

OPEN MEETING



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ORIGINAL

MEMORANDUM
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Arizona Corporation Commission

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TO: THE COMMISSION

2015 MAR 16 P 3:46

MAR 16 2015

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY	
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DATE: March 16, 2015

RE: IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS RATES AND CHARGES BASED THEREON (DOCKET NO. W-01651B-12-0339)

SUBJECT: IMPLEMENTATION OF CENTRAL ARIZONA PROJECT ("CAP" OR "PROJECT") SURCHARGE

I. Introduction

On November 19, 2014, pursuant to Decision No. 73995 (July 30, 2013), Vail Water Company ("Vail" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Project ("CAP") surcharge fees. The Company's Application was substantially revised on January 29, 2015.

Decision No. 73995 and the Amended Plan of Administration approved in the Decision authorized the direct delivery of CAP water to the Company's service area and created a surcharge mechanism to recover the cost of CAP water and its delivery.

The Amended Plan of Administration requires the Company to file its first surcharge request prior to taking delivery of CAP water. Thereafter, the Company must file a report on or before February 1st of each year showing its collections under the CAP surcharge.¹ The first surcharge requires Commission approval. Thereafter, each surcharge will be administratively approved with an effective date of April 1 unless Commission Staff objects to the calculation or the increase is greater than \$1.00 per 1,000 gallons.

II. Background

The CAP was established by the Colorado River Basin Project Act of 1968 to transport water from the Colorado River to central and southern Arizona. Water is delivered to three Active Management Areas ("AMAs"), Phoenix, Pinal and Tucson. Members pay an annual commodity and delivery charge. In addition, members are allowed to recharge or store water from the annual CAP allotment to earn Long Term Storage Credits ("LTSCs") that may be sold or applied to future water purchases.

¹ In addition to requiring an annual filing on February 1, the Amended Plan of Administration also requires the Company "to make annual filings prior to the anniversary of the effective date of the initial CAP surcharge." The effective date of the initial CAP surcharge is April 1, 2015. Therefore, the due date of this filing will be April 1 each year thereafter. However, to avoid duplicative February 1 and April 1 annual filings, Staff will accept the Company's February 1 filing as satisfying both filing requirements.

Vail is a 4,116-connection water company located in southern Pima County. Vail has been buying and recharging CAP water since 2000, and it is using the CAP water to meet the Company's recharge obligation. A recently-completed booster station and transmission line will allow the delivery of CAP water that has been wheeled by the City of Tucson to be delivered to the Company's service area.

III. Calculation of the CAP Surcharge

Decision No. 73995 specified seven components of the CAP surcharge. "Once the total of the component costs have been determined, the CAP surcharge (per 1,000 gallons) will be calculated by dividing the total costs by the prior year's gallons sold (in 1,000s)."² An illustrative exhibit was attached to the Decision and Amended Plan of Administration.

Vail's CAP surcharge mechanism calculations for the years 2014 and 2015 are attached hereto as Exhibit A and Exhibit B. No surcharge fee is requested for 2014 as the Company's entire allotment was recharged. The Company requests a 2015 CAP surcharge of \$2.08 per 1,000 gallons of usage. The surcharge will increase the monthly bill of the typical residential user with median usage of 5,500 gallons per month from \$33.90 to \$45.34, \$11.44, an increase of 33.75%.

Component No. 1 calculates the variance between the current CAP charge and the CAP base rate of \$105.87. Component 2 adds the City of Tucson's cost for wheeling the CAP water from the CAP canal to the Company's service area. Unrecovered recharge credits are deducted in Component 3. Component 4 consists of a true up of the prior year's under or over recovery. The cost of LTSCs is added in Component 5. Component 6 deducts the ratepayer's 50% share of any gain on the sale of LTSCs. Component 7 credits the account for water loss exceeding 10%. Finally, total net costs to be recovered are divided by the gallons sold (in 1,000s) in the previous year.

VI. Conclusions and Recommendations

Staff concludes that the Company has duly filed a sufficient request to receive a CAP surcharge fee, as required by Decision No. 73995.

Staff recommends approval of the CAP surcharge fee as described herein.

Staff recommends that the Company file, within seven days of a Decision in this matter, the CAP surcharge fee tariff consistent with the rate approved herein.

Staff recommends that the Company notify its customers, in a form acceptable to Staff of the CAP surcharge fee tariff approved in the first bill in which this fee appears.

² Decision 73995 Amended Plan of Administration, P. 2, paragraph 7

THE COMMISSION

March 16, 2015

Page 3

Staff recommends that the CAP surcharge fee authorized herein become effective for all billings after May 1, 2015.



for

Steven M. Olea
Director
Utilities Division

SMO:JK:red\BES

Originator: Jorn Keller

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND PROPERTY
AND FOR AN INCREASE IN ITS RATES
AND CHARGES BASED THEREON

DOCKET NO. W-01651B-12-0339
DECISION NO. _____
ORDER

Open Meeting
April 14 and 15, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On November 19, 2014, pursuant to Decision No. 73995 (July 30, 2013), Vail Water Company ("Vail" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Project ("CAP") surcharge fees. The Company's Application was substantially revised on January 29, 2015.

2. Decision No. 73995 and the Amended Plan of Administration approved in the Decision authorized the direct delivery of CAP water to the Company's service area and created a surcharge mechanism to recover the cost of CAP water and its delivery. The Amended Plan of Administration requires the Company to file its first surcharge request prior to taking delivery of CAP water. Thereafter, the Company must file a report on or before February 1st of each year showing its

1 collections under the CAP surcharge.¹ The first surcharge requires Commission approval. Thereafter,
2 each surcharge will be administratively approved with an effective date of April 1 unless Commission
3 Staff objects to the calculation or the increase is greater than \$1.00 per 1,000 gallons.

4 **Background**

5 3. The CAP was established by the Colorado River Basin Project Act of 1968 to transport
6 water from the Colorado River to central and southern Arizona. Water is delivered to three Active
7 Management Areas (“AMAs”), Phoenix, Pinal and Tucson. Members pay an annual commodity and
8 delivery charge. In addition, members are allowed to recharge or store water from the annual CAP
9 allotment to earn Long Term Storage Credits (“LTSCs”) that may be sold or applied to future water
10 purchases.

11 4. Vail is a 4,116-connection water company located in southern Pima County. Vail has
12 been buying and recharging CAP water since 2000, and it is using the CAP water to meet the
13 Company’s recharge obligation. A recently-completed booster station and transmission line will allow
14 the delivery of CAP water that has been wheeled by the City of Tucson to be delivered to the
15 Company’s service area.

16 **Calculation of the CAP Surcharge Fee**

17 5. Decision No. 73995 specified seven components of the CAP surcharge. “Once the total
18 of the component costs have been determined, the CAP surcharge (per 1,000 gallons) will be
19 calculated by dividing the total costs by the prior year’s gallons sold (in 1,000s).”² An illustrative
20 exhibit was attached to the Decision and Amended Plan of Administration.

21 6. Vail’s CAP surcharge mechanism calculations for the years 2014 and 2015 are attached
22 hereto as Exhibit A and Exhibit B. No surcharge fee is requested for 2014 as the Company’s entire
23 allotment was recharged. The Company requests a 2015 CAP surcharge of \$2.08 per 1,000 gallons of
24 ...

25 _____
26 ¹ In addition to requiring an annual filing on February 1, the Amended Plan of Administration also requires the
27 Company “to make annual filings prior to the anniversary of the effective date of the initial CAP surcharge.” The
28 effective date of the initial CAP surcharge is April 1, 2015. Therefore, the due date of this filing will be April 1 each
year thereafter. However, to avoid duplicative February 1 and April 1 annual filings, Staff will accept the Company’s
February 1 filing as satisfying both filing requirements.

² Decision 73995 Amended Plan of Administration, P. 2, paragraph 7

1 usage. The surcharge will increase the monthly bill of the typical residential user with median usage of
2 5,500 gallons per month from \$33.90 to \$45.34, \$11.44, an increase of 33.75%.

3 7. Component No. 1 calculates the variance between the current CAP charge and the
4 CAP base rate of \$105.87. Component 2 adds the City of Tucson's cost for wheeling the CAP water
5 from the CAP canal to the Company's service area. Unrecovered recharge credits are deducted in
6 Component 3. Component 4 consists of a true up of the prior year's under or over recovery. The
7 cost of LTSCs is added in Component 5. Component 6 deducts the ratepayer's 50% share of any gain
8 on the sale of LTSCs. Component 7 credits the account for water loss exceeding 10%. Finally, total
9 net costs to be recovered are divided by the gallons sold (in 1,000s) in the previous year.

10 Conclusions and Recommendations

11 8. Staff concludes that the Company has duly filed a sufficient request to receive a CAP
12 surcharge fee, as required by Decision No. 73995.

13 9. Staff recommends approval of the CAP surcharge fee as described herein.

14 10. Staff recommends that the Company file, within seven days of a Decision in this
15 matter, the CAP surcharge fee tariff consistent with the rate approved herein.

16 11. Staff recommends that the Company notify its customers, in a form acceptable to
17 Staff, of the CAP surcharge fee tariff approved in the first bill in which this fee appears.

18 12. Staff recommends that the CAP surcharge fee authorized herein become effective for
19 all billings after April 1, 2015.

20 13. We find that Staff's recommendations are reasonable and should be adopted.

21 CONCLUSIONS OF LAW

22 1. The Company is a public water service corporation within the meaning of Article XV
23 of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

24 2. The Commission has jurisdiction over the Company and the subject matter of the
25 application.

26 3. Approval of the proposed CAP water surcharge is consistent with the Commission's
27 authority under the Arizona Constitution, Arizona ratemaking statutes and applicable case law.

28 ...

1 IT IS FURTHER ORDERED that Vail Water Company docket with the Commission as a
2 compliance matter, within seven (7) days of the effective date of this Decision, the Central Arizona
3 Project surcharge fee tariff consistent with the rate approved herein.

4 IT IS FURTHER ORDERED that Vail Water Company shall notify its customers, in a form
5 acceptable to Staff, of the Central Arizona Project surcharge fee approved herein within 30 days from
6 the effective date of the Decision.

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

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9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN COMMISSIONER

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COMMISSIONER COMMISSIONER COMMISSIONER

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IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of
the Arizona Corporation Commission, have hereunto, set my hand and
caused the official seal of this Commission to be affixed at the Capitol,
in the City of Phoenix, this _____ day of
_____, 2015.

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JODI JERICH
EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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SMO:JK:sms\BES

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1 SERVICE LIST FOR: Vail Water Company
2 DOCKET NO. W-01651B-12-0339

3 Mr. Michael Hallam
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10 Arizona Reporting Service, Inc.
11 2200 N. Central STE 502
12 Phoenix Arizona 85004

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14 Operations Manager
15 Vail Water Company
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17 Vail Arizona 85641

18 Mr. Christopher Volpe
19 Vail Water Company
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21 Tucson Arizona 85710

22 Mr. Steven M. Olea
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24 Arizona Corporation Commission
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Ms. Lynn Farmer
Director, Hearing Division
Arizona Corporation Commission
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Exhibit A

Vail Water Company
 CAP Surcharge Mechanism
 Computation of CAP Surcharge (Year 1)
Docket Number W-01651B-12-0339
Decision Number 73995

AMENDEDComponent 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)		1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$	105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$	166.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$	60.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[1]	\$	111,661

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)		-
[7]	Wheeling fee (per a.f.)	\$	606.33
[8]	Total Wheeling Fees	\$	-

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]		1,857
[10]	CAP Rate Increase (per a.f.) = [4]	\$	60.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$	(111,661)

Component 4 - Prior Year Under/(Over) Recovery (Not applicable in Year 1)

[12]	Total amount to be recovered via surcharge =[38] from prior year calc	\$	-
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		-
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$	-
[15]	Amounts recovered via surcharge [13]x[14]	\$	-
[16]	Prior Year Under (Over) recovery [12]-[15]	\$	-

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)		-
[18]	Average Cost (provide support)	\$	-
[19]	Total Cost [17]x[18]	\$	-

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)		283.34
[21]	Average Cost per a.f. (provide support) (18)	\$	150.55
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$	42,656.84
[23]	Total Sales of Long-term Storage Credits	\$	42,656.84
[24]	Gain on Sale of Storage Credits [23]-[22]	\$	-
[25]	Shared with Ratepayers (%)		50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$	-

Component 7 - Excess Water Loss Disallowance

[27]	Gallons Sold in Prior Year (in 1,000's) (provide support)		361,869
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		6,040
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		367,909
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		408,788
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		390,119
[32]	Water Loss (in 1,000's) [31] - [30]		(18,669)
[33]	Percent Water Loss [32]/[31]x100		-4.79%
[34]	Allowed Water Loss Percentage		10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$	-
[37]	Water Loss Credit [35]x[36]	\$	-

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$	-
[39]	Gallons sold in prior year (in 1,000's) (27)		361,869
[40]	Cost per 1,000 gallons [38]/[39]	\$	-

Decision No. _____

Exhibit B

Vail Water Company
CAP Surcharge Mechanism
Computation of CAP Surcharge (Year 2)
Docket Number W-01651B-12-0339
Decision Number 73995

Page 2 of 2

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)		1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$	105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$	179.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$	73.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[5]	\$	135,802

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)		1,100
[7]	Wheeling fee (per a.f.)	\$	606.33
[8]	Total Wheeling Fees	\$	666,963

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]		757
[10]	CAP Rate Increase (per a.f.) = [4]	\$	73.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$	(55,359)

Component 4 - Prior Year Under/(Over) Recovery

[12]	Total amount to be recovered via surcharge =[38] from prior year calc	\$	-
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)		-
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$	-
[15]	Amounts recovered via surcharge [13]x[14]	\$	-
[16]	Prior Year Under (Over) recovery [12]-[15]	\$	-

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)		-
[18]	Average Cost (provide support)	\$	157.13
[19]	Total Cost [17]x[18]	\$	-

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)		240.58
[21]	Average Cost per a.f. (provide support) (18)	\$	157.13
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$	37,802
[23]	Total Sales of Long-term Storage Credits	\$	37,802
[24]	Gain on Sale of Storage Credits [23]-[22]	\$	-
[25]	Shared with Ratepayers (%)		50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$	-

Component 7 - Excess Water Loss Disallowance

[27]	Gallons sold in previous 12 months (in 1,000s) (provide support) (13)		359,895
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)		1,116
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]		361,011
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90		401,123
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)		395,049
[32]	Water Loss (in 1,000's) [31] - [30]		(6,074)
[33]	Percent Water Loss [32]/[31]x100		-1.54%
[34]	Allowed Water Loss Percentage		10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)		0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$	747,406
[37]	Water Loss Credit [35]x[36]	\$	-

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$	747,406
[39]	Gallons sold in previous 12 months (in 1,000s) (27)		359,895
[40]	Cost per 1,000 gallons [38]/[39]	\$	2.08

Decision No. _____