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BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS

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DOCKET NO. WS-04235A-13-0331

STAFF'S POST-HEARING BRIEF

7 IN THE MATTER OF THE APPLICATION OF
 8 UTILITY SOURCE, LLC, AN ARIZONA
 CORPORATION, FOR A DETERMINATION
 9 OF THE FAIR VALUE OF ITS UTILITY
 PLANTS AND PROPERTY AND FOR
 10 INCREASES IN ITS CHARGES FOR UTILITY
 SERVICE BASED THEREON.

11
 12 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
 13 hereby submits its post-hearing brief in the above captioned matter.

14 **I. INTRODUCTION.**

15 On September 27, 2013, Utility Source, L.L.C. ("Utility Source" or "Company") filed an
 16 application with the Commission to increase rates for both its water and wastewater service. Utility
 17 Source is an Arizona public service corporation authorized to provide water and wastewater service
 18 within Coconino County, Arizona. Utility Source was issued a Certificate of Convenience and
 19 Necessity ("CC&N") on January 4, 2005 in Decision No. 67446. According to the Company, the
 20 water division serves approximately 320 residential customers, 4 commercial, and 1 irrigation
 21 customer.¹ Further, the Company's wastewater division serves 320 residential customers, and 4
 22 commercial customers.²

23 The Company is proposing a total revenue requirement for the water division of \$413,519,
 24 which is an increase in revenue of \$207,335, or 100.56 percent over adjusted test year revenues.³ For

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 28 ¹ Ex. A-5 Water Division H-2.
² Ex. A-5 Wastewater Division H-2.
³ Bourassa Water Division Final Schedule A-1.

1 the wastewater division, the Company proposes a total revenue requirement of \$318,237 which
2 constitutes an increase in revenues of \$198,773 or 166.39 percent over adjusted test year revenues.⁴

3 Staff recommends a total revenue requirement for the water division of \$365,926, which is an
4 increase in revenue of \$159,742, or 77.48 percent over adjusted test year revenues.⁵ For the
5 wastewater division, Staff recommends a total revenue requirement of \$305,275, which is an increase
6 in revenue of \$185,811, or 155.54 percent over adjusted test year revenues.⁶

7 As of the conclusion of the hearing in this matter, but for the rate treatment to be given to the
8 cost of service for the standpipe facility which commenced providing service in September, 2014,
9 there are no income statement adjustments or rate base adjustments in dispute. The remaining
10 differences between Staff and the Company are recommendations regarding cost of equity, rate
11 design for both the water and wastewater divisions, engineering recommendations regarding BMPs
12 and the need for an analysis to determine water distribution performance during high demand events.

13 Revenue Requirement

14 There are no rate base or expense issues in dispute between Staff and the Company. The
15 differences that exist between what the Company is seeking and what Staff is recommending for
16 revenue requirement are due primarily to differences in the cost of equity the impact Staff's proposed
17 treatment of the standpipe operations has due to the allocation of the percentage of certain rate base
18 items and expense items to its operation.

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Water	Revenue Requirement	Revenue Increase	% Increase	Fair Value Rate Base
Company	\$413,519	\$207,335	100.56	\$1,499,779
Staff	\$365,926	\$159,742	77.48	\$1,473,541

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Waster Water	Revenue Requirement	Revenue Increase	% Increase	Fair Value Rate Base
Company	\$318,237	\$198,773	166.39	\$825,880
Staff	\$305,275	\$185,811	155.54	\$825,880

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⁴ Bourassa Wastewater Division Final Schedule A-1.

⁵ Keller Water Division Final Post-Hearing Schedule JLK-W1.

⁶ Keller Wastewater Division Final Post-Hearing Schedule JLK-WW1.

1 In addition, Staff is recommending the following rate base and revenue requirement for the standpipe
2 operations.

3	Revenue	Fair Value
4 Standpipe	Requirement	Rate Base
5 Staff	\$127,685	\$506,334

6 **II. COST OF CAPITAL.**

7 **A. Cost of Debt and Capital Structure.**

8 Staff recommends that the Commission adopt a capital structure consisting of 0.0 percent debt
9 and 100.0 percent equity.⁷ The Company, Staff, and RUCO all agree on capital structure. Because
10 the Company has no debt Staff would recommend the Commission adopt a 0.0 percent cost of debt.

11 **B. Cost of Equity.**

12 Staff recommends the Commission adopt a 9.8 percent Cost of Equity ("CoE") for the
13 Company.⁸ The Company has zero debt which results in an overall Rate of Return ("RoR") of 9.8
14 percent. The Company has proposed an 11.0 percent CoE.⁹

15 Staff utilizes two different Discounted Cash Flow ("DCF") models, the constant-growth DCF
16 model and the multi-stage DCF model. Staff's witness Mr. John Cassidy also ran a Capital Asset
17 Pricing Model ("CAPM") but as stated in his testimony "Staff ceased reliance on the CAPM due to a
18 continuing divergence of the CAPM-indicated cost of equity results relative to those derived by the
19 DCF model."¹⁰

20 The estimated CoE for the Company recommended by Staff is based on the 9.2 percent
21 average of the two DCF models utilized by staff. The CoE is then modified by the 60 basis point
22 upward economic assessment adjustment to arrive at the final 9.8 percent. The economic assessment
23 adjustment is not recognition of any form of risk to the Company, but is meant to be a reflection of
24 the current economic environment.

27 ⁷ Ex. S-3 at 8.

⁸ Ex. S-4 at 17.

28 ⁹ Ex. A-6 at 2.

¹⁰ Ex. S-4 at 5.

1 The Company utilized three different models to calculate the Company's CoE. The Company
2 calculated the CoE using two versions of the DCF, two versions of the CAPM, and two versions of
3 the Build-up model. The Company claims that it utilized the Build-up model as a "check" on its CoE
4 recommendation, but ultimately incorporates the results in its overall recommendation. The
5 Company's 11.0 percent CoE number is overstated for several reasons.

6 In his primary Future Growth DCF model, Mr. Bourassa relies exclusively on analysts'
7 forecasts of earnings per share ("EPS") growth to estimate the dividend growth rate, and for purposes
8 of his overall DCF CoE estimate, he effectively gives a 75 percent weighting to analysts' forecasts of
9 EPS growth. Additionally, Mr. Bourassa's CAPM CoE estimate is overstated due to the use of a
10 forecasted risk-free rate. Staff believes the appropriate risk-free rate to be used in the CAPM is the
11 current spot yield on the 30-year U.S. Treasury instrument, as it is the rate currently borne by
12 investors in the marketplace. Mr. Bourassa's current MRP CAPM estimate is overstated, as it is not
13 reflective of current market conditions. In particular, the Company uses two different risk free rates
14 in the calculation of the current MRP CAPM. The Company uses a lower 3 month spot average in
15 the calculation of the MRP, and a forecasted risk free rate for the calculation of the overall CAPM.
16 This serves to overstate the MRP and the overall CAPM result.

17 In addition the Company changed its methodology for calculating the current MRP CAPM in
18 midstream. When filing Rebuttal testimony Mr. Bourassa alters his current MRP CAPM
19 methodology, utilizing projected measures of EPS and DPS as inputs to compute the market risk
20 premium component. As noted by Staff, EPS and DPS are inputs which are utilized in the DCF
21 model, not the CAPM. By changing his methodology, Mr. Bourassa overstates the CoE by
22 overstating the market risk premium component. Mr. Bourassa spoke at the hearing explaining his
23 change in methodology for his CAPM model was to make it more consistent with the DCF¹¹.
24 Additionally he states that he used it because it is a more stable rate where the original method he
25 used contains more volatility.¹² This is troubling because the change in methodology makes it
26 problematic to compare the evolution of the Company's recommended numbers. By utilizing a more
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28 ¹¹ Tr. at 184.

¹² *Id.*

1 DCF like input and approach in the CAPM it only serves to get a similar output. Why then utilize a
2 different model if you are plugging in the same inputs to both of them?

3 Also because the Company elected to use the midpoint between the three models instead of
4 the average or median, it did not ultimately incorporate the CAPM into its recommendations. If the
5 Company had used the median or average, the CoE results would have been lower.

6 The Company also utilized the Build-Up Method, a method which relies heavily on risk
7 premias much like Mr. Bourassa's final adjustments. The issue here would be that Utility Source has
8 zero debt which greatly reduces its risk. The Build-Up method which is used to check against the
9 previous models could only serve to inflate the Company's CoE when you take into account the
10 reduced risk from the lack of debt.

11 As part of the 11.0 percent CoE the Company proposed it requests premiums on the RoR for
12 diversifiable risk to additionally compensate for the Company's small firm size and individual
13 business risk. The Commission has consistently rejected the use of premiums for small firm size and
14 individual business risk. Staff does not agree that the Company has "...nearly nine times more
15 business risk than the publicly traded water utilities..."¹³

16 Much of the difference between Staff and the Company can be explained by the utilization of
17 different inputs. Mr. Bourassa acknowledged at hearing that the models are the starting point.¹⁴
18 When asked what the difference in results were between different models he agreed that the inputs
19 often create those differences.¹⁵ The rest of the difference likely comes from the difference in the
20 various adjustments of the parties.

21 Mr. Cassidy states in his Direct Testimony that "...relative to Staffs sample companies,
22 [Utility Source] has no exposure to financial risk because the Company does not utilize debt
23 financing."¹⁶ Thus, absent exposure to financial risk, an upward financial risk adjustment to the CoE
24 is not appropriate.

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27 ¹³ Ex. A-5 at 7.

28 ¹⁴ Tr. at 175.

¹⁵ *Id.*

¹⁶ Ex. S-3 at 13.

1 **III. STANDPIPE.**

2 During the processing of this matter it came to Staff's attention that the Company had
3 constructed, and would be commencing operation of, a standpipe facility. The Company indicated in
4 a response to a data request that it planned to open the standpipe facility on September 1, 2014.¹⁷
5 Prior to Staff filing direct testimony in this matter, Staff requested information from the Company
6 regarding expected sales volumes, anticipated revenues, investment in the facility, expected operating
7 costs, and economic support related to the need for the standpipe service.¹⁸ The Company did not
8 provide Staff with any of this information.¹⁹ Despite either not having, or not providing this
9 information, the Company is seeking to increase its bulk water rate from \$10.35 per 1,000 gallons to
10 \$21.75 per 1,000 gallons. Staff does not believe the Company has provided any support for this
11 increase.²⁰ Because there was a lack of information at that time, Staff originally was recommending
12 that the existing bulk water rate be maintained, and the Company be required to file a rate case by
13 June 1, 2016 using a 2015 test year.²¹ However, once the standpipe facility commenced operations, it
14 is clear that it is a significant source of revenue for the Company. The Company acknowledges that
15 under its existing bulk water rate it has earned standpipe revenues of between \$5,000 and \$6,000 a
16 month from October through January which equates to 500,000 to 600,000 gallons of water per
17 month.²² In a November 18, 2014 procedural order, the Administrative Law Judge ("ALJ") ordered
18 that the parties shall be prepared at the hearing to address and answer questions regarding the
19 following topic:

20 Whether it would be in the public interest to include the costs of the standpipe and
21 related facilities in rate base and create a surcredit mechanism to return the income
22 received from standpipe sales back to ratepayers on a monthly basis. The surcredit would
23 be calculated as follows: the income from standpipe sales during the month, divided by
24 the gallons (in thousands) of non-standpipe water sold in the month, would equal the
25 credit per 1,000 gallons for the month. The surcredit rate would then be applied to the
gallons billed (in thousands) to each customer. [EXAMPLE: Assume the Company
receives \$1,000 in income from standpipe sales and sells 2,000,000 gallons of non-
standpipe water during the month. Under that scenario, each customer would receive a
\$0.50 credit per 1,000 gallons used during the month.]

26 ¹⁷ Ex. S-7 at 19.

27 ¹⁸ Ex. S-7 at 21-23.

28 ¹⁹ *Id.*

²⁰ Ex. S-7 at 20.

²¹ Ex. S-7 at 24.

²² Tr. Vol. I at 33.

1 While Staff certainly applauds the ALJ's efforts and apparent recognition that the standpipe
2 operations need to be addressed in this rate case, the proposal is not workable for several reasons.
3 First, and foremost there is a problem/risk of not having the data necessary to establish, and then
4 update, the surcredit rate calculation assumptions on a timely basis.²³ Second, Staff believes that the
5 surcredit mechanism as proposed by the ALJ would be burdensome to administer since the
6 mechanism would require monthly updating of the surcredit billing rate.²⁴

7 As a result of the ALJ's request, Staff revised its recommendation regarding the treatment of
8 the standpipe operations. The new alternative basically isolates the standpipe facility as a separate
9 standalone operation for ratemaking purposes.²⁵ Staff recommends that the standpipe rate be set at
10 \$18.86 per 1,000 gallons.²⁶ Staff developed this standpipe rate in a manner similar to traditional
11 ratemaking methodologies. In other words, the standpipe has its own revenue requirement derived
12 from the rate base associated with the standpipe multiplied by Staff's recommended rate of return
13 plus expenses associated with the cost of operating the standpipe. Staff developed a rate base for the
14 standpipe by taking the average of two cost estimates provided by the Company for the construction
15 of the standpipe facility (\$114,077).²⁷ To that Staff added 25 percent of the net Transmission &
16 Distribution Mains (\$34,044) and 30 percent of the net investment of Deep Well No. 4 (\$358,223) to
17 arrive at a fair value rate base for the standpipe of \$506,344.²⁸ Staff based the 25 percent allocation
18 of the Transmission and Distribution Main on the percentage of the volume of sales that would be
19 flowing through the standpipe which equates to approximately 25 percent of the Company's total
20 volumes sold.²⁹ Staff's basis for the inclusion of 30 percent of Deep Well No. 4 is based on the fact
21 that the Company included 100 percent of Deep Well No. 4 to support 350 customers that were
22 expected to come onto the system and used 4,740 gallons per month for a total of 19,908,000 gallons
23 per year.³⁰ In this case the standpipe will deliver approximately 6,770,592 gallons, which is
24 approximately 30 percent of the hypothetical volumes used in the last rate decision. Once Staff

25 ²³ Ex. S-6 at 2.

26 ²⁴ *Id.*

27 ²⁵ Ex. S-6 at 3.

28 ²⁶ *Id.*

29 ²⁷ Ex. S-6 Attachment A at 1.

30 ²⁸ *Id.*

²⁹ Tr. Vol. I at 649.

³⁰ Tr. Vol. I at 658.

1 determined the rate base associated with the standpipe, Staff applied the 9.8 percent rate of return and
2 income tax gross-up to arrive at a required the operating income level of \$62,623.³¹

3 On the expense side of the revenue requirement equation, Staff determined the appropriate
4 depreciation expense for the standpipe facility (\$3,799), Deep Well No. 4 (\$14,874), and the 25
5 percent allocation of the mains (\$808).³² Staff included a Purchased Power Cost based on the average
6 cost per 1,000 gallons using the test year amount of \$66,787 (\$22,267), and Chemical Costs based
7 chemical costs incurred in the test year, multiplied by the standpipe annualized sales volume of
8 6,770,592 gallons (\$487).³³ Additionally, Staff included \$1,000 annually in licensing fees to
9 WaterProducts to meter transaction as the standpipe.³⁴ Finally, Staff allocated 25 percent of the
10 annual operating expenses to the standpipe operations (\$21,827).³⁵ These expenses were then added
11 to the Operating Income plus Income Taxes of \$62,623 to arrive at the standpipe revenue requirement
12 of \$127,685.³⁶ This amount is then divided by the annualized sales volume expressed in 1,000 gallon
13 increments to arrive at Staff's recommended standpipe rate of \$18.86 per 1,000 gallons.³⁷

14 Although this may not be the perfect solution for addressing the standpipe operations, Staff
15 believes it is extremely important that the substantial revenues being generated from the standpipe
16 facility be given recognition in this case when setting rates for non-standpipe customers. No other
17 party has offered a solution other than to address it in the next rate case. Staff believes that this is the
18 best solution given the circumstances in that it addresses the Company's request for an increase in its
19 bulk water rate while also acknowledging the revenue stream from the standpipe in non-standpipe
20 rates. The Company basically criticizes Staff's proposed treatment by arguing that the standpipe and
21 its operations are almost two years after the test year, the costs are not known and measurable, and
22 the allocations proposed by Staff are in essence arbitrary. Although Staff agrees that standpipe is

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24 ³¹ Ex. S-6 Attachement A at 1.

25 ³² Importantly, 25 percent of the Transmission and Distribution Mains was removed from the rate of the non-stand pipe
rates base.

26 ³³ Ex. S-6 Attachment A at 1.

27 ³⁴ The license fee is \$0.23 per standpipe sale transaction, and there have been approximately 350 to 450 transaction per
month in the first 4 months of operation. Over 12 months this is approximately \$1,000.

28 ³⁵ This amount was removed from the annual operating expenses for the non-standpipe cost of service. This amount also
includes 50 percent of the rate case expense allocated to the water division or 25 percent of the total rate case expense.

³⁶ Ex. S-6 Attachement A at 1.

³⁷ *Id.*

1 post test year plant, the Commission has allowed post test year plant where circumstance warrant and
2 it is in the public interest to do so. That is the case here. The inclusion of the standpipe will benefit
3 the Company's existing customers by lowering their rates accordingly and the Company by providing
4 them with a return on and of its investment in the standpipe. Regarding the costs of the standpipe,
5 they are known and measureable. Staff obtained the cost numbers from the Company or where those
6 numbers were not provided, Staff allocated a portion of the test year numbers that would be
7 appropriately attributable to the standpipe operations. Further the allocation numbers used by Staff
8 are not arbitrary as discussed more fully above, and ultimately the Company did not propose any
9 alternative allocations, and instead simply recommends addressing this in the next rate case. While
10 on its face that is the simplest approach, in Staff's opinion because of the magnitude of the revenue
11 associated with the standpipe it is not the approach that is in the public interest in this case.

12 If this alternative is adopted rate case expense should be normalized over five years.³⁸ Staff
13 also recommends that Commission require the Company to file monthly standpipe sales volumes
14 reports every six months, each July and January until the Company files its next rate application.³⁹
15 Staff also recommends that the Company should be required to file a rate application (for both its
16 standpipe and non-standpipe rates) by June 30, 2019 using a test year ending no later than calendar
17 year 2018. Ultimately, this can then be addressed more holistically in the Company's next rate case.
18 It should be noted that under the revised utility classification rules, when the Company files its next
19 rate application a hearing will not be required. However, because of the issues that may have to be
20 addressed in the next rate case that the Company files, Staff may recommend a hearing.

21 **IV. RATE DESIGN.**

22 Rate design is the third major area of dispute between Staff and the Company for both the
23 water and wastewater divisions.

24 **A. Water.**

25 Conceptually, both Staff and the Company are offering similar rate designs for the water
26 division. In both instances the customer classes are distinguished by meter size, the monthly

27 ³⁸ Ex. S-6 at 4.

28 ³⁹ The first report would cover January 1, 2015 through June 30, 2015 and would be filed by July 31, 2015. The next report would cover July 1, 2015 through December 31, 2015 and would be filed by January 31, 2016.

1 minimum charges vary by meter size, and the commodity rates are based on an inverted tier rate
2 design.⁴⁰ That is where the similarities end. The Company does agree that either rate design will
3 recover the revenue requirements being offered by the parties.⁴¹ The Company's rate design includes
4 more recovery in the monthly usage charge compared to Staff's rate design, and recovers more of the
5 revenue requirement in the first and second tier commodity rates compared to Staff.⁴² Staff's rate
6 design includes less revenue recovery in the monthly usage charge, and more recovery of the revenue
7 in the upper tiers.

8 The Company's proposed rates would increase the typical residential ¾ inch meter bill with a
9 median usage of 3,500 gallons from \$35.50 to \$65.65, for an increase of \$30.35 or 85.96 percent.⁴³
10 Staff's recommended rates on the other hand would increase the typical residential ¾ inch meter bill
11 with that same median usage from \$35.50 to \$57.38, for an increase of \$22.08 or 62.54 percent.⁴⁴

12 The Company also agrees that it is a policy decision for the Commission to make in
13 authorizing a particular rate design that balances the needs of the Company for revenue stability with
14 the customer's ability to reduce their bill by using less water. Staff believes that its rate design better
15 strikes that balance. This is especially true given the water scarcity that exists in the surrounding area
16 where the Company operates, and the size of the rate increase.⁴⁵

17 **B. Wastewater.**

18 The Company's current wastewater rate design distinguishes customers classes by water
19 meter sizes, includes no monthly usage charge, and commodity rates based on usage per thousand
20 gallons.⁴⁶ Both Staff and the Company are proposing changes to the rate design for the wastewater
21 division.

22 With the Company's proposed rate design, customer class is distinguished by meter size. The
23 Company is proposing to add monthly usage charges that vary by water meter size. The commodity
24 rates that the Company is proposing are based on a single-tier rate design that also vary based on

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26 ⁴⁰ Ex. S-7 at 25.

27 ⁴¹ Tr. Vol. I at 164.

28 ⁴² Tr. Vol. I at 163.

⁴³ Utility Source Final Schedule H-2, page 2.

⁴⁴ Staff's Final Schedule JLK W-22.

⁴⁵ Tr. Vol. I at 111.

⁴⁶ Ex. S-7 at 26.

1 customer class.⁴⁷ Staff's recommended rate design also distinguishes customer classes by meter
2 size.⁴⁸ Likewise the Staff is recommending monthly usage charges that vary by meter size.⁴⁹ That is
3 where the similarities end. For the residential class, Staff is recommending a monthly usage charge
4 of \$65 and no commodity charge.⁵⁰ All other customer classes are charged a monthly usage charge
5 and a single commodity rate of \$11.28 per 1,000 gallons.⁵¹ The biggest difference in rate design
6 between Staff and the Company, and RUCO is that both the Company and RUCO are seeking to
7 continue the use of commodity rates that vary by customer class. The Company is apparently seeking
8 continuation of this methodology under the auspices that certain customers place more demands on
9 the wastewater system based on the type of waste they create and therefore should pay a higher
10 commodity charge.⁵² However, in reviewing prior Utility Source Commission Decisions, this rate
11 design methodology was simply carried over from when the Company was charging unauthorized
12 rates before the Commission issued a CC&N due in large part to inadequate notice being provided to
13 customers.⁵³ While these rates were later increased by the Commission in Decision No. 70140, at no
14 time in the prior cases or this case has the Company demonstrated there is an engineering justification
15 that would support charging different commodity rates to different customer classes.⁵⁴

16 **V. MISCELLANEOUS ISSUES.**

17 **A. Rate Case Expense.**

18 The Company, Staff and RUCO are in agreement regarding the total level of rate case
19 expense for the water and wastewater divisions.⁵⁵ Specifically the parties agree to \$50,000 of rate
20 case expense for the water division and \$50,000 for the wastewater division.⁵⁶ As of the Company's
21 rejoinder testimony Staff and the Company agreed to a three year normalization of the expense.⁵⁷
22 This normalization period coincided with Staff's original recommendation that the Company be
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24 ⁴⁷ Ex. S-7 at 26.

25 ⁴⁸ *Id.*

26 ⁴⁹ *Id.*

27 ⁵⁰ *Id.*

28 ⁵¹ *Id.*

⁵² Ex. A-5 at 22.

⁵³ See Decision No. 67446 at 14.

⁵⁴ Tr. Vol. I at 168.

⁵⁵ Ex. A-6 at 9-10.

⁵⁶ *Id.*

⁵⁷ *Id.*

1 required to file another rate case by the end of that time period. However, with Staff's
2 recommendation regarding the treatment of the standpipe operations, Staff increased the
3 normalization period to 5 years to coincide with its new recommendation that the Company file a rate
4 case within five years.⁵⁸ Although the Company did not revise its recommendation during the
5 hearing it did in its final schedules, and importantly, its overriding concern is that the normalization
6 period coincides with the time frame for filing its next rate case to ensure the Company can recover
7 its rate case expense by the time it files its next rate case.⁵⁹

8 RUCO is recommending a rate case expense surcharge in this case.⁶⁰ RUCO asserts that the
9 Commission has been transitioning away from traditional ratemaking in an effort to ameliorate
10 regulatory lag in the utilities favor, and including surcharges and adjustor mechanisms into their
11 decisions.⁶¹ RUCO further states that it is only fair that a few of these mechanisms should ameliorate
12 the effects of regulatory lag in favor of the rate payers.⁶² Ultimately RUCO asserts that the purpose
13 of its recommendation is to assure that the ratepayers only pay for the amount of rate case expense
14 authorized – no more and no less.⁶³ Although Staff shares that concern, in this case RUCO's
15 concerns are unfounded because Staff is recommending that the Company file a rate case by June 30,
16 2019 using a test year ending no later than calendar year 2018, and the rate case normalization period
17 coincides with that time period.

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19 **B. Engineering.**

20 As of the conclusion of the hearing in this matter the Company agreed with all but three of
21 Staff's engineering recommendations. The only remaining engineering issues in contention between
22 Staff and the Company relate to implementation of Best Management Practices ("BMPs"), obtaining
23 Commission approval before selling Deep Well No. 4, and need for the Company to prepare and
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⁵⁸ Ex. S-6 at 4.

⁵⁹ Tr. Vol I at 159.

27 ⁶⁰ Ex. R-4 at 18.

⁶¹ *Id.*

28 ⁶² *Id.*

⁶³ *Id.*

1 engineering report on the impact the standpipe has on the water distribution system and the
2 responsiveness to high water demand events.

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4 **i. BMPs.**

5 Staff is recommending that the Company implement five BMPs.⁶⁴ Staff selected the Public
6 Education Program, BMP 3.6 Customer High Water Use Inquiry Resolution, BMP 3.7 Customer
7 High Water Use Notification, BMP 3.8 Water Waste Investigations and Information, and BMP 5.2
8 Water System Tampering. In addition to recommending adoption of five BMPs Staff is also
9 recommending that the Company notify its customers, in form acceptable to Staff, of the BMPs that
10 are approved in this case and their effective date either be bill insert or separate mailing.⁶⁵ Staff is
11 also recommending that the Company may request cost recover of any actual costs associated with
12 the BMPs that are implemented in its next general rate application.⁶⁶

13 The Company states that it does not agree with Staff's recommendation.⁶⁷ In its prefiled
14 testimony the Company indicated that it does not agree with the adoption of BMPs because the
15 Commission no longer routinely requires BMPs, that they are usually adopted when water loss is
16 high, and finally that if it is required to adopt BMPs that it should be able to select the BMPs.⁶⁸
17 During the hearing the Company acknowledged that other water companies in the vicinity where its
18 provides service run out of water on a regular basis.⁶⁹ During the hearing the Company
19 acknowledged that it is in favor of anything that will help conserve water and is supportive of
20 educational programs that help customers conserve water but not additional regulation.⁷⁰ Ultimately,
21 Staff continues to recommend that the Commission approve of the five BMP tariff selected, but does
22 not object to the Company selecting five BMPs the Company believes may be more appropriate.⁷¹

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25 ⁶⁴ Mike Thompson Direct at 21.

26 ⁶⁵ *Id.* at 22.

27 ⁶⁶ *Id.*

28 ⁶⁷ McCleve Rebuttal at 3.

⁶⁸ *Id.*

⁶⁹ Tr. Vol. I at 111.

⁷⁰ Tr. Vol. I at 112.

⁷¹ Thompson Surrebuttal at 3.

1 **ii. Deep Well No. 4 Commission Approval Before Sale.**

2 In its application Utility Source proposed in its rate application to remove the costs associated
3 with Deep Well No. 4 from plant-in-service because it represents capacity for future customers.⁷² As
4 discussed more fully above, Staff believes that with the standpipe service, Deep Well No. 4 is
5 necessary. However, if the Commission agrees with the Company's removal of the well from rate
6 base then the Company should be required to obtain approval from the Commission prior to selling
7 the well and should not be allowed to require a developer to pay for the construction of a new well
8 unless circumstances arise where the water demand is greater than the Company's capacity to meet
9 additional demand.⁷³ In that case the developer should be required to provide an additional source of
10 water.⁷⁴ Although the Company indicates that it has no intention of selling Deep Well No. 4, Staff
11 continues to recommend that the Company obtain Commission approval prior to selling the well.⁷⁵

12 **iii. Engineering Analysis.**

13 During the course of this case, intervenor Terry Fallon raised issues regarding fire protection
14 and water pressure issues that the Company has experience on several occasions.⁷⁶ The Company
15 acknowledges that between 2011 and 2013 there were a few instances when pressure was not
16 sufficient for fire flow.⁷⁷ However the Company claims that repairs to the pressure pump have been
17 made and verified by the local fire chief have resolved this problem.⁷⁸ Apparently there was an issue
18 with the fire pump when it turned on, because of the pressure, it sheered a bolt on several occasions
19 that caused it to fail.⁷⁹ The Company replaced the bolt on three different occasions.⁸⁰ Ultimately the
20 Company manufactured a retention system to resolve the problem.⁸¹ In addition, the Company
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24 ⁷² Bourassa Direct at 6.

25 ⁷³ Thompson Direct at 22, Thompson Surrebuttal at 3.

26 ⁷⁴ Thompson Surrebuttal at 2.

27 ⁷⁵ Thompson Surrebuttal at 3.

28 ⁷⁶ Thompson Surrebuttal at 4.

⁷⁷ McCleve Rejoinder at 3.

⁷⁸ McCleve Rejoinder at 3.

⁷⁹ Tr. Vol. I at 36.

⁸⁰ *Id.*

⁸¹ *Id.*

1 installed a “soft start” which caused the pump to turn on gradually instead of all at once.⁸² While
2 these steps may have helped to correct the problem, the Company took these steps prior to the new
3 standpipe coming online, and it is unclear what impact its operations will have. Further, the
4 Company experienced at least one additional outage since taking these corrective steps on September
5 30, 2014, when Arizona Public Service experienced a power outage caused by a blown transformer.⁸³
6 The Company asserts that when a power outage occurs the pressure pump will not work.⁸⁴ However,
7 Staff believes the emergency generator should respond automatically during a power outage.⁸⁵ The
8 Company has indicated it would ask the fire department for reports to help ensure that the problem
9 has been resolved.⁸⁶

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11 It is because this issue may not have been resolved that Staff believes it would be wise for the
12 Company to prepare an engineering analysis that at a minimum should run a hydraulic analysis of
13 the distribution system, which would include the booster pumps and the emergency generator, to
14 determine how the system will react during periods of increased demand and during normal operation
15 such as when a fire hydrant is open or if the standpipe is operating.⁸⁷ Without such an analysis there
16 is no way of knowing if the corrective measures have solved the outage problems and whether the
17 system as currently configured can handle the increased demand of the standpipe operations and
18 continue to provide safe, reliable, and adequate service to the Company’s existing customers. Staff
19 recommends that the Company docket the report as a compliance item within 90 days of the effective
20 date of a decision in this matter. Further, during the hearing it was also determined that the Company
21 did not properly report any of these outages to the Commission, and was required to do so.
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26 ⁸² Tr. Vol. I at 109.

27 ⁸³ Ex. F-1 at 1.

28 ⁸⁴ Ex. A-4 at 3.

⁸⁵ Tr. Vol. III at 541-542.

⁸⁶ Tr. Vol. I at 110.

⁸⁷ Tr. Vol. III at 537.

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iv. Certificate of Convenience and Necessity Extension.

During the hearing in this matter, the issue was raised that the Company is serving a mobile home park that is adjacent to its existing CCN. The mobile home park appears to be contiguous to the Company's existing CC&N and is served through a single meter.⁸⁸ Although Staff does not believe the Company should be required to file an application to extend its CC&N to include the mobile home park, the Company should be required to file notification with the Commission that it is serving the mobile home park and provide a legal description of the parcel, within 90 days of the effective date of the decision in this case.

v. Refund of Hookup Fees.

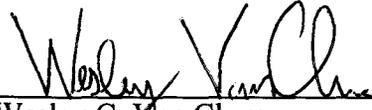
The Company currently does not have a hook-up fee tariff.⁸⁹ During the hearing, it came to light that at least in one instance the Company received a hook up fee payment from at least one developer.⁹⁰ The Company acknowledges that it does not have the authority to collect hook-up fees from developers, and agreed that it would no longer be collecting hook-up fees to the extent it had done so inadvertently, and would refund all hook-up fees that it collected. The Company agreed to file a report indicating the amount of hook up fees that it collected, if any, and that it had refunded all hook-up fees.⁹¹ This report should indicate the amount collected in hook-up fees, from whom collected, and the date collected. It should also indicate the amounts refunded to each developer, and when the fees were refunded. The Company should be required file this within 15 days of the effective date of the decision in this matter.

⁸⁸ Tr. Vol. I at 51.
⁸⁹ Tr. Vol. I at 88.
⁹⁰ Ex. R-2.
⁹¹ Tr. Vol. I at 107.

1 **VI. CONCLUSION.**

2 For the foregoing reasons, Staff respectfully requests that the Commission adopts its
3 recommendations in this proceeding.

4 RESPECTFULLY SUBMITTED this 24th day of March, 2015.

5
6 
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14 **Original and thirteen (13) copies of**
15 **the foregoing filed this 24th day of**
16 **March, 2015, with:**

17 Docket Control
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 **Copy of the foregoing mailed this**
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