

COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
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OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

2014 MAY 27 PM 3 03

DATE: MAY 27, 2014
DOCKET NOS.: W-03514A-13-0111 AND W-03514A-13-0142

ORIGINAL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

PAYSON WATER CO., INC.
(RATES/FINANCE/PHASE 2)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JUNE 5, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 10, 2014 AND JUNE 11, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

MAY 27 2014

DOCKETED BY

JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

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. _____

OPINION AND ORDER
PHASE 2

DATES OF HEARING: January 8, 2014 (Pre-Hearing Conference); January 13, 2014 (Public Comment - Phoenix); February 4, 5, 7, 10 and 14, 2014 (Evidentiary Hearings); April 11, 2014 (Public Comment – Payson)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

APPEARANCES: Mr. Jay L. Shapiro, FENNEMORE CRAIG, P.C., on behalf of Payson Water Co., Inc.;

Ms. Kathleen Reidhead, in propria persona;

Ms. Suzanne Nee, in propria persona;

Mr. Glynn Ross, in propria persona;

Mr. William Sheppard, in propria persona;

Mr. Thomas Bremer, in propria persona;

Mr. Richard Burt, in propria persona;

Mr. J. Stephen Gehring, in propria persona; and

Ms. Robin Mitchell, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Procedural History

On April 22, 2013, Payson Water Co., Inc. ("PWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application in Docket No. W-03514A-13-0111 ("Rate Docket") 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.

On May 17, 2013, the Commission's Utilities Division ("Staff") filed a Letter of Deficiency in the Rate Docket.

On May 22, 2013, PWC filed a Response to Staff's Letter of Deficiency.

On May 27, 2013, PWC filed with the Commission an application in Docket No. W-03514A-13-0142 ("Finance Docket") for authority to (1) issue evidence of indebtedness in an amount not to exceed \$1,238,000 on the terms and conditions set forth by the Water Infrastructure and Finance Authority ("WIFA"), and (2) encumber its real property and utility plant as security for such indebtedness.

On June 3, 2013, Staff issued a Sufficiency Letter in the Rate Docket pursuant to Arizona Administrative Code ("A.A.C.") R14-2-103, and classified the Company as a Class C utility.

On July 2, 2013, a Procedural Order was issued scheduling a hearing in the Rate Docket for December 9, 2013, establishing deadlines for pre-filed testimony, and directing PWC to mail and publish notice of the hearing.¹

On August 15, 2013, PWC filed a Motion to Consolidate Proceedings and Request for Expedited Procedural Schedule. PWC requested that the Rate and Finance Application dockets be consolidated and that a new, expedited procedural schedule be established to enable the Company to pursue an opportunity presented by the Town of Payson ("Town" or "Payson") to build the first

¹ The notice was not mailed or published at that time due to subsequent motions by the Company regarding consolidation with the Finance Docket.

1 phase of PWC's planned interconnection between its Mesa del Caballo system and the C.C. Cragin
2 Pipeline ("Cragin Pipeline"). As requested by the Company, if approved, the Phase 1 project would
3 enable PWC's Mesa del Caballo customers to avoid water hauling surcharges by the summer of
4 2014.

5 On August 20, 2013, Staff filed a Response to Motion to Expedite. Staff stated that it did not
6 oppose the consolidation request, but opposed PWC's request to expedite the entire proceeding. Staff
7 proposed that a procedural conference be convened to discuss scheduling.

8 On August 22, 2013, PWC filed a Reply in Support of Motion to Consolidate Proceedings
9 and Request for Expedited Procedural Schedule. The Company stated that the entire consolidated
10 proceeding should be expedited to afford rate relief in conjunction with commencement of the
11 pipeline project, or that the matter should be bifurcated with expedited consideration of the Finance
12 Application and interim rate relief.

13 By Procedural Order issued August 26, 2013, the Rate and Finance Dockets were
14 consolidated and a procedural conference was scheduled for September 4, 2013.

15 On August 30, 2013, PWC filed Supplemental Support for Motion to Consolidate
16 Proceedings and Request for Expedited Procedural Schedule.

17 On September 4, 2013, a procedural conference was conducted as scheduled, at which time
18 the parties discussed procedures for processing the consolidated cases.

19 On September 5, 2013, PWC filed a Stipulation for Procedural Order Bifurcating Proceeding
20 and Establishing Case Schedule. In the stipulation, PWC and Staff proposed to proceed in two
21 phases, with a Phase 1 hearing regarding a portion of the Finance Application commencing on
22 September 25, 2013, and a Phase 2 hearing on the Rate Application and the balance of the Finance
23 Application beginning on January 13, 2014. Other procedural dates were also listed and a proposed
24 customer notice was attached to the filing.

25 On September 10, 2013, a Procedural Order was issued setting a revised procedural schedule
26 for consideration of the Rate and Finance Applications. An expedited hearing on Phase 1 was
27 scheduled for September 25, 2013, to consider the Company's request for approval of a \$275,000
28 WIFA loan to finance an interconnection between PWC's Mesa del Caballo ("MDC") system and

1 Payson's water system (the "TOP-MDC interconnection"), so that water could be obtained directly
 2 from the Town rather than having to haul water by truck during periods of water shortages. The
 3 hearing in the Rate Docket and remainder of the Finance Docket ("Phase 2") was scheduled to
 4 commence on January 13, 2014, and other testimony filing deadlines were established. The
 5 Company was also directed to mail and publish notice of the proceedings to customers.

6 On September 18, 2013, Staff filed a Staff Report in Phase 1, recommending approval of the
 7 \$275,000 expedited WIFA loan, subject to certain conditions.

8 On September 23, 2013, PWC filed the Phase 1 responsive testimony of Jason Williamson
 9 and Thomas Bourassa.

10 On September 25, 2013, the Phase 1 hearing was held as scheduled. At the beginning of the
 11 hearing, public comment was received from various customers of PWC expressing opposition to the
 12 requested rate increases.² The hearing concluded on September 25, 2013, subject to the Company
 13 being required to submit certain late-filed exhibits.

14 On October 1, 2013, PWC late-filed: a 2009 report on Water Supply Alternatives for the Mesa
 15 del Caballo system; a 2010 audio-frequency magnetotelluric survey performed by Zonge Engineering
 16 and Research Organization, Inc. ("Zonge") for Mesa del Caballo; and a 2010 report by Southwest
 17 Groundwater Consultants regarding the implications of the Zonge study.

18 On October 25, 2013, the Commission issued Decision No. 74175 which: authorized PWC to
 19 borrow up to \$275,000 from WIFA, under the terms and conditions set forth in the Phase 1 Staff
 20 Report (as modified), "for the purpose of financing the construction of a new water transmission line
 21 to connect its Mesa del Caballo system to the Town of Payson's water system;" authorized PWC to
 22

23 ² During public comment at the beginning of the Phase 1 hearing, as well as through subsequent written comments,
 24 several customers expressed concern with the timing of the notice and hearing for the expedited Phase 1 proceeding and
 25 suggested that the Commission's procedural rules were violated, pursuant to A.A.C. R14-3-109. As explained in
 26 Decision No. 74175 (October 25, 2013), A.A.C. R14-3-109 states that 10 days notice is to be given prior to a hearing
 27 "unless otherwise provided by law or as ordered by the Commission." As indicated in Decision No. 74175 (P. 4, fn. 2),
 28 the WIFA deadline for financing approval by the Commission necessitated the scheduling of an expedited hearing in
 Phase 1 in order for the first phase of the pipeline project to be completed by the summer of 2014 – to enable PWC to
 deliver water directly from the Town and avoid the expensive water hauling charges that have been assessed to Mesa del
 Caballo customers in prior years. As further stated in that Decision (p. 16), and as discussed below in this Order, contrary
 to the concerns expressed by certain customers located in other systems outside Mesa del Caballo, the expedited Phase 1
 request for the Payson interconnection, affects only customers in the Mesa del Caballo system and not customers in other
 PWC systems.

1 implement a WIFA loan surcharge within 15 days of the Phase 1 loan closing that would “apply only
2 to customers of the Mesa del Caballo system...;” required the Company to provide notice of the
3 WIFA surcharge to Mesa del Caballo customers; and required PWC to place the WIFA loan
4 surcharge proceeds in a segregated account to be used only for payment of the WIFA loan. (Decision
5 No. 74175, at 15-17.)

6 On October 29, 2013, a Procedural Order was issued granting intervention to Kathleen M.
7 Reidhead, Thomas Bremer, Bill Sheppard, J. Stephen Gehring, and Richard M. Burt.

8 On November 14, 2014, PWC filed a Notice of Filing Best Management Practices (“BMPs”)
9 tariffs, which included five BMPs that were ordered in Decision No. 71902 (September 28, 2010) for
10 the Company’s Mesa del Caballo system. The Company stated that BMPs were agreed to by Staff,
11 and that they should be approved for all of PWC’s systems.

12 On November 14, 2013, Ms. Reidhead filed her Direct Testimony.

13 On November 15, 2013, Mr. Bremer filed a Request for Discovery.

14 On November 15, 2013, Staff filed the Direct Testimony of Crystal S. Brown and Jian W.
15 Liu.

16 On November 15, 2013, Mr. Sheppard filed a Request for Taking Public Comments in Both
17 Payson and Phoenix.

18 On November 18, 2013, Ms. Reidhead filed a Request to Amend Page 5 of Direct Testimony.

19 On November 19, 2013, Mr. Bremer filed a Notice of Errata and Revision – Request for
20 Discovery.³

21 On November 19, 2013, Staff filed the Direct Testimony of John Cassidy.

22 On November 25, 2013, PWC filed a Notice of Compliance indicating that it had secured a
23 \$10,000 bond prior to implementation of the WIFA surcharge, as required by Decision No. 74175.

24 On December 3, 2013, Ms. Reidhead filed a Motion for Discovery Phase 2.

25 On December 6, 2013, PWC filed the Phase 2 Rebuttal Testimony of Jason Williamson and
26 Thomas Bourassa.

27 _____
28 ³ At his request, Mr. Bremer’s November 19, 2013 filing was marked and admitted at the hearing as his Direct Testimony (Ex. TB-1).

1 On December 9, 2013, a Procedural Order was issued granting intervention to Suzanne Nee.

2 On December 9, 2013, PWC filed a Notice of Compliance attaching a copy of the \$10,000
3 bond, and indicating that the original bond was hand-delivered to the Commission's business office.

4 On December 18, 2013, Ms. Nee filed her Surrebuttal Testimony.

5 On December 20, 2013, Staff filed the Surrebuttal Testimony of Mr. Cassidy, Ms. Brown, and
6 Mr. Liu.

7 On December 20, 2013, Ms. Reidhead filed her Surrebuttal Testimony.

8 On December 23, 2013, a Procedural Order was issued granting intervention to Glynn Ross.

9 On December 30, 2013, Ms. Reidhead filed a Motion to Compel Discovery Phase 2.

10 On January 6, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.

11 On January 6, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase 2.

12 On January 6, 2014, PWC filed the Rejoinder Testimony of Mr. Williamson and Mr.
13 Bourassa.

14 On January 6, 2014, Mr. Bremer filed Responses to PWC Regarding Impact of Water Rate
15 Case on East Verde Park Ratepayers.⁴

16 On January 6, 2014, PWC filed a Response to Ms. Reidhead's Motion to Compel Discovery.

17 On January 7, 2014, Ms. Nee filed a Supplement to Pre-filed Testimony Phase 2.

18 On January 7, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase 2.⁵

19 On January 8, 2014, a prehearing conference was convened as previously scheduled. During
20 the conference, alternative dates for commencement of the hearing were discussed as well as the
21 filing of additional testimony. It was determined that the evidentiary hearing would commence on
22 February 4, 2014; that the January 13, 2014 hearing date would be reserved for public comment; and
23 that the Company would file additional testimony by January 15, 2014, with Staff and intervenor
24 responsive testimony filed by January 22, 2014. In addition, PWC's motion to strike various exhibits
25 attached to Ms. Reidhead's testimony was denied.

26 ⁴ No permission was requested to make this supplemental filing; however, at the hearing it was treated as testimony and
27 was marked and admitted as Exhibit TB-2.

28 ⁵ Although neither Ms. Nee nor Ms. Reidhead requested permission to file additional supplemental testimony, Ms. Nee's
January 6, 2014 and January 7, 2014 filings, as well as Ms. Reidhead's January 6, 2014 and January 7, 2014 filings, were
marked and admitted at the hearing as Exhibits SN-2, SN-3, KMR-3, and KMR-4, respectively.

1 On January 9, 2014, Ms. Reidhead filed a Motion for Extension of Time, until January 27,
2 2014, to file her response to the Company's additional testimony.

3 On January 10, 2014, the Company filed a Response to the Motion for Extension of Time.

4 On January 13, 2014, Mr. Bremer filed a document entitled Pre-Filed Testimony – Responses
5 to PWC Regarding Impact of Water Rate Case on East Verde Park Ratepayers.⁶

6 On January 13, 2014, public comment was taken on the date previously scheduled and noticed
7 as the first day of the evidentiary hearing. In addition, Ms. Reidhead's request for an extension of
8 time to file responsive testimony was granted, subject to imposition of an expedited discovery
9 schedule following filing of the testimony.

10 On January 15, 2014, PWC filed the Supplemental Rejoinder Testimony of Mr. Williamson
11 and Mr. Bourassa, as directed at the January 8, 2014 prehearing conference.

12 On January 22, 2014, Ms. Nee filed her Response to the Company's Supplemental Rejoinder
13 Testimony.

14 On January 23, 2014, Mr. Bremer filed Responses to First Set of Data Requests from PWC.⁷

15 On January 23, 2014, Staff filed a Request for Extension of Time to file its response to
16 PWC's Supplemental Rejoinder Testimony.

17 On January 24, 2014, Staff filed the Supplemental Surrebuttal Testimony of Mr. Cassidy, Ms.
18 Brown, and Mr. Liu.

19 On January 31, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.

20 On February 3, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase 2.

21 On February 3, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.⁸

22 On February 4, 2014, the evidentiary hearing commenced with the taking of additional public
23 comment, opening statements, and testimony. Additional hearing days were held on February 5, 7,
24 10, and 14, 2014.

25 _____
26 ⁶ No permission was requested to make this supplemental filing; however, at the hearing it was treated as testimony and
was marked and admitted as Exhibit TB-3.

27 ⁷ Although this filing was labeled as a discovery response, at the hearing it was treated as testimony and was marked and
admitted as Exhibit TB-4.

28 ⁸ Although neither Ms. Nee nor Ms. Reidhead requested permission to file this additional testimony, Ms. Nee's January
31, 2014 and February 3, 2014 filings, as well as Ms. Reidhead's February 3, 2014 filing, were marked and admitted at
the hearing as Exhibits SN-5, SN-6, and KMR-6, respectively.

1 On February 4, 2014, Mr. Ross filed a document titled “Intervenors Motion to Separate the
2 Gisela Rate Payers from further proceedings.” Mr. Ross alleged, among other things, that the rate
3 filing was “an illegal attempt to extort further funds from the community of Gisela...;” “it is a matter
4 that should be before a Federal Grand Jury...;” and that documents presented by other intervenors
5 exposed “subject matter and events that appear to be in violation of various Criminal Statutes.” He
6 therefore requested that Gisela customers be separated from any further rate proceedings “until a full
7 and complete separate Business Plan is forthcoming for the Gisela Rate Payers.”

8 On February 10, 2014, prior to the fourth day of the evidentiary hearing, Mr. Burt and Mr.
9 Gehring filed a document titled “Objection to Exclusion of Intervenors Burt & Gehring from
10 Hearings Held on 2/7/14 and 2/10/14.” The filing alleged that during the hearing on February 5,
11 2014, the Administrative Law Judge (“ALJ”) “arbitrarily and without any justifiable explanation
12 excluded Mr. Burt from any further participation and disallowed any further (sic) for him to
13 comment, testify, or submit evidence.”⁹

14 During the hearing on February 10, 2014, Staff witness Crystal Brown testified, under cross-
15 examination by Mr. Bremer, that Staff’s proposed water hauling surcharge methodology for the East
16 Verde Park system “has to be revised.” (Tr. 810.) As a result, Staff was directed to prepare a revised
17 proposed tariff for East Verde Park, and provide the revised tariff to all other parties. (*See*, Tr. 810-
18 827.) Cross-examination on the revised proposal was scheduled for February 14, 2014. (*Id.* at 884.)

19 On February 12, 2014, Staff filed a revised Attachment B “Summer Water Augmentation
20 Surcharge” for East Verde Park and a revised Attachment C “Purchased Water Surcharge Examples”
21 for Mesa del Caballo.

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24 ⁹ A nearly identical filing was made on February 10, 2014, by Mr. Ross alleging that he was excluded from the hearing on
25 February 7, 2014. During the hearing on February 10, 2014, the ALJ addressed the filing and stated that “[i]n no way,
26 shape or form was Mr. Burt or Mr. Ross excluded from the hearing. They just simply didn’t show up on Friday [February
27 7, 2014].” (Tr. 728.) At the conclusion of the discussion, Mr. Gehring stated “why don’t we withdraw the objection.”
28 (Tr. 729.) Unlike several other intervenors who pre-filed a number of pieces of testimony (*i.e.*, Ms. Nee, Ms. Reidhead,
Mr. Sheppard, and Mr. Bremer), neither Mr. Burt nor Mr. Ross made any attempt to pre-file testimony in accordance with
the various Procedural Orders issued in this proceeding. Instead, on the second day of the hearing [February 5, 2014],
Mr. Burt indicated that he planned to call a witness and/or testify. The ALJ advised that he would not be permitted to
present testimony because he had not submitted pre-filed testimony (*See*, Tr. 393-396); however, he, and all other
Intervenors, were given a full opportunity to cross-examine witnesses, without exclusion, throughout the hearing. (*See*,
e.g., Tr. 725-731.)

1 On February 14, 2014, Staff filed a Notice of Errata regarding the revised Attachment C for
2 Mesa del Caballo.

3 On February 14, 2014, Mr. Bremer filed a Response to Staff's revised Summer Water
4 Augmentation Surcharge for East Verde Park.

5 On February 14, 2014, Mr. Burt filed a document titled "Request for Acknowledgement of
6 Misrepresentation of Fact by Robin Mitchel (sic) in Her Redress to Include a Serious Implied
7 Threat." In his filing, Mr. Burt requested that Staff attorney Robin Mitchell apologize "for her
8 misrepresentation of facts, unjustified over reactive response and Chastisement of Mr. Burt."¹⁰

9 The hearing in this matter concluded on February 14, 2014. At the conclusion of the hearing,
10 the parties in attendance agreed on a briefing schedule with initial briefs to be filed by March 10,
11 2014, and reply briefs to be filed by March 21, 2014. (Tr. 919.)

12 On February 20, 2014, PWC late-filed Exhibit A-18, a Design Assistance Grant Application
13 submitted by the Company to WIFA to obtain funding for a study of water shortage issues in the East
14 Verde Park system.

15 On February 24, 2014, Mr. Ross filed a document titled "Intervenors Motion for 30 Day
16 Extension for Post Hearing Briefs Second request to separate Gisela/Deer creek village." In his
17 filing, Mr. Ross stated, among other things that "[t]his Intervener has not been properly notified when
18 the Hearings transcripts will be available for review (sic) to properly prepare my Post Hearing Brief"
19 and "[o]nce again the hearings are unfair and discriminatory to the Rate Payers (Intervenors)." Mr.
20 Ross also attached a Petition that requested the Commission to "exempt the ratepayers (Residence) of
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23 ¹⁰ The incident in question began during Mr. Burt's cross-examination of Company witness Bourassa in which Mr. Burt
24 asked "do you think it is somewhat fair that we get a damn break here?" (Tr. 430.) The ALJ admonished Mr. Burt that "if
25 you can't conduct yourself in an appropriate manner, then you are not going to be allowed to ask questions." (*Id.*) Mr.
26 Burt later apologized and his apology was accepted by the ALJ. (Tr. 446.) During the discussion of the alleged exclusion
27 of Mr. Burt and Mr. Ross from the hearing on February 10, 2014, Ms. Mitchell stated "[y]ou asked him [Mr. Burt] to pay
28 common courtesy that everyone should deserve as a witness. And I have told Mr. Gehring if they cuss at my witness
today, I will get them." (Tr. 731.) In his February 10, 2014 filing Mr. Burt claimed Ms. Mitchell's statement: impugned
his character and represented an implied threat. At the beginning of the hearing on February 14, 2014, Ms. Mitchell
stated that she did not intend to threaten Mr. Burt and "sincerely apologize[d]." (Tr. 891.) Although Mr. Burt attempted
to pursue the issue further, the ALJ ruled that it appeared Ms. Mitchell's comment was meant in a joking manner and that
she had apologized for the comment. Therefore, the ALJ moved forward with the hearing to address the substantive
issues in the case. (*See*, Tr. 892-894.)

1 the Gisela Arizona Community and/or Deer Creek Village...from the more stringent ratemaking
2 structure the ACC staff and Payson Water Company have recommended.”¹¹

3 On March 4, 2014, PWC filed a Notice of Compliance with Decision No. 74175. In its filing,
4 the Company stated that the WIFA loan authorized in the Phase 1 Decision closed on February 19,
5 2014; that the annual Debt Service Requirement is \$29,720; and that Mesa del Caballo customers
6 would be assessed a monthly surcharge of \$6.76 to service the WIFA loan.

7 On March 6, 2014, PWC filed a Notice of Compliance with Decision No. 74175, stating that
8 it was applying for elimination of Emergency Interim Water Augmentation Surcharge Tariff in
9 accordance with that Decision. However, the Company requested that the Augmentation Tariff not
10 be eliminated until after approval is given for the proposed Purchased Water Adjustment Mechanism
11 (“PWAM”) to recover the cost of the water purchased from the Town of Payson through the new
12 interconnect pipeline.

13 On March 10, 2014, PWC filed a Notice of Late-Filed Exhibit which attached a copy of
14 Exhibit A-19, a Consent Order between PWC and the Arizona Department of Environmental Quality
15 (“ADEQ”) related to third-party owned wells used by the Company under water sharing agreements.

16 On March 10, 2014, initial post-hearing briefs were filed by PWC, Staff, Mr. Bremer, Ms.
17 Nee, Mr. Sheppard, and Ms. Reidhead.

18 On March 11, 2014, initial post-hearing briefs were filed by Mr. Ross and Mr. Gehring.

19 On March 20, 2014, PWC filed the Table of Contents for the Loan Agreement between the
20 Company and WIFA.

21
22 ¹¹ On February 25, 2014, a Procedural Order was issued denying the Motions filed by Mr. Ross. The Procedural Order
23 explained that the briefing schedule was discussed on the record on the final day of the hearing (Tr. 919), which Mr. Ross
24 did not attend. The Procedural Order added that, “[a]s an Intervenor party, Mr. Ross is entitled to ‘enter an appearance, to
25 introduce evidence, examine and cross-examine witnesses, make arguments, and generally participate in the conduct of
26 the hearing.’ (A.A.C. R14-3-104.) Along with those rights, parties (including pro se Intervenor such as Mr. Ross) also
27 have the responsibility to attend the hearings or, if they are unable to attend, to become informed regarding rulings made
28 when they are not in attendance. Mr. Ross did enter an appearance and participated through cross-examination of
witnesses on several days of the hearing, but did not attend the final day of hearing when the briefing schedule was
discussed. It is not a valid excuse to later claim confusion regarding dates that were clearly delineated at the hearing,
especially given that the Commission’s hearings are broadcast live on its website, as well as archived for later viewing, so
information regarding rulings is made as accessible as possible.” (February 25, 2014, Procedural Order, at 2.) With
respect to the Motion seeking to “exempt” the Gisella and Deer Creek Village systems from the rest of the PWC systems
for ratemaking purposes, the Procedural Order denied the Motion, stating that Mr. Ross could raise those arguments
through post-hearing briefs. (*Id.*)

1 On March 21, 2014, reply briefs were filed by Staff, Ms. Reidhead, Ms. Nee, Mr. Bremer, and
2 Mr. Sheppard.

3 On March 21, 2014, a Procedural Order was issued scheduling a public comment session for
4 April 11, 2014, in Payson. The Company was also directed to mail notice to customers and publish
5 notice of the public comment session.

6 On March 24, 2014, PWC filed its reply brief. The Company stated that it had the wrong date
7 calendared for the reply brief and by the time it detected the error it was too late to make the filing by
8 the March 21, 2014, deadline.

9 On March 24, 2014, a Procedural Order was issued granting Staff and Intervenors an
10 opportunity to file, by March 31, 2014, a response to the Company's late-filed reply brief.

11 On March 27, 2014, PWC filed a Notice of Correction stating that it had corrected a
12 typographical error in the public notice contained in the Procedural Order that was required to be
13 mailed and published for the public comment session in Payson.

14 On March 28, 2014, the Commission's Executive Director, Jodi Jerich, filed a letter in
15 response to George Chrisman, who alleged in an affidavit that during the hearing Staff counsel had
16 "telescoped" answers to two different witnesses; that it "appeared [she] was speaking softly into a
17 small microphone;" and that examination of the recordings would confirm his allegations. Ms.
18 Jerich's response stated that she: spoke with the Commission's Chief Counsel, the Director of the
19 Utilities Division, and the two Staff members identified in the affidavit; and reviewed the archived
20 February 10, 2014 hearing, when the alleged incidents occurred. Based on her review, Ms. Jerich
21 concluded that "the Staff witness and counsel conducted themselves appropriately."

22 On March 31, 2014, Ms. Reidhead and Ms. Nee filed responses to PWC's late-filed reply
23 brief.

24 On March 31, 2014, a Procedural Order was issued finding that because PWC had, prior to
25 mailing and publication, corrected the typographical error in the public comment notice contained in
26 the March 21, 2014 Procedural Order, no further action was required.

27 On April 4, 2014, PWC filed a Notice of Filing Certification of Publication and Proof of
28 Mailing regarding the Payson public comment session.

1 On April 7, 2014, PWC filed a Notice of Compliance with Decision No. 74175. Attached to
2 the filing was the customer notice sent to Mesa del Caballo customers regarding the amount of the
3 monthly WIFA Loan Surcharge (\$6.67) that became effective on April 1, 2014.

4 On April 11, 2014, the Commission conducted a public comment session in Payson, as
5 scheduled.

6 On April 14, 2014, the Commission's Consumer Services Division filed a Rate Case
7 Summary that was provided to members of the public who attended the Payson public comment
8 session.¹²

9 On April 25, 2014, Ms. Nee filed a document titled "Intervenor Public Comment 04/25/14."

10 On April 29, 2014, Commissioner Brenda Burns filed copies of unsolicited e-mails received
11 by her office from Ms. Nee.¹³

12 On April 30, 2014, Ms. Nee filed another document titled "Public Comment, Suzanne Nee,
13 April 30, 2014."¹⁴

14 On May 1, 2014, Commissioner Pierce filed a letter requesting the Company and Staff to file
15 information regarding alternative rate design structures, and inviting other parties to provide input.

16 On May 6, 2014, a Procedural Order was issued, with the attached letter from Commissioner
17 Pierce, which: served the letter on all parties; directed PWC and Staff to respond to the letter by May
18 12, 2014; and offered an opportunity to Intervenors to respond by May 19, 2014.

19 On May 7, 2014, Commissioner Pierce filed a letter stating that he did not intend to delay the
20 processing of this matter by requesting the additional information described in his prior letter.

21 On May 7, 2014, Ms. Reidhead filed a letter stating that she had sent to Commissioner Pierce
22 and Commissioner Brenda Burns a video copy of the April 11, 2014 public comment session in
23 Payson.

24 _____
25 ¹² On April 15, 2014, Ms. Reidhead filed a Response to the rate case summary filing, which apparently was initially
26 mistakenly shown in the Commission's e-Docket to have been filed by PWC. On April 30, 2014, Staff filed a
27 Memorandum stating that it corrected the error as soon as it was noticed.

28 ¹³ Ms. Nee's emails to Commissioner Burns' office represent an attempt to engage in unauthorized ex parte
communications, pursuant to A.A.C. R14-3-113(C), and shall therefore be disregarded.

¹⁴ Parties that have been granted Intervenor party status are not permitted to also present public comment, which is
reserved exclusively for obtaining comments from non-parties. (See, A.A.C. R14-3-105(C).) As a result, Ms. Nee's so-
called "public comments" filed on April 25 and 30, 2014, will not be considered as part of the record in this case.

1 On May 12, 2014, PWC filed a Notice of Filing Additional Analysis in Response to Docketed
2 Letters from Commissioner.

3 On May 12, 2014, responses to Commissioner Pierce's letter were filed by Ms. Reidhead, Ms.
4 Nee, and Mr. Sheppard.

5 On May 12, 2014, Staff filed a Response to Commissioner Pierce's May 1, 2014 Letter
6 Regarding Rate Design Alternatives.

7 On May 12, 2014, Staff also filed a Status Update Regarding Applicable Measures to Ensure
8 Adequate and Reasonable Water Supplies for Mesa Del Caballo.

9 On May 13, 2014, Staff filed a Notice of Errata to correct Exhibit S-18.

10 On May 15, 2014, the Commission noticed a Special Open Meeting to consider granting
11 emergency/interim rate relief to PWC for the MDC system.

12 On May 19, 2014, PWC filed Comments on Staff's Rate and Comparison Options.

13 On May 19, 2014, Staff filed a Memorandum recommending that the Commission approve,
14 on an interim basis, the Company's proposed PWAM tariff to enable PWC to collect from MDC
15 customers the costs of water purchased from the Town and transported through the TOP-MDC
16 interconnection.

17 On May 20, 2014, Staff filed a Proposed Order recommending approval of the PWAM tariff
18 for PWC's MDC system.

19 On May 21, 2014, PWC filed Exceptions to Staff's Recommended Order.

20 On May 21, 2014, Mr. Gehring filed an email response to Staff's recommendation.

21 On May 22, 2014, Staff filed a copy of the Notice sent by the Company to customers
22 regarding the Commission's intent to consider emergency rate relief.

23 On May 22, 2014, Ms. Reidhead and Ms. Nee filed Exceptions to Staff's Recommended
24 Order, and Mr. Ross filed Remarks.

25 On May 22, 2014, the Director of ADWR filed a letter regarding the hydrogeology in the
26 Company's service area and the Cragin pipeline.

27
28

1 On May 22, 2014, the Commission conducted a Special Open Meeting and approved, on an
 2 interim basis, Staff's Recommended Order, as amended, regarding the Company's PWAM tariff.
 3 (Decision No. 74484.)

4 **Background of Payson Water Company**

5 PWC is an Arizona public service corporation engaged in providing water utility services to
 6 approximately 1,114 customers (as of the end of the 2012 test year) in Gila County, Arizona. The
 7 Company is wholly owned by JW Water Holdings, LLC ("JW Water"), a Colorado limited liability
 8 company.¹⁵ (Ex. A-1, at 1.) JW Water acquired PWC from the prior owner, Brooke Utilities, Inc.
 9 ("BUI"), on May 31, 2013, after the instant rate application was filed. (*Id.*) As of June 1, 2013, PWC
 10 has been owned and operated by JW Water. Two other utilities, Tonto Basin Water and Navajo
 11 Water, were also acquired from BUI in that transaction, although neither of those companies are
 12 involved in this rate application. (*Id.*)

13 Because the original rate and finance applications were filed prior to the acquisition of PWC
 14 by JW Holdings, Mr. Williamson adopted the original direct testimony filed by the Company's
 15 former president, Robert Hardcastle. (Ex. A-13.) Mr. Williamson testified that neither BUI nor Mr.
 16 Hardcastle have any interest in PWC, and that Mr. Williamson has "no ongoing business or personal
 17 relationship with Mr. Hardcastle" and "Mr. Hardcastle is no longer affiliated with the company in any
 18 capacity." (Tr. 185.)

19 **Brooke Utilities, Inc.**

20 BUI acquired the former C&S Water Company ("C&S") and United Utilities, Inc. ("United")
 21 water systems in 1996. C&S and United were comprised of a number of individual water systems,
 22 nine of which were subsequently organized as PWC. The nine individual water systems were:
 23 Gisela/Tonto Creek Shores ("Gisela") (owned by C&S), and Mead's Ranch, Deer Creek, East Verde
 24 Park ("EVP"), Flowing Springs, Geronimo Estates/Elusive Acres, Mesa del Caballo, Whispering
 25 Pines, and Quail/Star Valley ("Star Valley")¹⁶ (all owned by United). (Ex. A-13, at 2.)

26 ¹⁵ JW Water is managed by Jason Williamson. Mr. Williamson is also affiliated with Pivotal Utility Management, LLC
 27 ("Pivotal"), which manages and/or operates a total of 10 water and wastewater utilities, 8 of which are located in Arizona.
 (Ex. A-1, at 1.)

28 ¹⁶ The Town of Star Valley acquired the Star Valley system's assets and customers through eminent domain in May 2012.
 (*Id.*)

1 In the late 1990's, BUI reorganized 7 separate water companies and more than 40 systems it
2 had acquired (including the C&S and United systems) into 5 separate subsidiaries, one of which was
3 PWC. (*Id.*) The reorganization, which was made along geographical and operational lines, was
4 approved by the Commission in Decision No. 60972 (July 19, 1998), and C&S and United were
5 eventually dissolved. (*Id.*)

6 Engineering Analysis for PWC

7 As described in Staff's Engineering Report, PWC operates the following eight independent
8 water systems: Geronimo Estates (83 active connections); Deer Creek (121 active connections);
9 Meads Ranch (69 active customers); Whispering Pines (1246 active customers); Flowing Springs (29
10 active customers); Gisela (162 active customers); East Verde Parke (140 active customers); and Mesa
11 del Caballo (364 active customers.) (Ex. A-7, Eng. Report, at 2.)

12 The Staff Engineering Report (prepared by Jian Liu but adopted at hearing by Staff witness
13 Del Smith) states that the Company had 1,114 customer connections during the test year and PWC
14 projects that its customer base will be flat for the next five years. The Report indicates that "PWC
15 has very fragile water systems[,] and that the majority of wells have very low production capacity
16 and are more than 40 years old. (*Id.* at 12.) During the test year, the Company hauled water to the
17 Mesa del Caballo and East Verde Park systems due to water shortages. (*Id.*) Staff recommended that
18 PWC file documentation showing its long-term plan to address the East Verde Park supply
19 problems.¹⁷

20 Staff indicated that ADEQ found all of PWC's systems, except Mesa del Caballo, were
21 delivering water that meets federal and state water quality standards. (*Id.* at 13.) Staff recommended
22 that the effective date for the rates in this case be made contingent on satisfaction of the ADEQ
23 requirements for Mesa del Caballo.¹⁸ Staff also stated that the Utilities Division Compliance Section
24 showed no Commission compliance issues for PWC, as of October 30, 2013. (*Id.* at 14.)

25 _____
26 ¹⁷ We note that PWC filed, on February 20, 2014, a Design Assistance Grant Application submitted by the Company to
WIFA to obtain funding for a study of water shortage issues in the East Verde Park system. The Company should file,
within 30 days of receipt thereof, a copy of WIFA's response to the grant application.

27 ¹⁸ As noted above, PWC filed, on March 10, 2014, a Notice of Late-Filed Exhibit which attached a copy of Exhibit
28 A-19, a Consent Order between PWC and ADEQ related to third-party owned wells used by the Company under water
sharing agreements.

1 As stated in the Engineering Report, PWC is not located in any Active Management Area
2 (“AMA”) and is not subject to ADWR AMA reporting and conservation requirements. Staff
3 indicated that it had reached an agreement with PWC for implementation of five BMPs, attached to
4 the Staff Engineering Report, that would be applied to all of the Company’s systems. Because PWC
5 is not located in an AMA, and because the Company and Staff are in agreement with the five specific
6 BMPs attached to the Engineering Report, we will require the Company to implement those BMPs
7 for all systems. (*Id.* at 17.) (*See* Attachment C hereto.)

8 Staff also indicated that according to an October 21, 2013 ADWR compliance status report,
9 PWC is not in compliance with ADWR requirements governing water providers and/or community
10 water systems. (Ex. A-7, Eng. Report, at 13.) Staff therefore recommended that the effective date for
11 the rates in this case be delayed until the Company files an updated ADWR report showing
12 compliance with ADWR requirements. (*Id.* at 14.) In his rebuttal testimony, Mr. Williamson stated
13 that the ADWR compliance deficiencies were a paperwork issue because ADWR was missing the
14 2009 and 2011 annual reports. He indicated that the prior owner indicated they had been submitted
15 and was looking for copies, but the Company was preparing new reports in case they could not be
16 located. He stated that the issue would be resolved within 30-45 days. (Ex. A-14, at 2.) It does not
17 appear that any subsequent filings were made in regard to this issue. Although we will not delay the
18 effective date of the rates in this case, PWC should file within 60 days of the effective date of this
19 Decision, documentation showing that the ADWR issue has been resolved.

20 Staff recommended that PWC use the depreciation rates set forth in Table B to the Staff
21 Engineering Report, in accordance with the depreciation rates developed by the National Association
22 of Regulatory Utility Commissioners (“NARUC”). (Ex. A-7, Eng. Report, at 14-15.) The Company
23 is in agreement with Staff’s recommendation and we therefore direct PWC to use on a going-forward
24 basis, the individual depreciation rates set forth in the Staff Engineering Report.

25 Staff stated that PWC has approved Curtailment and Backflow Prevention tariffs on file with
26 the Commission. (*Id.* at 17.) However, at the hearing it was discovered that no Curtailment tariff is
27 apparently in place for the Company’s Gisela system. Mr. Smith indicated that it was Commission
28 policy for all water companies to have in place approved Curtailment and backflow prevention tariffs.

1 (Tr. 644-651.) We therefore direct PWC to file, within 30 days of the effective date of this Decision,
2 Curtailment and Backflow Prevention tariffs for the Gisela system in a form consistent with its other
3 systems and satisfactory to Staff.

4 **Revenue Requirement**

5 PWC originally sought an overall revenue increase of \$399,785, or approximately 125
6 percent, over test year revenues. (Ex. A-6, Sched. A-1.) Staff initially recommended an overall
7 revenue increase of \$240,721, or approximately 75 percent over test year revenues. (Ex. S-14, Sched.
8 CSB-1.) The initial disagreements between the Company and Staff were primarily related to
9 Contributions in Aid of Construction (“CIAC”), various operating income adjustments, and cost of
10 capital. (*Id.* at 6-21; Ex. S-10 at 3, 45.)

11 Through the filing of additional rounds of testimony, and by testimony given at the hearing,
12 the Company and Staff are now in agreement regarding a recommended revenue requirement of
13 \$610,256, rate of return of 9.0 percent (with a 100 percent equity capital structure), fair value rate
14 base (“FVRB”) and original cost rate base (“OCRB”) of \$504,684, and operating expenses of
15 \$564,835. This represents an overall revenue increase of \$289,731, or approximately 90.39 percent
16 over test year revenues. (Ex. S-16, at 3-9, Sched. CSB-1; Tr. 42, 47, 81.)

17 Although various Intervenors challenged certain operating expenses recommended by the
18 Company and Staff, there were no specific revenue requirement proposals presented by the
19 Intervenors.

20 **Rate Design**

21 PWC is also in agreement with Staff’s recommended rate design, which would: continue the
22 consolidated rate structure for all currently consolidated systems, as well as bring the lone remaining
23 non-consolidated system, Gisela, into the same rate structure; increase the basic monthly charge for
24 all customers; and implement an inverted-block, three-tier rate structure for commodity charges,
25 consistent with historical Commission policy. (Tr. 47-52.)

26 Under the revenue requirement and rate design recommendations agreed to by the Company
27 and Staff, an average 5/8-inch x 3/4-inch meter residential customer in the former United systems (all
28 but Gisela), using the average of 2,903 gallons per month, would experience an increase of \$13.01, or

1 60.22 percent, from the current bill of \$21.60 to \$34.61. (Staff Ex. S-16, Sched. CSB-18.) An
2 average 5/8-inch x 3/4-inch meter residential customer in the former C&S systems (Gisela only), using
3 the average of 6,961 gallons per month, would experience an increase of \$37.00, or 135.53 percent,
4 from the current bill of \$27.30 to \$64.30. (*Id.*)

5 In response to Commissioner Pierce's May 1, 2014 letter, PWC filed four exhibits that set
6 forth the rate impact, assuming adoption of the Company/Staff revenue requirement recommendation,
7 for the following scenarios: 1) treating Gisela as a separate system, as is currently the case; 2)
8 consolidating Gisela with all other currently consolidated systems, but increasing the first commodity
9 tier for 5/8-inch x 3/4-inch meter customers from 3,000 gallons (as proposed by the Company and
10 Staff) to 5,000 gallons; 3) consolidating Gisela with all other currently consolidated systems, but
11 increasing the monthly customer charge for 5/8-inch x 3/4-inch meter customers (to \$25.00 from the
12 \$23.00 proposed by PWC and Staff) and reducing the amounts collected through the commodity
13 charges; and 4) consolidating Gisela with all other currently consolidated systems, increasing the
14 monthly customer charge for 5/8-inch x 3/4-inch meter customers (to \$28.75 from the \$23.00 proposed
15 by PWC and Staff), and increasing the first tier from 3,000 gallons to 6,000 gallons and increasing
16 the second tier from 10,000 gallons to 12,000 gallons. PWC also indicated that it would be willing to
17 undertake a pilot program for Gisela customers to allow an equalized payment option for those
18 customers.

19 Staff's response to Commissioner Pierce's letter also included four alternative rate scenarios.
20 In its first option, in which Gisela remains separate from the other systems, Staff increased the
21 monthly customer charge (from the \$23.00 proposed by PWC and Staff, to \$25.00 for all except
22 Gisela, and to \$26.00 for Gisela), and with lower commodity charges in all three tiers for Gisela
23 compared to the other systems. Under its second option, Staff maintained the customer charge at
24 \$23.00 for all customers, as recommended by the Company and Staff, and increased the first
25 commodity tier from 3,000 gallons to 5,000 gallons. In the third option, Staff increased the monthly
26 customer charge to \$25.00 for all customers, kept the commodity break-over points at 3,000 gallons
27 and 10,000 gallons, and reduced the commodity charges in the first and second tiers while increasing
28 the third tier commodity charge. In the fourth option, Staff increased the monthly customer charge to

1 \$27.00, kept the commodity break-over points at 3,000 gallons and 10,000 gallons, reduced the
2 commodity charges in the first and second tiers (compared to the Company/Staff recommendation in
3 this case), and decreased the third tier commodity charge compared to the third option.

4 Various Intervenors are in disagreement with the overall level of the proposed increase with
5 respect to the impact on all customers, but especially for those in the Gisela system.

6 **Positions of the Parties**

7 The positions of the parties, as set forth in their post-hearing briefs and reply briefs, are
8 summarized below.

9 **Payson Water Co.**

10 According to the Company, there are no issues in dispute between the Company and Staff.
11 The Company states that it is in agreement with Staff on a recommended revenue requirement of
12 \$610,256, rate of return of 9.0 percent, a FVRB of \$504,684, and operating expenses equal to
13 \$564,835. The Company asserts that the revenue requirement is based on what is necessary for the
14 Company to recover its cost of service, which includes a return on the fair value of used and useful
15 plant. The Company maintains that the adoption of Staff's recommended rate base, operating
16 expense levels, and rate of return will result in just and reasonable rates in accordance with *Scates v.*
17 *Arizona Corp. Comm'n*, 118 Ariz. 531, 578 P.2d 612 (App. 1978) ("*Scates*").

18 As indicated above, the Company is also in agreement with Staff's recommended rate design,
19 which follows the typical inverted three-tier design implemented for water utilities regulated by the
20 Commission. PWC claims that the proposed rate increase will be relatively higher in the C&S Water
21 system (*i.e.*, Gisela) because its rates are currently lower and water consumption is higher compared
22 to the United Utilities systems.

23 The Company further states that it is in agreement with Staff's recommended PWAM and
24 Water Augmentation Surcharge tariff for the MDC and EVP systems, respectively. According to the
25 Company, the PWAM for the MDC system is necessary to allow the Company to recover the cost of
26 water purchased from the Town of Payson. With respect to the EVP system, the Company states that
27 it is in agreement with Staff's recommendation that the Water Augmentation tariff be subject to an
28 annual cap of \$10,000. The Company maintains that adoption of Staff's rate design, including the

1 PWAM and Water Augmentation Surcharge tariff, should provide the Company with a reasonable
2 opportunity to recover its revenue requirement.

3 The Company claims that it has been working hard to improve the long-standing issues that
4 have plagued the Company and its customers for a number of years. The Company states that it is
5 commencing construction on the TOP-MDC pipeline, which will alleviate the need for the Company
6 to haul water to serve customers in the MDC system; it has reestablished water sharing agreements
7 with well owners in MDC, which wells are now subject to the Consent Order between the Company
8 and ADEQ; it has applied for a WIFA grant for the purpose of studying the water supply shortages in
9 the EVP system; it has established a new Customer Service Center in Arizona; it has replaced flow
10 meters on production wells in the Gisela and EVP systems that have historically shown more use than
11 production; and it has changed the Company's disconnection policy to notify customers by door
12 hanger in advance of physical water disconnection.

13 The Company submits that the proposed rate increase is necessary to ensure safe and reliable
14 service to its customers. The Company states that it is presently unable to pay its current bills or
15 attract the capital needed to make necessary system improvements. According to the Company, the
16 revenue increase recommended by Staff is the minimum the Company needs to begin the process of
17 becoming financially viable.

18 The Company contends that there is substantial evidence establishing that Staff's
19 recommendations result in just and reasonable rates. The Company states that only three of the seven
20 intervenors presented evidence in this case, none of whom presented rate schedules, a recommended
21 rate base, or appropriate levels of operating expenses. According to the Company, the evidence
22 submitted by the intervenors does not justify a denial of the rates recommended by Staff.

23 The Company argues that the intervenors' allegations of a conspiracy between Staff and the
24 Company "are as outrageous as they are false." The Company maintains that the Company and Staff
25 have acted in the public interest and states that the Commission should applaud the Company's
26 efforts to improve service while managing the Company through challenging financial conditions.
27 According to the Company, the Commission should summarily disregard the conspiracy claims
28 because they are unsupported allegations.

1 In response to Mr. Sheppard's argument that this matter should be dismissed for lack of
2 notice, the Company argues that there is no evidence showing that the Company failed to notify its
3 customers. According to the Company, notice was mailed to all customers of record and published in
4 the *Payson Roundup*, a local newspaper. The Company states that there were six customers who
5 offered public comment, as well as six separate customer Intervenors who actively participated in the
6 case, each from a different system. As a result, the Company argues that it is misleading to suggest
7 that customers were not aware of the rate filing or that they were deprived of an opportunity to
8 present the customer viewpoint.

9 In response to Mr. Sheppard's argument that the rate increase will have a detrimental impact
10 on ratepayers, the Company contends that rates may not be set based on what customers can afford.
11 The Company asserts that under Arizona law, the Commission is required to set rates that will
12 produce sufficient revenue to allow the utility to recover its operating expenses and earn a reasonable
13 rate of return on the fair value of its property devoted to public service. According to the Company,
14 rates that do not provide for recovery of operating expenses and a fair rate of return are not just and
15 reasonable by definition.

16 The Company claims that Mr. Sheppard's reliance on *Arizona Community Action Ass'n v.*
17 *Arizona Corp. Comm'n*, 123 Ariz. 228, 599 P.2d 184 (1979) ("*Arizona Community Action*") is
18 misplaced because that case does not stand for the proposition that the Commission may lower rates
19 below the cost of service to accommodate the financial capabilities of the customers. Rather, the
20 Company claims that *Arizona Community Action* is consistent with *Scates* and its progeny because
21 that case recognizes that "[a] utility has the right to assure its investors a reasonable return." *Arizona*
22 *Community Action*, 123 Ariz. at 231, 599 P.2d at 187. The Company asserts that Mr. Sheppard is
23 effectively asking the Commission to unlawfully deny the Company an opportunity to earn a fair
24 return on its investment.

25 In response to Mr. Ross and Mr. Gehring, the Company contends that the Commission should
26 disregard their briefs because their claims and allegations against Staff, the ALJ, and/or the Company
27 are not supported by any evidence or applicable law.

28 ...

1 In response to Mr. Bremer, the Company argues that his request to deny an increase in rates
2 due to the deteriorating condition of the EVP system is contrary to law and poor public policy.
3 According to the Company, denying the Company the funds it needs to operate will undermine its
4 ability to provide service and make it virtually impossible to attract capital to make the system
5 improvements that Mr. Bremer is requesting. In addition, the Company claims that forcing it to
6 provide below-cost service without an opportunity to earn a return on the fair value of its plant is
7 confiscatory and a violation of the Arizona Constitution and controlling case law.

8 The Company further argues that Mr. Bremer's opposition to the Water Augmentation
9 Surcharge tariff for the EVP system is unwarranted. According to the Company, the surcharge is in
10 the public interest because it functions as a safeguard to ensure that EVP has an adequate water
11 supply to serve its customers.

12 In response to Ms. Nee and Ms. Reidhead, the Company contends that their due process
13 violation claim with respect to the Phase 1 proceeding must fail because: both Ms. Nee and Ms.
14 Reidhead received notice of the Phase I proceeding prior to the date of hearing; the Phase 1 decision
15 cannot be collaterally attacked because it became final and non-appealable on November 15, 2013;
16 and the Phase 1 decision did not directly impact Ms. Nee or Ms. Reidhead because they are not
17 customers of MDC.

18 The Company opposes the requests of Ms. Nee and Ms. Reidhead for the Company's water
19 systems to be deconsolidated. According to the Company, all customers benefit from the economies
20 of scale from consolidated operations. In addition, the Company claims that the evidence presented
21 in this case shows that rates would be considerably higher if the systems were to operate as separate
22 systems with different operations and separate rates. As a result, the Company argues that there is no
23 reason to change the Commission's previous decision to consolidate these systems.

24 In response to Ms. Nee's argument that the Company's management fees are excessive, the
25 Company asserts that there is substantial evidence showing that these fees are reasonable and
26 prudent. According to the Company, these costs are reasonable when compared with similarly
27 situated utilities and are lower than the test year cost under the previous owner. The Company
28

1 contends that Ms. Nee has not presented substantial evidence to warrant a change in the management
2 fee expense recommended by Staff and the Company.

3 **Staff**

4 Staff contends that its recommendations in this proceeding are just and reasonable and should
5 be adopted. With respect to the Company's rate base, Staff recommends an OCRB and FVRB equal
6 to \$504,684. Staff notes that the increase from Staff's recommended OCRB in its direct testimony is
7 the result of accepting the Company's adjustment to accumulated deferred income tax ("ADIT").
8 According to Staff, the Company's adjustment to ADIT was accepted because the new owner was
9 likely to experience difficulties in obtaining tax information and documents from prior years and
10 because the amount was not unreasonable in light of Staff's adjustment to CIAC. Staff notes that the
11 Company is in agreement with Staff's recommended OCRB.

12 With respect to operating income, Staff recommends that the Commission adopt the
13 Company's proposed corporate office allocation expense of \$173,903. According to Staff, this
14 expense reflects the contractual fees charged by JW Water Holdings, LLC for management services.
15 Staff states that it has reviewed these fees and has accepted the Company's proposed expenses.

16 With respect to cost of capital, Staff submits that the Company's capital structure consists of
17 0.0 percent debt and 100.0 percent equity. Staff states that the \$275,000 debt authorized in the Phase
18 1 decision was excluded from the Company's overall capital structure because only MDC customers
19 are responsible for repayment of that debt. Staff recommends a capital structure consisting of 100
20 percent equity and a cost of equity of 9.0 percent, for an overall rate of return of 9.0 percent. Staff
21 notes that the Company is in agreement with Staff's recommended capital structure and rate of return.

22 With respect to Staff's engineering analysis, Staff recommends that the Company file a water
23 loss reduction plan for the Geronimo Estates, Meads Ranch, and Whispering Pines systems. Staff
24 also recommends that the Company conduct a study regarding water supply shortages in the EVP
25 system and implement a moratorium on new hook-ups to that system. Staff indicates that the
26 Company is in agreement with these recommendations. Staff further indicates that the Company has
27 agreed to implement the five BMPs selected for the MDC system in Phase 1 for the Company's
28 remaining systems.

1 Staff stated that the Company was previously not in compliance with ADEQ. At the hearing,
2 Staff recommended that rates become effective the first day of the month following the filing by the
3 Company of either a report that the Company is in compliance with ADEQ or consent agreement
4 with ADEQ to address its current Notice of Violation. After the hearing was concluded, Staff notes
5 that it received a copy of the Consent Order between the Company and ADEQ on March 4, 2014.

6 With respect to rate design, Staff recommends a monthly charge of \$23.00 for 5/8-inch x 3/4-
7 inch meter customers. Staff further recommends that for the first 3,000 gallons, the commodity
8 charge be \$4.00 for the first tier, \$7.66 for the second tier (between 3,001 and 10,000 gallons), and
9 \$9.62 for the third tier (over 10,000 gallons). Staff also recommends that the Company implement a
10 PWAM for the MDC system to enable the Company to recover the cost of water purchased from the
11 Town of Payson. Staff states that avoided production costs (e.g., purchased pumping power and
12 chemicals) should be subtracted from the additional cost of purchased water because those costs
13 would continue to be recovered through the Company's base rates, even though the Company would
14 not incur those costs when alternative water supplies are purchased. Staff further states that the MDC
15 Water Augmentation tariff is no longer needed as a result of the MDC system pipeline and is
16 recommending its cancellation.¹⁹ Staff notes that the Company is in agreement with Staff's proposed
17 PWAM for the MDC system.

18 Staff further recommends approval of a Water Augmentation tariff for the EVP system. Staff
19 states that the recommended tariff is similar to the tariff implemented in the MDC system, except that
20 the total amount of purchased water cannot exceed a cost of \$10,000 during any given year.
21 According to Staff, the \$10,000 cap on purchased water is reasonable because it will incent the
22 Company to find a more permanent solution to the water shortages and alleviate customer concerns
23 regarding perceived Company abuse in allegedly purchasing more water than is necessary for the
24 EVP system. Staff notes that the Company is in agreement with Staff's recommended Water
25 Augmentation tariff for the EVP system.

26 ...

27 _____
28 ¹⁹ The MDC Water Augmentation Surcharge tariff was canceled in Decision No. 74484 concurrent with the interim approval of the PWAM for the MDC system.

1 Staff additionally recommends that the Company file a permanent rate application using a
2 2016 test year by no later than June 30, 2017. Staff further recommends that the Company develop a
3 record keeping policy and file that policy with Docket Control within 60 days of a decision in this
4 matter. According to Staff, the Company has indicated that Staff's record keeping recommendation
5 is reasonable.

6 In response to the intervening parties, Staff argues that notice was proper in the Phase 1
7 proceeding for several reasons. First, Staff notes that the Phase 1 decision is final and non-
8 appealable. As a result, Staff contends that the Intervenors are precluded from challenging the notice
9 associated with the Phase 1 decision.

10 Second, Staff asserts that the notice associated with Phase 1 was issued in accordance with
11 Arizona law. Pursuant to A.A.C. R14-2-105, all public service corporations must provide notice of
12 their rate applications in a form and manner directed by the Commission in a Procedural Order.
13 Further, A.A.C. R14-3-109 provides that notice is to be given at least 10 days prior to a hearing
14 "unless otherwise provided by law or as ordered by the Commission." Consistent with these
15 regulations, Staff states that the Procedural Order issued on September 10, 2013 required notice to be
16 mailed to customers and published in a newspaper of general circulation. According to Staff, notice
17 was proper because the Company complied with the Commission's Order.

18 Furthermore, Staff contends that notice was proper notwithstanding the fact that the notice
19 was mailed in a plain white envelope with a return address that did not belong to the Company.
20 According to Staff, the general rule is that someone having actual notice is not prejudiced by, and
21 may not complain of, the failure to receive statutory notice. Staff notes that twelve people gave
22 public comment during the Phase 1 proceeding, six of whom were granted intervention in Phase 2.
23 Staff asserts that these individuals are therefore precluded from claiming that they did not receive
24 notice.

25 Staff claims that under the "mail delivery rule," there is a presumption that a letter properly
26 addressed, stamped, and mailed will reach the addressee. Staff states that proof of mailing will,
27 absent any evidence to the contrary, establish that delivery occurred. Since there was no testimony
28

1 presented in either Phase 1 or Phase 2 that notice was not actually received, Staff contends that the
2 Company is entitled to the presumption that the notice reached its intended recipients.

3 Staff disputes the Intervenor's claim that their due process rights were violated in connection
4 with the Phase 1 proceeding. To the contrary, Staff maintains that Mr. Bremer, Ms. Nee, and Ms.
5 Reidhead demonstrated their ability to participate by appearing at the Phase 1 proceeding to provide
6 public comment. Staff notes that at no time did these individuals request intervention. Staff contends
7 that there is no due process violation because these individuals were not directly affected by the
8 Commission's Phase 1 decision; they were allowed to intervene and participate in the Phase 2
9 proceeding which will set rates for their respective communities; and they were allowed to fully
10 present evidence and cross-examine witnesses in the Phase 2 proceeding. In addition, Staff contends
11 that notice was not required for the Phase 1 proceeding because the Commission was granting
12 emergency interim rate relief, which does not require notice or an opportunity to be heard.

13 Staff disputes the Intervenor's claim that the Phase 1 proceeding impacts the rates that will be
14 set in the Phase 2 proceeding. Staff states that the surcharge established in the Phase 1 proceeding
15 was set at a level that will enable the Company to recover the monthly payments of principal, interest
16 and fees, and the debt service reserve fund. According to Staff, the surcharge will allow the
17 Company to service that debt obligation independent of any rates that are set as a result of the Phase 2
18 proceeding. Additionally, Staff notes that the surcharge is only being assessed to the MDC system
19 customers.

20 Staff opposes the requests of Ms. Nee and Ms. Reidhead that the Company's water systems be
21 deconsolidated. According to Staff, there are benefits that favor consolidation of the Company's
22 systems, including economies of scale; lower average customer costs; revenue stability; and
23 mitigating the effect of cost spikes.

24 Staff disputes the Intervenor's arguments that more wells should be drilled in the MDC
25 system in lieu of constructing the TOP-MDC pipeline. Staff argues that drilling wells is risky
26 because if the well is dry, the Company is not allowed to recoup the costs of drilling that well through
27 rates. Staff maintains that, given the low production of wells in the MDC system, the TOP-MDC
28 pipeline provides a secure source of water for the MDC system.

1 With respect to Mr. Bremer's alternative proposal to shift the burden of paying the PWAM
2 surcharge to EVP system customers with higher water consumption, Staff claims that it would be
3 difficult to obtain the necessary water use information to make such a proposal workable. Staff states
4 that its recommendation regarding the PWAM should be adopted because it is less complicated and
5 more reasonable.

6 Staff also disputes the Intervenor's allegations of misconduct by Staff, the ALJ, and the
7 Company in these proceedings. According to Staff, there is no basis in the record to support
8 allegations that Staff and the ALJ conspired with the Company against the interests of the customers
9 of the Company. Staff similarly claims that there is no evidence of bias on the part of Staff or the
10 ALJ. Staff states that the universal rule is that government officials have a presumption of honesty
11 and integrity which is a difficult burden of persuasion to overcome. Staff argues that the proceedings
12 were conducted in a fair and impartial manner and that any allegations to the contrary should be
13 disregarded.

14 **Ms. Reidhead**

15 Ms. Reidhead contends that her due process rights have been violated because she was unable
16 to intervene in the Phase 1 proceeding due to inadequate notice. Although she acknowledges
17 receiving notice of the Phase 1 hearing on September 20, 2014, Ms. Reidhead argues that she did not
18 have enough time to intervene in or prepare for the hearing held on September 25, 2014. Ms.
19 Reidhead asserts that for notice to be timely under A.A.C. R14-3-109, notice should have been
20 provided on September 15, 2014. According to Ms. Reidhead, the proper remedy for this due process
21 violation would be to reverse and remand the Phase 1 decision pursuant to A.R.S. § 40-252.

22 Ms. Reidhead maintains that the Commission would have reached a different decision in
23 Phase 1 if she had been allowed to participate because she would have exposed certain false data and
24 narrative proffered by the Company and Staff. Ms. Reidhead argues that the evidence submitted in
25 Phase 2 does not support the Company's claim in Phase 1 that the interconnect pipeline project for
26 the MDC system was warranted. In particular, Ms. Reidhead argues that there is no clear evidence to
27 show that water hauling to the MDC system was necessary or prudent during the last five summers;
28 there are inconsistencies with the Company's water usage data and Annual Reports; the Company did

1 not explore or consider less expensive alternatives to water hauling over the last five years; pursuing
2 the Cragin water reservoir as a long term solution for water supply is not prudent; there is no
3 evidence that the Company made any efforts to mitigate the costs of the water hauling expense; and
4 the Company's other systems will have to pay for the interconnect pipeline at the MDC system.

5 With respect to the Phase 1 proceeding, Ms. Reidhead contends that the Company has failed
6 to substantiate its proposed test year operating expenses. According to Ms. Reidhead, there are
7 irregularities and inconsistencies associated with the proposed repairs and maintenance expense,
8 miscellaneous expense, and corporate office allocation expense. As a result, Ms. Reidhead claims
9 that the proposed rates are not based on the Company's actual cost of service. Ms. Reidhead
10 maintains that the financial records of the Company should be thoroughly examined for the period
11 2001 to 2013 to investigate the increase in the Company's operating expenses. In addition, Ms.
12 Reidhead requests that the Commission contact the Attorney General and cooperate with a criminal
13 investigation to ensure that the Company is not defrauding ratepayers by pursuing the Cragin water
14 reservoir option.

15 Ms. Reidhead argues that the Phase 1 decision has "polluted the process" of setting rates in
16 Phase 2 because Phase 1 contemplates that the Company will achieve a debt service coverage
17 ("DSC") ratio of 1.2 or greater. Ms. Reidhead contends that Staff's adjustments to its recommended
18 rate of return and ADIT during the course of the Phase 2 proceeding were made to ensure that the
19 Company achieved a DSC ratio of 1.2 or greater. Ms. Reidhead asserts that her due process rights
20 were violated because she was prevented from asking questions pertaining to the DSC ratio during
21 the Phase 2 proceeding.

22 Ms. Reidhead contends that the imprudent actions of the Company caused its financial health
23 to deteriorate. In support, Ms. Reidhead states that the proposed test year operating expenses were
24 questionably high and that issuing a \$352,206 dividend to the former shareholder in 2013 was an
25 egregious violation of public trust. With respect to the dividend distribution, Ms. Reidhead submits
26 that a criminal investigation should commence to determine whether there was collusion between Mr.
27 Hardcastle and Mr. Williamson at the time of the sale of the Company.

28 ...

1 Ms. Reidhead argues that the proposed consolidation of rates and inverted tier rate structure
2 are discriminatory because the ratepayers in the Gisela system will pay a disproportionately higher
3 share of the proposed rate increase. According to Ms. Reidhead, the Gisela system differs from the
4 Company's other systems in that the Gisela system has the highest water usage; abundant water
5 resources; many impoverished ratepayers that grow gardens and raise livestock for sustenance; and a
6 hotter climate due to its lower elevation in the Tonto Creek Basin. Ms. Reidhead states that it is
7 unreasonable to economically sanction users in the Tonto Creek Basin at the same consumption tiers
8 as those in the cooler Verde River Basin, where water resources are scarce. Ms. Reidhead argues that
9 the proposed consolidation of rates and inverted rate tier structure violate A.R.S. § 40-203.

10 In response to the Company's Initial Closing Brief, Ms. Reidhead disputes the Company's
11 assertion that it has likely been subsidizing the ratepayers for many years. Ms. Reidhead argues that
12 this assertion should be disregarded because it is not supported by the evidence in this case.

13 In response to Staff's Initial Closing Brief, Ms. Reidhead disputes Staff's statement that the
14 MDC system has had water supply issues since the 1990's. Ms. Reidhead argues that this statement
15 should be disregarded because it is not supported by the evidence in this case.

16 **Ms. Nee**

17 Ms. Nee contends that her due process rights have been violated because she was unable to
18 intervene in the Phase 1 proceeding due to inadequate notice. Although she acknowledges receiving
19 notice of the Phase 1 hearing held on September 20, 2014, Ms. Nee argues that she did not have
20 enough time to intervene in and prepare for the hearing on September 25, 2014. Ms. Nee asserts that
21 for notice to be timely under A.A.C. R14-3-109, notice should have been provided on September 15,
22 2014. According to Ms. Nee, the proper remedy for this due process violation is to reverse and
23 remand the Phase 1 decision.

24 Ms. Nee maintains that the Phase 1 proceeding was her only opportunity to argue the facts
25 relevant to setting rates. Ms. Nee contends that the Commission should rescind the Phase 1 decision
26 pursuant to A.R.S. § 40-252 because there are irregularities with the evidence presented; there is
27 newly discovered material evidence; and the evidence presented during the Phase 2 proceeding does
28 not justify the Phase 1 decision. More specifically, Ms. Nee argues that there are inconsistencies with

1 the Company's water usage data and Annual Reports that contradict the Company's claim that there
2 was a "dire need" for water in the MDC system.

3 With respect to the Phase 2 proceeding, Ms. Nee contends that the Company made no attempt
4 to control its miscellaneous expense, rate case expense, and management fee. Ms. Nee argues that
5 the proposed management fee is unreasonable because Mr. Williams manages seven other utilities
6 and does not maintain timesheets to document the time devoted to each utility. Ms. Nee also argues
7 that the Company's miscellaneous expenses are unreasonable because they have increased faster than
8 the rate of inflation over the past five years. Ms. Nee further argues that the proposed rate case
9 expense of \$65,000 is excessive and is more representative of the rate case expense for a utility that
10 has 10 to 20 times the revenue of the Company. Ms. Nee contends that the Company's inability to
11 control its expenses results in higher rates that are neither fair nor reasonable to ratepayers.

12 Ms. Nee argues that the Mead Ranch system should be deconsolidated from the other systems
13 operated by the Company. According to Ms. Nee, it is not cost effective to connect the Mead Ranch
14 system, which has only 69 customers and is more than 22 miles away from the point of connection.

15 **Mr. Sheppard**

16 Mr. Sheppard argues that this case cannot proceed because notice of the Company's
17 application was deficient. According to Mr. Sheppard, notice of the application was sent to
18 customers in a plain envelope bearing a return address with no correlation to any address utilized by
19 the Company. Mr. Sheppard cites the testimony of Ms. Nee who testified that she almost threw the
20 notice away because she believed it was "junk mail." Mr. Sheppard argues that since there is no way
21 of knowing how many customers did not receive notice of the application, the application should be
22 denied and the Company should be directed to re-file its application and provide proper notice to its
23 customers.

24 Mr. Sheppard further argues that the rate increase should be denied because there is evidence
25 that the residents living in the affected areas cannot afford an increase of 120 percent. Mr. Sheppard
26 cites *Arizona Community Action, supra*, for the proposition that the Commission must consider the
27 interests of both the public service corporation and its ratepayers in setting just and reasonable rates.
28 According to Mr. Sheppard, a reasonable rate is one which is as fair as possible to all interests

1 involved. Mr. Sheppard argues that the proposed rates are not reasonable because neither Staff nor
 2 the Company conducted any survey or analysis to determine whether the proposed rates will have a
 3 negative effect on ratepayers.

4 In the event that the Commission grants an increase in rates, Mr. Sheppard contends that the
 5 increase should be gradual and adjusted every few years. Although he acknowledges that the
 6 Company has not increased its rates in approximately 14 years, Mr. Sheppard asserts that it is
 7 unreasonable to expect ratepayers to shoulder the financial burden all at once. Mr. Sheppard requests
 8 that the rate increase should be staggered at 10 to 20 percent per annum until the Company comes
 9 before the Commission for another rate case.

10 In his Reply Brief, Mr. Sheppard notes that Mr. Richard Burt, an Intervenor to this
 11 proceeding, died on March 18, 2014. Mr. Sheppard contends that under Rule 25 of the Arizona Rules
 12 of Civil Procedure, this proceeding must be stayed 90 days until June 18, 2014. According to Mr.
 13 Sheppard, this case cannot proceed until there has been an opportunity for a personal representative
 14 of Mr. Burt's Estate to be substituted into this proceeding and file a closing brief on behalf of the
 15 Estate.

16 **Mr. Bremer**²⁰

17 Mr. Bremer argues that no rate increase or water hauling surcharges should be granted in this
 18 proceeding in light of the Company's history of chronic water restrictions during the summer months
 19 and the decaying condition of the Company's water system. According to Mr. Bremer, the Company
 20 acknowledged the need for water system improvements in 2001, but took no action.

21 Mr. Bremer requests that any rate and fee increases be tied to an integrated plan and
 22 commitment by the Company to prevent chronic water shortages, lower water pressure, and the need
 23 for water hauling in the EVP system. Mr. Bremer notes that the Company has addressed similar
 24 issues in the MDC system, and argues that there is no justification for the Company's other systems
 25 to not be given the same consideration.

26 . . .

27 ²⁰ Mr. Bremer's Final Brief and Reply Brief purport to represent the positions of all customers in the East Verde Park
 28 system. However, we note that since Mr. Bremer is not an attorney, he is only authorized to represent himself in this
 proceeding.

1 In the event that the Commission grants a rate increase, Mr. Bremer requests that Commission
2 implement rates that are just and reasonable. Mr. Bremer states that the pleas of EVP customers are
3 documented in over 40 public comment and complaint filings in this docket. Mr. Bremer argues that
4 while Staff's proposed rates are less detrimental than the Company's initially proposed rates, Staff's
5 proposed rates will still result in a hardship for many ratepayers, especially those individuals who are
6 retired and on fix incomes. Mr. Bremer states that an increase in rates seems unfair at a time when
7 EVP system ratepayers experience severe water restrictions for five months out of the year.

8 Mr. Bremer opposes the implementation of a water hauling surcharge in the EVP system for
9 several reasons. First, Mr. Bremer argues that the Commission previously rejected a water hauling
10 surcharge for the EVP system because the Company could not demonstrate that it was facing
11 emergency conditions. In support, Mr. Bremer cites to a Staff Memorandum filed on July 19, 2012 in
12 Docket No. W-03514A-12-0300. Since there continues to be no emergency that causes summer
13 water shortages, Mr. Bremer argues that the Commission should reject the Company's request to
14 implement a water hauling surcharge for the EVP system.

15 Second, Mr. Bremer argues that the Commission should reject the water hauling surcharge
16 because the Company is not able to accurately track the amount of water being hauled to the system.
17 According to Mr. Bremer, the EVP system produced and hauled approximately 128,000 gallons more
18 than it consumed during the months of June, July, and August of 2013. Mr. Bremer argues that the
19 excess water is either the result of bad data or evidence that the Company is hauling water out of the
20 EVP system. Under either scenario, Mr. Bremer asserts that a water hauling surcharge is not
21 warranted for the EVP system.

22 In the event that the Commission grants a water hauling surcharge, Mr. Bremer requests that
23 the surcharge be capped at no higher than \$10,000 per year. Mr. Bremer further requests that the
24 Commission shift the burden of paying the water hauling surcharge to customers with higher water
25 consumption as set forth in Mr. Bremer's February 14, 2014 filing in this docket. Mr. Bremer states
26 that the purpose of this request is to mitigate the impact on low income ratepayers who already
27 conserve water and do not cause the production shortfalls.

28 ...

1 In his Reply Brief, Mr. Bremer further requests that the Commission deny Staff's
2 recommendation for a moratorium on new hook-ups to the EVP system. According to Mr. Bremer,
3 the community in the EVP system is close to 90 percent developed. Mr. Bremer states that there is
4 no indication that a significant number of the remaining properties will require new hook-ups before
5 the Company's next rate case. As a result, Mr. Bremer argues that a moratorium on new hook-ups is
6 not necessary.

7 **Mr. Gehring**

8 Mr. Gehring contends that the Company's previous owner, Mr. Hardcastle, made material
9 misrepresentations regarding the MDC system in Docket Nos. W-03514A-12-0007 and W-03514A-
10 12-0008. Mr. Gehring asserts that Mr. Hardcastle engaged in a policy of using the water hauling
11 surcharge to defraud the customers of MDC. According to Mr. Gehring, the Company's current
12 owner has adopted a similar policy to defraud the customers of MDC. Mr. Gehring opines that the
13 Attorney General should investigate the allegations of fraud at the MDC system. Mr. Gehring
14 criticizes Staff, the ALJ, and the Commission for failing to hold the Company accountable for its
15 alleged criminal activities and mismanagement. Mr. Gehring asserts that the primary reason the
16 Company is requesting a rate increase is due to the failure or refusal of Mr. Hardcastle to properly
17 maintain its water systems and facilities.

18 Mr. Gehring argues that the Gisela system should not be subjected to water conservation
19 measures because doing so would be detrimental to the customers of that system. According to Mr.
20 Gehring, the Gisela system has adequate capacity to supply its customers and their agricultural needs.
21 Mr. Gehring suggests that increasing rates to incent customers to engage in water conservation
22 measures would be devastating to that community.

23 Mr. Gerhing contends that the proposed rate increase is unwarranted and unreasonable
24 because it will not improve the Company's water systems. According to Mr. Gehring, a consumer's
25 right extends beyond economic injuries and includes actions that bear upon quality. Mr. Gehring
26 states that administrative decisions affecting environmental quality should give the consumers of the
27 environment the same right to be heard before those decisions are made. Mr. Gehring urges the
28 Commission to protect the interests of the consumers.

1 Mr. Gehring requests that the Commission reduce the requested rate increase by half. Mr.
2 Gehring further requests that the Commission issue a recommendation to the Attorney General to
3 investigate the alleged criminal activities of the Company and its previous owner, as well as the
4 conduct of Staff and the ALJ with respect to their participation in the proceedings beginning with the
5 Company's application for a water augmentation surcharge in 2010.

6 **Mr. Ross**

7 Mr. Ross argues that Staff and the Company provided inadequate notifications to ratepayers,
8 untimely responses, and misleading information as to dates and procedures. Mr. Ross claims that
9 Staff and the ALJ engaged in "trickery" and made a "mockery" of the judicial process by limiting the
10 scope and participation of the Intervenors in the Phase 1 and 2 proceedings. In addition, Mr. Ross
11 claims that Staff's counsel tampered with Staff's witnesses during the course of the hearing. Mr.
12 Ross states that three people present during the hearing are willing to testify in support of this claim.

13 Mr. Ross states that the Intervenors sacrificed great time and expense to travel to the hearings.
14 Mr. Ross claims that the testimony of the Company is bogus and that the transcript from this
15 proceeding will show that Staff and the Company engaged in pretrial discrimination and collusion.

16 Mr. Ross states that the Company's failure to properly account for a \$352,206 disbursement
17 on the Company's books is questionable. Mr. Ross suggests that the Company's characterization of
18 this disbursement as a dividend distribution is suspicious because this amount was previously
19 unaccounted for in the Company's accounting records. Mr. Ross criticizes the ALJ for failing to
20 require the proper process of accountability with respect to the Company's records.

21 Mr. Ross also questions whether it is appropriate for the Company to issue a \$352,206
22 dividend to its shareholder and then seek an increase in rates. According to Mr. Ross, the requested
23 rate increase may not have been necessary if the Company retained the amount of the distributed
24 dividend as equity.

25 Mr. Ross further questions why there was no request or notification regarding the sale of BUI
26 during the pendency of this rate case. Mr. Ross claims that the change in ownership deprived the
27 Intervenors of adequate discovery because the new owner did not have access to older files.

28 ...

1 Mr. Ross claims that many of the Company's ratepayers did not receive notice of the Phase 2
2 hearing. According to Mr. Ross, those ratepayers who did receive notice complained that the notice
3 was mailed in an envelope that resembled "junk mail."

4 **Issues Raised by Intervenors**

5 **Due Process and Notice for Phase 1 Financing Approval**

6 Ms. Reidhead and Ms. Nee both contend that their due process rights have been violated
7 because they were unable to intervene in the Phase 1 proceeding due to inadequate notice.²¹
8 Although they acknowledge receiving notice of the Phase 1 hearing on September 20, 2014, Ms.
9 Reidhead and Ms. Nee argue that they did not have enough time to intervene in or prepare for the
10 hearing held on September 25, 2014. Ms. Reidhead and Ms. Nee assert that for notice to be timely
11 under A.A.C. R14-3-109, notice should have been provided on September 15, 2014. According to
12 Ms. Reidhead and Ms. Nee, the proper remedy for this alleged due process violation would be to
13 reverse and remand the Phase 1 decision pursuant to A.R.S. § 40-252.

14 Ms. Reidhead maintains that the Commission would have reached a different decision in
15 Phase 1 if she had been allowed to participate because she would have exposed certain false data and
16 narrative proffered by the Company and Staff. Ms. Reidhead argues that the evidence submitted in
17 Phase 2 does not support the Company's claim in Phase 1 that the interconnect pipeline project for
18 the MDC system was warranted.

19 Ms. Nee maintains that the Phase 1 proceeding was her only opportunity to argue the facts
20 relevant to setting rates. Ms. Nee contends that the Commission should rescind the Phase 1 decision
21 pursuant to A.R.S. § 40-252 because there are irregularities with the evidence presented; there is
22 newly discovered material evidence; and the evidence presented during the Phase 2 proceeding does
23 not justify the Phase 1 decision.

24 Mr. Sheppard argues that this case cannot proceed because notice of the Company's
25 application was deficient. According to Mr. Sheppard, notice of the application was sent to
26

27
28 ²¹ Although Mr. Bremer does not specifically assert that his due process rights were violated, he states in his Closing Brief that insufficient notice precluded the full participation of East Verde Park ratepayers at the Phase 1 hearing.

1 customers in a plain envelope bearing a return address with no correlation to any address utilized by
2 the Company.

3 In response to Ms. Nee and Ms. Reidhead, the Company contends that their due process
4 violation claim with respect to the Phase I proceeding must fail because: both Ms. Nee and Ms.
5 Reidhead received notice of the Phase I proceeding prior to the date of hearing; the Phase I decision
6 cannot be collaterally attacked because it became final and non-appealable on November 15, 2013;
7 and the Phase I decision did not directly impact Ms. Nee or Ms. Reidhead because they are not
8 customers of MDC. In response to Mr. Sheppard's argument that this matter should be dismissed for
9 lack of notice, the Company argues that there is no evidence showing that the Company failed to
10 notify its customers.

11 Staff disputes the intervenors' claim that their due process rights were violated in connection
12 with the Phase 1 proceeding. To the contrary, Staff maintains that Mr. Bremer, Ms. Nee, and Ms.
13 Reidhead demonstrated their ability to participate by appearing at the Phase 1 proceeding to provide
14 public comment. Staff notes that at no time did these individuals request intervention. Staff contends
15 that there is no due process violation because these individuals were not directly affected by the
16 Commission's Phase 1 decision; they were allowed to intervene and participate in the Phase 2
17 proceeding which will set rates for their respective communities; and they were allowed to fully
18 present evidence and cross-examine witnesses in the Phase 2 proceeding. In addition, Staff contends
19 that notice was not required for the Phase 1 proceeding because the Commission was granting
20 emergency interim rate relief, which does not require notice or an opportunity to be heard.

21 Discussion and Resolution

22 We are not persuaded that the due process rights of Ms. Reidhead, Ms. Nee, and Mr. Bremer
23 were violated during the Phase 1 proceeding. Although these intervenors contend that inadequate
24 notice precluded their ability to intervene in the Phase 1 proceeding, the record does not support such
25 a contention. Rather, Ms. Reidhead, Ms. Nee, and Mr. Bremer all acknowledge receiving notice of
26
27
28

1 the Phase 1 proceeding in advance of the hearing. In addition, Ms. Reidhead and Mr. Bremer
2 appeared at and participated in the Phase 1 proceeding by providing public comment.²²

3 A threshold requirement to a substantive or procedural due process claim is a claimant's
4 "showing of a liberty or property interest protected by the Constitution." *Aegis of Arizona, LLC v.*
5 *Town of Marana*, 206 Ariz. 557, 568, 81 P.3d 1016, 1027 (App. 2003). Once a protected interest is
6 shown, the issue becomes whether the deprivation of that interest resulted from an abuse of
7 governmental power that "shocks the conscience." *Id.* at 569, 81 P.3d at 1028.

8 As indicated in the Phase 1 decision (p. 4, fn. 2), Ms. Reidhead, Ms. Nee, and Mr. Bremer
9 were not affected by the Phase 1 proceeding because they are not customers of the MDC system.²³
10 As a result, these Intervenors did not have a protected interest to intervene in the Phase 1 proceeding.
11 See A.A.C. R14-3-105 (intervention may be allowed for those persons "who are directly and
12 substantially affected by the proceedings"). Even assuming these intervenors had a protected interest,
13 we do not believe the issuance of notice of the Phase 1 proceeding "shocks the conscience." As
14 discussed above, these intervenors received notice in advance of the Phase 1 proceeding and several
15 participated in the proceeding to provide public comment. Accordingly, we find that the Phase 1
16 proceeding did not deny due process to these intervenors.

17 We are also not persuaded that notice of the Phase 1 proceeding was defective. Pursuant to
18 A.A.C. R14-3-109, 10 day notice is to be given prior to a hearing "unless otherwise provided by law
19 or as ordered by the Commission." As indicated in the Phase 1 decision (p. 4, fn. 2), the WIFA
20 deadline for financing approval by the Commission necessitated the scheduling of an expedited
21 hearing in Phase 1 in order for the first phase of the pipeline project to be completed by the summer
22 of 2014. By Procedural Order dated September 10, 2013, the Phase 1 hearing was scheduled to
23 commence on September 25, 2013, and PWC was ordered to provide notice to its customers on
24 September 20, 2013. Given the urgency of the circumstances, we find that notice of the Phase 1
25 proceeding was reasonable and lawfully issued in accordance with A.A.C. R14-3-109.

26
27 ²² We note that Mr. Sheppard and Mr. Gehring also appeared at and participated in the Phase 1 hearing by providing
public comment.

28 ²³ We note that Mr. Bremer and Mr. Sheppard are also not customers of the MDC system.

1 Although several Intervenors take issue with the fact that notice was mailed in a plain
 2 envelope, there is no evidence showing that any customer actually failed to receive that notice.
 3 Notably, none of the Intervenors dispute having received notice of the Phase 1 proceeding in advance
 4 of the hearing date. Although Ms. Nee claims that she initially thought the notice was “junk mail,”
 5 she nonetheless acknowledges opening the letter and reading the notice.

6 Even if there were customers who did not actually receive notice, this fact would not render
 7 the notice defective. The evidence presented in this case shows that notice was mailed to all
 8 customers of record, as well as published in the *Payson Roundup*, a local newspaper. As noted by
 9 Staff, Arizona recognizes the “mail delivery rule” which creates a rebuttable presumption that “a
 10 letter properly addressed, stamped, and deposited in the United States mail will reach the addressee.”
 11 *Lee v. State*, 218 Ariz. 235, 237, 182 P.3d 1169, 1171 (2008). Since there was no evidence presented
 12 to rebut that presumption, we conclude that notice was delivered to the customers as a matter of law.

13 We do not believe it is appropriate to grant the requests of Ms. Reidhead and Ms. Nee to
 14 reopen the Phase 1 decision pursuant to A.R.S. § 40-252. As stated above, Ms. Reidhead and Ms.
 15 Nee are not customers of the MDC system and therefore do not have a direct interest in the Phase 1
 16 decision. Moreover, we do not believe the evidence presented by the intervenors at the Phase 2
 17 proceeding warrant a modification to the Phase 1 decision. As stated in the Phase 1 decision (p. 12),
 18 the Commission’s review was narrowly limited to considering the reasonableness of the financing
 19 request in the context of whether it: was for a lawful purpose; was within the Company’s corporate
 20 powers; and was able to be repaid under reasonable terms and conditions. Although the Intervenors
 21 argue that PWC’s water usage and hauling charges were inaccurate and that there are less expensive
 22 options than the TOP-MDC interconnect, these arguments are not relevant to the limited scope of the
 23 Phase 1 decision.²⁴

24 **Request to Stay the Phase II Proceeding**

25 In his Reply Brief, Mr. Sheppard notes that Mr. Richard Burt, an Intervenor to this
 26 proceeding, passed away on March 18, 2014. Mr. Sheppard contends that under Rule 25 of the

27 _____
 28 ²⁴ As stated in the Phase 1 decision (p. 12), “we wish to make clear that we are not making any determination as to the future used and usefulness or ratemaking treatment for the proposed TOP-MDC pipeline.”

1 Arizona Rules of Civil Procedure, this proceeding must be stayed 90 days, until June 18, 2014.
2 According to Mr. Sheppard, this case cannot proceed until there has been an opportunity for a
3 personal representative of Mr. Burt's estate to be substituted into this proceeding and file a closing
4 brief on behalf of the estate.

5 **Discussion and Resolution**

6 We believe there are several compelling reasons why it would be neither appropriate nor
7 necessary to stay this proceeding for 90 days in order to allow substitution under Rule 25 of the
8 Arizona Rules of Civil Procedure. First, we note that the Commission is not strictly bound by the
9 Arizona Rules of Civil Procedure. Pursuant to A.A.C. R14-3-101(A), the Commission's own "Rules
10 or Practice and Procedure shall govern in all cases before the Corporation Commission" and the
11 Rules of Civil Procedure only apply in "cases in which procedure is set forth neither by law, nor by
12 [the Commission's] rules, nor by regulations or orders of the Commission." We also note that any
13 procedure providing for a mandatory stay of a rate case proceeding would be at odds with the
14 Commission's constitutional, statutory, and regulatory authority to set just and reasonable rates. *See,*
15 *e.g.,* ARIZ. CONST. Art. XV sec. 3; A.R.S. § 40-203; *and* A.A.C. R14-2-103(B)(11)(d)(setting forth
16 the deadlines in which the Commission must render its final decision in rate cases). Accordingly, we
17 find that Rule 25 does not apply to Commission rate case proceedings.

18 Additionally, even assuming that Rule 25 applies to Commission rate case proceedings, we do
19 not believe the rule is applicable to this particular case. Rule 25 provides a vehicle for accomplishing
20 substitution only when "a party dies and the claim is not [] extinguished." In this case, it is clear that
21 Mr. Burt's claim has been extinguished because he no longer has an interest in the future rates and
22 charges that will ultimately be set by the Commission. As a result, it is not appropriate to substitute
23 Mr. Burt for his estate as an Intervenor in this proceeding.

24 **Level of Miscellaneous Fee Expense and Rate Case Expense**

25 Ms. Reidhead contends that the Company's proposed test year operating expenses should be
26 viewed with suspicion. According to Ms. Reidhead, the Company has experienced exceedingly high
27 increases in its expenses, beginning in 2001. As a result, Ms. Reidhead claims that the proposed rates
28 are not based on the Company's actual cost of service. Ms. Reidhead maintains that the financial

1 records of the Company should be thoroughly examined for the period 2001 to 2013 to investigate
2 the increase in the Company's operating expenses. In addition, Ms. Reidhead requests that the
3 Commission contact the Attorney General and cooperate with a criminal investigation to ensure that
4 the Company is not defrauding ratepayers by pursuing the Cragin water reservoir option.

5 Ms. Nee contends that the Company made no attempt to control its miscellaneous fee expense
6 and rate case expense. Ms. Nee argues that the proposed management fee (which is recorded in the
7 miscellaneous fee expense) is unreasonable because Mr. Williamson manages seven other utilities
8 and does not maintain timesheets to document the time devoted to each utility. Ms. Nee also argues
9 that the Company's management fee is unreasonable because it has increased faster than the rate of
10 inflation over the past five years. Ms. Nee further argues that the proposed rate case expense of
11 \$65,000 is excessive and is more representative of the rate case expense for a utility that has 10 to 20
12 times the revenue of the Company. Ms. Nee contends that the Company's inability to control its
13 expenses results in higher rates that are neither fair nor reasonable to ratepayers.

14 In response to Ms. Nee's argument that the Company's management fees are excessive, the
15 Company asserts that there is substantial evidence showing that these fees are reasonable and
16 prudent. According to the Company, these costs are reasonable when compared with similarly
17 situated utilities and are lower than the test year cost under the previous owner. The Company
18 contends that Ms. Nee has not presented substantial evidence to warrant a change in the management
19 fee expense recommended by Staff and the Company.

20 Discussion and Resolution

21 We find that the adjusted test year miscellaneous expense of \$198,220, which includes the
22 \$173,903 management fee, as recommended by Staff and the Company, is reasonable and should be
23 adopted. At the hearing, the Company's witness, Mr. Williamson, testified that the recommended
24 management fee will be approximately \$13 per month per customer. (Tr. 270-271.) Mr. Williamson
25 further testified that, based on his experience, the management fee typically charged per customer
26 typically ranges between \$10 to \$17 per month. (*Id.*) In addition, the Company pointed out that the
27 management fee recommended by Staff and the Company is in fact lower than the corporate
28 overhead allocation fee previously charged by prior owner. (Tr. 44-45.) Accordingly, we believe the

1 recommended adjusted test year miscellaneous expense, including the management fee, is reasonable
2 and we will adopt it.

3 The arguments of Ms. Nee and Ms. Reidhead regarding the miscellaneous expense
4 recommended by the Company and Staff are misplaced. Although Ms. Nee argues that the
5 Company's miscellaneous expense is unreasonably higher than other utilities, the Company points
6 out that the reason is because PWC previously recorded its central overhead allocation in its
7 miscellaneous expense. (Tr. 122.) As stated by the Company's witness, Ms. Nee's argument is
8 effectively "comparing apples and oranges." (*Id.*) In addition, Ms. Reidhead's allegation that the
9 Company's expenses have increased substantially over the past 13 years is not relevant for the
10 purposes of ratemaking. For ratemaking purposes, the Commission sets rates based on a recent
11 historical test year, which is adjusted for known and measurable changes. In this case, adjustments
12 for known and measurable changes were only made to expenses occurring in the 2012 test year. For
13 the reasons stated above, we find the recommended miscellaneous expense to be reasonable.

14 We also find that the adjusted test year rate case expense of \$65,000, as recommended by
15 Staff and the Company, is reasonable and should be adopted. We note that this matter has become
16 increasingly complex, and has thus far consisted of nine different parties (including seven
17 Intervenor), six days of hearing (for Phase 1 and Phase 2), and one Open Meeting (held on May 22,
18 2014). All parties to this matter have submitted numerous and voluminous filings, all of which had to
19 be reviewed and analyzed by the Company. One of the benefits of such lively participation is a full
20 and robust record; however, one of the consequences is an increase in rate case expense to the utility.
21 Although Ms. Nee claims that the recommended rate case expense is more representative of a utility
22 that is 10 to 20 times larger than PWC, Ms. Nee fails to recognize that the number of Intervenor,
23 issues, and days of hearing in this proceeding are comparable to rate case proceedings of substantially
24 larger utilities in Arizona. Accordingly, we believe the rate case expense recommended by Staff and
25 the Company is reasonable and we will adopt it.

26 **Consolidation of Gisela System and Deconsolidation of Other Systems**

27 Ms. Reidhead argues that the proposed consolidation of rates and inverted tier rate structure
28 are discriminatory because the ratepayers in the Gisela system will pay a disproportionately higher

1 share of the proposed rate increase. According to Ms. Reidhead, the Gisela system differs from the
 2 Company's other systems in that the Gisela system has the highest water usage; abundant water
 3 resources; many impoverished ratepayers that grow gardens and raise livestock for sustenance; and a
 4 hotter climate due to its lower elevation in the Tonto Creek Basin. Ms. Reidhead states that it is
 5 unreasonable to economically sanction users in the Tonto Creek Basin at the same consumption tiers
 6 as those in the cooler Verde River Basin, where water resources are scarce. Ms. Reidhead argues that
 7 the proposed consolidation of rates and inverted rate tier structure violate A.R.S. § 40-203.

8 Ms. Nee argues that the Mead Ranch system should also be deconsolidated from the other
 9 systems operated by the Company. According to Ms. Nee, it is not cost effective to connect the
 10 Mead Ranch system, which has only 69 customers and is more than 22 miles away from the point of
 11 connection.

12 Although he resides in the MDC system, Mr. Gehring argues that the Gisela system should
 13 not be subjected to water conservation measures because doing so would be detrimental to the
 14 customers of that system. According to Mr. Gehring, the Gisela system has adequate capacity to
 15 supply its customers and their agricultural needs. Mr. Gehring suggests that increasing rates to incent
 16 customers to engage in water conservation measures would be devastating to that community.

17 The Company opposes the requests of Ms. Nee and Ms. Reidhead that the Company's water
 18 systems be deconsolidated. According to the Company, all customers benefit from the economies of
 19 scale from consolidated operations. In addition, the Company claims that the evidence presented in
 20 this case shows that rates would be considerably higher if the systems were to operate as separate
 21 systems with different operations and separate rates. As a result, the Company argues that there is no
 22 reason to change the Commission's previous decision to consolidate these systems.

23 Staff also opposes the requests of intervenors for the Company's water systems to be
 24 deconsolidated. According to Staff, there are benefits that favor consolidation of the Company's
 25 systems, including economies of scale; lower average customer costs; revenue stability; and
 26 mitigating the effect of cost spikes.

27 ...

28 ...

1 **Discussion and Resolution**

2 We do not believe the evidence supports deconsolidation of any of the existing consolidated
3 systems; nor do we find that the record supports the continued stand-alone status of the Gisela
4 system. As Mr. Williamson stated, “this is a small company with several very small systems[,]” that
5 are located in the same general geographic area. (Ex. A-15, at 13.) He indicated that consolidation of
6 rates is consistent with the current functional consolidation of metering services, billing, collecting,
7 management, and customer service, and that consolidated rates are much less costly to administer.
8 Mr. Williamson further testified that “rate consolidation promotes rate and revenue stability, and
9 improves affordability. It also helps to provide a smoothing effect over discrete cost spikes across the
10 various systems and over time.” (*Id.*) Mr. Bourassa added that a consolidated rate structure allows
11 the Company to take advantage of economies of scale, and there are more customers over which costs
12 can be spread. He testified that consolidated rates promote revenue stability because all customers
13 pay the same rates; and that consolidation helps to mitigate “cost spikes” caused by an investment in
14 one or two systems because such costs are shared by all customers in a manner similar to insurance
15 pooling. (Tr. 49-50.)

16 Staff witness Crystal Brown testified that the Commission has historically indicated a
17 preference for consolidation, because it enhances the financial viability of smaller systems, as well as
18 the affordability of rates of small water company customers, in the long run. (Tr. 700.) She also
19 stated that the Commission previously approved, in Decision No. 62320, consolidation of two of the
20 former C&S systems, Gisela and Triple T, which helped mitigate the cost of adding needed storage
21 capacity by enabling those costs to be spread over a larger number of customers. (*Id.* at 701-704.)

22 As the Company and Staff witnesses pointed out, deconsolidation of rates for PWC would not
23 be in the best interests of the Company, or its customers, in the long run. If each of the systems were
24 operated on a stand-alone basis, not only would the Company lose economies of scale with respect to
25 services such as management, operations, billing, and customer service, but customers in individual
26 systems would be faced with the possibility of rate spikes due to the costs of needed repairs or
27 maintenance for their system. For example, if PWC were required to replace a water tank that is no
28 longer serviceable for a system such as Meads Ranch, and recover the full cost of the tank

1 replacement from only the approximately 70 customers on that system, the rate impact would be
2 substantially higher on those customers compared to spreading those costs over a greater number of
3 customers under a consolidated rate structure. The same would hold true with respect to a major line
4 break, well replacement, pump repair, or other plant investments that may be necessary for an
5 individual system at any given time. Although we have recognized an exception in this case for the
6 MDC system due to the magnitude of the TOP-MDC interconnection cost, and the unique nature of
7 the system, the general proposition that consolidated rate structures are beneficial to all parties
8 remains valid.

9 **Annual Reports**

10 Ms. Nee and Ms. Reidhead contend that the presence of errors in past annual reports filed by
11 the Company, with respect to gallons pumped and gallons sold, make those reports unreliable and
12 indicate false reporting. Ms. Nee argues that there are inconsistencies with the Company's water
13 usage data and annual reports that contradict the Company's claim that there was a "dire need" for
14 water in the MDC system.

15 Company witness Williamson corrected errors in the 2012 annual report data. (Ex. A-16, at
16 6.) Staff witness Del Smith agreed that there appeared to be other errors in the water pumping and
17 usage data included in certain of the annual reports submitted by PWC. (*See, e.g.,* Tr. 630-634.)

18 **Discussion and Resolution**

19 Because there appear to have been discrepancies with the data included in some of the
20 Company's past annual reports, we believe it is reasonable to require PWC to file, on a quarterly
21 basis for the next 12 months, monthly summaries of gallons of water pumped, purchased, and sold.
22 The first report should be filed in this docket, as a compliance item, beginning September 15, 2014,
23 for the prior 3 months (*i.e.,* June through August), with subsequent reports following accordingly. In
24 preparing these quarterly reports, the Company should ensure that readings for water pumped,
25 purchased, and sold are concurrent so as to avoid mismatched data due to timing differences. This
26 requirement does not replace or supplant the information required to be filed in the regular annual
27 reports filed by PWC, and we expect the Company to carefully check all future filings before they are
28 submitted.

1 **Financing Request**

2 In Phase 1 of this proceeding (Decision No. 74175), the Commission approved a portion
3 (\$275,000 related to the TOP-MDC interconnection) of PWC's original request for financing
4 approval. The initial financing request (\$1,238,000) sought approval of a WIFA loan to finance
5 PWC's cost of connecting to the proposed C.C. Cragin pipeline that is being constructed by the Town
6 of Payson.

7 **Discussion and Resolution**

8 As indicated in Decision No. 74175, the \$275,000 financing request, to construct an
9 interconnection between the MDC system and the Town's water system was bifurcated and expedited
10 to allow for WIFA approval of the loan in time to enable construction of the TOP-MDC
11 interconnection prior to the beginning of summer 2014 when more expensive water hauling would
12 likely be necessary to supplement water supplies for the MDC system. (*Id.* at 6.)

13 In his Rejoinder testimony, Mr. Williamson stated that the Cragin pipeline is not expected to
14 be finished "until sometime in or after 2017." (Ex. A-15, at 5.) As a result of the delay, as well as
15 certain recommendations made by Staff, the Company withdrew its request for the remainder of the
16 financing application. (*Id.* at 3.)

17 Ms. Reidhead contends that pursuing the Cragin pipeline as a long term solution for MDC's
18 water supply is not prudent. However, because the Phase 2 financing request has been withdrawn,
19 there are no remaining issues related to the Cragin pipeline to be addressed. Therefore, no further
20 action regarding this issue is necessary at this time.

21 **Well Numbers**

22 As noted above, on March 10, 2014, PWC filed a Notice of Late-Filed Exhibit which attached
23 a copy of Exhibit A-19, a Consent Order between PWC and ADEQ related to third-party owned wells
24 used by the Company under water sharing agreements.

25 In her reply brief, Ms. Reidhead states that the Consent Agreement references a well No. 55-
26 588967, which she claims is physically located in Cochise County, according to ADWR records.

27 ...

28 ...

1 **Discussion and Resolution**

2 PWC has not responded to this alleged discrepancy and we will therefore require the
3 Company to file, within 30 days of the effective date of this Decision, an explanation regarding the
4 apparent well number discrepancy.

5 **PWAM for Mesa del Caballo**

6 Ms. Reidhead argues that the evidence submitted in Phase 2 does not support the Company's
7 claim in Phase 1 that the interconnect pipeline project for the MDC system was warranted. In
8 particular, Ms. Reidhead argues that there is no clear evidence to show that water hauling to the MDC
9 system was necessary or prudent during the last five summers; there are inconsistencies with the
10 Company's water usage data and annual reports; the Company did not explore or consider less
11 expensive alternatives to water hauling over the last five years; pursuing the Cragin water reservoir as
12 a long term solution for water supply is not prudent; there is no evidence that the Company made any
13 efforts to mitigate the costs of the water hauling expense; and the Company's other systems will have
14 to pay for the interconnect pipeline at the MDC system.

15 The Company claims that it has been working hard to improve the long-standing issues that
16 have plagued the Company and its customers for a number of years. The Company states that the
17 TOP-MDC interconnection will alleviate the need for the Company to haul water by trucks to serve
18 customers in the MDC system.

19 Staff disputes the intervenors' arguments that more wells should be drilled in the MDC
20 system in lieu of constructing the TOP-MDC pipeline. Staff argues that drilling wells is risky
21 because if the well is dry, the Company is not allowed to recoup the costs of drilling that well through
22 rates. Staff maintains that, given the low production of wells in the MDC system, the TOP-MDC
23 pipeline provides a secure source of water for the MDC system.

24 **Discussion and Resolution**

25 At a Special Open Meeting held on May 22, 2014, the Commission approved, on an interim,
26 emergency basis, the proposed PWAM in accordance with the agreement of the Company and Staff.
27 The Commission found that interim approval of the tariff was necessary, and in the public interest,
28 because it will enable PWC utilize the newly completed TOP-MDC interconnection and to purchase

1 water from Payson at a much lower cost than was previously possible under the prior water hauling
2 tariff. In addition, PWC's Water Augmentation Surcharge tariff was canceled. (Decision No. 74484,
3 at 5-6.)

4 In accordance with Decision No. 74484, we find that the interim approval of the PWAM tariff
5 should be made permanent. As stated therein, as well as in Decision No. 74175, the debt surcharge
6 and the PWAM will apply only to customers in the MDC system.

7 **Augmentation Surcharge Tariff for East Verde Park**

8 Mr. Bremer requests that any rate and fee increases be tied to an integrated plan and
9 commitment by the Company to prevent chronic water shortages, lower water pressure, and the need
10 for water hauling in the EVP system. Mr. Bremer notes that the Company has addressed similar
11 issues in the MDC system and argues that there is no justification for the Company's other systems to
12 not be given the same consideration.

13 Mr. Bremer opposes the implementation of a water hauling surcharge for several reasons.
14 First, Mr. Bremer argues that the Commission previously rejected a water hauling surcharge for the
15 EVP system because the Company could not demonstrate that it was facing emergency conditions.
16 Mr. Bremer also argues that the Commission should reject the water hauling surcharge because the
17 Company is not able to accurately track the amount of water being hauled to the system.

18 Mr. Bremer further requests that the Commission deny Staff's recommendation for a
19 moratorium on new hook-ups to the EVP system. According to Mr. Bremer, the community in the
20 EVP system is close to 90 percent developed. Mr. Bremer states that there is no indication that a
21 significant number of the remaining properties will require new hook-ups before the Company's next
22 rate case. As a result, Mr. Bremer argues that a moratorium on new hook-ups is not necessary.

23 The Company argues that Mr. Bremer's opposition to the Water Augmentation Surcharge
24 tariff for the EVP system is unwarranted. According to the Company, the surcharge is in the public
25 interest because it functions as a safeguard to ensure that EVP has an adequate water supply to serve
26 its customers. In its Brief, PWC agreed to Staff's recommended \$10,000 annual cap, thereby
27 removing the final disputed issue between the Company and Staff.

28

1 Staff agreed that an Augmentation tariff should be approved for EVP, with certain
2 modifications. First, Staff indicated that the more severe Curtailment tariff that was previously in
3 place for MDC customers should be replaced by the Curtailment tariff currently in place for the EVP
4 system. (Tr. 643.) Second, Staff recommended that the hauling costs for EVP be limited to \$10,000
5 annually. (Ex. S-15, at 9.) On the final day of the hearing, Staff presented Exhibit S-18, which
6 includes revisions to the EVP Augmentation tariff to correct errors in Staff's original proposal that
7 were identified earlier in the hearing. (Tr. 894.)

8 **Discussion and Resolution**

9 We agree that the Water Augmentation Surcharge tariff for the EVP system is reasonable
10 under the facts presented in this case. During the course of the proceeding, the Company proposed to
11 implement a Water Augmentation Surcharge tariff for its EVP system which, like the MDC system,
12 suffers from occasional water shortages, although to a much lesser extent than MDC. (Ex. A-14, at 8-
13 9.) The Company ultimately agreed to Staff's modifications, both as to maintain the current EVP
14 Curtailment tariff, and placing a \$10,000 annual cap on hauling costs. (PWC Initial Br. at 16-17.)
15 With these modifications to the original proposal, we believe the EVP Water Augmentation
16 Surcharge tariff, as set forth in Exhibit S-18, should be approved. However, we agree with Mr.
17 Bremer that a moratorium on new hookups is not necessary at this time.

18 **Alleged Fraudulent or Criminal Activities**

19 According to Ms. Reidhead, there are irregularities and inconsistencies associated with the
20 proposed repairs and maintenance expense, miscellaneous expense, and corporate office allocation
21 expense. As a result, Ms. Reidhead claims that the proposed rates are not based on the Company's
22 actual cost of service. Ms. Reidhead maintains that the financial records of the Company should be
23 thoroughly examined for the period 2001 to 2013 to investigate the increase in the Company's
24 operating expenses. In addition, Ms. Reidhead requests that the Commission contact the Attorney
25 General and cooperate with a criminal investigation to ensure that the Company is not defrauding
26 ratepayers by pursuing the Cragin water reservoir option.

27 Ms. Reidhead further contends that the imprudent actions of the Company caused its financial
28 health to deteriorate. In support, Ms. Reidhead states that the proposed test year operating expenses

1 were questionably high and that issuing a \$352,206 dividend to a former shareholder in 2013 was an
2 egregious violation of public trust. With respect to the dividend distribution, Ms. Reidhead submits
3 that a criminal investigation should commence to determine whether there was collusion between Mr.
4 Hardcastle and Mr. Williamson at the time of the sale of the Company.

5 Mr. Gehring contends that the Company's previous owner, Mr. Hardcastle, made material
6 misrepresentations regarding the MDC system in Docket Nos. W-03514A-12-0007 and W-03514A-
7 12-0008. Mr. Gehring asserts that Mr. Hardcastle engaged in a policy of using the water hauling
8 surcharge to defraud the customers of MDC. According to Mr. Gehring, the Company's current
9 owner has adopted a similar policy to defraud the customers of MDC. Mr. Gehring opines that the
10 Attorney General should investigate the allegations of fraud at the MDC system. Mr. Gehring
11 asserts that the primary reason the Company is requesting a rate increase is due to the failure or
12 refusal of Mr. Hardcastle to properly maintain its water systems and facilities. Mr. Gehring further
13 requests that the Commission issue a recommendation to the Attorney General to investigate the
14 alleged criminal activities of the Company and its previous owner.

15 Mr. Ross states that the Intervenors sacrificed great time and expense to travel to the hearings.
16 Mr. Ross claims that the testimony of the Company is "bogus" and that the transcript from this
17 proceeding will show that Staff and the Company engaged in pretrial discrimination and collusion.

18 Mr. Ross states that the Company's failure to properly account for a \$352,206 disbursement
19 on the Company's books is questionable. Mr. Ross suggests that the Company's characterization of
20 this disbursement as a dividend distribution is suspicious because this amount was previously
21 unaccounted for in the Company's accounting records. Mr. Ross criticizes the ALJ for failing to
22 require the proper process of accountability with respect to the Company's records.

23 Mr. Ross also questions whether it is appropriate for the Company to issue a \$352,206
24 dividend to its shareholder and then seek an increase in rates. According to Mr. Ross, the requested
25 rate increase may not have been necessary if the Company retained the amount of the distributed
26 dividend as equity.

27 Mr. Ross further questions why there was no request or notification regarding the sale of BUI
28 during the pendency of this rate case. Mr. Ross claims that the change in ownership deprived the

1 Intervenor of adequate discovery because the new owner did not have access to older files.

2 The Company argues that the intervenors' allegations of a conspiracy between Staff and the
3 Company "are as outrageous as they are false." The Company maintains that the Company and Staff
4 have acted in the public interest and states that the Commission should applaud the Company's
5 efforts to improve service while managing the Company through challenging financial conditions.
6 According to the Company, the Commission should summarily disregard the conspiracy claims
7 because they are unsupported allegations.

8 **Discussion and Resolution**

9 We do not believe the record supports the Intervenor's claims of improprieties regarding the
10 filing of the rate application, the disbursement of the approximately \$352,000 dividend to the prior
11 owner, or the acquisition of PWC by JW Water. Mr. Williamson stated that the Town of Star Valley
12 acquired the assets and took possession of PWC's Star/Quail Valley system on May 1, 2012, through
13 a condemnation proceeding, resulting in a payment to PWC of \$775,000. (Ex. A-16, at 2, Ex. JW-
14 SRJ1.) After the Star Valley condemnation, approximately \$285,000 of the proceeds was used to:
15 repay money owed to PWC's former shareholder, BUI; to pay 2012 operating expenses;²⁵ and, in
16 early 2013, to pay a dividend of approximately \$352,000 to BUI. (Ex. A-12, at 3; Tr. 130.)

17 Mr. Bourassa testified that all of these transactions occurred before the sale of PWC's stock to
18 JW Water (June 1, 2013), and there was little to no cash on hand when the sale closed. (*Id.*) He
19 stated that based on his review of the accounting treatment accorded the condemnation proceeds and
20 his experience, there is no evidence that BUI transferred funds improperly or used the proceeds in
21 violation of any applicable laws, rules, or regulations. (*Id.* at 4.) Mr. Bourassa and Mr. Williamson
22 also explained that utility customers do not gain an ownership interest in the Company or its plant by
23 paying for utility service. (*Id.*; Tr. 158; Ex. A-16, at 3.) Mr. Bourassa indicated that whether or not
24 the dividend was paid to BUI does not affect the Company's operating expenses and revenues, and
25 that PWC is "losing a couple hundred thousand dollars a year, which means it is not recovering its
26 cost of service...." (Tr. 96, 132.)

27

28 ²⁵ Mr. Bourassa stated that PWC's operating expenses exceeded revenues by approximately \$128,000 in 2012. (Ex. A-12, at 3.)

1 We agree with the Company that there is no evidence of violation of any laws, rules, or
2 regulations related to the Star Valley condemnation and subsequent treatment of the proceeds related
3 thereto. Therefore, no further action is required regarding the dividend paid to PWC's former
4 shareholder.

5 **Alleged Misconduct**

6 Mr. Ross argues that Staff and the Company provided inadequate notifications to ratepayers,
7 untimely responses, and misleading information as to dates and procedures. Mr. Ross claims that
8 Staff and the ALJ engaged in "trickery" and made a "mockery" of the judicial process by limiting the
9 scope and participation of the Intervenors in the Phase 1 and 2 proceedings. In addition, Mr. Ross
10 claims that Staff's counsel tampered with Staff's witnesses during the course of the hearing. Mr.
11 Ross states that three people present during the hearing are willing to testify in support of this claim.

12 Mr. Gehring criticizes Staff, the ALJ, and the Commission for failing to hold the Company
13 accountable for its alleged criminal activities and mismanagement. Mr. Gehring further requests that
14 the Commission issue a recommendation to the Attorney General to investigate the alleged criminal
15 activities of the Company and its previous owner, as well as the conduct of Staff and the ALJ with
16 respect to their participation in the proceedings beginning with the Company's application for a water
17 augmentation surcharge in 2010.

18 In response to Mr. Ross and Mr. Gehring, the Company contends that the Commission should
19 disregard their briefs because their claims and allegations against Staff, the ALJ, and/or the Company
20 are not supported by any evidence or applicable law.

21 Staff disputes the intervenors' allegations of misconduct by Staff, the ALJ, and the Company
22 in these proceedings. According to Staff, there is no basis in the record to support allegations that
23 Staff and the ALJ conspired with the Company against the interests of the customers of the Company.
24 Staff similarly claims that there is no evidence of bias on the part of Staff or the ALJ. Staff states that
25 the universal rule is that government officials have a presumption of honesty and integrity which is a
26 difficult burden of persuasion to overcome. Staff argues that the proceedings were conducted in a
27 fair and impartial manner and that any allegations to the contrary should be disregarded.

28

1 As indicated above, on March 28, 2014, the Commission's Executive Director, Jodi Jerich,
 2 filed a letter in response to George Chrisman, who alleged in an affidavit that during the hearing Staff
 3 counsel had "telescoped" answers to two different witnesses; that it "appeared [she] was speaking
 4 softly into a small microphone;" and that examination of the recordings would confirm his
 5 allegations. Ms. Jerich's response stated that she: spoke with the Commission's Chief Counsel, the
 6 Director of the Utilities Division, and the two Staff members identified in the affidavit; and reviewed
 7 the archived February 10, 2014, hearing, when the alleged incidents occurred. Based on her review,
 8 Ms. Jerich concluded that "the Staff witness and counsel conducted themselves appropriately."

9 Discussion and Resolution

10 We find that the allegations made by Mr. Ross and Mr. Gehring are wholly unsupported by
 11 any credible evidence and have no basis in fact. The suggestion that Staff and the ALJ were
 12 somehow in collusion with the Company's alleged "criminal activities" is far beyond the pale of
 13 reasonable advocacy. The Commission's Rules of Practice and Procedure address the conduct
 14 required in proceedings before the Commission (A.A.C. R14-3-104), which state as follows:

15 F. Conduct required

- 16 1. All persons appearing before the Commission or a presiding
 17 officer in any proceeding shall conform to the conduct expected
 18 in the Superior Court of the state of Arizona.
- 19 2. Any alleged inappropriate conduct before a Commissioner or a
 20 Hearing Officer shall be referred to the Commission for
 21 appropriate action.
- 22 3. Contemptuous conduct by any person appearing at a hearing
 23 shall be grounds for his exclusion by the presiding officer from
 24 the hearing.
- 25 4. If the Commission finds that any person has committed any
 26 improper or contemptuous conduct in any hearing before the
 27 Commission or a presiding officer, the Commission may
 28 impose such penalties provided by law that it deems
 appropriate.

24 We are especially concerned with the level of vitriol expressed in several of the Intervenors'
 25 testimony and arguments. For example, Mr. Gehring states in his brief: " 1) Is Jason Williamson
 26 related to Mr. Hardcastle? 2) Is he a son, adopted son, illegitimate son or some other kind of relation
 27 to Hardcastle or one of his fellow 'Thugs?'"...[and] "[a]ny representations made by the Company, its
 28

1 officers, agents and attorney that the customers in the Gisela System must conserve water or that the
 2 system there is incapable of providing for the demand or that the rate must be increased in order to
 3 continue to provide service should research the word phrase ‘bovine defecation[.]’” (Gehring Br. at
 4 8.) He further claims that the Company “financially raped, pillaged and burned their Customers
 5 every which way...[and the] complacency of the [Commission]...has allowed and furthered this
 6 financial rape of the Customers....” (*Id.* at 9-10.) Ms. Nee asserts that Staff counsel and its
 7 supervising engineer ignored inconsistencies in the Company’s reports, and stated “[i]sn’t this aiding
 8 and abetting a possible criminal activity? Unfairly taking away property from Mesa Del Caballo
 9 customers, I believe is a crime.” (Nee Reply Br. at 2.)

10 Although we believe that a number of the filings by certain Intervenors reflect inappropriate
 11 and unsupported statements, we will not impose any penalties at this time. However, parties to a
 12 proceeding before the Commission are reminded that actions taken, and statements made, before,
 13 during, and after the close of the hearing are expected to reflect a level of conduct consistent with that
 14 required in Superior Court.

15 **Discussion and Resolution of Revenue Requirement**

16 After reviewing the evidence and arguments presented by the parties, we believe that the
 17 revenue requirement and rate design proposed by the Company and Staff are reasonable and should
 18 be adopted.

19 PWC’s customers have not experienced a rate increase for more than 14 years and, as
 20 discussed in the testimony and exhibits offered by both the Company and Staff, the current rates
 21 resulted in a test year deficiency of \$145,689, or a nearly 30 percent negative rate of return on FVRB.
 22 (Ex. S-16, Sched. CSB-1.) Clearly, PWC cannot remain viable and continue to provide reliable
 23 service in the long-term, or even the short-term, with revenues that produce substantial operating
 24 losses.

25 **Ratemaking Standards and Impact of Rate Increase on Customers**

26 Mr. Sheppard argues that the rate increase should be denied because there is evidence that the
 27 residents living in the affected areas cannot afford an increase of 120 percent. Mr. Sheppard cites
 28 *Arizona Community Action, supra*, for the proposition that the Commission must consider the

1 interests of both the public service corporation and its ratepayers in setting just and reasonable rates.
2 According to Mr. Sheppard, a reasonable rate is one which is as fair as possible to all interests
3 involved. Mr. Sheppard argues that the proposed rates are not reasonable because neither Staff nor
4 the Company conducted any survey or analysis to determine whether the proposed rates will have a
5 negative effect on ratepayers.

6 In the event that the Commission grants an increase in rates, Mr. Sheppard contends that the
7 increase should be gradual and adjusted every few years. Although he acknowledges that the
8 Company has not increased its rates in approximately 14 years, Mr. Sheppard asserts that it is
9 unreasonable to expect ratepayers to shoulder the financial burden all at once. Mr. Sheppard requests
10 that the rate increase should be staggered at 10 to 20 percent per annum until the Company comes
11 before the Commission for another rate case.

12 Mr. Bremer argues that no rate increase or water hauling surcharges should be granted in this
13 proceeding in light of the Company's history of chronic water restrictions during the summer months
14 and the decaying condition of the Company's water system. According to Mr. Bremer, the Company
15 acknowledged the need for water system improvements in 2001, but took no action.

16 Mr. Gerhing contends that the proposed rate increase is unwarranted and unreasonable
17 because it will not improve the Company's water systems. According to Mr. Gehring, a consumer's
18 right extends beyond economic injuries and includes actions that bear upon quality. Mr. Gehring
19 states that administrative decisions affecting environmental quality should give the consumers of the
20 environment the same right to be heard before those decisions are made. Mr. Gehring urges the
21 Commission to protect the interests of the consumers. Mr. Gehring requests that the Commission
22 reduce the requested rate increase by half.

23 In response to Mr. Sheppard's argument that the rate increase will have a detrimental impact
24 on ratepayers, the Company contends that rates may not be set based on what customers can afford.
25 The Company asserts that under Arizona law, the Commission is required to set rates that will
26 produce sufficient revenue to allow the utility to recover its operating expenses and earn a reasonable
27 rate of return on the fair value of its property devoted to public service. According to the Company,
28

1 rates that do not provide for recovery of operating expenses and a fair rate of return are not just and
2 reasonable by definition.

3 The Company claims that Mr. Sheppard's reliance on *Arizona Community Action* is misplaced
4 because that case does not stand for the proposition that the Commission may lower rates below the
5 cost of service to accommodate the financial capabilities of the customers. Rather, the Company
6 claims that *Arizona Community Action* is consistent with *Scates v. Arizona Corp. Comm'n*, 118 Ariz.
7 531, 578 P.2d 612 (App. 1978) ("*Scates*") and its progeny because that case recognizes that "[a]
8 utility has the right to assure its investors a reasonable return." *Arizona Community Action*, 123 Ariz.
9 at 231, 599 P.2d at 187. The Company asserts that Mr. Sheppard is effectively asking the
10 Commission to unlawfully deny the Company an opportunity to earn a fair return on its investment.

11 The Company submits that Staff's recommended rate increase is necessary to ensure safe and
12 reliable service to its customers. The Company states that it is presently unable to pay its current bills
13 or attract the capital needed to make necessary system improvements. According to the Company,
14 the revenue increase recommended by Staff is the minimum the Company needs to begin the process
15 of becoming financially viable.

16 The Company asserts that the revenue requirement is based on what is necessary for the
17 Company to recover its cost of service, which includes a return on the fair value of used and useful
18 plant. The Company maintains that the adoption of Staff's recommended rate base, operating
19 expense levels, and rate of return will result in just and reasonable rates in accordance with *Scates*.

20 **Discussion and Resolution**

21 Although it is unknown why PWC's prior owner/operator did not seek rate relief prior to the
22 filing of the application in this case, the fact remains that the Company is operating at a substantial
23 loss and requires a significant increase in revenues to remain solvent and provide safe and reliable
24 service. As the Company points out in its brief, the Commission is required under the Arizona
25 Constitution to set "just and reasonable rates and charges" regarding public service corporations
26 under its jurisdiction. (Ariz. Const. Art. 15 § 3.) What constitutes "just and reasonable" rates has
27 been addressed in a number of cases, which have established that the Commission must determine a
28 company's fair value rate base, and allow it an opportunity to earn a reasonable rate of return on its

1 investment, for purposes of establishing just and reasonable rates. (*Scates, supra*, at 614-615.) *Scates*
2 indicated that “total revenue, including income from rates and charges, should be sufficient to meet a
3 utility’s operating costs and to give the utility and its stockholders a reasonable rate of return on the
4 utility’s investment.” (*Id.*) Of course, customers should be protected from excessive rates, but rates
5 must be set at a level the enables the utility earn a reasonable return on its investment, plus a
6 reasonable level of operating costs. (*See, Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145,
7 149, 294 P.2d 378, 381.)

8 Several Intervenors, most notably Mr. Sheppard, have argued that *Arizona Community Action*
9 stands for the proposition that the Commission must survey customers to determine their ability to
10 pay increased rates prior to approval. Although the Arizona Supreme Court indicated in that case that
11 the interests of Arizona Public Service Company’s (“APS”) shareholders “must not be permitted to
12 overshadow those of the public served[.]” *Arizona Community Action* was addressing the narrow
13 issue of whether the Commission could authorize automatic step increases, “based solely on the
14 percentage of return on common stock equity[.]” (123 Ariz. at 230-231.) The court struck down the
15 phased increase approved by the Commission because, “of the potential danger of tying rates to one
16 factor over which APS exercises total control [*i.e.*, the power to influence its return on equity by
17 buying and selling shares].” (*Id.* at 231.) The court reiterated, however, that “[a] utility has the right
18 to assure its investors a reasonable return.” (*Id.*) The holding in *Arizona Community Action* is
19 therefore consistent with the long line of cases addressing the Commission’s ratemaking authority,
20 and which reinforce the concept that just and reasonable rates must afford the regulated utility a
21 reasonable opportunity to earn a return on investment.

22 Although several Intervenors raised issues regarding the level of operating expenses proposed
23 in this case (addressed above), only the Company and Staff made revenue requirement
24 recommendations, and those parties are now in full agreement with respect to the level of increase
25 that should be granted. As described above, the Company and Staff recommend a revenue
26 requirement of \$610,256, rate of return of 9.0 percent (with a 100 percent equity capital structure),
27 FVRB and OCRB of \$504,684, and operating expenses of \$564,835. This represents an overall
28

1 revenue increase of \$289,731, or approximately 90.39 percent over test year revenues. (Ex. S-16, at
2 3-9, Sched. CSB-1; Tr. 42, 47, 81.)

3 We believe the FVRB, rate of return, and operating expenses recommended by PWC and
4 Staff are reasonable and should be adopted.

5 Rate Design

6 As noted above, the Company and Staff are also in agreement with respect to the
7 recommended rate design, including the consolidation of the Gisela system (addressed above). The
8 rate design proposed by Staff and the Company includes a conservation-oriented, inverted three-tier
9 design, consistent with Commission practice and policy for a number of years. (Tr. 47-48.) Under
10 the inverted block rate design, customers pay a higher commodity rate once a certain threshold of
11 usage is reached each month.

12 Tiered Rate Structure

13 According to Ms. Reidhead, the Gisela system differs from the Company's other systems in
14 that the Gisela system has the highest water usage; abundant water resources; many impoverished
15 ratepayers that grow gardens and raise livestock for sustenance; and a hotter climate due to its lower
16 elevation in the Tonto Creek Basin. Ms. Reidhead states that it is unreasonable to economically
17 sanction users in the Tonto Creek Basin at the same consumption tiers as those in the cooler Verde
18 River Basin, where water resources are scarce. Ms. Reidhead argues that the proposed consolidation
19 of rates and inverted rate tier structure violate A.R.S. § 40-203.

20 The Company is in agreement with Staff's recommended rate design, which follows the
21 typical inverted three-tier design implemented for water utilities regulated by the Commission. PWC
22 claims that the proposed rate increase will be relatively higher in the former C&S system (Gisela)
23 because its rates are presently lower, and water consumption is higher, compared to the former
24 United systems.

25 In this case, Staff and PWC recommend increasing the basic monthly customer charge for
26 5/8-inch x 3/4-inch meter customers from the current \$16.00 (for all but Gisela which is currently
27 \$17.00) to \$23.00 for all customers. For the former United system customers (all but Gisela), the
28 current usage rates are \$1.93 per thousand gallons up to 4,000 gallons per month, and \$2.99 per

1 thousand for all usage over 4,000 gallons. For the former C&S system customers (Gisela only), the
2 current commodity charge is \$1.48 per thousand gallons for all usage. Under the Staff/Company
3 proposal, the usage charges for all customers would be increased to: \$4.00 per thousand gallons for
4 usage up to 3,000 gallons per month; \$7.66 per thousand for usage between 3,001 and 10,000 gallons
5 per month; and \$9.62 per thousand for all usage over 10,000 gallons per month. (Ex. S-16, Sched.
6 CSB-17.)

7 Under the Staff/PWC recommendation, for former United system customers with 5/8-inch x
8 3/4-inch meters, and average monthly usage of 2,903 gallons, the monthly bill would increase by
9 \$13.01, from the current charge of \$21.60 to \$34.61, or 60.22 percent. (*Id.* at Sched. CSB-18.) For
10 5/8-inch x 3/4-inch meter Gisela customers, with average monthly usage of 6,961 gallons, the monthly
11 bill would increase by \$38.05, from the current charge of \$27.30 to \$65.36, or 139.38 percent. (*Id.*)
12 The higher increase for Gisela customers is due to the fact that they currently have commodity rates
13 that are substantially less than other customers, and because they have average usage that is
14 significantly higher than other customers.

15 As indicated above, in response to Commissioner Pierce's May 1, 2014 letter, PWC filed four
16 exhibits that set forth the rate impact, assuming adoption of the Company/Staff revenue requirement
17 recommendation, of the following scenarios: 1) treating Gisela as a separate system, as is currently
18 the case; 2) consolidating Gisela with all other currently consolidated systems, but increasing the first
19 commodity tier for 5/8-inch x 3/4-inch meter customers from 3,000 gallons (as proposed by the
20 Company and Staff) to 5,000 gallons; 3) consolidating Gisela with all other currently consolidated
21 systems, but increasing the monthly customer charge for 5/8-inch x 3/4-inch meter customers (to
22 \$25.00 from the \$23.00 proposed by PWC and Staff) and reducing the amounts collected through the
23 commodity charges; and 4) consolidating Gisela with all other currently consolidated systems,
24 increasing the monthly customer charge for 5/8-inch x 3/4-inch meter customers (to \$28.75 from the
25 \$23.00 proposed by PWC and Staff), and increasing the first tier from 3,000 gallons to 6,000 gallons
26 and increasing the second tier from 10,000 gallons to 12,000 gallons. PWC also indicated that it
27 would be willing to undertake a pilot program for Gisela customers to allow an equalized payment
28 option for those customers.

1 Staff's response to Commissioner Pierce's letter also included four alternative rate scenarios.
2 In its first option, in which Gisela remains separate from the other systems, Staff increased the
3 monthly customer charge (to \$25.00 for all except Gisela, from the \$23.00 proposed by PWC and
4 Staff, and to \$26.00 for Gisela), and with lower commodity charges in all three tiers for Gisela
5 compared to the other systems. Under its second option, Staff maintained the customer charge at
6 \$23.00 for all customers, as recommended by the Company and Staff, and increased the first
7 commodity tier from 3,000 gallons to 5,000 gallons. In the third option, Staff increased the monthly
8 customer charge to \$25.00 for all customers, kept the commodity break-over points at 3,000 gallons
9 and 10,000 gallons, and reduced the commodity charges in the first and second tiers while increasing
10 the third tier commodity charge. In the fourth option, Staff increased the monthly customer charge to
11 \$27.00, kept the commodity break-over points at 3,000 gallons and 10,000 gallons, reduced the
12 commodity charges in the first and second tiers (compared to the Company/Staff recommendation in
13 this case), and decreased the third tier commodity charge compared to the third option.²⁶

14 **Discussion and Resolution**

15 After reviewing the options presented by PWC and Staff, we find that the original rate design
16 recommendation should be adopted instead of any of the alternatives. Even if one of the options
17 were to be approved, there is not a substantial difference between the primary proposal and the
18 alternatives. Further, the alternative rate designs would result in shifting recovery of revenues onto
19 non-Gisela customers and/or could result in future revenue instability.

20 Although we are adopting the primary rate design recommendation of Staff and PWC,
21 including consolidation of the Gisela system with all other systems, we believe that the Company
22 should phase-in the rate increase for Gisela customers by implementing 50 percent of the increase to
23 those customers upon the effective date of the rates, with the remaining 50 percent of the increase for
24 Gisela customers becoming effective after three months. This phase-in will help mitigate the impact

25
26 _____
27 ²⁶ The Company expressed concern with Staff's Option 1 because, according to PWC, it would shift more revenue
28 recovery away from Gisela customers to other customers compared to the Company's Option 1 proposal in its May 12,
2014 filing. PWC also indicated that it is concerned with adoption of Staff's Options 2 and 3, and Alternative Option 3,
because they would collect less revenue from the customer charge, or would place more revenue recovery in the third tier,
which the Company claims would increase revenue instability.

1 of the full rate increase on the Gisela customers and will enable those customers to water their
2 gardens and vegetation at a lower rate during the initial summer months that the rates are in effect.

3 * * * * *

4 Having considered the entire record herein and being fully advised in the premises, the
5 Commission finds, concludes, and orders that:

6 **FINDINGS OF FACT**

7 1. On April 22, 2013, PWC filed with the Commission an application in Docket No. W-
8 03514A-13-0111 for a determination of the fair value of its utility plant and property and for
9 increases in its water rates and charges for utility service.

10 2. On May 17, 2013, Staff filed a Letter of Deficiency in the Rate Docket.

11 3. On May 22, 2013, PWC filed a Response to Staff's Letter of Deficiency.

12 4. On May 27, 2013, PWC filed with the Commission an application in Docket No. W-
13 03514A-13-0142 for authority to (1) issue evidence of indebtedness in an amount not to exceed
14 \$1,238,000 on the terms and conditions set forth by WIFA, and (2) encumber its real property and
15 utility plant as security for such indebtedness.

16 5. On June 3, 2013, Staff issued a Sufficiency Letter in the Rate Docket and classified
17 the Company as a Class C utility.

18 6. On July 2, 2013, a Procedural Order was issued scheduling a hearing in the Rate
19 Docket for December 9, 2013, establishing deadlines for pre-filed testimony, and directing PWC to
20 mail and publish notice of the hearing.

21 7. On August 15, 2013, PWC filed a Motion to Consolidate Proceedings and Request for
22 Expedited Procedural Schedule. PWC requested that the Rate and Finance Application dockets be
23 consolidated and that a new, expedited procedural schedule be established to enable the Company to
24 pursue an opportunity presented by Payson to build an interconnection between PWC's Mesa del
25 Caballo system and the Town's water supply.

26 8. By Procedural Order issued August 26, 2013, the Rate and Finance Dockets were
27 consolidated and a procedural conference was scheduled for September 4, 2013.

28

1 9. On September 4, 2013, a procedural conference was conducted as scheduled, at which
2 time the parties discussed procedures for processing the consolidated cases.

3 10. On September 5, 2013, PWC filed a Stipulation for Procedural Order Bifurcating
4 Proceeding and Establishing Case Schedule. In the stipulation, PWC and Staff proposed to proceed
5 in two phases, with a Phase 1 hearing regarding a portion of the Finance Application commencing on
6 September 25, 2013, and a Phase 2 hearing on the Rate Application and the balance of the Finance
7 Application beginning on January 13, 2014.

8 11. On September 10, 2013, a Procedural Order was issued setting a revised procedural
9 schedule for consideration of the Rate and Finance Applications. An expedited hearing on Phase 1
10 was scheduled for September 25, 2013, to consider the Company's request for approval of a
11 \$275,000 WIFA loan to finance an interconnection between the Mesa del Caballo system and
12 Payson's water system. The hearing in the Phase 2 Rate Docket and remainder of the Finance
13 Docket was scheduled to commence on January 13, 2014, and other testimony filing deadlines were
14 established. The Company was also directed to mail and publish notice of the proceedings to
15 customers.

16 12. On September 25, 2013, the Phase 1 hearing was held as scheduled. The hearing
17 concluded on September 25, 2013, subject to the Company being required to submit certain late-filed
18 exhibits.

19 13. On October 25, 2013, the Commission issued Decision No. 74175 which: authorized
20 PWC to borrow up to \$275,000 from WIFA, under the terms and conditions set forth in the Phase 1
21 Staff Report (as modified), "for the purpose of financing the construction of a new water transmission
22 line to connect its Mesa del Caballo system to the Town of Payson's water system;" authorized PWC
23 to implement a WIFA loan surcharge within 15 days of the Phase 1 loan closing that would "apply
24 only to customers of the Mesa del Caballo system...;" required the Company to provide notice of the
25 WIFA surcharge to Mesa del Caballo customers; and required PWC to place the WIFA loan
26 surcharge proceeds in a segregated account to be used only for payment of the WIFA loan. (Decision
27 No. 74175, at 15-17.)
28

- 1 14. Intervention in Phase 2 was granted to Kathleen M. Reidhead, Thomas Bremer, Bill
2 Sheppard, J. Stephen Gehring, Richard M. Burt, Suzanne Nee, and Glynn Ross.
- 3 15. On November 14, 2013, Ms. Reidhead filed her Direct Testimony.
- 4 16. On November 15, 2013, Mr. Bremer filed a Request for Discovery.
- 5 17. On November 15, 2013, Staff filed the Direct Testimony of Crystal S. Brown and Jian
6 W. Liu.
- 7 18. On November 15, 2013, Mr. Sheppard filed a Request for Taking Public Comments in
8 Both Payson and Phoenix.
- 9 19. On November 18, 2013, Ms. Reidhead filed a Request to Amend Page 5 of Direct
10 Testimony.
- 11 20. On November 19, 2013, Mr. Bremer filed a Notice of Errata and Revision – Request
12 for Discovery.
- 13 21. On November 19, 2013, Staff filed the Direct Testimony of John Cassidy.
- 14 22. On November 25, 2013, PWC filed a Notice of Compliance indicating that it had
15 secured a \$10,000 bond prior to implementation of the WIFA surcharge, as required by Decision No.
16 74175.
- 17 23. On December 3, 2013, Ms. Reidhead filed a Motion for Discovery Phase 2.
- 18 24. On December 6, 2013, PWC filed the Phase 2 Rebuttal Testimony of Jason
19 Williamson and Thomas Bourassa.
- 20 25. On December 9, 2013, a Procedural Order was issued granting intervention to
21 Suzanne Nee.
- 22 26. On December 9, 2013, PWC filed a Notice of Compliance attaching a copy of the
23 \$10,000 bond, and indicating that the original bond was hand-delivered to the Commission's business
24 office.
- 25 27. On December 18, 2013, Ms. Nee filed her Surrebuttal Testimony.
- 26 28. On December 20, 2013, Staff filed the Surrebuttal Testimony of Mr. Cassidy, Ms.
27 Brown, and Mr. Liu.
- 28 29. On December 20, 2013, Ms. Reidhead filed her Surrebuttal Testimony.

- 1 30. On December 30, 2013, Ms. Reidhead filed a Motion to Compel discovery Phase 2.
- 2 31. On January 6, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.
- 3 32. On January 6, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase
- 4 2.
- 5 33. On January 6, 2014, PWC filed the Rejoinder Testimony of Mr. Williamson and Mr.
- 6 Bourassa.
- 7 34. On January 6, 2014, Mr. Bremer filed Responses to PWC Regarding Impact of Water
- 8 Rate Case on East Verde Park Ratepayers.
- 9 35. On January 6, 2014, PWC filed a Response to Ms. Reidhead's Motion to Compel
- 10 Discovery.
- 11 36. On January 7, 2014, Ms. Nee filed a Supplement to Pre-filed Testimony Phase 2.
- 12 37. On January 7, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase
- 13 2.
- 14 38. On January 8, 2014, a prehearing conference was convened as previously scheduled.
- 15 During the conference, alternative dates for commencement of the hearing were discussed as well the
- 16 filing of additional testimony. It was determined that the evidentiary hearing would commence on
- 17 February 4, 2014; that the January 13, 2014 hearing date would be reserved for public comment; that
- 18 the Company would file additional testimony by January 15, 2014, with Staff and intervenor
- 19 responsive testimony filed by January 22, 2014. In addition, PWC's motion to strike various exhibits
- 20 attached to Ms. Reidhead's testimony was denied.
- 21 39. On January 9, 2014, Ms. Reidhead filed a Motion for Extension of Time, until January
- 22 27, 2014, to file her response to the Company's additional testimony.
- 23 40. On January 10, 2014, the Company filed a Response to the Motion for Extension of
- 24 Time.
- 25 41. On January 13, 2014, Mr. Bremer filed a document titled "Pre-Filed Testimony –
- 26 Responses to PWC Regarding Impact of Water Rate Case on East Verde Park Ratepayers."
- 27 42. On January 13, 2014, public comment was taken on the date previously scheduled and
- 28 noticed as the first day of the evidentiary hearing. In addition, Ms. Reidhead's request for an

1 extension of time to file responsive testimony was granted, subject to imposition of an expedited
2 discovery schedule following filing of the testimony.

3 43. On January 15, 2014, PWC filed the Supplemental Rejoinder Testimony of Mr.
4 Williamson and Mr. Bourassa, as directed at the January 8, 2014 prehearing conference.

5 44. On January 22, 2014, Ms. Nee filed her Response to the Company's Supplemental
6 Rejoinder Testimony.

7 45. On January 23, Mr. Bremer filed Responses to First Set of Data Requests from PWC.

8 46. On January 23, 2014, Staff filed a Request for Extension of Time to file its response to
9 PWC's Supplemental Rejoinder Testimony.

10 47. On January 24, 2014, Staff filed the Supplemental Surrebuttal Testimony of Mr.
11 Cassidy, Ms. Brown, and Mr. Liu.

12 48. On January 31, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.

13 49. On February 3, 2014, Ms. Reidhead filed a Supplement to Pre-Filed Testimony Phase
14 2.

15 50. On February 3, 2014, Ms. Nee filed a Supplement to Pre-Filed Testimony.

16 51. On February 4, 2014, the evidentiary hearing commenced with the taking of additional
17 public comment, opening statements, and testimony. Additional hearing days were held on February
18 5, 7, 10, and 14, 2014.

19 52. On February 4, 2014, Mr. Ross filed a document titled "Interveners Motion to
20 Separate the Gisela Rate Payers from further proceedings."

21 53. On February 10, 2014, prior to the fourth day of the evidentiary hearing, Mr. Burt and
22 Mr. Gehring filed a document titled "Objection to Exclusion of Intervenors Burt & Gehring from
23 Hearings Held on 2/7/14 and 2/10/14."

24 54. During the hearing on February 10, 2014, Staff witness Crystal Brown testified, under
25 cross-examination by Mr. Bremer, that Staff's proposed water hauling surcharge methodology for the
26 East Verde Park system "has to be revised." (Tr. 810.) As a result, Staff was directed to prepare a
27 revised proposed tariff for East Verde Park, and provide the revised tariff to all other parties. (See,
28

1 Tr. 810-827.) Cross-examination on the revised proposal was scheduled for February 14, 2014. (*Id.*
2 at 884.)

3 55. On February 12, 2014, Staff filed a revised Attachment B “Summer Water
4 Augmentation Surcharge” for East Verde Park and a revised Attachment C “Purchased Water
5 Surcharge Examples” for Mesa del Caballo.

6 56. On February 14, 2014, Staff filed a Notice of Errata regarding the revised Attachment
7 C for Mesa del Caballo.

8 57. On February 14, 2014, Mr. Bremer filed a Response to Staff’s revised Summer Water
9 Augmentation Surcharge for East Verde Park.

10 58. On February 14, 2014, Mr. Burt filed a document titled Request for Acknowledgement
11 of Misrepresentation of Fact by Robin Mitchel (sic) in Her Redress to Include a Serious Implied
12 Threat. In his filing, Mr. Burt requested that Staff attorney Robin Mitchell apologize “for her
13 misrepresentation of facts, unjustified over reactive response and Chastisement of Mr. Burt.”

14 59. On February 20, 2014, PWC late-filed Exhibit A-18, a Design Assistance Grant
15 Application submitted by the Company to WIFA to obtain funding for a study of water shortage
16 issues in the East Verde Park system.

17 60. On February 24, 2014, Mr. Ross filed a document entitled “Interveners Motion for 30
18 Day Extension for Post Hearing Briefs Second request to separate Gisela/ Deer creek village.” In his
19 filing, Mr. Ross stated, among other things that “[t]his Intervener has not been properly notified when
20 the Hearings transcripts will be available for revive (sic) to properly prepare my Post Hearing Brief”
21 and “[o]nce again the hearings are unfair and discriminatory to the Rate Payers (Interveners).” Mr.
22 Ross also attached a Petition that requested the Commission to “exempt the ratepayers (Residence) of
23 the Gisela Arizona Community and/or Deer Creek Village...from the more stringent ratemaking
24 structure the ACC staff and Payson Water Company have recommended.”

25 61. On March 4, 2014, PWC filed a Notice of Compliance with Decision No. 74175. In
26 its filing, the Company stated that the WIFA loan authorized in that Phase 1 Decision closed on
27 February 19, 2014; that the annual Debt Service Requirement is \$29,720; and that Mesa del Caballo
28 customers would be assessed a monthly surcharge of \$6.76 to service the WIFA loan.

1 62. On March 6, 2014, PWC filed a Notice of Compliance with Decision No. 74175,
2 stating that it was applying for elimination of Emergency Interim Water Augmentation Surcharge
3 Tariff in accordance with that Decision. However, the Company requested that the Augmentation
4 Tariff not be eliminated until after approval is given for the proposed PWAM to recover the cost of
5 the water purchased from the Town of Payson through the new interconnect pipeline.

6 63. On March 10, 2014, PWC filed a Notice of Late-Filed Exhibit which attached a copy
7 of Exhibit A-19, a Consent Order between PWC and ADEQ related to third-party owned wells used
8 by the Company under water sharing agreements.

9 64. On March 10, 2014, initial post-hearing briefs were filed by PWC, Staff, Mr. Bremer,
10 Ms. Nee, Mr. Sheppard, and Ms. Reidhead.

11 65. On March 11, 2014, initial post-hearing briefs were filed by Mr. Ross and Mr.
12 Gehring.

13 66. On March 20, 2014, PWC filed the Table of Contents for the Loan Agreement
14 between the Company and WIFA.

15 67. On March 21, 2014, reply briefs were filed by Staff, Ms. Reidhead, Ms. Nee, Mr.
16 Bremer, and Mr. Sheppard.

17 68. On March 21, 2014, a Procedural Order was issued scheduling a public comment
18 session for April 11, 2014, in Payson. The Company was also directed to mail notice to customers
19 and publish notice of the public comment session.

20 69. On March 24, 2014, PWC filed its reply brief. The Company stated that it had the
21 wrong date calendared for the reply brief and by the time it detected the error it was too late to make
22 the filing by the March 21, 2014, deadline.

23 70. On March 24, 2014, a Procedural Order was issued granting Staff and Intervenors an
24 opportunity to file, by March 31, 2014, a response to the Company's late-filed reply brief.

25 71. On March 27, 2014, PWC filed a Notice of Correction stating that it had corrected a
26 typographical error in the public notice contained in the Procedural Order that was required to be
27 mailed and published for the public comment session in Payson.

28

1 72. On March 28, 2014, the Commission's Executive Director, Jodi Jerich, filed a letter in
2 response to George Chrisman, who alleged in an affidavit that during the hearing Staff counsel had
3 "telescoped" answers to two different witnesses; that it "appeared [she] was speaking softly into a
4 small microphone;" and that examination of the recordings would confirm his allegations. Ms.
5 Jerich's response stated that she: spoke with the Commission's Chief Counsel, the Director of the
6 Utilities Division, and the two Staff members identified in the affidavit; and reviewed the archived
7 February 10, 2014, hearing, when the alleged incidents occurred. Based on her review, Ms. Jerich
8 concluded that "the Staff witness and counsel conducted themselves appropriately."

9 73. On March 31, 2014, Ms. Reidhead and Ms. Nee filed responses to PWC's late-filed
10 reply brief.

11 74. On March 31, 2014, a Procedural Order was issued finding that because PWC had,
12 prior to mailing and publication, corrected the typographical error in the public comment notice
13 contained in the March 21, 2014 Procedural Order, no further action was required.

14 75. On April 4, 2014, PWC filed a Notice of Filing Certification of Publication and Proof
15 of Mailing regarding the Payson public comment session.

16 76. On April 7, 2014, PWC filed a Notice of Compliance with Decision No. 74175.
17 Attached to the filing was the customer notice sent to Mesa del Caballo customers regarding the
18 amount of the monthly WIFA Loan Surcharge (\$6.67) that became effective on April 1, 2014.

19 77. On April 11, 2014, the Commission conducted a public comment session in Payson, as
20 scheduled.

21 78. On April 14, 2014, the Commission's Consumer Services Division filed a Rate Case
22 Summary that was provided to members of the public who attended the Payson public comment
23 session.

24 79. On April 25, 2014, Ms. Nee filed a document titled "Intervenor Public Comment
25 04/25/14."

26 80. On April 29, 2014, Commissioner Brenda Burns filed copies of unsolicited e-mails
27 received by her office from Ms. Nee.

28

1 81. On April 30, 2014, Ms. Nee filed another document titled "Public Comment, Suzanne
2 Nee, April 30, 2014."

3 82. On May 1, 2014, Commissioner Pierce filed a letter requesting the Company and Staff
4 to file information regarding alternative rate design structures, and inviting other parties to provide
5 input.

6 83. On May 6, 2014, a Procedural Order was issued, with the attached letter from
7 Commissioner Pierce, which: served the letter on all parties; directed PWC and Staff to respond to
8 the letter by May 12, 2014; and offered an opportunity to Intervenors to respond by May 19, 2014.

9 84. On May 7, 2014, Commissioner Pierce filed a letter stating that he did not intend to
10 delay the processing of this matter by requesting the additional information described in his prior
11 letter.

12 85. On May 7, 2014, Ms. Reidhead filed a letter stating that she had sent to Commissioner
13 Pierce and Commissioner Brenda Burns a video copy of the April 11, 2014 public comment session
14 in Payson.

15 86. On May 12, 2014, PWC filed a Notice of Filing Additional Analysis in Response to
16 Docketed Letters from Commissioner.

17 87. On May 12, 2014, responses were filed to Commissioner Pierce's letter by Ms.
18 Reidhead, Ms. Nee, and Mr. Sheppard.

19 88. On May 12, 2014, Staff filed a Response to Commissioner Pierce's May 1, 2014
20 Letter Regarding Rate Design Alternatives.

21 89. On May 12, 2014, Staff also filed a Status Update Regarding Applicable Measures to
22 Ensure Adequate and Reasonable Water Supplies for Mesa Del Caballo.

23 90. On May 13, 2014, Staff filed a Notice of Errata to correct Exhibit S-18.

24 91. On May 15, 2014, the Commission noticed a Special Open Meeting to consider
25 granting emergency/interim rate relief to PWC for the MDC system.

26 92. On May 19, 2014, PWC filed Comments on Staff's Rate and Comparison Options.

27 93. On May 19, 2014, Staff filed a Memorandum recommending that the Commission
28 approve, on an interim basis, the Company's proposed PWAM to enable PWC to collect from MDC

1 customers the costs of water purchased from the Town and transported through the TOP-MDC
2 interconnection.

3 94. On May 20, 2014, Staff filed a Proposed Order recommending approval of the PWAM
4 tariff for PWC's MDC system.

5 95. On May 21, 2014, PWC filed Exceptions to Staff's Recommended Order.

6 96. On May 21, 2014, Mr. Gehring filed an email response to Staff's recommendation.

7 97. On May 22, 2014, Staff filed a copy of the Notice sent by the Company to customers
8 regarding the Commission's intent to consider emergency rate relief.

9 98. On May 22, 2014, Ms. Reidhead and Ms. Nee filed Exceptions to Staff's
10 Recommended Order, and Mr. Ross filed Remarks.

11 99. On May 22, 2014, the Director of ADWR filed a letter regarding the hydrogeology in
12 the Company's service area and the Cragin pipeline.

13 100. On May 22, 2014, the Commission conducted a Special Open Meeting and approved,
14 on an interim basis, Staff's Recommended Order, as amended, regarding the Company's PWAM
15 tariff. (Decision No. 74484.)

16 101. For purposes of this proceeding, a 100 percent equity capital structure is appropriate
17 for establishing rates in this matter.

18 102. A return on equity of 9.0 percent is an appropriate estimate of the cost of capital for
19 PWC for purposes of this proceeding.

20 103. For purposes of this proceeding, PWC's adjusted OCRB and FVRB is \$504,684; its
21 adjusted test year revenue is \$320,525; its adjusted test year operating income is \$(145,689); its
22 adjusted operating expenses are \$564,835; its overall revenue requirement is \$610,256; and a gross
23 revenue increase of \$289,731 is authorized.

24 104. It is just and reasonable to phase-in the rate increase for Gisela customers by
25 implementing 50 percent of the increase to those customers upon the effective date of the rates, with
26 the remaining 50 percent of the increase for Gisela customers becoming effective after three months.
27 The Company should phase in the Gisela rate increase in a form acceptable to Staff.

28

1 IT IS FURTHER ORDERED that Payson Water Company, Inc.'s, proposed EVP Water
2 Augmentation Surcharge tariff, as set forth in Revised Exhibit S-18, and attached hereto as
3 Attachment B, is hereby approved.

4 IT IS FURTHER ORDERED that Payson Water Company, Inc.'s, proposed BMPs, as set
5 forth in the Company's November 14, 2013 filing, and attached hereto as Attachment C, are hereby
6 approved.

7 IT IS FURTHER ORDERED that, in accordance with Decision No. 74484, the interim
8 approval of the Company's PWAM tariff shall be made permanent. As stated therein, as well as in
9 Decision No. 74175, the debt surcharge and the PWAM will apply only to customers in the MDC
10 system.
11

12 IT IS FURTHER ORDERED that within 30 days of the effective date of this Decision,
13 Payson Water Company, Inc., shall file with Docket Control as a compliance item in this Docket, an
14 explanation of the alleged discrepancy in Exhibit A-19, regarding Well No. 55-588967.
15

16 IT IS FURTHER ORDERED that Payson Water Company, Inc., shall file, within 30 days of
17 receipt thereof, as a compliance item in this docket, a copy of WIFA's response to the Design
18 Assistance Grant Application submitted by the Company to WIFA to obtain funding for a study of
19 water shortage issues in the East Verde Park system.

20 IT IS FURTHER ORDERED that Payson Water Company, Inc., shall file within 60 days of
21 the effective date of this Decision, as a compliance item in this docket, documentation showing that
22 the ADWR issue identified by Staff has been resolved.
23

24 IT IS FURTHER ORDERED that Payson Water Company, Inc., shall use, on a going-forward
25 basis, the individual depreciation rates set forth in the Staff Engineering Report.

26 IT IS FURTHER ORDERED that Payson Water Company, Inc., shall file with Docket
27 Control as a compliance item in this Docket, on a quarterly basis for the next 12 months, monthly
28

1 summaries of gallons of water pumped, purchased, and sold. The first report should be filed in this
2 Docket, as a compliance item, beginning September 15, 2014, for the prior 3 months (i.e., June
3 through August), with subsequent reports following accordingly. In preparing these quarterly reports,
4 the Company should ensure that readings for water pumped, purchased, and sold are concurrent so as
5 to avoid mismatched data due to timing differences.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7
8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

9
10
11 CHAIRMAN

COMMISSIONER

12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, JODI JERICH, Executive
16 Director of the Arizona Corporation Commission, have
17 hereunto set my hand and caused the official seal of the
18 Commission to be affixed at the Capitol, in the City of Phoenix,
19 this _____ day of _____ 2014.

20
21 _____
22 JODI JERICH
23 EXECUTIVE DIRECTOR

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DISSENT _____
DN:dp

1 SERVICE LIST FOR: W-03514A-13-0111 AND W-03514A-13-0142

2 DOCKET NO.: PAYSON WATER CO., INC.

3
4 Jay L. Shapiro
5 FENNEMORE CRAIG, P.C.
6 2394 E. Camelback Road, Suite 600
7 Phoenix, Arizona 85016
8 Attorneys for Payson Water Co., Inc.

9 Kathleen M. Reidhead
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11 Phoenix, AZ 85044

12 Thomas Bremer
13 6717 E. Turquoise Ave.
14 Scottsdale, AZ 85253

15 Bill Sheppard
16 6250 N. Central Ave.
17 Phoenix, AZ 85012

18 J. Stephen Gehring
19 8157 W. Deadeye Rd.
20 Payson, AZ 85541

21 Suzanne Nee
22 2051 E. Aspen Dr.
23 Tempe, AZ 85282

24 Glynn Ross
25 405 S. Ponderosa
26 Payson, Arizona 85541

27 Janice Alward, Chief Counsel
28 Legal Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

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Payson Water Company
 Docket No. W-03514A-13-0111
 Test Year Ended: December 31, 2012

Rate Design

Supplemental
 Surrebuttal Schedule CSB-17
 Page 1 of 2

Monthly Usage Charge	United System Present	C&S Systems Present	Company Proposed Rates Consolidated	Staff Recommended Rates Consolidated
Meter Size (All Classes):				
5/8 x 3/4 Inch	\$ 16.00	\$ 17.00	\$ 39.24	\$ 23.00
3/4 Inch	18.40	25.50	58.85	36.00
1 Inch	21.28	42.50	98.09	60.00
1 1/2 Inch	32.00	85.00	196.18	120.00
2 Inch	56.00	136.00	313.89	200.00
3 Inch	80.00	255.00	627.78	400.00
4 Inch	128.00	425.00	980.90	600.00
6 Inch	No Tariff	850.00	1,961.80	1,200.00
8 Inch	No Tariff	No Tariff	3,138.88	2,000.00
Commodity Charge - Per 1,000 Gallons				
C&S System (All Meter Sizes)				
Per 1,000 gallons, for all gallons	N/A	\$ 1.4800	N/A	N/A
United Systems (All Meter Sizes)				
First 4,000 gallons	\$ 1.9300	N/A	N/A	N/A
Over 4,000 gallons	2.9900	N/A	N/A	N/A
5/8"x3/4" and 3/4 "Meters (Consolidated)				
First 4,000 gallons	N/A	N/A	\$ 2.7500	N/A
4,001 to 10,000 gallons	N/A	N/A	4.7500	N/A
Over 10,000 gallons	N/A	N/A	6.7500	N/A
First 3,000 gallons	N/A	N/A	N/A	\$ 4.0000
3,001 to 10,000 gallons	N/A	N/A	N/A	7.6640
Over 10,000 gallons	N/A	N/A	N/A	9.6170
1" Meter (Consolidated)				
First 25,000 gallons	N/A	N/A	4.0000	N/A
Over 25,000 gallons	N/A	N/A	4.2500	N/A
First 18,000 gallons	N/A	N/A	N/A	7.6640
Over 18,000 gallons	N/A	N/A	N/A	9.6170
1 1/2" Meter (Consolidated)				
First 50,000 gallons	N/A	N/A	4.0000	N/A
Over 50,000 gallons	N/A	N/A	4.2500	N/A
First 38,000 gallons	N/A	N/A	N/A	7.6640
Over 38,000 gallons	N/A	N/A	N/A	9.6170
2" Meter (Consolidated)				
First 80,000 gallons	N/A	N/A	4.0000	N/A
Over 80,000 gallons	N/A	N/A	4.2500	N/A
First 60,000 gallons	N/A	N/A	N/A	7.6640
Over 60,000 gallons	N/A	N/A	N/A	9.6170
3" Meter (Consolidated)				
First 160,000 gallons	N/A	N/A	4.0000	N/A
Over 160,000 gallons	N/A	N/A	4.2500	N/A
First 120,000 gallons	N/A	N/A	N/A	7.6640
Over 120,000 gallons	N/A	N/A	N/A	9.6170
4" Meter (Consolidated)				
First 250,000 gallons	N/A	N/A	4.0000	N/A
Over 250,000 gallons	N/A	N/A	4.2500	N/A
First 200,000 gallons	N/A	N/A	N/A	7.6640
Over 200,000 gallons	N/A	N/A	N/A	9.6170

Payson Water Company
 Docket No. W-03514A-13-0111
 Test Year Ended: December 31, 2012

Rate Design

Supplemental
 Surrebuttal Schedule CSB-17
 Page 2 of 2

6" Meter (Consolidated)				
First 500,000 gallons	N/A	N/A	4.0000	N/A
Over 500,000 gallons	N/A	N/A	4.2500	N/A
First 450,000 gallons	N/A	N/A	N/A	7.6640
Over 450,000 gallons	N/A	N/A	N/A	9.6170
8" Meter (Consolidated)				
First 800,000 gallons	N/A	N/A	4.0000	N/A
Over 800,000 gallons	N/A	N/A	4.2500	N/A
First 679,000 gallons	N/A	N/A	N/A	7.6640
Over 679,000 gallons	N/A	N/A	N/A	9.6170
Reestablishment (within 12 months)				

Other Service Charges	United System	C&S Systems	Consolidated Company Proposed	Consolidated Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 35.00	\$ 35.00	\$ 35.00	Remove from Tariff
Reconnection (Delinquent)	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Reconnection (Delinquent and After Hours)	\$ 30.00	\$ 30.00	\$ 30.00	Remove from Tariff
Meter Test (If Correct)	\$ 25.00	\$ 20.00	\$ 25.00	\$ 25.00
Deposit	*	*	*	*
Deposit Interest*	6.00%	6.00%	6.00%	6.00%
Reestablishment (within 12 months)	**	**	**	**
NSF Check	\$ 17.50	\$ 10.00	\$ 17.50	\$ 17.50
Deferred Payment (per month)	1.50%	1.50%	1.50%	1.5% per month
Meter Re-Read (if correct and not error)	\$ 15.00	\$ 10.00	\$ 15.00	\$ 15.00
Late Charge per month (per R-14-2-409 G (6))	1.50%	1.50%	1.50%	1.5% per month
After Hour Service Charge (at cust. request)	N/A	N/A	N/A	\$ 35.00

* Per Commission Rule R14-2-403(B).

** Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

Service and Meter Installation Charges

Service Size	United Systems and C&S System Total Present	Consolidated Proposed Service Line Charge	Consolidated Proposed Meter Installation Charge	Consolidated Total Proposed Charge	Consolidated Recommended Service Line Charge	Consolidated Recommended Meter Installation Charge	Consolidated Total Recommended Charge
5/8 x 3/4 Inch	\$ 430.00	\$ 445.00	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4 Inch	\$ 480.00	\$ 445.00	\$ 255.00	\$ 700.00	\$ 445.00	\$ 255.00	\$ 700.00
1 Inch	\$ 550.00	\$ 495.00	\$ 315.00	\$ 810.00	\$ 495.00	\$ 315.00	\$ 810.00
1 1/2 Inch	\$ 775.00	\$ 550.00	\$ 525.00	\$ 1,075.00	\$ 550.00	\$ 525.00	\$ 1,075.00
2 Inch	\$ 1,305.00	N/A	N/A	N/A	N/A	N/A	N/A
2 Inch Turbine	N/A	\$ 830.00	\$ 1,045.00	\$ 1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2 Inch Compound	N/A	\$ 830.00	\$ 1,890.00	\$ 2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3 Inch	\$ 1,815.00	N/A	N/A	N/A	N/A	N/A	N/A
3 Inch Turbine	N/A	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3 Inch Compound	N/A	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4 Inch	\$ 2,860.00	N/A	N/A	N/A	N/A	N/A	N/A
4 Inch Turbine	N/A	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4 Inch Compound	N/A	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6 Inch - United Systems	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6 Inch - C&S Systems	\$ 5,275.00	N/A	N/A	N/A	N/A	N/A	N/A
6 Inch Turbine	N/A	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6 Inch Compound	N/A	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00
8 Inch	N/A	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Payson Water Company
 Docket No. W-03514A-13-0111
 Test Year Ended: December 31, 2012

Supplemental Surrebuttal Schedule CSB-18
 Page 1 of 2

Typical Bill Analysis for United System
 General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,903	\$ 21.60	\$ 47.22	\$ 25.62	118.60%
Median Usage	1,434	18.77	43.18	\$ 24.42	130.10%
Staff Recommended					
Average Usage	2,903	\$ 21.60	\$ 34.61	\$ 13.01	60.22%
Median Usage	1,434	18.77	28.74	\$ 9.97	53.11%

Present & Proposed Rates (Without Taxes)
 General Service 5/8 x 3/4-Inch Meter

Gallons	Present		Company Proposed		%	Staff Recommended	
	5/8"		5/8"			5/8"	
Consumption	Rates		Rates	Increase		Rates	Increase
-	\$ 16.00		\$ 39.24	145.25%		\$ 23.00	43.75%
1,000	17.93		41.99	134.19%		27.00	50.59%
2,000	19.86		44.74	125.28%		31.00	56.09%
3,000	21.79		47.49	117.94%		35.00	60.62%
4,000	23.72		50.24	111.80%		42.66	79.87%
5,000	26.71		54.99	105.88%		50.33	88.42%
6,000	29.70		59.74	101.14%		57.99	95.26%
7,000	32.69		64.49	97.28%		65.66	100.84%
8,000	35.68		69.24	94.06%		73.32	105.49%
9,000	38.67		73.99	91.34%		80.98	109.42%
10,000	41.66		78.74	89.01%		88.65	112.79%
11,000	44.65		85.49	91.47%		98.27	120.08%
12,000	47.64		92.24	93.62%		107.88	126.45%
13,000	50.63		98.99	95.52%		117.50	132.07%
14,000	53.62		105.74	97.20%		127.12	137.07%
15,000	56.61		112.49	98.71%		136.73	141.54%
16,000	59.60		119.24	100.07%		146.35	145.55%
17,000	62.59		125.99	101.29%		155.97	149.19%
18,000	65.58		132.74	102.41%		165.58	152.49%
19,000	68.57		139.49	103.43%		175.20	155.51%
20,000	71.56		146.24	104.36%		184.82	158.27%
25,000	86.51		179.99	108.06%		232.90	169.22%
30,000	101.46		213.74	110.66%		280.99	176.94%
35,000	116.41		247.49	112.60%		329.07	182.68%
40,000	131.36		281.24	114.10%		377.16	187.12%
45,000	146.31		314.99	115.29%		425.24	190.65%
50,000	161.26		348.74	116.26%		473.33	193.52%
75,000	236.01		517.49	119.27%		713.75	202.42%
100,000	310.76		686.24	120.83%		954.18	207.05%

Payson Water Company
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 Test Year Ended: December 31, 2012

Supplemental Surrebuttal Schedule CSB-18
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Typical Bill Analysis for C&S System
 General Service 5/8 x 3/4-inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,961	\$ 27.30	\$ 64.30	\$ 37.00	135.53%
Median Usage	4,500	23.66	52.62	\$ 28.96	122.38%
Staff Recommended					
Average Usage	6,961	\$ 27.30	\$ 65.36	\$ 38.05	139.38%
Median Usage	4,500	23.66	46.50	\$ 22.84	96.52%

Present & Proposed Rates (Without Taxes)
 General Service 5/8 x 3/4-inch Meter

Gallons	Present		Company Proposed		Staff Recommended	
	Rates	5/8"	Rates	% Increase	Rates	% Increase
-	\$ 17.00		\$ 39.24	130.82%	\$ 23.00	35.29%
1,000	18.48		41.99	127.22%	27.00	46.10%
2,000	19.96		44.74	124.15%	31.00	55.31%
3,000	21.44		47.49	121.50%	35.00	63.25%
4,000	22.92		50.24	119.20%	42.66	86.14%
5,000	24.40		54.99	125.37%	50.33	106.26%
6,000	25.88		59.74	130.83%	57.99	124.08%
7,000	27.36		64.49	135.71%	65.66	139.97%
8,000	28.84		69.24	140.08%	73.32	154.23%
9,000	30.32		73.99	144.03%	80.98	167.10%
10,000	31.80		78.74	147.61%	88.65	178.77%
11,000	33.28		85.49	156.88%	98.27	195.27%
12,000	34.76		92.24	165.36%	107.88	210.36%
13,000	36.24		98.99	173.15%	117.50	224.22%
14,000	37.72		105.74	180.33%	127.12	237.00%
15,000	39.20		112.49	186.96%	136.73	248.81%
16,000	40.68		119.24	193.12%	146.35	259.76%
17,000	42.16		125.99	198.84%	155.97	269.94%
18,000	43.64		132.74	204.17%	165.58	279.43%
19,000	45.12		139.49	209.15%	175.20	288.30%
20,000	46.60		146.24	213.82%	184.82	296.61%
25,000	54.00		179.99	233.31%	232.90	331.30%
30,000	61.40		213.74	248.11%	280.99	357.64%
35,000	68.80		247.49	259.72%	329.07	378.30%
40,000	76.20		281.24	269.08%	377.16	394.96%
45,000	83.60		314.99	276.78%	425.24	408.66%
50,000	91.00		348.74	283.23%	473.33	420.14%
75,000	128.00		517.49	304.29%	713.75	457.62%
100,000	165.00		686.24	315.90%	954.18	478.29%

EAST VERDE PARK SUMMER WATER AUGMENTATION SURCHARGE

I. Purpose and Applicability

The Summer Water Augmentation Surcharge can only be implemented during the months of May through September.

The maximum amount of water augmentation cost that can be recovered during any given year is \$10,000.

The purpose of this tariff is to authorize Payson to make monthly adjustments to its rates and charges for water service in order to recover costs incurred for water purchases and hauling ("Water Augmentation Costs") in the event that Payson experiences extreme water shortages for the East Verde Park water system. These charges are applicable to all connections and will be assessed based on usage, as provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 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 the Company because of reliance upon augmented water rather than pumping groundwater from the Company's wells and booster stations.

"Company" means Payson Water Company.

"Curtailed Account Balance" means the monies collected under the curtailment tariff authorized in Decision No. 67821.

"Water Augmentation Cost" means the actual cost of water purchased and water hauling costs. The maximum amount of water Augmentation cost that can be recovered during any given year is \$10,000.

"Water Augmentation Quantity" means the actual quantity of augmented water (in thousands of gallons).

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

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

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased.

III. Surcharge Rate Calculation

The surcharge is calculated using data from the previous month's bill. For example, the water augmentation surcharge that is applied on the July bill is calculated using the June water augmentation costs and the June total gallons sold. See Attachment B.1, page 1 for an example of the calculation.

For each month that the Company augments water, the Company will calculate the Surcharge Rate per the following formula:

$$[(\text{Water Augmentation Cost} - \text{Curtailment Account Balance}^1) - (\text{Water Augmentation Quantity} \times \text{Avoided Production Costs})] / \text{Water Sold}$$
IV. Terms and Conditions

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

In the following month, Payson Water Company will bill the Summer Water Augmentation Surcharge to its customers. Each individual customer's billing for the Summer Water Augmentation Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the Water Augmentation) times the Surcharge Rate.

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

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

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

¹ Consideration of the Curtailment Account Balance could result in a negative cost recovered position. Therefore, the amount of the curtailment balance to be subtracted in the calculation of the water augmentation surcharge shall be limited to the amount which would not cause the surcharge to be a negative amount. However, the surcharge can be \$0 but cannot go below \$0.

Payson Water Company
Docket Nos. W-03514A-13-0111 and W-03514A-13-0142
EAST VERDE PARK
Water Augmentation Surcharge Calculation Example

Example 1 - Median Usage Customer - East Verde Park

This example illustrates how the water augmentation surcharge would be calculated for a East Verde Park customer using 2,000 gallons in the month of June.

[A]	[B]	[D]	[E]	[F]
	June Ending	Avoided Costs	Total	Water
Total June	June Ending	\$0.60 x 494 gallons	Gallons Sold	Augmentation
Water & Hauling	Curtailment	(See page 2 for	In June	Surcharge
Costs	Acct. Balance	calculation of \$0.60)	Gallons In '000s	Per 1,000 Gallons
	\$100 -	\$296)	494 =	\$5.27

[G]	[H]	[I]
Customer's	Water	Total
June	Augmentation	Water
Usage	Surcharge	Augmentation
Gallons In '000s	(From Col. F)	Surcharge
2 x	\$5.27	on July Bill
	=	\$10.54

Payson Water Company

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Calculation of Avoided Costs

Calculation of Avoided Costs			
Current Cost	Divided by	Total Gallons Sold Per 1,000 From Sch E-7	Cost Per 1,000 Gallons
\$ 28,241	/	51,230	\$ 0.55
\$ -	/	51,230	\$ -
\$ 2,438	/	51,230	\$ 0.05
\$ -	/	51,230	\$ -
			<u>\$ 0.60</u>

Purchased Power for Wells (See Note Below)
 Depreciation Expense on Wells
 Chemicals
 Water Testing

Note: The \$28,241 was calculated by taking the Company's actual test year purchased pumping power expense of \$56,482 and dividing that number by 2. The purchased pumping power expense was divided by 2 to reflect that approximately half of the purchased pumping power was incurred for pumping water out of the wells and the other half of the purchased pumping power was incurred to transport the water from the storage tanks to the customers.

Company: Payson Water Co., Inc.

Docket No.: W-03514A-13-0111

Phone: (800) 270-6084

Effective Date: 11-14-2013

Public Education Program Tariff

PURPOSE

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.
2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.
3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.
4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.
5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.
6. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
 - b. The number of customers reached (or an estimate).
 - c. A description of the written water conservation material provided free to customers.

Company: Payson Water Co., Inc.

Docket No.: W-03514A-13-0111

Phone: (800) 270-6084

Effective Date: 11-14-2013

New Homeowner Landscape Information Tariff – BMP 2.3

PURPOSE

A program for the Company to promote the conservation of water by providing a landscape information package for the purpose of educating its new customers about low water use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.3: New Homeowner Landscape Information).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Upon establishment of water service the Company shall provide a free "Homeowner Landscape Packet" to each new customer in the Company's service area. The packet will include at a minimum: a cover letter describing the water conservation expectations for all customers in the Company's service area, all applicable tariffs, a basic interior-exterior water saving pamphlet, xeriscape landscape information, and information on where to find low water use plant lists, watering guidelines, and a rain water harvesting pamphlet.
2. Upon customer request, the Company shall provide:
 - a. On-site consultations on low water use landscaping and efficient watering practices.
 - b. A summary of water saving options.
3. The number of packets provided to new customers will be recorded and made available to the Commission upon request.

Company: Payson Water Co., Inc.

Docket No.: W-03514A-13-0111

Phone: (800) 270-6084

Effective Date: 11-14-2013

Water Waste Investigations and Information Tariff – BMP 3.8

PURPOSE

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.
2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.
3. The Company shall follow up on every water waste complaint.
4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.
5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.
6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).
7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.
8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.
9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request and to each new customer. The customer shall abide by the water waste restriction.
10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Company: Payson Water Co., Inc.

Docket No.: W-03514A-13-0111

Phone: (800) 270-6084

Effective Date: 11-14-2013

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters for repair or replacement (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons (whichever occurs first):
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has registered 1,000,000 gallons of usage,
 - c. A meter has been in service for ten years.
2. Meters larger than 1-inch shall be inspected for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has been in service for five years.
3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.
4. The Company shall also replace or reprogram any water meters that do not register in gallons. Upon the effective date of this tariff, the Company shall install all replacement meters with new:
 - a. 1-inch and smaller meters that register in 1 gallon increments,
 - b. 1-1/2-inch through 4-inch meters that register in 10 gallon increments, and
 - c. 6-inch and larger meters that register in 100 gallon increments.
5. The Company shall keep records of all inspected and replacement meters and make this information available to the Commission upon request.

Company: Payson Water Co., Inc.

Docket No.: W-03514A-13-0111

Phone: (800) 270-6084

Effective Date: 11-14-2013

WATER SYSTEM TAMPERING TARIFF – BMP 5.2

PURPOSE

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.