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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF
LITCHFIELD PARK SERVICE COMPANY,
AN ARIZONA CORPORATION FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANTS AND PROPERTY AND
FOR INCREASES IN ITS WASTEWATER
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE.

DOCKET NO: SW-01428A-13-0042

Arizona Corporation Commission
DOCKETED

JAN 03 2014

DOCKETED BY 

IN THE MATTER OF THE APPLICATION OF
LITCHFIELD PARK SERVICE COMPANY,
AN ARIZONA CORPORATION FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANTS AND PROPERTY AND
FOR INCREASES IN ITS WATER RATES AND
CHARGES BASED THEREON FOR UTILITY
SERVICE.

DOCKET NO: W-01427A-13-0043

**NOTICE OF LATE FILED
EXHIBITS**

At the Administrative Law Judge's request, Liberty Utilities (Litchfield Park Water & Sewer) Corp. (the "Company") hereby submits this Notice of Late Filed Exhibits in the above-referenced matter. Attached as exhibits A-25 and A-26 are the System Improvement Benefit Mechanism Plans of Administration for the Company's wastewater and water divisions, respectively. The plans were developed by the Company and Commission Staff. Final drafts were provided to the Residential Utility Consumer Office, which did not have any comments.

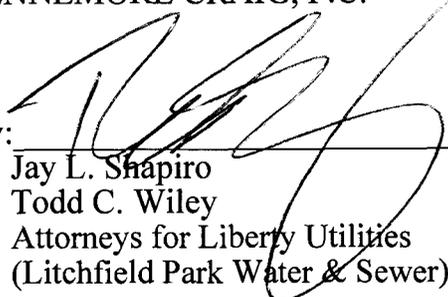
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RESPECTFULLY SUBMITTED this 3rd day of January, 2014.

FENNEMORE CRAIG, P.C.

By: _____


Jay L. Shapiro
Todd C. Wiley
Attorneys for Liberty Utilities
(Litchfield Park Water & Sewer) Corp.

ORIGINAL and 13 copies filed
this 3rd day of January, 2014, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPY hand-delivered
this 3rd day of January, 2014 to:

Teena Jibilian, Administrative Law Judge
Hearing Division
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1 **COPY** sent via U.S. mail
2 this 3rd day of January, 2014, to:

3 Olivia Burnes
4 356 N. Cloverfield Circle
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EXHIBIT A-25

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EXHIBITS

SIB PLANT TABLE I	Exhibit 1
SIB PLANT TABLE II.....	Exhibit 2
SIB SCHEDULE A - CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS AND EFFICIENCY CREDIT.....	Exhibit 3
SIB SCHEDULE B - CALCULATION OF SIB TRUE-UP REVENUE REQUIREMENTS ADJUSTMENT	Exhibit 4
SIB SCHEDULE C - TYPICAL BILLS ANALYSIS.....	Exhibit 5
SIB SCHEDULE D - SUMMARY OF REVENUE AND RATE BASE IMPACTS INCLUDING EARNINGS TEST.....	Exhibit 6

I. GENERAL DESCRIPTION

This document is the Plan of Administration (“POA”) for the System Improvement Benefit (“SIB”) Mechanism approved for the Wastewater Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp.) (“Company”) by the Arizona Corporation Commission (“ACC” or “Commission”) in Decision No. _____ on _____. The SIB provides for recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with collection system improvement projects listed in SIB Plant Table I that have been verified to be completed¹ and placed in service per SIB Plant Table II and where costs have not been included in rate base for recovery in Decision No. _____. These projects are necessary to provide and continue to provide proper, adequate and reliable service to existing customers; are not designed to serve or promote customer growth; and will not comprise an upgrade or expansion of existing plant unless justified for existing customers per Section V below. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

II. DEFINITIONS

- NARUC – National Association of Regulatory Utility Commissioners.
- SIB – System Improvement Benefit mechanism to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible NARUC accounts:
 - NARUC Account No. 361 – Collection Sewers - Gravity
 - NARUC Account No. 363 – Services to Customers
- SIB Plant Table I (Excerpt attached as Exhibit 1) – The schedule of planned SIB eligible projects approved in the Company’s most recent rate case decision.

¹ Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer’s Certificate of Completion, etc.

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Docket No. SW-01428A-13-0042

- SIB Plant Table II (Sample attached as Exhibit 2) – The schedule of completed and verified SIB eligible projects, from SIB Plant Table I and associated retirements.
- SIB Revenue Requirement – The revenue requirement equal to the return on investment, income taxes and depreciation expense necessary to support the SIB Plant Table II amounts.
- SIB Revenue Requirement Efficiency Credit – An amount equal to 5 percent of the SIB Revenue Requirement.
- SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit plus any SIB True up Adjustment.
- Gross SIB Surcharge – Amount to be shown on customers' bills based on service sizes without consideration to the SIB Surcharge Efficiency Credit.
- SIB Surcharge Efficiency Credit – An amount equal to 5 percent of the Gross SIB Surcharge to be shown on customers' bills.
- SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged based on service size, calculated to recover the SIB Authorized Revenue, to be shown on the customers' bills.
- SIB True-up Adjustment – An amount to adjust for over or under collection of the SIB Authorized Revenues as compared with the total SIB Surcharges collected for the preceding 12 month period. Each true-up shall also analyze the cumulative over or under collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharges, and prior true-ups to be used in calculation of the SIB true-up surcharge or credit.
- Total Revenue Requirement – The revenue requirement approved in Decision No. _____, plus the SIB Revenue Requirement.

III. SIB RELATED FILINGS

- A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB Eligible Plant, on a project by project basis as listed in SIB Plant Table I, starting 6 months after the decision and every 6 months thereafter.

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- B. Reconciliation and True Up – Once a SIB Surcharge is implemented, the Company must file annually to true up its SIB Surcharge collections over the preceding twelve months with the SIB Authorized Revenue for that period and establish a surcharge or credit to true up over or under collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be as established in the Commission’s Decision approving the SIB Surcharge.
- C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:
1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must:
 - a) be projects listed in the Company’s initial SIB Plant Table I, approved in Decision No. _____, or have been added to said SIB Plant Table I pursuant to Section V of this POA;
 - b) have been completed by the Company;
 - c) have been verified; and
 - d) be actually serving customers.
 2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period from SIB Plant Table I.
 3. SIB Schedule A (sample attached as Exhibit 3), showing a calculation of the SIB Revenue Requirement and SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge. Schedule A shall be supported by revenue requirements schedules supporting the revenue requirements in Decision No. _____ and the pro-forma revenue requirements including the effects of SIB Eligible Plant.
 4. SIB Schedule B (sample as attached Exhibit 4) showing the overall SIB True-up Adjustment calculation for the prior twelve-month SIB Surcharge period, as well as the individual SIB True-up Adjustment for each service size.

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5. SIB Schedule C (sample as attached as Exhibit 5) showing the effect of the SIB Surcharge on a typical residential customer bill.
6. SIB Schedule D (sample as attached Exhibit 6) which shall include an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and the fair value rate of return. The Company shall also file the following:
 - a) the most current balance sheet at the time of the filing;
 - b) the most current income statement;
 - c) an earnings test schedule;
 - d) a rate review schedule (including the incremental and pro forma effects of the proposed increase);
 - e) an adjusted rate base schedule; and
 - f) a Construction Work in Progress ledger (for each project showing accumulation of charges by month and paid vendor invoices).
- D. The Company will maintain and provide Excel schedules with formulae intact supporting the revenue requirements approved in the rate decision that approved the SIB and provide same Excel schedules to incorporate the effects of SIB Eligible Plant for the current SIB Surcharge Request and any previously approved Surcharge and True-up requests.
- E. The Company may make its initial SIB Surcharge Request through Docket Control no earlier than twelve months after the entry of Decision No. _____.
- F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A True-up must be filed with each Surcharge Request, except the first.
- G. Unless otherwise authorized by the Commission, the Company shall be required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.

- H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.
- I. The Company may request to add Plant to SIB Table I only under emergency circumstances. Any additions or modifications to SIB Plant Table I must be approved by the Commission.

IV. SURCHARGE CALCULATIONS

A. Calculations of Amounts to Be Collected By the SIB Surcharge

- 1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirements Efficiency Credit plus any SIB True up Adjustment.

For purposes of calculating the SIB Revenue Requirement:

- a. The required rate of return is equal to the overall rate of return authorized in Decision No. _____.
 - b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. _____; and
 - c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. _____.
- 2. The project cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the actual project cost listed in SIB Plant Table II or 110 percent of the estimated cost listed in SIB Plant Table I as approved in Decision No. _____. Unit costs shall be used if actual units constructed are less than estimated in SIB Plant Table I.
 - 3. The amount to be collected by each SIB Surcharge Request shall be capped annually at five percent of the revenue requirement authorized in Decision No. _____.

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B. Reconciliation And True-Ups

1. The revenue collected by the total SIB Surcharges over the preceding twelve months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.
2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and SIB Efficiency Credit are shown on a customer's bill.
3. For each twelve (12) month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue, for that twelve (12)-month period, consistent with Schedule B, attached hereto as Exhibit B.
4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a twelve-month period by means of a SIB True-up Surcharge or Credit.
5. Starting with the second annual SIB Surcharge, where there are over or under-collected balances, such over or under-collected balances shall be carried over to the next year, and considered in the calculation of the new SIB True-up Surcharge or Credit. If, after the five-year period there remains an over or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company shall be required to perform an annual earnings test calculation for each SIB Surcharge Request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.
2. The earnings test shall be:
 - a) based on the most recent available operating income,
 - b) adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and

c) based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

V. ADDING PROJECTS TO SIB TABLE I UNDER EMERGENCY CIRCUMSTANCES

- A. The Company can seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.
- B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.
- C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.
- D. SIB Eligible Plant must satisfy at least one of the following conditions:
 - 1. Replacement Plant is necessary to address excessive infiltration and inflow ("I/I") adversely affecting treatment plant, and indicating the probability of sewer system collapse causing a public health and safety hazard.
 - 2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;
 - 3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:
 - a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life;

- b. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

VI. RATE DESIGN

A. The SIB Surcharge rate design shall be calculated as follows:

- 1) The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.
- 2) The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of equivalent active 4-inch services at the end of the most recent twelve (12) month period, and shall increase with service size based on the following meter capacity multipliers:

Service Lateral Size	Factor
4-inch	1
6-inch	2.25
8-inch	4
10-inch	6.25

B. The SIB Surcharge shall apply to all of the Company's customers.

VII. SURCHARGE IMPLEMENTATION

A. SIB surcharges shall not become effective until approved by the Commission.

B. At least 30 days prior to the SIB surcharge becoming effective, the Company shall provide public notice in the form of a billing insert or customer letter in a form acceptable to Staff. Such notice shall include the following information:

- 1. The individual Gross SIB Surcharge, by service size;
- 2. The individual SIB Surcharge Efficiency Credit, by service size;
- 3. SIB Surcharge, by service size; and

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4. Directions where the customer may obtain a summary of the projects included in the current SIB Surcharge Request, including a description of each project and its cost.

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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

Docket No. SW-01428A-13-0042 et al.

Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule A

Line No.	[A]	[B]
CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT		
1		WASTEWATER DIVISION
2	Total Authorized Revenue Requirement - Decision No. XXXXX (based on Final Settlement Schedules)	\$ 10,704,021
3	SIB Revenue Cap %	5.00%
4	Net SIB Revenue Cap (ln. 2 x ln. 4)	\$ 535,201
5		
6	SIB-Eligible Plant in Service - Per SIB Table II Summary	\$ 825,800
7	Accumulated Depreciation - 1/2-Year Convention (ln. 28 x .5)	8,258
8	SIB Rate Base (ln. 8 - ln. 10)	\$ 817,542
9		
10	Required Rate of Return - Decision No. 73736	
11	Weighted Cost of Equity:	7.74%
12	Revenue Conversion Factor:	1.6466
13	Pre-Tax Weighted Cost of Equity (ln. 16 x ln. 17):	12.74%
14	Weighted Cost of Debt:	1.02%
15	Pre-Tax Cost of Capital (ln. 18 + ln. 19):	13.76%
16	Required Revenues (ln. 12 x ln. 21)	\$ 112,496
17		
18	Applicable Depreciation Rate - Per Decision No. XXXXX	2.00%
19	SIB Depreciation Expense (ln. 8 x ln. 26)	\$ 16,516
20		
21	Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table I Summary	\$ 5,000
22	Net Depreciation Expense - SIBA Eligible Plant (ln. 28 - ln. 30)	\$ 11,516
23		
24	SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 23 + ln. 32)	\$ 124,012
25	Under or Over Recovery from Previous Period	\$ -
26		
27	Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Capital Costs	\$ 124,012
28	SIB Efficiency Credit %	-5.00%
29	Overall SIB Efficiency Credit (ln. 39 x ln. 41)	\$ (6,201)
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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule B

Line No.	[A]	[B]
1	<u>WASTEWATER DIVISION</u>	
2	\$ 124,012	
3		
4	\$ (6,201)	
5		
6		<u>\$ 117,812</u>
7		
8	\$ 125,000	
9		
10		
11	\$ (10,000)	
12		
13		<u>\$ 115,000</u>
14		<u>2,812</u>
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CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD

Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period

Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period

Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period

Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period

Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period

Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period

Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

Line No.	[A]	[B]	[C]	[D]	[E]
1	<u>CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT</u>				
2					
3					
4					
5	<u>Customer Meter Size</u>	<u>No. of Customers</u>			
6		<u>12/31/2012</u>			
7					
8		16,157			
9	Per Customer			\$ 0.01	\$ 2,812
10					
11					
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18					
19	Totals	<u>16,157</u>			<u>\$ 2,812</u>
20					
21					
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24					
25	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)				
26				\$ 2,812	
27					<u>0.01</u>
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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule C

Line No.	[A]	[B]	[C]	[D]	[E]	[F]	[G]
	WASTEWATER DIVISION - Residential Customer						
	Present Bill	SIB Fixed Surcharge	SIB Efficiency Credit	SIB True-Up Surcharge / (Credit)	Total Pro Forma Bill	Net SIB Increase	Percent SIB Increase
1	\$ 40.35	\$ 0.64	\$ (0.03)	\$ 0.01	\$ 40.97	\$ 0.62	1.5%
2							
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Average Residential Bill

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule D

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Per Decision XXXX	Net SIB Step-1 Increase	Net SIB Step-2 Increase	Net SIB Step-3 Increase	Net SIB Step-4 Increase	Net SIB Step-5 Increase	Pro Forma With SIB
1	Total Operating Revenue	\$ 10,704,021	\$ -	\$ -	\$ -	\$ 10,821,833
2	Operating Expenses					
3	Operations & Maintenance	\$ 5,248,021	\$ -	\$ -	\$ -	\$ 5,248,021
4	Depreciation & Amortization	1,622,887	-	-	-	1,634,403
5	Taxes Other than Income	553,295	-	-	-	553,295
6	Income Taxes	1,161,767	-	-	-	1,200,692
7	Total Operating Expenses	\$ 8,585,970	\$ -	\$ -	\$ -	\$ 8,636,411
8	Operating Income (ln. 1 - ln. 8)	\$ 2,118,051	\$ -	\$ -	\$ -	\$ 2,185,422
9	Interest Expense					
10	Weighted Avg. Cost of Debt	1.02%	1.02%	1.02%	1.02%	1.02%
11	Interest Expense (ln. 13 x ln. 19)	\$ 245,700	\$ 8,304	\$ -	\$ -	\$ 254,003
12	Net Income (ln. 10 - ln. 14)	\$ 1,872,351	\$ -	\$ -	\$ -	\$ 1,931,418
13	Rate Base - O.C.L.D.	\$ 24,190,673	\$ 817,542	\$ -	\$ -	\$ 25,008,215
14	Return on Rate Base - O.C.L.D. (ln. 10 ÷ ln. 19)	8.76%	8.24%	0.00%	0.00%	8.74%
15	Authorized Return on Rate Base	8.76%	8.76%	8.76%	8.76%	8.76%
16	Capital Structure					
17	Debt %	15.87%	15.87%	15.87%	15.87%	15.87%
18	Equity %	84.13%	84.13%	84.13%	84.13%	84.13%
19	Total Equity (ln. 19 x ln. 27)	\$ 20,351,613	\$ 687,798	\$ -	\$ -	\$ 21,039,411
20	Authorized Return on Equity	9.20%	9.20%	9.20%	9.20%	9.20%
21	Return on Equity (ln. 16 ÷ ln. 29)	9.20%	8.59%	0.00%	0.00%	9.18%

EXHIBIT A-26

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EXHIBITS

SIB PLANT TABLE I Exhibit 1

SIB PLANT TABLE II Exhibit 2

SIB SCHEDULE A - CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS AND EFFICIENCY
CREDIT Exhibit 3

SIB SCHEDULE B - CALCULATION OF SIB TRUE-UP REVENUE REQUIREMENTS ADJUSTMENT Exhibit 4

SIB SCHEDULE C - TYPICAL BILLS ANALYSIS Exhibit 5

SIB SCHEDULE D - SUMMARY OF REVENUE AND RATE BASE IMPACTS INCLUDING
EARNINGS TEST Exhibit 6

I. GENERAL DESCRIPTION

This document is the Plan of Administration ("POA") for the System Improvement Benefit ("SIB") Mechanism approved for the Water Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Company") by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. _____ on _____. The SIB provides for recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with distribution system improvement projects listed in SIB Plant Table I that have been verified to be completed¹ and placed in service per SIB Plant Table II and where costs have not been included in rate base for recovery in Decision No. _____. These projects are necessary to provide and continue to provide proper, adequate and reliable service to existing customers; are not designed to serve or promote customer growth; and will not comprise an upgrade or expansion of existing plant unless justified for existing customers per Section V below. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

II. DEFINITIONS

- NARUC – National Association of Regulatory Utility Commissioners.
- SIB – System Improvement Benefit mechanism to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible NARUC accounts:
 - NARUC Account No. 309 – Supply Mains
 - NARUC Account No. 331 –Transmission and Distribution Mains
 - NARUC Account No. 333 – Services
 - NARUC Account No. 334 - Meters and Meter Installations;
 - NARUC Account No. 335 – Hydrants

¹ Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer's Certificate of Completion, etc.

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- SIB Plant Table I (Excerpt attached as Exhibit 1) – The schedule of planned SIB eligible projects approved in the Company’s most recent rate case decision.
- SIB Plant Table II (Sample attached as Exhibit 2) – The schedule of completed and verified SIB eligible projects, from SIB Plant Table I and associated retirements.
- SIB Revenue Requirement – The revenue requirement equal to the return on investment, income taxes and depreciation expense necessary to support the SIB Plant Table II amounts.
- SIB Revenue Requirement Efficiency Credit – An amount equal to 5 percent of the SIB Revenue Requirement.
- SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit plus any SIB True up Adjustment.
- Gross SIB Surcharge – Amount to be shown on customers’ bills based on meter sizes without consideration to the SIB Surcharge Efficiency Credit.
- SIB Surcharge Efficiency Credit – An amount equal to 5 percent of the Gross SIB Surcharge to be shown on customers’ bills.
- SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged based on meter size, calculated to recover the SIB Authorized Revenue, to be shown on the customers’ bills.
- SIB True-up/Adjustment – An amount to adjust for over or under collection of the SIB Authorized Revenues as compared with the total SIB Surcharges collected for the preceding 12 month period. Each true-up shall also analyze the cumulative over or under collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharges, and prior true-ups to be used in calculation of the SIB true-up surcharge or credit.\
- Total Revenue Requirement – The revenue requirement approved in Decision No. _____, plus the SIB Revenue Requirement.

III. SIB RELATED FILINGS

- A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB

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Eligible Plant, on a project by project basis as listed in SIB Plant Table I, starting 6 months after the decision and every 6 months thereafter.

- B. Reconciliation and True Up – Once a SIB Surcharge is implemented, the Company must file annually to true up its SIB Surcharge collections over the preceding twelve months with the SIB Authorized Revenue for that period and establish a surcharge or credit to true up over or under collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be as established in the Commission’s Decision approving the SIB Surcharge.
- C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:
1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must
 - a) be projects listed in the Company’s initial SIB Plant Table I, approved in Decision No. _____, or have been added to said SIB Plant Table I pursuant to Section V of this POA;
 - b) have been completed by the Company;
 - c) have been verified; and
 - d) be actually serving customers.
 2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period from SIB Plant Table I.
 3. SIB Schedule A (sample attached as Exhibit 3), showing a calculation of the SIB Revenue Requirement and SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge. Schedule A shall be supported by revenue requirements schedules supporting the revenue requirements in Decision No. _____ and the pro-forma revenue requirements including the effects of SIB Eligible Plant.
 4. SIB Schedule B (sample as attached Exhibit 4) showing the overall SIB True-up Adjustment calculation for the prior twelve-month SIB Surcharge period, as well as the individual SIB True-up Adjustment for each meter size.

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5. SIB Schedule C (sample as attached as Exhibit 5) showing the effect of the SIB Surcharge on a typical residential customer bill for both median and average usage.
6. SIB Schedule D (sample as attached Exhibit 6) which shall include an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and the fair value rate of return. The Company shall also file the following:
 - a) the most current balance sheet at the time of the filing;
 - b) the most current income statement;
 - c) an earnings test schedule;
 - d) a rate review schedule (including the incremental and pro forma effects of the proposed increase);
 - e) an adjusted rate base schedule; and
 - f) a Construction Work in Progress ledger (for each project showing accumulation of charges by month and paid vendor invoices).
- D. The Company will maintain and provide Excel schedules with formulae intact supporting the revenue requirements approved in the rate decision that approved the SIB and provide same Excel schedules to incorporate the effects of SIB Eligible Plant for the current SIB Surcharge Request and any previously approved Surcharge and True-up requests.
- E. The Company may make its initial SIB Surcharge Request through Docket Control no earlier than twelve months after the entry of Decision No. _____.
- F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A True-up must be filed with each Surcharge Request, except the first.
- G. Unless otherwise authorized by the Commission, the Company shall be required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.

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- H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.
- I. The Company may request to add Plant to SIB Table I only under emergency circumstances. Any additions or modifications to SIB Plant Table I must be approved by the Commission.

IV. SURCHARGE CALCULATIONS

A. Calculations of Amounts to Be Collected By the SIB Surcharge

- 1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirements Efficiency Credit plus any SIB True up Adjustment.

For purposes of calculating the SIB Revenue Requirement:

- a. The required rate of return is equal to the overall rate of return authorized in Decision No. _____.
 - b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. _____; and
 - c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. _____.
- 2. The project cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the actual project cost listed in SIB Plant Table II or 110 percent of the estimated cost listed in SIB Plant Table I as approved in Decision No. _____. Unit costs shall be used if actual units constructed are less than estimated in SIB Plant Table I.
 - 3. The amount to be collected by each SIB Surcharge Request shall be capped annually at five percent of the revenue requirement authorized in Decision No. _____.

B. Reconciliation And True-Ups

- 1. The revenue collected by the total SIB Surcharges over the preceding twelve months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.

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2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and SIB Efficiency Credit are shown on a customer's bill.
3. For each twelve (12) month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue, for that twelve (12)-month period, consistent with Schedule B, attached hereto as Exhibit B.
4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a twelve-month period by means of a SIB True-up Surcharge or Credit.
5. Starting with the second annual SIB Surcharge, where there are over or under-collected balances, such over or under-collected balances shall be carried over to the next year, and considered in the calculation of the new SIB True-up Surcharge or Credit. If, after the five-year period there remains an over or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company shall be required to perform an annual earnings test calculation for each SIB Surcharge Request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.
2. The earnings test shall be:
 - a) based on the most recent available operating income,
 - b) adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and
 - c) based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

V. ADDING PROJECTS TO SIB TABLE I UNDER EMERGENCY CIRCUMSTANCES

- A. The Company can seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.
- B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.
- C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.
- D. SIB Eligible Plant must satisfy at least one of the following conditions:
1. Water loss for the system exceeds ten (10) percent, as calculated by the following formula: $((\text{Volume of Water Produced and/or Purchased}) - (\text{Volume of Water Sold} + \text{Volume of Water Put to Beneficial Use}))$ divided by $(\text{Volume of Water Produced and/or Purchased})$. If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner.
 2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;
 3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:
 - a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life (e.g. black poly pipe);
 - b. Meter replacements for systems that have implemented a meter testing and maintenance program in compliance with A.A.C. R14-2-408(E) or the applicable tariff.

- c. Meters replaced in a system for the purpose of complying with the United States Environmental Protection Agency's Reduction of Lead in Drinking Water Act of 2010; and
- d. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

VI. RATE DESIGN

A. The SIB Surcharge rate design shall be calculated as follows:

- 1) The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.
- 2) The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of equivalent active 5/8-inch meters at the end of the most recent twelve (12) month period, and shall increase with meter size based on the following meter capacity multipliers:

5/8-inch x 3/4-inch	1.0 times
3/4-inch	1.5 times
1-inch	2.5 times
1 1/2-inch	5 times
2-inch	8 times
3-inch	16 times
4-inch	25 times
6-inch	50 times
8-inch	80 times
10-inch	115 times
12-inch & above	215 times

B. The SIB Surcharge shall apply to all of the Company's metered customers, including private fire service customers.

VII. SURCHARGE IMPLEMENTATION

A. SIB surcharges shall not become effective until approved by the Commission.

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- B. At least 30 days prior to the SIB surcharge becoming effective, the Company shall provide public notice in the form of a billing insert or customer letter in a form acceptable to Staff. Such notice shall include the following information:
1. The individual Gross SIB Surcharge, by meter size;
 2. The individual SIB Surcharge Efficiency Credit, by meter size;
 3. SIB Surcharge, by meter size; and
 4. Directions where the customer may obtain a summary of the projects included in the current SIB Surcharge Request, including a description of each project and its cost.

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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule A

Line No.	[A]	[B]
<u>CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT</u>		
1		<u>WATER DIVISION</u>
2	\$ 12,622,779	
3		
4	5.00%	
5		
6		<u>\$ 631,139</u>
7		
8	\$ 956,000	
9		
10		
11	9,560	
12		
13		
14	<u>\$ 946,440</u>	
15		
16		
17	7.74%	
18	1.6466	
19	12.74%	
20	1.02%	
21		
22	13.76%	
23		
24	<u>\$ 130,233</u>	
25		
26		
27	2.00%	
28	<u>\$ 19,120</u>	
29		
30	\$ 5,000	
31		
32	<u>\$ 14,120</u>	
33		
34	\$ 144,353	
35		
36		
37	<u>\$ -</u>	
38		
39		
40		
41		
42		
43	-5.00%	
44		
45		
46		
47		
48		
49		
50		<u>\$ (7,218)</u>

Total Authorized Revenue Requirement - Decision No. XXXXX (based on Final Settlement Schedules)

SIB Revenue Cap %

Net SIB Revenue Cap (ln. 2 x ln. 4)

SIB-Eligible Plant in Service - Per SIB Table II Summary

Accumulated Depreciation - 1/2-Year Convention (ln. 28 x .5)

SIB Rate Base (ln. 8 - ln. 10)

Required Rate of Return - Decision No. 73736

Weighted Cost of Equity:

Revenue Conversion Factor:

Pre-Tax Weighted Cost of Equity (ln. 16 x ln. 17):

Weighted Cost of Debt:

Pre-Tax Cost of Capital (ln. 18 + ln. 19):

Required Revenues (ln. 12 x ln. 21)

Applicable Depreciation Rate - Per Decision No. XXXXX

SIB Depreciation Expense (ln. 8 x ln. 26)

Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table II Summary

Net Depreciation Expense - SIBA Eligible Plant (ln. 28 - ln. 30)

SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 23 + ln. 32)

Under or Over Recovery from Previous Period

Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Capital Costs

SIB Efficiency Credit %

Overall SIB Efficiency Credit (ln. 39 x ln. 41)

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As of December 31, 2013

SIB Schedule B

Line No.	[A]	[B]
1	<u>CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD</u>	
2		<u>WATER DIVISION</u>
3	Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period	\$ 144,353
4	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	\$ (7,218)
5		
6	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period	<u>\$ 137,135</u>
7		
8	Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period	\$ 125,000
9		
10	Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period	\$ (10,000)
11		
12	Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period	<u>\$ 115,000</u>
13		
14	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)	<u>22,135</u>
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Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

(A) (B) (C) (D) (E)

Line No.	Customer Meter Size	No. of Customers 12/31/2012	Meter Multiplier	5/8 x 3/4-inch Equivalent Meters (C X F)	SIB True-Up Surcharge/(Credit) Fixed Surcharge / (Credit)	Annual Revenue by Meter Size
1						
2						
3						
4						
5						
6						
7						
8	5/8 x 3/4-inch	9,817	1	9,817	\$ 0.06	\$ 6,843
9	1-inch	6,141	2.5	15,353	\$ 0.15	\$ 10,701
10	1 1/2-inch	194	5	970	\$ 0.29	\$ 676
11	2-inch	616	8	4,928	\$ 0.46	\$ 3,435
12	3-inch	-	16	-	\$ 0.93	\$ -
13	4-inch	18	25	450	\$ 1.45	\$ 314
14	6-inch	-	50	-	\$ 2.90	\$ -
15	8-inch	3	80	240	\$ 4.65	\$ 167
16	10-inch	-	115	-	\$ 6.68	\$ -
17						
18	Totals	16,789		31,758	\$	\$ 22,135
19						
20						
21						
22						
23						
24						
25						
26						
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30						
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49						
50						

Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14) \$ 22,135

Individual SIB Fixed True-Up Surcharge/(Credit) Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 + col. C, ln. 19 + 12) 0.06

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

As of December 31, 2013

SIB Schedule C

[A]	[B]	[C]	[D]	[E]	[F]	[G]		
Line No.	Gallons Consumed	Present Bill	SIB Fixed Surcharge	SIB Efficiency Credit	SIB True-Up Surcharge / (Credit)	Total Pro Forma Bill	Net SIB Increase	Percent SIB Increase
WATER DIVISION - 3/4 Inch Customer								
1	-	\$ 13.26	\$ 0.38	(0.02)	\$ 0.06	\$ 13.68	\$ 0.42	3.2%
2	1,000	14.01	0.38	(0.02)	0.06	14.43	0.42	3.0%
3	2,000	14.76	0.38	(0.02)	0.06	15.18	0.42	2.8%
4	3,000	15.51	0.38	(0.02)	0.06	15.93	0.42	2.7%
5	4,000	17.46	0.38	(0.02)	0.06	17.88	0.42	2.4%
6	5,000	19.41	0.38	(0.02)	0.06	19.83	0.42	2.2%
7	6,000	21.36	0.38	(0.02)	0.06	21.78	0.42	2.0%
8	7,000	23.31	0.38	(0.02)	0.06	23.73	0.42	1.8%
9	8,000	25.26	0.38	(0.02)	0.06	25.68	0.42	1.7%
10	9,000	27.21	0.38	(0.02)	0.06	27.63	0.42	1.5%
11	10,000	29.16	0.38	(0.02)	0.06	29.58	0.42	1.4%
12	11,000	32.11	0.38	(0.02)	0.06	32.53	0.42	1.3%
13	12,000	35.06	0.38	(0.02)	0.06	35.48	0.42	1.2%
14	13,000	38.01	0.38	(0.02)	0.06	38.43	0.42	1.1%
15	14,000	40.96	0.38	(0.02)	0.06	41.38	0.42	1.0%
16	15,000	43.91	0.38	(0.02)	0.06	44.33	0.42	1.0%
17	20,000	58.66	0.38	(0.02)	0.06	59.08	0.42	0.7%
18	25,000	90.69	0.38	(0.02)	0.06	91.11	0.42	0.5%
19								
20								
21								
22								
23								
24		\$ 26.87	\$ 0.38	(0.02)	\$ 0.06	\$ 27.29	\$ 0.42	1.6%
25								
26								
27								
28								
29								
30								
31		\$ 0.7500	n/a	n/a	n/a	n/a	n/a	n/a
32		\$ 1.9500	n/a	n/a	n/a	n/a	n/a	n/a
33		\$ 2.9500	n/a	n/a	n/a	n/a	n/a	n/a
34		\$ 3.4560	n/a	n/a	n/a	n/a	n/a	n/a
35								
36								
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50								

Residential Bill at Average Consumption of 8,827 Gallons

Basic Service Charge

Commodity Rate Per 1,000 Gallons

0 - 3,000 Gallons

3,001 - 10,000 Gallons

10,001 - 20,000 Gallons

Over 20,000 Gallons

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Calculation of Overall SIB Revenue Requirement and Individual Surcharge

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SIB Schedule D

Line No.	Per Decision XXXXX	[A]	[B]	[C]	[D]	[E]	[F]	[G]					
									Net SIB Step-1 Increase	Net SIB Step-2 Increase	Net SIB Step-3 Increase	Net SIB Step-4 Increase	Net SIB Step-5 Increase
WATER DIVISION													
1	Total Operating Revenue	\$	12,622,779	\$	137,135	\$	-	\$	-	\$	-	\$	12,759,914
2	Operating Expenses												
3	Operations & Maintenance	\$	4,952,963	\$	-	\$	-	\$	-	\$	-	\$	4,952,963
4	Depreciation & Amortization		2,627,581		14,120		-		-		-		2,641,701
5	Taxes Other than Income		553,998		-		-		-		-		553,998
6	Income Taxes		1,589,809		45,047		-		-		-		1,634,856
7	Total Operating Expenses	\$	9,724,351	\$	59,167	\$	-	\$	-	\$	-	\$	9,783,518
8	Operating Income (ln. 1 - ln. 8)	\$	2,898,428	\$	77,969	\$	-	\$	-	\$	-	\$	2,976,397
9	Interest Expense												
10	Weighted Avg. Cost of Debt		1.02%		1.02%		1.02%		1.02%		1.02%		1.02%
11	Interest Expense (ln. 13 x ln. 19)	\$	336,246	\$	9,613	\$	-	\$	-	\$	-	\$	345,859
12	Net Income (ln. 10 - ln. 14)	\$	2,562,182	\$	68,356	\$	-	\$	-	\$	-	\$	2,630,538
13	Rate Base - O.C.L.D.	\$	33,105,506	\$	946,440	\$	-	\$	-	\$	-	\$	34,051,946
14	Return on Rate Base - O.C.L.D. (ln. 10 + ln. 19)		8.76%		8.24%		0.00%		0.00%		0.00%		8.74%
15	Authorized Return on Rate Base		8.76%		8.76%		8.76%		8.76%		8.76%		8.76%
16	Capital Structure												
17	Debt %		15.87%		15.87%		15.87%		15.87%		15.87%		15.87%
18	Equity %		84.13%		84.13%		84.13%		84.13%		84.13%		84.13%
19	Total Equity (ln. 19 x ln. 27)	\$	27,851,662	\$	796,240	\$	-	\$	-	\$	-	\$	28,647,902
20	Authorized Return on Equity		9.20%		9.20%		9.20%		9.20%		9.20%		9.20%
21	Return on Equity (ln. 16 + ln. 29)		9.20%		8.58%		0.00%		0.00%		0.00%		9.18%