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Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

DOCKETED BY

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WASTEWATER  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE.

DOCKET NO: SW-01428A-13-0042

**ORIGINAL**

IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY,  
AN ARIZONA CORPORATION FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES AND  
CHARGES BASED THEREON FOR UTILITY  
SERVICE.

DOCKET NO: W-01427A-13-0043

**NOTICE OF COMPLIANCE**

Liberty Utilities (Litchfield Park Water & Sewer) Corp. (the "Company") hereby submits this Notice of Compliance with Decision No. 74437 (dated Apr. 18, 2014). Decision No. 74437 requires the Company to file Plans of Administration for the System Improvement Benefit and Collection System Improvement Benefit surcharge mechanisms (POAs).

On April 30, 2014, the Company submitted POAs conforming with Exhibits D and of E of Decision No. 74437. The POAs have been revised after further consultation with Commission Staff. See Exhibits A (water) and B (wastewater).

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RESPECTFULLY SUBMITTED this 8th day of October, 2014.

FENNEMORE CRAIG, P.C.

By: \_\_\_\_\_

Jay L. Shapiro  
Attorneys for Liberty Utilities  
(Litchfield Park Water & Sewer) Corp.

**ORIGINAL** and 13 copies filed  
this 8th day of October, 2014, with:

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

**COPY** hand-delivered  
this 8th day of October, 2014 to:

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**COPY** sent via U.S. mail  
this 8th day of October, 2014, to:

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Phoenix, Arizona 85007

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Litchfield Park, Arizona 85340

By:   
9563001.1/035227.0022

# **EXHIBIT A**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
Plan of Administration  
System Improvement Benefit Mechanism ("SIB")-Water  
Docket No. W-01428A-13-0043

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System Improvement Benefit Mechanism ("SIB")-Water  
Docket No. W-01428A-13-0043

**I. GENERAL DESCRIPTION**

This document is the Plan of Administration ("POA") for the System Improvement Benefits ("SIB") mechanism approved for the Water Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Company") by the Arizona Corporation Commission ("Commission") in Decision No. 74437 (April 18, 2014). The SIB mechanism provides for the timely recovery of the capital costs (pre-tax return on investment and depreciation expense, net of associated retirements) associated with distribution system improvement projects that: (1) have not been included in rate base for recovery in Decision No. 74437 (April 18, 2014); (2) are listed in the latest Commission approved SIB Plant Table I; (3) have been verified to be completed<sup>1</sup>; and (4) have been placed in service per SIB Plant Table II. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

**II. DEFINITIONS**

- A. NARUC – National Association of Regulatory Utility Commissioners.
- B. SIB – System Improvement Benefits mechanism, to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- C. SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- D. SIB Eligible NARUC accounts:
  - 1. NARUC Account No. 309 – Supply Mains
  - 2. NARUC Account No. 331 –Transmission and Distribution Mains
  - 3. NARUC Account No. 333 – Services
  - 4. NARUC Account No. 334 – Meters and Meter Installations;
  - 5. NARUC Account No. 335 – Hydrants
- E. SIB Plant Table I (Sample attached as Attachment 1) – The schedule of planned SIB eligible projects that is either approved in the Company's most recent rate

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<sup>1</sup> Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer's Certificate of Completion, etc.

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case or updated by a subsequent Commission decision. As used herein, this term refers to the most recently updated SIB Plant Table I available unless reference is made to a particular Commission decision. As of the date of this POA, the latest Commission approved SIB Plant Table I is attached to Decision No. 74437 as Exhibit I.

- F. SIB Plant Table II (Sample attached as Attachment 2) – The schedule of completed and verified SIB eligible projects from the latest Commission approved SIB Plant Table I and associated retirements.
- G. Total Revenue Requirement – The revenue requirement approved in Decision No. 74437, plus the SIB Authorized Revenue.
- H. SIB Revenue Requirement – The revenue requirement equal to the pre-tax return on investment and depreciation expense associated with SIB-eligible projects that have been completed and placed into service, per SIB Plant Table II net of associated retirements.
- I. SIB Revenue Requirement Efficiency Credit – An amount equal to five percent (5%) of the SIB Revenue Requirement.
- J. SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit, plus or minus any SIB True-up Adjustment.
- K. Gross SIB Surcharge – Amount to be shown on customer bills, based on meter size, without consideration of the SIB Surcharge Efficiency Credit.
- L. SIB Surcharge Efficiency Credit – An amount equal to five percent (5%) of the Gross SIB Surcharge, to be shown on customer bills.
- M. SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged, based on meter size, calculated to recover the SIB Authorized Revenue. The SIB Surcharge is to be shown as a separate line item on customer bills.
- N. SIB True-up Adjustment – The reconciliation of over- or under-collection of the SIB Authorized Revenue, as compared with the total SIB Surcharges collected for the preceding 12-month period. Each SIB True-up Adjustment shall also analyze the cumulative over- or under-collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharge collections, and prior SIB True-up

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Adjustments to be used in calculating the individual SIB True-Up Adjustment by meter size.

### III. SIB RELATED FILINGS

- A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB Eligible Plant, on a project by project basis as listed in the latest Commission approved SIB Plant Table I. The initial semi-annual status report shall include only those projects from the initial SIB Plant Table I which the Company has designated as most likely to be completed in the first 12 months.
- B. Reconciliation and True-up – Once a SIB Surcharge is implemented, the Company must file annually to true-up its SIB Surcharge collections over the preceding 12 months with the SIB Authorized Revenue for that period, and establish a surcharge or credit to true-up over- or under- collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be established in the Commission's Decision approving the SIB Surcharge.
- C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:
  - 1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must:
    - a. Be projects listed in the SIB Plant Table I;
    - b. Have been completed by the Company;
    - c. Have been verified; and
    - d. Be actually serving customers.
  - 2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period from SIB Plant Table I<sup>2</sup> from Decision No. 74437 to allow the Commission to establish the latest SIB Plant Table I.

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<sup>2</sup> Beginning with its SIB Surcharge Request filing for Year Two, the Company may request a change from the estimated Cost/Unit (approved in the Company's most recent rate case Decision) due to inflation using the latest calendar year Consumer Price Index (see sample SIB Plant Table I revised April 1, 2014). This may be done only if the original SIB Plant Table I unit cost did not account for inflation.

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3. SIB Schedule A (Sample is attached as Attachment 3), showing a calculation of the SIB Revenue Requirement, SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge. Schedule A shall be supported by using the revenue requirement model relied upon to generate the revenue requirement approved in Decision No. 74437, and the total revenue requirement will be determined by including the effects of the SIB Eligible Plan as pro-forma adjustment to this model.
  4. SIB Schedule B (Sample is attached as Attachment 4) showing the SIB True-up Adjustment calculation for the prior 12-month SIB Surcharge period, as well as the individual SIB True-up Adjustment by meter size.
  5. SIB Schedule C (Sample is attached as Attachment 5) showing the effect of the SIB Surcharge on a typical residential customer's monthly bill for both median and average usage.
  6. SIB Schedule D (Sample is attached as Attachment 6) which shall include an analysis of the impact of completed SIB Eligible Plant projects on the fair value rate base, revenue, and the fair value rate of return. The Company shall also include the following as part of SIB Schedule D:
    - a. The most current balance sheet at the time of the filing;
    - b. The most current income statement;
    - c. An earnings test schedule;
    - d. A rate review schedule (including the incremental and pro forma effect of the proposed increase);
    - e. An adjusted rate base schedule; and
    - f. A construction work in progress ("CWIP") ledger for each project showing accumulation of charges by month and paid contractor invoices, including a summary page showing the calculation of the SIB eligible rate base and depreciation expense net of associated retirements.
- D. The Company will maintain and provide to the Commission's Utilities Division ("Staff") and the Residential Utility Consumer Office ("RUCO") schedules in Microsoft Excel format (with all formulae intact) supporting the revenue

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requirement approved in Decision No. 74437, and the effects of completed SIB Eligible Plant for the current SIB Surcharge request and any previously approved SIB Surcharge and SIB True-up Adjustment requests.

- E. The Company may make its initial SIB Surcharge request through Docket Control no earlier than twelve months after the entry of Decision No. 74437.
- F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A SIB True-up Adjustment must be filed with each SIB Surcharge request, except the first SIB Surcharge request.
- G. Unless otherwise authorized by the Commission, the Company is required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.
- H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.

#### **IV. SIB SURCHARGE CALCULATIONS**

- A. Calculation of Amounts to Be Collected By the SIB Surcharge
  - 1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirement Efficiency Credit, plus any SIB True-up Adjustment. For purposes of calculating the SIB Revenue Requirement:
    - a. The required rate of return is equal to the overall rate of return authorized in Decision No. 74437;
    - b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. 74437; and
    - c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. 74437.
  - 2. The SIB plant unit cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the installed SIB plant unit cost listed in SIB Plant Table II or 110% of the SIB plant estimated unit cost listed in the latest Commission approved SIB Plant Table I (See Attachment 1).

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3. The amount to be collected by each SIB Surcharge shall be capped annually at five percent (5%) of the revenue requirement authorized in Decision No. 74437.

B. Reconciliation and True-Ups

1. The revenue collected pursuant to the SIB Surcharges over the preceding 12 months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.
2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and a single SIB Efficiency Credit are shown on a customer bills.
3. For each 12 month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue, for that 12 month period, consistent with Schedule B.
4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a 12- month period by means of a SIB True-up Adjustment.
5. Starting with the second annual SIB Surcharge, where there are over- or under-collected balances, such over- or under-collected balances shall be carried over to the next year, and considered in the calculation of the new SIB True-up Adjustment. If, at the time new rates go into effect in the Company's next rate case, there remains an over- or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company is required to perform an annual earnings test calculation for each SIB Surcharge request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.
2. The earnings test shall be:

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- a. Based on the most recent available operating income;
- b. Adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and
- c. Based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

**V. ADDING PROJECTS TO SIB PLANT TABLE I UNDER EMERGENCY CIRCUMSTANCES**

- A. The Company may seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.
- B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.
- C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.
- D. SIB Eligible Plant must satisfy at least one of the following conditions:
  1. Water loss for the system exceeds ten (10) percent, as calculated by the following formula: 
$$\frac{((\text{Volume of Water Produced and/ or Purchased}) - (\text{Volume of Water Sold} + \text{Volume of Water Put to Beneficial Use}))}{(\text{Volume of Water Produced and/or Purchased})}$$
 divided by (Volume of Water Produced and/or Purchased). If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner.
  2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;

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3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:
  - a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life (e.g. black poly pipe);
  - b. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

**VI. SIB SURCHARGE RATE DESIGN**

A. The SIB Surcharge rate design shall be as follows:

1. The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.
2. The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of active equivalent 5/8-inch meters at the end of the most recent 12-month period, and shall increase with meter size based on the following meter capacity multipliers:

|                     |           |
|---------------------|-----------|
| 5/8-inch x 3/4-inch | 1.0 times |
| 3/4-inch            | 1.5 times |
| 1-inch              | 2.5 times |
| 1 1/2-inch          | 5 times   |
| 2-inch              | 8 times   |
| 3-inch              | 16 times  |
| 4-inch              | 25 times  |
| 6-inch              | 50 times  |
| 8-inch              | 80 times  |
| 10-inch             | 115 times |
| 12-inch & above     | 215 times |

B. The SIB Surcharge shall apply to all of the Company's metered customers, including private fire service customers.

**VII. SIB SURCHARGE IMPLEMENTATION**

- A. Thirty days prior to filing each application to implement a SIB Surcharge, the Company shall file a proposed form of notice to Staff for review, and a Summary of what the Company will be requesting in the application. Once the notice is approved by Staff, the Company shall provide a copy of the approved notice to its customers via newsletter or bill insert. After providing notice, the Company shall file a copy of the notice and a description of when and how it provided notice with each application to implement a SIB surcharge. The Summary and Notice shall include at least the following information:
1. The individual Gross SIB Surcharge, by meter size;
  2. The individual SIB Surcharge Efficiency Credit, by meter size;
  3. SIB Surcharge, by meter size; and
  4. Directions to where the customer may obtain a summary of the projects included in the current SIB Surcharge request, including a description of each project and its cost.
- B. A SIB Surcharge shall not become effective until approved by the Commission.
- C. The Company shall provide a proposed order for the Commission's consideration with each SIB Surcharge filing.
- D. The Company shall notice its customers of the SIB Surcharge approved herein as soon as possible in a form acceptable to Staff and consistent with the notice requirements of Decision No. 74437.
- E. The Company shall not implement the SIB Surcharge until 30 days after having filed documentation in Docket Control providing the date when all customers in Liberty Utilities (Litchfield Park Water & Sewer) Corporation's Water Division have been notified of the Commission approved SIB Surcharge.

# **ATTACHMENT 1**



# **ATTACHMENT 2**























# **ATTACHMENT 3**

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 Consolidated

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NO. CALCULATION OF OVERALL SIB REVENUE REQUIREMENT AND EFFICIENCY CREDIT

|   |  |            |          |
|---|--|------------|----------|
| 1 | Total Authorized Revenue Requirement , Per Decision xxxxx, See Attached Schedules  | TBD        |          |
| 2 | SIB Revenue Cap percentage   | 5%         | Per Year |
| 3 | SIB Revenue Cap  | TBD        |          |
| 4 | SIB Allowed Cost (Per SIB Table II, Summary page, Column 2)  | <u>TBD</u> |          |
| 5 | Total Revenue Requirement, (with pro forma SIB investments). See attached revenue requirements schedules as provided by Company. | TBD        |          |
| 6 | SIB Revenue Requirement (line 5 minus line 1)  | TBD        |          |
| 7 | SIB Revenue Requirement Efficiency Credit  | 5%         |          |
| 8 | SIB True-Up Adjustment (from SIB Schedule B)   | TBD        |          |
| 9 | SIB Authorized Revenue (line 6 plus line 7 plus line 8)  | TBD        |          |

\* Number of Equivalent Meters, below TBD

\* Charge per 5/8" meter TBD

|                | No. of Customers at Year End | Multipliers | 5/8 x 3/4-inch Equivalent Meters | Fixed Surcharge | Annual Rev by Meter Size |
|----------------|------------------------------|-------------|----------------------------------|-----------------|--------------------------|
| 5/8 x 3/4-inch | TBD                          | 1           | TBD                              | TBD             | TBD                      |
| 3/4-inch       | TBD                          | 1.5         | TBD                              | TBD             | TBD                      |
| 1-inch         | TBD                          | 2.5         | TBD                              | TBD             | TBD                      |
| 1 1/2-inch     | TBD                          | 5           | TBD                              | TBD             | TBD                      |
| 2-inch         | TBD                          | 8           | TBD                              | TBD             | TBD                      |
| 3-inch         | TBD                          | 16          | TBD                              | TBD             | TBD                      |
| 4-inch         | TBD                          | 25          | TBD                              | TBD             | TBD                      |
| 6-inch         | TBD                          | 50          | TBD                              | TBD             | TBD                      |
| 8-inch         | TBD                          | 80          | TBD                              | TBD             | TBD                      |
| <u>10-inch</u> | <u>TBD</u>                   | <u>115</u>  | <u>TBD</u>                       | <u>TBD</u>      | <u>TBD</u>               |
| Totals         | TBD                          |             | TBD                              |                 | TBD                      |

# **ATTACHMENT 4**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
Litchfield Park Service Company - PWS ID No. 04-07046  
Decision No .74437  
Effective Date: April 18, 2014

SIB Schedule B

| CALCULATION OF SIB TRUE-UP REVENUE REQUIREMENTS ADJUSTMENT | SIB Filing Sequence |            |            |            |            |
|--|---------------------|------------|------------|------------|------------|
|  | SIB year 1*         | SIB year 2 | SIB year 3 | SIB year 4 | SIB year 5 |
| SIB Authorized Revenue , Per SIB Schedule A                | TBD                 | TBD        | TBD        | TBD        | TBD        |
| Total SIB Surcharges collections for Period                | TBD                 | TBD        | TBD        | TBD        | TBD        |
| SIB True-Up Adjustment                                     | TBD                 | TBD        | TBD        | TBD        | TBD        |

Note: The Company shall also provide an analysis of cumulative over or under collections and a net amount to be included in the SIB True-up Adjustment

\*SIB year 1 is one year after effective date

# **ATTACHMENT 5**

TYPICAL BILL IMPACTS  
 3/4-Inch Customers

| Per Dec. No.<br>XXXXX(no SIB<br>Surcharge) | Step 1                        |          |                          | Step 2                        |          |                          | Step 3                        |          |                          | Step 4                        |          |                          | Step 5                        |          |                          |
|--|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|
|  | Total Bill w/<br>SIB Year 1 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 2 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 3 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 4 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 5 * | SIB Inc. | Cumulative<br>% Increase |
| Gallons                                    |                               |          |                          |                               |          |                          |                               |          |                          |                               |          |                          |                               |          |                          |
| 0  | TBD                           | TBD      | TBD                      |
| 1000                                       | TBD                           | TBD      | TBD                      |
| 2000                                       | TBD                           | TBD      | TBD                      |
| 3000                                       | TBD                           | TBD      | TBD                      |
| 4000                                       | TBD                           | TBD      | TBD                      |
| 5000                                       | TBD                           | TBD      | TBD                      |
| 6000                                       | TBD                           | TBD      | TBD                      |
| 7000                                       | TBD                           | TBD      | TBD                      |
| 8000                                       | TBD                           | TBD      | TBD                      |
| 9000                                       | TBD                           | TBD      | TBD                      |
| 10000                                      | TBD                           | TBD      | TBD                      |
| 11000                                      | TBD                           | TBD      | TBD                      |
| 12000                                      | TBD                           | TBD      | TBD                      |
| 13000                                      | TBD                           | TBD      | TBD                      |
| 14000                                      | TBD                           | TBD      | TBD                      |
| 15000                                      | TBD                           | TBD      | TBD                      |
| 20000                                      | TBD                           | TBD      | TBD                      |
| 25000                                      | TBD                           | TBD      | TBD                      |
| Median (Cite Usage)                        | TBD                           | TBD      | TBD                      |
| Mean (Cite Usage)                          | TBD                           | TBD      | TBD                      |

\*: Bills in Years 1 -5 are net of  
 Efficiency Credit

# **ATTACHMENT 6**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
 Litchfield Park Service Company - PWS ID No. 04-07046  
 Decision No .74437  
 Effective Date: April 18, 2014

SIB Schedule D

EARNINGS TEST

| Per Dec. No<br>XXXXXX | SIB Step 1 | SIB Step 2 | SIB Step 3 | SIB Step 4 | SIB Step 5 | Total Pro-<br>forma with<br>SIB |
|-----------------------|------------|------------|------------|------------|------------|---------------------------------|
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| TBD                   | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |

Total Operating Revenue \*

Operating Expenses  
 Operations & Maintenance  
 Depreciation & Amortization  
 Taxes Other than Income  
 Income Taxes  
 Total Operating Expenses

Operating Income

Rate Base

Rate of Return on Rate Base

Authorized Rate of Return on Rate Base

\*: SIB Revenues in Years 1 -5 are net of  
 5% Efficiency Credit

# **EXHIBIT B**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
Plan of Administration  
System Improvement Benefit Mechanism ("SIB")-Wastewater  
Docket No. SW-01428A-13-0042

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## **I. GENERAL DESCRIPTION**

This document is the Plan of Administration ("POA") for the System Improvement Benefits ("SIB") mechanism approved for the Wastewater Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp.) ("Company") by the Arizona Corporation Commission ("Commission") in Decision No. 74437 (April 18, 2014). The SIB mechanism provides for the timely recovery of the capital costs (pre-tax return on investment and depreciation expense, net of associated retirements) associated with collections system improvement projects that: (1) have not been included in rate base for recovery in Decision No. 74437 (April 18, 2014); (2) are listed in the latest Commission approved SIB Plant Table I; (3) have been verified to be completed<sup>1</sup>; and (4) have been placed in service per SIB Plant Table II. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

## **II. DEFINITIONS**

- A. NARUC – National Association of Regulatory Utility Commissioners.
- B. SIB – System Improvement Benefit mechanism to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- C. SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- D. SIB Eligible NARUC accounts:
  - 1. NARUC Account No. 361 – Collection Sewers - Gravity
  - 2. NARUC Account No. 363 – Services to Customers
- E. SIB Plant Table I (Sample attached as Attachment 1) – The schedule of planned SIB eligible projects that is either approved in the Company's most recent rate case or updated by a subsequent Commission decision. As used herein, this term refers to the most recently updated SIB Plant Table I available unless reference is made to a particular Commission decision. As of the date of this POA, the latest Commission approved SIB Plant Table I is attached to Decision No. 74437 as Exhibit 1.

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<sup>1</sup> Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer's Certificate of Completion, etc.

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- F. SIB Plant Table II (Sample attached as Attachment 2) – The schedule of completed and verified SIB eligible projects from the latest Commission approved SIB Plant Table I and associated retirements.
- G. Total Revenue Requirement – The revenue requirement approved in Decision No. 74437, plus the SIB Authorized Revenue.
- H. SIB Revenue Requirement – The revenue requirement equal to the pre-tax return on investment, and depreciation expense associated with SIB-eligible projects that have been completed and placed into service, per SIB Plant Table II net of associated retirements.
- I. SIB Revenue Requirement Efficiency Credit – An amount equal to five percent (5%) of the SIB Revenue Requirement.
- J. SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit, plus or minus any SIB True-up Adjustment.
- K. Gross SIB Surcharge – Amount to be shown on customer bills, based on service size without consideration of the SIB Surcharge Efficiency Credit.
- L. SIB Surcharge Efficiency Credit – An amount equal to five percent (5%) of the Gross SIB Surcharge, to be shown on customer bills.
- M. SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged, based on service size, calculated to recover the SIB Authorized Revenue. The SIB Surcharge is to be shown as a separate line item on customer bills.
- N. SIB True-up Adjustment – The reconciliation of over- or under-collection of the SIB Authorized Revenues, as compared with the total SIB Surcharges collected for the preceding 12-month period. Each SIB True-up Adjustment shall also analyze the cumulative over- or under-collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharge collections, and prior SIB True-up Adjustments to be used in calculating the individual SIB True-up Adjustment by service lateral size.

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**III. SIB RELATED FILINGS**

- A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB Eligible Plant, on a project by project basis as listed in the latest Commission approved SIB Plant Table I. The initial semi-annual status report shall include only those projects from the initial SIB Plant Table I which the Company has designated as most likely to be completed in the first 12 months.
- B. Reconciliation and True-up – Once a SIB Surcharge is implemented, the Company must file annually to true-up its SIB Surcharge collections over the preceding 12 months with the SIB Authorized Revenue for that period, and establish a surcharge or credit to true-up over-or-under-collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be established in the Commission's Decision approving the SIB Surcharge.
- C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:
  - 1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must:
    - a. Be projects listed in the SIB Plant Table I;
    - b. Have been completed by the Company;
    - c. Have been verified; and
    - d. Be actually serving customers.
  - 2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-months SIB surcharge period from SIB Plant Table I<sup>2</sup> from Decision No. 74437 to allow the Commission to establish the latest SIB Plant Table I.
  - 3. SIB Schedule A (sample is attached as Attachment 3), showing a calculation of the SIB Revenue Requirement, SIB Revenue Requirement

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<sup>2</sup> Beginning with its SIB Surcharge Request filing for Year Two, the Company may request a change from the estimated Cost/Unit (approved in the Company's most recent rate case Decision) due to inflation using the latest calendar year Consumer Price Index (see sample SIB Plant Table I revised April 1, 2014). This may be done only if the original SIB Plant Table I unit cost did not account for inflation.

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Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit and the SIB Surcharge. Schedule A shall be supported by using the revenue requirement model relied up to generate the revenue requirement approved in Decision No. 74437, and the total revenue requirement will be determined by including the effects of the SIB Eligible Plan as pro-forma adjustment to this model.

4. SIB Schedule B (sample is attached as Attachment 4) showing the SIB True-up Adjustment calculation for the prior 12-month SIB Surcharge period, as well as the individual SIB True-up Adjustment by service size.
  5. SIB Schedule C (sample is attached as Attachment 5) showing the effect of the SIB Surcharge on a typical residential customer's monthly bill.
  6. SIB Schedule D (sample is attached as Attachment 6) which shall include an analysis of the impact of completed SIB Eligible Plant projects on the fair value rate base, revenue, and the fair value rate of return. The Company shall also include the following as part of SIB Schedule D:
    - a. The most current balance sheet at the time of the filing;
    - b. The most current income statement;
    - c. An earnings test schedule;
    - d. A rate review schedule (including the incremental and pro forma effect of the proposed increase);
    - e. An adjusted rate base schedule; and
    - f. A construction work in progress ("CWIP") ledger for each project showing accumulation of charges by month and paid contractor invoices, including a summary page showing the calculation of the SIB eligible rate base and depreciation expense net of associated retirements.
- D. The Company will maintain and provide to the Commission's Utilities Division ("Staff") and the Residential Utility Consumer Office ("RUCO") schedules in Microsoft Excel format (with all formulae intact) supporting the revenue requirement approved in Decision No. 74437, and the effects of completed SIB

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Eligible Plant for the current SIB Surcharge request and any previously approved SIB Surcharge and SIB True-up Adjustment requests.

- E. The Company may make its initial SIB Surcharge Request through Docket Control no earlier than twelve months after the entry of Decision No. 74437.
- F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A SIB True-up Adjustment must be filed with each SIB Surcharge request, except the first SIB Surcharge request.
- G. Unless otherwise authorized by the Commission, the Company is required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.
- H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.

#### IV. SIB SURCHARGE CALCULATIONS

- A. Calculations of Amounts to Be Collected By the SIB Surcharge
  - 1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirement Efficiency Credit, plus any SIB True-up Adjustment. For purposes of calculating the SIB Revenue Requirement:
    - a. The required rate of return is equal to the overall rate of return authorized in Decision No. 74437;
    - b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. 74437; and
    - c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. 74437.
  - 2. The SIB plant unit cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the installed SIB plant unit cost listed in SIB Plant Table II or 110% of the SIB plant estimated unit cost listed in the latest Commission approved SIB Plant Table I. (See Attachment 1).

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3. The amount to be collected by each SIB Surcharge shall be capped annually at five percent (5%) of the revenue requirement authorized in Decision No. 74437.

B. Reconciliation And True-Ups

1. The revenue collected pursuant to the SIB Surcharges over the preceding 12 months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.
2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and a single SIB Efficiency Credit are shown on a customer bills.
3. For each 12 month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue, for that 12 month period, consistent with Schedule B.
4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a 12-month period by means of a SIB True-up Adjustment.
5. Starting with the second annual SIB Surcharge, where there are over- or under-collected balances, such over- or under-collected balances shall be carried over to the next year, and considered in the calculation of the new SIB True-up Adjustment. If, at the time new rates go into effect in the Company's next rate case, there remains an over-or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company is required to perform an annual earnings test calculation for each SIB Surcharge request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.

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2. The earnings test shall be:
  - a. Based on the most recent available operating income;
  - b. Adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and
  - c. Based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

**V. ADDING PROJECTS TO SIB PLANT TABLE I UNDER EMERGENCY CIRCUMSTANCES**

- A. The Company may seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.
- B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.
- C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.
- D. SIB Eligible Plant must satisfy at least one of the following conditions:
  1. Replacement Plant is necessary to address excessive infiltration and inflow ("I/I") adversely affecting treatment plant, and indicating the probability of sewer system collapse causing a public health and safety hazard.
  2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;

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3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:
  - a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life;
  - b. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

**VI. SIB SURCHARGE RATE DESIGN**

- A. The SIB Surcharge rate design shall be as follows:
  1. The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.
  2. The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of active equivalent 4-inch services at the end of the most recent 12-month period, and shall increase with service size based on the following capacity multipliers:

| <b>Service Lateral Size</b> | <b>Factor</b> |
|-----------------------------|---------------|
| 4-inch                      | 1             |
| 6-inch                      | 2.25          |
| 8-inch                      | 4             |
| 10-inch                     | 6.25          |

- B. The SIB Surcharge shall apply to all of the Company's customers.

**VII. SIB SURCHARGE IMPLEMENTATION**

- A. Thirty days prior to filing each application to implement a SIB Surcharge, the Company shall file a proposed form of notice to Staff for review, and a Summary of what the Company will be requesting in the application. Once the notice is approved by Staff, the Company shall provide a copy of the approved notice to its customers via newsletter or bill insert. After providing notice, the Company shall

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file a copy of the notice and a description of when and how it provided notice with each application to implement a SIB surcharge. The Summary and Notice shall include at least the following information:

1. The individual Gross SIB Surcharge, by service lateral size;
  2. The individual SIB Surcharge Efficiency Credit, by service lateral size;
  3. SIB Surcharge, by service lateral size; and
  4. Directions to where the customer may obtain a summary of the projects included in the current SIB Surcharge request, including a description of each project and its cost.
- B. A SIB Surcharge shall not become effective until approved by the Commission.
- C. The Company shall provide a proposed order for the Commission's consideration with each SIB Surcharge filing.
- D. The Company shall notice its customers of the SIB Surcharge approved herein as soon as possible in a form acceptable to Staff and consistent with the notice requirements of Decision No. 74437.
- E. The Company shall not implement the SIB Surcharge until 30 days after having filed documentation in Docket Control providing the date when all customers in Liberty Utilities (Litchfield Park Water & Sewer) Corporation's Wastewater Division have been notified of the Commission approved SIB Surcharge.

9170166.1/035227.0022

# **ATTACHMENT 1**

Litchfield Park Service Company - ADEQ WW Inventory ID No. - 100310  
SIB PLANT TABLE 1

| Replacement Plant Description (new plant)<br>(SIB-eligible plant) |  |                  |                |          |                                    |                                    |                             |                             |                          |                |
|---|--|------------------|----------------|----------|------------------------------------|------------------------------------|-----------------------------|-----------------------------|--------------------------|----------------|
| Project No.   | NAKUC Acct No./ Plant                        | Units (Quantity) | Diameter/ Size | Material | Cost/Unit (Estimated) <sup>1</sup> | Cost/Unit (Estimated) <sup>2</sup> | Subtotal Cost (Estimated)   | Site (location description) | Expected In-Service Date | Project Status |
|   | 361 - Gravity Collecting Sewers              |                  |                |          |                                    |                                    |                             |                             |                          |                |
|   | 363 - Service Laterals, Manholes, Clean-outs |                  |                |          |                                    |                                    |                             |                             |                          |                |
|   |  |                  |                |          |                                    |                                    | <b>Estimated Total Cost</b> | \$0                         |                          |                |

1. Provide narrative why Replacement Plant is necessary.  
 - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility  
 - replacement of existing plant to address excessive water loss (10% or more)  
 2. Provide narrative explaining why this segment of plant is a priority.  
 3. Provide narrative explaining how replacing this plant will benefit existing customers.  
 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.  
 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program.

<sup>1</sup> Per the Commission approved Initial SIB Table 1.  
<sup>2</sup> Beginning with its SIB Surcharge Request filing for Year Two, the Company may request a change from the estimated Cost/Unit (in the Commission approved Initial SIB Table 1) due to inflation using the latest calendar year Consumer Price Index. This may be done only if the Initial SIB Plant Table Unit cost did not account for inflation.

# **ATTACHMENT 2**











# **ATTACHMENT 3**

Check if  
 Consolidated

LINE  
 NO. CALCULATION OF OVERALL SIB REVENUE REQUIREMENT AND EFFICIENCY CREDIT

|   |  |     |          |
|---|--|-----|----------|
| 1 | Total Authorized Revenue Requirement , Per Decision xxxxx, See Attached Schedules  | TBD |          |
| 2 | SIB Revenue Cap percentage   | 5%  | Per Year |
| 3 | SIB Revenue Cap  | TBD |          |
| 4 | SIB Allowed Cost (Per SIB Table II, Summary page, Column 2)  | TBD |          |
| 5 | Total Revenue Requirement, (with pro forma SIB investments). See attached revenue requirements schedules as provided by Company. | TBD |          |
| 6 | SIB Revenue Requirement (line 5 minus line 1)  | TBD |          |
| 7 | SIB Revenue Requirement Efficiency Credit  | 5%  |          |
| 8 | SIB True-Up Adjustment (from SIB Schedule B)   | TBD |          |
| 9 | SIB Authorized Revenue (line 6 plus line 7 plus line 8)  | TBD |          |

\* Number of Equivalent Service, below TBD

\* Charge per 4 inch service size TBD

|                | No. of Customers at Year End | Factor      | 4 inch Equivalent Service | Fixed Surcharge | Annual Rev by Service Lateral Size |
|----------------|------------------------------|-------------|---------------------------|-----------------|------------------------------------|
| 4-inch         | TBD                          | 1           | TBD                       | TBD             | TBD                                |
| 6 -inch        | TBD                          | 2.25        | TBD                       | TBD             | TBD                                |
| 8 -inch        | TBD                          | 4           | TBD                       | TBD             | TBD                                |
| <u>10-inch</u> | <u>TBD</u>                   | <u>6.25</u> | <u>TBD</u>                | <u>TBD</u>      | <u>TBD</u>                         |
| Totals         | TBD                          |             | TBD                       |                 | TBD                                |

# **ATTACHMENT 4**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
Litchfield Park Service Company - ADEQ WW Inventory ID No. 100310  
Decision No .74437  
Effective Date: April 18, 2014

SIB Schedule B

| CALCULATION OF SIB TRUE-UP REVENUE REQUIREMENTS ADJUSTMENT | SIB Filing Sequence |            |            |            |            |
|--|---------------------|------------|------------|------------|------------|
|  | SIB year 1*         | SIB year 2 | SIB year 3 | SIB year 4 | SIB year 5 |
| SIB Authorized Revenue , Per SIB Schedule A                | TBD                 | TBD        | TBD        | TBD        | TBD        |
| Total SIB Surcharges collections for Period                | TBD                 | TBD        | TBD        | TBD        | TBD        |
| SIB True-Up Adjustment                                     | TBD                 | TBD        | TBD        | TBD        | TBD        |

Note: The Company shall also provide an analysis of cumulative over or under collections and a net amount to be included in the SIB True-up Adjustment

\*SIB year 1 is one year after effective date

# **ATTACHMENT 5**

SIB Schedule C

TYPICAL BILL IMPACTS

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
 Litchfield Park Service Company - ADEQ WW Inventory ID No. 100310  
 Decision No. 74437  
 Effective Date: April 18, 2014

| Per Dec. No.<br>XXXXX(no SIB<br>Surcharges) | Step 1                        |          |                          | Step 2                        |          |                          | Step 3                        |          |                          | Step 4                        |          |                          | Step 5                        |          |                          |
|---|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|-------------------------------|----------|--------------------------|
|   | Total Bill w/<br>SIB Year 1 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 2 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 3 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 4 * | SIB Inc. | Cumulative<br>% Increase | Total Bill w/<br>SIB Year 5 * | SIB Inc. | Cumulative<br>% Increase |
| 4 inch                                      | TBD                           | TBD      | TBD                      |
| 6 inch                                      | TBD                           | TBD      | TBD                      |
| 8 inch                                      | TBD                           | TBD      | TBD                      |
| 10 inch                                     | TBD                           | TBD      | TBD                      |

\*: Bills in Years 1 -5 are net of  
 Efficiency Credit

# **ATTACHMENT 6**

Liberty Utilities (Litchfield Park Water & Sewer) Corp.  
 Litchfield Park Service Company - ADEQ WW Inventory ID No. 100310  
 Decision No .74437  
 Effective Date: April 18, 2014

SIB Schedule D

EARNINGS TEST

| Per Dec. No<br>XXXXXX                  | SIB Step 1 | SIB Step 2 | SIB Step 3 | SIB Step 4 | SIB Step 5 | Total Pro-<br>forma with<br>SIB |
|--|------------|------------|------------|------------|------------|---------------------------------|
| TBD                                    | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Operating Expenses                     | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Operations & Maintenance               | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Depreciation & Amortization            | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Taxes Other than Income                | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Income Taxes                           | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Total Operating Expenses               | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Operating Income                       | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Rate Base                              | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Rate of Return on Rate Base            | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |
| Authorized Rate of Return on Rate Base | TBD        | TBD        | TBD        | TBD        | TBD        | TBD                             |

\*: SIB Revenues in Years 1 -5 are net of  
 5% Efficiency Credit