

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

DOCKETED

2013 NOV 29 P 3:50

ORIGINAL

FROM: Utilities Division

NOV 29 2013

DATE: November 29, 2013

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AZ CORP COMMISSION
DOCKET CONTROL

RE: IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES LLC DBA JOHNSON UTILITIES COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES—CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT (“CAGR D”) ADJUSTOR RESET (DOCKET NO. WS-02987A-08-0180)

I. Introduction

On October 17, 2013, pursuant to Decision No. 71854 (August 24, 2010), and as modified by Decision No. 73284 (July 30, 2012), Johnson Utilities L.L.C. (“Johnson” or “Company”) filed with the Arizona Corporation Commission (“Commission”) the Company's proposed Central Arizona Groundwater Replenishment District (“CAGR D”) adjustor fees.

Decision No. 71854 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGR D for replenishment of groundwater. The conditions, as modified by Decision No. 73284, require the Company to submit, by October 25 of each year for Commission consideration, the proposed CAGR D fees for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after December 1.¹ The Company made the instant filing on October 17, 2013, requesting the adjustor reset for usage billed in 2014.

II. Background

The CAGR D was established by the Arizona legislature to serve as a groundwater replenishment entity for its members, and it provides a mechanism for designated water supply providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGR D to replenish groundwater pumped by the member that exceeds specified pumping limits. The CAGR D is recognized as an important tool in Arizona's groundwater conservation efforts.

III. Calculation of the CAGR D Adjustor Fees

Decision No. 71854 specified nine conditions regarding the CAGR D adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: “The total CAGR D fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons.”²

¹ Decision No. 73284, page 3, lines 2-8.

² Decision No. 71854, page 38, lines 22-26.

Condition Nos. 2 and 3 ordered that the Company “place all CAGR D monies collected from customers in a separate, interest bearing account,” withdrawals to be made only to pay the annual CAGR D fee due on October 15 of each year.³

In addition, although the Order did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor reset each year. This understanding was confirmed by the Commission’s provision for a true-up in Decision No. 72634.⁴

The Company proposes a rate of \$1.76 per thousand gallons (“kgal”) for its Phoenix Active Management Area (“AMA”), and a rate of \$0.43 per kgal for its Pinal AMA. Staff has reviewed the Company’s proposed calculations and the supporting documentation submitted with its request. Staff agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate as discussed below.

Phoenix AMA

True-up

The 2011 CAGR D invoice for the Phoenix AMA annual replenishment assessment was \$3,070,866.12. The Company reports that collections and interest as of September 30, 2013, total \$3,258,365.94.⁵

This true-up calculation indicates an under-collection of approximately \$223,312.66 as follows:

a. 2010 under-collection of CAGR D invoice	\$ 410,812.48
b. 2011 CAGR D invoice	3,070,866.12
c. Less: Collections and interest through September 2013	\$ <u>3,258,604.94</u>
d. 2011 CAGR D under-collection [A+B-C]	\$ <u>223,312.66</u>

Adjustor Fee

The 2012 CAGR D invoice for Johnson’s Phoenix AMA totals \$3,785,764.72. The Company’s 2012 annual report as submitted to the Arizona Department of Water Resources (“ADWR”) indicates annual water sales (in kgal) of 2,275,283.67.

³ Decision No. 71854, page 38, lines 12-16.

⁴ Decision No. 72634, page 4, starting on line 19 and continuing through page 5, line 10.

⁵ Company’s application dated October 10, 2013.

Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$1.76 per 1000 gallons.

a.	2012 CAGR D invoice	\$ 3,785,764.72
b.	Plus under-collection from 2011	<u>223,312.66</u>
c.	Amount to be recovered [A+B]	4,009,077.38
d.	Total kgal sold in 2012	<u>2,275,283.67</u>
e.	Charge per kgal [C ÷ D]	\$ <u>1.76</u>

Pinal AMA

True-up

The 2011 CAGR D invoice for the Pinal AMA was \$72,995.62. The Company reports that collections and interest as of September 30, 2013 total \$78,102.28.⁶

This true-up calculation indicates an under-collection of approximately \$2,561.59:

a.	2010 under-collection of CAGR D invoice	\$ 2,561.59
b.	2011 CAGR D invoice	72,995.62
c.	Less: Collections and interest through September 2013	\$ <u>78,102.28</u>
d.	2011 CAGR D over-collection [A+B-C]	\$ <u>2,545.07</u>

Adjustor Fee

The 2012 CAGR D invoice for Johnson's Pinal AMA totals \$117,186.64. The Company's 2012 annual report to the Arizona Department of Water Resources ("ADWR") states annual water sales (in kgal) of 266,184.77.

Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.43 per 1000 gallons.

a.	2012 CAGR D invoice	\$ 117,186.64
b.	Less over-collection from 2011	<u>2,545.07</u>
c.	Amount to be recovered [A+B]	114,641.57
d.	Total kgal sold in 2012	<u>266,184.77</u>
	Charge per kgal [C ÷ D]	\$ <u>0.43</u>

⁶ Company's application dated October 10, 2013.

V. Segregated Account

While reviewing Company records, Staff observed that monthly CAGR D collections were often not deposited to the segregated account. Collections were held by the Company to offset the prior year's under-collection, and they were only segregated after the under-collection was satisfied. This is contrary to Conditions 2 and 3 of Decision No. 71854.

VI. Conclusions and Recommendations

Staff recommends that the Commission order the Company to segregate CAGR D collections monthly in compliance with Decision No. 71854 with payments to be made only to the CAGR D, not to Johnson Utilities. Any undercollections shall be included in the true-up.

Staff recommends that the Commission order the immediate cessation of the CAGR D adjustor fees, after notice and opportunity to be heard, if the Company fails to segregate CAGR D collections or it makes withdrawals from the segregated account other than to pay the annual CAGR D fee, as required by Decision No. 71854.

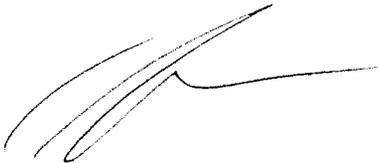
Staff concludes that the Company has duly filed a sufficient request to revise the CAGR D adjustor fees, as required by Decision No. 73284.

Staff recommends approval of the CAGR D adjustor fees as described herein.

Staff recommends that the Company file, within 7 days of a Decision in this matter, CAGR D adjustor fee tariffs consistent with the rates approved herein.

Staff recommends that the Company notify its customers of the CAGR D adjustor fee tariffs approved herein within 30 days from the effective date of the Decision.

Staff recommends that the CAGR D adjustor fees authorized herein become effective for all water sold after December 1, 2013.



Steven M. Olea
Director
Utilities Division

SMO:JK:sms\RRM

Originator: Jorn Keller

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF JOHNSON UTILITIES LLC DBA)
JOHNSON UTILITIES COMPANY FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES)

DOCKET NO. WS-02987A-08-0180
DECISION NO. _____
ORDER

Open Meeting
December 17 and 18, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On October 17, 2013, pursuant to Decision No. 71854 (August 24, 2010), and as modified by Decision No. 73284 (July 30, 2012), Johnson Utilities L.L.C. ("Johnson" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGRDR") adjustor fees.

2. Decision No. 71854 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGRDR for replenishment of excess groundwater. The conditions, as modified by Decision No. 73284, require the Company to submit, by October 25 of each year, for Commission consideration, its proposed CAGRDR fees for the next twelve-month period (along with documentation from the relevant state agencies to support the

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...

1 calculations), to apply to all water sold after December 1.¹ Accordingly, the Company made the
2 instant filing.

3 **Background**

4 3. The CAGRDR was established by the Arizona legislature to serve as a groundwater
5 replenishment entity for its members, and it provides a mechanism for designated water supply
6 providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGRDR to
7 replenish groundwater pumped by the member that exceeds the specified pumping limits. The
8 CAGRDR is recognized as an important tool in Arizona's groundwater conservation efforts.

9 **Calculation of the CAGRDR Adjustor Fees**

10 4. Decision No. 71854 specified nine conditions regarding the CAGRDR adjustor.
11 Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGRDR fees
12 paid by the Company for the most current year . . . shall be divided by the gallons sold by the
13 Company in that year to determine a CAGRDR adjustor fee per 1,000 gallons."²

14 5. Condition Nos. 2 and 3 ordered that the Company "place all CAGRDR monies
15 collected from customers in a separate, interest bearing account," only to be withdrawn for the
16 annual payment to the CAGRDR, due on October 15 of each year.³

17 6. In addition, although the order did not contain an explicit provision for a true-up, the
18 parties were in agreement that such an annual true-up would occur at the time of the adjustor reset
19 each year. This understanding was confirmed by the Commission's provision for a true-up in
20 Decision No. 72634.⁴

21 7. The Company proposes a rate of \$1.76 per thousand gallons ("kgal") for its Phoenix
22 Active Management Area ("AMA"), and a rate of \$0.43 per kgal for its Pinal AMA. Staff has
23 reviewed the Company's proposed calculations and the supporting documentation submitted with
24 its request. Staff agrees with the methodology employed by the Company to calculate the true-up
25 and the proposed adjustor rate, as discussed below.

26

27 ¹ Decision No. 73284, page 3, lines 2 - 8.

28 ² Decision No. 71854, page 38, lines 22 - 26.

³ Decision No. 71854, page 38, lines 12 - 16.

⁴ Decision No. 72634, page 4, line 19 through page 5, line 10.

1 **Phoenix AMA**

2 **True-up**

3 The 2011 CAGR D invoice for the Phoenix AMA replenishment assessment was
4 \$3,070,866.12. The Company reports that collections and interest as of September 30, 2013, total
5 \$3,258,365.94.⁵

6 This true-up calculation indicates an under-collection of approximately \$223,312.66 as
7 follows:

8	a.	2010 under-collection of	\$ 410,812.48
9		CAGR D fee	
10	b.	2011 CAGR D invoice	\$3,070,866.12
11	c.	Less: Collections and	<u>\$3,258,365.94</u>
12		interest through	
13		September 2013	
14	d.	2011 CAGR D under-	\$ <u>223,312.66</u>
15		collection [A+B-C]	

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18 **Adjustor Fee**

19 8. The 2012 CAGR D invoice for Johnson’s Phoenix AMA totals \$3,785,764.72. The
20 Company’s 2012 annual report as submitted to the Arizona Department of Water Resources
21 (“ADWR”) indicates annual water sales (in kgal) of 2,275,283.67.

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28 ⁵ Company’s application dated October 10, 2013.

1 9. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is
2 \$1.76 per 100 gallons.

3	a.	2012 CAGR D invoice	\$ 3,785,764.72
4	b.	Plus 2010 under-collection	\$ <u>223,312.66</u>
5	c.	Amount to be recovered	\$4,009,077.38
6		[A+B]	
7	d.	Total kgal sold in 2012	<u>2,275,283.67</u>
8	e.	Charge per kgal [C ÷ D]	\$ <u>1.76</u>

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11 **Pinal AMA**

12 **True-up**

13 The 2011 CAGR D invoice for the Pinal AMA was \$72,995.62. The Company reports that
14 collections and interest as of September 30, 2013, total of \$78,102.28.⁶

15 This true-up calculation indicates an under-collection of approximately \$2,545.07 as
16 follows:

17	a.	2010 under-collection of CAGR D	\$ 2,561.59
18		invoice	
19	b.	2011 CAGR D invoice	\$ 72,995.62
20	c.	Less: Collections and interest	<u>\$ 78,102.28</u>
21		through September 2012	
22	d.	2010 CAGR D over-collection	<u>\$ 2,545.07</u>
23		[A+B-C]	

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28 ⁶ Company's application dated October 10, 2013.

Adjustor Fee

10. The 2012 CAGR D invoice for Johnson's Pinal AMA totals \$117,186.64. The Company's 2012 annual report as submitted to the Arizona Department of Water Resources ("ADWR") indicates annual water sales (in kgal) of 266,184.77.

11. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.43 per 1000 gallons.

a.	2012 CAGR D invoice	\$ 117,186.64
b.	Less over-collection from 2011	<u>2,545.07</u>
c.	Amount to be recovered [A+B]	114,631.62
d.	Total kgal sold in 2012	<u>266,184.77</u>
e.	Charge per kgal [C ÷ D]	\$ <u>0.43</u>

Segregation of CAGR D Monies Collected

12. Staff observed that monthly CAGR D collections were often not deposited to the segregated account. Collections were held by the Company to offset the prior year's under-collection, and they were only segregated after the under-collection was satisfied. This is contrary to Conditions 2 and 3 of Decision No. 71854.

Conclusions and Recommendations

1. Staff concludes that the Company has not segregated CAGR D collections pursuant to Decision No. 71854 with payments to be made only to the CAGR D, not to Johnson Utilities. Any undercollections shall be included in the true-up.

2. Staff recommends that the Commission, after notice and opportunity to be heard, order the immediate cessation of the CAGR D adjustor fees if the Company fails to segregate CAGR D collections or it makes withdrawals other than to pay the annual CAGR D fee, as required by Decision No. 71854.

1 IT IS FURTHER ORDERED that the application by Johnson Utilities L.L.C. to implement
2 new CAGR D adjustor fees is approved for all customer billings for water sold after December 1,
3 2013.

4 IT IS FURTHER ORDERED that the CAGR D adjustor fees for Johnson Utilities L.L.C.
5 shall be \$1.76 per 1,000 gallons for the Phoenix AMA and \$0.43 per 1,000 gallons for the Pinal
6 AMA.

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1 IT IS FURTHER ORDERED that Johnson Utilities L.L.C. docket with the Commission as
2 a compliance matter, within seven (7) days of the effective date of this Decision, CAGR
3 fee tariffs consistent with the rates approved herein.

4 IT IS FURTHER ORDERED that Johnson Utilities L.L.C. shall notify its customers of the
5 CAGR adjustor fees approved herein within 30 days of the effective date of this Decision.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
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8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

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

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JK:sms

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