



0000161458

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

MAR 16 2015

DOCKETED BY 

IN THE MATTER OF THE APPLICATION)
OF LIBERTY UTILITIES (LITCHFIELD)
PARK WATER AND SEWER) CORP.)
TARIFF FILING FOR APPROVAL OF AN)
AGREEMENT WITH THE CENTRAL)
ARIZONA WATER CONSERVATION)
DISTRICT AND EFFLUENT TARIFF.)

DOCKET NOS. SW-01428A-14-0369 and
W-01427A-14-0369

DECISION NO. 74993

ORDER

Open Meeting
March 2 and 3, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. On October 14, 2014, Liberty Utilities (Litchfield Park Water & Sewer Corp.) ("Liberty" or the "Company") filed an application seeking approval by the Arizona Corporation Commission ("Commission") of specific provisions of an Agreement for Development of Effluent Recharge Facility, Effluent Disposal and Purchase and Sale of Effluent that Liberty entered into with the Central Arizona Water Conservation District ("CAWCD") on February 6, 2014. Liberty is a public service corporation that provides water and wastewater services in the Phoenix Active Management Area. Liberty holds a Certificate of Convenience and Necessity ("CC&N") issued by the Commission. The Commission approved Liberty's current rates and charges for wastewater service, including the sale of effluent, in Decision No. 74437 dated April 18, 2014

1 2. According to Liberty, CAWCD is a multi-county water conservation district organized
2 and existing under the laws of the state of Arizona. Pursuant to A.R.S. § 48-3772, CAWCD is
3 authorized to develop, construct, operate, maintain, replace and acquire permits for water storage for
4 replenishment purposes. CAWCD is also authorized to acquire, transport, hold, exchange, own, or
5 lease water and water rights for replenishment purposes.

6 3. The Central Arizona Groundwater Replenishment District ("CAGR") is a division
7 of the CAWCD formed to provide a mechanism for landowners and water providers to demonstrate
8 an assured water supply. CAGR is responsible for replenishing groundwater pumping of
9 subdivisions and water providers that have enrolled as members of CAGR. CAGR's customer
10 base consists of member lands (subdivisions) and member service areas (water providers) that have
11 contracted with CAWCD for replenishment services.

12 4. CAWCD has enrolled member lands and member service areas in the west Salt River
13 Valley groundwater basin of the Phoenix Active Management Area. To the extent reasonably feasible,
14 CAWCD desires to satisfy its replenishment obligation associated with such member lands and
15 member service areas using sources in close proximity to such members' groundwater pumping sites.

16 5. Liberty's service area includes member lands and many of Liberty's customers pay a
17 CAGR assessment in property taxes for replenishment of groundwater.

18 The Effluent Recharge Project

19 6. Liberty owns and operates the Palm Valley Wastewater Reclamation Facility
20 ("PVWRF") at 14222 W. McDowell Road in Goodyear, Arizona. PVWRF currently produces
21 approximately 3.6 million gallons per day ("MGD") of A+ quality effluent. Liberty is currently
22 permitted to operate at 5.1 MGD with a maximum treatment capacity of 8.2 MGD in various phases
23 in the future. At 3.6 MGD, PVWRF will produce approximately 4,025 acre-feet ("AF") per year. In
24 2013, PVWRF generated 2,900 acre-feet of effluent in excess of reuse demands and Liberty estimates
25 that total effluent production from PVWRF in excess of reuse demands may increase to
26 approximately 3,500 AF per year by 2017, with increased amounts thereafter.

27 7. To support water supply availability within Liberty's CC&N and benefit Liberty's
28 utility customers and the general public, Liberty proposes to recharge into the aquifer any effluent

1 discharged from PVWRF within its CC&N in excess of reuse demands. Specifically, Liberty and
2 CAWCD propose to construct an underground effluent storage facility to be located within Liberty's
3 CC&N capable of recharging at least 5,000 AF of effluent annually ("Effluent Recharge Project").

4 8. Liberty and CAWCD are jointly developing the Effluent Recharge Project to dispose of
5 effluent from PVWRF in conjunction with a 100-year agreement for CAWCD to receive and recharge
6 such effluent to offset replenishment obligations for this region.

7 9. On June 22, 2010, CAWCD and Liberty executed an agreement to cost-share a
8 Hydrologic Feasibility Study ("Hydrological Study") to determine feasibility of constructing a recharge
9 facility within Liberty's CC&N. Liberty indicates that the mutual goal of the parties was to initiate a
10 long-term partnership between Liberty and CAWCD for the development of a recharge facility to
11 store excess effluent produced at PVWRF or other wastewater reclamation facilities, and to enter a
12 long-term agreement for CAWCD to acquire and receive such excess effluent from Liberty.

13 10. According to Liberty, the Hydrologic Study proceeded in two phases. Phase 1
14 involved retaining a hydrological consultant to locate and determine suitable sites for the proposed
15 Effluent Recharge Project. Phase 2 involved retaining a hydrological consultant to provide conceptual
16 designs, cost estimates and a feasibility analysis for construction of the proposed Effluent Recharge
17 Project. The Phase 1 investigation was completed on February 17, 2011, and identified several
18 potential sites for the proposed Effluent Recharge Project. The Phase 2 investigation was completed
19 on or about August 1, 2013, and determined that a viable, cost-effective Effluent Recharge Project
20 capable of storing at least 5,000 AF of effluent annually can be developed and constructed within
21 Liberty's CC&N.

22 The Development Agreement

23 11. As indicated above, on February 6, 2014, Liberty and CAWCD entered into an
24 Agreement for Development of Effluent Recharge Facility, Effluent Disposal and Purchase and Sale
25 of Effluent ("Development Agreement"). A copy of this Development Agreement was provided
26 under Exhibit A to the pending Application.

27 12. The Central Arizona Project ("CAP")/CAWCD Board unanimously approved the
28 Development Agreement at an open meeting on February 6, 2014. The Development Agreement

1 governs (1) the development, design, funding, construction and operation of the Effluent Recharge
2 Project; (2) the agreement for Liberty to sell/dispose of and deliver 2,400 AF of effluent to CAWCD
3 per year for 100 years; and (3) the agreement for the purchase by CAWCD of Long-Term Storage
4 Credits accrued by Liberty at the Effluent Recharge Project and the pricing terms.

5 13. CAWCD and Liberty have agreed to jointly finance the Effluent Recharge Project.
6 Under the Development Agreement, CAWCD shall pay a minimum of \$4,800,000 and Liberty shall
7 pay a minimum of \$1,200,000 for costs associated with the development, design, permitting and
8 construction of the Effluent Recharge Project. Those costs are subject to change based on actual,
9 final construction costs for the Effluent Recharge Project. Liberty shall own and operate the Effluent
10 Recharge Project.

11 14. Under the Development Agreement, Liberty shall grant CAWCD an annual
12 entitlement to 2,400 AF of storage capacity and deliver 2,400 AF of effluent per year to CAWCD at
13 the Effluent Recharge Project for 100-years ("Effluent Entitlement"). CAWCD shall pay Liberty to
14 deliver CAWCD's Effluent Entitlement (2,400 AF) to the Effluent Recharge Project. The delivery
15 charge is estimated to be \$27.16 per acre foot of effluent delivered to the Effluent Recharge Project.
16 This delivery charge is comprised of two elements; an estimated charge of \$19.16 per acre foot for
17 power and pumping costs, and an estimated charge of \$8.00 per acre foot as a pipeline maintenance
18 fee. The power and pumping cost is subject to reconciliation to actual costs. Whereas, the pipeline
19 maintenance fee is not subject to true up to actual but is subject to annual Consumer Price Index – All
20 Urban Customers ("CPI-U") adjustments.

21 15. Currently, Liberty pays Roosevelt Irrigation District ("RID") approximately \$21 per
22 acre-foot to dispose of excess effluent from PVWRF, plus an additional \$2,500 monthly connection
23 fee for a discharge box constructed adjacent to the RID canal. Liberty's excess effluent is delivered
24 for disposal in the RID Canal through that discharge box owned by Liberty.

25 16. Disposal of excess effluent through the agreement with RID is not a sufficient long-
26 term option because (1) Liberty does not have a long-term agreement with RID, (2) RID may or may
27 not continue to allow discharge of effluent to the RID canal, (3) the RID canal has annual dry up
28 periods during which effluent discharge is not accepted, requiring Liberty to dispose of effluent on

1 farm fields, the availability of which is disappearing due to organic farming that does not allow use of
2 effluent, (4) any breach of the RID canal results in immediate disruption of effluent discharges to the
3 RID canal and (5) customers that benefit from discharge of effluent to the RID canal are located miles
4 outside of Liberty's CC&N, meaning that groundwater availability within Liberty's CC&N is not
5 directly benefitted from discharge of effluent to the RID canal. Other available alternatives to address
6 long-term disposal of the PVWRF excess effluent would be for Liberty to construct and fund an
7 effluent recharge project itself or construct a long-distance pipeline to the Agua Fria River.

8 17. Under the Development Agreement, Liberty has committed to delivering and
9 disposing of effluent discharged from PVWRF that is not reused by customers within or outside
10 Liberty's CC&N service area, or delivered to CAWCD pursuant to the Effluent Entitlement, to the
11 Effluent Recharge Project. Liberty has agreed to store such effluent at the Effluent Recharge Project
12 to generate Long-Term Storage Credits as authorized by applicable law.

13 18. Under the Development Agreement, Liberty agrees to sell to CAWCD the 2,400 AF
14 Effluent Entitlement each year at the rate(s) set forth in the Development Agreement and CAWCD
15 agrees to purchase from Liberty all Long-Term Storage Credits accrued and offered by Liberty at the
16 Effluent Recharge Project that are not required for Liberty's own water supply purposes for a period
17 of 100 years. The charge for Long-Term Storage Credits in 2013 was \$138.00 per acre-foot, subject to
18 annual CPI-U adjustments. The charge for such Long-Term Storage Credits is also subject to other
19 price adjustments that either party may request every five years.

20 19. On May 13, 2014, Liberty executed a purchase contract with the landowner for
21 acquisition of the site for the Effluent Recharge Project. Liberty shall own and operate the Effluent
22 Recharge Project, including any and all land on which the Project is located.

23 20. Liberty owns an existing pipeline that will transport effluent from PVWRF to the
24 Effluent Recharge Project (the "Effluent Pipeline"). CAWCD shall pay Liberty approximately
25 \$1,313,100 for use of the pipeline. Upon such payment, Liberty shall reserve to CAWCD the
26 necessary capacity in the Effluent Pipeline sufficient to transport 2,400 AF of effluent per year to the
27 Effluent Recharge Project.

28 ...

1 21. Under the Development Agreement, Liberty and CAWCD will share operation and
2 maintenance costs of the Effluent Recharge Project and Effluent Pipeline.

3 Commission Approval

4 22. Liberty asserts that because of its substantial financial commitment for the Effluent
5 Recharge Project, CAWCD seeks assurances from the Commission that Liberty has the right and
6 authority to commit the Effluent Entitlement to CAWCD for 100 years, including approval of the
7 agreed upon rates and rate-adjustment mechanisms for delivery and disposal of Effluent to the
8 Effluent Recharge Project and purchase of Long-Term Storage Credits by CAWCD.

9 23. Liberty asserts and believes that Commission approval of the Development Agreement
10 for sale of effluent to CAWCD is not necessary or required under Arizona law. Liberty also asserts
11 that it is not waiving any arguments relating to Commission jurisdiction, future sales of effluent, or any
12 other similar issues relating to the Effluent Recharge Project and the Development Agreement. As
13 stated above, Liberty is making this filing because CAWCD, a public entity, seeks certainty that the
14 Effluent Entitlement from Liberty will be available to meet CAWCD's replenishment obligations at
15 the agreed charges set forth above. CAWCD also seeks assurances from the Commission as to
16 Liberty's provision of the Effluent Entitlement to CAWCD for 100 years as provided in the
17 Development Agreement, and that the rates for the Effluent Entitlement and purchase of Long-Term
18 Storage Credits in the Development Agreement do not violate any Commission rules, policies and
19 decisions and/or tariffs of Liberty.

20 24. Ultimately Liberty seeks Commission approval of the following special contract terms
21 set forth in the attached Development Agreement in the best interests of Liberty's customers, the
22 public and CAP/CAWCD:

23 A. Article 3, § 3.1.3 CAWCD's Storage Capacity Entitlement. Approval of Article 3, §
24 3.1.3 of the Development Agreement relating to CAWCD's entitlement to 2,400 AF of
25 storage capacity in the Effluent Recharge Project for 100 years.

26 B. Article 3, § 3.1.10 Effluent Delivery Charge. Approval of Article 3, § 3.1.10 of the
27 Development Agreement relating to Liberty's per-acre foot delivery charge for
28 transportation, delivery and disposal of CAWCD's Effluent Entitlement at the

1 Effluent Recharge Project. Based on 2013 data, the delivery charge is estimated to be
2 \$27.16 per acre foot of effluent delivered to the Effluent Recharge Project. This
3 delivery charge is comprised of two elements; an estimated charge of \$19.16 per acre
4 foot for power and pumping costs, and an estimated charge of \$8.00 per acre foot as a
5 pipeline maintenance fee. The power and pumping cost is subject to reconciliation to
6 actual costs. Whereas, the pipeline maintenance fee is not subject to true up to actual
7 but is subject to annual Consumer Price Index – All Urban Customers (“CPI-U”)
8 adjustments.

9 C. Article 4, § 4.1.1 CAWCD’s Effluent Entitlement. Approval of Article 4, § 4.1.1 of the
10 Development Agreement relating to CAWCD’s annual Effluent Entitlement and
11 Liberty’s 100-year obligation to deliver the Effluent to the Effluent Recharge Project.

12 D. Article 5, § 5.1.4 (Term) and § 5.1.5 (Purchase Price). Approval of Article 4, §§ 5.1.4
13 and 5.1.5 of the Development Agreement relating to Liberty’s agreement to sell and
14 CAWCD’s agreement to purchase Long-Term Storage Credit accrued by Liberty at the
15 Effluent Recharge Project for 100-years and the proposed pricing for those Long-
16 Term Credits.

17 Benefits of the Effluent Recharge Project

18 25. Liberty indicates in its application that the Effluent Recharge Project will provide a
19 number of benefits. Liberty asserts the Effluent Recharge Project will increase the water supply
20 availability within Liberty’s CC&N specifically and in the West Valley generally, which will benefit
21 Liberty’s customers and the general public. The Effluent Recharge Project will recharge effluent
22 within one mile of declining groundwater elevations associated with the “Luke Sink” near Luke Air
23 Force Base, which will in turn help address problems resulting from declines in ground water
24 elevations in the area.

25 26. Liberty also indicates there are a number of other benefits associated with the Effluent
26 Recharge Project. First, it will increase CAWCD’s ability to recharge the aquifer in the already-
27 developed portions of the western Phoenix AMA, which will ultimately benefit Liberty’s customers
28 and the general public. Second, the Effluent Recharge Project will reduce the need for CAP water in

1 recharge operations and support the use of a long-term renewable supply of water through excess
2 effluent from PVWRF. Third, the Effluent Recharge Project will benefit Liberty's customers by
3 resolving the Company's need for a long-term method for disposal of excess effluent from PVWRF.
4 According to Liberty, the Company currently pays RID \$21 per acre-foot to dispose of excess effluent
5 from PVWRF plus an additional \$2,500 monthly connection fee. Liberty claims that in the event this
6 project does not move forward it will need to construct and fund a similar effluent recharge project or
7 a long-distance pipeline to the Agua Fria River to find a long-term solution for disposing of excess
8 effluent. Liberty notes that in either case Liberty's customers would face a rate increase attributable to
9 funding the entire cost of either project. For this reason, Liberty asserts that the joint Effluent
10 Recharge Project will provide an economically beneficial means for it to dispose of excess effluent,
11 while minimizing rate impacts to its customers. Fourth, Liberty asserts that this project will provide a
12 model for public-private partnerships that increase CAP availability and recharges aquifers with excess
13 effluent.

14 27. Further, Liberty claims there are a number of benefits associated with the project that
15 will inure to its customers specifically. First, the Effluent Recharge Project will recharge the aquifer
16 and replenish the groundwater within Liberty's CC&N area and within the service area where the
17 groundwater is pumped. Liberty notes that many of its customers pay a CAGR assessment in
18 property taxes from groundwater replenishment. Second, Liberty asserts that the Effluent Recharge
19 Project will benefit customers by providing Liberty with yearly payments from CAWCD. Liberty
20 asserts that these payments for the Effluent Entitlement and Long-Term Storage Credits will create a
21 stable revenue source to strengthen Liberty's financial capacity to serve.

22 28. The Effluent Recharge Project will reduce the need for CAP water in recharge
23 operations and support use of a long-term renewable supply of water through excess effluent from
24 PVWRF.

25 Staff Analysis:

26 29. Staff reviewed Liberty's Application inclusive of Exhibit A – the Agreement for
27 Development of Effluent Recharge Facility, and Effluent Disposal and Purchase and Sale of Effluent,
28 Exhibit B – Legal Description for a Map of the Project Site, and Exhibit C – a Spreadsheet Illustrating

1 the Rate Benefit of the Effluent Recharge Project with CAWCD by Comparison to an Effluent
2 Recharge Project Funded Solely by Liberty.

3 30. After reviewing the Application, Staff agrees the Effluent Recharge Project will result
4 in public benefits. These public interest benefits are expected to include an increase in water supply
5 availability within Liberty's CC&N, help reverse declining ground water elevations in the Luke Sink
6 area, and reduce the need to use CAP water to meet recharge obligations.

7 31. The Development Agreement (also referred to as the "Arrangement") that Liberty has
8 entered into with CAWCD (the "parties") is unique and the parties are making a broad spectrum of
9 commitments for a 100-year period. The overall goal of both parties appears to be to achieve a fair
10 and balanced plan that will benefit the local aquifer while delivering long-term solutions for the
11 CAWCD, Liberty, and for Liberty's ratepayers.

12 32. Although this Arrangement is long-term in nature and unique, Staff supports the
13 overall concept. However, Staff also agrees with Liberty that entering into the underlying
14 Development Agreement, and selling effluent to CAWCD are matters of management discretion.
15 Staff further agrees with Liberty that specific Commission approval of any isolated elements of this
16 Arrangement or the Agreement as a whole is not required based on the circumstances of this case.
17 While Staff does not recommend that the Commission approve the Agreement or any isolated
18 elements of the Agreement, Staff does recommend that the Commission express its general support
19 for the Arrangement due to the public benefits to be derived. In particular, Staff recommends that the
20 Commission acknowledge that the Arrangement is predicated on following key elements:

21 A. Liberty is committing to selling/disposing and delivering 2,400 AF of excess effluent,
22 and to the sale of long-term storage credits derived from the utilization of excess
23 effluent to meet water recharge obligations, to CAWCD each year for a 100-year
24 period;

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

1 B. The rates to be utilized to perfect dealings under this Arrangement, while uniquely
2 structured in terms of a reliance upon CPI-U-driven annual billing rate adjustments,
3 appear to be reasonable.¹

4 C. Utilization of the joint new facility financing agreement, and the separate pipeline
5 capacity payment requirement, represent elements of this Arrangement that should
6 reduce the ultimate cost to captive ratepayers when compared to alternatives identified
7 by Liberty; and,

8 D. The cost-sharing elements of this Arrangement appear to be reasonable and these
9 provisions assure that the cost-causer, and not captive ratepayers, are responsible for
10 covering any incremental operating costs.

11 33. Staff's analysis of Liberty's filing included a high level evaluation of the estimated
12 impact of quantifiable benefits to captive Liberty's customers resulting from this Arrangement.
13 Consideration of these benefits required Staff to make assumptions regarding the value of the various
14 investment alternatives, and resulting revenues and expenses associated with the current proposal and
15 other effluent disposal solutions that might need to be considered if this alternative was not available.
16 Staff notes that it is challenging to evaluate the likely impacts of an agreement covering a 100-year
17 period. The risks, trade-off values, and potential rate-impacts of many of the provisions will be
18 propelled by future realities that for now can only be given consideration within the context of tenable
19 assumptions.

20 34. Some of the provisions of the Agreement, such as the provision to sell long-term
21 storage credits to CAWCD at a rate of \$138 per AF and the \$27.16 per AF effluent delivery fee
22 (current rates, but the pumping costs are subject to reconciliation to actual costs and the maintenance
23 fee is subject to the CPI-U price escalator) provision, do not require additional analysis. Selling these
24 long-term storage credits is currently an option for Liberty, so this does not represent additional value
25 to Liberty. The \$27.16 per AF delivery fee is designed to reimburse Liberty for incremental costs

26

27

28 ¹ However, by this acknowledgment, the Commission is not making a policy decision with regards to the use of such
standardized cost escalators in other pending or future dockets;

1 incurred by Liberty in delivering and disposing of effluent on behalf of the CAWCD, so there will be
2 no incremental profit accruing to Liberty from this provision.

3 35. Further, the Commission does not regulate the sale and transfer of Long-Term Storage
4 Credits. Therefore, Staff does not recommend that the Commission approve Liberty's agreement to
5 sell to CAWCD all Long-Term Storage Credits accrued and offered by Liberty and the Effluent
6 Recharge Facility, that are not required for Liberty's own water supply purposes for a period of 100
7 years. However, the sale of the Long-Term Storage Credits may have ratemaking implications that
8 will need to be addressed in future rate cases.

9 36. The Applicants are also requesting Commission approval for CAWCD to pay Liberty a
10 per acre-foot charge for transportation, delivery and disposal of CAWCD's Effluent Entitlement
11 (2,400 AF) to the Effluent Recharge Project. The delivery charge is estimated to be \$27.16 per acre
12 foot of effluent delivered to the Effluent Recharge Project. This delivery charge is comprised of two
13 elements; an estimated charge of \$19.16 per acre foot for power and pumping costs, and an estimated
14 charge of \$8.00 per acre foot as a pipeline maintenance fee. The power and pumping cost is subject to
15 reconciliation to actual costs. Whereas, the pipeline maintenance fee is not subject to true up to actual
16 but is subject to annual Consumer Price Index – All Urban Customers (“CPI-U”) adjustments. In
17 addition, CAWCD is to reimburse Liberty for a pro-rata share of “Extraordinary O&M Expenses”
18 incurred for the Effluent Recharge Facility. To the extent practical, Liberty is to meet and confer with
19 CAWCD regarding the need to incur such costs.

20 37. The \$27.16 per acre-foot initial charge is an estimate comprised of an assumed actual
21 power cost of \$19.16 per acre-foot and an agreed upon maintenance fee of \$8.00 per acre-foot. The
22 \$19.16 per acre-foot charge appears to be a 2011-based actual cost of power and pumping, and future
23 delivery fees will be based upon the actual cost of power and pumping, subject to an annual
24 reconciliation. The \$8.00 pipeline maintenance fee will be subject to annual adjustment based upon
25 the CPI-U escalator. While the \$27.16 delivery fee is designed to recover incremental costs there is
26 (arguably) no incremental value to Liberty associated with the receipt of these expense-reimbursement
27 revenues.

28 ...

1 38. Liberty is currently paying the RID \$21 per AF to dispose of excess effluent at its
2 PVWRF facility, plus an additional \$2,500 monthly connection fee, both of which may be avoided
3 once the Effluent Project is complete and operational. This will represent a true cost reduction to
4 Liberty and eventually to its ratepayers since these costs are currently embedded in the Company's
5 ACC-approved base rates, and could eventually be removed. However, Staff does not believe that this
6 cost reduction needs to be given specific consideration in analyzing the value of this new Arrangement
7 since arguably such cost reductions may occur even if Liberty funded this entire Effluent Project.

8 39. The \$4,800,000 in CAWCD Effluent Project funding is of incremental value to Liberty
9 and eventually to its ratepayers. Absent the receipt of this non-investor supplied funding, Liberty (and
10 ultimately its ratepayers) would need to fund this \$4,800,000 investment since, as argued by Liberty,
11 there would be an eventual need to make this investment. Staff has estimated a value of \$18,672,476
12 to Liberty and its ratepayers from this funding. (This analysis does not take into account the time
13 value of money.) This value includes the eventual recovery of the full \$4,800,000 through recognition
14 of depreciation expense, plus a required rate of return ("ROR") of 8.76% and an income tax gross-up
15 factor of 1.6496, taken from Decision No. 74437. The ROR and tax gross-up were applied to an
16 average investment of \$2,400,000 over a 40-year depreciable plant life. The total Effluent Project cost
17 is still \$6,000,000 but the \$1,200,000 funded by Liberty is not given consideration since this would be
18 a Liberty investment under either scenario.

19 40. Another element of tangible value associated with this Arrangement is the \$1,313,100
20 pipeline capacity payment to be paid by CAWCD. This payment assures use of an existing Liberty
21 pipeline for a 100-year period so within an unsophisticated analysis the value of this one time capacity
22 payment is \$13,131 per year. To align this value with the same 40-year period noted above, the value
23 over this 40-year period would be \$525,240.

24 41. To summarize, Staff believes that there could be an incremental value of \$19,197,716
25 associated with this Arrangement to Liberty and its customers when viewed over a 40-year period.
26 Viewed slightly differently, Staff believes that Liberty's customers would arguably be required to pay
27 \$19,197,716 in higher revenues if Liberty had to fund this entire Effluent Project instead of utilizing
28 the funding from CAWCD. Since the Arrangement provides for delivery of 2,400 AF of effluent per

1 year during this 40-year period, a total of 96,000 acre feet of effluent would be delivered, so dividing
2 \$19,197,716 by 96,000 acre feet equates to \$199.98 per AF of effluent.

3 42. Staff notes that in Decision No. 74437, Liberty is currently authorized to sell effluent
4 at a negotiated amount, not to exceed \$430 per acre-foot. However, Liberty and the CAGR D have
5 indicated that Liberty's existing tariff related to the sale of effluent does not adequately cover the
6 unique character of the Arrangement, such as the \$27.16 per AF charge to be paid by CAWCD for
7 effluent delivery. CAWCD and Liberty have further indicated that if they are unable to obtain a special
8 tariff that appropriately addresses the complex and unique nature of this arrangement that CAWCD
9 may not be willing to proceed with the project. If this were to occur, as indicated above, Liberty
10 would still have a need to find a long term solution for disposing of its effluent at a significant
11 additional cost to ratepayers.

12 43. Staff believes that it would be appropriate for Liberty to create a special contract tariff
13 that is based on the Company's existing effluent tariff but incorporates the necessary attributes to
14 adequately address the arrangement between the parties.

15 44. In Decision No. 74437, the Commission determined that the fair value rate base for
16 the wastewater division was \$24,190,673 and the water division was \$33,103,506. As noted the
17 Effluent Recharge Facility has yet to be constructed, so there will be no impact to the Liberty's fair
18 value rate base as a result of the approval of this Application in the manner recommended by Staff.
19 Further, Staff is recommending that the Company file concurrent rate applications for both the water
20 and wastewater divisions once the facility has been operational for a full 12-month period at which
21 time Arrangement-related ratemaking implications can be addressed. Staff notes that under Decision
22 No. 74437, Liberty must file its next water division rate case on or before June 30, 2019, with a test
23 year ending no later than December 31, 2018. Such a filing dateline should also apply to Liberty's
24 wastewater division.

25 45. The parties seem to be in agreement that the provisions of this arrangement will
26 require future Commission action as rate cases are filed and plant investment levels and agreement-
27 related revenues and expenses are ultimately given consideration in setting the base rates authorized
28 for the Liberty water and wastewater division.

1 46. Staff agrees with the parties that future ratemaking considerations will exist, and will be
2 recommending Commission approval of some interim regulatory accounting requirements to assure
3 that such issues can be easily evaluated at the proper time and in the proper ratemaking context.
4 However, Staff concludes that none of these ratemaking considerations need be addressed in
5 conjunction with this Application.

6 Staff Recommendations

7 47. Since this Arrangement is of such great significance, Staff recommends that Liberty
8 should report the following through Docket Control:

9 ...

- 10 A. Receipt of the \$1,313,100 pipeline capacity payment, and the regulatory accounting to
11 be given to this long-term pipeline capacity payment;
- 12 B. Any changes in the agreed to effluent delivery fees (initially expected to be \$27.16 per
13 AF);
- 14 C. Any changes in the agreed to price for the sale of effluent and effluent-derived long-
15 term storage credits (initially expected to be \$138 per AF);
- 16 D. Any significant events occurring which materially impact performance under this
17 agreement including, but not limited to, replacement or expansion of the PVWRF
18 facility (Article 4.1.4), failure to deliver the full effluent entitlement (Article 4.1.7) and
19 purchase of long-term storage credits (Article 5.1.3).
- 20 E. Annual reports showing the monthly RID Agreement-related expenses; and,
- 21 F. Specific notice to Staff if and when the RID Agreement is cancelled or notice of any
22 agreement not to renew the RID Agreement.

23 48. Staff notes that under Decision No. 74437, Liberty must file its next water division
24 rate case on or before June 30, 2019, with a test year ending no later than December 31, 2018. Staff
25 recommends that such a filing dateline should also apply to Liberty's wastewater division.

26 49. Within 60 days of the Commission's decision, Liberty should submit a proposed
27 special contract tariff applicable to this Arrangement with CAWCD and that such tariff is to be
28 submitted for review and approval by Staff as a compliance item.

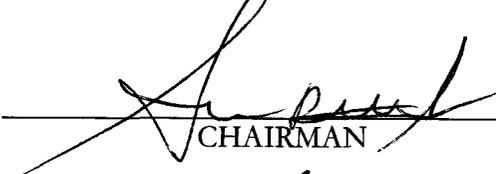
- 1 C. Any changes in the agreed-to price for the sale of effluent and effluent-derived long-
- 2 term storage credits (initially expected to be \$138 per AF);
- 3 D. Any significant events occurring which materially impact performance under this
- 4 agreement including, but not limited to, replacement or expansion of the PVWRF facility (Article
- 5 4.1.4), failure to deliver the full effluent entitlement (Article 4.1.7) and purchase of long-term storage
- 6 credits (Article 5.1.3).
- 7 E. Annual reports showing the monthly RID Agreement-related expenses; and,
- 8 F. Specific notice to Staff if and when the RID Agreement is cancelled or notice of any
- 9 agreement not to renew the RID Agreement.
- 10 ...
- 11 ...
- 12 ...
- 13 ...
- 14 ...
- 15 ...
- 16 ...
- 17 ...
- 18 ...
- 19 ...
- 20 ...
- 21 ...
- 22 ...
- 23 ...
- 24 ...
- 25 ...
- 26 ...
- 27 ...
- 28 ...

1 IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.
2 shall file its next rate applications for its water and wastewater divisions concurrently on or before
3 June 30, 2019, with a test year ending no earlier than December 31, 2018.

4 IT IS FURTHER ORDERED that within 60 days of the Commission's decision, Liberty
5 Utilities shall submit a proposed special contract tariff applicable to this Arrangement with CAWCD
6 and that such tariff is to be submitted for review and approval by Staff as a compliance item in this
7 docket.

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

9
10 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

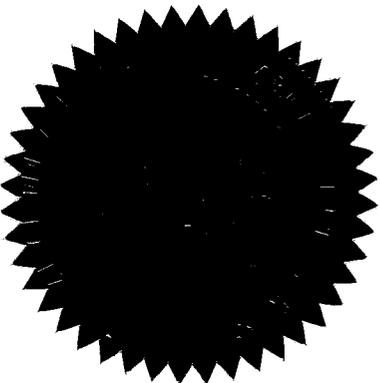
11 
12 CHAIRMAN


12 COMMISSIONER

13
14 
15 COMMISSIONER


15 COMMISSIONER


15 COMMISSIONER



17 IN WITNESS WHEREOF, I, JODI JERICH, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this 16th day of March, 2015.


22 JODI JERICH
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25
26 DISSENT: _____

27 SMO:DH:sms\WVC\ML

28

1 SERVICE LIST FOR: Liberty Utilities (Litchfield Park Water and Sewer) Corp.
2 DOCKET NOS. SW-01428A-14-0369 and W-01427A-14-0369

3 Mr. Jay Shapiro
4 Fennemore Craig, P.C.
5 2394 E. Camelback Rd. - 600
6 Phoenix Arizona 85016

7 Mr. Todd Wiley
8 Liberty Utilities Corporation
9 12725 W. Indian School Rd. Suite D101
10 Avondale Arizona 85392

11 Mr. Steven M. Olea
12 Director, Utilities Division
13 Arizona Corporation Commission
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 Ms. Janice M. Alward
17 Chief Counsel, Legal Division
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21

22

23

24

25

26

27

28

29

30

31

32

33

34