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BEFORE THE ARIZONA CORPORATION COMMISSION

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 ORIGINAL
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 NO: W-03514A-13-0142 **COMMENTS ON STAFF'S RATE AND COMPARISON OPTIONS**

Payson Water Co., Inc. (the "Company") hereby provides the following comments in response to the Rate and Comparison Options filed by Staff on May 12, 2014.

By way of brief background, only the Company and Staff presented specific rate designs for the Commission's consideration. In its supplemental surrebuttal filing dated January 24, 2014, Staff made certain modifications to its proposed rate base, expenses and rate design. The Company accepted and adopted all of Staff's recommendations as set forth in its supplemental surrebuttal filing, including Staff's rate base, expense levels, 9 percent return on equity, and rate design. The rate design recommended by Staff and adopted by the Company collected 52.5 percent of the revenue requirement from the monthly minimum and 12.7 percent of the revenue from the upper tier. Unfortunately, some of the options submitted by Staff in its May 12 filing deviated significantly from the rate design agreed to by the Company and Staff in the case below.

In its May 12 filing, Staff identified three alternative rate designs that can be summarized as follows.

For Staff Option 1, the monthly minimums are increased for both the non-Gisela customers (from $23.00 to $25.00) and the Gisela customers (from $23.00 to $26.00). The commodity rates remain the same as proposed by Staff in its supplemental surrebuttal (first tier $4.00, second tier $7.664, and third tier $9.664). By increasing the monthly minimums, Staff shifts revenue recovery away from Gisela customers to non-Gisela customers by about $8,000 more than the Company proposed in its May 12 filing in response to Commissioner Pierce's letter. Under Staff Option 1, overall revenue instability is decreased because Staff gets about 55 percent from the monthly minimums compared to about 52.5 percent in Staff's supplemental surrebuttal, and roughly 11 percent from highest cost commodity rate compared to about 12.7 percent in Staff's supplemental surrebuttal rate design.

For Staff Option 2, the monthly minimums are the same as Staff's supplemental surrebuttal. The first tier break over point for 5/8 inch meters, however, is increased from 3,000 to 5,000 gallons. While Staff reduced the second tier rate slightly from $7.664 to $7.50, Staff increased the third tier commodity rate significantly from $9.664 to $17.00. ***The result of this rate design option is that revenue instability is increased.*** That's because recovery from the monthly minimums decreases to approximately 49 percent and the recovery from the highest cost commodity rates increases to approximately 21.5 percent. Additionally, the Staff rates for Option 2 produce approximately $27,000 more revenue than intended.

For Staff Option 3 ($25 Monthly Customer Charge), the monthly minimums are increased for a 5/8x3/4 inch meter from $23.00 to $25.00. Staff then reduces the second tier rate from $7.664 to $5.50 but again increases the third tier commodity rate significantly from $9.664 to $15.30. Once again, ***revenue instability is increased.*** While revenue recovery from the monthly minimums increases to about 54 percent, the revenue recovery from the highest cost commodity rate goes up significantly to 19.5 percent. Additionally, the Staff rates for Option 3 also produce too much revenue – by about $26,000.

For Staff Alternative Option 3 ($27 Monthly Customer Charge), the monthly minimums are increased for a 5/8x3/4 inch meter from $23.00 to $25.00. Staff reduces the second tier rate from $7.664 to $5.50, and increases the third tier commodity rate significantly from $9.664 to $15.30. The impact on revenue instability is a mixed bag but overall rate stability is increased. While revenue recovery from the monthly minimums increases to about 58 percent, the revenue recovery from the highest cost commodity rate increases significantly to over 15 percent. Revenue instability is increased because these rates impact the high water users ($15.30 commodity rate) very hard, which will likely lead to more demand destruction and severe revenue erosion. Additionally, the Staff rates for Alternative Option 3 produce about $23,000 of additional revenue.

The Company is concerned about Staff Option 2, Staff Option 3, and Staff Alternative Option 3. In addition to producing too much revenue, these rate designs substantially increase the Company's risk. When the Company agreed to Staff's recommended revenue requirement and return on equity of only 9 percent, it did not agree to a rate design that exposed it to severe risk of revenue erosion. While Staff did not state any preferences with respect to its rate design alternative options, the Company respectfully opposes Staff Option 2, Staff Option 3, and Staff Alternative Option 3. Payson Water Company is simply not a company that can afford to assume substantial risks of revenue instability and erosion. For that reason, the Commission should adopt a rate design that ensures revenue stability for the benefit of customers and the Company.

Specifically, the Company's response to Commissioner Pierce's letter includes options that address the concerns expressed over the impact of needed rate increases on the currently separate Gisela system without exposing the Company to unreasonable risks of lost revenues. After years of providing below cost service, the Company simply cannot afford to have a considerable portion of its revenue requirement at great risk.

RESPECTFULLY SUBMITTED this 19th day of May, 2014.

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ORIGINAL and thirteen (13) copies
of the foregoing were filed
this 19th day of May, 2014, with:

Docket Control
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1200 W. Washington Street
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COPY of the foregoing was hand-delivered
this 19th day of May, 2014, to:

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