

OPEN MEETING AGENDA ITEM



0000153760

BEFORE THE ARIZONA CORPORATION

RECEIVED

COMMISSIONERS

2014 JUN -6 P 2:11

Arizona Corporation Commission

DOCKETED

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

AZ CORP COMMISSION
DOCKET CONTROL

JUN 06 2014

DOCKETED BY

ORIGINAL

IN THE MATTER OF THE APPLICATION OF LAGO DEL ORO WATER COMPANY, 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-01944A-13-0215

NOTICE OF FILING STAFF'S CLARIFICATIONS OF PROPOSED AMENDMENTS TO THE RECOMMENDED OPINION AND ORDER

On June 5, 2014, the Utilities Divisions ("Staff") of the Arizona Corporation Commission ("Commission") filed Staff's Notice of Filing Proposed Amendments to the Recommended Opinion and Order ("Proposed Amendments"). In the interim, Staff determined that it may be helpful to the Commission to provide a brief discussion of the purposes underlying the Proposed Amendments. Given the foregoing, Staff hereby respectfully submits the following.

DEPRECIATION METHODOLOGY

From its reading of the Recommended Opinion and Order ("ROO"), Staff believes that many of the depreciation methodology-related questions presently before the Commission in this docket pertain to the propriety of Lago del Oro's ("LDO" or "Company") use of the Group Method of calculating depreciation expense. However, Staff submits that the issue before the Commission is not whether the Group Method is a generally accepted accounting method and/or is simpler to apply in practice. Rather, the important issues in this docket are to ensure that over-depreciation of plant investments does not occur so as to adversely affect ratepayers and, concomitantly, to eliminate, to the extent possible, what the Company refers to as "stranded" accumulated depreciation reserve balances. Staff believes that both result from the use of the Group Method and that these issues will present regulatory hurdles in the processing of rate increase requests. Staff submits that a Commission-ordered requirement that LDO prospectively utilize the Vintage Year depreciation method would

1 significantly alleviate the likelihood that over-depreciation and “stranded” accumulated depreciation
2 reserve balances will arise in future LDO rate proceedings.

3 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

4 It would appear that the ROO’s recommendation regarding CIAC is based upon an assumption
5 that a decision regarding CIAC is directly related to the decision reached with regard to the
6 depreciation methodology issue. Staff respectfully submits that these issues are not directly related.
7 In effect, LDO over-amortized the CIAC on its books. Over-amortization of CIAC is not appropriate.
8 Staff’s Proposed Amendment regarding CIAC is necessary to remove the over-amortization and limit
9 CIAC amortization to the level actually received by the Company.

10 **ACCUMULATED DEFERRED INCOME TAXES (ADIT)**

11 In this docket, both LDO and Staff proposed pro forma adjustments to the Company’s
12 originally filed ADIT balance. These proposed adjustments related to the value to be included in rate
13 base for plant investments actually placed in service over a number of years but reported as new plant
14 investments in the Company’s 2012 income tax return. In its 2012 tax filing, LDO took bonus
15 depreciation on the original cost of these assets. However, during the processing of this rate case,
16 Staff and LDO agreed that the original cost net of the accumulated depreciation reserve balance was to
17 be used for ratemaking purposes. While it appears that the ROO accepted the plant adjustment, the
18 ROO also appears to have rejected consideration of both of the proposed ADIT pro forma
19 adjustments. If so, the resulting ADIT amount should be \$279,359, which is the credit balance
20 originally identified by the Company.

21 Instead, the ROO appears to further modify the ADIT balance in an effort to remove the
22 impact associated with both ADIT adjustments proposed by LDO and Staff. Staff believes that this
23 modification represents an unnecessary revision to the ADIT balance. Staff believes that, based on the

24 ...
25 ...
26 ...
27 ...
28 ...

1 ROO's treatment of these issues, the ADIT balance should have been captured at the level existing
2 prior to consideration of either adjustment proposed by Staff or LDO, *i.e.*, \$279,359.

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

4
5 
6 Brian E. Smith
7 Attorney, Legal Division
8 Arizona Corporation Commission
9 1200 West Washington Street
10 Phoenix, Arizona 85007
11 (602) 542-3402

11 Original and thirteen (13) copies of the
12 foregoing filed this 6th day of June,
13 2014, with:

13 Docket Control
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

16 Copy of the foregoing mailed and/or
17 emailed this 6th day of June, 2014,
18 to:

18 Jay L. Shapiro
19 Fennemore Craig
20 2394 East Camelback Road, Suite 600
21 Phoenix, Arizona 85016
22 jshapiro@fclaw.com
23 Attorneys for Lago Del Oro Water Company

21 Steven Soriano
22 Vice President and General Manager
23 Lago Del Oro Water Company
24 9532 East Riggs Road
25 Sun Lakes, Arizona 85248
26 steve.soriano@robson.com

26 