

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

BOB STUMP, CHAIRMAN
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BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

2014 MAY 20 A 11:45

ARIZONA CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAY 20 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
PAYSON WATER CO., INC. 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-03514A-13-0111

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
PAYSON WATER CO., INC. FOR AUTHORITY
TO ISSUE EVIDENCE OF INDEBTEDNESS IN
AN AMOUNT NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY SYSTEM;
AND ENCUMBER REAL PROPERTY AND
PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO. W-03514A-13-0142

STAFF'S NOTICE OF FILING

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby provides notice of filing the attached proposed order.

RESPECTFULLY SUBMITTED this 20th day of May, 2014.

Brian E. Smith
Robin Mitchell
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and thirteen (13) copies of the
2 foregoing filed this 20th day of May ,
2014 with:

3 Docket Control
4 Arizona Corporation Commission
4 1200 West Washington Street
5 Phoenix, Arizona 85007

6 Copy of the foregoing mailed and emailed
7 this 20th day of May , 2014, to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF PAYSON WATER CO., INC., 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)
SERVICES BASED THEREON.)

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION)
OF PAYSON WATER CO., INC., FOR)
AUTHORITY TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT)
TO EXCEED \$1,238,000 IN CONNECTION)
WITH INFRASTRUCTURE)
IMPROVEMENTS TO THE UTILITY)
SYSTEM; AND ENCUMBER REAL)
PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)

DOCKET NO. W-03514A-13-0142

DECISION NO. _____

ORDER

Open Meeting
May 22, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Payson Water Co., Inc. ("PWC" or "Company") is an Arizona public service corporation that provides water service to approximately 1,114 customers in eight different communities in Gila County, Arizona. The largest community presently served by PWC is Mesa del Caballo ("MDC") with 364 customers. MDC has experienced chronic water shortages during the summer months over the past five years.

Decision No. _____

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

5 3. On October 25, 2013, the Commission issued Decision No. 74175 in Phase I of the
6 above-captioned proceedings for the rate and financing applications. Phase I was decided on an
7 expedited basis so that PWC might have sufficient time to obtain the necessary financing to
8 construct a new water pipeline connecting its MDC system to the Town of Payson's water system
9 prior to the summer of 2014. In Phase I, the Commission granted the Company interim emergency
10 rate relief related to the costs of constructing the pipeline.

11 4. PWC obtained a loan of \$275,000 on February 19, 2014, from the Water
12 Infrastructure Finance Authority of Arizona ("WIFA"), and completed construction of the new
13 pipeline in April 2014.

14 5. On May 6, 2014, PWC sent an e-mail to its MDC customers notifying them that
15 "due to heavy water consumption over the weekend" the Company was "unable to recover from
16 the reduction of [its] water storage volume" and MDC was required to move back to Stage 4 of its
17 Water Curtailment Tariff.

18 6. The e-mail further indicated that construction of the new pipeline was "substantially
19 complete and operational" but that because the Commission
20 has not yet approved the new rates (which include the Purchased Water Surcharge
21 for MDC customers), the Company cannot afford to purchase water through the
22 new line. At present, and until new rates take affect, the only ACC-approved
23 method for the Company to augment water into [MDC] and recover the costs,
24 remains hauling water into the system with trucks.

25 7. On May 12, 2014, the Arizona Department of Environmental Quality ("ADEQ")
26 issued an Approval of Construction, so PWC now has all of the required regulatory approvals it
27 needs to begin delivering water to its MDC customers via the new pipeline.

28 8. On May 12, 2014, 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.

 9. PWC agreed to provide appropriate notice to the customers of its MDC system.

1 10. Staff is concerned that the need for supplementing MDC water supplies is
2 imminent, and that the Company's existing tariffs create a perverse incentive for the Company to
3 truck water into MDC instead of delivering it via its operational pipeline.

4 11. Staff believes that trucking water into MDC at this point would not be consistent
5 with the Commission's intent in the Phase I order (i.e., Decision No. 74175) authorizing the
6 financing of the new pipeline. Staff notes that, as of April 1, 2014, MDC customers began paying
7 a \$6.76 per month WIFA loan surcharge to service payments on the \$275,000 WIFA loan.

8 12. Staff concurs with PWC's assessment that the Company's existing tariffs would not
9 allow the Company to recover the cost of any water that it purchases from the Town of Payson and
10 delivers to MDC via its new pipeline. Staff also notes that, while the Company has filed an
11 application to eliminate its Emergency Interim Water Augmentation Surcharge Tariff, the
12 Commission has not yet acted on the Company's application, and the Company has expressly
13 asked the Commission not to act on its application until the Commission has approved a purchased
14 water adjustment mechanism ("PWAM") for its MDC system.

15 13. Presently, the Company arguably only has authority to recover the cost of
16 augmentation water if it is trucked into MDC.

17 14. If PWC's existing water supplies were to become insufficient, the Company would
18 need to obtain supplemental supplies.

19 15. Supplementing the water supply by hauling water via trucks is significantly more
20 expensive than supplementing the water supply by transporting purchased water through the new
21 pipeline. Staff is concerned that MDC customers may be subjected to the expensive costs of water
22 hauling, even though a cheaper alternative is available.

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

28

1 17. The interim PWAM should apply *only* to the customers of the MDC system.

2 18. Furthermore, any emergency/interim rate relief will be subject to true-up and/or
3 refund in the pending rate case.

4 **Recommendations.**

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

7 a) The Commission should approve, on an interim basis, the PWAM that the
8 Company requested and that Staff recommended in PWC's pending rate case,
9 which is attached as Exhibit A.

10 b) The emergency interim PWAM should apply only to the customers of the
11 MDC system.

12 c) The Commission should accept either the \$10,000 bond that PWC filed
13 pursuant to the Phase I order or the performance bond that PWC filed when it
14 initiated its Emergency Interim Water Augmentation Surcharge Tariff as
15 appropriate bonds herein.

16 d) Any emergency/interim rates will be subject to true-up and/or refund in
17 PWC's pending rate case.

18 e) Simultaneous to the approval of the emergency interim PWAM, the
19 Commission should grant PWC's request to eliminate its Emergency Interim Water
20 Augmentation Surcharge Tariff.

21 **CONCLUSIONS OF LAW**

22 1. The Commission has jurisdiction over Payson Water Co., Inc. and over the subject
23 matter herein pursuant to Article XV of the Arizona Constitution and Title 40 of the Arizona
24 Revised Statutes.

25 2. Appropriate notice of the proceeding and an appropriate opportunity to be heard
26 have been given in the manner prescribed by law.

27 3. Emergency rate relief is appropriate when a company is potentially unable to
28 maintain adequate levels of service at appropriate rates pending the outcome of a final rate
determination.

1 IT IS FURTHER ORDERED that Payson Water Co., Inc. shall mail notice of the approved
2 interim emergency PWAM to is MDC customers, in a form and manner acceptable to Staff, within
3 five days of the Commission's action in this matter.

4 IT IS FURTHER ORDERED that Payson Water Co., Inc.'s \$10,000 bond provided in
5 Phase I and/or its performance bond provided with its Water Augmentation Tariff shall serve as
6 appropriate bonds for the interim emergency PWAM.

7 IT IS FURTHER ORDERED that the interim emergency PWAM approved herein shall
8 apply only to the customers of Payson Water Co., Inc.'s Mesa del Caballo System.

9 IT IS FURTHER ORDERED that Payson Water Co., Inc.'s Emergency Interim Water
10 Augmentation Surcharge Tariff for the Mesa Del Caballo System is hereby canceled.

11 IT IS FURTHER ORDERED that this Order shall become effective immediately.

12 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

13		
14	CHAIRMAN	COMMISSIONER

15			
16	COMMISSIONER	COMMISSIONER	COMMISSIONER

17
18 IN WITNESS WHEREOF, I JODI JERICH, Executive Director
19 of the Arizona Corporation Commission, have hereunto, set my
20 hand and caused the official seal of this Commission to be
21 affixed at the Capitol, in the City of Phoenix, this
22 day of _____, 2014.

23 _____
24 JODI JERICH
25 EXECUTIVE DIRECTOR

26 DISSENT: _____

27 DISSENT: _____

28

1 SERVICE LIST FOR: PAYSON WATER CO., INC.
DOCKET NOS. W-03514A-13-0111 and W-03514A-13-0142

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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:

$$\frac{[\text{Purchased Water Cost} - (\text{Purchased Water Quantity} \times \text{Avoided Production Costs})]}{\text{Water Sold}}$$

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	Commodity Rate	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
	25% =	Col A x Col B	Commodity Rate		Col D - Col E	Col C x Col F	
Block 1	4,000 x	1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88	
Block 2	500 x	0.125	\$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	Commodity Rate	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
	25% =	Col A x Col B	Commodity Rate		Col D - Col E	Col C x Col F	
Block 1	4,000 x	1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88	
Block 2	21,000 x	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.