3 approach is that, unlike the DCF and CAPM models, the only subjective input is the analyst's choice
 4 of sample companies—no subjective decisions relating to financial variables must be made.⁶⁴
 5 Additionally, he claims that Comparable Earnings analyses fully conform with the comparable
 6 earnings standard established in *Bluefield Water Works and Improvement Co. v. Public Service*
 7 *Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) and *Federal Power Commission v. Hope*
 8 *Natural Gas Co.*, 320 U.S. 591, 603 (1944).

9 62. In *Hope*, the United States Supreme Court found:

10 [T]he return to the equity owner should be commensurate with returns on
 11 investments in other enterprises having corresponding risks. That return,
 12 moreover, should be sufficient to assure confidence in the financial
 13 integrity of the enterprise, so as to maintain its credit and to attract
 capital.⁶⁵

14 63. Mr. Rowell stated the Comparable Earnings approach amply satisfies the requirements
 15 that cost of capital should provide commensurate earnings, ensure financial integrity, and attract
 16 capital. In Mr. Rowell's opinion, the DCF models and CAPM do not comport with the *Hope* and
 17 *Bluefield* standards as closely as the Comparable Earnings approach because the subjective nature of
 18 the DCF and CAPM formulations leave their results open to scrutiny about whether they meet the
 19 cost of capital requirements.⁶⁶

20 64. For his Comparable Earnings analysis, Mr. Rowell began with the customary sample
 21 water companies employed by Staff's cost of capital analysts, but he included several natural gas
 22 companies due to that industry's similarities to the water industry, noting that RUCO has frequently
 23 included natural gas companies in its sample groups.⁶⁷ Mr. Rowell based his Comparable Earnings
 24 computation on the sample companies' actual returns on equity, rather than any earnings projections.
 25 After removing the companies with the highest and lowest ROEs, application of the weighted equity

26 ⁶³ Direct Testimony of Matthew Rowell, page 14.

27 ⁶⁴ *Id.*, page 14.

28 ⁶⁵ *Hope*, 320 U.S. at 603.

⁶⁶ Direct Testimony of Matthew Rowell, page 15.

⁶⁷ *Id.*, pages 16-17.

1 balance average of the sample group's ROE produced the ROE for the Company.⁶⁸

2 65. In addition to his Comparable Earnings computations, Mr. Rowell developed COE by
3 applying two DCF models⁶⁹ and three different CAPM estimations⁷⁰ and then averaged the results.
4 Because he believes the Comparable Earnings approach has more value than DCF or CAPM, Mr.
5 Rowell weighted the Comparable Earnings two-thirds and the averaged DCF and CAPM one-third, to
6 reach an overall weighted average.⁷¹ Mr. Rowell asserted that because RWC is much smaller than
7 any of the sample utilities, it carries more financial risk. He also contended that Arizona utilities
8 represent a higher risk for investors because the regulatory climate in Arizona is considered
9 unfavorable.⁷² To compensate for this increased risk, Mr. Rowell applied a 65 basis point risk
10 premium to his calculations for the total ROE.⁷³

11 66. The Company's final position reflects a capital structure of 7.41 percent long-term
12 debt and 92.59 percent equity, a 6.25 percent cost of debt and a COE of 10.55 percent, for a WACC
13 of 10.22 percent.⁷⁴

14 67. RWC disputed a number of Staff's recommendations. Mr. Rowell stated that Staff's
15 proffered capital structure of 7.6 percent debt and 92.4 percent equity, and a 6.3 percent cost of debt
16 are appropriate and the Company would accept it, but only if Well No. 8 is included in rate base; if it
17 is not, the corresponding debt should be removed from the capital structure to reflect 100 percent
18 equity.⁷⁵

19 68. The Company also contended that although Staff's originally proposed ROE of 9.5
20 percent was low, it was not unreasonably low and RWC would be willing to accept it "provided that
21 the Company actually has an opportunity to earn 9.5 percent. The main problem is that Staff's other
22 recommendations and adjustments deny the Company the opportunity to earn 9.5 percent...and
23 render the 9.5 percent ROE illusory...."⁷⁶ Mr. Rowell stated that the Company will agree to Staff's

24 ⁶⁸ *Id.*, page 17.

25 ⁶⁹ *Id.*, pages 18-22.

26 ⁷⁰ *Id.*, pages 22-27.

27 ⁷¹ *Id.*, page 27-30.

28 ⁷² *Id.*, page 28.

⁷³ *Id.*, page 30.

⁷⁴ RWC's Post-Hearing Brief, Final Schedule D-1.

⁷⁵ Rebuttal Testimony of Matthew Rowell, pages 2-3.

⁷⁶ *Id.*, page 3.

1 proposed ROE only if the Commission does not adopt Staff's recommendations and adjustments to
2 exclude Well No. 8 from rate base, Staff's rate design, certain Engineering recommendations, and a
3 number of Staff's adjustments to operating expenses.⁷⁷

4 69. However, shortly before the hearing, Staff filed Mr. Cassidy's Surrebuttal Testimony
5 that revised Staff's COE estimate from 9.5 to 9.3. Mr. Rowell testified that the Company will not
6 accept anything lower than a 9.5 COE.⁷⁸

7 70. Staff's recommended capital structure of 7.6 percent debt and 92.4 percent equity
8 differs from RWC's proposed capital structure due to a disparity between the number of months of
9 amortization each used to calculate the interest on the Company's \$100,000 loan.⁷⁹

10 71. The cost of debt reflects the embedded cost of the existing debt, which the Company
11 proposed at 6.25 percent and Staff recommended at 6.3 percent.

12 72. Because RWC is not publicly-traded, RWC has no market data that would allow Staff
13 to estimate the Company's COE. Staff gathered a representative sample of publicly-traded water
14 utilities as a proxy for RWC. To estimate COE, Staff used two DCF models, the constant-growth
15 DCF and the multi-stage DCF, and CAPM, which Staff asserted are based on sound and well-
16 accepted methodologies that are widely used to formulate COE estimates.⁸⁰ Staff's final overall DCF
17 COE is 8.8 percent and its overall CAPM COE is 8.5 percent, which includes both Staff's CAPM
18 estimate using the historical market risk premium and the current market risk premium.⁸¹ Staff also
19 applied an upward Economic Assessment Adjustment of 60 basis points that takes into account the
20 state of the economy and current market conditions.⁸²

21 73. Staff noted that RWC's capital structure is less leveraged than the average of the
22 sample group and the Company's shareholders bear less financial risk in comparison to those of the
23 sample water utilities resulting in a lower cost of equity. Nevertheless, Staff did not recommend a
24 downward financial risk adjustment because RWC is not publicly-traded and does not have access to

25 _____
26 ⁷⁷ *Id.*, pages 3-5.

⁷⁸ Tr. at 83.

⁷⁹ Surrebuttal Testimony of John Cassidy, page 8.

⁸⁰ Direct Testimony of John Cassidy, page 15.

⁸¹ Staff's Responsive Brief, Final Schedule JAC-3.

⁸² Direct Testimony of John Cassidy, page 35.

1 the capital markets.⁸³

2 74. Staff disagrees with the Company's inclusion in COE of an upward small company
3 risk premium of 65 basis points because the Commission has previously ruled that firm size does not
4 justify implementation of a risk premium, and stated in Decision No. 64727 (April 17, 2002) that "the
5 'firm size phenomenon' does not exist for regulated utilities, and therefore there is no need to adjust
6 for risk for small firm size in utility regulation."⁸⁴

7 75. Mr. Cassidy asserted the COE estimates that the Company derived from a Comparable
8 Earnings analysis are flawed and should not be used to set RWC's rates. According to Mr. Cassidy,
9 COE is determined by investor expectations, not the realized ROE-driven Comparable Earnings
10 approach advocated by the Company. Additionally, COE is a forward-looking concept, not the
11 backward-looking construct inherent in the use of realized ROEs to estimate COE.⁸⁵ Although Staff
12 claims the use of both publicly-traded water and natural gas utilities within the sample group is an
13 acceptable practice, RWC's inclusion of certain publicly-traded gas utilities skewed the ROE
14 calculations, creating an artificially high ROE estimate. According to Staff, this was exacerbated by
15 the application of a weighted average ROE calculation producing an average return estimate that
16 accrued to each dollar of equity included in the sample.⁸⁶ In addition, Mr. Cassidy determined that
17 the sample group Mr. Rowell assembled as RWC's proxy varied from COE model to COE model,
18 generating inconsistent and unreliable data that was generally advantageous to the Company.⁸⁷

19 76. We have found that Well No. 8 is used and useful and RWC agreed that Staff's
20 proposed capital structure of 7.6 percent debt and 92.4 percent equity would be appropriate if Well
21 No. 8 is in rate base. Accordingly, we adopt Staff's capital structure. Additionally, the Company and
22 Staff agreed on a 6.3 percent cost of debt,⁸⁸ and we will adopt it.

23 77. As noted by Staff, there were problems with some of the companies chosen for
24 RWC's sample group, and some companies RWC chose in a sample group for one COE model were
25

26 ⁸³ *Id.*, pages 34-35.

27 ⁸⁴ *Id.*, page 47.

28 ⁸⁵ *Id.*, page 37-38.

⁸⁶ *Id.*, pages 38-39.

⁸⁷ *Id.*, page 42.

⁸⁸ Rebuttal Testimony of Matthew Rowell, page 2.

1 discarded and different companies chosen for another COE model. This affects the validity and
 2 reliability of the Company's COE calculations. Also, the application of some weighted ROE
 3 averages appeared to inflate the COE estimates.

4 78. We note RWC's statement that Staff's original 9.5 ROE recommendation was low, but
 5 not unreasonable, and that the Company might have accepted it if not for certain other
 6 recommendations and adjustments that the Company believed would prevent it from achieving the
 7 9.5 ROE. We have placed Well No. 8 into rate base and have adopted the Company's rate case and
 8 purchased power expenses, and, as will be discussed below, we will be modifying the overall rate
 9 design to include more of the revenue requirement in the monthly usage charge.

10 79. After consideration of all the testimony, evidence and arguments presented, we find
 11 that Staff's proposed COE of 8.7 percent, plus an upward economic adjustment of 60 basis points, for
 12 a total COE of 9.3 percent, and a 6.3 percent cost of debt are reasonable. Consequently, we approve a
 13 WACC of 9.1 percent as follows:

	<u>Capital Structure</u>	<u>Cost</u>	<u>WACC</u>
Debt	7.6 %	6.3 %	0.5 %
Equity	92.4 %	9.3 %	8.6 %
Total	100.0%		9.1 %

17 **REVENUE REQUIREMENT**

18 80. Based on our findings, we determine that RWC is entitled to a gross revenue increase
 19 of \$262,652:

FVRB	\$1,075,288
Adjusted Operating Income	(81,937)
Required Rate of Return	9.10 %
Required Operating Income	\$97,851
Operating Income Deficiency	179,788
Gross Rev. Conv. Factor	1.4609
Gross Revenue Increase	\$262,652
Adjusted Test Year Revenue	580,814
Approved Annual Revenue	843,469
Percentage Revenue Increase	45.22 %

26 ...

27 ...

28

1 **RATE DESIGN**2 **Usage and Commodity Charges**

3 81. The current, RWC's proposed, and Staff's proposed rates follow:

4	<u>MONTHLY USAGE CHARGE:</u>	<u>Present Rates</u>	<u>Company Proposed⁸⁹</u>	<u>Staff Recommended⁹⁰</u>
5	<u>All Classes</u>			
6	5/8 x 3/4-inch Meter	\$11.15	\$20.00	\$15.00
7	3/4-inch Meter ⁹¹	25.00	30.00	26.00
7	1-inch Meter	39.00	50.00	40.00
8	1-1/2-inch Meter	62.00	100.00	62.00
8	2-inch Meter	110.00	160.00	110.00
9	3-inch Meter	125.00	320.00	125.00
9	4-inch Meter	165.00	500.00	165.00
10	6-inch Meter	330.00	1,000.00	330.00

11 **COMMODITY RATES—All Classes:**
12 **Per 1,000 gallons**12 **5/8 x 3/4-inch Meter**

12	1 to 3,000 gallons	\$1.55	\$1.00	N/A
13	3,001 to 7,000 gallons	1.55	1.30	N/A
13	7,001 to 25,000 gallons	1.55	2.50	N/A
14	Over 25,000 gallons	1.55	3.26	N/A

15	1 to 2,000 gallons	1.55	N/A	\$0.50
15	2,001 to 7,000 gallons	1.55	N/A	1.25
16	7,001 to 25,000 gallons	1.55	N/A	2.00
16	Over 25,000 gallons	1.55	N/A	3.17

17 **3/4-inch Meter**

18	1 to 3,000 gallons	1.55	\$1.00	N/A
18	3,001 to 7,000 gallons	1.55	1.30	N/A
19	7,001 to 25,000 gallons	1.55	2.50	N/A
19	Over 25,000 gallons	1.55	3.26	N/A

20	1 to 2,000 gallons	1.55	N/A	\$0.50
21	2,001 to 7,000 gallons	1.55	N/A	1.25
21	7,001 to 25,000 gallons	1.55	N/A	2.00
22	Over 25,000 gallons	1.55	N/A	3.17

23 **1-inch Meter**

23	1 to 20,000 gallons	1.55	\$1.30	N/A
24	Over 20,000 gallons	1.55	3.26	N/A

25	1 to 2,000 gallons	1.55	N/A	\$0.50
25	2,001 to 7,000 gallons	1.55	N/A	1.25
26	7,001 to 25,000 gallons	1.55	N/A	2.00

27 ⁸⁹ RWC's Post-Hearing Brief, Final Schedule H-3.27 ⁹⁰ Staff's Responsive Brief, Final Schedule CSB-29.28 ⁹¹ RWC does not currently have any customers on a 3/4-inch meter.

1	Over 25,000 gallons	1.55	N/A	3.17
2	<u>1 1/2-inch Meter</u>			
3	1 to 20,000 gallons	1.55	\$1.30	N/A
4	Over 20,000 gallons	1.55	3.26	N/A
5	1 to 2,000 gallons	1.55	N/A	\$0.50
6	2,001 to 7,000 gallons	1.55	N/A	1.25
7	7,001 to 25,000 gallons	1.55	N/A	2.00
8	Over 25,000 gallons	1.55	N/A	3.17
9	<u>2-inch Meter</u>			
10	1 to 20,000 gallons	1.55	\$1.30	N/A
11	Over 20,000 gallons	1.55	3.26	N/A
12	1 to 2,000 gallons	1.55	N/A	\$0.50
13	2,001 to 7,000 gallons	1.55	N/A	1.25
14	7,001 to 25,000 gallons	1.55	N/A	2.00
15	Over 25,000 gallons	1.55	N/A	3.17
16	<u>3-inch Meter</u>			
17	1 to 30,000 gallons	1.55	\$1.30	N/A
18	Over 30,000 gallons	1.55	3.26	N/A
19	1 to 2,000 gallons	1.55	N/A	\$0.50
20	2,001 to 7,000 gallons	1.55	N/A	1.25
21	7,001 to 25,000 gallons	1.55	N/A	2.00
22	Over 25,000 gallons	1.55	N/A	3.17
23	<u>4-inch Meter</u>			
24	1 to 60,000 gallons	1.55	\$1.30	N/A
25	Over 60,000 gallons	1.55	3.26	N/A
26	1 to 2,000 gallons	1.55	N/A	\$0.50
27	2,001 to 7,000 gallons	1.55	N/A	1.25
28	7,001 to 25,000 gallons	1.55	N/A	2.00
29	Over 25,000 gallons	1.55	N/A	3.17
30	<u>6-inch Meter</u>			
31	1 to 85,000 gallons	1.55	\$1.30	N/A
32	Over 85,000 gallons	1.55	3.26	N/A
33	1 to 2,000 gallons	1.55	N/A	\$0.50
34	2,001 to 7,000 gallons	1.55	N/A	1.25
35	7,001 to 25,000 gallons	1.55	N/A	2.00
36	Over 25,000 gallons	1.55	N/A	3.17
37	<u>Standpipe—Per 1,000 gallons</u>	\$1.55	\$3.26	\$3.17

82. Presently, 96 percent of RWC's customers are residential customers using 5/8 x 3/4-inch meters, generating approximately 72 percent of its revenue.⁹² Although the goal behind a shift

⁹² RWC's Post-Hearing Brief, page 6-7.

1 from a flat commodity rate to a tiered rate is to promote water conservation,⁹³ RWC is concerned that
2 customers' decreased use will negatively impact revenues—especially because both the Company's
3 and Staff's rate design impact RWC's high-use commercial customers the most.⁹⁴ Additionally, the
4 Company points out that rather than applying the typical meter multiplier methodology to the
5 monthly usage charge, Staff has placed the entirety of the rate increase for customers on 1 1/2-inch
6 meters and above into the commodity rate and the Company cannot expect additional fixed revenue
7 streams from these customers.⁹⁵ In an attempt to mitigate the effect of conservation on revenues,
8 RWC claimed it structured its rate design following standard rate-making procedures with some
9 slight adjustments in order make its revenue distribution more equitable and, unlike Staff's proposed
10 rate design, it allegedly does not result in larger users shouldering almost the entirety of the
11 increase.⁹⁶

12 83. Under the Company's final proposed rates, customers on a 5/8 x 3/4-inch meter
13 (residential or commercial) using an average of 7,832 gallons per month, would experience an
14 increase of \$6.99 per month, from \$23.29 to \$30.28, or 30.02 percent, while customers with a median
15 use of 6,467 gallons per month would experience an increase of \$6.33 per month, from \$21.17 to
16 \$27.51, or 29.91 percent.

17 84. In comparison, under the Company's proposed rates, a customer with a 3-inch meter,
18 and an average use of 567,008 gallons per month, would experience an increase of \$1,105.79 per
19 month, from \$1,003.86 to \$2,109.65, or 110.15 percent; a customer on 4-inch meter, and an average
20 use of 965,206 gallons per month, would experience an increase of \$1,867.90 per month, from
21 \$1,661.07 to \$3,528.97, or 112.45 percent; and a customer using the 6-inch meter, and an average use
22 of 956,417 gallons per month, will experience an increase of \$2,138.87 per month, from \$1,812.45 to
23 \$3,951.32, or 118.01 percent.

24 85. Staff disagreed with RWC's claims that Staff's rate design would cause substantial
25 conservation or that the Company would be unable to achieve its approved revenues or its authorized
26

27 ⁹³ Tr. at 28, 62.

⁹⁴ *Id.*; Rebuttal Testimony of Sonn Rowell, page 8.

⁹⁵ Tr. at 14-15.

28 ⁹⁶ RWC's Post-Hearing Brief, page 7.

1 rate of return. Staff argued RWC offered no evidence that Staff's rate design will result in water
2 conservation, and countered that there are many factors that can yield lower water use.⁹⁷ Further,
3 according to Staff, the Company's drastic increases to the monthly usage charge unreasonably limit
4 the control customers have over their bills and this lack of control gives the customers little incentive
5 to use less water. Staff also claimed that the Company's concern over the negative financial effect of
6 water conservation by its five largest customers—out of 1,500 total customers—was “grossly
7 misleading,” noting that 96 percent of the customers use 5/8 x 3/4-inch meters.⁹⁸

8 86. Ms. Brown responded to the Company's criticism that Staff did not use the typical
9 meter multipliers to determine new monthly usage charges by explaining that the application of
10 multipliers is appropriate when a company conducted a cost of service study (“COSS”). Since RWC
11 did not provide a COSS, there was no “strict reason” to use the multiplier.⁹⁹

12 87. Under Staff's recommended rates, customers on a 5/8 x 3/4-inch meter, using an
13 average of 7,832 gallons per month, would experience an increase of \$0.62 per month, from \$23.29
14 to \$23.91, or 2.7 percent, while customers with a median use of 6,467 gallons per month would
15 experience an increase of \$0.41 per month, from \$21.17 to \$21.58, or 1.9 percent.

16 88. In comparison, under Staff's recommended rates, a customer with a 3-inch meter,
17 using an average of 567,008 gallons per month, would experience an increase of \$882.55 per month,
18 from \$1,003.86 to \$1,886.42, or 87.9 percent; a customer on a 4-inch meter, using an average of
19 965,206 gallons per month, would experience an increase of \$1,527.63 per month, from \$1,661.07 to
20 \$3,188.70, or 92.0 percent; and a customer on a 6-inch meter, using an average of 956,417 gallons
21 per month, would experience an increase of \$1,513.40 per month, from \$1,812.45 to \$3,325.84, or
22 83.5 percent.

23 89. We find that Staff's rate design assigns a disproportionate amount of the revenue
24 increase to the commodity charge, impacting a few commercial customers with very high usage
25 levels, and does not place a sufficient percentage of the increase, or any increase, in most monthly
26 usage charges. But we note that the Company's rate design, while perhaps more balanced between

27 ⁹⁷ Surrebuttal Testimony of Crystal Brown, page 19.

28 ⁹⁸ Staff's Responsive Brief, page 6.

⁹⁹ Tr. at 360-361.

1 the monthly usage charge and commodity charge, also places an extraordinary increase on the larger
 2 customers. Ms. Rowell acknowledged this at hearing, but explained that the Company's higher
 3 revenue amount created the greater amount, rather than an unbalanced rate increase distribution.¹⁰⁰

4 **Alternative Rate Design**

5 90. Over 1,400 of RWC's customers are on 5/8 x 3/4-inch meters, and we believe it would
 6 be reasonable to assign more of the revenue responsibility than Staff has allocated to this customer
 7 class.

8 91. While Staff may be correct that strict adherence to the use of a meter multiplier was
 9 not required because the Company did not perform a COSS, we find that it is more equitable to apply
 10 at least some of the increase to all meter sizes via the monthly usage charge to generate a more
 11 predictable revenue stream for the Company. Further, although the tiers proposed by the parties were
 12 formulated to promote the Commission's goal of water conservation, we believe that, in this specific
 13 instance, the break over points for the larger meters should be higher.

14 92. Accordingly, we believe the more just and reasonable monthly usage charge and
 15 commodity rates are as follows:

16 **MONTHLY USAGE CHARGE:**

17 **All Classes**

18 5/8 x 3/4-inch Meter	\$18.00
18 3/4-inch Meter	27.00
19 1-inch Meter	45.00
19 1-1/2-inch Meter	90.00
20 2-inch Meter	144.00
20 3-inch Meter	288.00
21 4-inch Meter	450.00
21 6-inch Meter	900.00

22 **COMMODITY RATES:**

23 **Per 1,000 gallons**

24 **All Classes**

24 **5/8 x 3/4-inch Meter**

25 1 to 3,000 gallons	\$1.00
25 3,001 to 7,000 gallons	1.75
26 7,001 to 20,000	2.75
26 Over 20,000 gallons	3.00

28 ¹⁰⁰ Tr. at 293.

1	<u>3/4-inch Meter</u>	
	1 to 3,000 gallons	1.00
	3,001 to 7,000 gallons	1.75
2	7,001 to 20,000	2.75
	Over 20,000 gallons	3.00
3		
	<u>1-inch Meter</u>	
4	0 to 30,000 gallons	1.75
	Over 30,000 gallons	3.00
5		
	<u>1 1/2-inch Meter</u>	
6	0 to 50,000 gallons	1.75
	Over 50,000 gallons	3.00
7		
	<u>2-inch Meter</u>	
8	0 to 80,000 gallons	1.75
	Over 80,000 gallons	3.00
9		
	<u>3-inch Meter</u>	
10	0 to 190,000 gallons	1.75
	Over 190,000 gallons	3.00
11		
	<u>4-inch Meter</u>	
12	0 to 310,000 gallons	1.75
	Over 310,000 gallons	3.00
13		
	<u>6-inch Meter</u>	
14	0 to 650,000 gallons	1.75
	Over 650,000 gallons	3.00
15		
	<u>Standpipe</u>	
16	Per 1,000 gallons	3.00

17 93. Under the approved rates, customers on a 5/8 x 3/4-inch meter, using an average of
18 7,832 gallons per month, will experience an increase of \$7.00 per month, from \$23.29 to \$30.29 or
19 30.05 percent. Customers with a median use of 6,467 gallons per month will experience an increase
20 of \$5.89 per month, from \$21.17 to \$27.07, or 27.83 percent.

21 94. Under the approved rates, a customer on a 3-inch meter, using an average of 567,008
22 gallons per month, will experience an increase of \$747.66 per month, from \$1,003.86 to \$1,751.52, or
23 74.48 percent; a customer on a 4-inch meter, using an average of 965,206 gallons per month, will
24 experience an increase of \$1,297.05 per month, from \$1,661.07 to \$2,958.12, or 78.09 percent; and a
25 customer on a 6-inch meter, using an average of 956,417 gallons per month, will experience an
26 increase of \$1,144.30 per month, from \$1,812.45 to \$2,956.75, or 63.14 percent.

27 ...

28 ...

Service Charges

95. The current, RWC's proposed, and Staff's proposed service charges follow:

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	<u>Company Proposed</u>				<u>Staff Recommended</u>		
	Current Charge	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges
5/8" x 3/4 " Meter	\$ 410.00	\$ 445.00	\$155.00	\$ 600.00	\$ 445.00	\$155.00	\$ 600.00
3/4 " Meter	455.00	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	520.00	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	740.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
2" Meter Turbine	1,235.00	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
2" Meter Compound	1,800.00	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
3" Meter Turbine	1,705.00	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
3" Meter Compound	2,340.00	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
4" Meter Turbine	2,700.00	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
4" Meter Compound	3,405.00	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
6" Meter Turbine	5,035.00	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00
6" Meter Compound	6,510.00	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
Over 6"	At Cost			At Cost			At Cost

SERVICE CHARGES:

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Establishment	\$25.00	\$30.00	\$30.00
Establishment (After Hours)	37.50	N/A	N/A
After Hours Service Charge (At Customer's Request)	N/A	\$25.00	\$25.00
Reconnection (Delinquent)	\$25.00	\$35.00	\$35.00
Meter Test (If Correct)	30.00	30.00	30.00
Meter Re-Read (If Correct)	15.00	20.00	20.00
NSF Check	15.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
Deferred Payment	***	***	1.50%
Late Payment Fee	***	\$5.00	1.50%

* Per A.A.C. R14-2-403(B).

** Number of months off system times the monthly minimum, per A.A.C. R14-2-403(D).

*** 1.5 percent per month of unpaid balance.

96. The Company requests adoption of a \$5.00 Late Payment Fee to distinguish it from the Deferred Payment Fee. Ms. Rowell stated that the Late Payment Fee should be more of a penalty as opposed to the Deferred Payment Fee, which includes an extra charge but acknowledges that a

1 customer is making an effort to pay.¹⁰¹ Ms. Rosenbaum testified that a large percentage of the
2 Company's customers are late paying their bills, but she could not quantify the effect that this had on
3 RWC's finances.¹⁰²

4 97. Staff testified that it will recommend a five dollar late fee when a company has a large
5 number of customers who pay late relative to those customers who pay their bills timely, such that it
6 creates a cash flow problem or financial hardship to the company. In this instance, Staff
7 recommended retaining the 1.5 percent Late Payment Fee.¹⁰³

8 98. Staff recommends that the Company use the depreciation rates by individual National
9 Association of Regulatory Utility Commissioners category, as set forth in the Direct Testimony of
10 Dorothy Hains, Exhibit DMH-1, page 16, Exhibit 6.

11 99. We find that Staff's service charges and depreciation rates recommendations are
12 reasonable and adopt them.

13 100. We believe it is reasonable to require that, in addition to collection of its regular rates
14 and charges, RWC shall collect from its customers a proportionate share of any privilege, sales or use
15 tax per A.A.C. R14-2-409(D)(5).

16 101. Further, we believe it is reasonable to require the Company to file with Docket
17 Control, as a compliance item in this docket, by September 30, 2013, a revised rate schedule
18 reflecting the approved rates and charges.

19 102. The approved rates and charges shall become effective October 1, 2013.

20 103. The Company must notify its customers of the approved rates and charges and their
21 effective date, in a form acceptable to the Commission's Utilities Division, by means of an insert in
22 its next regularly scheduled billing or as a separate mailing.

23 ADDITIONAL RECOMMENDATIONS

24 104. Staff made additional recommendations regarding RWC's use of variable frequency
25 drives, water loss monitoring and reporting, submission of an information sharing tariff, and best
26 management practices tariffs.

27 ¹⁰¹ Tr. at 302.

¹⁰² Tr. at 246.

28 ¹⁰³ Surrebuttal Testimony of Crystal Brown, page 20.

1 **Variable Frequency Drives**

2 105. In her Direct Testimony, Ms. Hains stated that the Company uses hydropneumatic
3 tanks to maintain water pressure in the distribution system, but she found that RWC does not have
4 adequately-sized pressure tanks. She asserted that this could increase the number of times a pump
5 cycles, thereby shortening the pump's life. In lieu of adding pressure tank capacity, the Company
6 installed multiple variable frequency drives ("VFD") that operate in rotation, which RWC claimed
7 reduces the need for frequent pump repairs and extend the pumps' life. Staff recommended that prior
8 to filing its next rate application, the Company should conduct a formal study to demonstrate that
9 adding multiple VFD motors is more cost efficient than adding additional hydropneumatic tank
10 capacity, or whether a more cost effective alternative might exist.¹⁰⁴

11 106. Ms. Festa disputed the assumptions underlying Staff's recommendation and provided
12 testimony explaining how a VFD worked within a system and described the overall mechanical
13 benefits and the financial savings for a company.¹⁰⁵ Ms. Festa asserted that use of a VFD is now
14 common in the industry and appropriate for RWC's system.¹⁰⁶ She also noted that the cost of
15 performing the type of study proposed by Staff would be approximately \$20,000, but she did not
16 believe it would provide any critical findings.¹⁰⁷ The Company objected to Staff's recommendation
17 but asserted that if RWC is required to undertake the study, the cost should be included in rates.¹⁰⁸

18 107. During the second day of hearing, Staff offered an alternative recommendation:

- 19
- 20 • The Company should monitor, record and document all instances of a pump that was
21 repaired or replaced, and specifically identify the pump that needed repair or
22 replacement, and include documentation supporting the associated repair or
23 replacement costs.
 - 24 • The Company should record the date, nature and frequency of all customer complaints
25 about low water pressure.
 - 26 • These monitoring and recording requirements should begin on the effective date of the
27 Decision and should continue until the Company files its next rate case.
 - 28 • If the Company fails to comply with these monitoring and reporting requirements, the
Company should be required in its next rate case to undertake a formal study to

104 Direct Testimony of Dorothy Hains, Exhibit DMH-1, page 4.

105 Rebuttal Testimony of Kara Festa, pages 12-16; Tr. at 125-128.

106 *Id.*, page 16; Tr. at 125.

107 *Id.*, page 16; Tr. at 126.

108 Rebuttal Testimony of Rhonda Rosenbaum, page 3.

1 demonstrate that adding multiple variable frequency drive motors is more cost
 2 efficient than adding additional hydropneumatic tank capacity, or whether a more cost
 3 efficient alternative might exist.¹⁰⁹

4 108. Ms. Rosenbaum stated that the Company already performs the type of monitoring and
 5 recording stated in the alternative recommendation and RWC does not object to the requirement.¹¹⁰

6 109. RWC has agreed to Staff's alternative recommendation and we adopt it.

7 **Water Loss Monitoring and Reporting**

8 110. RWC reported non-account water of 10.1 percent during the test year. Staff
 9 questioned the Company's water use data because several months reflected more water sold than
 10 pumped. Staff also believed the Company's adjustments for system flushing were excessive.
 11 Additionally, Staff noted that RWC had not been coordinating reading its well meters with reading its
 12 customers' meters.¹¹¹ Based on these observations, Staff recommended the following:

- 13 • The Company should closely monitor and record water used for system flushing and
 14 should be prepared to provide records that support the amount of water used for this
 15 purpose.
- 16 • The Company should coordinate the reading of its well meters and individual
 17 customer meters on a monthly basis and report this data in its future Annual Reports
 18 beginning with its 2013 Annual Report to be filed in 2014.
- 19 • The Company should monitor the water system closely and take action to ensure that
 20 annual water loss is less than 10 percent by December 2013. If the reported annual
 21 water loss is greater than 10 percent, the Company shall prepare a report containing a
 22 detailed analysis and a plan to reduce annual water loss to 10 percent or less. If the
 23 Company believes it is not cost effective to reduce the water loss to less than 10
 24 percent, it should submit a detailed cost benefit analysis to support its position. In no
 25 case shall the Company allow annual water loss to be greater than 15 percent. The
 26 water loss reduction report or detailed analysis, whichever is submitted shall be
 27 docketed as a compliance item within 24 months of the effective date of the order
 28 issued in this proceeding.¹¹²

111. Ms. Rosenbaum stated that the Company would comply with Staff's
 112 recommendations.¹¹³

113. Staff's recommendations are reasonable and we adopt them.

¹⁰⁹ Hearing Exhibit S-9; Tr. at 355.

¹¹⁰ Tr. at 249.

¹¹¹ Tr. at 342.

¹¹² Direct Testimony of Dorothy Hains, pages 4-5.

¹¹³ Tr. at 253.

1 **Information Sharing Tariff**

2 113. Wastewater services in RWC's certificated area are provided by the Pima County
 3 Department of Wastewater Management ("PCDWM"). During its investigation of the Application,
 4 Staff learned that pursuant to a General Services Contract ("Contract"), PCDWM pays RWC for
 5 customers' water usage information in order to determine applicable sewer service charges.¹¹⁴
 6 During the test year, the non-water revenues attributable to the Contract were \$4,548.

7 114. Staff recommended that the Company file a tariff with the Commission reflecting
 8 certain terms of the Contract and attached a Form of Tariff ("Tariff") as Exhibit A to Ms. Brown's
 9 Direct Testimony. The recommended Tariff states in part, "Ray Water shall notify all water utility
 10 customers affected by the Agreement between the Company and the County pursuant to this Tariff,
 11 by means of a billing insert during the first billing cycle immediately after said tariff is approved."¹¹⁵
 12 Staff noted that the Commission approved an information sharing tariff in Decision No. 73562
 13 (October 17, 2012).

14 115. RWC objects to the recommendation. The Company believes PCDWM does not pass
 15 the Contract fee to customers, but absorbs it in its budget.¹¹⁶ Ms. Rosenbaum stated that the
 16 Company supplied its customers' water use data to PCDWM so the County can provide better sewer
 17 service to its customers.¹¹⁷ Ms. Rowell testified that this filing is unnecessary and it is not a tariff
 18 since it does not relate to the imposition of any fees. She asserted that it is in the customers' best
 19 interest for PCDWM to have this information because it allows PCDWM to accurately set rates to
 20 fund system improvements.¹¹⁸ The Company also noted that RWC paid its management company
 21 \$2,103 to prepare the report provided to PCDWM, so the monetary value is minimal. The Company
 22 stated that it does not object to providing future contracts to the Commission for review, much like
 23 main extension agreements, if required.¹¹⁹

24 116. Decision No. 73562 referenced by Staff relates to an application filed by EPCOR

25 _____
 26 ¹¹⁴ Staff docketed a copy of the Contract on March 1, 2013.

¹¹⁵ Direct Testimony of Crystal Brown, Exhibit A.

¹¹⁶ RWC's Post-Hearing Brief, page 10.

¹¹⁷ Rebuttal Testimony of Rhonda Rosenbaum, page 4.

¹¹⁸ Rebuttal Testimony of Sonn Rowell, page 11.

¹¹⁹ RWC's Post-Hearing Brief, page 10.

1 Water Arizona, Inc. ("EPCOR") requesting approval of a tariff at variance with A.A.C. R14-2-
2 410(A)(2) and a tariff for sharing customer water information with the City of Peoria, which provides
3 sewer service in the certificated area. The variance request required Commission approval because
4 under the terms of an agreement with the City of Peoria, EPCOR would disconnect water service at
5 the City's request under certain circumstances, which would contravene Commission regulations.
6 EPCOR filed its application for approval of the information sharing tariff in compliance with
7 Decision No. 65453 (December 12, 2002), which related to a merger involving EPCOR's
8 predecessor, Arizona-American Water Company, Inc., its parent company and a German company.
9 The condition requiring the filing of an information sharing tariff was recommended by Staff as a
10 condition to approval of the transaction, but the Decision does not state the reason for the
11 recommendation.

12 117. EPCOR's agreement between it and the City of Peoria, attached as an exhibit to
13 Decision No. 73562, is far more extensive than RWC's Contract and contemplates a considerable
14 amount of cooperation between EPCOR and the City. The EPCOR agreement specifically states that
15 it is subject to Commission approval and references Decision No. 65453.

16 118. Under the terms of the Contract, RWC provides water consumption data, information
17 about customer service connections and disconnections, name, mailing and billing addresses and
18 service addresses, and other information relating to wastewater usage. The Company does not
19 perform any other services for PCDWM such as disconnection services. Contrary to the language in
20 the recommended Tariff, there is no provision in RWC's Contract requiring Commission approval.

21 119. Given the specific circumstances, we agree with the Company that the Tariff is not
22 necessary in this instance. However, we are concerned because the Contract requires the Company to
23 provide customers' personal contact information to PCDWM and we do not know if customers are
24 aware. To remedy this, we believe it is reasonable to require that the notice advising customers of the
25 approved rates and charges should also include a notation that RWC has an agreement with PCDWM
26 to provide water use data and billing information. This statement should provide specific contact
27 information if a customer has questions or concerns. Additionally, we will require RWC to provide
28 new customers with this information when they request service.

1 **Best Management Practices**

2 120. The Modified Non-Per Capita Conservation Program is a regulatory program
3 administered by the ADWR that was added to the Third Management Plan for Arizona's AMAs. It is
4 a performance-based program that requires participating providers to implement water conservation
5 measures that promote water use efficiency in their service areas. Under the program, water service
6 providers implement a Public Education Program and one or more additional Best Management
7 Practices ("BMPs") based on their total number of residential and non-residential water service
8 connections.¹²⁰

9 121. On October 4, 2012, in response to Staff's data requests, RWC submitted five
10 proposed BMPs. Staff concluded the proposed BMPs conform to those developed by Staff and are
11 relevant to the Company's service area characteristics.¹²¹ Staff recommended that RWC file with
12 Docket Control, as a compliance item in this docket, within 30 days of the effective date of this
13 Decision, conforming copies of the BMPs.

14 122. Despite providing Staff with the requested BMPs, the Company objected to the
15 requirement. RWC argued that the Company is within the Tucson AMA and subject to ADWR's
16 BMP rules; as such, the Commission should not duplicate the regulatory requirement.¹²²

17 123. As a water provider within an AMA serving less than 5,000 connections, the Company
18 is required by ADWR to implement a Public Education Program and adopt one BMP.¹²³ In contrast,
19 Staff bases its BMP requirements on a company's utility classification, and Commission Staff has
20 typically recommended between three-to-five BMPs for a Class C public water utility without regard
21 to whether the entity is located within an AMA.

22 124. The disparity between the required number of BMPs by the Commission for smaller
23 providers and the number required by ADWR may lead to an inequitable application of the
24 Commission's BMPs between those companies inside an AMA and those outside. Because RWC is

25 ¹²⁰ <http://www.azwater.gov/AzDWR/Watermanagement/AMAs/ModifiedNon-PerCapita.htm> This webpage contains the
26 following notation: "Attention Water Companies with ACC Water Conservation Tariffs—The Arizona Corporation
27 Commission (ACC) sometimes requires a water company to implement ADWR's best management practices (BMPs).
For the ACC BMP templates, visit www.azcc.gov/divisions/utilities/water."

28 ¹²¹ Direct Testimony of Dorothy Hains, Exhibit DMH-1, page 9, Exhibit 6.

¹²² Rebuttal Testimony of Rhonda Rosenbaum, page 3; Tr. at 239.

¹²³ <http://www.azwater.gov/azdwr/WaterManagement/AMAs/documents/MNPCCPFAQs.pdf>

1 a Class C public utility, Staff has recommended RWC implement five BMPs. But because the
 2 Company has fewer than 5,000 connections, ADWR only requires one BMP. If we accept RWC's
 3 argument and require no additional BMPs from the Company, a company that is similar to RWC in
 4 most other respects except that it is not within an AMA, would be treated differently and requested to
 5 provide five BMPs.

6 125. Although ADWR was the first to implement BMPs as a means of protecting Arizona's
 7 water supply levels, ADWR is not the only agency with an interest in promoting water conservation.
 8 The Commission is also in a position to encourage water providers and water customers to conserve
 9 this resource. Specific to RWC, we note that it has several commercial customers whose average
 10 monthly water consumption approaches one million gallons. Anything RWC can do to conserve
 11 water and to encourage its customers—both residential and commercial—to conserve water is
 12 beneficial.

13 126. We believe that RWC should implement BMPs to promote water conservation efforts
 14 among its customers. We find that RWC's five proposed BMP tariffs conform to those developed by
 15 Staff and are relevant to the Company's service area characteristics and we approve them. We will
 16 require the Company to adopt three BMPs, but we encourage RWC to implement more, if feasible.¹²⁴

17 127. The Company may select three of the five approved BMP tariffs and shall file with
 18 Docket Control, as a compliance item in this docket, within 30 days of the effective date of this
 19 Decision, the three selected BMP tariffs.

20 128. In its next rate application RWC may apply for recovery of the actual costs associated
 21 with implementation of the BMPs as an operating expense.

22 **Property Tax Affidavit**

23 129. Because an allowance for the property tax expense is included in RWC's rates and
 24 will be collected from its customers, the Commission seeks assurances from the Company that any
 25 taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to
 26 the Commission's attention that a number of water companies have been unwilling or unable to fulfill

27 _____
 28 ¹²⁴ In Decision Nos. 73091 (April 5, 2012) and 74037 (August 16, 2013) we required similarly-sized companies not
 within an AMA to implement three BMPs.

1 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
 2 years. It is reasonable, therefore, that as a preventive measure the Company shall annually file, as
 3 part of its annual report, an affidavit with the Commission's Utilities Division attesting that the
 4 company is current in paying its property taxes in Arizona.

5 **CONCLUSIONS OF LAW**

6 1. RWC is a public service corporation within the meaning of Article XV of the Arizona
 7 Constitution and A.R.S. §§40-250 and 40-251.

8 2. The Commission has jurisdiction over RWC and the subject matter of the Application.

9 3. Notice of the Application was given in accordance with Arizona law.

10 4. The rates and charges established herein are just and reasonable and in the public
 11 interest.

12 **ORDER**

13 IT IS THEREFORE ORDERED that Ray Water Company, Inc. shall file with Docket
 14 Control, as a compliance item in this docket, by September 30, 2013, a revised rate schedule setting
 15 forth the following rates and charges:

16 **MONTHLY USAGE CHARGE:**

17 **All Classes**

18 5/8 x 3/4-inch Meter	\$18.00
18 3/4-inch Meter	27.00
19 1-inch Meter	45.00
19 1-1/2-inch Meter	90.00
20 2-inch Meter	144.00
20 3-inch Meter	288.00
21 4-inch Meter	450.00
21 6-inch Meter	900.00

22 **COMMODITY RATES:**

23 **Per 1,000 gallons**

24 **All Classes**

24 **5/8 x 3/4-inch Meter**

25 1 to 3,000 gallons	\$1.00
25 3,001 to 7,000 gallons	1.75
26 7,001 to 20,000	2.75
26 Over 20,000 gallons	3.00

1	<u>3/4-inch Meter</u>	
	1 to 3,000 gallons	1.00
2	3,001 to 7,000 gallons	1.75
	7,001 to 20,000	2.75
3	Over 20,000 gallons	3.00
4	<u>1-inch Meter</u>	
	0 to 30,000 gallons	1.75
5	Over 30,000 gallons	3.00
6	<u>1 1/2-inch Meter</u>	
	0 to 50,000 gallons	1.75
7	Over 50,000 gallons	3.00
8	<u>2-inch Meter</u>	
	0 to 80,000 gallons	1.75
9	Over 80,000 gallons	3.00
10	<u>3-inch Meter</u>	
	0 to 190,000 gallons	1.75
11	Over 190,000 gallons	3.00
12	<u>4-inch Meter</u>	
	0 to 310,000 gallons	1.75
13	Over 310,000 gallons	3.00
14	<u>6-inch Meter</u>	
	0 to 650,000 gallons	1.75
15	Over 650,000 gallons	3.00
16	<u>Standpipe</u>	
	Per 1,000 gallons	3.00

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line Charge</u>	<u>Meter Installation Charge</u>	<u>Total Charges</u>	
20	5/8 x 3/4-inch Meter	\$ 445.00	\$ 155.00	\$ 600.00
	3/4-inch Meter	445.00	255.00	700.00
21	1-inch Meter	495.00	315.00	810.00
	1-1/2-inch Meter	550.00	525.00	1,075.00
22	2-inch Meter Turbine	830.00	1,045.00	1,875.00
	2-inch Meter Compound	830.00	1,890.00	2,720.00
23	3-inch Meter Turbine	1,045.00	1,670.00	2,715.00
	3-inch Meter Compound	1,165.00	2,545.00	3,710.00
24	4-inch Meter Turbine	1,490.00	2,670.00	4,160.00
	4-inch Meter Compound	1,670.00	3,645.00	5,315.00
25	6-inch Meter Turbine	2,210.00	5,025.00	7,235.00
	6-inch Meter Compound	2,330.00	6,920.00	9,250.00
26	Over 6-inch Meter	At Cost	At Cost	At Cost

SERVICE CHARGES:

27	Establishment	\$30.00
28	Reconnection (Delinquent)	35.00

1	Service Charge (After Hours)	25.00
	Meter Test (If Correct)	30.00
	Meter Re-Read (If Correct)	20.00
2	NSF Check	25.00
	Deposit	*
3	Deposit Interest	*
	Re-Establishment (Within 12 Months)	**
4	Deferred Payment (Per Month)	1.50%
5	Late Charge Fee	1.50%

6 * Per A.A.C. R14-2-403(B).

** Number of months off system times the minimum, per R14-2-403(D).

7 IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges,
8 Ray Water Company, Inc. shall collect from its customers a proportionate share of any privilege,
9 sales or use tax per A.A.C. R14-2-409(D)(5).

10 IT IS FURTHER ORDERED that the revised schedule of rates and charges shall be effective
11 for all service rendered on and after October 1, 2013.

12 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall notify its customers of the
13 rates and charges authorized herein, and their effective date, in a form acceptable to the
14 Commission's Utilities Division, by means of an insert in its next regularly scheduled billing or as a
15 separate mailing. The notice shall include a notation that Ray Water Company, Inc. has an agreement
16 with Pima County Department of Wastewater Management to provide water usage data and billing
17 information and include specific contact information if a customer has questions or concerns.

18 IT IS FURTHER ORDERED that when new customers request service, Ray Water Company,
19 Inc. shall advise them in writing that it has an agreement with the Pima County Department of
20 Wastewater Management to provide water usage data and billing information and include specific
21 contact information if a customer has questions or concerns.

22 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall use the Depreciation Table
23 set forth in the Direct Testimony of Dorothy Hains, Exhibit DMH-1, page 16, Exhibit 6, on a going
24 forward basis.

25 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall monitor, record and
26 document all instances of a pump that was repaired or replaced, and specifically identify the pump
27 that needed repair or replacement, and include documentation supporting the associated repair or
28 replacement costs.

1 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall record the date, nature and
2 frequency of all low pressure complaints by customers.

3 IT IS FURTHER ORDERED that the above monitoring and recording requirements shall
4 begin on the effective date of this Decision and shall continue until Ray Water Company, Inc. files its
5 next rate case.

6 IT IS FURTHER ORDERED that if Ray Water Company, Inc. fails to comply with the three
7 monitoring and reporting requirements stated above, in its next rate case Ray Water Company, Inc.
8 will be required to undertake a formal study to demonstrate that adding multiple variable frequency
9 drive motors is more cost efficient than adding additional hydropneumatic tank capacity, or whether a
10 more cost efficient alternative might exist.

11 IT IS FURTHER ORDERED that Ray Water Company, Inc. should closely monitor and
12 record water used for system flushing and should be prepared to provide records to the Commission's
13 Utilities Division that support the amount of water used for this purpose.

14 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall coordinate the reading of
15 the well meters and individual customer meters on a monthly basis and report this data in its future
16 Annual Reports beginning with its 2013 Annual Report to be filed in 2014.

17 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall monitor the water system
18 closely and take action to ensure that annual water loss is less than 10 percent by December 2013. If
19 the reported annual water loss is greater than 10 percent, Ray Water Company, Inc. shall prepare a
20 report containing a detailed analysis and a plan to reduce annual water loss to 10 percent or less. If
21 Ray Water Company, Inc. believes it is not cost effective to reduce the water loss to less than 10
22 percent, it should submit a detailed cost benefit analysis to support its position. In no case shall
23 annual water loss be greater than 15 percent. The water loss reduction report or detailed analysis,
24 whichever is submitted, shall be docketed as a compliance item within 24 months of the effective
25 date of the effective date of this Decision.

26 IT IS FURTHER ORDERED that the Best Management Practices tariffs 1.1, 3.6, 3.7, 5.2 and
27 5.5 proposed by Ray Water Company, Inc. are approved.

28 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall select three of the five

1 approved Best Management Practices tariffs and shall file with Docket Control, as a compliance item
2 in this docket, within 30 days of the effective date of this Decision, the selected Best Management
3 Practices tariffs.

4 IT IS FURTHER ORDERED that in its next rate application Ray Water Company, Inc. may
5 apply for recovery of the actual costs associated with implementation of the Best Management
6 Practices tariffs as an operating expense.

7 IT IS FURTHER ORDERED that Ray Water Company, Inc. shall file as part of its Annual
8 Report to the Commission's Utilities Division an affidavit attesting that it is current on payment of its
9 property taxes in Arizona.

10 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

11 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

12
13
14 CHAIRMAN _____ COMMISSIONER

15
16 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

17
18 IN WITNESS WHEREOF, I, JODI JERICH, Executive
19 Director of the Arizona Corporation Commission, have
20 hereunto set my hand and caused the official seal of the
21 Commission to be affixed at the Capitol, in the City of Phoenix,
22 this _____ day of _____ 2013.

23 _____
24 JODI JERICH
25 EXECUTIVE DIRECTOR

26 DISSENT _____

27 DISSENT _____
28 BAM:tv

1 SERVICE LIST FOR: RAY WATER COMPANY, INC.

2 DOCKET NO.: W-01380A-12-0254

3

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