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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

Arizona Corporation Commission
DOCKETED
JUL 15 2015
DOCKETED BY

IN THE MATTER OF THE APPLICATION OF RED ROCK UTILITIES, LLC, AN ARIZONA LIMITED LIABILITY COMPANY, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. WS-04245A-14-0295

DECISION NO. 75163

OPINION AND ORDER

DATE OF HEARING: April 22, 2015

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES: Lawrence V. Robertson, Jr., Of Counsel for Munger Chadwick, on behalf of Red Rock Utilities, LLC; and

Robin Mitchell, Staff Attorney, Arizona Corporation Commission Legal Division on behalf of the Utilities Division.

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On August 4, 2014, Red Rock Utilities, LLC ("RRU" or "Company") filed with the Commission an Application for a rate increase for water and wastewater service.

2. On September 3, 2014, the Commission's Utilities Division ("Staff") notified the Company that its Application was deficient under the requirements of Arizona Administrative Code

("A.A.C.") R14-2-103.

3. On September 16, 2014, the Company filed a Response to the Letter of Deficiency.

4. On October 15, 2014, Staff notified the Company that its Application was sufficient pursuant to A.A.C. R14-2-103, and classified RRU as a Class C utility.

5. By Procedural Order dated October 22, 2013, the matter was set for hearing on April 22, 2015, and other procedural guidelines established.

6. On December 22, 2014, RRU filed an Affidavit of Publication indicating that the public notice of the hearing was published in the *Arizona Daily Star* on December 5, 2014, and an Affidavit of Mailing indicating that the notice was mailed to RRU's customers on December 12, 2014.

7. On January 16, 2015, RRU filed a clarification to Thomas Bourassa's Direct Testimony concerning Schedule H-3 and "Miscellaneous Charges."

8. On February 5, 2015, Staff filed the Direct Testimony of Crystal Brown on rate base and revenue requirement issues, and the Direct Testimony of Dorothy Hains addressing engineering issues. On March 4, 2015, Staff filed Ms. Brown's Direct Testimony on rate design and cost of service.

9. On March 26, 2015, RRU filed the Rebuttal Testimony of Mark Wienberg and Mr. Bourassa.

10. On April 8, 2015, Staff filed the Surrebuttal Testimony of Ms. Brown.

11. On April 17, 2015, RRU filed the Rejoinder Testimony of Mr. Bourassa.

12. The hearing convened as scheduled on April 22, 2015, before a duly authorized Administrative Law Judge at the Commission's Tucson offices. Mr. Weinberg, RRU's General Manager, and Mr. Bourassa, a utility rate analyst and consultant, testified for RRU. Ms. Hains, a utility engineer, and Ms. Brown, an Executive Consultant III, testified for Staff.

13. On May 20, 2015, RRU and Staff filed Closing Briefs.

<u>Background</u>

14. RRU has two certificated areas for water service: the Red Rock certificated area, located north of the City of Marana in an unincorporated community in south-central Pinal County,

and the Verano certificated area, located east of Rita Ranch and south of Tucson's Davis-Monthan Air Force Base in Pima County. RRU also is certificated to provide wastewater utility service in the Red Rock service area. The Red Rock water and wastewater certificated areas cover approximately two and one-half square miles. The Verano service area comprises approximately five square miles.[1]

15. In the test year ended December 31, 2013 ("test year"), RRU provided water utility service to approximately 586 customers and wastewater service to approximately 619 customers in its Red Rock service area. RRU has no customers in its Verano service area.

16. The Red Rock water system was installed in 2007 and contains two wells, a one million gallon storage tank, one ion exchange treatment plant for nitrate removal, and a booster pump station. The Company has a radio telemetry system to communicate and control operation of the system. Well No. 1 exceeds the maximum contaminant level for nitrates of 10 mh/l, with a nitrate level as high as 12 mg/l. Well No. 2 has a nitrate level below 2mg/l. Currently the Company supplies its customers using Well No. 2, and uses Well No. 1 for construction water.[2] The Company is also able to blend water from Well No. 1 and Well No. 2 such that the nitrate level would still not require use of the ion exchange plant. The Company has not used the ion exchange plant since 2012, although it keeps the plant in working order. The nitrate level in the distribution system is below the maximum contaminant level of 10 mg/l.[3]

17. The Red Rock water system has a total source production capacity of 1,550 gallons per minute and storage capacity of 1,000,000 gallons. Staff believes that production and storage are adequate to serve the current customer base and reasonable growth.[4] In 2007, the Company drilled two well holes in the Verano system area, but these wells have not yet been developed.

18. In the test year, the Red Rock water system reported 52,648,000 gallons sold and 54,856,000 gallons pumped, resulting in a water loss of 4.03 percent. Staff states that the non-account water is within the acceptable limit of 10 percent.[5]

19. Using a linear regression analysis, Staff estimated that the Company would have

[1] Ex S-2 Hains Dir Water and Wastewater Engineering Reports at 1.
[2] Transcript ("Tr.") at 29.
[3] Tr. at 28-29; Ex S-2 Hains Dir Water Engineering Report at 1-3.
[4] Ex S-2 Hains Dir Water Engineering Report at 3.
[5] *Id.* at 4.

approximately 801 water customers in 2018, with an increase of 32 connections a year from 2015 through 2018.[6]

20. The Arizona Department of Environmental Quality ("ADEQ") reported that the Red Rock water system had no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and A.A.C., Title 18, Chapter 4.[7]

21. The Red Rock water system is in the Pinal Active Management Area. The Arizona Department of Water Resources ("ADWR") reported that the Red Rock water system is in compliance with departmental requirements governing water providers and/or community water systems.[8] The Verano water system is a Type II water rights holder and is not yet subject to ADWR requirements governing water providers and/or community water systems.[9]

22. The Red Rock water system has approved Curtailment and Cross Connection and Backflow Prevention Tariffs on file with the Commission.[10]

23. Staff reports that the Company agreed to implement five Best Management Practices ("BMP") tariffs for its water division including: (1) BMP 1.1 (Local and/or Regional Messaging Programs Tariff); (2) BMP 2.3 (New Homeowner Landscape Information Tariff); (3) BMP 3.8 (Water Waste Investigations and Information Tariff); (4) BMP 5.2 (Water System Tampering Tariff); and (5) BMP 5.13 (Water Use Plan for New Non-residential User).[11]

24. Staff concludes that the proposed BMP Tariffs are relevant to the Company's service area and recommends approval. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP Tariffs approved by the Commission, and their effective date, by means of either an insert in the next regularly scheduled billing or by a separate mailing, and provide copies of the BMP Tariffs to any customer upon request. Staff states that it will file a letter in the Docket confirming that the Company's tariffs have been updated. Staff recommends that the

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[6] *Id.* at 5. In the Company's 2014 Utilities Annual Report filed March 24, 2015, as of December 31, 2014, the Company had 686 water customers and 664 wastewater connection. *See* Ex S-1 at 15 and 19.
[7] Ex S-2 Hains Dir Water Engineering Report at 5.
[8] *Id.*
[9] *Id.*
[10] *Id.* at 15.
[11] *Id.* at Figure 7.

tariffs go into effect 30 days after the date notice is sent to customers, and that the Company may request cost recovery of the actual costs associated with the implemented BMPs in its next general rate application.[12]

25. The RRU wastewater treatment plant is an enclosed treatment facility with an odor control system. The wastewater treatment plant has a daily treatment capacity of 300,000 gallons. The wastewater system consists of a raw sewage inflow lift station, headworks, grit removal, an anoxic reactor, two sequential batch reactors, two sludge digesters, four pressure sand filters, three UV disinfection trains with 12 UV tubes per train, and a backup chlorine disinfection system. The final treated effluent is disposed in a storage pond for reuse, and is discharged to a nearby unnamed tributary of the Santa Cruz River. The dry sludge is hauled to a landfill for disposal. RRU uses a Supervisory Control and Data Acquisition ("SCADA") system to communicate with and control all wastewater treatment and disposal steps.[13]

26. The RRU wastewater treatment plant has been affected by deficient algae growth in its effluent. The algae does not live long enough after treatment to comply with the ADEQ standard. RRU has hired a consultant and entered into a toxicity reduction evaluation with ADEQ.[14] In a Compliance Status Report dated April 20, 2015, ADEQ reported that RRU was not in compliance with its permit(s), wastewater regulations, and/or order/judgment for the review period October 1, 2013 through March 31, 2015, however ADEQ also states that the wastewater facility was not in violation at a level at which ADEQ would take action or issue a Notice of Opportunity to Correct or Notice of Violation.[15]

27. Staff reports that the Commission's Compliance Section database indicates that the Company had no Commission delinquent compliance items for either its water or wastewater divisions.

28. RRU's current rates and charges were approved in Decision No. 67409 (November 2, 2004) in connection with the granting of its Certificates of Necessity and Convenience ("CC&N").

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[12] *Id.* at 16.
[13] Ex S-2 Hains Dir Wastewater Engineering Report at 1.
[14] Tr. at 19-21.
[15] Ex S-3 and Tr. at 138-140.

Decision No. 67409 ordered RRU to "file a rate application for its water and wastewater systems no later than three months following the fifth anniversary" of the Decision. Because the development of the Red Rock Village master-planned community was slower than originally anticipated when the CC&Ns were granted, RRU requested two separate extensions of the rate application filing requirement, which were granted in Decision Nos. 71499 (March 17, 2010) and 73343 (August 21, 2012). Ultimately, the rate application deadline was extended to August 3, 2014.[16]

29. According to the Company, two major factors contributed to the slower than anticipated growth in the RRU service area. First, was a change in ownership of the developer of the Red Rock Village master-planned community, and the second was the 2008 financial crisis and subsequent recession that adversely affected homebuilding and development in Southern Arizona as well as the state of Arizona and nation as a whole.[17] At the time the Commission granted RRU a CC&N, the master developer was Diamond Ventures, Inc., and it was contemplated that Red Rock Village would be developed over a 10 year period, with six development phases and blocks that would be sold to homebuilders for individual subdivisions. In 2005, the Red Rock Village master-planned community project was sold to Pulte Homes, a national homebuilder company. The sale affected the development timeline as Pulte Homes formulated its own development plans. RRU did not commence water and wastewater services to its first customer until August 3, 2007.[18] Subsequently, the 2008 financial crisis slowed home sales from approximately 250 a year in 2007 to 30 to 40 a year in 2009 through the test year.[19]

30. This is RRU's first rate case since it was granted its CC&Ns in 2004. The Company states that it sought the two extensions of the Commission directive to file a rate case because it was concerned that the customer base had not increased to a level that would allow the Company to earn a fair and reasonable return on its investment without resulting in "rate shock" for the customers. Even as it filed the current rate application, the Company's concerns about significant rate increases persisted.[20] The Company believes that if rates were to be set using the customary rate-of-return

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[16] Decision No. 73343 at 3.
[17] Ex RRU-2 Weinberg Dir at 3.
[18] *Id.* at 3.
[19] Tr. at 32 and 48.
[20] *Id.* at 51.

ratemaking methodology, and without the use of mitigating ratemaking methodologies or assumptions, customers would face large rate increases.[21] The Company claims that it considered seeking another extension of the date to file its rate application, but ultimately concluded that another postponement of bringing rates into line with the costs of providing service would not be in the best long-term interests of either RRU or its customers.[22]

31. According to RRU's Application, in the test year the Company's water operations had adjusted gross revenues of $533,046 resulting in operating income of $116,695, an 8.47 percent rate-of-return on a fair value rate base ("FVRB") of $1,378,255.[23] For the wastewater division, the Application indicates total adjusted test year revenues of $477,549, resulting in an operating loss of $262,075, for no rate-of-return on a FVRB of $936,312.[24]

32. The Company asserted that the test year rates of return are inadequate to allow it to obtain debt, pay a reasonable distribution to its members, maintain a sound credit rating, and/or enable it to attract additional capital on reasonable and acceptable terms in order to continue the investment in utility plant necessary to adequately serve customers.[25]

Rate Request

33. In its Application for its water division, the Company requested total revenues of $547,528, an increase of $14,480, or 2.72 percent, which according to Company schedules would produce operating income of $130,934, and a 9.5 percent rate-of-return on an FVRB of $1,378,255.[26]

34. In its Application for its wastewater division, the Company requested total revenues of $834,504, an increase of $356,955, or 74.75 percent, over its adjusted test year revenues of $477,549.[27] This proposed revenue increase would produce operating income of $88,950, and a 9.5 percent rate of return on an FVRB of $936,312.

35. RRU has a capital structure of 100 percent equity. In order to minimize rate case

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[21] Ex RRU-2 Weinberg Dir at 4-5.
[22] *Id.* at 5.
[23] Ex RRU-5 Bourassa Dir at Sch A-1 and C-1(Water)
[24] *Id.* at Sch A-1 and C-1 (Wastewater). The Company's Application includes the imputation of revenues from 400 additional water and wastewater customers and other pro forma adjustments.
[25] Application at 3-4.
[26] *Id.* at 4; Ex RRU-5 Bourassa Dir at Sch A-1 and C-1 (Water).
[27] Ex RRU-5 Bourassa Dir at Sch A-1 and C-1 (Wastewater).

expense, the Company did not prepare a cost of capital analysis.[28] Based on a cost of equity of 9.6 percent adopted for Chaparrel City Water Company (Decision No. 74568 (June 20, 2014)) and 9.7 percent adopted for Lago Del Oro Water Co. (Decision No. 74564 (June 20, 2014)), the Company believed that its proposed Cost of Equity of 9.5 percent was conservative, considering the risk that the Company might not achieve the imputed growth.

36. To mitigate rate shock for both water and wastewater customers, the Company incorporated several ratemaking treatment(s) in its request including: (1) a pro forma customer addition projection; (2) a lower cost of equity than that the Company believes it is entitled; (3) no rate-making recognition for income taxes; and (4) a proposed 5-year phase-in of the wastewater rate increase, with no carrying charges.[29] The pro forma revenue adjustments imputed $179,937 of additional test year revenue from water customers and $189,600 in additional revenue from wastewater customers.[30] The Company also requested an accounting order authorizing it to defer for future ratemaking treatment and recognition certain recorded depreciation expenses for both its water and wastewater divisions.

37. In Direct Testimony, Staff presented two revenue requirement alternatives: (1) Plan A, the break even method, recovers Staff's recommended operating expenses, and provides a zero rate-of-return on rate base, resulting in no operating income; and (2) Plan B which uses Staff's recommended rate base, revenue and expense adjustments and provides a 9.5 percent rate-of-return on Staff's recommended FVRB. Under both Plan A and Plan B, Staff phased-in the wastewater rates over five years, with no carrying costs, as proposed by the Company.

38. Staff's cost of capital analysis based on the Discounted Cash Flow method, and the addition of a 0.6 percent financial risk adjustment, produced a Rate of Return of 9.4 percent. Staff adopted the Company's proposed 9.5 percent rate of return for its Plan B in order to minimize the issues in the case. [31]

39. Staff states that it provided two alternatives for the Commission's consideration

[28] *Id.* at 13.
[29] Application at 4; Ex RRU-2 Weinberg Dir at 5.
[30] Ex RRU-5 Bourassa Dir at Sch C-1 (Water and Wastewater).
[31] Ex S-4 Brown Dir at 26 and CSB-3.

because Staff believes that the appropriate way to address the rate shock issue is through the rate-of-return, and not by adopting the Company's proposed pro forma adjustments and accounting order.[32] Staff opposed the Company's pro forma adjustment to impute revenues from 400 additional customers because Staff believes it reflects revenue that is unlikely to occur.[33] Staff is concerned that the Company's revenue imputation and proposed deferral of significant depreciation expense provide a false impression of its actual financial condition.

40. For the water division, Staff's proposed Plan A results in a revenue requirement of $355,316, an increase of $2,207 or 0.63 percent over test year revenues of $353,109. Plan A produces an operating income of $0, for a 0 percent rate-of-return on a FVRB of $1,389,355.[34]

41. For the water division, Staff's proposed Plan B produces a revenue requirement of $560,779, an increase of $207,670, or 58.81 percent, over Staff's adjusted test year revenues of $353,109. The Plan B revenue increase would produce an operating income of $131,989, for a 9.5 percent rate-of-return on a FVRB of $1,389,355.[35]

42. For the wastewater division, Staff's Plan A results in a revenue requirement of $643,466, an increase of $355,517, or 123.47 percent over test year revenues of $287,949. Plan A produces an operating income of $0, for a 0 percent rate of return on a FVRB of $976,488.[36]

43. For the wastewater division, Staff's proposed Plan B would produce a revenue requirement of $778,998, an increase of $491,049, or 170.53 percent, over Staff's adjusted test year revenues of $287,949. The Plan B revenue increase would produce operating income of $92,766, a 9.5 percent rate-of-return on an FVRB of $976,488.[37]

44. Staff recommends adopting Plan A for both the water and wastewater divisions.[38]

45. In Rebuttal Testimony, RRU accepted Staff's recommended adjustments to rate base and operating expenses and Plan A for both the water and wastewater divisions. RRU continued to request an accounting order that would allow it to defer depreciation expense for possible future

[32] Ex S-4 Brown Dir at 4-5.
[33] *Id.* at 5.
[34] *Id.* at CSB-1 and CSB-11 (Water Plan A).
[35] *Id.* at CSB-1 and CSB-10 (Water Plan B).
[36] *Id.* at CSB-1 (Wastewater Plan A)
[37] *Id.* at CSB-1 (Wastewater Plan B).
[38] *Id.* at 7.

recovery on plant that Staff considered "excess capacity" or "not used and useful."[39]

46. Staff opposes an accounting order that would allow deferral of the depreciation expense associated with plant that Staff considers to be not used and useful.[40] Staff does not believe that the requested accounting order is supported by the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts or Financial Accounting Standard Board Accounting Standard Codification No. 980. Staff argues that the investment risk associated with RRU's excess capacity should not be borne by current and future ratepayers.

Rate Base - Water

47. In its Application for the water division, the Company proposed a FVRB of $1,378,255. Staff recommended adjustments that increased the water division rate base by $11,100, to $1,389,355. Staff decreased plant in service by $377,090, to remove plant that Staff considered to be "not used and useful."[41] Staff based its adjustment on the recommendations in the Staff engineering report, which identified plant that was not serving customers.[42] Staff also decreased Advances in Aid of Construction ("AIAC") by $366,492 to remove the AIAC associated with the not used and useful plant.[43] Staff's "not used and useful" adjustment reduced Account No. 302 – Franchise costs by $5,904; Account No. 303 – Land and Land Rights, by $4,694; Account No. 331 – Transmission and Distribution Mains, by $205,815; Account No. 333 – Services, by $127,528; and Account No. 335 - Hydrants, by $33,150. Staff also reclassified a number of plant items[44] and recommended: to disallow certain costs associated with the purchase of a pump that Staff believes should have been expensed; the retirement of a pump; the disallowance of franchise costs; and

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[39] Ex RRU-6 Bourassa Reb at 1.
[40] Ex S-6 Brown Surr at 2.
[41] Ex S-4 Brown Dir at Schedule CSB-5 (Water).
[42] Ex S-4 Brown Dir at 12; Schedules CSB-4 and -5. With respect to the Red Rock water system, the Staff Engineer found that the plant costs for mains, service connection, meters and fire hydrants, totaling $366,491.80, along East Sasco Road are not used and useful because there are no customers on Sasco Road.[42] Staff also found that the ion exchange plant, with an unadjusted book value of $573,066, was not in service, and thus recommended that it be considered not used and useful. There are no operating plant items in the Verano water system at this time, and thus, Staff recommended finding that the $4,694.24 in the Land and Land Rights Account (representing two future well sites) also be considered not used and useful. Ex S-2 Water Engineering Re[ort at 9.
[43] Ex S-4 Brown Dir at 17-18; Schedules CSB-4 and -10. Because AIAC is a reduction to rate base, the effect on the "bottom line" is not significant.
[44] Staff's reclassifications resulted in a net reduction of $22,094 in water plant assets and a $22,094 net increase in wastewater plant assets. Ex S-4 Brown Dir at 15-16.

adjustments to accumulated depreciation associated with Staff's recommended plant balances.[45]

48. The Company accepted Staff's plant reclassifications and adjustments, with the result that in the Company's Rebuttal Testimony, there was no disagreement concerning rate base for the water division.[46]

49. Staff's recommended adjustments, and the parties' ultimate agreement on the water division's rate base, are reasonable under the circumstances of this rate case. The Company did not submit Reconstruction Cost New Less Depreciation ("RCND") information and thus its Original Cost Rate Base ("OCRB") is the same as its FVRB. The evidence shows that RRU's FVRB for its water division is $1,389,355.

Rate Base - Wastewater

50. In its Application for the wastewater division, the Company proposed a FVRB of $936,312. Staff's recommendations increased the wastewater rate base by a net of $40,176, to $976,488.[47] Staff identified $549,043 of wastewater plant that Staff claimed was not used and useful, and thus decreased Plant-in-Service by this amount. Staff also removed Contributions in Aid of Construction ("CIAC") associated with the not used and useful plant in the amount of $549,043, and amortization of CIAC totaling $26,408.[48] Staff removed $4,924 of Franchise Costs related to legal fees associated with partnerships with other entities that did not materialize.[49] The not used and useful wastewater plant included the sewer lines and manholes along East Sasco Road where the Company did not have any customers.[50]

51. In addition to the not used and useful plant identified by Staff, the Company has excess capacity associated with its wastewater treatment plant. The Company made pro forma adjustments to the plant accounts for Treatment and Disposal Equipment, Structures and Improvements and Pumping Equipment totaling $3,772,889 to remove the excess capacity plant from

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[45] *Id.* at 9-10 and 13, and Ex S-2 Hains Dir Water Engineering Report at 10-15. Staff's direct testimony does not discuss the removal of franchise costs on the water side, but discusses a similar adjustment on the wastewater side. *See also* Staff Brief at 6.

[46] Ex RRU-6 Bourassa Rebuttal at 3-6.

[47] Ex S-4 Brown Dir at CSB-3 (Wastewater).

[48] Ex S-4 Brown Dir at 12 and 17 and CSB-4 (Wastewater).

[49] *Id.* at 13.

[50] Ex S-2 Hains Dir Wastewater Engineering Report at 7.

rate base.[51] RRU determined the amount of the excess capacity by using a five year horizon, and assuming growth of 400 new connections over that period.[52] The Company's adjustment was 72 percent of the gross original cost of the wastewater treatment plant.[53]

52. The Staff Engineer conducted an independent analysis to determine the excess capacity associated with the wastewater treatment facilities. Her analysis resulted in an adjustment that was similar to that proposed by the Company, and thus, Staff accepted the Company's proposed excess capacity adjustment for wastewater treatment facilities. [54]

53. In Rebuttal Testimony, the Company accepted Staff's adjustments to the wastewater division's OCRB.[55]

54. Staff's adjustments to the wastewater division rate base, to which the Company has agreed, are reasonable and should be adopted. The Company did not provide RCND schedules. Thus, the FVRB for the wastewater division is $976,488.

Operating Income and Revenue Requirement - Water

55. For the water division, Staff's analysis resulted in test year revenues of $353,109, expenses of $354,834 and an operating loss of $1,725.[56]

56. In its initial request, the Company made a pro forma adjustment to test year revenues that increased test year revenues by $179,937 to reflect the addition of 400 new customers over the next five years. Staff removed the imputed revenue and argued that the Company's pro forma adjustment to test year revenues did not meet the criteria for pro forma adjustments as defined in A.A.C. R14-2-103(a)(3)(i), which states that pro forma adjustments are "adjustments to actual test year results and balances to obtain a normal or more realistic relationship between revenues, expenses and rate base."[57]

57. In addition, the Company made pro forma adjustments to increase purchased power expense by $9,503, as a result of the adjustment to the number of water customers. Staff also

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[51] Ex RRU-5 Bourassa Dir at Sch B-1 (Wastewater)
[52] *Id.* at 20; Sch B-2 (Wastewater).
[53] *Id.* at Sch B-2 (Wastewater).
[54] Ex S-2 Hains Dir Wastewater Engineering Report at 11.
[55] Ex RRU-6 Bourassa Reb at 6.
[56] Ex S-4 Brown Dir at 18.
[57] *Id.* at 19.

eliminated this adjustment because Staff did not adopt the underlying adjustment to test year customers.[58]

58. The Company reported Repair and Maintenance Expense for the water division of $37,989. Staff reduced Repair and Maintenance Expense by $3,387, to $34,602, to reclassify to rate base the purchase of a pump that was placed in service in 2013.[59]

59. The Company proposed $60,000 in Contract Services, Management Fees Expense for the water division. Staff recommends decreasing Management Fee Expense by $50,000 because the Company did not provide supporting invoices or other information that would allow management costs to be allocated to the water division.[60]

60. The Company proposed $1,378 for Contractual Services, Water Testing Expense for the water division. Staff increased this by $1,240, to $2,618, in order to reflect the Staff Engineer's estimated water testing expense.[61]

61. The Company proposed Depreciation Expense of $132,265 for the water division. Staff adjusted Depreciation Expense to reflect Staff's calculation of using Staff's recommended depreciation rates, and plant and CIAC balances. Staff's adjustments increased Depreciation Expense by $9,547, to $141,812 for the water division.[62]

62. The Company proposed $26,568 for the water division's Property Tax Expense. Based on Staff's recommended revenue, Staff recommends decreasing Property Tax Expense by $8,968, to $17,600.[63]

63. The Company did not propose an Income Tax Expense as part of its effort to mitigate rate shock. For the test year, Staff calculated a negative Income Tax Expense of $446 based on the test year operating loss of $1,725. Under Staff's Plan A, which provides for zero operating income, Staff does not include an Income Tax Expense in the revenue requirement calculation because there is no income. Under Staff's Plan B based on a 9.5 percent rate of return, Staff calculated an Income

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[58] *Id.* at 20.
[59] *Id.* at 20-21.
[60] *Id.* at 21; Tr. at 171-172.
[61] Ex. S-4 Brown Dir at 22; Ex S-2 Hains Dir Water Engineering Report at 5.
[62] Ex S-4 Brown Dir at 23; CSB-12 and CSB-18.
[63] *Id.* at 24, CSB-12 and CSB-19.

Tax Expense of $70,000.[64]

64. Under Staff's Plan A, Staff recommends a revenue increase of $2,207, or 0.63 percent, for the water division, which would result in annual revenues of $355,316. After adjusted operating expenses of $355,316, RRU would have $0 operating income. Under Staff's proposed Plan B, based on a cost of capital of 9.5 percent, the revenue increase for the water division would be $207,670, or 58.81 percent, resulting in annual revenues of $560,779.[65] After adjusted operating expenses of $428,790, RRU's water division would have operating income of $131,989.

The Company agreed to accept Staff's recommended Plan A for this rate case, and did not oppose any of Staff's adjustments to operating income or expenses for the water division. Staff's adjustments to operating income items are reasonable. Under the circumstances of this case, which involves a utility owner with the financial ability, and willingness, to forego a positive rate-of-return at this time, we agree with the parties that Staff's Plan A is in the public interest and results in fair and reasonable rates.

Operating Income and Revenue Requirement- Wastewater

65. For the wastewater division, Staff's analysis resulted in adjusted test year revenues of $287,949, operating expenses of $504,100, and an operating loss of $216,151.[66]

66. In its Application, the Company made a pro forma adjustment to wastewater revenues that increased revenues by $189,600 to reflect the addition of 400 new customers over the next five years. As with the water division, Staff eliminated the Company's pro forma adjustment because it was too speculative to conform to the criteria for pro forma adjustments.[67]

67. The Company made a pro forma adjustment to increase Purchased Power Expense for the wastewater division by $38,517, related to the adjustment to customer counts. Staff eliminated the proposed pro forma adjustment because Staff does not adopt the underlying adjustment to customer counts.[68]

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[64] *Id.* at CSB-11 for Plan A and Plan B.
[65] Ex S-4 Brown Dir CSB-1 (Water Plan A and Plan B). Under Staff's proposed Plan A rates the average and median 5/8" x ¾" meter customer would not experience a bill increase. Under Staff's Plan B, the average 5/8" x 3/4" meter customer using 4,500 gallons, would see a monthly increase of $18.33, or 51.20 percent, from $35.80 to $54.13.
[66] Id. at 18.
[67] *Id.* at 19.
[68] *Id.* at 20.

68. The Company proposed $220,686 in Contract Services, Management Fees Expense for the wastewater division. Staff recommends decreasing Management Fee Expense for the wastewater division by $50,000, to $170,686, because the Company did not provide supporting invoices.[69]

69. The Company proposed $13,797 for Contractual Services, Water Testing Expense. Staff increased this expense by $4,845, to $18,642 in order to reflect the Staff Engineer's estimate.[70]

70. The Company proposed Depreciation Expense of $203,130 for the wastewater division. Staff's adjustments decreased Depreciation Expense by $8,943, to $194,187.[71]

71. The Company proposed a Property Tax Expense of $23,766 for the wastewater division. Based on its recommended revenues, Staff recommends decreasing Property Tax Expense for the wastewater division by $9,449, to $ 14,317.[72]

72. Under Staff's break even Plan A, Staff recommends a revenue increase of $355,517, or 123.5 percent, which would result in annual revenues of $643,466. After adjusted operating expenses of $643,466, the wastewater division would have $0 operating income. Under Staff's proposed Plan B, based on a fair value rate of return of 9.5 percent, the revenue increase for the wastewater division would be $491,049, or 170.5 percent, resulting in annual revenues of $778,998. After adjusted operating expenses of $686,252, RRU's wastewater division would have operating income of $92,766.[73]

73. The Company agreed to accept Staff's recommended Plan A for this rate case and did not oppose any of Staff's adjustments to operating income or expenses for the wastewater division. Staff adjustments to test year operating income items are reasonable. Under the circumstances of this case, which involves a utility owner with the financial ability, and willingness, to forego a positive rate-of-return at this time until the customer base can increase to a point where rates can be set based on a traditional rate-of-return analysis, we agree with the parties that Staff's Plan A is in the public interest and results in fair and reasonable rates for the wastewater division. We agree with the parties

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[69] *Id.* at 21.
[70] *Id.* at 22; Ex S- 2 Hains Dir Wastewater Engineering Report at 4.
[71] Ex S-1 Brown Dir at 23; CSB-11 and CSB-16.
[72] *Id.* at 24, CSB-11 and CSB-17.
[73] *Id.* at CSB-1 (Wastewater Plan A and Plan B).

that Plan A should be adopted for both the water and wastewater division because ratepayers are generally customers of both services, and will experience a combined rate impact.

Rate Design
Water Division

74. The parties have agreed to Staff's proposed Plan A rates for the water division.

75. For the water division under Plan A, the Company's current rates and the parties' recommended rates are as follows:[74]

	Present Rates	Parties' Proposed Rates
MONTHLY USAGE CHARGE:		
5/8" x ¾" Meter	$25.00	$25.00
¾" Meter	37.50	37.50
1" Meter	62.50	62.50
1 ½" Meter	125.00	125.00
2" Meter	200.00	200.00
3" Meter	375.00	400.00
4" Meter	625.00	625.00
6" Meter	1,250.00	1,250.00
Commodity Rates – per 1,000 Gallons		
5/8" x ¾" Meter- all classes except irrigation		
From 0 to 5,000 gallons	$2.40	
From 5,001 to 10,000 gallons	3.15	
Over 10,000 gallons	3.90	
From 1 to 5,000 gallons		$2.40
From 5,001 to 10,000 gallons		3.15
Over 10,000 gallons		4.07
5/8" x ¾" Meter - irrigation		
1 To 10,000 gallons	No Tariff	3.15
Over 10,000 gallons	No Tariff	4.07
¾" Meter – all classes except irrigation		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 10,000 gallons		3.15
Over 10,000 gallons		4.07

[74] Ex S-6 Brown Surr at CSB-1 (Plan A Water).

1" Meter – all classes except irrigation		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 20,000 gallons		3.15
Over 20,000 gallons		4.07
1 ½" Meter-Residential, Commercial & Industrial		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 50,000 gallons		3.15
Over 50,000 gallons		4.07
2" Meter-Residential, Commercial & Industrial		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 90,000 gallons		3.15
Over 90,000 gallons		4.07
3" Meter-Residential, Commercial & Industrial		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 200,000 gallons		3.15
Over 200,000 gallons		4.07
4" Meter-Residential, Commercial & Industrial		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 300,000 gallons		3.15
Over 300,000 gallons		4.07
6" Meter-Residential, Commercial & Industrial		
From 0 to 5,000 gallons	3.15	
Over 5,000 gallons	3.90	
From 1 to 500,000 gallons		3.15
Over 500,000 gallons		4.07

SERVICE CHARGE:

Establishment	$25.00	$25.00
Establishment (After Hours)	50.00	Eliminate
Reconnection (Delinquent)	30.00	30.00
Meter Test (If Correct)	No Tariff	30.00
Meter Reread (If Correct)	$15.00	15.00
Minimum Deposit	**	**
Deposit Interest	No Tariff	**
Reestablishment (Within 12 Months)	*	*
Reestablishment (after hours)	No Tariff	Denied
NSF Check	$25.00	$25.00

Deferred Payment (per month)	1.50%	1.50%
Late Payment Charge per month (R14-2-409G(6))	1.50%	1.50%
After Hour Service Charge (at cust. request) per hour	$50.00	Eliminate
After Hours Service Charge (at cust. request) flat rate	No Tariff	$50.00
Charge for moving meter at cust. request	Cost	Cost

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

<u>SERVICE LINE AND METER INSTALLATION CHARGES</u>
(Refundable pursuant to A.A.C. R14-2-405)

		Parties' Proposed		
	Current	Service Line	Meter	Total
5/8" x ¾" Meter	$400.00	$355.00	$45.00	$400.00
¾" Meter	440.00	355.00	85.00	440.00
1" Meter	500.00	405.00	95.00	500.00
1 ½" Meter	715.00	440.00	275.00	715.00
2" Turbine Meter	1,170.00	600.00	570.00	1,170.00
2" Compound Meter	1,700.00	600.00	1,100.00	1,700.00
3" Turbine Meter	1,585.00	775.00	810.00	1,585.00
3" Compound Meter	2,190.00	815.00	1,375.00	2,190.00
4" Turbine Meter	2,540.00	1,110.00	1,430.00	2,540.00
4" Compound Meter	3,215.00	1,170.00	2,045.00	3,215.00
6" Turbine Meter	4,815.00	1,670.00	3,145.00	4,815.00
6" Compound Meter	6,270.00	1,710.00	4,560.00	6,270.00
Over 6"	N/A	At Cost	At Cost	At Cost

76. Currently, RRU's water division's monthly minimum varies by meter size, no gallons are included in the monthly minimum, and commodity rates based on an inverted three tier block for the 5/8" x ¾" meter, and two blocks with the same 5,000 gallon break over point, for all other meter sizes. In its Application, the Company proposed to keep its minimum charges unchanged and to increase the commodity rates. The Company did not propose changes to meter and service line

installation charges.[75] Staff recommends keeping the current monthly minimum charges and keeping the three-tier commodity block design for the 5/8" meter, and implementing a two-tier block with increasing break over points for larger meters. In addition, Staff recommends breaking out the charges for meters and service lines.

77. The Company proposed to add a "Re-establishment (After Hours)" charge of $50, a "Meter Test (If Correct)" charge of $30 and a "Deposit Interest Charge" per Commission rule R14-2-403(B). Staff recommends eliminating the service-specific after hours charges, but agreed with the other additions.[76] The Company currently has an "After Hours Service Charge (at Customer's Request) of $50 per hour. Staff recommends that this service charge be revised to remove the "per hour" language, effectively changing the charge to a flat rate. For example, under Staff's proposal, a customer would be subject to a $30 Reconnection fee if it is done during normal business hours, but would pay an additional after-hours fee of $50 for a total of $80 (regardless of the number of hours spent) when the work is at the customer's request or convenience.[77] Staff's recommendation concerning the after-hours charge is consistent with charges approved for other utilities and is reasonable in this case.

78. The parties' proposed rates would not increase the monthly water bill of $35.80, for an average residential 5/8" x ¾" meter customer using 4,500 gallons per month. Neither would they increase the monthly water bill of the median residential 5/8" x ¾" meter customer using 5,155 gallons monthly. A residential 5/8" x ¾" meter customer using 11,000 gallons a month, would see an increase of $0.17, from $56.65 to $56.82 under the parties' proposed rates.[78]

79. Under the circumstances of this case, we find that the proposed rates and charges for the water division to be fair and reasonable, and we adopt them.

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[75] Ex S-5 Brown Rate Design and Cost of Service Dir at 7.
[76] *Id.* at 8.
[77] *Id.*
[78] *Id.* at CSB-2.

Wastewater Division

80. In its Application, in order to mitigate rate shock, the Company proposed to phase-in its proposed monthly wastewater charges over five years, with approximately one-fifth of the increase each year. The Company proposed to retain the current effluent commodity rate of $300.00 per acre foot.

81. Staff recommends the five year phase-in and accepted the proposed effluent rate. With the Company's acceptance of Staff's Plan A for the wastewater division, it has also accepted Staff's recommended Plan A rates and phase-in schedule.

82. The Company's current wastewater rates and the recommended rates under Plan A are as follows:[79]

Sewer Services Monthly Charge	Current Rates	Proposed Plan A Rates Year 1	Year 2	Year 3	Year 4	Year 5
5/8" x ¾"	$39.50	$49.68	$59.86	$70.03	$80.21	$90.39
¾"	59.25	74.52	89.78	99.96	115.23	135.59
1"	98.75	124.20	149.64	159.82	185.26	225.98
1 ½"	197.50	248.39	299.28	309.46	360.35	451.95
2"	316.00	397.42	478.85	489.03	570.45	723.12
3"	592.00	745.17	897.84	908.02	1,060.69	1,355.85
4"	987.50	1,241.95	1,496.40	1,506.58	1,761.03	2,259.75
6"	1,975.00	2,483.90	2,992.80	3,002.98	3,511.88	4,519.50
Effluent Sales (per acre foot)	300.00	300.00	300.00	300.00	300.00	300.00

SERVICE CHARGES:	Current Rates	Proposed Rates
Establishment (collected only if customer is sewer-only)	$15.00	$15.00
Re-establishment (within 12 months)	**	**
Reconnection (Delinquent)	$30.00	$30.00
Minimum Deposit	*	*
Deposit Interest	No Tariff	*
NSF Check	$25.00	$25.00

[79] Ex S-5 Brown Surr at 5 and CSB-1 (Wastewater Plan A).

Late Payment Penalty (per month)	1.50%	1.50%
Deferred Payment Finance Charge	1.50%	1.50%
Service Calls – per hour/after hours	$50.00	Discontinue
Service Calls – after hours (flat rate)	N/A	$50.00

* Per Commission Rule A.A.C. R14-2-603(B).
** Per Commission Rules A.A.C. R14-2-603(D)- Month off the system times the monthly minimum.

83. Under the Plan A rates and phase-in schedule, in year 1, the monthly 5/8" x ¾" meter wastewater rate increases $10.18, or 25.8 percent, from $39.50 to $49.68. In year 2, the monthly rate increases to $59.86, $10.20, or 20.5 percent, greater than the year 1 bill, and $20.36 or 51.5 percent, greater than the current rate. In year 3, the monthly bill increases to $70.03, an increase of $10.17, or 16.9 percent, over the previous year, and $30.53, or 77.3 percent, over current rates. In year 4, the monthly rate increases to $80.21, an increase of $10.18, or 14.5 percent, over the year 3 rate, and $40.71, or 103.3 percent, greater than the current rate. In year 5, the monthly rate increases to $90.39, an increase of $10.18, or 12.7 percent, over the year 4 rate, and $50.89, or 128.8 percent, greater than the current rate.

84. The Plan A rates and phase-in schedule for the wastewater division, as agreed by the parties, are fair and reasonable and should be adopted.

Deferral Accounting Order

85. The Company is requesting an accounting order authorizing it to defer for future ratemaking treatment and recognition the depreciation expense related to the excess capacity plant. For the water division, the Company requests deferral of depreciation expense associated with "excess capacity plant" totaling $743,138.[80] For the wastewater division, the Company seeks deferral of depreciation expense associated with excess capacity wastewater treatment plant totaling $2,396,888.[81]

86. RRU asserts that an accounting order allowing the Company to track depreciation expense on the excess capacity plant so that it could request recovery of the expense at a later date, is

[80] Company Brief at 5. The excess capacity plant is comprised of water treatment equipment in the amount of $255,543, and Distribution Reservoirs and Standpipes in the amount of $498,596.
[81] *Id.* at 5.

appropriate because decisions that the Company made in 2004 through 2006 about backbone plant and capacity were prudent and reasonable at the time.[82] The Company asserts that in 2005 and 2006 it could not foresee the prolonged economic downturn that dramatically impacted residential developments in southern Arizona such as the Villages at Red Rock. In addition to the recession, the Company notes that new home development did not commence as soon after the CC&N was granted as had been anticipated because of the sale of the development to Pulte Homes.[83] The Company states that it made plant capacity adjustments to mitigate rate shock, and believes that the "unique" facts of this case warrant allowing it to seek recovery of the depreciation expense associated with these capacity adjustments.[84] The Company believes the relevant unique facts include: (1) the excess capacity plant is not the result of imprudent sizing and design decisions, or unrealistic customer growth projections; (2) the depreciation expense proposed to be deferred only encompasses the costs going forward and related to plant which RRU removed from rate base at its own initiative; (3) RRU is not seeking to defer any recorded depreciation expense for a prior period; (4) RRU is not proposing future rate recovery of carrying costs on the deferred balances; and (5) RRU has agreed to accept the "breakeven" ratemaking approach of Plan A which the Company states "results in a significantly lower increase in wastewater rates" than would result under RRU's original Application or Staff's Plan B.[85]

87. The Company recognizes that allowing the deferral does not assure future rate recovery.[86] The Company attempted to estimate the future rate impact of a deferral order, which indicates that assuming the next rate case in five years, and a ten year recovery period of the deferred expenses, the per customer impact on water rates would be $1.00 per month and the per customer impact on wastewater rates would be $7.99 per month.[87]

88. The Company argues that the proposed accounting order would not violate any

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[82] *Id.* at 6.
[83] *Id.* at 6-7.
[84] *Id.* at 8.
[85] *Id.* at 11-12.
[86] *Id.* at 3 and Tr. at 79-80.
[87] Company Brief at 8-9. Ex RRU-7 Bourassa RJ at 5. Using a 20 year recovery period, the impact would be $0.50 for a water bill and $3.99 for a wastewater bill. Both estimates assume growth of 80 new customers per year. According to the Company, if there are more customers in five years, the impact would be less.

accounting standards and is within the Commission's authority and discretion.[88] The Company asserts that Section 186 (A)(7) of the NARUC Uniform System of Accounts requires that it must appear "probable" at the time the accounting order is approved that at some future date, at least some of the depreciation expense proposed to be deferred will be recognized and provided for in future RRU water and wastewater rates.[89] RRU believes that whether the required probability exists depends upon whether the case possesses "unique" circumstances. RRUI believes that the instant "unique" circumstances, while not identical to those present in the Goodman Water Company case (where the Commission approved an accounting order for the deferral of depreciation expense), are equally compelling.[90]

89. Staff does not support an accounting order to defer depreciation expense. Staff argues that the plant that the Company characterizes as "excess capacity" is not used and useful because it is not serving customers. Staff believes that ratepayers should only be required to pay the actual and reasonable cost of plant that is needed to provide service. Staff also believes that the Company's request would harm customers and unfairly enrich the owners.[91] Staff argues that the decision to build the plant rested solely with the Company and that there is always a risk that any investment decision can under-perform and that the investor could lose a portion or all of his or her initial investment. Staff asserts that to defer depreciation expense on the excess capacity plant would be tantamount to requiring captive customers to subsidize the owner's loss from a high risk investment that did not meet investor expectations.[92]

90. Staff believes that the total impact on ratepayers of a deferral order may be greater than estimated by the Company because RRU's estimates are based on "aggressive" customer growth projections.[93] Staff notes that the Company's growth projections of 80 new connections a year, are significantly greater than the growth in 2014 of 42 new customers. Staff asserts that should growth be less than the 400 customer projection after five years, the impact on ratepayers would be higher than

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[88] Company Brief at 10-12.
[89] Tr. at 116-117, and 131-132.
[90] *See* Decision No. 72897 (February 21, 2012) (Goodman Water Company rate case which involved an issue of excess capacity).
[91] Ex S- 4 Brown Dir at 23.
[92] *Id.* at 24.
[93] Staff Brief at 4.

projected by the Company. In addition, Staff asserts that the Company's estimates show that based on current capacity and daily flows, there would continue to be excess capacity in five years. Based on the Company's actual growth rates for 2005-2014, Staff estimates an average of 34 additional customers a year, with 859 customers by 2019.[94] Based on its current flows for treatment of 115 gallons per day per capita, Staff calculates an average daily wastewater flow of 98,785 gallons per day in 2019. Staff argues that based on the current treatment capacity of 300,000 GPD, the Company would need even more growth than 400 new connections to avoid excess capacity in five years.[95] Furthermore, Staff asserts that the Company's impact projections assume a rate of return of 10 percent, when the agreed rate of return in this case is 9.5 percent. Finally, Staff is concerned that the Company's projected impact may include costs that customers are avoiding on account of the rate base adjustments and the removal of depreciation expense, but if there is excess capacity, customers would not be incurring these costs.[96]

91. Staff argues that in other cases in which the Commission has approved accounting orders, the Commission has identified a benefit to ratepayers, such as finding that the plant associated with the request was providing a benefit to ratepayers.[97] Staff distinguishes the Goodman Water Co. case because it was a settlement agreement involving the majority of the parties to that case, but not including Staff. In this case, Staff argues the Company has not demonstrated the need for an accounting order nor identified benefits to its ratepayers. Staff claims that the only benefit the Company has cited is to minimize the Company's losses and reduce erosion of equity.

92. An accounting order is a ratemaking mechanism that allows the deferral of costs and/or savings by a regulated utility for possible future recovery or credit.[98] The purpose of an accounting order is to give a utility authority to record transactions differently than otherwise allowed

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[94] *Id.*
[95] *Id.* Assuming 400 new wastewater customers, RRU would have 1,019 wastewater connections; multiplied by 115 GPD results in 117,185 treated gallons.
[96] *Id.* at 5.
[97] In Decision No. 74911 (January 22, 2015), the Commission found that a deferral order was appropriate where UNS Electric, Inc. had demonstrated a benefit to both the company and its ratepayers from the acquisition of a combined-cycle natural gas fired generating plant that provided an efficient and economical source of baseline power. Similarly, in Decision No. 73130 (April 24, 2012), the Commission authorized an accounting order for Arizona Public Service in the acquisition of the Four Corners Plant, noting that there would be a cost savings to ratepayers.
[98] Staff Brief at 3, *citing* Decision No. 74911 at 7.

by the NARUC Uniform System of Accounts. In this case, if approved, the Commission would be authorizing RRU to record the depreciation expense on the excess plant as a regulatory asset subject to potential future recovery from ratepayers instead of recording it as a current operating expense.

93. The Company is seeking to defer $212,188 of depreciation expense, of which $23,544 is attributable to excess capacity on the Company's water division plant and $188,644 is attributable to excess capacity on the Company's wastewater division plant.[99]

94. We find that the Company has not demonstrated that an accounting order allowing it to seek future recovery of depreciation expense on water and wastewater plant that is "excess capacity" and not "used and useful" is in the public interest. Thus, we deny the request.

95. On the water side, the "excess capacity" is associated with a water treatment plant and distribution reservoir.[100] Staff calls these assets not used and useful. Whatever their appellation, the evidence shows that these facilities are not being used to provide service to existing water customers. For various reasons, development of the Red Rock Village did not occur as planned. Ratepayers, current or future, should not be responsible for costs associated with plant that is not providing service. The utility, which once was associated with the Red Rock Village developer, bears the risk associated with the development. This is not a unique circumstance that merits extraordinary ratemaking treatment.

96. On the wastewater side, the "excess capacity" is associated with the wastewater treatment facility. RRU offered evidence why it opted to construct the particular facility type, which was the smallest size available.[101] There were benefits to the Company from its decision, including minimizing the amount of land needed for the plant which in turn maximized the land available for home sales and connections. By minimizing odors, the development becomes more attractive to home buyers, which assists sales in a competitive market.

97. The benefits to ratepayers from odor control and general attractiveness are a happy consequence of the business decisions of the developer and utility. They do not offer the same monetary benefits to customers as it provides the utility. The utility assumed the risk of development,

[99] Ex RRU-7 Bourassa Rj at TJB-1.
[100] *Id.* at TLB-RJ-1,
[101] Tr. at 22-26.

and it is not fair or reasonable to require current or future ratepayers to pay for the costs of plant that is not being used to provide service.

98. The current situation is distinct from the Goodman Water Co. case because in the latter, there was evidence that the topography of the development required the full build-out of the water system.[102] Here, there is no evidence that RRU had to build the type of wastewater treatment facility it chose. Moreover, the Goodman Water case involved a settlement between the utility, the Residential Utility Consumer Office and individual ratepayer intervenors that resolved a very contentious issue.

99. The Company states that it is agreeing to revenues that are lower than it proposed.[103] This is because its initial proposal included 400 additional customers that do not exist. It is speculative, and optimistic, that it will have 400 new connections in five years. The wastewater rates to which the Company is agreeing under Plan A are higher than the rates it proposed in its Application. It is likely the Company is better off (i.e. will receive higher revenues from higher rates) under Staff's Plan A than under its original request.

100. Because the rates approved herein are based on test year customer counts, it is important that as the Company continues to connect new customers, that the rates be evaluated periodically. Thus, it is reasonable to have the Company file its next rate application no later than five years after the effective date of the rates approved herein (i.e. August 1, 2020) using a 2019 test year. Of course, the Company may file a rate application at any time.

CONCLUSIONS OF LAW

1. RRU 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 RRU and the subject matter of the Rate Application.

3. Notice of the Rate Application was provided in the manner prescribed by law.

4. RRU's FVRB for its water division is $1,389,355 and for its wastewater division is

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[102] Decision No. 72897 at 8 and 20.
[103] Company Brief at 12.

$976,488.

5. Under the circumstances of this proceeding, including the Company's agreement, a rate of return on FVRB of 0 percent for both the water and wastewater divisions, and a five-year phase-in for wastewater rates, is fair and reasonable.

6. The rates and charges authorized herein are just and reasonable and should be approved.

ORDER

IT IS THEREFORE ORDERED that Red Rock Utilities, LLC shall file with Docket Control, as a compliance item in this docket, by July 31, 2015, revised rate schedules that comply with the following rates and charges:

WATER DIVISION

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$25.00
¾" Meter	37.50
1" Meter	62.50
1 ½" Meter	125.00
2" Meter	200.00
3" Meter	400.00
4" Meter	625.00
6" Meter	1,250.00

Commodity Rates – per 1,000 Gallons

5/8" x ¾" Meter- all classes except irrigation	
From 1 to 5,000 gallons	$2.40
From 5,001 to 10,000 gallons	3.15
Over 10,000 gallons	4.07
5/8" x ¾" Meter - irrigation	
From 1 to 10,000 gallons	3.15
Over 10,000 gallons	4.07
¾" Meter – all classes except irrigation	
From 1 to 10,000 gallons	3.15
Over 10,000 gallons	4.07
1" Meter – all classes except irrigation	
From 1 to 20,000 gallons	3.15
Over 20,000 gallons	4.07

1 ½" Meter-Residential, Commercial & Industrial	
From 1 to 50,000 gallons	3.15
Over 50,000 gallons	4.07
2" Meter-Residential, Commercial & Industrial	
From 1 to 90,000 gallons	3.15
Over 90,000 gallons	4.07
3" Meter-Residential, Commercial & Industrial	
From 1 to 200,000 gallons	3.15
Over 200,000 gallons	4.07
4" Meter-Residential, Commercial & Industrial	
From 1 to 300,000 gallons	3.15
Over 300,000 gallons	4.07
6" Meter-Residential, Commercial & Industrial	
From 1 to 500,000 gallons	3.15
Over 500,000 gallons	4.07

SERVICE CHARGE:

Establishment	$25.00
Reconnection (Delinquent)	30.00
Meter Test (If Correct)	30.00
Meter Reread (If Correct)	15.00
Minimum Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	$25.00
Deferred Payment (per month)	1.50%
Late Payment Charge per month (R14-2-409G(6))	1.50%
After Hours Service Charge (at cust. request) flat rate	$50.00
Charge for moving meter at cust. request	Cost

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

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

	Service Line	Meter	Total
5/8" x ¾" Meter	$355.00	$45.00	$400.00
¾" Meter	355.00	85.00	440.00
1" Meter	405.00	95.00	500.00
1 ½" Meter	440.00	275.00	715.00
2" Turbine Meter	600.00	570.00	1,170.00

2" Compound Meter	600.00	1,100	1,700.00
3" Turbine Meter	775.00	810.00	1,585.00
3" Compound Meter	815.00	1,375.00	2,190.00
4" Turbine Meter	1,110.00	1,430.00	2,540.00
4" Compound Meter	1,170.00	2,045.00	3,215.00
6" Turbine Meter	1,670.00	3,145.00	4,815.00
6" Compound Meter	1,710.00	4,560.00	6,270.00
Over 6"	At Cost	At Cost	At Cost

WASTEWATER DIVISION

Monthly Charge	Year 1	Year 2	Year 3	Year 4	Year 5
5/8" x ¾"	$49.68	$59.86	$70.03	$80.21	$90.39
¾"	74.52	89.78	99.96	115.23	135.59
1"	124.20	149.64	159.82	185.26	225.98
1 ½"	248.39	299.28	309.46	360.35	451.95
2"	397.42	478.85	489.03	570.45	723.12
3"	745.17	897.84	908.02	1,060.69	1,355.85
4"	1,241.95	1,496.40	1,506.58	1,761.03	2,259.75
6"	2,483.90	2,992.80	3,002.98	3,511.88	4,519.50
Effluent Sales (per acre foot)	300.00	300.00	300.00	300.00	300.00

SERVICE CHARGES:	
Establishment (collected only if customer is sewer-only)	$15.00
Re-establishment (within 12 months)	**
Reconnection (Delinquent)	$30.00
Minimum Deposit	*
Deposit Interest	*
NSF Check	$25.00
Late Payment Penalty (per month)	1.50%
Deferred Payment Finance Charge	1.50%
Service Calls – after hours (flat rate)	$50.00

* Per Commission Rule A.A.C. R14-2-603(B).
** Per Commission Rules A.A.C. R14-2-603(D)- Month off the system times the monthly minimum.

IT IS FURTHER ORDERED that the authorized rates and charges for the water division shall be effective for all service provided on and after August 1, 2015.

IT IS FURTHER ORDERED that the authorized rates for the Year 1 charges and the authorized services charges for the wastewater division shall be effective for all service provided on and after August 1, 2015, and that thereafter the authorized yearly phase-in of the monthly charge in years 2 through 5 shall be effective on August 1st in years 2016 through 2019.

IT IS FURTHER ORDERED that Red Rock Utilities, LLC shall notify its customers of the rates and charges authorized herein, and their effective dates, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing.

IT IS FURTHER ORDERED that Red Rock Utilities, LLC shall notify its customers of the year 2 through 5 wastewater rates, either as a bill insert or in a separate mailing, at least 30 days in advance of the effective dates for the new rates.

IT IS FURTHER ORDERED that, in addition to the collection of its regular rates and charges, Red Rock Utilities, LLC shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Red Rock Utilities, LLC's BMP Tariffs as set forth in the Water Engineering Report filed in this proceeding are approved.

IT IS FURTHER ORDERED that Red Rock Utilities, LLC shall notify its customers, in a form acceptable to Staff, of the BMP Tariffs and their effective date by means of either an insert in its next regularly scheduled billing or by a separate mailing, and shall provide copies of the BMP Tariffs to any customer upon request.

IT IS FURTHER ORDERED that Staff shall file a letter in the Docket confirming that the Company's tariffs have been updated with the tariffs approved by the Commission, and that the BMP Tariffs shall be effective 30 days after the date notice is sent to customers.

IT IS FURTHER ORDERED that Red Rock Utilities, LLC may request cost recovery of the actual costs associated with the implemented BMPs in its next general rate application.

IT IS FURTHER ORDERED that Red Rock Utilities, LLC's request for an accounting order, as discussed herein, is denied.

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IT IS FURTHER ORDERED that Red Rock Utilities LLC may file its next rate application at any time, but **shall file a rate case no later than August 1, 2020**, using a 2019 test year.

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 15th day of July 2015.

Jodi A. Jerich

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ______________________

DISSENT ______________________
JR/tv

SERVICE LIST FOR: RED ROCK UTILITIES, LLC

DOCKET NO.: WS-04245A-14-0295

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