

OPEN MEETING



0000153436

ORIGINAL

MEMORANDUM

RECEIVED

Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED

2014 MAY 19 A 11: 08

FROM: Utilities Division

MAY 19 2014

ARIZONA CORP COMMISSION
DOCKET CONTROL

DATE: May 19, 2014

DOCKETED BY

RE: In the Matter of the Application of Payson Water Co., Inc., 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 for Utility Service Based Thereon; Docket No. W-03514A-13-0111; In the Matter of the Application of Payson Water Co., Inc., an Arizona Corporation, for Authority to: (1) Issue Evidence of Indebtedness in an Amount not to Exceed \$1,238,000 in Connection with Infrastructure Improvements to the Utility System, and (2) Encumber Real Property and Plant as Security for Such Indebtedness; Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Introduction

Utilities Division Staff ("Staff") recommends the Arizona Corporation Commission ("ACC" or "Commission") approve an interim Purchased Water Adjustment Mechanism ("PWAM") for Payson Water Co., Inc.'s ("PWC" or "Company") Mesa Del Caballo ("MDC") system.

Background

On October 25, 2013, the Commission issued Decision No. 74175 in Phase I of the above-referenced proceedings for the rate and financing applications. Phase I was decided on an expedited basis so that PWC¹ might have sufficient time to obtain the necessary financing and to construct a new water pipeline connecting its MDC system to the Town of Payson's water system prior to the summer of 2014.² PWC obtained a loan of \$275,000 on February 19, 2014, from the Water Infrastructure and Finance Authority of Arizona ("WIFA"), and completed construction of the new pipeline in April 2014. On May 12, 2014, the Arizona Department of Environmental Quality ("ADEQ") issued an Approval of Construction, so PWC now has all of the required regulatory approvals it needs to begin delivering water to its MDC customers via the new pipeline.

On May 6, 2014, PWC sent an email to its MDC customers notifying them that "due to heavy water consumption over the weekend" the Company was "unable to recover from the reduction of [its] water storage volume" and MDC was required to move back to Stage 4 of its Water Curtailment Tariff. The email further indicated that construction of the new pipeline was "substantially complete and operational" but that because the Commission

¹ PWC provides water service to approximately 1,114 customers in eight different communities in Gila County, Arizona. The largest community presently served by PWC is MDC, with 364 customers.

² MDC has experienced chronic water shortages during the summer months over the past five years.

“has not yet approved the new rates (which include the Purchased Water Surcharge for MDC customers), the Company cannot afford to purchase water through the new line. At present, and until new rates take affect, the only ACC-approved method for the Company to augment water into [MDC] and recover the costs, remains hauling water into the system with trucks.”³

On May 12, 2012, Staff filed an update in this matter to apprise the Commission of the status of MDC’s water supplies. In that status update, Staff indicated that it intended to bring this matter before the Commission in an open meeting. PWC has agreed to provide appropriate notice to the customers of its MDC system.

Analysis

Staff is concerned that the need for supplementing MDC water supplies is imminent, and that the Company’s existing tariffs create a perverse incentive for the Company to truck water into MDC instead of delivering it via its operational pipeline. Staff believes trucking water into MDC at this point would not be consistent with the Commission’s intent in the Phase I order (i.e., Decision No. 74175) authorizing the financing of the new pipeline.⁴

However, Staff concurs with PWC’s assessment that the Company’s existing tariffs would not allow the Company to recover the cost of any water that it purchases from the Town of Payson and delivers to MDC via its new pipeline. Staff also notes that, while the Company has filed an application to eliminate its Emergency Interim Water Augmentation Surcharge Tariff, the Commission has not yet acted on the Company’s application, and the Company has expressly asked the Commission not to act on its application until the Commission has approved a purchased water adjustment mechanism (“PWAM”) for its MDC system. Based on this, the Company arguably only has authority to recover the cost of augmentation water if it is trucked into MDC.

Emergency rate relief is appropriate when a Company is potentially unable to maintain adequate levels of service at appropriate rates pending the outcome of a final rate determination. If PWC’s existing water supplies were to become insufficient before the conclusion of its pending rate case, the Company would need to obtain supplemental supplies. Under the present circumstances, supplementing the water supply by hauling water via trucks is significantly more expensive than supplementing the water supply by transporting purchased water through the new pipeline. Staff is concerned that MDC customers may be subjected to the expensive costs of water hauling, even though a cheaper alternative is available.

Staff believes that these circumstances justify emergency rate relief, and Staff recommends that the Commission authorize PWC to implement an interim PWAM for the MDC system until a decision is issued in PWC’s pending rate case. The details of the interim PWAM tariff as well as estimated customer bill impacts are set forth in Exhibits A and B, respectively. The interim PWAM

³ In September 2010, the Commission authorized PWC to assess an Emergency Interim Water Augmentation Surcharge Tariff on MDC customers to recover its costs of hauling water to MDC between May 1st and September 30th each year. The Commission required PWC to post a performance bond of \$100 in the form of a cashiers check.

⁴ Staff notes that as of April 1, 2014 MDC customers began paying a \$6.76 per month WIFA loan surcharge to service payments on the \$275,000 WIFA loan.

should apply *only* to the customers of the MDC system. Furthermore, any emergency/interim rate relief will be subject to true-up and/or refund in the pending rate case.

Recommendations

Based on the foregoing and upon Staff's belief that the need to augment MDC's water supplies is imminent, Staff recommends:

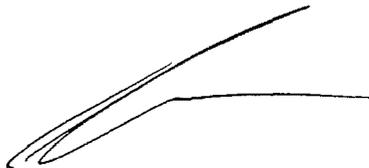
That the Commission approve, on an interim basis, the PWAM that the Company requested and that Staff recommended in PWC's pending rate case, which is attached as Exhibit A;

That the interim PWAM should apply only to the customers of the MDC system;

That the Commission accept either the \$10,000 bond PWC filed pursuant to the Phase I order or the performance bond PWC filed with the Commission when it initiated its Emergency Interim Water Augmentation Surcharge Tariff as an appropriate bond herein;

That any emergency/interim rates will be subject to true-up and/or refund in PWC's pending rate case; and

That simultaneous to the approval of the interim PWAM, the Commission grant PWC's request to eliminate its Emergency Interim Water Augmentation Surcharge Tariff.



Steven M. Olea
Director
Utilities Division

SMO:ljl:sms\RRM

ORIGINATOR: John LeSueur

Service List for: Payson Water Co., Inc.
Docket No. SW-02563A-14-0058

COASH & COASH
1802 North 7th Street
Phoenix, Arizona 85006

Glynn Ross
405 S. Ponderosa
Payson, Arizona 85541

Suzanne Nee
2051 E. Aspen Dr.
Tempe, Arizona 85282

Bill Sheppard
6250 N. Central Ave.
Phoenix, Arizona 85012

Richard Burt
8157 W. Deadeye Rd
Payson, Arizona 85541

J. Stephen Gehring
8157 W. Deadeye Rd.
Payson, Arizona 85541

Thomas Bremer
6717 E Turquoise Ave.
Scottsdale, Arizona 85253

Kathleen Reidhead
14406 S. Cholla Canyon Dr.
Phoenix, Arizona 85044

Robert Hardcastle
3101 State Rd.
Bakersfield, California 93308

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice Alward
Chief Legal Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge,
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Exhibit A

PURCHASED WATER ADJUSTOR MECHANISM ("PWAM")
TARIFF
FOR MESA DEL CABALLO

**PURCHASED WATER ADJUSTOR MECHANISM ("PWAM")
TARIFF
FOR MESA DEL CABALLO**

I. Purpose and Applicability

The purpose of this tariff is to provide for recovery of the costs of water purchased through an interconnection between the Town of Payson and Payson Water Co., Inc. in order to obtain supplemental water supplies for its Mesa Del Caballo ("MDC") system. This tariff is applicable only to MDC customers. These charges are applicable to all MDC connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Avoided Production Costs" means the unit cost of production (cost per 1,000 gallons) avoided by MDC because of the use of water purchased from the Town of Payson rather than pumping groundwater from the MDC's wells and booster stations.

"MDC" means Payson Water Co., Inc.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and MDC's water system.

"Purchased Water" means the actual quantity (in thousands of gallons) of water purchased by MDC from the Town of Payson and transported through the interconnection between the Town of Payson's water system and MDC's water system.

"PWAM Surcharge" means the surcharge calculated in accordance with Section IV below.

"PWAM Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Town" means the Town of Payson.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by MDC to Mesa del Caballo customers during the month corresponding to the month in which water was purchased from the Town and transported through the interconnection between the Town's water system and MDC's water system.

III. PWAM Surcharge Rate Calculation

For each month that MDC purchases water from the Town through the interconnection between the Town's water system and MDC's water system, MDC will calculate the PWAM Surcharge Rate per the following formula:

[Purchased Water Cost - (Purchased Water Quantity x Avoided Production Costs)] / Water Sold

IV. Terms and Conditions

(A) Assessment and Billing of PWAM Surcharge: For any month in which water is purchased from the Town, after completing its billing for the month and receiving the Town's billing for the month, the Company will make the PWAM surcharge calculation to determine the PWAM Surcharge Rate.

In the following month, the Company will bill the PWAM Surcharge to its Mesa del Caballo customers only. Each individual customer's billing for the PWAM Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the PWAM Surcharge Rate.

The PWAM Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which MDC intends to bill MDC customers a PWAM Surcharge, MDC shall provide Commission Staff notice of MDC's intent to bill the PWAM Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town.
4. A description of the system problem necessitating purchasing of water and a description of the action being taken by MDC to resolve the problem, including the date operations did or are expected to return to normal.
5. The dates for beginning and ending purchasing water.
6. A schedule showing the calculation of the PWAM Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Exhibit B

Payson Water Company
Purchased Water Adjustment Mechanism ("PWAM") Example
When Less Than 100% of All Water Purchased From Town of Payson

Examples assume that 25% of total water purchased from the Town of Payson

Example 1 - Typical Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons in 1,000 From Town of Payson	Estimated Town of Payson	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
	Payson	Col A x Col B	Commodity Rate	Col D - Col E	Col E Col C x Col F	
Block 1	4,000 x	25% = 1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88
Block 2	500 x	25% = 125	\$7.48	\$ 0.60	\$ 6.88	\$ 0.86
Total Usage Assumption	4,500	1,125				
Total Monthly Surcharge \$						7.74 *

*Excludes Taxes

Example 2 - High Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons in 1,000 From Town of Payson	Estimated Town of Payson	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
	Payson	Col A x Col B	Commodity Rate	Col D - Col E	Col E Col C x Col F	
Block 1	4,000 x	25% = 1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88
Block 2	21,000 x	25% = 5,250	\$7.48	\$ 0.60	\$ 6.88	\$ 36.12
Total Usage Assumption	25,000	6,250				
Total Monthly Surcharge \$						43.00 *

*Excludes Taxes

¹ Avoided Costs are production costs (i.e., chemicals and purchased pumping power) that the Company would not incur when water is purchased for this system rather than pumped from the Company's wells.