OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATIO

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Arizona Corporation Commission
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COMMISSIONERS

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

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

DOCKET NO. W-01737A-12-0478

EXCEPTIONS OF NEW RIVER UTILITY COMPANY

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On December 31, 2013, a recommended opinion and order ("ROO") was docketed in this case. New River Utility Company ("New River" or the "Company") has carefully reviewed the ROO and proposes six amendments, attached hereto as Attachments 1 through 6, which are necessary in order to establish rates and charges that are just and reasonable and to provide the Company with a reasonable opportunity to earn its authorized rate of return. The six proposed amendments are summarized below:

- Company Proposed Amendment #1 (Inadequately Supported Plant). This rate base adjustment would add back into original cost rate base $111,173 (or 50%) of the $222,346 disallowed in the ROO for inadequately supported plant.

- Company Proposed Amendment #2 (Tank Recoating Expense). This operating income adjustment would increase normalized tank recoating expense from $8,667 to $31,333.

- Company Proposed Amendment #3 (Cost of Capital). This adjustment to cost of capital would increase the Cost of Equity from 8.90% to 9.50% and the Fair Value Rate of Return from 7.80% to 8.40%.

- Company Proposed Amendment #4 (Best Management Practices). This amendment would eliminate the requirement that New River adopt additional best management practices beyond those already mandated by the Arizona Department of Water Resources and implemented by New River.

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- Company Proposed Amendment #5 (Rate Design). This amendment would modify the rate design in the ROO to lower the percentage of the authorized rate increase allocated to the high consumption tier (*i.e.*, the third tier) from 60.38% to 45.10%, thereby providing greater revenue stability and affording the New River a reasonable opportunity to earn its authorized rate of return.

- Company Proposed Amendment #6 (Inter-Affiliate Transfer of Funds). This amendment would remove certain statements in the ROO regarding the owners of New River and references to appointment of an interim manager for the Company, which is not supported based upon the facts of this case.

For all of the reasons set forth herein, New River respectfully requests that the Arizona Corporation Commission ("Commission") adopt the above-referenced amendments to the ROO.

1. Inadequately Supported Plant.

Utilities Division Staff ("Staff") recommended a deduction of $222,346 to original cost rate base ("OCRB") to remove 100% of the utility plant that was not supported by invoices. In his pre-filed Rebuttal Testimony in this case, New River witness Ray Jones recommended a 10% deduction, explaining as follows:

> The Company suggests that a more reasonable approach is to disallow a percentage of the plant and has disallowed 10 percent of the plant balance, totaling $22,235 original cost and $30,737 reconstruction cost. This amount is substantial and, when coupled with Staff's recommendations that New River submit a plan for training and implementation of new policies and procedures related to record keeping and documentation retention, is sufficient to both protect customers and punish New River.[1]

At the hearing, the Staff witness testified that when Staff recommends a disallowance for inadequately supported plant, "[t]he range of disallowance has ranged from 10 percent in the Johnson [Utilities] case[2] to typically 50 percent or 100 percent."[3] In the ROO, the ALJ adopted Staff's 100% disallowance of the inadequately supported plant. However, New River respectfully submits that a 100% disallowance of the inadequately supported plant is excessive, especially in light of the fact that the Company did support 98% of its plant in service.[4] New

[1] Hearing Exhibit A-3 (Jones Rebuttal) at page 5, lines 3-9.
[2] Docket WS-02987A-08-0180.
[3] Hearing Transcript Vol. II at page 321, lines 11-17.
[4] ROO at page 11, lines 12-14 ("In this case…the inadequately supported plant amount represents only a small percentage of New River's total plant in service (approximately 2 percent))."

River urges the Commission to adopt a more moderate deduction of 50% of the inadequately supported plant, or $111,173.[5] Such a deduction is within the typical range of Staff's disallowance for inadequately supported plant and it provides a significant financial penalty to the Company. A corresponding adjustment to accumulated depreciation for the disallowed plant is also necessary and appropriate.

For the Commission's consideration and convenience, attached hereto as Attachment 1 is Company Proposed Amendment #1 which would amend the ROO to incorporate a 50% deduction for inadequately supported plant (with a corresponding adjustment to accumulated depreciation) instead of a 100% deduction. Adopting this amendment would result in the following adjusted rate base numbers:

Adjusted Original Cost Rate Base:	$ 2,313,416
Adjusted Reconstruction Cost New Rate Base:	$10,740,756
Adjusted Fair Value Rate Base:	$ 6,527,086

The resulting adjusted Test Year depreciation expense is $100,960.

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2. Tank Recoating Expense.

New River has requested $31,333 in normalized tank recoating expense to cover the cost of recoating all of the Company's steel water storage tanks over the next six years at a total cost of $470,000 to be amortized over a 15-year period. In support of its requests (and in addition to the , New River provided a written proposal by Arizona Coating Applicators Inc. ("ACAI") to clean and paint the exterior and to clean, paint and disinfect the interior of a water storage tank (built and last painted in 1997) at the 78th Lane Booster Plant for $130,000. New River witness Jones testified that because New River plans to have all of its tanks recoated within six years, and to obtain recovery of the expenses over 15 years, the Company will spend $313,335 more for tank painting in the first six years than it would recover in those same six years, and New River would not be made whole until 2027.[6]

Staff opposed the allowance for normalized tank expense because it is not a historical

[5] The disallowance for OCRB is $111,173, for Reconstruction Cost New Rate Base is $153,683, and for Fair Value Rate Base is $132,428.
[6] ROO at page 28, lines 19-22.

cost, because the amount is not known and measurable, and because Staff believes that the cash flow recommended by Staff would provide enough revenue for New River to complete the tank painting without inclusion of the requested pro forma adjustment.[7] However, the ROO allows a portion of the requested tank recoating expense requested:

> While the Commission's rules require a utility to use a historical test year for its rate case, they also allow for pro forma adjustments to actual test year figures "to obtain a normal or more realistic relationship between revenues, expenses and rate base." (*See* A.A.C. R14-2-103(A)(3)(i), App. C.) The Commission allows such adjustments to be made for future expenses when there is evidence establishing that the future expenses are known and measurable. In this case, the evidence establishes that New River has an obligation to incur a $130,000 expense for tank painting to be commenced in the next few months. The evidence also establishes that this is a reasonable level of expense for the work to be completed, that New River's tanks need to be recoated, and that a 15-year period between recoatings for water tanks is reasonable. Based upon the evidence herein, we find that it is just and reasonable to allow New River recovery of the $130,000 in tank recoating expense for the work to be completed by ACAI, with the $130,000 to be normalized over 15 years, which amounts to a pro forma expense increase of $8,667 for the adjusted TY.[8]

While an allowance of $8,667 is marginally better than no allowance at all, it is far short of the amount reasonably needed to cover New River's ongoing tank recoating expenses. New River will shortly spend $130,000 to recoat its storage tank at the 78th Lane Booster Plant, and it will take the Company 15 years (or until 2029) to recover that expense based upon the $8,667 allowance in the ROO. New River will incur an additional $340,000 in tank recoating expenses over the next six years to recoat its other water storage tanks. Thus, while the Company will incur a total of $470,000 in tank coating expenses over the next six years, it will recover only about $52,000 during this same period of time under the ROO. A company with less than 3,000 customers simply does not have the cash to fund such large expenditures, and New River will very likely be required to file additional rate cases in order to recoat its storage tanks. Even with the Company's requested normalized expense of $31,333, New River will still spend $313,335 more for tank painting in the first six years than it would recover in those same six years.

The evidence in this case is uncontroverted that water storage tanks must be recoated

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[7] ROO at page 28, lines 24-27.
[8] ROO at pages 29-30 (citation omitted).

approximately once every 15 years and that recoating is an ongoing expense item for water utilities. The evidence is uncontroverted that New River's water storage tanks will all require recoating within the next six years, based upon the age of the tanks. Staff did not dispute New River's tank recoating schedule or projected costs. The Company's request to recover its normalized tank recoating costs is reasonable and consistent with similar requests routinely approved by the Commission.[9] Specifically, the Commission allowed tank recoating expense for future tank recoating projects for Arizona-American Water Company's Agua Fria Division in Decision 73145 (Docket W-01303A-10-0448). There is no fair basis to treat New River differently than Arizona-American. For all of these reasons, the Commission should approve the full amount of New River's requested normalized tank recoating expense of $31,333.

For the Commission's consideration and convenience, attached hereto as Attachment 2 is Company Proposed Amendment #2 which would amend the ROO to allow the full requested $31,333 in normalized tank recoating expense. Included in the proposed amendment is a requirement that New River make an annual filing on or before April 15 of each year, commencing on April 15, 2015, documenting the tank recoating work completed during the preceding calendar year and the cost of that work. The annual filings would continue until such time as all of New River's existing water tanks have been recoated.

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3. Cost of Capital.

New River witness Jones recommended a 10.00% cost of equity ("COE"), less a 1.28% fair value inflation adjustment, for a fair value rate of return ("FVROR") of 8.72%.[10] Mr. Jones' recommendation was based upon his review of recent rate case orders issued by the Commission since 2011 as reported in Table 2 on page 29 of his Rebuttal Testimony, as well as the recent consolidated Global Water rate case Staff recommendation and multi-party settlement agreement.[11] Staff witness John Cassidy recommended an 8.90% COE, less a 1.10% fair value inflation adjustment, for an FVROR of 7.80%. The recommendations of New River and Staff are summarized in the following table:

[9] Hearing Exhibit A-4 (Jones Rejoinder) at page 11, lines 5-11.
[10] Hearing Exhibit A-4 (Jones Rejoinder) at page 18, lines 15-16.
[11] Hearing Exhibit A-4 (Jones Rejoinder) at page 18, lines 16-19.

Cost of Capital			
	Staff	**New River**	**Difference**
Cost of Equity	8.90%	10.00%	1.10%
Fair Value Adjustment	-1.10%	-1.28%	-0.18%
Fair Value Rate of Return	7.80%	8.72%	0.92%

The ROO adopts Staff's recommended COE, fair value adjustment and FVROR. However, New River respectfully submits that Staff's COE and FVROR are much too low. In his Surrebuttal Testimony, Staff witness Cassidy provided a restatement of Mr. Jones' Table 2 correcting three minor errors.[12] The restatement was attached as Surrebuttal Exhibit JAC-A to Mr. Cassidy's Surrebuttal Testimony, and a copy is attached hereto as Attachment 7. Exhibit JAC-A shows authorized COEs for 10 utilities ranging from a low of 8.82% for Bermuda Water Company to a high of 10.55% for Arizona Water Company in its most recent rate case for the Eastern Group.[13] Mr. Cassidy calculated an average authorized COE for these ten companies of 9.83%. The difference between Staff's recommended COE of 8.90% in this case and the average authorized 9.83% COE approved for the ten utilities listed in Surrebuttal Exhibit JAC-A is nearly 100 basis points.

Moreover, in the pending Global Water Resources consolidated rate cases in Dockets W-01212A-12-0309 *et al.*, Mr. Cassidy recommended a 9.40% COE for the Global utilities. Then, on August 13, 2013, most of the parties in the Global rate case filed a settlement agreement which would, if approved, authorize a 9.50% COE. The Global rate case and the New River rate case have been proceeding on similar time tracks. The Global rate case was filed on July 9, 2012, and the New River rate case was filed November 29, 2012. Mr. Cassidy filed cost of capital direct testimony in the Global rate case on July 8, 2013, and he filed cost of capital direct testimony in the New River rate case on June 26, 2013. Notwithstanding the close proximity in the testimony filing dates, Mr. Cassidy recommended a cost of equity of 9.40% for the Global group of utilities and an 8.8% cost of equity for New River.[14] A difference of a few weeks should not create a 60

[12] Hearing Exhibit A-5 (Cassidy Surrebuttal) at Exhibit JAC-A.
[13] Decision 73736 (Docket W-01445A-11-0310).
[14] In his Surrebuttal Testimony, Mr. Cassidy subsequently increased his recommended cost of

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basis-point difference in Staff's recommendation on Cost of Capital.

There is no credible way to defend the sizeable differential between Staff's recommended 8.90% COE in this case, Staff's recommended 9.40% COE in the Global rate case, the Global rate case settlement agreement COE of 9.50%, and the average authorized 9.83% COE in the ten recent rate cases listed in Mr. Cassidy's Surrebuttal Exhibit JAC-A. An 8.90% COE and a 7.80% FVROR in this case are simply not just and reasonable.

The ROO states as follows:

> Assuming *arguendo* that New River's method of estimating COE by reviewing recent ROEs for other utilities were valid, we note that the average ROE for the listed water utility cases that have fully concluded and that did not involve settlement agreements is 9.4775 percent.[15]

New River submits that a COE of approximately 9.4775% is just and reasonable based upon the facts and circumstances of this case. Thus, New River would urge the Commission to authorize a COE of 9.50%, a fair value adjustment of -1.10% (as recommended by Staff), and a FVROR of 8.40%. For the Commission's consideration and convenience, attached hereto as Attachment 3 is Company Proposed Amendment #3 which would amend the ROO to increase the COE to 9.50% and the FVROR to 8.40%.

4. Best Management Practices.

While New River supports water conservation and the regulation of water conservation by the Arizona Department of Water Resources ("ADWR"), the Company objects to the Commission requiring additional conservation measures in the form of Best Management Practices ("BMPs") that are not required by ADWR. Arizona's groundwater protection laws are already in place and enforced by ADWR. New River is already subject to and fully compliant with the water conservation requirements imposed upon it by the State of Arizona,[16] and the Company does not have excessive water loss, as noted in the ROO. Staff has not shown a need for duplicative or excessive regulation in the form of additional BMPs. The Commission should

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capital to 8.9%, which is Staff's current recommendation.

[15] ROO at pages 52-53.

[16] ROO at page 4, lines 12-15; page 5, lines 12-13; and Findings of Fact 32-33, page 73, lines 17-21.

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not require more than ADWR without evidence to support additional requirements or without simultaneous consideration of cost recovery and the possibility of lost revenues resulting from the additional Commission mandates.

For the Commission's consideration and convenience, attached hereto as Attachment 4 is Company Proposed Amendment #4 which would eliminate the requirement that the Company submit a BMP tariff with additional BMPs to the Commission for approval.

5. Rate Design.

While New River agrees that the hybrid rate design presented in the ROO does provide some mitigation of revenue instability inherent in the rate design proposed by Staff, the Company is concerned that the hybrid rate design presented in the ROO continues to concentrate an unacceptable portion of the rate increase into the highest consumption tier, creating the likelihood of revenue instability. Instead of analyzing the proposed rate design in terms of percentages of revenue by usage tiers, as was done by New River during the hearing, the ROO analyzes the proposed rate design by rate tiers. The rate tier percentages contained in the ROO measure something that was not presented or vetted at the hearing, and beyond that, the percentages provide little useful insight into the appropriateness of the proposed rate design and should not be the focus of the Commission's attention.

As presented in the table below, the hybrid rate design contained in the ROO, although moderated from the Staff proposal, still places a very large 60.38 percent of the total revenue increase into the highest consumption tier (*i.e.*, the third tier). Since it is clearly the highest consumption tier where lost sales to water conservation is most likely to occur, New River is rightly concerned that the hybrid rate design presented in the ROO is too heavily reliant upon the highest commodity usage rate and is likely to both (i) create revenue instability for the Company and (ii) deny the Company a reasonable opportunity to earn its authorized rate of return.[17]

To address the problem with the ROO's rate design, New River developed an alternative hybrid rate design that is moderated somewhat from the hybrid rate design presented in the ROO.

[17] In fact, New River believes that the rate design in the ROO will all but ensure that the Company does not earn its authorized rate of return.

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New River's hybrid rate design was developed using a target of approximately 45 percent of the total revenue increase being within the highest consumption tier. New River's hybrid rate design still relies heavily upon the highest consumption tier to meet its revenue requirement, but the Company believes that it more properly balances the need for additional water conservation with the need to provide a reasonable level of revenue stability and a reasonable opportunity for the Company to earn its authorized rate of return. In addition, New River incorporated in its hybrid rate design, to the extent possible, the goal stated in the ROO to maintain a low commodity rate for very minimal usage for customers with the smallest meter sizes. This is evidenced by the low $10.00 monthly minimum charge and low $1.00 per 1,000 gallon tier one commodity charge.

The following table compares New River's recommended rate design to the ROO rate design, the rate design advocated by the Company at the hearing, and the rate design advocated by Staff at the hearing.

Rate Design Comparison Table

Percentage of Overall Increase within Tier	Base Charge	1st + 2nd Usage Tiers	3rd Usage Tier	Total Revenue
Company Rejoinder	35.24%	27.28%	37.48%	100.00%
Company's Hybrid Rate Design	25.75%	29.15%	45.10%	100.00%
ROO Hybrid Rate Design	18.39%	21.22%	60.38%	100.00%
Staff Revised Surrebuttal	5.65%	16.46%	77.89%	100.00%

Percentage of Total Revenue within Tier	Base Charge	1st + 2nd Usage Tiers	3rd Usage Tier	Total Revenue
Current Rates	36.2%	35.6%	28.1%	100.0%
Company Rejoinder	35.9%	32.4%	31.7%	100.0%
Company's Hybrid Rate Design	32.9%	33.6%	33.5%	100.0%
ROO Hybrid Rate Design	31.3%	31.7%	37.0%	100.0%
Staff Revised Surrebuttal	27.9%	30.4%	41.6%	100.0%

As shown in the table, the Company's rate design places 25.75% of the revenue increase in the base charge, 29.15% in the first and second consumption tiers, and 45.10% (or almost one-half) in the high consumption tier. By comparison, the ROO places only 18.39% of the revenue increase in the base charge, only 21.22% in the first and second consumption tiers, and a full 60%

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of the rate increase in the high consumption tier. Such a rate design is much too steeply tilted toward the third tier. New River submits that anything over 45% of the rate increase in the highest consumption tier will likely cause rate instability and all but ensure that the Company does not earn its authorized rate of return.

Attached hereto as Attachment 5 is Company Proposed Amendment #5 which would amend the ROO to adopt New River's rate design methodology as described herein. For the reasons discussed above, the Company respectfully submits that the Commission should adopt this rate design methodology.

6. Inter-Affiliate Transfer of Funds.

New River concedes that there is some confusion in the record regarding the proper characterization and accounting for approximately $1.1 million in inter-affiliate transfers of funds. However, New River vehemently disagrees with statements in the ROO that the owners of the Company have put their personal interests ahead of those of the ratepayers or that any mischaracterizations by the owners have been purposeful, and the Company submits that the evidence in this case does not support such statements. Further, New River vehemently disagrees with statements in the ROO that conduct by the owners of the Company may warrant the appointment of an interim manager. The appointment of an interim manager is the most severe remedy the Commission can invoke with regard to a public utility short of the revocation of a certificate of convenience and necessity, and it is only used as a last resort. In this case, the record is clear that New River provides quality water service at low rates. In point of fact, the ROO contains the following relevant findings:

- New River's production capacity and storage capacity is adequate to serve its present customer base and reasonable growth. (ROO at 5, lines 2-4)
- According to the Commission's Consumer Services Section, the Commission received two customer complaints regarding New River in 2010, four complaints in 2011, no complaints in 2012, and one complaint in 2013, with all of the complaints resolved and closed. A total of seven customer complaints over four years is a very low number of complaints by any measure. (ROO at 5, lines 17-19)
- Even after the increase recommended in the ROO, New River's rates will "remain relatively low for the level of usage represented." (ROO at 62, lines 15-16)

- New River's water loss is within acceptable limits. (FOF ¶ 30)
- New River is in compliance with Maricopa County Environmental Services Department requirements and is delivering water meeting water quality standards. (FOF ¶ 31)
- New River is in compliance with ADWR requirements governing water providers and/or community water systems. (FOF ¶ 32)
- New River is a regulated Tier I municipal provider in ADWR's Modified Non-Per Capita Conservation Program and has received ADWR approval of two BMPs. (FOF ¶ 33)
- New River is in good standing with the Arizona Corporation Commission's Compliance Section. (FOF ¶ 35)

The record is clear that New River provides quality water service at low rates with virtually no customer complaints and is fully compliant with Maricopa County Environmental Services Department and ADWR requirements, as well as the Commission's Compliance Section. Under these facts, there is no basis whatsoever to raise the appointment of an interim manager and such a discussion in the ROO casts a negative pall over New River which is unwarranted, prejudicial and harmful to the Company. Thus, New River respectfully requests that the Commission remove the statements in the ROO that are described in <u>Company Proposed Amendment #6</u> which is attached hereto as <u>Attachment 6</u>.

7. <u>Summary and Conclusion</u>.

Company Proposed Amendments 1 (Inadequately Supported Plant), 2 (Tank Recoating) and 3 (Cost of Capital) have impacts on New River's revenue requirement whereas Company Proposed Amendments 4 (Best Management Practices), 5 (Rate Design) and 6 (Inter-Affiliate Transfer of Funds) do not. Attached hereto as <u>Attachment 8</u> is a schedule prepared by Company witness Jones which shows the revenue requirement impact of each of Company Proposed Amendments 1, 2 and 3 on a stand-alone basis as well as in various combinations. New River notes that it was unable to replicate exactly the revenue requirement contained in the ROO, and the differences between the ROO and the Company's calculation of the ROO revenue

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requirement are highlighted in the first three columns of Attachment 8.[18] The revenue impacts of adopting New River's proposed amendments are calculated based upon the Company's calculation of the ROO revenue requirement (*i.e.*, the second column of Attachment 8).

For all of the reasons set forth herein, New River requests that the Commission adopt the six proposed amendments attached hereto. The amendments to the ROO are necessary in order to establish rates and charges that are just and reasonable and to provide the Company with a reasonable opportunity to earn its authorized rate of return.

RESPECTFULLY submitted this 9th day of January, 2014.

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ORIGINAL and thirteen (13) copies filed
this 9th day of January, 2014, with:

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COPY of the foregoing hand-delivered
this 9th day of January, 2014, to:

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Phoenix, Arizona 85007

Steve Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
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[18] New River was unable to determine exactly what causes the discrepancy. However, the Company believes that it is related to the calculation of Arizona State income tax expense and a failure to update the gross revenue conversion factor to reflect the higher level of bad debt expense included in the ROO.

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ATTACHMENT 1

COMPANY PROPOSED AMENDMENT #1
(Inadequately Supported Plant)

DATE PREPARED: January 9, 2014

COMPANY: New River Utility Company

DOCKET NO.: W-01737A-12-0478

OPEN MEETING DATES: January 14-15, 2014 AGENDA ITEM: U-9

Page 12, **DELETE** Lines 22½-23½, and page 13, **DELETE** Lines 1 through 5 and **REPLACE** with:

"The absence of required records to support the existence of the disputed plant makes a disallowance of plant appropriate in this case. However, we will not adopt Staff's 100 percent disallowance of the inadequately supported plant, but rather, will adopt a disallowance of 50 percent, or $111,173,[1] which is within the typical range of Staff's disallowance for inadequately supported plant. It is also necessary and appropriate to make a corresponding downward adjustment to accumulated depreciation for the disallowed plant and we will do so."

Page 20, **DELETE** Lines 4-7 and **REPLACE** with:

"As discussed above, because we are making a disallowance for inadequately supported plant in the amount of $111,173,[2] it is necessary and appropriate to make a corresponding downward adjustment to accumulated depreciation. New River and Staff were in agreement on the method for calculating the accumulated depreciation adjustment so we will use the agreed upon method for calculating the adjustment and reduce accumulated depreciation by $23,483.[3]"

Page 21, **DELETE** Lines 4-6 and **REPLACE** with:

Adjusted OCRB:	$ 2,313,416
Adjusted RCNRB:	$10,740,756
Adjusted FVRB:	$ 6,527,086

Page 44, **DELETE** Lines 23-25 and **REPLACE** with:

"Because we are both making a disallowance of 50 percent of the inadequately supported plant and adopting Staff's position on depreciation methodology, we find that New River's depreciation expense must be adjusted accordingly. The resulting adjusted TY depreciation expense is $100,960."

Page 54, **DELETE** the figure "$6,421,716" on Line 4 and **REPLACE** with "$6,527,086."

[1] The disallowance for OCRB is $111,173, for RCNRB is $153,683, and for FVRB is $132,428.
[2] The disallowance for OCRB is $111,173, for RCNRB is $153,683, and for FVRB is $132,428.
[3] The accumulated depreciation reduction for OCRB is $23,483, for RCNRB is $30,633, and for FVRB is $27,058.

Page 71, **DELETE** the figure "$6,421,716" in Finding of Fact No. 17, Line 26, and **REPLACE** with "$6,527,086."

Page 72, **DELETE** Lines 1-3 and **REPLACE** with:

Adjusted OCRB:	$ 2,313,416
Adjusted RCNRB:	$10,740,756
Adjusted FVRB:	$ 6,527,086

Page 78, **DELETE** the figure "$6,421,716" in Conclusion of Law No. 4, Line 13, and **REPLACE** with "$6,527,086."

Make all other conforming changes.

ATTACHMENT 2

COMPANY PROPOSED AMENDMENT #2
(Tank Recoating Expense)

DATE PREPARED: January 9, 2014

COMPANY: New River Utility Company

DOCKET NO.: W-01737A-12-0478

OPEN MEETING DATES: January 14-15, 2014 AGENDA ITEM: U-9

Page 29, **DELETE** the sentence beginning "We do not" on Line 13 and continuing through the end of Line 16 (including footnote 40 and the parenthetical citation at the end of the sentence).

Page 29, **DELETE** that portion of the paragraph beginning with the words "In this case" on Line 21 and continuing through the end of the sentence on page 30, Line 8, and **REPLACE** with:

"In this case, the evidence establishes that water tanks need to be recoated approximately every 15 years and that New River's water tanks need to be recoated, starting with the storage tank and hydroneumatic tank at the 78th Lane Booster Plant which were due for recoating in 2012. The evidence further establishes that New River will incur $470,000 in expenses for tank recoating over the next six years and that, based upon the Company's proposed expense normalization over 15 years, New River will expend $313,335 more for tank recoating in the first six years than it would recover in those same six years. Based upon the evidence presented, we find that it is just and reasonable to allow New River recovery of $470,000 in tank recoating expense to be normalized over 15 years, which amounts to a pro forma expense increase of $31,333 for the TY. As a compliance item in this docket, we will require New River to make an annual filing on or before April 15 of each year, commencing on April 15, 2015, documenting the tank recoating work completed during the preceding calendar year and the cost of that work. The annual filings shall continue until such time as all of New River's existing water tanks have been recoated."

Page 75, **DELETE** Finding of Fact No. 44 and **REPLACE** with a new Finding of Fact:

"New River should be required to make an annual filing on or before April 15 of each year, commencing on April 15, 2015, documenting the tank recoating work completed during the preceding calendar year and the cost of that work. The annual filings shall continue until such time as all of New River's existing water tanks have been recoated."

Page 82, **DELETE** Lines 20-23 and **REPLACE** with:

"IT IS FURTHER ORDERED that New River shall be required to make an annual filing on or before April 15 of each year, commencing on April 15, 2015, documenting the tank recoating work completed during the preceding calendar year and the cost of that work. The annual filings shall continue until such time as all of New River's existing water tanks have been recoated."

Make all other conforming changes.

ATTACHMENT 3

COMPANY PROPOSED AMENDMENT #3
(Cost of Capital)

DATE PREPARED: January 9, 2014

COMPANY:	New River Utility Company		
DOCKET NO.:	W-01737A-12-0478		
OPEN MEETING DATES:	January 14-15, 2014	AGENDA ITEM:	U-9

Page 52, **DELETE** the text of Section 3 beginning at Line 12 and continuing through Page 53, Line 17, and **REPLACE** with:

"In determining the cost of capital, the Commission must take into account the best interests of New River's ratepayers, who are best served neither by a COE that is set too low and will result in jeopardy to New River's financial health and ability to attract capital nor by a COE that is set too high and will result in New River's overearning for services to its customers. After considering all of the evidence presented in this case, including each party's COE estimates and each party's criticisms of the other party's analyses and input data, we conclude that the just and reasonable COE for New River is 9.50 percent. We adopt Staff's recommended fair value adjustment of -1.10 percent as a just and reasonable means of ensuring that New River does not over-recover for inflation. As a result, we will adopt a FVROR of 8.40 percent."

Page 53, **DELETE** Lines 19 through 21 and **REPLACE** with:

Cost of Debt	N/A
Cost of Equity	9.50%
Fair Value Adjustment	-1.10%
Fair Value Rate of Return	8.40%

Page 54, **DELETE** the percentage 7.80% on line 5 and **REPLACE** with 8.40%.

Page 72, **DELETE** Finding of Fact No. 20 at Lines 10 through 13 and **REPLACE** with:

New River's FVROR is 8.40%, determined as follows:

Cost of Debt	N/A
Cost of Equity	9.50%
Fair Value Adjustment	-1.10%
Fair Value Rate of Return	8.40%

Page 78, **DELETE** Conclusion of Law No. 4 at Lines 13-14 and **REPLACE** with:

"New River's FVRB is $6,421,716,[1] and applying an 8.40 percent FVROR on this FVRB produces rates and charges that are just and reasonable."

Make all other conforming changes.

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[1] This FVRB is based on the ROO as written. If the Commission adopts Company Proposed Amendment #1 regarding inadequately supported plant, then the FVRB should be changed to $6,527,086.

ATTACHMENT 4

COMPANY PROPOSED AMENDMENT #4
(Best Management Practices)

DATE PREPARED: January 9, 2014

COMPANY: New River Utility Company

DOCKET NO.: W-01737A-12-0478

OPEN MEETING DATES: January 14-15, 2014 AGENDA ITEM: U-9

Page 65, **DELETE** Lines 6 through 11 (including footnote 71) and **REPLACE** with:

"New River is located in the Phoenix Active Management Area. The state's groundwater protection laws are already in place and enforced by ADWR. We do not find duplicative regulation to be in the public interest. We agree with New River and will not require the filing of BMPs."

Page 76, **DELETE** Finding of Fact No. 48 and **REPLACE** with a new Finding of Fact:

"New River should not be required to file BMPs."

Page 77, **DELETE** Finding of Fact No. 49 and renumber the remaining Finding of Fact.

Page 78, Conclusion of Law No. 6, Line 18, **DELETE** the words "and 41 through 50" and **REPLACE** with the "41 through 47, and 49."

Page 83, **DELETE** Lines 23-27.

Page 84, **DELETE** Lines 1-4.

Make all other conforming changes.

ATTACHMENT 5

COMPANY PROPOSED AMENDMENT #5
(Rate Design)

DATE PREPARED: January 9, 2014

COMPANY: New River Utility Company

DOCKET NO.: W-01737A-12-0478

OPEN MEETING DATES: January 14-15, 2014 AGENDA ITEM: U-9

Page 60, **INSERT** the words "that limits the percentage of the increase recovered in the high tier commodity rate to approximately 45 percent of the total increase" after the word "design" on Line 7.

Page 60, **DELETE** Lines 8 through 28, and Page 61, **DELETE** Lines 1 through 11½, and **REPLACE** with:

MONTHLY MINIMUM CHARGE:

5/8" X 3/4" Meter	$10.00
3/4" Meter	$10.00
1" Meter	$25.00
1½" Meter	$50.00
2" Meter	$80.00
3" Meter	$160.00
4" Meter	$250.00
6" Meter	$500.00
8" Meter	$1,000.00
Standpipe Meter	By Meter Size

COMMODITY RATES
(Per 1,000 Gallons)

5/8" x 3/4" Meters

1 to 4,000 Gallons	$1.00
4,001 to 10,000 Gallons	$2.14
Over 10,000 Gallons	$2.57

3/4" Meter

1 to 4,000 Gallons	$1.00
4,001 to 10,000 Gallons	$2.14
Over 10,000 Gallons	$2.57

1" Meter

1 to 22,000 Gallons	$2.14
Over 22,000 Gallons	$2.57

1½" Meter

1 to 42,000 Gallons	\$2.14
Over 42,000 Gallons	\$2.57

2" Meter

1 to 67,000 Gallons	\$2.14
Over 67,000 Gallons	\$2.57

3" Meter

1 to 130,000 Gallons	\$2.14
Over 130,000 Gallons	\$2.57

4" Meter

1 to 200,000 Gallons	\$2.14
Over 200,000 Gallons	\$2.57

6" Meter

1 to 420,000 Gallons	\$2.14
Over 420,000 Gallons	\$2.57

8" Meter

1 to 670,000 Gallons	\$2.14
Over 670,000 Gallons	\$2.57

Standpipe Water

All Usage	\$2.57

Page 62, **DELETE** Lines 1 through 17 and **REPLACE** with:

"These rates are designed to generate 25.8 percent of the revenue increase through the monthly minimum charge increase, 29.1 percent of the revenue increase through the lower two consumption tiers, and 45.1 percent of the revenue increase through the high consumption tier. This will result in greater revenue stability than would Staff's recommended rate design. Additionally, the monthly minimum charges are consistent with the standard AWWA meter multipliers traditionally used in rate setting. The rate design is intended to be consistent with the conservation-oriented nature of the rate design recommended by Staff, while moderating it to provide greater revenue stability. The rate design will have the following bill impacts for customers served by 5/8" x 3/4" meters:[1]

Monthly Usage	Current Bill	New Bill	Dollar Increase	Percent Increase
Average (11,183 gal.)	\$20.92	\$29.88	\$8.96	42.83%
Median (8,762 gal.)	\$18.01	\$24.19	\$6.18	34.31%

[1] The bill impacts assume that the Commission adopts Company Proposed Amendments 1, 2 and 3.

While these bills are higher than those produced by Staff's recommended rates, they remain relatively low for the level of usage represented. The rate design adopted herein will produce the revenue authorized herein."

Make all other conforming changes.

ATTACHMENT 6

COMPANY PROPOSED AMENDMENT #6
(Inter-Affiliate Transfer of Funds)

DATE PREPARED: January 9, 2014

COMPANY: New River Utility Company

DOCKET NO.: W-01737A-12-0478

OPEN MEETING DATES: January 14-15, 2014 AGENDA ITEM: U-9

Page 68, **DELETE** the sentence which begins with the words "It also appears" on Line 19 and ends with the word "ratepayers" on Line 21.

Page 68, **DELETE** the sentence (including footnote 77) which begins with the words "It is unclear" and ends with the word "mischaracterization" on Line 26.

Page 69, **DELETE** the words "While Staff's recommendation has merit" on Lines 6-7 and **REPLACE** with:

"While we will not adopt Staff's recommendation,"

Page 69, **DELETE** the words "or even initiation of an action to explore appointing an interim manager," on Lines 26-27.

Page 77, **DELETE** the words "While Staff's recommendation has merit" on Line 14 of Finding of Fact No. 50 and **REPLACE** with:

"While we will not adopt Staff's recommendation,"

Page 78, **DELETE** the words "or even initiation of an action to explore appointing an interim manager," on Lines 5-6.

Page 85, **DELETE** the words "or action to explore appointing an interim manager" on Line 3.

Make all other conforming changes.

ATTACHMENT 7

Staff Restatement of Ray L. Jones Rebuttal Table 1
Recent Returns on Equity Granted by the Commission

Line	Company	Docket No.	Decision No.	Date	Authorized ROE	Capital Structure Debt	Capital Structure Equity
1	Southwest Gas Corp.[1]	G-01551A-10-0458	72723	6-Jan-12	9.50%	47.70%	52.30%
2	Bermuda Water Co.	W-01812A-10-0521	72892	17-Feb-12	8.82%	0.00%	100.00%
3	Chino Meadows II Water Co.[2]	W-02370A-10-0519	72896	21-Feb-12	9.60%	0.00%	100.00%
4	Indiada Water Co.	W-02031A-10-0168, et al.	73091	5-Apr-12	10.00%	0.00%	100.00%
5	Arizona Water Co. - Western Group	W-01445A-10-0517	73144	1-May-12	10.00%	49.03%	50.97%
6	Arizona-American Water Co.	W-01303A-10-0448	73145	1-May-12	10.60%	58.73%	41.27%
7	UNS Gas Corp.[3]	G-04204A-11-0158	73142	1-May-12	9.75%	49.18%	50.82%
8	Arizona Public Service Co.	E-01345A-11-0224	73183	24-May-12	10.00%	46.06%	53.94%
9	Pima Utility Co.	W-02199A-11-0329, et al.	73573	21-Nov-12	9.49%	35.36%	64.64%
10	Arizona Water Co. - Eastern Group	W-01445A-11-0310	73736	20-Feb-13	10.55%	49.03%	50.97%
11							
12	Average				9.83%	33.51%	66.49%
13							
14	New River Utility Co.					0.00%	100.00%

[1] As per the terms of a Settlement agreement, Decision No. 72723 authorized Southwest Gas an ROE of 9.5%, plus a mechanism for full revenue decoupling.
[2] As per Decision No 72896, Chino Meadows II was authorized an ROE of 9.6%, not 10.0% as represented by Mr. Jones (Jones Rebuttal, Table 1, p. 29).
[3] As per Decision No 73142, UNS Gas was authorized an ROE of 9.75%, not 9.5% as represented by Mr. Jones (Jones Rebuttal, Table 1, p. 29).

ATTACHMENT 8

New River Utility Company
Test Year Ended December 31, 2011
Computation of Increase in Gross Revenue Requirements

Line No.		Per ROO	Company Calculation	Calculation Difference	Company Amendments: No. 1 Plant Stand Alone	No. 2 Tank Paint Standalone	No. 3 ROR Standalone	Nos. 1 & 2 Combined	Nos. 2 & 3 Combined	Nos. 1 & 3 Combined	Nos. 1, 2 & 3 Combined	Impact of Adopting Nos. 1, 2 & 3
1	FVRB	$ 6,421,716	$ 6,421,716	$ (0)	$ 6,527,086	$ 6,421,716	$ 6,421,716	$ 6,527,086	$ 6,421,716	$ 6,527,086	$ 6,527,086	$ 105,370
2	Required FVROR	7.80%	7.80%	0.00%	7.80%	7.80%	8.40%	7.80%	8.40%	8.40%	8.40%	0.60%
3	Required Operating Income	$ 500,894	$ 500,894	$ (0)	$ 509,113	$ 500,894	$ 539,424	$ 509,113	$ 539,424	$ 548,275	$ 548,275	$ 47,381
4	Adjusted TY Operating Income	208,775	209,172	397	206,910	194,629	209,172	192,367	194,629	206,910	192,367	(16,804)
5	Operating Income Deficiency	$ 292,119	$ 291,722	$ (397)	$ 302,203	$ 306,265	$ 330,252	$ 316,746	$ 344,795	$ 341,365	$ 355,908	$ 64,186
6	Gross Revenue Conversion Factor	1.62416	1.63650	0.01234	1.63650	1.63447	1.63784	1.63453	1.63598	1.63781	1.63601	-0.00049
7	Increase in Gross Revenue	$ 474,448	$ 477,404	$ 2,956	$ 494,554	$ 500,894	$ 540,901	$ 517,731	$ 564,079	$ 559,093	$ 582,270	$ 104,866
8	Percent Increase in Gross Revenue	37.64%	37.88%	0.24%	39.24%	39.72%	42.91%	41.08%	44.75%	44.36%	46.20%	8.32%
9												