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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF DOCKET NO. W-02105A-13-0415  
MT. TIPTON WATER COMPANY, INC. FOR  
A PERMANENT INCREASE IN ITS WATER  
RATES AND CHARGES. STAFF'S CLOSING BRIEF

ORIGINAL

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby submits its Closing Brief in this matter as directed by the Administrative Law Judge ("ALJ") on June 23, 2014.<sup>1</sup>

**I. INTRODUCTION.**

Mt. Tipton Water Company, Inc. ("Mt. Tipton" or "Company") is an Arizona non-profit, Class "C" public service corporation.<sup>2</sup> Mt. Tipton provides water utility service to approximately 662 customers located in the town of Dolan Springs, Mohave County, Arizona, located approximately 35 miles northwest of Kingman.<sup>3</sup> Mt. Tipton's water service includes both potable and non-potable water systems.<sup>4</sup> The Company's current rates and charges were authorized in Decision No. 72001 dated December 10, 2010, and were effective December 1, 2010.<sup>5</sup>

On December 2, 2013, Mt. Tipton filed its application for a permanent increase in its water rates and charges based on a test year ending June 30, 2013, as ordered by the Commission in Decision No. 72001.<sup>6</sup> In its application, Mt. Tipton requested an increase in gross revenues of \$45,947, or 14.69 percent, over its actual test year revenues of \$339,594.<sup>7</sup> The Company's application further

<sup>1</sup> Tr. at 206:5-16.

<sup>2</sup> Baxter Direct, Ex. S-3 at 2:11; Tr. at 134:24; Application, Ex. A-1, Attachment 1, Rowell Direct at 1:27.

<sup>3</sup> Baxter Direct, Ex. S-3 at 2:11-13; Hains Surrebuttal, Ex. S-2 at 2:19; Tr. 131:2.

<sup>4</sup> Hains Direct, Ex. S-1 Engineering Report at 1 and 4.

<sup>5</sup> Baxter Direct, Ex. S-3 at 2:13-15; 18-19.

<sup>6</sup> Application, Ex. A-1, Attachment 1, Rowell Direct at 1: 28; 2:14.

<sup>7</sup> *Id.* at 2:8-9; Attachment 2, Schedules A-2 and H-1.

1 proposed a 12.98 percent rate of return based on the typical rate of return method and evaluation of  
2 potential cash flow and Water Infrastructure Authority of Arizona (“WIFA”) Debt Service Coverage  
3 Ratio (“DSCR”).<sup>8</sup>

4 Subsequently, in its Rebuttal Testimony, Mt. Tipton requested an increase in gross revenues of  
5 \$37,509, or 11.05 percent, over its actual test year revenues of \$339,594.<sup>9</sup> The Company’s Rebuttal  
6 Testimony further proposed a 9.17 percent rate of return based on the typical rate of return method  
7 and evaluation of potential cash flow and WIFA DSCR.<sup>10</sup>

8 Staff recommends a revenue increase of \$28,863, or 8.61 percent, over its adjusted test year  
9 revenues of \$335,144.<sup>11</sup> Adoption of Staff’s revenue requirement would provide the Company with  
10 the opportunity to earn sufficient revenues to achieve a 1.25 DSCR to meet WIFA financing  
11 agreement requirements.

12 Prior to commencing the hearing in this matter, the parties had resolved all but the following  
13 issues: rate base; revenue requirement; rate design; DSCR; Purchased Power Adjustment; property  
14 tax surcharge; hookup fee use; retirements; Best Management Practices (“BMPs”); and standpipe  
15 meter upgrade.<sup>12</sup>

16 **II. UNRESOLVED ISSUES.**

17 **A. Rate Base.**

18 **1. Dolan Springs 115 Acres.**

19 The parties dispute whether 115 acres of land Mt. Tipton obtained when it purchased the assets of  
20 Dolan Springs Water Co., Inc. (“Dolan”) should be included in rate base. This issue was first raised  
21 by Mt. Tipton in the Rebuttal testimony of Company witness, Sonn Rowell. There, she asserts that  
22 this land was part of a WIFA financed sale approved by the Commission, and its \$170,000 value was  
23

24 <sup>8</sup> *Id.* at 4:18-22.

25 <sup>9</sup> Rebuttal Schedules A-1 and C-1.

26 <sup>10</sup> Rebuttal Schedule D-1.

27 <sup>11</sup> Baxter Revised Surrebuttal Schedules BAB-1 and BAB-10.

28 <sup>12</sup> In her pre-filed Direct Testimony, Staff witness, Dorothy Hains, recommended that the Company upgrade the 5/8” x 3/4” meter presently serving the Company’s standpipe to a 2” meter. The Company agreed to install this upgrade. During the hearing, Ms. Hains testified regarding this issue (Tr. at 150-153). However, subsequent to the hearing, Staff reconsidered its recommendation and determined that the 5/8” x 3/4” meter is adequate for the Company’s purposes at this time. Staff notified counsel for Mt. Tipton of this and, on June 27, 2014, filed Staff’s Notice of Filing Withdrawal of Recommendation Regarding Standpipe Meter. As a result, the Standpipe Meter issue has been resolved.

1 never added to the Company's books nor included in a rate case.<sup>13</sup> Ms. Rowell further references an  
2 "Attachment 1" which was "discovered in the Docket (W-02105A-01-0557, et.al.)<sup>14</sup> regarding the  
3 sale of" Dolan to Mt. Tipton.<sup>15</sup> Ms. Rowell also relies upon a quote in her testimony which provides  
4 that the Company obtained the "115 acres of land around the spring to protect the water source, well  
5 sites & tank sites." However, it should be noted that only Rebuttal Schedules were attached to her  
6 docketed Rebuttal Testimony. As a result, Staff is unaware of the nature and content of such  
7 referenced attachment.

8 In her pre-filed Rejoinder Testimony and at the hearing, Ms. Rowell also opined that exclusion of  
9 the entire 115 acres from rate base is "inherently and fundamentally wrong."<sup>16</sup> However, Ms. Rowell  
10 could offer no specific basis to support her argument that land so purchased is required to be included  
11 in rate base in a subsequent rate case.<sup>17</sup> Moreover, Ms. Rowell acknowledged that plant purchased  
12 with the proceeds from a Commission approved loan does not automatically go into rate base and  
13 must be in service and used and useful to be so included.<sup>18</sup> Lastly, and of greatest import, is the fact  
14 that the Company completely ignored two critical provisions of Commission Decision No. 64287.  
15 Conclusion of Law 8 provides: "Commission approval of the financing request does not imply any  
16 used and useful determination, and no conclusions should be inferred therefrom for ratemaking  
17 purposes." In addition, the sixth ordering paragraph states in pertinent part that "...approval of the  
18 financing as requested does not constitute or imply approval or disapproval by the Commission of  
19 any particular expenditure of the financing proceeds for purposes of establishing just and reasonable  
20 rates." Based on these express Commission findings, Mt. Tipton's argument that the entire 115  
21 Dolan acres should automatically be included in rate base in this instance is without merit.

22 ...

23 ...

24 ...

25

26 <sup>13</sup> Ex. A-2, Rowell Rebuttal at 3:15-20.

<sup>14</sup> Decision No. 64287.

27 <sup>15</sup> Ex. A-2, Rowell Rebuttal at 3:15-16.

<sup>16</sup> Ex. A-3, Rowell Rejoinder at 3:15-15; Tr. at 95:22 to 96:11.

28 <sup>17</sup> Tr. at 96:12-20.

<sup>18</sup> Tr. at 96:22 to 97:7; 24 to 98:3.

1 Staff submits that only 7 of the 115 acres are actually used and useful and should be included in  
2 rate base.<sup>19</sup> Staff contends that only about 7 acres around the well sites have secure barriers in the  
3 form of fences to protect the subject water sources.<sup>20</sup> Such position is supported by Staff witness,  
4 Dorothy Hains, a registered Civil Engineer who specializes in water and wastewater systems and has  
5 analyzed more than 90 companies over 24 years.<sup>21</sup> According to Ms. Hains, during her inspection of  
6 the Company's water systems she determined that only 7 of the 115 acres are actually used and useful  
7 at this time to protect the wells and attendant equipment, and the remaining acreage is not.<sup>22</sup> In  
8 addition, contrary to the Company's position, Ms. Hains testified that because the 115 acres are  
9 owned by Mt. Tipton, no one should be able to go on the land and legally drill a well.<sup>23</sup> This  
10 ownership should protect the Company's water supply for future use.<sup>24</sup>

11 Unlike Staff's reliance on Ms. Hains' expertise, the Company's position relative to the used and  
12 usefulness of the 115 acres of Dolan land is supported only by the testimony of Ms. Rowell and Ms.  
13 Monzillo, both of whom admittedly have no degree in engineering, hydrology or other related  
14 fields.<sup>25</sup> With the exception of Ms. Monzillo's nearly five years as the Company's Business  
15 Administrator,<sup>26</sup> neither witness has any other pertinent background which would qualify her to  
16 render an opinion as to the used and usefulness of the subject 115 acres and whether they are  
17 necessary to protect the subject wells. In fact, Ms. Rowell's position is based solely on what Ms.  
18 Monzillo represented to her.<sup>27</sup> Moreover, Ms. Monzillo acknowledged that the scope of her duties  
19 with the Company is essentially limited to administrative tasks such paying bills, doing payroll,  
20 preparing compliance and annual reports and the like.<sup>28</sup> Thus, Staff submits that little, if any, weight  
21 should be accorded the evidence presented by the Company pertaining to the used and usefulness of  
22 the 115 acres.

23

24 <sup>19</sup> Ex. S-4, Baxter Surrebuttal at 5:19-21; Tr. 136:4-6.

25 <sup>20</sup> *Id.* at 5:25-26; Tr. 161:20-21.

26 <sup>21</sup> Ex. S-1, Hains Direct, at 1:22-13; 2:12-13; Tr. at 129:15-16.

27 <sup>22</sup> Tr. at 137:6-14.

28 <sup>23</sup> Tr. at 162:5-9.

<sup>24</sup> Tr. at 162:10-11.

<sup>25</sup> Tr. at 34:19 to 35:13; 52:17-24; 98:19-24.

<sup>26</sup> Tr. at 34:1-3.

<sup>27</sup> Tr. at 98:24.

<sup>28</sup> Tr. at 34:1-13.

1                                   **2.     Spring Well.**

2             Staff contends that the Spring well should be retired. The well was disconnected and capped  
3 after the well pump was destroyed by lightning. It is not presently used and useful<sup>29</sup> nor is it viable  
4 as a backup well as its estimated production is .8 gallons per minute<sup>30</sup> or not enough to carry the peak  
5 base demand.<sup>31</sup> Ms. Hains testified that the well cannot serve as a backup as it will not produce  
6 enough water to serve in that capacity, would require more effort in the nature of Arizona Department  
7 of Environmental Quality (“ADEQ”) testing and approval<sup>32</sup> and take as long as six months to put it in  
8 functional condition.<sup>33</sup> Such evidence significantly conflicts with the Company’s assertion that it is  
9 “still functional” and could be “quickly and fairly inexpensively” outfitted to serve as a backup  
10 well.<sup>34</sup> In fact, Ms. Monzillo admitted that she is “not absolutely familiar” with what the actual status  
11 of the well is and what would be required to reconnect it.<sup>35</sup> That it would take significant effort and  
12 cost to reconnect the Spring well for appropriate use is uncontested by any reliable evidence.  
13 Therefore, it should be retired.

14                                   **3.     Rate Base Amount.**

15             Based on the inclusion of 7 acres of Dolan land and exclusion of the Spring well, Staff’s  
16 recommended rate base is \$786,859.<sup>36</sup> In its Rebuttal Schedule A-1, Mt. Tipton proposes a rate base  
17 of \$951,309 which Staff understands reflects inclusion of the entire 115 acres of Dolan land and the  
18 Spring well.<sup>37</sup> At the hearing, Ms. Rowell testified that the Company continues to rely on its Rebuttal  
19 Schedules and, for that reason, did not file any schedules with its Rejoinder Testimony other than as  
20 pertain to the Property Tax Surcharge calculation.<sup>38</sup> However, as the Administrative Law Judge is  
21 aware, Mt. Tipton filed its Closing Brief one week earlier than was agreed to at the hearing. Attached  
22 thereto are the Company’s “Final Schedules” which set forth certain figures that are different than  
23

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24 <sup>29</sup> Tr. at 138:4-5.

25 <sup>30</sup> Tr. at 138:9-10; 167:21-22;170::22-23 citing Ex. S-1 at 15, Figure 3A Systematic Drawing.

26 <sup>31</sup> Tr. at 138:12-13.

27 <sup>32</sup> Tr. at 157:16-21; 167:14 to 169:17.

28 <sup>33</sup> Tr. at 158:20-23; 168:9-17.

<sup>34</sup> Tr. at 12:22; 13:4-7.

<sup>35</sup> Tr. at 36:11-15.

<sup>36</sup> Baxter Revised Surrebuttal Exhibit BAB-1.

<sup>37</sup> Tr. at 70:12-20.

<sup>38</sup> Tr. at 57:14 to 58:4; Ex. A-4.

1 what is contained in its Rebuttal Schedules.<sup>39</sup> For example, the Company now proposes a rate base  
2 of \$946,309 which constitutes a difference of \$4,405. A review of the remaining Company schedules  
3 would lead Staff to believe that such difference reflects the Company's adoption of Staff's service  
4 line and meter adjustment included in its Surrebuttal Schedules. However, no explanation is  
5 provided for the substance of the remainder of the Final Schedules.

6 **B. Revenue Requirement.**

7 In essence, the amount of the Company's revenue requirement is dependent on whether the entire  
8 115 acres of Dolan land and the Spring well are included in rate base. Company witness, Ms.  
9 Rowell, acknowledges this fact.<sup>40</sup> As noted above, Staff believes no more than 7 acres of Dolan land  
10 should be included in rate base as the additional 108 acres are not used and useful at this time.  
11 Proceeding on that premise, Staff, as a result of discussions during the instant hearing, revisited its  
12 previously proposed rate design, made adjustments and submitted, as a late-filed exhibit, Staff's Final  
13 Surrebuttal Schedules BAB-18, BAB-19 and BAB-20 on June 27, 2014. Staff's revised rate design is  
14 intended to generate \$364,007 in annualized revenues. Staff submits that these revenues will be  
15 adequate to meet the Company's operating expenses and generate \$25,243 in cash flow.<sup>41</sup>

16 Staff would add that the Commission is empowered to provide a water company with an  
17 opportunity to earn its authorized revenue requirement but does not guarantee such result.<sup>42</sup>  
18 Moreover, the Company is a non-profit, ratepayer owned corporation. As such, Staff's revenue  
19 requirement was developed in reference to the Company's DSCR which will be further discussed  
20 below.<sup>43</sup>

21 In its Rebuttal Schedule A-1, Mt. Tipton proposed a revenue requirement of \$377,103, or an  
22 11.05% increase over current rates, which would generate an estimated \$33,951 in cash flow. In its  
23 Final Schedule A-1, the Company now proposes a revenue requirement of \$377,292, or an 11.10%

24 \_\_\_\_\_  
25 <sup>39</sup> In its Closing Brief, Mt. Tipton did not provide any explanation of the changes to its Rebuttal Schedules that were  
26 reflected in the Final Schedules nor indicate who prepared them. Staff is now unable to cross-examine the Company's  
27 witness relative to changes contained therein. As a result, Staff can only guess as to the basis for the various changes in  
28 the schedules and, absent any knowledge of who actually prepared them and without an ability to cross examine that  
person, would submit that they be given little, if any, consideration.

<sup>40</sup> Tr. at 71:17-21; 105:14-17.

<sup>41</sup> Revised Surrebuttal Schedule BAB-17.

<sup>42</sup> Bluefield Waterworks & Imp. Co. v. Public Service Comm. Of W. VA., 262 U.S. 679 (1923).

<sup>43</sup> Tr. at 177:13-20.

1 increase over current rates, which is estimated to generate \$26,103 in cash flow. In its Closing Brief,  
2 the Company did not delineate the underlying bases for such changes.

3 **C. DSCR.**

4 Based on the Company's fiscal status, the rate base/rate of return methodology is not well suited  
5 to determine Mt. Tipton's revenue requirement.<sup>44</sup> In lieu thereof, Staff endeavored to provide the  
6 Company with sufficient funds to meet debt service requirements and operating expenses and manage  
7 contingencies.<sup>45</sup> Staff's recommended revenue requirement is intended to provide the Company with  
8 the opportunity to obtain a DSCR greater than the minimum 1.20 required by WIFA.<sup>46</sup> In this case,  
9 Staff's revenue requirement is based on a DSCR of 1.25.<sup>47</sup>

10 **D. Rate Design.**

11 Staff's customer class is distinguished by meter size.<sup>48</sup> Its monthly minimum charges vary by  
12 meter size and include no gallons; commodity rates are based on an inverted three-tier rate design.<sup>49</sup>  
13 Staff's recommended rates (without Property Tax Surcharge) would increase the typical residential  
14 5/8" x 3/4" meter bill with a median usage of 2,364 gallons from \$29.46 to \$30.21, for an increase of  
15 \$.75, or 2.55 percent.<sup>50</sup>

16 Under the Company's rate design, the typical residential 5/8" x 3/4" meter bill (without Property  
17 Tax Surcharge) with a median usage of 2,364 gallons would increase from \$29.46 to \$33.27, for an  
18 increase of \$3.81, or 12.95 percent.<sup>51</sup>

19 Staff's rate design is intended to promote the Commission's position on water conservation.  
20 Given this, higher rate increases are found at the top tiers with the intended result of reducing water  
21 usage. In its Closing Brief, Mt. Tipton asserts that Staff's rate design shifts much of the rate increase  
22 to the Company's five large water users and, thereby, requires these customers to bear a  
23 disproportionate share of the rate increase which will cause a decrease in water usage and, thus,  
24

25 <sup>44</sup> Ex. S-3, Baxter Direct at 22:13-14.

26 <sup>45</sup> Ex. S-3, Baxter Direct at 22:14-16.

27 <sup>46</sup> Ex. S-3, Baxter Direct at 22:16-18.

28 <sup>47</sup> Revised Surrebuttal Schedule BAB-17.

<sup>48</sup> Ex. S-3, Baxter Direct at 23:9.

<sup>49</sup> *Id.*, at 23:9-11.

<sup>50</sup> Late-Filed Final Surrebuttal Schedule BAB-19.

<sup>51</sup> *Id.*

1 revenues. Staff submits that, even if this result occurs, these five large water users account for only 5  
2 percent of the Company's revenues. Staff's rate design places 87 percent of the rate increase on the  
3 5/8" x 3/4" meter users which, as the Company concedes, make up the majority of its customer base.

4 Staff's rate design is intended to generate adequate revenue to meet the Company's operating  
5 expenses and cash flow requirements, promotes water conservation, is equitable for all of Mt.  
6 Tipton's customers, and should be adopted.

7 **E. Property Taxes.**

8 **1. Surcharge.**

9 Mt. Tipton presently owes in excess of \$200,000 for property taxes for the years 2004 to 2009 to  
10 Mohave County and one individual creditor who purchased the property tax debt for 2004 and part of  
11 2005 from Mohave County.<sup>52</sup> The Company believes the individual creditor is currently owed  
12 approximately \$60,000.<sup>53</sup> It has been determined that neither Mohave County nor the individual  
13 creditor will accept installments to satisfy these debts; both require payment in full for each lien.<sup>54</sup>  
14 Presently, interest on these debts is accruing at the rate of 1.33 percent, or \$1,380 per month (16  
15 percent per year).<sup>55</sup> The parties agree that a surcharge should be implemented to satisfy this tax  
16 obligation.<sup>56</sup>

17 Staff's proposed surcharge is \$17.39 per month for 18 months or until the outstanding taxes are  
18 paid. Staff submits that, given the protracted time over which such debts have accrued and the  
19 continued accumulation of interest thereon, it is best to expedite the payments to minimize the burden  
20 on the Company's customers, especially since many of them have already paid these taxes once.

21 Mt. Tipton's proposed surcharge is \$10.15 per month for 32 months or until the taxes are paid.  
22 The Company argues that Staff's surcharge would create a hardship on its customers which could  
23 result in a further loss of customers or decreased usage.<sup>57</sup>

24  
25  
26 <sup>52</sup> Tr. at 43:3-13.

<sup>53</sup> Tr. at 22:19-23.

27 <sup>54</sup> Ex. S-3 at 3:8-10; Tr. at 41:8-12; 48:16-21.

<sup>55</sup> Tr. at 20:1-7; Ex. A-5.

28 <sup>56</sup> Ongoing efforts to sell a Company building to raise funds to satisfy this debt have been unsuccessful.

<sup>57</sup> Ex. A-2, Rowell Rebuttal at 5:6-7.

1 Staff believes that its property tax surcharge is warranted and in the public interest due to Mt.  
2 Tipton being owned by a non-profit homeowners association. Absent appropriate attention to this  
3 debt, the costs associated with the property tax bill will continue to escalate which could result in a  
4 significant increase in monthly bills, financial hardship for the Company and, possibly, insolvency.<sup>58</sup>

## 5 2. Hook Up Fees.

6 In Commission Decision No. 70837, Mt. Tipton was found to be out of compliance with its  
7 Hook-Up Fee Tariff and, in addition to suspending the Company's ability to collect those fees, the  
8 Commission ordered Mt. Tipton to repay \$42,800 in misspent fees to the Hook-Up Fee fund.<sup>59</sup> These  
9 hookup fees were originally intended to be used to fund a pipeline connection to the Detrital Well  
10 located on land the Company previously leased from the Bureau of Land Management.<sup>60</sup> When the  
11 Company determined that such project was not going to be realized, it did not renew the lease and,  
12 essentially, abandoned the well.<sup>61</sup>

13 At present, Mt. Tipton holds approximately \$8,100 in such hookup fees in a segregated account.  
14 After some discussion, the parties agreed that this sum should be used to pay down the delinquent tax  
15 debt. However, the parties disagree on how any future hookup fees received should be used. Staff  
16 maintains that the Company should be required to adhere to Decision No. 70837 and pay back all of  
17 the misspent hookup fees which would benefit the Company's customers. Mt. Tipton seeks to be  
18 absolved from the approximate \$32,700 remaining on this obligation in order to focus on the  
19 repayment of the tax debt.

20 Although cognizant of the reported financial distress of many of the Company's ratepayers, Staff  
21 strongly urges that the dictates of Decision No. 70837 should be sustained. Such recommendation is  
22 appropriate given the express language of that decision which provides that:

23  
24 Mount Tipton has violated Decision No. 67162 by consistently failing  
25 to deposit HUF funds into its separate HUF Account...; spending at  
26 least \$32,159.51 in HUF funds...for items other than off-site facilities  
as defined in its HUF Tariff approved in Decision No. 67162; and  
charging HUFs in an amount other than that authorized by Decision

27 <sup>58</sup> Ex. S-3, Baxter Direct at 4:8-13.

28 <sup>59</sup> *Id.* at 6:3-6; 9-15.

<sup>60</sup> Decision No. 60988.

<sup>61</sup> Tr. 25:6 to 24:1-14; 26:9.

1 No. 67162.... These violations, coupled with Mount Tipton's prior  
2 failure to handle the HUF funds properly, as determined in Decision  
3 No. 67162, leads us to conclude that Mont Tipton historically has  
4 lacked either the ability or sufficient desire to comply with restrictions  
5 on the use of HUF funds when Mount Tipton has believed that the  
6 HUF funds were needed to pay for items other than those authorized.  
7 We believe that Mount Tipton has never handed the HUF funds  
8 properly....<sup>62</sup>

9 Staff believes that further leniency accorded Mt. Tipton pertaining to the subject HUF funds is  
10 inappropriate at this time and that the Company be held accountable for such funds independent of  
11 the property tax surcharge.

12 **F. Best Management Practices.**

13 Staff recommends that Mt. Tipton establish five Best Management Practices ("BMPs") as a result  
14 of this Application.<sup>63</sup> According to Staff witness, Ms. Hains, the number of recommended BMPs is  
15 based on a company's operating revenue, and five BMPs are appropriate pursuant to Staff's policy  
16 for Class C companies.<sup>64</sup> These BMPs are further supported by the fact that the Company's service  
17 area is not in an Arizona Department of Water Resources ("ADWR") Active Management Area  
18 ("AMA") and, therefore, is not subject to ADWR monitoring and reporting requirements.<sup>65</sup> Further,  
19 Mt. Tipton has a long history of water loss which, in fact, was calculated at 27.22 percent during the  
20 test year which exceeds Staff's recommended 10 percent threshold.<sup>66</sup> In addition, the Company has  
21 acknowledged that it has had difficulty determining the cause of the water loss and that it has been  
22 pretty high the last two years.<sup>67</sup> Because the BMPs relate to water conservation, Staff submits that  
23 they will serve to assist the Company in reducing water loss, detecting water leakage and educating  
24 customers on water usage and reducing it to allowable limits.<sup>68</sup> Mt. Tipton contends that,  
25 notwithstanding the established water loss and lack of explanation therefor, the recommended BMPs  
26 do not "seem to be necessary,...would cost additional money to our customers...[and] seems (sic)  
27 very excessive."<sup>69</sup>

28 <sup>62</sup> Decision No. 70837 at 25:25 to 26:9.

<sup>63</sup> Ex. S-1, Hains Direct at 6:17-26.

<sup>64</sup> Tr. at 134:18-24.

<sup>65</sup> Tr. at 134:5-10.

<sup>66</sup> Tr. at 134:10; Ex. S-1, Hains Direct, Engineering Report at page 7.

<sup>67</sup> Tr. at 14:10 to 15:2; 37:13 to 38:1.

<sup>68</sup> Tr. at 134:10-16.

<sup>69</sup> Tr. at 18:4-9.

1 Staff maintains that the implementation of 5 BMPs in this instance is proper given the ongoing  
2 and excessive water loss, the benefit such programs could bring to Mt. Tipton ratepayers, and the  
3 absence of any viable basis propounded by the Company to deny such suggestion

4 **G. Purchase Power Adjustment.**

5 Staff recommends a 17.22 percent adjustment to purchased power expense in the test year  
6 operating income.<sup>70</sup> Such adjustment is intended to account for the Company's excessive, i.e., 27.22  
7 percent, water loss during the test year.<sup>71</sup> Mt. Tipton disagrees with Staff and contends that such  
8 adjustment is punitive in nature.<sup>72</sup>

9 In essence, the Company incurs pumping power costs for its pumped water which includes that  
10 for excess water loss. Staff believes it is inappropriate for the Company to recover such costs from  
11 its ratepayers.<sup>73</sup>

12 **III. CONCLUSION.**

13 Staff respectfully requests that the Commission adopt its recommendations on the disputed issues  
14 for the reasons stated above and the testimony provided.

15 RESPECTFULLY SUBMITTED this 18<sup>th</sup> day of July 2014.

16  
17   
18 Brian E. Smith, Attorney  
19 Legal Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

22 Original and thirteen (13) copies  
23 of the foregoing filed this  
24 18<sup>th</sup> day of July 2014 with:

24 Docket Control  
25 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007

27 <sup>70</sup> Ex. S-3, Baxter Direct at 20:23 to 21:2.

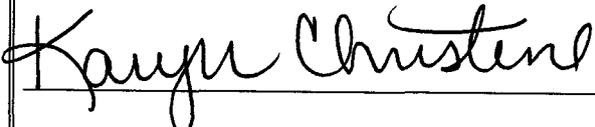
28 <sup>71</sup> *Id.* at 20:23 to 21:2.

<sup>72</sup> Tr. at 73:19-21; 75:2-4.

<sup>73</sup> Ex. S-3, Baxter Direct at 20:17-20.

1 Copy of the foregoing emailed/mailed  
2 this 18<sup>th</sup> day of July 2014 to:

3 Steve Wene  
4 Moyes Sellers & Hendricks Ltd.  
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