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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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- 10 COMMISSIONER

11 IN THE MATTER OF THE APPLICATION OF

12 CHAPARRAL CITY WATER COMPANY FOR

13 A DETERMINATION OF THE CURRENT

14 FAIR VALUE OF ITS UTILITY PLANT AND

15 PROPERTY AND FOR INCREASE IN ITS

16 RATES AND CHARGES BASED THEREON.

Docket No. W-02113A-13-0118

ORIGINAL

RUCO'S EXCEPTIONS

17 The Residential Utility Consumer Office ("RUCO") hereby files the following Exceptions

18 to the Recommended Opinion and Order ("ROO"). There were many disputed issues in this

19 case. For the most part the Recommended Opinion and Order ("ROO") rejects RUCO's

20 positions that are not aligned with Staff's. RUCO will not take exception to all of its positions

21 that were rejected because to do so would only detract from the issues RUCO is more concerned

22 with and/or simply be counter-productive. However, there are some aspects of the ROO that

23 RUCO believes are wrong and would set bad precedent if approved. Finally, the issue of the SIB

24 is troubling to RUCO for more than the reasons RUCO has reiterated time and time again – this

is one case where even if RUCO favored a SIB in general, RUCO would not recommend it. Even

the Company in this case admits that it can wait to recover its return on the cost of the SIB assets

placed in service until a full rate case when all of the other rate case elements can be scrutinized.

RUCO still hopes, despite the indications otherwise, that this Commission will not simply approve

1 every Company's SIB application, regardless of the circumstances. The circumstances, for
2 reasons explained below, do not warrant approval of a SIB. RUCO has attached proposed
3 amendments as Exhibit A.

4 **A) THE COMMISSION SHOULD DENY THE COMPANY'S DECLINING USE**
5 **ADJUSTMENT**

6 RUCO's concern here, like the SIB, is that the Commission automatically approves a
7 request even where the circumstances do not warrant it. Here, there is no declining use – period,
8 yet the ROO recommends approval of an adjustment based on data that Staff received post-test
9 year showing fluctuations in usage. The test year ended December 31, 2012. So the ROO
10 relies on fluctuations in usage in 2013.

11 Webster's dictionary defines "decline" as: "to become lower in amount or less in number."
12 See <http://www.merriam-webster.com/dictionary/decline>. The Company's yearly residential
13 average use, as provided by the Company and which RUCO painstakingly walked through in
14 the hearing, is as follows:

15 2010 109,556
16 2011 107,056
17 2012 109,628
18 2013 108,166¹

19 Clearly, residential usage has not been declining over those four years. However, the
20 ROO wants to ignore consideration of every year but 2013, which admittedly is lower than 2012.
21 Incidentally, the President of EPCOR USA, boasted about strong sales and how warmer and
22 drier conditions contributed to the sales, not that sales are declining due to rate design issues
23

24 ¹ RUCO extrapolated this number from the Spread Sheet dated 2/19/14 provided by the Company during the hearing showing Customer Count and usage. R-13 at 28.

1 as was proffered by the Company in their testimony. See Exhibit B. The weather in Arizona has
2 not gotten any cooler and the conditions in Arizona are still dry. Further, the 2014 Long-Range
3 Weather Forecast for Phoenix, Arizona predicts summer will be hotter than normal, with below-
4 normal rainfall.² All said, if the objective is to find ways to approve this adjustment for all
5 companies that apply for it – then RUCO has misunderstood the intent of the Commission –
6 RUCO is under the belief that there should be a clear showing of declining usage before such
7 an adjustment is approved.

8 If the Commission approves the Company's declining usage adjustment, RUCO supports
9 the ROO's reporting requirement. RUCO further requests that the Commission treat usage
10 symmetrically. In other words, if actual usage is greater than estimated usage, then the
11 difference in revenues will be credited back to the ratepayers. The Company should never be
12 allowed to over collect based on inaccurate estimates.

13
14 **B) THE COMMISSION SHOULD NOT APPROVE THE INCLUSION OF BAD DEBT
15 EXPENSE IN CASH WORKING CAPITAL – TO DO SO IS JUST WRONG.**

16 The ROO recommends that the Commission allow bad debt expense in cash working
17 capital because bad debt expense represents an on-going loss in revenue. While this may be
18 true, it is not germane to the lead lag study that is used to measure a company's cash needs
19 and flow – which is the whole point of the lead-lag study.

20 The lead-lag study measures the average length of time between the provision of
21 services and the payment of services to the customer (lead) and the average length of time
22 between when a company incurs an expense and when a company makes the cash payment
23

24

² See www.almanac.com/weather/longrange/AZ/Phoenix

1 (lag). Since bad debt expense involves no payment of cash (i.e. there is no actual payment of
2 bad debt expense) it does not affect the Company's cash requirements and should not be
3 included in the cash working capital calculation. Its effect on revenues is irrelevant for purposes
4 of measuring cash working capital. Approval here is of great concern because it would open the
5 door for future companies to include in their determination of cash working capital any item that
6 has an effect on revenue – which qualifies for just about everything - and there is no question
7 that companies going forward will capitalize on this determination.

8 The Commission should not make the connection – it opens the door for the consideration
9 of other misplaced elements in cash working capital calculations going forward and is based on
10 unsound reasoning.

11
12 **C) THE COMMISSION SHOULD REJECT THE ROO'S DECISION ON TANK
13 MAINTENANCE EXPENSE**

14 The ROO recommends the inclusion of tank maintenance expense based on 18 years of
15 estimated expenses. This is a complete shift in the Commission's previous decisions where the
16 Commission made it clear that tank maintenance expense should be based on **known and
17 measurable expenses**. Moreover, the eighteen-year period of estimates is exceedingly long
18 and inappropriate in any case. There is nothing new with the Company's argument in this case
19 – just the hope that if companies continue to make arguments that were unsuccessful in the
20 past, eventually the Commission will approve it, which, **with Staff abandoning its prior
21 position** on this issue is a good probability – It is a good strategy because it almost always
22 proves true.

23 While the estimates may appear reasonable, it is not the same as being known and
24 measurable. That is the point – estimated costs are not the same as known and measurable
costs – and should not be treated as such. Since the ratepayer is now required to prepay these

1 expenses, there is no guarantee that the Company will actually perform the tank maintenance.
2 Further, there is no recourse for the ratepayer if this scenario plays out, the ratepayer just has
3 to grin and bear it. Therefore, there is no reason why the Commission should change its policy
4 at this time.

5 The Commission should defer the tank maintenance expense, as this would at least
6 provide ratepayers with a safeguard, in the event the Company did not perform the tank
7 maintenance work. After the Company makes the repairs and the cost of the repairs are known,
8 ratepayers can then pay for the actual amount of the costs.

9
10 **D) THE COMMISSION SHOULD APPROVE RUCOS RECOMMENDATION TO**
11 **OFFSET CAP M&I CHARGES WITH GROWTH RELATED REVENUES**

12 This case is another example of numerous proposed and now recommended adjustor
13 mechanisms and surcharges that are designed to work in favor of the Company and not the
14 ratepayers. However, regulatory lag works both ways, and ratepayers should also get the benefit
15 of adjuster mechanisms and or surcharges that work in their favor – at least once in a while.
16 RUCO realizes that there is a slim to none chance that the Commission will reject the CAP
17 Surcharge as recommended. RUCO hopes, however, that the Commission will reject the ROO's
18 denial of RUCO's proposed offset to the surcharge. RUCO's proposal is only fair – it balances
19 the ratepayer cost to some degree by offsetting the surcharge by including the revenues
20 associated with customer growth. The ROO states RUCO did not demonstrate a need to add
21 a customer growth component to the surcharge. There really is nothing to demonstrate - if this
22 component is approved as an offset to CAP M&I expenses the Customer's surcharge is reduced.
23 At the time the surcharge is calculated the revenue generated from customer growth is known
24 and measureable so there is no guesswork in the calculation. It is time for the Commission to
approve measures that help offset the pain of these types of costs to the ratepayer.

1 **E) POST –TEST YEAR PLANT AND RELATED ACCUMULATED DEPRECIATION**

2 The ROO recommends that the Company be allowed to include in rate base all post-test
3 year plant that it requested as well as the accumulated depreciation related to these projects.
4 RUCO recommended that the projects completed during the first six months following the end
5 of the test year, \$2,191,355, be allowed as part of rate base but the remaining projects requested
6 for inclusion, \$2,278,882, be disallowed as these remaining projects were not completed when
7 RUCO and Staff filed their testimony. RUCO further recommended that the accumulated
8 depreciation associated with the post-test year plant assets not completed, \$38,379, be
9 reversed.

10 During the course of the hearing it was determined that Staff never went back to the
11 Company to verify whether the remaining projects were in service and used and useful. RUCO
12 does not believe that post-test year plant that has not been completed and determined to be
13 used and useful, as well as the related accumulated depreciation, be included in rate base. In
14 future cases, RUCO intends to hire its own engineer to verify whether the plant is in service and
15 used and useful.

16 **F) THE COMMISSION SHOULD REJECT THE SIB.**

17 The Company admits that it can wait until its next rate case to seek recovery of the
18 improvements in question. At the hearing the Company's engineer, Candace Coleman testified
19 as follows:

20 Q. Let me ask you, Ms. Coleman, why can't the company make the repairs
21 and the improvements and then request recovery in the next rate case,
22 which is the traditional way things are done?
23
24

1 A. We could.³

2 So why then does the Commission need to award a SIB when the Company admits it could wait
3 until the next rate case when the Commission could handle this by traditional ratemaking?
4 Again, RUCO hopes the Commission will not act blindly and only approve SIBs for companies
5 that are distressed and truly in need. RUCO understood the whole point of the SIB was to
6 address the regulatory lag associated with financial recovery for a true water infrastructure
7 problem caused by the need to replace/improve systems due to age. If the Commission intends
8 to approve a SIB for every company that requests one, then RUCO stands corrected and simply
9 misunderstood the Commission's intent. However, if that is the intent, RUCO stands even more
10 firm in its resolve to oppose the SIB - the SIB is extraordinary ratemaking (which no one
11 disagrees) and should only be considered in extraordinary circumstances – not as a given.

12 This approval of a SIB is further questionable because the Company's recent
13 predecessor, which the Company admits neglected the system and allowed it to fall into a state
14 of disrepair. The Company purchased this system, did its due diligence, and knew this or should
15 have known this. It surely knew the condition of the system it was buying. If it did not, then the
16 Company acted at its own peril. According to the Company, which is uncontroverted in the
17 record, the previous owner:

18 "...did not maintain assets in the CCWC system at levels
19 commensurate with industry standard; the assets were replace on a reactive
20 basis only after they failed. Water utility infrastructure, or any infrastructure
21 for that matter, requires a continuous infrastructure replacement program as
 the assets age. Without a proper annual asset replacement program, the
 water system becomes inefficient, begins to fail, and replacement costs are
 only pushed down the road at ever increasing costs." ⁴

23 ³ Transcript at 498-499

24 ⁴ A-17 at 13.

1 The Company is seeking to be awarded by the approval of the SIB for improvements
2 which either occurred or certainly were enhanced by substandard conduct. Why should the
3 ratepayer be forced to pay for it?

4 So what amount of monies did the Company spend on repairing the system after it
5 acquired it in 2011? In 2011, the amount of relevant spending on the infrastructure that would
6 qualify for the SIB if spent now was \$774,194. ⁵In 2012, the cost of the relevant improvements
7 that would qualify for the SIB mechanism was \$589,285. ⁶By comparison, the Company forecasts
8 the following annual SIB requests through 2018:

- 9 2014 \$1,812,258
- 10 2015 \$1,807,903
- 11 2016 \$1,769,953
- 12 2017 \$1,803,838
- 13 2018 \$1,789,353⁷

14 The amount spent verses the amount forecasted is simply out of whack. If the Company bought
15 a utility that was in such a state of disrepair, why did the Company spend less than half of its
16 SIB yearly forecast in 2011 and approximately one-third in 2012? Clearly, the situation is not as
17 dire as suggested and/or this Company, like its predecessor did not adequately address the
18 failing condition of the infrastructure after it acquired it. Either way, the Commission should not
19 award a SIB in this case.

20 _____
21

22
23 ⁵ A-17 at 12.
24 ⁶ Id.
⁷ A-17 at 13.

1 Further, the Company boasts about how its sales were strong in 2012. "EPCOR Water
2 USA had strong sales in 2012 – and warmer and drier conditions certainly contributed to that,"
3 said Joel Gysel, President of EPCOR Water (USA)." See Exhibit B. Yet another indicator that
4 the SIB is not necessary in this case.

5 The ROO's reasoning for the recommended approval of the SIB is consistent with the
6 Commission's findings in AWC's Eastern Division case (Decision No. 73938). ROO at 54. The
7 ROO refers to the comprehensive discussion in that case. RUCO's position was set forth at
8 length as part of that discussion as well as in the AWC's Northern Division case (Decision No.
9 74081). The underlying record in this case also sets forth in grand and vivid detail the basis for
10 RUCO's opposition. RUCO would refer the Commission to those documents as they pertain to
11 the SIB⁸ should there be any question.

12 RESPECTFULLY SUBMITTED this 6th day of June, 2014.

13
14 
15 Daniel W. Pozefsky
16 Chief Counsel

17
18 AN ORIGINAL AND THIRTEEN COPIES
19 of the foregoing filed this 6th day
of June, 2014 with:

20 Docket Control
21 Arizona Corporation Commission
22 1200 West Washington
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24 ⁸ In the Eastern Division case the ROE was also at issue. The ROE in this case was resolved in the Settlement and hence RUCO makes no reference to those arguments as they are inapplicable here.

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mailed this 6th day of June, 2014 to:

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EXHIBIT A

RUCO AMENDMENT 1
DECLINING USAGE ADJUSTMENT

Insert Page 15, Line 5 after “percent”:

RUCO further argued that there has not been a trend of declining usage. The Company’s yearly residential average use in gallons was: 2010-109,556, 2011-107,056, 2012-109,628, 2013-108,166¹. RUCO maintains that residential usage has not been declining.

Delete: Page 15, line 16 –Page 16, Line 8

Insert:

We believe that a declining usage adjustment should only be approved where there has been a trend of declining usage. There has not been a showing of a trend of declining usage and we therefore agree with RUCO that a declining usage adjustment should not be granted in this case.

¹ RUCO extrapolated this number from the Spread Sheet dated 2/19/14 provided by the Company during the hearing showing Customer Count and usage. Direct Testimony of RUCO witness Jeffrey M. Michlik at 28.

RUCO AMENDMENT 2
BAD DEBT EXPENSE

Delete: Page 14, Lines 3-4

Insert:

Because Bad Debt expense does not involve a payment in cash, it should not be considered in the calculation of Cash Working Capital.

RUCO AMENDMENT 3
TANK MAINTENANCE EXPENSE

Delete: Page 30, Lines 5 starting with the sentence "While we appreciate..." to the end at Line 30

Insert: RUCO further believes that the Commission should continue to require such costs to be known and measurable as the Commission has required in the past. In the 2010 Arizona Water Company's multi-district case we concluded:

"Despite the Company's claims, we do not believe there is any valid reason for treating tank maintenance expenses differently from other properly incurred costs. Although we recognize that these costs tend to be cyclical in nature, that fact alone does not justify requiring ratepayers to support the Company's accrual account methodology that would allow recovery in this case based solely on estimates adjusted by an inflation factor."

Decision No. 71845 at 26. We made a similar finding in Decision No. 71410, (dated December 8, 2009), in the Arizona American Water Company rate case (now EPCOR Water of Arizona Inc.). In that case, Arizona American proposed a reserve for tank maintenance expense wherein the funds would be recorded in a deferred liability account. Decision No. 71410 at 36. Arizona American's deferral proposal at least provided ratepayers safeguards whereas the current proposal which is an estimate over an abnormally long term provides no safeguards to the ratepayer. We still denied Arizona American's request, concluding:

"We are not opposed to the Company instituting a 14-year interior coating and exterior painting program for its water tanks. However, we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measurable Company expenditures, we find the normalization maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district to be the more reasonable alternative. Staffs normalization adjustment will therefore be adopted for each of the six water districts."

Decision No. 71410 at 37.

Consistent with these prior decisions, and for the same reasons relied on in them, we will not adopt the Company's proposal to include tank maintenance expense based on 18 years of estimated expenses.

RUCO AMENDMENT 4

CAP SURCHARGE

Delete: Page 46, Lines 21 starting with the sentence "RUCO..." to Line 24 ending with "...this surcharge."

Insert: We believe that it is appropriate and fair to offset the CAP M&I expenses with revenue generated from customer growth. We will require the CAP surcharge be offset by the actual amount of customer growth to be included in the Company's CAP Surcharge POA.

EXHIBIT B



JANUARY 28, 2013

Summer conservation program pays off

It pays to conserve, and EPCOR Water USA has experienced this first hand. As a participant in Arizona Public Service's (APS) Peak Solutions® program, the company was able to reduce energy consumption, and earn back a refund in the process.

The APS Peak Solutions® program is a way to control the amount of energy consumed based on usage, peak times and planned reductions designed to benefit APS customers without impacting availability during times of greater need.

Each participating business receives an evaluation that includes recommendations for reductions, which result in both use and cost savings to that business.

EPCOR, the state's largest private regulated water utility, tested the program from June through September 2012 when Arizona was at its hottest. The plan included turning off portions of facilities for several hours during energy peak-demand times. Use of non-critical components like wastewater blowers, water wells, booster pump stations and lift stations were also reduced to positively impact how much energy was used.

"This was a program that we decided to test and see if participation made sense for the company without impacting operations," said Troy Day, Arizona's Vice President of Operations. "I'm happy to say that with more than 30 facilities participating, we were able to see direct savings without ever reducing our ability to serve our customers."

The test program resulted in the company receiving a \$20,000 refund check from APS.

"Not only did we successfully reduce usage without impacting our customers, our efforts reinforced EPCOR's commitment to sustainability and conservation," Day said. "We were able to demonstrate that all businesses have the ability to contribute to corporate responsibility priorities. The efficiencies of this program helped us walk the walk of wise energy use."

The success of last summer's program was so great, that the company will participate again this year.

It was a Hot One!

With the recent cold wave, it might be hard to remember last summer. In case you've forgotten, it was a warm year. Not just during the summer, but all of 2012.

In data released by the National Climatic Data Center (NCDC), the United States set new records for heat in 2012. Last year was 3.2 degrees warmer than the average for the entire 20th century. July 2012 was the hottest month on record and 19 states, including New Mexico, set yearly heat records in 2012.

But it wasn't just hot. It was dry, too.

That combination raised the average annual U.S. temperature last year up to 55.32 degrees Fahrenheit, according to the NCDC. That's a full degree warmer than the old record set in 1998. While that may not sound like a lot, according to scientists, records are usually only broken by a tenth of a degree or so.

"EPCOR Water USA had strong sales in 2012 – and warmer and drier conditions certainly contributed to that," said Joe Gysel, President of EPCOR Water (USA). "I'm extremely impressed by the team's success in managing that demand, particularly given that we are operating in a region of drought and that we serve areas where supply is limited."

In 2012, in Arizona approximately 300 million gallons more water was used than in 2011. Among other reasons, such as new growth, this is a reflection of the high demand and the state's hot conditions. Scientists warn that these extremes may become the new normal and going forward, we need to be prepared for similar conditions, making efforts like water conservation all the more important.

Important information for all employees regarding W-2s, paystubs

By now, all employees should have accessed their W-2's via i-PAY. If you notice any error, you must notify payroll as soon as possible.

Also, beginning with the January 25, 2013 paystub, all EPCOR employees will see their total annual Time Off balances for the year. As Time Off is used, your balance will be reduced and show how much Time Off you have left to use this year, making it easier to plan your Time Off needs.

If you notice an error in your Time Off balance on your paycheck, please notify payroll immediately.

For both items, there is a limited amount of time to make corrections, so your prompt attention is critically important. If you need to report an error, or have questions, please contact Maria Thomas, Senior Payroll Accountant at 623-445-2417.

Safety First: Sprains and Strains

Working in the elements is tricky on its own, but dealing with additional issues brought on by the weather takes some planning and caution in order to avoid injury.

This time of year can bring many different weather changes and these changes can trigger or aggravate muscle pain. Weather shifts such as changes in wind, barometric pressure, humidity, and precipitation are all factors in increased pain. Changing, colder temperatures frequently contribute to muscle pain. This is due to several factors: muscles constrict in colder weather and are more prone to cramps and spasms that can be painful. It helps to take preventative measures such as warm-up sessions and stretching. These activities can help prevent injury and pain.

To minimize sprains and strains, don't forget the following tips and best practices:

- Practice safety measures to help prevent falls.
- Use extra caution when working on surfaces that are wet or show frost or ice.
- Always wear appropriate and proper fitting footwear for your job.
- Use extra caution when walking across uneven surfaces. These are areas where you could easily turn or twist an ankle or knee.
- Before you step off a ladder, always look where you are placing your feet, before you put your full weight on them.
- Whenever possible, arrange your work areas to minimize heavy lifting.
- Always plan how you will lift something. Consider the weight of the object, how far you'll have to carry it and your route of travel.
- Lift objects in the "power zone". Always carry objects close to your body and lift with your legs, not your back.
- Always lift slowly and smoothly. Avoid twisting.
- Whenever possible, move heavy objects by pushing or pulling. Pushing is always preferable.
- Ask for help!

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Questions and Story Ideas? We want to hear them! Email us at internalcommunications@epcor.com .