OPEN MEETING ITEM

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ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: NOVEMBER 5, 2014

DOCKET NO.: W-01782A-14-0084

ORIGINAL

TO ALL PARTIES:

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

ABRA WATER COMPANY, INC.
(RATES)

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

NOVEMBER 14, 2014

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

DECEMBER 11, 2014 and DECEMBER 12, 2014

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

Arizona Corporation Commission
DOCKETED
NOV 05 2014
DOCKETED BY

Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF ABRA WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-01782A-14-0084 DECISION NO. ______________ **OPINION AND ORDER**

DATES OF HEARING:	September 30, 2014
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Sarah N. Harpring
APPEARANCES:	Mr. Robert J. Metli, MUNGER CHADWICK, P.L.C., on behalf of Abra Water Company, Inc.; and Mr. Matthew Laudone and Ms. Bridget Humphrey, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

This case concerns an application for a permanent rate increase filed by Abra Water Company, Inc. ("Abra"), an Arizona C corporation and Class C water utility providing service to approximately 635 customers in an area approximately 25 miles north of Prescott, in Yavapai County. Abra proposes rates to generate a revenue increase of approximately 6.46 percent over test year revenues. The Arizona Corporation Commission's ("Commission's") Utilities Division ("Staff") recommends that Abra's rates and charges remain virtually unchanged.

BY THE COMMISSION:

* * * * * * * * * *

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

FINDINGS OF FACT

Background

1. Abra is an Arizona C corporation providing water utility service to the community of Paulden, located approximately 25 miles north of Prescott in Yavapai County, pursuant to a Certificate of Convenience and Necessity ("CC&N") granted by the Commission in Decision No. 33274 (July 20, 1961).[1] (*See* Ex. S-1 at ex. JWL at 1.)

2. Abra is owned and managed by Big Chino Land Co., Inc. ("Big Chino"), also an Arizona corporation. (Tr. at 41; Ex. A-11.) Big Chino is owned by Kevin Larson, who also serves as its President/Chief Executive Officer and sole director.[2]

3. As of the end of the test year ending December 31, 2012 ("TY"), Abra was serving 621 customers, all but one through a 5/8" x 3/4" meter. (Ex. S-1 at ex. JWL at 1-2; Tr. at 17.) As of the hearing on September 30, 2014, this number had increased to approximately 635 customers. (Tr. at 18.)

4. Abra's day-to-day operations are handled by Mr. Larson and by Roderick Yarbro, Manager, both of whom are employed and paid salaries by Big Chino.[3] (Tr. at 41, 116; Ex. A-11.)

5. Abra's current rates and charges were established in Decision No. 72287 (May 4, 2011), in which Abra also was granted authority to obtain a three-year amortizing loan for an amount not to exceed $75,000, with an interest rate not to exceed 6 percent per annum, for the purpose of financing new arsenic media.[4]

6. Abra is in compliance with Arizona Department of Environmental Quality ("ADEQ") requirements and is delivering water meeting the water quality standards of Title 40, Part 141 of the Code of Federal Regulations and Title 18, Chapter 4 of the Arizona Administrative Code. (Ex. S-1 at

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[1] Official notice is taken of this Decision.

[2] Official notice is taken of Big Chino's Annual Report, filed with the Commission on July 16, 2014, and available on the Commission's website through its Corporate Records function. The 2014 Annual Report identifies Mr. Larson as the sole officer, director, and shareholder of Big Chino.

[3] Pursuant to a November 2011 Management Contract, Big Chino charges Abra a monthly management fee of $8,567 that includes 75 percent of Mr. Larson's salary, 85 percent of Mr. Yarbro's salary, and 77.25 percent of payroll taxes and benefit costs. (Ex. A-11.)

[4] Official notice is taken of this Decision. Prior to the installation of an arsenic treatment plant in 2008, Abra's well was producing water with an arsenic level of 14 parts per billion ("ppb"), in excess of the federal and state maximum contaminant level ("MCL") for arsenic of 10 ppb.

ex. JWL at 3.)

7. Abra is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). (Ex. S-1 at ex. JWL at 3.)

8. Abra is not located in an Arizona Department of Water Resources ("ADWR") Active Management Area ("AMA"). (Ex. S-1 at ex. JWL at 3.) Abra is in compliance with ADWR requirements governing water providers and/or community water systems. (Ex. S-1 at ex. JWL at 3.)

9. Abra has an approved Curtailment Tariff and an approved Cross Connection & Backflow Prevention Tariff on file with the Commission. (Ex. S-1 at ex. JWL at 4.)

10. As of June 11, 2014, Staff's Compliance Section reported that Abra had no delinquent compliance items. (Ex. S-1 at ex. JWL at 4.)

Procedural History

11. On March 11, 2014, Abra filed an application for a permanent rate case, reporting adjusted TY revenues of $270,040 and a proposed original cost rate base/fair value rate base ("OCRB/FVRB") of $570,159 and requesting an 8.85 percent return on its OCRB/FVRB to obtain an increase in revenues of approximately $43,349 or 16.05 percent. (Ex. A-1.) Abra included with its application the Direct Testimony of Thomas Bourassa, Certified Public Accountant and Consultant.

12. On April 2, 2014, the Commission's Utilities Division ("Staff") issued a Letter of Sufficiency stating that Abra's application had met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103 and that Abra had been classified as a Class C utility.

13. On April 11, 2014, a Procedural Order was issued scheduling the hearing in this matter to commence on September 30, 2014, and establishing other procedural requirements and dates.

14. On May 20, 2014, a comment was received objecting to Abra's proposed rate increase.

15. On May 29, 2014, Abra filed a Notice of Filing Affidavit of Publication and Affidavit of Mailing of Customer Notice showing that the required notice had been published in *The Daily Courier* on May 12, 2014, and mailed to all of Abra's customers on May 1, 2014.

16. On August 15, 2014, Staff filed the Direct Testimony of Brendan Aladi, Public Utilities Analyst III; Jian Liu, Utilities Engineer; and Crystal Brown, Executive Consultant III.

17. On September 2, 2014, Abra filed the Rebuttal Testimony of Mr. Yarbro and Mr. Bourassa.

18. On September 15, 2014, Staff filed the Surrebuttal Testimony of Mr. Aladi and Ms. Brown.

19. On September 22, 2014, Abra filed the Rejoinder Testimony of Mr. Bourassa.

20. On September 24, 2014, Abra filed the Supplemental Rejoinder Testimony of Mr. Bourassa.

21. On September 25, 2014, a prehearing conference was held, with Abra and Staff appearing through counsel. The parties were advised of specific subject areas to address at the hearing.

22. On September 30, 2014, an evidentiary hearing was held before a duly authorized Administrative Law Judge of the Commission, with Abra and Staff appearing through counsel. Abra presented documentary evidence and testimony from Mr. Bourassa and Mr. Yarbro. Staff presented documentary evidence and testimony from Mr. Liu, Ms. Brown, and Mr. Aladi. At the conclusion of the hearing, the parties were directed to file final schedules, and it was agreed that Abra would also file a Late Filed Exhibit ("LFE") concerning its life insurance policy for Mr. Larson.

23. On October 7, 2014, the parties filed their final schedules, and Abra filed a corporate resolution regarding the life insurance policy.

Abra's System

24. Abra initially commenced operations believing that it would provide service to approximately 2,000 quarter-acre subdivided lots collectively comprising three subdivisions known as Antelope Lakes, Holiday Lakes, and Sunset Mobile Home Sites. (Ex. A-2 at 2.) According to Mr. Yarbro, the developers for these subdivisions abandoned the subdivisions after having sold the lots to individual owners and installing only minimal utilities to a portion of the lots. (*Id.*) Subsequently, lots were developed on an ad hoc basis when an owner was willing to pay the cost to bring utilities to the lot. (*Id.* at 2-3.) Currently, only approximately 670 of the 2,000 lots have been developed with

homes; Abra's system has numerous dead-end lines that Abra desires to loop; and Abra asserts that an additional main line is needed to provide adequate pressure and volume to several areas. (*Id.*) Abra also asserts that it needs a back-up well and pump. (*Id.* at 3.)

25. Abra's system consists of one well[5] with a production capacity of 500 gallons per minute ("GPM"), a 500 GPM arsenic treatment plant that became operational in May 2008, two storage tanks with a combined capacity of 274,000 gallons, four booster pumps, and a distribution system serving an average of 617 customers[6] during the TY. (Ex. S-1 at ex. JWL at 1-2; Tr. at 18.) As of September 30, 2014, Abra was serving approximately 635 customers. (Tr. at 18.)

26. Although Abra's customer count increased after the TY, Staff believes that Abra's customer base has leveled off and that little to no growth should be expected over the next few years. (*See* Tr. at 18; Ex. S-1 at ex. JWL at 3.)

27. Staff determined that Abra's system has adequate production and storage capacity to serve its present customer base and anticipated growth. (Ex. S-1 at ex. JWL at 3.)

28. Abra's metered customers are almost exclusively residential customers served by 5/8" x 3/4" meters, with the only exception being a commercial customer served by a 2" meter. (Ex. S-1 at ex. JWL-1 at 2.)

29. Abra has a coin-operated water vending machine that dispenses water in exchange for a quarter. (Tr. at 118.) The vending machine is open to the public, and Abra has no way of knowing how many customers purchase water from the machine. (Tr. at 118.)

30. Abra also has a standpipe that is kept under lock and key and is accessible for use only by those who have completed applications and agreed to Abra's terms of use. (Tr. at 119.) Abra issues a key to each standpipe user and bills each standpipe user according to the amount of water reported to have been taken from the standpipe. (Tr. at 119.) While the standpipe is located within view of Abra's office, it is not currently possible for Abra to monitor standpipe customers' withdrawals constantly, particularly during non-office hours. (Tr. at 119.) Mr. Yarbro testified that there have been discrepancies between the numbers for water metered and water reported to have

[5] Abra also has a well that was drilled in 2012, but it is not in service. (Ex. S-1 at ex. JWL at 1.)

[6] When Staff's engineer inspected Abra's system, Abra was serving 628 5/8" x ¾" meters and one 2" meter, and its system had 44 additional inactive meter connections in vacant homes. (Ex. S-1 at ex. JWL at 2.)

been taken from the standpipe, but only infrequently. (Tr. at 120.) Any such discrepancies would contribute to water loss. (*See id.*)

Water Loss/BMPs

31. During the TY, Abra's water loss was approximately 12 percent, which exceeds Staff's recommended maximum 10 percent threshold for water loss. (Tr. at 116-17.) Mr. Yarbro believes that some of the water loss is due to undetected leaks from pipes installed around 1959 or 1960 and from undetected slow-reading meters. (Tr. at 117.)

32. Abra has a water loss reduction plan in place, which requires immediate repair of a known leak and consistent monitoring of the service area to detect moisture accumulation in unexpected places, indicating potential leakage. (Tr. at 117-18.) Because Abra reads customer meters manually, its personnel routinely survey the service area. (Tr. at 117.) Additionally, as part of its water loss reduction plan, Abra has replaced approximately 111 meters since February 2011. (Tr. at 120.) Abra intends to continue replacing older meters, as revenues allow. (Tr. at 120.)

33. Staff recommends that Abra be required to prepare and submit a report containing a detailed analysis and plan to reduce water loss to 10 percent or less or, if Abra believes it is not cost effective to reduce the water loss to less than 10 percent, to submit a detailed cost-benefit analysis to support that such water loss reduction is not cost effective. (Ex. S-1 at ex. JWL at 2.) Staff further recommends that Abra be required to file the report or cost-benefit analysis within 90 days after the effective date of the order issued in this proceeding. (Ex. S-1 at ex. JWL at 2-3.) Staff also recommends that Abra be prohibited from allowing system water loss greater than 15 percent. (*Id.*)

34. Abra has not adopted any Commission-approved Best Management Practices ("BMP") tariffs. (Ex. S-1 at ex. JWL at 4.) Staff recommends that Abra be required, within 90 days after the effective date of this Decision, as a compliance item in this docket, to file with Docket Control, for the Commission's review and consideration, at least five BMPs in the form of tariffs substantially conforming to the templates created by Staff and available on the Commission's website.[7] (Ex. S-1 at ex. JWL at 4.) Staff further recommends that Abra be permitted, in its next

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[7] The BMP tariffs are available at http://www.azcc.gov/Divisions/Utilities/Water/forms.asp.

general rate application, to request cost recovery for the actual costs associated with the BMPs implemented. (*Id.*)

35. Abra does not oppose Staff's recommendations for Abra to submit a report or analysis related to water loss or for Abra to be required to submit five BMP tariffs for Commission review and approval. (Tr. at 115-16.)

36. Staff's recommendations set forth in Findings of Fact Nos. 33 and 34 are reasonable and appropriate, and we will adopt them.

Ratemaking

37. In their final schedules, Abra and Staff propose the following:

	Abra	**Staff**
OCRB/FVRB[8]	$555,666	$461,824
Required Rate of Return	8.02%	8.40%
Required Operating Income	$44,558	$38,776
Adjusted TY Operating Income	$30,860	$35,730
Operating Income Deficiency	$13,698	$3,046
Gross Revenue Conversion Factor	1.2732	1.2784
Revenue Increase Required	$17,441	$3,894
Adjusted TY Revenue	$270,040	$270,040
Revenue Requirement	$287,480	$273,934
Percentage Revenue Increase Required	6.46%	1.44%

Rate Base

38. The difference in the parties' OCRB/FVRB figures primarily arises from their disagreement regarding the need to reverse a reclassification, adopted by the Commission in Abra's last rate case, of $79,900 in utility plant in service ("UPIS") from water treatment equipment to arsenic media. Abra now asserts that this reclassification was done in error and that it has resulted in understatement of the water treatment equipment account. As a flow-through from this UPIS dispute, the parties propose different accumulated depreciation figures. Additionally, unrelated to the arsenic media reclassification issue, the parties disagree concerning whether Abra should be permitted to recover cash working capital in rate base in the absence of a lead-lag study.

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[8] Abra did not provide data to support a reconstruction cost new rate base and proposes that its OCRB be used as its FVRB. (Ex. A-1 at ex. A at 5.)

Arsenic Media Reclassification Issue

39. In Decision No. 68693 (May 5, 2006),[9] the Commission authorized Abra to enter into a loan agreement with the Arizona Water Infrastructure Financing Authority ("WIFA") for the purpose of constructing an arsenic treatment plant to bring the water served through Abra's system into compliance with the new Environmental Protection Agency ("EPA") MCL for arsenic. In Decision No. 68693, the Commission found that Abra was to obtain its arsenic treatment plant, including media, from McPhee Environmental Supply, LLC ("McPhee"), for an estimated total cost of $193,664, including $12,988 for design and permitting, $100,816 for treatment equipment, and $79,860 for media and yard piping. The Decision further found that Abra would incur approximately $69,971 in additional costs to complete the arsenic treatment plant project, specifically for plumbing, a building to house the treatment plant, and a pump.

40. Construction for the arsenic treatment plant started in 2006, and the arsenic treatment plant was completed and became operational in May 2008. (Tr. at 126; Ex. S-1 at ex. JWL at 1; Ex. S-7 at 3.)

41. In Abra's last rate case[10] ("2009 rate case"), which used a 2009 test year and for which the application was filed on June 4, 2010, Abra reported that the cost of the arsenic treatment plant had exceeded $300,000 and that it would soon need to replace the arsenic media, at a cost of approximately $80,000.[11] (Ex. S-7 at 3.) Staff's recommended adjustments to UPIS in the 2009 rate case included removal of $145,002 from UPIS Acct. 320, Water Treatment Equipment, and division and reclassification of that amount, with $79,900 going to UPIS Acct. 320.3, Arsenic Media, and $65,102 going to UPIS Acct. 320.1, Water Treatment Plant. (Decision No. 72287 at 8.) Abra accepted this adjustment to UPIS in the 2009 rate case.[12] (*Id.*)

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[9] Official notice is taken of this Decision.

[10] Abra's last rate case was considered in Docket No. W-01782A-10-0224 et al., which culminated in Decision No. 72287 (May 4, 2011), resolving both the rate case application and a financing docket.

[11] Arsenic media has an average service life of three years and a corresponding depreciation rate of 33.3 percent. (*See* Ex. S-1 at ex. JWL at 9.)

[12] Mr. Bourassa attributed Abra's acceptance of the reclassification to Abra's not having hired a consultant for the 2009 rate case, being a small and unsophisticated company, and probably just wanting to finish the rate case. (Tr. at 28-29.) Mr. Bourassa also asserted that Abra misunderstood Staff's adjustment from the 2009 rate case, because Abra thought the adjustment required Abra to transfer back into UPIS Acct. 320 the $79,900 arsenic media amount previously transferred to non-UPIS Acct. 151. (Tr. at 29-30.)

42. Abra now asserts, through Mr. Bourassa, that Staff's removal and reclassification of $79,900 of that $145,002, to reflect arsenic media, was made in error because the $145,002 UPIS amount did not include any costs for arsenic media. (*See* Tr. at 19.) According to Mr. Bourassa, reducing UPIS Acct. 320 by $79,900 in the 2009 rate case was excessive because Abra had already transferred $79,900 in arsenic media costs to Acct. 151, a non-UPIS account,[13] in 2008. (Tr. at 19-20.) Abra now proposes to adjust UPIS Acct. 320.1, Water Treatment Plant, by adding $79,900 to "correct" the adjustment made in the last rate case. (*See* Tr. at 31; Ex. A-6.)

43. To support the proposed addition to UPIS Acct. 320.1, Mr. Bourassa provided general ledger account reports for UPIS Acct. 320 and non-UPIS Acct. 151, showing that $79,900 had been removed from UPIS Acct. 320 and added to non-UPIS Acct. 151 on December 31, 2008, through Journal Entry No. 175 ("JE-175"), as a "Reclass of media from fixed asset to prepaid expense." (Ex. A-3 at ex. TJB-RB1.) Mr. Bourassa asserted that, in light of JE-175, $79,900 should have been added to UPIS Acct. 320.3 as arsenic media in the 2009 rate case,[14] and the $145,002 balance of UPIS Acct. 320, Water Treatment Equipment, should have been left alone. (Ex. A-3 at 6.) Instead, Mr. Bourassa stated, the reclassification adjustment made in the 2009 rate case caused UPIS Acct. 320 to be understated by $79,900. (Ex. A-3 at 6.)

44. Staff disagrees that the reclassification in the 2009 rate case was done erroneously and, in this matter, recommends that Abra's $79,900 upward adjustment to UPIS Acct. 320.1 be disallowed, resulting in a TY adjusted balance for that account of $65,102. (Ex. S-4 at 7-8.) Staff agrees that Abra's general ledger shows a 2008 reclassification of $79,900 from UPIS Acct. 320 to non-UPIS Acct. 151, but pointed out that Abra's general ledger also shows that an additional $102,209.50 for "Arsenic treatment plant" was transferred into UPIS Acct. 320 on December 31, 2009. (*See* Ex. S-5 at 2-3; Ex. A-3 at ex. TJB-RB1.) Staff characterizes its $79,900 downward adjustment in UPIS Acct. 320.1 as a reversal of Abra's 2009 decision to add the $79,900 back into UPIS through the "Arsenic treatment plant" addition of $102,209.50. (*See* Ex. S-5 at 3.)

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[13] Mr. Bourassa asserted that the $79,900 reclassified in the last rate case was not actually present in any UPIS account at the time because it instead was included in non-UPIS Acct. 151, Plant Materials and Supplies, as a prepaid expense. (Ex. A-3 at 6.)

[14] Arsenic media is appropriately included in UPIS. (*See, e.g.*, Ex. S-1 at ex. JWL at 9.)

45. The $102,209.50 addition to UPIS Acct. 320 was made on December 31, 2009, through Journal Entry No. 150 ("JE-150"). (Ex. A-3 at ex. TJB-RB1.) Mr. Bourassa asserts that JE-150 did not include any arsenic media costs. (Ex. A-5 at 2, 4.) Mr. Bourassa reasoned that because the total $200,177.84 in capitalized costs included in JE-150 were attributable to payments made to J&L Land Services and to McPhee, and not to Aquacell Water Treatment, Inc. ("Aquacell"), those capitalized costs did not include costs for arsenic media. (Ex. A-5 at 2-3.) According to Mr. Bourassa, the amounts paid to McPhee ($83,136 and $5,195, both paid directly with WIFA funds and both included in the $102,209.50) represent additions to plant unrelated to arsenic media. (Ex. A-5 at 2, 4, ex. TJB-SRJ-1; Tr. at 25-26, 72-73.) Mr. Bourassa acknowledged that he was unable precisely to reconstruct the $102,209.50 from JE-150 through the invoices provided, but asserted that to rule out arsenic media, he only needed to establish that Aquacell invoices were not included in that amount. (*See* Tr. at 26-27, 70-71, 76.)

46. At hearing, Staff provided a copy of Abra's application from the 2009 rate case, including all of the invoices attached thereto. (Ex. S-7.[15]) That application included five different invoices referencing Task #2, Media & Equipment for Arsenic Removal, three issued by McPhee and two issued by Aquacell. (Ex. S-7.) Task #1 was described as Design & Permitting. (*Id.*)

47. The invoices referencing Task #2 reflect the following:

Company	Date	Description	Amount due for Task #2
McPhee	3/2/06	Contract Terms: Task 2 $83,136 is due at task notice to proceed $103,921 is due at fabrication completion $5,212 is due after 30 days successful operations	0.00
McPhee	8/1/06	Task 2 Media & Equipment Est Amt $192,269	$83,136.00
McPhee	4/10/07	Task 2 Media & Equipment Est Amt $192,269 Prior Amt $83,136 ("paid" per	0.00

[15] The application from Docket No. W-01782A-10-0224 was labeled as Exhibit S-7 for purposes of identification, and Staff requested that official notice of the application be taken. Official notice is hereby taken of this application, which is referred to herein as Ex. S-7.

		handwritten notation)	
Aquacell	7/2/07	Progress payment against Task #2 – Media & Equipment for Arsenic Removal Revised invoice 7/26/07 Water Svcs Contract #06-101 issued to McPhee Environmental Supply, LLC	$88,347.21
Aquacell	7/26/07 "duplicate"	Balance payment for Task #2 – Media & Equipment for Arsenic Removal Water Svcs Contract #06-101 issued to McPhee Environmental Supply, LLC	$20,785.79
		Total	$192,269.00

48. Mr. Yarbro testified that the original arsenic media for the treatment plant was included within the package of work provided by the contractors who constructed the arsenic treatment plant. (Tr. at 114-15.) Mr. Yarbro further stated that Abra has replaced the arsenic media one time since the plant was initially installed, with the replacement arsenic media costing approximately $68,000 or $69,000. (*Id.*) In its rate case application in this matter, Abra reported a 2011 addition of $60,560 in UPIS Acct. 320.3, Arsenic Media. (Ex. A-1 at ex. A at Sched. B-2.) Abra also adjusted UPIS Acct. 320.3 in 2011 to retire $79,900 in arsenic media. (*Id.*)

49. McPhee and Aquacell are affiliated entities. (*See* Tr. at 164.) Public records available from the U.S. Securities and Exchange Commission show that Aquacell acquired McPhee through a Stock Purchase Agreement executed in April 2007.[16] Knowledge of this affiliation clarifies why the invoices for the arsenic treatment project involved both McPhee and Aquacell.

50. Abra has demonstrated that its UPIS Acct. 320.1 was shorted by $79,900 through the reclassification adopted in Decision No. 72287, which should instead have been a reclassification from non-UPIS Acct. 151 to UPIS Acct. 320.3. The December 31, 2009, JE-150 addition of $102,209.50 to Acct. 320 included costs that had not previously been recorded because those costs had been paid through WIFA. Thus, JE-150 simply resulted in Abra's actually having all of its

[16] Official notice is taken of Aquacell's Form 8-K filed with the SEC on April 12, 2007, reporting that Aquacell had, on April 10, 2007, entered into a Definitive Stock Purchase Agreement with McPhee to acquire all the issued and outstanding shares of McPhee for consideration of approximately $1,000,000 consisting of cash and Aquacell common stock.

arsenic treatment plant costs included in UPIS Acct. 320, with none of those plant costs double recorded. Abra has since retired $79,900 from UPIS consistent with the replacement of its arsenic media. We adopt Abra's position on this issue, which results in UPIS of $1,523,414.

Cash Working Capital

51. Abra includes in its OCRB/FVRB a $20,594 cash working capital allowance, determined using the formula method. (Abra Fin. Sched. B-2.) Abra did not perform a lead-lag study and asserted that it would be prohibitively expensive to do so. (Ex. A-3 at 9-10.) Mr. Bourassa was unable to recall any recent Class C utility rate case where a cash working capital allowance had been approved based on the formula method. (Tr. at 98.)

52. Staff asserts that it is not appropriate for a Class C utility to receive a cash working capital allowance, in the absence of a lead-lag study justifying the allowance, and recommends that no such allowance be included in rate base. (Ex. S-4 at 10-11.) Staff cited to a 2011 Commission Decision[17] in which such an exclusion was made due to the lack of a lead-lag study. (*Id.* at 11.)

53. As the Commission has recognized previously, a lead-lag study can result in either negative working capital or positive working capital, while the formula method always results in positive working capital. (*See, e.g.,* Decision No. 72429 at 5-7.) Without a lead-lag study, it is not possible to determine whether a utility actually has a need for cash working capital to cover the cash expenditures necessary for day-to-day operations until revenues are received. (*See id.*) Thus, in the absence of justification in the form of a lead-lag study, Staff's recommendation for disallowance of cash working capital in this matter is just and reasonable, and we will adopt it.

Resolution

54. In light of our determinations regarding Abra's appropriate TY UPIS balance, the flow-through changes to accumulated depreciation resulting from that determination, and our denial of cash working capital allowance, we find that Abra's FVRB is equivalent to its OCRB and is $535,072.

[17] Staff cited Decision No. 72429 (June 24, 2011), involving Southland Utilities Company. (Ex. S-4 at 11.) Official notice is taken of this Decision.

Revenue Requirement

55. The parties agree on Abra's adjusted TY revenue of $270,040. (Abra Fin. Sched. A-1; Staff Fin. Sched. BCA-1.) Abra's actual booked TY revenue was $268,656, with $260,898 produced by Abra's metered service and $7,758 reflecting other water revenues. (Ex. A-1 at ex. A at Sched. C-1.) Abra made several adjustments to this figure, including a $4,654 increase to correct for TY billing determinants, a $125 increase for annualization, and a $3,395 decrease for declining usage.[18] (*Id.*) Staff has accepted these adjustments. (Tr. at 150-51.) We find that these adjustments are just and reasonable, and we adopt Abra's adjusted TY revenue of $270,040.

56. Abra proposes a revenue requirement of $287,480, with operating income of $44,558, representing its proposed 8.02 percent rate of return on its proposed FVRB of $555,666. (Abra Fin. Sched. A-1.) Using the FVRB adopted herein, operating income of $44,558 would represent an 8.33 percent rate of return, and the proposed 8.02 percent rate of return would result in operating income of $42,912.

57. Staff proposes a revenue requirement of $273,934, with operating income of $38,776, representing an 8.40 percent rate of return on Staff's recommended FVRB of $461,824. (Staff Fin. Sched. BCA-1.) Staff's recommended revenue requirement represents a $3,894 increase to Abra's adjusted TY revenue, but is only $499 higher than Abra's actual booked TY revenue as corrected for TY billing determinants and annualized to reflect end-of-year customer counts. (*See* Staff Fin. Sched. BCA-1; Ex. A-1 at ex. A at Sched. C-1.) Using the FVRB adopted herein, an operating income of $38,776 would represent a 7.25 percent rate of return, and Staff's proposed 8.40 percent rate of return would result in operating income of $44,946.

58. Staff's proposed revenue requirement would not necessitate any changes in Abra's current rates and charges, and Staff does not recommend any changes in Abra's monthly minimum charges or commodity rates, only in miscellaneous service charges. (*See* Staff Fin. Sched. BCA-25, BCA-26.)

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[18] Abra established that revenues per customer have been declining, something that it attributes to the conservation-oriented inverted tier rate design adopted in the 2009 rate case. (*See* Ex. A-1 at ex. A at 10-11, Sched. H-1; Tr. at 32-34, 101-05.)

Operating Expenses

59. Abra and Staff have agreed on downward adjustments to Abra's TY operating expenses in the areas of outside services, water testing, rents, general liability insurance, rate case expense, taxes other than income, and property taxes, resulting in a cumulative downward adjustment of $9,566. (Abra Fin. Sched. C-1; Staff Fin. Sched. BCA-10.) Abra and Staff disagree on the appropriate TY operating expenses for health and life insurance, bad debt expense, depreciation expense, and income taxes. (Abra Fin. Sched. C-1; Staff Fin. Sched. BCA-10.)

Health and Life Insurance

60. Abra proposes to recover $2,988 in TY expenses to cover the costs of a life insurance policy issued by New York Life Insurance Company ("NY Life") and payable upon the death of Mr. Larson. (Abra Fin. Sched. C-1; Ex. A-10.) The life insurance policy was obtained, with Mr. Larson as the beneficiary as well as the insured, because Mr. Larson has personally guaranteed loans for Abra and desired to provide coverage for those loans in the event of his death. (Tr. at 39-41.) As of the hearing in this matter, Mr. Larson had changed the beneficiary for the life insurance policy from himself to Abra, in response to Staff concerns. (Ex. A-10.) Additionally, after the hearing, Abra filed a Corporate Resolution, executed on October 6, 2014, resolving that any and all proceeds received from the life insurance policy be used by Abra to pay off any and all of Abra's outstanding loans. (Abra LFE.)

61. Staff opposes allowing the TY expense because Abra is a closely held company, and Staff believes that it is not possible to restrict the use of the proceeds from the policy in a meaningful way. (Staff Fin. Sched. BCA-10.) Mr. Aladi testified that Staff would not recommend that the expense be allowed unless the policy itself restricted the use of the proceeds to payment of Abra's outstanding loans and coverage for Abra's operating expenses. (Tr. at 161-62, 68.) No evidence was produced indicating that Abra has the ability to require NY Life to insert into Abra's policy a restriction on the use of the proceeds of the policy.

62. Although Abra has attempted to alleviate Staff's objections to the life insurance policy expense, Abra's efforts do not remedy the fact that Abra's ratepayers would not receive any benefit from the life insurance policy. Rather, Abra's owner would reap the benefit, both through reduction

or elimination of company debt obligations (increasing net income) and through the resulting increase in Abra's weighted average cost of capital.[19] Additionally, Abra is already receiving recovery of its loan principal in rates through depreciation of the assets purchased with the loan proceeds. Because the life insurance policy premium is not appropriately classified as a utility expense, we find that Staff's adjustment to disallow the $2,988 in TY expense is just and reasonable, and we adopt it.

Bad Debt Expense

63. Abra reported bad debt expense of $9,367 for the TY. (Abra Fin. Sched. C-1.) Abra reports that its bad debt expense is typically approximately 7 percent of its receivables, but that Abra wrote off a number of old receivables during the TY to clean-up its accounts receivable ledger. (Ex. A-8.) The amounts written off during the TY totaled $7,562.10 and included amounts originating from 2003 through 2010.[20] (Ex. A-9.) Abra further reports that it wrote off $3,255.27 in bad debt expense in 2013, with those bad debt expenses originating in 2011. (Ex. A-9.) To determine Abra's proposed TY bad debt expense, Mr. Bourassa averaged the $7,663.52 in bad debt expense amounts originating for the years 2008 through 2011, obtaining a normalized annual amount of $1,916. (Ex. A-9.; Tr. at 37-38.) Mr. Bourassa testified that it would not be appropriate to factor in the bad debt expense for earlier years because more recent data should provide a more accurate projection of events going forward. (Tr. at 38-39, 93-95.) Abra requests that it be permitted to recover $1,916 in TY bad debt expense. (Abra Fin. Sched. C-1.)

64. Staff recommends that TY bad debt expense be determined by averaging the bad debt expense amounts for each of the origination years (2003 through 2010) reflected in the amount written off during the TY, along with the amount originating in 2011. (*See* Staff Fin. Sched. BCA-18; Tr. at 166.) Staff thus divided a total of $9,607.76 by 9 years to obtain a recommended TY bad debt expense of $1,068.[21] (Ex. A-7.) Staff's originating amount for 2011 was $1,209.61 lower than

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[19] Equity is more costly than long-term debt, as evidenced by the cost of capital analyses below. Additionally, eliminating debt obligations would reduce interest expense and result in greater net income. (*See, e.g.*, Abra Fin. Sched. C-1.)

[20] The $7,562.10 almost certainly does not reflect all of the bad debt originating during those years, as some of the bad debt would have been written off earlier. (*See* Tr. at 35-36, 92-93.)

[21] The bad debt expenses originating in the years 2003 through 2007 were $0.25; $217.33; $810.02; $1,369.37; and $756.88. (Ex. A-9.) For the years 2008 through 2010, they were $1,602.45; $1,238.56; and $1,567.24. (*Id.*)

that Abra included in its exhibit and calculation.[22] (*See* Ex. A-7; Ex. A-9; Staff Fin. Sched. BCA-18.)

65. It is appropriate to normalize Abra's TY bad debt expense so that the expense level can be set to approximate as closely as possible what is expected to happen during the period in which the rates adopted herein are effective. In light of this, because Abra's normalization method uses more recent data and also does not use data that appears to be significantly understated, we adopt Abra's bad debt expense of $1,916.

Other Expenses

66. Abra proposes TY depreciation expense of $49,111, and Staff proposes TY depreciation expense of $46,202. (Abra Fin. Sched. C-1; Staff Fin. Sched. C-1.) Based upon our determinations as to TY UPIS, we find that the appropriate amount of TY depreciation expense is $49,111.

67. For the TY, Abra proposes adjusted income tax expenses of $4,134, while Staff proposes adjusted income tax expenses of $6,007. (Abra Fin. Sched. C-1; Staff Fin. Sched. C-1.) The appropriate amount of TY income tax expense flows from our determinations made regarding Abra's TY revenues and other TY operating expenses. Thus, we find that Abra's TY income tax expense is $4,860.

Resolution

68. We find that Abra's total adjusted operating expenses for the TY were $236,918. This results in a TY operating income of $33,122, representing a 6.19 percent return on the $535,072 OCRB/FVRB adopted herein.

<u>Cost of Capital</u>

69. The Commission determines a utility's overall cost of capital by applying a cost rate to each component of the utility's capital structure to determine the weighted cost of that component and then adding the different components together to determine the utility's weighted average cost of capital. (*See* Ex. S-2 at 5-7.) In this case, the parties now agree upon Abra's capital structure and its

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[22] Abra and Staff reported different bad debt expenses originating for 2011, with Abra reporting $3,255.27 and Staff reporting $2,045.66. (*See* Ex. A-9; Staff Fin. Sched. BCA-18.) Staff's lower number for 2011 appears to originate from Ex. A-8, although Staff includes $5.15 originating in 2010, and Abra's number appears to originate from Ex. A-9. The discrepancy was not specifically addressed, although Mr. Bourassa testified that the numbers in Exhibit A-9 reflected the amounts that were actually written off. (*See* Tr. at 92-94.)

cost of debt, but disagree regarding Abra's cost of equity ("COE"). COE is market based and is the rate of return that investors expect to earn on their investments in a business entity, given the business entity's risk; COE can also be described as the investors' expected rate of return on other investments of similar risk. (Ex. S-2 at 8.) Because Abra is not a publicly traded utility, Abra's COE can be estimated through comparison to the COE's of publicly traded utilities. (*See* Ex. S-2 at 8.)

70. The parties' final positions on cost of capital are as follows:[23]

Abra				**Staff**			
Capital Structure		Cost Rate	Weighted Cost	Capital Structure		Cost Rate	Weighted Cost
Long-Term Debt	51.4%	5.20%	2.67%	Long-Term Debt	51.4%	5.2%	2.7%
Stockholder Equity	48.6%	11.00%	5.35%	Stockholder Equity	48.6%	9.6%	4.7%
Weighted Average Cost of Capital			**8.02%**	Weighted Average Cost of Capital			**7.4%**
Recommended Rate of Return			**8.02%**	Recommended Rate of Return			**8.40%**

71. Abra provided a cost of capital analysis performed by Mr. Bourassa using a proxy group of six publicly traded water utilities[24] and a model called the Risk Premium Build-Up Method ("RPBUM"). (*See* Abra Fin. Sched. D-4.6.) Mr. Bourassa's RPBUM analysis produced average estimated COEs for the proxy group utilities ranging from 7.98 percent to 14.08 percent, with an overall average estimated COE of 11.17 percent. (Abra Fin. Sched. D-4.6.) Abra proposes a COE of 11.0 percent, which is slightly lower than the average and median estimates calculated for the proxy group utilities. (Ex. A-3 at 14.)

72. Staff provided a cost of capital analysis performed by Ms. Brown using a proxy group containing all of the water utilities used by Mr. Bourassa plus York Water. (Ex. S-3 at CSB-4.) Rather than using a RPBUM analysis, Staff used both a Constant Growth Discounted Cash Flow ("DCF") model and a Multi-Stage DCF model. (Ex. S-3 at Sched. CSB-1b.) Using the Constant Growth DCF model, Ms. Brown determined an average COE estimate of 8.6 percent. (Ex. S-3 at Sched. CSB-3.) Using the Multi-Stage DCF model, Ms. Brown determined COE estimates for the proxy group utilities ranging from 9.0 percent to 10.1 percent, with an average of 9.3 percent. (Ex. S-

[23] *See* Abra Fin. Sched. D-1; Staff Fin. Sched. BCA-1; Ex. S-3 at CSB-1a.

[24] The proxy group included American States Water, Aqua America, California Water Company, Connecticut Water, Middlesex Water, and SJW Corp. (Ex. A-4 at Rej. Sched. D-4.1.)

3 at Sched. CSB-9.) Staff's overall DCF estimate of the COE for the proxy group utilities was 9.0 percent, reached by averaging 8.6 and 9.3. (*See* Ex. S-3 at exec. summ., Sched. CSB-3.) Staff also added an upward economic assessment adjustment of 60 basis points, "in consideration of the relatively uncertain status of the economy and the market that currently exists." (Ex. S-2 at 27; Ex. S-3 at Sched. CSB-1b.) As a result, Staff estimates Abra's overall COE to be 9.6 percent. (Ex. S-3 at 5.)

73. Staff criticized Mr. Bourassa's RPBUM analysis, asserting that the RPBUM is not a component of curricula sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") and is not in widespread use among public utilities. (Ex. S-3 at 4.) Additionally, Staff criticized Mr. Bourassa's analysis because only the RPBUM was used, creating the risk that the COE may be over or under stated. (Ex. S-3 at 2-3.) Staff also suggested that the RPBUM suffers from the same flaws Staff attributes to the Capital Asset Pricing Model ("CAPM"), which Staff currently disfavors.[25] (*See* Ex. S-3 at 3-4.)

74. Mr. Bourassa described the RPBUM as a market-based risk premium method similar to the CAPM and asserted that the RPBUM is "effective and widely used." (Ex. A-4 at 12.) Mr. Bourassa also asserted that the RPBUM's producing higher results in some cases does not mean that it is unreliable, but instead may reflect that traditional CAPM and beta do not fully account for all variables that affect returns. (Ex. A-4 at 12.) In addition, Mr. Bourassa questioned the reliability of the DCF model under current market conditions, with longer-term bond yields being kept low and causing investors to drive up the stock prices of companies that pay dividends, such as utilities. (Ex. A-4 at 12.) Mr. Bourassa asserted that because the expectations of returns from these increased stock prices are not reflected in the DCF model, the DCF model results in understated COE estimates, a problem that does not occur with the RPBUM. (Ex. A-4 at 13-14.) Mr. Bourassa asserted that Abra's COE should reflect risks specific to Abra, including its lack of access to capital markets, its inability to achieve its authorized returns, its high debt ratio for its small size, and its need to make

[25] Ms. Brown also performed a CAPM analysis, but did not present the result of that analysis because Staff considered it not to reflect current market conditions. (Ex. S-3 at 4.) Ms. Brown testified that Staff's recommendation is for the Commission to deemphasize CAPM results because of continuing divergence between CAPM-indicated COE results and those obtained using the DCF models. (Ex. S-2 at 3.)

significant capital improvements to continue providing safe and reliable service. (Ex. A-3 at 17.) Mr. Bourassa recommended that Staff use an Economic Assessment Adjustment of 100 to 200 basis points rather than 60 basis points to bring Staff's COE estimate on par with Abra's COE estimate. (Ex. A-3 at 16-17.)

75. Staff rejected Mr. Bourassa's recommendation that an upward economic assessment adjustment of 100 to 200 basis points be adopted by Staff. (Ex. S-3 at 5.) Staff acknowledged that Abra had been granted an 80-basis point financial risk premium adjustment in its 2009 rate case,[26] but asserted that an additional adjustment, such as a financial risk adjustment, was not appropriate in this matter. (Tr. at 140-44, 149.)

76. At hearing, Staff explained that although Staff recommends adoption of a COE estimate of 9.6 percent for Abra, which results in a WACC of 7.4 percent, Staff's recommended rate of return was instead based upon Staff's desire not to reduce Abra's rates.[27] (Tr. at 153-54.) Ms. Brown stated that Staff believes reducing Abra's rates would send the wrong message because the cost of providing water service is not going down. (Tr. at 154.) Ms. Brown further stated that because Staff accepted both Abra's declining usage adjustment and its reconciliation amount, application of Staff's calculated WACC to Staff's recommended OCRB/FVRB would have resulted in a reduced revenue requirement and thus in the need to reduce Abra's rates. (*See* Tr. at 150-54.)

77. We agree with the parties that it is appropriate to determine Abra's WACC using its actual capital structure and a 5.2 percent cost of debt. Because neither party has provided a COE analysis that does not rely upon a single model, we do not adopt either party's estimated COE. Rather, after considering the analyses and the resulting ranges of COE estimates, we do not find any

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[26] In Decision No. 72287, the Commission stated the following:

> Staff concluded that Abra's capital structure is more leveraged than the average sample water companies and therefore stockholders bear more financial risk. Therefore, Staff recommends an 80 basis point adjustment to reflect the additional financial risk associated with Abra's capital structure for a recommended cost of equity of 10.3 percent.
>
> . . . .
>
> We adopt the Company's proposed and Staff's recommended capital structure comprised of 55.3 percent debt and 44.7 percent equity. We also adopt Staff's recommendation of a 10.3 percent cost of equity and a 5.25 percent cost of debt, resulting in an overall ROR of 7.5 percent.

(Decision No. 72287 at 12 (citations omitted).)

[27] Staff's Final Schedules reflect a higher recommended ROR than what was stated in Staff's prior written testimony or at hearing. (*See* Staff Fin. Sched. BCA-1; Tr. at 151-55.)

reason to modify the 10.3 percent COE most recently approved for Abra in Decision No. 72287. We reach this conclusion after considering all of the evidence in this matter, which includes criticism of establishing a COE estimate using any one method standing alone as well as criticism of each of the methods used by the parties in terms of their reliability in reflecting all of the vagaries of the current economic market. As a result of this determination, we find that Abra's WACC, and its fair value rate of return is 7.68 percent.

Resolution

78. As a result of our determinations made herein, we adopt the following, which we find to be just and reasonable and in the public interest:

OCRB/FVRB	$535,072
Fair Value Rate of Return	7.68%
Required Operating Income	$41,094
Adjusted TY Operating Income	$33,122
Operating Income Deficiency	$7,972
Gross Revenue Conversion Factor	1.2732
Revenue Increase Required	$10,151
Adjusted TY Revenue	$270,040
Revenue Requirement	$280,190
Percentage Revenue Increase Required	3.76%

Rate Design

79. The water rates and charges for Abra at present, as proposed by Abra, and as recommended by Staff are as follows:

MONTHLY USAGE CHARGE:	**Present Rates**	**Company Proposed**	**Staff Recommended**
5/8" x 3/4" Meter	$ 14.00	$ 16.38	$ 14.00
3/4" Meter	21.00	24.57	21.00
1" Meter	35.00	40.95	35.00
1½" Meter	70.00	81.90	70.00
2" Meter	112.00	131.04	112.00
3" Meter	224.00	262.08	224.00
4" Meter	350.00	409.50	350.00
6" Meter	700.00	819.00	700.00
Standpipe			

Commodity Rates (Per 1,000 Gallons)

5/8" x 3/4" Meter			
1 to 3,000 Gallons	$ 2.25	$ 2.27	$ 2.25
3,001 to 10,000 Gallons	3.80	3.77	3.80
Over 10,000 Gallons	6.00	5.87	6.00
3/4" Meter			
1 to 3,000 Gallons	$ 2.25		$ 2.25[28]
3,001 to 7,000 Gallons	3.80		3.80
Over 7,000 Gallons	6.00		6.00
3/4" Meter			
1 to 3,000 Gallons		$ 2.27	
3,001 to 10,000 Gallons		3.77	
Over 10,000 Gallons		5.87	
1" Meter			
1 to 15,000 Gallons	$ 3.80		$ 3.80
Over 15,000 Gallons	6.00		6.00
1" Meter			
1 to 16,000 Gallons		$ 3.77	
Over 16,000 Gallons		5.87	
1 ½" Meter			
1 to 30,000 Gallons	$ 3.80	$ 3.77	$ 3.80
Over 30,000 Gallons	6.00	5.87	6.00
2" Meter			
1 to 45,000 Gallons	$ 3.80	$ 3.77	$ 3.80
Over 45,000 Gallons	6.00	5.87	6.00
3" Meter			
1 to 90,000 Gallons	$ 3.80	$ 3.77	$ 3.80
Over 90,000 Gallons	6.00	5.87	6.00
4" Meter			
1 to 145,000 Gallons	$ 3.80	$ 3.77	$ 3.80
Over 145,000 Gallons	6.00	5.87	6.00

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[28] Staff's rate design schedules showed a different breakover point for 3/4" meter customers than currently exists, both in Staff's recounting of Abra's current rates and in Staff's proposed rates. (*See, e.g.*, Staff Fin. Sched. BCA-25; Dec. No. 72287 at 16.) Because Staff has identified its position consistently as making no change to rates, we consider Staff's inclusion of a different commodity rate breakover point for ¾" meters to have been inadvertent, and we correct it here. We also note that such a change would have no effect unless and until Abra acquired at least one customer to be served with a 3/4" meter.

<u>6" Meter</u>			
1 to 300,000 Gallons	$ 3.80	$ 3.77	$ 3.80
Over 300,000 Gallons	6.00	5.87	6.00
Standpipe/Coin-Op Water			
Per 1,000 Gallons	$ 6.00	$ 6.25	$ 6.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

PRESENT, COMPANY PROPOSED, & STAFF RECOMMENDED

	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	$ 380.00	$ 95.00	$ 475.00
3/4" Meter	335.00	165.00	500.00
1" Meter	350.00	200.00	550.00
1 ½" Meter	470.00	430.00	900.00
2" Meter	590.00	735.00	1,325.00
3" Meter	660.00	1,045.00	1,705.00
4" Meter	910.00	1,630.00	2,540.00
6" Meter	1,410.00	3,235.00	4,645.00

SERVICE CHARGES:	Present	Company Proposed	Staff Recommended
Establishment	$ 30.00	$ 30.00	$ 30.00
Establishment (After Hours)	40.00	40.00	N/A
Reconnection (Delinquent)	50.00	50.00	50.00
Reconnection (After Hours)	50.00	50.00	N/A
Meter Test (If Correct)	50.00	50.00	50.00
NSF Check	25.00	25.00	10.00
Meter Re-Read (If Correct)	20.00	20.00	10.00
Deposit	*	*	*
Deposit Interest (Per Month)	6.00%	6.00%	6.00%
Deferred Payment (Per Month)	**	**	**
Late Charge (Per Month)	**	**	**
Reestablishment (Within 12 Months)	***	***	***
After Hours Service Charge (at customer request)	N/A	N/A	$30.00
Monthly Service Charge for Fire Sprinkler (All Sizes)	****	****	****

* Per Commission Rule A.A.C. R14-2-403(B)(7)
** 1.50% of unpaid monthly balance
*** Months off system times the monthly minimum per A.A.C. R14-2-403(D)

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers is only applicable to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

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

80. Staff recommends that no changes be made to Abra's monthly minimum charges and commodity rates. (*See, e.g.,* Ex. S-4 at 18.)

81. Abra's proposed rates were designed to increase the amount of revenue collected through monthly minimum charges, for the purpose of making revenues more stable. (Ex. A-1 at ex. A at 15.) Mr. Bourassa calculated the breakdown of overall revenues collected by each component of rates, for Abra's present and proposed rates, as follows:[29]

	Monthly Minimums	Commodity 1st Tier	Commodity 2nd Tier	Commodity 3rd Tier	Total
Current Rates	39.22%	19.90%	29.65%	11.23%	100.00%
Proposed Rates	43.10%	18.97%	27.61%	10.32%	100.00%

82. Abra's proposed rates and Staff's recommended rates would have the following impacts on monthly bills for customers served by 5/8" x 3/4" meters with average and median water usage:[30]

Abra				
Monthly Usage	Current Bill	Proposed Bill	Dollar Increase	Percent Increase
Average (5,717 gal.)	$31.07	$33.43	$2.36	7.60%
Median (5,500 gal.)	$30.25	$32.62	$2.37	7.83%
Staff				
Monthly Usage	Current Bill	Proposed Bill	Dollar Increase	Percent Increase
Average (5,717 gal.)	$31.07	$31.07	N/A	N/A
Median (5,500 gal.)	$30.25	$30.25	N/A	N/A

29 Abra Fin. Sched. I.
30 *See* Abra Fin. Sched. H-2, H-3.

83. Abra proposes, and Staff recommends, that Abra be authorized to continue charging its existing service line and meter installation charges. We find that this is just and reasonable and will approve the continuation of those charges.

84. Staff recommends several changes in Abra's miscellaneous service charges, including reductions to NSF Check and Meter Re-Read charges and replacement of after-hours service charges for two specific services with a general after-hours service charge to be applied to any service provided after hours at a customer's request. (Staff Fin. Sched. BCA-25; Tr. at 176-77.) Although the reduced NSF Check and Meter Re-Read charges were originally recommended by Staff because they had been proposed by Abra, Staff did not change its position about reducing those charges when Abra subsequently asserted that its proposal to change those charges had been made in error and requested that its current NSF Check and Meter Re-Read charges be retained instead. (*See* Tr. at 173, 177; Ex. S-4 at 19-20; Ex. S-5 at 5.)

85. The record does not establish that Abra's current NSF check and Meter Re-Read charges are unusually or unreasonably high or need to be reduced for any other reason. Thus, we will leave the current charges in place.

86. Consistent with our recent rate case decisions for other utilities,[31] however, we will eliminate the higher after-hours charges for separate specific services and will replace them with a general after-hours service charge to be added to the regular service charge assessed whenever a service is provided after hours at the customer's request.

87. We find that Abra should be authorized to implement the following rates and charges, which are just and reasonable and in the public interest:

MONTHLY USAGE CHARGE:	**Rates**
5/8" x 3/4" Meter	$14.53
3/4" Meter	$21.80
1" Meter	$36.33
1½" Meter	$72.65
2" Meter	$116.24
3" Meter	$232.48
4" Meter	$363.25

[31] *See, e.g.,* Decision No. 74755 (September 15, 2014). Official notice is taken of this Decision.

6" Meter	$726.50
Standpipe	N/A

Commodity Rates (Per 1,000 Gallons)

5/8" x 3/4" Meter	
1 to 3,000 Gallons	$ 2.33
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	6.23
3/4" Meter	
1 to 3,000 Gallons	$ 2.33
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	6.23
1" Meter	
1 to 16,000 Gallons	$ 3.94
Over 16,000 Gallons	6.23
1 ½" Meter	
1 to 30,000 Gallons	$ 3.94
Over 30,000 Gallons	6.23
2" Meter	
1 to 45,000 Gallons	$ 3.94
Over 45,000 Gallons	6.23
3" Meter	
1 to 90,000 Gallons	$ 3.94
Over 90,000 Gallons	6.23
4" Meter	
1 to 145,000 Gallons	$ 3.94
Over 145,000 Gallons	6.23
6" Meter	
1 to 300,000 Gallons	$ 3.94
Over 300,000 Gallons	6.23

Standpipe/Coin-Op Water

Per 1,000 Gallons	$ 6.23

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SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	$ 380.00	$ 95.00	$ 475.00
3/4" Meter	335.00	165.00	500.00
1" Meter	350.00	200.00	550.00
1 ½" Meter	470.00	430.00	900.00
2" Meter	590.00	735.00	1,325.00
3" Meter	660.00	1,045.00	1,705.00
4" Meter	910.00	1,630.00	2,540.00
6" Meter	1,410.00	3,235.00	4,645.00

SERVICE CHARGES:

Establishment	$ 30.00
Reconnection (Delinquent)	50.00
Meter Test (If Correct)	50.00
NSF Check	25.00
Meter Re-Read (If Correct)	20.00
Deposit	*
Deposit Interest (Per Month)	6.00%
Deferred Payment (Per Month)	**
Late Charge (Per Month)	**
Reestablishment (Within 12 Months)	***
After Hours Service Charge (at customer request)	$30.00
Monthly Service Charge for Fire Sprinkler (All Sizes)	****

* Per Commission Rule A.A.C. R14-2-403(B)(7)
** 1.50% of unpaid monthly balance
*** Months off system times the monthly minimum per A.A.C. R14-2-403(D)
**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers is only applicable to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

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

88. The rates and charges adopted herein will have the following estimated bill impacts for customers served by 5/8" x 3/4" meters with average and median usage:

Monthly Usage	Current Bill	New Bill	Dollar Increase	Percent Increase
Average (5,717 gal.)	$31.07	$32.22	$1.15	3.70%
Median (5,500 gal.)	$30.25	$31.37	$1.12	3.70%

89. In Decision No. 72287, Abra was required to use Staff's typical and customary water depreciation rates by individual NARUC category on a going-forward basis. Staff recommends that this requirement be retained. (Ex. S-1 at exec. summ.) This recommendation is just and reasonable, and we will adopt it.

<u>Other Issues</u>

90. In Decision No. 72287, Abra received authorization to obtain a three-year amortizing loan in an amount not to exceed $75,000, with an interest rate not to exceed 6 percent per annum, for the purpose of financing new arsenic media. In that Decision, Abra was ordered to file with the Commission's Docket Control, as a compliance item, within 60 days after obtaining the financing, copies of all executed documents setting forth the terms of the financing. Abra did not make the compliance filing for the long-term debt authorized in Decision No. 72287 until this matter was pending, in May 2014. Abra did not realize that it was out of compliance with this requirement until it was contacted by Staff's Compliance Section. (Tr. at 45.) Abra's May 2014 filing reveals that Abra obtained a $50,000 line of credit, with a repayment period of 10 years, from JP Morgan Chase Bank on October 25, 2010, rather than obtaining a three-year amortizing loan as authorized by Decision No. 72287. (Tr. at 47.) As of the hearing in this matter, the balance on the line of credit was approximately $1,000. (Tr. at 47.) Mr. Bourassa testified that the funds were used for arsenic media and that Abra will need to borrow against the line of credit again to purchase new arsenic media. (Tr. at 47.) Abra asserts that it obtained the $50,000 line of credit because it was unable to obtain a $75,000 loan and further was unable to obtain a loan with a three-year term. (Tr. at 98, 101.) Although the line of credit is not a term note, it is set to expire after 10 years unless renewed. (Tr. at 99.) The interest rate on the line of credit is variable, set at the prime rate[32] plus 1.45.[33] (Tr. at 100.)

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[32] Official notice is taken that the prime rate since December 16, 2008, has been 3.25 percent. (*See, e.g.,* http://www.fedprimerate.com/wall_street_journal_prime_rate_history.htm.)

[33] The promissory note admitted as Exhibit A-12 is very difficult to read, and Mr. Bourassa stated that the adder could potentially be 1.15 rather than 1.45. (Tr. at 100-01.)

91. Mr. Bourassa testified that Abra has treated the line of credit as though it were a three-year term loan. (Tr. at 99-101.) Rather than attempting to secure a new loan from a lending institution to fund additional arsenic media, Abra intends to seek Commission authorization to use the line of credit again. (Tr. at 99.) Mr. Bourassa opined that the line of credit was consistent with the financing authority granted by the Commission in Decision No. 72287 because the $50,000 line of credit is less than the $75,000 authorized by the Commission, and Abra has paid on the line of credit as though it were a three-year term loan. (Tr. at 48, 99-101.)

92. A 10-year line of credit with a variable interest rate is not equivalent to a three-year amortizing loan with an interest rate not to exceed 6 percent per annum. Abra appears to have made an effort to comply with the spirit of the financing authority granted to it in Decision No. 72287, although it has not complied with the precise terms of that financing authority. Before incurring any additional long-term debt, Abra is directed to ensure, as required by A.R.S. §§ 40-301 and 40-302, that it files with the Commission an application for additional financing authority and waits to receive Commission approval of that financing authority. This requirement applies whether Abra is obtaining the additional funds through the existing JP Morgan Chase line of credit or any other financial institution or instrument. Abra's failure to do this a second time will be considered willful and will subject it to scrutiny that could lead to financial penalties or other adverse action.

Conclusion

93. It is just and reasonable and in the public interest for the Commission to take the actions and impose the requirements described in Findings of Fact Nos. 33, 34, 50, 53, 62, 65-68, 77-78, 83, 85-87, 89, and 92.

CONCLUSIONS OF LAW

1. Abra is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Abra and the subject matter of the application.

3. Notice of the proceeding was provided in accordance with the law.

4. Abra's FVRB is $535,072.

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5. The rates and charges and terms and conditions of service approved herein are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Abra Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, before January 1, 2015, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGE:	**Rates**
5/8" x 3/4" Meter	$14.53
3/4" Meter	$21.80
1" Meter	$36.33
1½" Meter	$72.65
2" Meter	$116.24
3" Meter	$232.48
4" Meter	$363.25
6" Meter	$726.50
Standpipe	N/A

Commodity Rates (Per 1,000 Gallons)

5/8" x 3/4" Meter	
1 to 3,000 Gallons	$ 2.33
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	6.23
3/4" Meter	
1 to 3,000 Gallons	$ 2.33
3,001 to 10,000 Gallons	3.94
Over 10,000 Gallons	6.23
1" Meter	
1 to 16,000 Gallons	$ 3.94
Over 16,000 Gallons	6.23
1 ½" Meter	
1 to 30,000 Gallons	$ 3.94
Over 30,000 Gallons	6.23
2" Meter	
1 to 45,000 Gallons	$ 3.94
Over 45,000 Gallons	6.23

3" Meter	
1 to 90,000 Gallons	$ 3.94
Over 90,000 Gallons	6.23
4" Meter	
1 to 145,000 Gallons	$ 3.94
Over 145,000 Gallons	6.23
6" Meter	
1 to 300,000 Gallons	$ 3.94
Over 300,000 Gallons	6.23
Standpipe/Coin-Op Water	
Per 1,000 Gallons	$ 6.23

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	$ 380.00	$ 95.00	$ 475.00
3/4" Meter	335.00	165.00	500.00
1" Meter	350.00	200.00	550.00
1 ½" Meter	470.00	430.00	900.00
2" Meter	590.00	735.00	1,325.00
3" Meter	660.00	1,045.00	1,705.00
4" Meter	910.00	1,630.00	2,540.00
6" Meter	1,410.00	3,235.00	4,645.00

SERVICE CHARGES:

Establishment	$ 30.00
Reconnection (Delinquent)	50.00
Meter Test (If Correct)	50.00
NSF Check	25.00
Meter Re-Read (If Correct)	20.00
Deposit	*
Deposit Interest (Per Month)	6.00%
Deferred Payment (Per Month)	**
Late Charge (Per Month)	**
Reestablishment (Within 12 Months)	***
After Hours Service Charge (at customer request)	$30.00
Monthly Service Charge for Fire Sprinkler (All Sizes)	****

* Per Commission Rule A.A.C. R14-2-403(B)(7)
** 1.50% of unpaid monthly balance
*** Months off system times the monthly minimum per A.A.C. R14-2-403(D)
**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers

is only applicable to service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility shall collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule A.A.C. R14-2-409(D)(5).

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

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after January 1, 2015.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall notify its customers of the rates and charges authorized herein and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall, within 90 days after the effective date of this Decision, as a compliance item in this docket, file one of the following with the Commission's Docket Control: (1) a report containing a detailed analysis and plan to reduce its system water loss to 10 percent or less; or (2) if Abra Water Company, Inc. determines that it is not cost effective to reduce its system water loss to 10 percent or less, a report containing a detailed cost-benefit analysis to support that such water loss reduction is not cost effective.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall not allow its system water loss to exceed 15 percent.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall, within 90 days after the effective date of this Decision, as a compliance item in this docket, file with the Commission's Docket Control, for the Commission's review and consideration, at least five Best Management Practices in the form of tariffs substantially conforming to the templates created by Staff and available on the Commission's website.

IT IS FURTHER ORDERED that Abra Water Company, Inc. may, in its next general rate application, request cost recovery for the actual costs associated with the Best Management Practices tariffs implemented.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall continue using, on a going-forward basis, Staff's typical and customary water depreciation rates by individual National

Association of Regulatory Utility Commissioners category, as delineated in Table F-1 of the Engineering Report issued by the Commission's Utilities Division herein.

IT IS FURTHER ORDERED that Abra Water Company, Inc. shall not incur any additional long-term debt without first applying to the Commission for approval of financing authority and waiting until the Commission has granted such authority, as required by A.R.S. §§ 40-301 and 40-302.

IT IS FURTHER ORDERED that a failure by Abra Water Company, Inc. to comply with the requirements of the immediately preceding ordering paragraph shall be considered willful and shall subject Abra Water Company, Inc. to scrutiny that could lead to financial penalties or other adverse action.

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IT IS FURTHER ORDERED that Abra Water Company, Inc. shall adjust its regulatory accounting records to reflect the plant balances allowed herein and the Original Cost Rate Base/Fair Value Rate Base adopted herein.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN	COMMISSIONER

COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ______________day of __________________ 2014.

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JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ________________________

DISSENT ________________________
SH:tv

SERVICE LIST FOR: ABRA WATER COMPANY, INC.

DOCKET NO.: W-01782A-14-0084

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