

Desert Mountain Analytical Services PLLC

October 17, 2013

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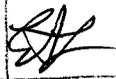
Arizona Corporation Commission
DOCKETED

Arizona Corporation Commission
Attn: Steve Olea, Director
Utilities Division
1200 West Washington
Phoenix, AZ 85007-2996

CORP COMMISSION
DOCKET CONTROL

OCT 18 2013

ORIGINAL

DOCKETED BY 

Re: Modification of Rule A.A.C. R14-2-103 – Docket No RU-00000A-13-0294

Dear Mr. Olea;

In response to your letter of September 19, 2013, Desert Mountain Analytical Services PLLC (DMAS) provides the following comments/questions. The proposal to raise the tier breaks is a positive step but it raises several questions. What follows below is not meant to be an exhaustive list of all the questions raised but rather it is meant to bring forth and illustrate the general questions raised by the proposal.

Our understanding is that the Commission is considering altering Rule A.A.C. R14-2-103 such that, among other things, the lower revenue threshold for class C water utilities will change from \$250,000 to \$1,000,000. While adjusting the class thresholds for inflation makes sense and reducing the filing requirements for rate cases makes sense there are several significant unanswered questions about this proposal that need to be addressed.

First, it is unclear how the proposed thresholds were established. The current thresholds were established in 1992. Since 1992 the general price level as measured by the Consumer Price Index (CPI) has increased 65%. A 65% increase in the current \$250,000 class C lower threshold results in a \$413,000 lower threshold. So it is not clear how the proposed \$1,000,000 proposed class C lower threshold can be characterized as “account(ing) for inflation.”

Second, and much more importantly, the practical effects of this proposed rule change are unclear. Currently water utilities with less than \$250,000 of revenue are allowed to file the short form application. This revenue threshold and the content of the short form application are not memorialized in the Administrative Code. The short form application is *a matter of policy not rule*. Based on the September 19, 2013 request for comments it is not clear what the Staff or Commission are proposing regarding the short form application. Is it being proposed that the short form will be available to water utilities with up to \$1,000,000 in revenue? If so, will there be any changes to the short form? Will filing of the short form be optional or mandatory?

It is questionable whether the current short form is appropriate for a utility with, for example, three-quarters of a million dollars in revenue. The short form contains no rate base build up schedule or revenue requirement build up schedule so for a utility with significant rate base it is unclear how the short form could be properly utilized. Also, recently the Staff has been performing highly sophisticated cost of capital analysis for utilities in the less than \$1,000,000 size range and criticizing the utilities for not doing so themselves. Will this policy be continued after the change in threshold levels or will a more streamlined approach to cost of capital be adopted?

Also, the short form application requires that 3 copies of almost all of the utilities’ plant and expense invoices be filed with the original application. For larger utilities (in the 250,000 to 1,000,000 range) compiling this many invoices in advance of the filing could actually add to the expense of a rate case filing instead of alleviating it. Currently, instead of sending copies of all the invoices to the Staff, such utilities have the option of requesting that Staff perform an onsite audit. Will onsite audits still be

allowed after the change in the threshold levels or will all utilities with revenue less than \$1,000,000 be required to file invoices with the application? Additionally, the short form application requires that bill counts be broken out by quarter as opposed to the annual total required by rule 103. Breaking the bill counts up by quarter actually can create more work for the applicant so it is unclear how requiring more utilities to engage in this will result in less rate case expense.

Third, if the goal is to reduce the expense of rate case filings there are simple policy changes that could be adopted without the need for a rulemaking. Below are two policies that serve to unnecessarily increase the expense of rate cases:

100% Audit. Whether a short form or a long form application is filed Staff requires that 100% of invoices above \$150 be provided (for the short form they are provided up front, for the long form they are requested through data requests and sometimes are provided to Staff or as stated above sometimes Staff performs their audit on site.) Compiling this volume of invoices is burdensome and expensive for the utilities. Moving to a statistical audit approach where less than 100% of the invoices above \$150 are required to be provided would reduce the rate case expense.

Hard Copy Filing Requirements. For a small utility copying expense can be significant. Simply making the copies is not the only expense: after the copies are made they have to be delivered to the ACC. Utilities that are located outside of the Phoenix area have to either pay a law firm, a consultant or a delivery service to deliver the copies to the ACC. Given the sheer weight of paper, delivery charges from the post office or other delivery service can be substantial. Applicants are currently required to file 15 copies of rate case applications. Additionally, applicants who file the short form application are required to file three copies of invoices above \$150. While moving to electronic filing may not be feasible, reducing the number of copies that need to be filed could be considered. Even reducing the requirement from 15 copies back to the previously required 13 copies would be an improvement. As for the invoices, there is no reason why they cannot be accepted by Staff in electronic format. The invoices do not need to be docketed (they are not currently docketed for companies that file the long form.) Some large companies who use the long form application provide invoices in PDF form through data request responses and thus never provide hard copies of invoices at all, much less three copies.

In addition to the applications and invoices many compliance items also are required to be docketed. For instance it is usually required that a copy of loan documents with WIFA be docketed as a compliance item. These documents can push 100 pages and with 15 copies being necessary that comes to 1,500 pages or 15 pounds.

In closing, changing the class breaks is certainly a positive step. But because so much of how rate cases are processed depends on policy at the Staff level, the actual impact of the proposed rule change is not immediately clear.

Regards,



Matthew Rowell

Desert Mountain Analytical Services PLLC

Dear Docket Control Staff,

Attached is an original and 13 copies of a letter meant to be docketed in **RU-00000A-13-0294**. Currently the Service List for this docket only includes members of the ACC Staff so no certification of service should be necessary. Thank you very much for your work on this matter.

A handwritten signature in black ink, appearing to read 'Matthew Rowell', written in a cursive style.

Matthew Rowell

DMAS