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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
RED ROCK UTILITIES, LLC, 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

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebuttal Testimony of Crystal S. Brown in the above-captioned docket.

RESPECTFULLY SUBMITTED this 8th day of April, 2015.

Robin R. Mitchell
Attorney, Legal Division
Arizona Corporation Commission
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(602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 8th day of April, 2015, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Copy of the foregoing mailed and/or emailed this 8th day of April, 2015, to:

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Arizona Corporation Commission
DOCKETED

APR 08 2015

DOCKETED BY

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) DOCKET NO. WS-04245A-14-0295
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.)
_____)

SURREBUTTAL TESTIMONY
OF
CRYSTAL S. BROWN
EXECUTIVE CONSULTANT III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

APRIL 8, 2015

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**EXECUTIVE SUMMARY
RED ROCK UTILITIES, LLC
DOCKET NO. WS-04245A-14-0295**

Staff's surrebuttal testimony responds to Red Rock Utilities, LLC ("Red Rock" or "Company") rebuttal testimony on the issue of rate design and request for an accounting order.

Staff has revised its water rate design to reflect the irrigation and standpipe/bulk rates that were omitted in its direct testimony.

Staff has revised its wastewater rate design to generate its recommended revenue requirement.

Staff continues to recommend that the Commission deny the Company's request for an Accounting Order.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Crystal S. Brown. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6

7 **Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.

9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff,
13 to the rebuttal testimony of Mr. Thomas Bourassa, witness for Red Rock Utilities, LLC (“Red
14 Rock” or “Company”).

15

16 **Q. What issues will you address?**

17 A. I will address the issues of rate design for water and wastewater, and the Company’s request
18 for an accounting order.

19

20 **Q. Did you attempt to address every issue raised by Red Rock in its rebuttal testimony?**

21 A. No. I limited my discussion to certain issues as outlined below. My silence on any
22 particular issue raised in the Company’s rebuttal testimony does not indicate that I agree
23 with the Company’s stated rebuttal position on the issue. Rather, where I do not respond,
24 I rely on my direct testimony.

25

1 **ACCOUNTING ORDER REQUEST**

2 **Q. Did Staff review the Company's rebuttal testimony concerning its request for an**
3 **accounting order?**

4 A. Yes.

5
6 **Q. Did the Company's witnesses provided any further support for this proposal, or any**
7 **information for the Commission to consider regarding the potential impact on future**
8 **customer bills that could accompany approval of the Company's accounting order**
9 **request?**

10 A. No.

11
12 **Q. Ms. Brown, are there authoritative accounting pronouncements that have relevance to**
13 **the Company's request for approval of an accounting order?**

14 A. Yes. Both the NARUC Uniform System of Accounts applicable to utilities the size of Red
15 Rock, and the Financial Accounting Standard Board Accounting Standard Codification No.
16 980 have relevance. I have included excerpts from both of these references as Attachment A
17 to my surrebuttal testimony. It is within the context of these documents that the accounting
18 order concept finds its roots and conceptual support.

19
20 Staff continues to believe that the investment risk associated with Red Rock's excess capacity
21 is a cost that should not be assigned to ratepayers now or in the future.

22
23 **Q. Is it still the recommendation of Staff that the Commission deny the Company's**
24 **request for an accounting order?**

25 A. Yes.

26

1 **Q. Did Staff request further information from the Company regarding its request for an**
2 **accounting order?**

3 A. Yes. Staff issued a data request to the Company regarding the potential impact to customers.
4 Staff has not received a response, but reserves the right to supplement its Surrebuttal
5 testimony based on the Company's response.
6

7 **RATE DESIGN**

8 **Q. Has Staff reviewed the Company's rebuttal testimony concerning rate design for the**
9 **water and wastewater divisions?**

10 A. Yes.
11

12 *Water Division*

13 **Q. What is the Company's primary concern for the water division?**

14 A. For the water division, the Company's primary concern is that Staff's rate design schedule
15 omitted the irrigation and standpipe/bulk rates.
16

17 **Q. Does Staff agree?**

18 A. Yes, and Staff has revised its schedule accordingly as shown on Surrebuttal Schedule CSB-1.
19

20 **Q. What changes did the Company make to the water division's rate design filed in its**
21 **direct testimony?**

22 A. On page 1 of Mr. Bourassa's Rebuttal Schedule H-3, line 24, the Company proposes an
23 irrigation rate for 5/8 x 3/4 inch meters of \$3.15 for the first 10,000 gallons and \$4.07 for over
24 10,000 gallons. This rate was not proposed in the Company's direct testimony.
25

1 **Q. Did Staff note an inconsistency and possibly an error in the description of the**
2 **irrigation rates on pages 1 and 2 of Mr. Bourassa's Rebuttal Schedule H-3 for the**
3 **water division?**

4 A. Yes, on page 1 of Mr. Bourassa's Rebuttal Schedule H-3, line 24, the Company proposes an
5 irrigation rate for $5/8 \times 3/4$ inch meters of \$3.15 for the first 10,000 gallons and \$4.07 for over
6 10,000 gallons. However, on page 2 of Mr. Bourassa's Rebuttal Schedule H-3, line 34, the
7 Company proposes an irrigation rate for *all meter sizes* (which would include the $5/8 \times 3/4$ inch
8 meter) that is \$3.15 for the first 20,000 gallons and \$4.07 for over 20,000 gallons.

9
10 **Q. Has Staff incorporated the new $5/8 \times 3/4$ inch meter irrigation rate in its recommended**
11 **rate design?**

12 A. Yes. Additionally, Staff has revised the description on page 2 for all other irrigation meter
13 sizes to be "Irrigation – All Meter Sizes **Except $5/8 \times 3/4$ Inch Meters**" to reflect that there
14 is a different rate for the $5/8 \times 3/4$ inch irrigation meter.

15
16 **Q. Does the Company currently have any irrigation customers?**

17 A. Yes, the Company has three irrigation customers.

18
19 **Q. How does Staff's typical bill analysis for the water division compare to the typical bill**
20 **analysis in Staff's direct testimony?**

21 A. Staff's typical bill analysis for the water division is the same as the recommendation made in
22 its direct testimony.

23

1 *Wastewater Division*

2 **Q. What is the Company's primary concern for the wastewater division?**

3 A. For the wastewater division, the Company's primary concern was that Staff's rates did not
4 generate Staff's recommended revenue requirement.

5
6 **Q. Does Staff agree?**

7 A. Yes, and Staff has revised its rates accordingly as shown on Surrebuttal Schedule CSB-1.

8
9 **Q. How does Staff's typical bill analysis for the wastewater division compare to the
10 typical bill analysis in Staff's direct testimony?**

11 A. The typical 5/8 x 3/4-inch meter wastewater residential customer's bill has increased by \$1.75
12 from \$88.64 to \$90.39 under Staff's rates at final phased-in rates as shown on Surrebuttal
13 Schedule CSB-2 for the wastewater division. The table below shows Staff's recommended
14 rates over the five-year phase-in period.

15

Meter Size	Present Rates	Staff Recommended				
		Year 1	Year 2	Year 3	Year 4	Year 5
5/8 x 3/4 Inch	\$ 39.50	\$ 49.68	\$ 59.86	\$ 70.03	\$ 80.21	\$ 90.39
3/4 Inch	59.25	\$ 74.52	\$ 89.78	\$ 99.96	\$ 115.23	135.59
1 Inch	98.75	\$ 124.20	\$ 149.64	\$ 159.82	\$ 185.26	225.98
1 1/2 Inch	197.50	\$ 248.39	\$ 299.28	\$ 309.46	\$ 360.35	451.95
2 Inch	316.00	\$ 397.42	\$ 478.85	\$ 489.03	\$ 570.45	723.12
3 Inch	592.50	\$ 745.17	\$ 897.84	\$ 908.02	\$ 1,060.69	1,355.85
4 Inch	987.50	\$1,241.95	\$ 1,496.40	\$1,506.58	\$ 1,761.03	2,259.75
6 Inch	1,975.00	\$2,483.90	\$ 2,992.80	\$3,002.98	\$ 3,511.88	4,519.50

16
17 **Q. Does this conclude Staff's surrebuttal testimony?**

18 A. Yes, it does.

RATE DESIGN			
Monthly Minimum Charge	Present Rates	Company Proposed	Staff Recommended Rates
	5/8 x 3/4" Meter	\$ 25.00	\$ 25.00
3/4" Meter	\$ 37.50	\$ 37.50	\$ 37.50
1" Meter	\$ 62.50	\$ 62.50	\$ 62.50
1 1/2" Meter	\$ 125.00	\$ 125.00	\$ 125.00
2" Meter	\$ 200.00	\$ 200.00	\$ 200.00
3" Meter	\$ 375.00	\$ 375.00	\$ 400.00
4" Meter	\$ 625.00	\$ 625.00	\$ 625.00
6" Meter	\$ 1,250.00	\$ 1,250.00	\$ 1,250.00
Fire Sprinkler	No Tariff	Non Applicable	(a)
Gallons Included In Minimum Charge:	0	0	0
(a) - Two percent (2%) of monthly minimum for a comparable sized meter			
Commodity Rates - Per Thousand Gallons			
<u>5/8 x 3/4" Meter - All Classes Except Irrigation</u>			
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		\$ 2.50	
From 5,001 to 10,000 Gallons		\$ 3.40	
Over 10,000 Gallons		\$ 4.25	
From 1 to 5,000 Gallons			\$ 2.40
From 5,001 to 10,000 Gallons			\$ 3.15
Over 10,000 Gallons			\$ 4.07
<u>5/8 x 3/4" Meter - Irrigation</u>			
From 1 to 10,000 Gallons	No Tariff	\$ 3.15 (b)	(b) All Company proposed rates \$ 3.15
Over 10,000 Gallons	No Tariff	\$ 4.07 (b)	are from its Direct Testimony \$ 4.07
except the 5/8 x 3/4" Irrigation which are from the Company's Rebuttal			
<u>3/4" Meter - All Classes Except Irrigation</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 10,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 10,000 Gallons			\$ 3.15
Over 10,000 Gallons			\$ 4.07
<u>1" Meter - All Classes Except Irrigation</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 20,000 Gallons			\$ 3.15
Over 20,000 Gallons			\$ 4.07
<u>1 1/2" - Residential, Commercial & Industrial</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 50,000 Gallons			\$ 3.15
Over 50,000 Gallons			\$ 4.07
<u>2" - Residential, Commercial & Industrial</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 90,000 Gallons			\$ 3.15
Over 90,000 Gallons			\$ 4.07
<u>3" - Residential, Commercial & Industrial</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 200,000 Gallons			\$ 3.15
Over 200,000 Gallons			\$ 4.07
<u>4" - Residential, Commercial & Industrial</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 300,000 Gallons			\$ 3.15
Over 300,000 Gallons			\$ 4.07
<u>6" - Residential, Commercial & Industrial</u>			
From 1 to 5,000 Gallons	\$ 3.15	\$ 3.40	
Over 5,000 Gallons	\$ 3.90	\$ 4.25	
From 1 to 500,000 Gallons			\$ 3.15
Over 500,000 Gallons			\$ 4.07

RATE DESIGN CONTINUED

Irrigation - All Meter Sizes					
Over Minimum up to 20,000 gallons	\$	3.15	\$	3.40	
Over 20,000 Gallons	\$	3.90	\$	4.25	
Irrigation - All Meter Sizes Except 5/8-Inch x 3/4-Inch					
From 1 to 20,000 Gallons			\$	3.40	\$ 3.15
Over 20,000 Gallons			\$	4.25	\$ 4.07
Standpipe/Bulk					
All gallons	\$	4.25	\$	4.25	\$ 4.07

Service Line and Meter Installation Charges	Present Rates	Company Proposed Rates	Staff Recommended Service Line Charge	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
5/8" x 3/4" Meter	\$ 400.00	\$ 400.00	\$ 355	\$ 45	\$ 400.00
3/4" Meter	\$ 440.00	\$ 440.00	355	85	440.00
1" Meter	\$ 500.00	\$ 500.00	405	95	500.00
1½" Meter	\$ 715.00	\$ 715.00	440	275	715.00
2" Turbine Meter	\$ 1,170.00	\$ 1,170.00	600	570	1,170.00
2" Compound Meter	\$ 1,700.00	\$ 1,700.00	600	1,100	1,700.00
3" Turbine Meter	\$ 1,585.00	\$ 1,585.00	775	810	1,585.00
3" Compound Meter	\$ 2,190.00	\$ 2,190.00	815	1,375	2,190.00
4" Turbine Meter	\$ 2,540.00	\$ 2,540.00	1,110	1,430	2,540.00
4" Compound Meter	\$ 3,215.00	\$ 3,215.00	1,170	2,045	3,215.00
6" Turbine Meter	\$ 4,815.00	\$ 4,815.00	1,670	3,145	4,815.00
6" Compound Meter	\$ 6,270.00	\$ 6,270.00	1,710	4,560	6,270.00
Over 6-inch	N/A	N/A	At Cost	At Cost	At Cost

Service Charges	Present Rates	Company Proposed	Staff Recommended Rates
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (after hours)	\$ 50.00	\$ 50.00	Eliminate
Re-establishment (after hours)	No Tariff	\$ 50.00	Denied
Re-establishment (within 12 months)	*	*	*
Reconnection	\$ 30.00	\$ 30.00	\$ 30.00
Meter Test (If Correct)	No Tariff	\$ 30.00	\$ 30.00
Meter Re-Read (if correct and not error)	\$ 15.00	\$ 15.00	\$ 15.00
Minimum Deposit	**	**	**
Deposit Interest*	No Tariff	**	**
NSF Check	25.00	25.00	\$ 25.00 (a)
Deferred Payment (per month)	1.50%	1.50%	1.50%
Late Payment Charge per month (per R-14-2-409 G (6))	1.50%	1.50%	1.50%
After Hour Service Charge (at cust. request) Per Hour	50.00	50.00	Eliminate
After Hour Service Charge (at cust. request) Flat Rate	50.00	50.00	50.00
Charge for Moving Meter at Customer's Request	Cost	Cost	Cost

* Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

** Per Commission Rule R14-2-403(B).

(a) The Company may only charge one NSF fee when customers are billed for water and sewer services on one bill

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,500	\$ 35.80	\$ 36.25	\$ 0.45	1.26%
Median Usage	5,155	37.49	38.03	\$ 0.54	1.44%
Staff Recommended					
Average Usage	4,500	\$ 35.80	\$ 35.80	-	0.00%
Median Usage	5,155	37.49	37.49	\$ 0.00	0.00%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Present Rates		Company Proposed		Staff Recommended	
5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
Minimum Charge	\$ 25.00	Minimum Charge	\$ 25.00	Minimum Charge	\$ 25.00
1st Tier Rate	\$ 2.40	1st Tier Rate	\$ 2.50	1st Tier Rate	\$ 2.40
1st Tier Break-over	5,000	1st Tier Break-over	5,000	1st Tier Break-over	5,000
2nd Tier Rate	\$ 3.15	2nd Tier Rate	\$ 3.40	2nd Tier Rate	\$ 3.15
2nd Tier Break-over	10,000	2nd Tier Break-over	10,000	2nd Tier Break-over	10,000
3rd Tier Rate	\$ 3.90	3rd Tier Rate	\$ 4.25	3rd Tier Rate	\$ 4.07

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 25.00	\$ 25.00	0.00%	\$ 25.00	0.00%
1,000	\$ 27.40	27.00	0.36%	27.40	0.00%
2,000	\$ 29.80	30.00	0.67%	29.80	0.00%
3,000	\$ 32.20	32.50	0.93%	32.20	0.00%
4,000	\$ 34.60	35.00	1.16%	34.60	0.00%
5,000	\$ 37.00	37.50	1.35%	37.00	0.00%
6,000	\$ 40.15	40.90	1.87%	40.15	0.00%
7,000	\$ 43.30	44.30	2.31%	43.30	0.00%
8,000	\$ 46.45	47.70	2.69%	46.45	0.00%
9,000	\$ 49.60	51.10	3.02%	49.60	0.00%
10,000	\$ 52.75	54.50	3.32%	52.75	0.00%
11,000	\$ 56.65	58.75	3.71%	56.82	0.30%
12,000	\$ 60.55	63.00	4.05%	60.89	0.56%
13,000	\$ 64.45	67.25	4.34%	64.96	0.79%
14,000	\$ 68.35	71.50	4.61%	69.03	0.99%
15,000	\$ 72.25	75.75	4.84%	73.10	1.18%
16,000	\$ 76.15	80.00	5.06%	77.17	1.34%
17,000	\$ 80.05	84.25	5.25%	81.24	1.49%
18,000	\$ 83.95	88.50	5.42%	85.31	1.62%
19,000	\$ 87.85	92.75	5.58%	89.38	1.74%
20,000	\$ 91.75	97.00	5.72%	93.45	1.85%
25,000	\$ 111.25	118.25	6.29%	113.80	2.29%
30,000	\$ 130.75	139.50	6.69%	134.15	2.60%
35,000	\$ 150.25	160.75	6.99%	154.50	2.83%
40,000	\$ 169.75	182.00	7.22%	174.85	3.00%
45,000	\$ 189.25	203.25	7.40%	195.20	3.14%
50,000	\$ 208.75	224.50	7.54%	215.55	3.26%
75,000	\$ 306.25	330.75	8.00%	317.30	3.61%
100,000	\$ 403.75	437.00	8.24%	419.05	3.79%

Red Rock Utilities - Wastewater Division

Docket No. WS-04245A-14-0295
 Test Year Ended December 31, 2013

Plan A
 Rate Design
 Surrebuttal Schedule CSB-1

Sewer Services - Monthly Charge	Present	Company Proposed				
	Rates	Year 1	Year 2	Year 3	Year 4	Year 5
5/8 Inch x 3/4 Inch	\$ 39.50	\$ 45.56	\$ 51.62	\$ 57.68	\$ 63.74	\$ 69.80
3/4 Inch	59.25	68.34	77.43	86.52	95.61	104.69
1 Inch	98.75	113.90	129.05	144.20	159.35	174.49
1 1/2 Inch	197.50	227.80	258.10	288.40	318.70	348.98
2 Inch	316.00	364.47	412.94	461.41	509.88	558.37
3 Inch	592.50	697.35	802.20	907.05	1,011.90	1,116.74
4 Inch	987.50	1,138.98	1,290.46	1,441.94	1,593.42	1,744.91
6 Inch	1,975.00	2,277.97	2,580.94	2,883.91	3,186.88	3,489.83
Effluent Sales (Per Acre Foot)	\$ 300.00	\$ 300.00	\$ 300.00	\$ 300.00	\$ 300.00	\$ 300.00

Sewer Services - Monthly Charge	Present	Staff Recommended				
	Rates	Year 1	Year 2	Year 3	Year 4	Year 5
5/8 Inch x 3/4 Inch	\$ 39.50	\$ 49.68	\$ 59.86	\$ 70.03	\$ 80.21	\$ 90.39
3/4 Inch	59.25	\$ 74.52	\$ 89.78	\$ 99.96	\$ 115.23	135.59
1 Inch	98.75	\$ 124.20	\$ 149.64	\$ 159.82	\$ 185.26	225.98
1 1/2 Inch	197.50	\$ 248.39	\$ 299.28	\$ 309.46	\$ 360.35	451.95
2 Inch	316.00	\$ 397.42	\$ 478.85	\$ 489.03	\$ 570.45	723.12
3 Inch	592.50	\$ 745.17	\$ 897.84	\$ 908.02	\$ 1,060.69	1,355.85
4 Inch	987.50	\$ 1,241.95	\$ 1,496.40	\$ 1,506.58	\$ 1,761.03	2,259.75
6 Inch	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

Sewer Services - Monthly Charge

	Present Rates	Company Proposed	Staff Recommended
Establishment (Collected only if customer is sewer only)	\$ 15.00	\$ 15.00	\$ 15.00
Re-establishment (Within 12 months)	**	**	**
Reconnection (Delinquent)	30.00	30.00	30.00
Minimum Deposit	*	*	*
Deposit Interest	No Tariff	No Tariff	*
NSF Check	25.00	25.00	25.00
Late Payment Penalty (Per Month)	1.50%	1.50%	1.50%
Deferred Payment Finance Charge	1.50%	1.50%	1.50%
Service Calls - Per Hour/After Hours	50.00	50.00	Discontinue
Service Calls - After Hours (Flat Rate)	N/A	N/A	50.00

* Per Commission Rule A.A.C. R14-2-603(B)

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

N/A-Not Applicable

TYPICAL BILL ANALYSIS
Residential Service 5/8 X 3/4

Year 1			
Present Rates	Proposed Rates	Dollar Increase	Percent Increase

Company	\$39.50	\$ 45.56	\$6.06	15.3%
Staff	\$39.50	\$ 49.68	\$10.18	25.8%

Year 2			
Present Rates	Proposed Rates	Dollar Increase	Percent Increase

Company	\$39.50	\$ 51.62	\$ 12.12	30.7%
Staff	\$39.50	\$ 59.86	\$ 20.36	51.5%

Year 3			
Present Rates	Proposed Rates	Dollar Increase	Percent Increase

Company	\$39.50	\$ 57.68	\$ 18.18	46.0%
Staff	\$39.50	\$ 70.03	\$ 30.53	77.3%

Year 4			
Present Rates	Proposed Rates	Dollar Increase	Percent Increase

Company	\$39.50	\$ 63.74	\$ 24.24	61.4%
Staff	\$39.50	\$ 80.21	\$ 40.71	103.1%

Year 5			
Present Rates	Proposed Rates	Dollar Increase	Percent Increase

Company	\$39.50	\$ 69.80	\$ 30.30	76.7%
Staff	\$39.50	\$ 90.39	\$ 50.89	128.8%

UNIFORM SYSTEM OF ACCOUNTS

FOR

CLASS B

WATER UTILITIES



1996

NATIONAL ASSOCIATION
OF
REGULATORY UTILITY COMMISSIONERS

ACCOUNTING INSTRUCTIONS

1. General - Classification of Utilities

A. For the purpose of applying the system of accounts prescribed by the Commission, water utilities are divided into three classes, as follows:

Class A - Utilities having annual water operating revenues of \$1,000,000 or more.

Class B - Utilities having annual water operating revenues of \$200,000 or more but less than \$1,000,000.

Class C - Utilities having annual water operating revenues of less than \$200,000.

B. This system of accounts applies to Class B utilities. The system of accounts applicable to Class A and C utilities are issued separately.

C. The class to which any utility belongs shall originally be determined by the average of its annual water operating revenues for the last three consecutive years. Subsequent changes in classification shall be made when the average annual water operating revenues for the three immediately preceding years exceed the upper limit or are less than the lower limit, of the annual water operating revenues of the classification previously applicable to the utility. For utility's with both water and wastewater operations, the classification shall be based on the operation with the highest annual revenues.

2. General - Records

A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

B. The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., which may be useful in developing the history of, or facts regarding, any transaction.

C. No utility shall destroy any such books or records unless the destruction thereof is permitted by rules and regulations of the Commission.

DEFINITIONS

24. "Premium", as applied to the securities issued or assumed by the utility, means the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale.
25. "Property retired", as applied to utility plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been permanently withdrawn from service.
26. "Reclaimed water" means water that has received at least secondary treatment and basic disinfection and is reused after flowing out of a wastewater treatment plant.
27. "Regulatory Assets and Liabilities" are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable that:
- (1) such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
 - (2) in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.
28. "Replacing" or "replacement", when not otherwise indicated in the context, means the construction or installation of utility plant in place of property of retired, together with the removal of the property retired.
29. "Research and development" means expenditures incurred by public utilities which represent research and development costs in the experimental or laboratory sense. The term includes generally all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property, and the improvement of already existing property of the type mentioned.
30. "Retained earnings" means the accumulated net income of the utility less distributions to stockholders and transfers to other capital accounts, and other adjustments (See account 439 - Adjustments to Retained Earnings).
31. "Retirement units" means those items of utility plant which, when retired, with or without replacement, are accounted for by crediting the original costs.

BALANCE SHEET ACCOUNTS

the amount properly chargeable hereto.

186. Miscellaneous Deferred Debits

A. This account shall include the following classes of items:

(1) Expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited with the amount applicable thereto and the appropriate plant accounts shall be charged with an amount which does not exceed the expenditures which may reasonable be determined to contribute directly and immediately and without duplication to plant. If the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense accounts (See account 675 - Miscellaneous Expenses).

(2) Undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the calendar year unless items held therein relate to a future period.

(3) Balances representing expenditures for work in progress other than on utility plant. This includes jobbing and contract work in progress.

(4) Losses on disposition of property, net of income taxes, deferred by authorization of the Commission.

(5) Large and significant research and development expenditures (See definition 26), deferred by authorization of the Commission, except those properly includible in account 105 - Construction Work in Progress. The amortization of deferred research and development expenditures and those research and development expenditures which are minor recurring shall be charged to account 675 - Miscellaneous Expenses.

(6) Balances representing the deferred portion of rate case expense.

(7) Regulatory created assets, not included in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition 27.) The amounts included in this account are to be established by those charges which would have been included in net income determination in the current period under the general requirements of the Uniform System of Account but for it being probable that such items will be

BALANCE SHEET ACCOUNTS

included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, Account 407.5 - Amortization of Regulatory Liabilities shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recording of the amount in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.5 shall be charged to Account 407.4 - Amortization of Regulatory Debits, concurrent with the recovery of the amounts in rates.

If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426 - Miscellaneous Non-utility Expenses, or Account 434 - Extraordinary Deductions, in the year of the disallowance.

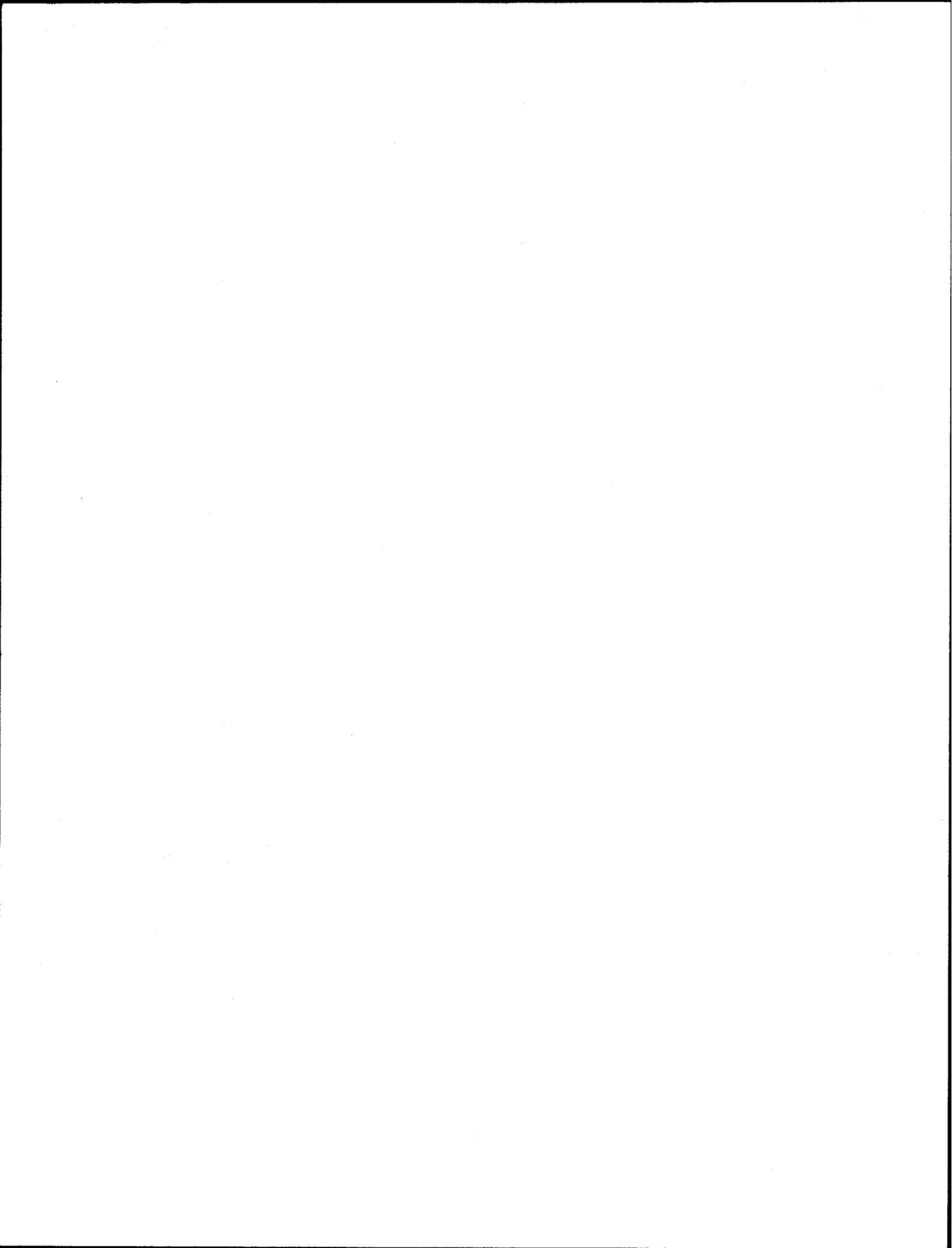
(8) Other debit balances, the proper final disposition of which is uncertain, and unusual or extraordinary expenses, not included in other accounts, which are in the process of being written-off.

B. Separate subaccounts shall be established and maintained for each of the above classes of deferred items. The records supporting the entries to each subaccount shall be so kept that the utility can furnish full information as to the cost, nature and purpose of each item included therein.

190. Accumulated Deferred Income Taxes

A. This account shall be debited and account 411.10 - Provision for Deferred Income Taxes - Credit, Utility Operating Income, or account 411.20 - Provision for Deferred Income Taxes - Credit, Other Income and Deductions, as appropriate, shall be credited with an amount equal to that by which income taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years.

B. This account shall be credited and account 410 - Deferred Federal, State or Local Income Taxes, or account 410.20 - Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with an amount equal to that by which income taxes payable for the year are lower because of prior payment of taxes as provided by paragraph A above, because of differences in timing for tax purposes of particular items of income or income deductions from that recognized by the utility for



q. Leases.

05-2 The Overall Subtopic provides guidance on the accounting and reporting for entities with regulated operations.

> Effect of Regulatory Accounting

05-3 [Regulation of an entity's rates (also referred to as prices) is sometimes based on the entity's costs. Regulators use a variety of mechanisms to estimate a regulated entity's **allowable costs**, and they allow the entity to charge rates that are intended to produce revenue approximately equal to those allowable costs. Specific costs that are allowable for rate-making purposes result in revenue approximately equal to the costs. FAS 071, paragraph 1]

05-4 [In most cases, allowable costs are used as a means of estimating costs of the period during which the rates will be in effect, and there is no intent to permit recovery of specific prior costs. The process is a way of setting prices—the results of the process are reported in general-purpose financial statements in accordance with the same accounting principles that are used by unregulated entities. FAS 071, paragraph 2]

05-5 [Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated entity. For the regulated entity, that procedure can do any of the following: FAS 071, paragraph 3]

a. [Create assets (future cash inflows that will result from the rate-making process) FAS 071, paragraph 3]

b. [Reduce assets (reductions of future cash inflows that will result from the rate-making process) FAS 071, paragraph 3]

c. [Create liabilities (future cash outflows that will result from the rate-making process). FAS 071, paragraph 3]

05-6 [For general-purpose financial reporting, an **incurred cost** for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. FAS 071, paragraph 3]

05-7 [Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform with generally accepted accounting principles (GAAP). For example, a regulatory authority may order an entity to **capitalize** and amortize a cost that would be charged to income currently by an unregulated entity. FAS 071, paragraph 4][Unless capitalization of that cost is appropriate under this Topic, GAAP requires the regulated entity to charge the cost to current income. FAS 071, paragraph 4]

05-8 [Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the GAAP applicable to business entities in general. The mere issuance of an accounting order not tied to rate treatment does not change an entity's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of GAAP. FAS 071, paragraph 52]

15 Scope

General Note

The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments

Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Overall Guidance

15-1 The Subtopics within the Regulated Operations Topic only provide incremental industry-specific guidance for the entities defined in this Scope Section, or as further defined in the Scope Sections of the individual Regulated Operations Subtopics. Entities within the scope of this Topic shall also comply with the applicable guidance not included in this Topic.

> Entities

15-2 [The guidance in the Regulated Operations Topic applies to general-purpose external financial statements of an entity that has regulated operations that meet all of the following criteria: FAS 071, paragraph 5]

a. [The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers. FAS 071, paragraph 5]

b. [The regulated rates are designed to recover the specific entity's costs of providing the regulated services or products. FAS 071, paragraph 5] [This criterion is intended to be applied to the substance of the regulation, rather than its form. If an entity's regulated rates are based on the costs of a group of entities and the entity is so large in relation to the group of entities that its costs are, in essence, the group's costs, the regulation would meet this criterion for that entity. FAS 071, paragraph 65]

c. [In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs. FAS 071, paragraph 5] [This last criterion is not intended as a requirement that the entity earn a fair return on shareholders' investment under all conditions; an entity can earn less than a fair return for many reasons unrelated to the ability to bill and collect rates that will recover **allowable costs**. For example, mild weather might reduce demand for energy utility services. In that case, rates that were expected to recover an entity's allowable costs might not do so. The resulting decreased earnings do not demonstrate an inability to charge and collect rates that would recover the entity's costs; rather, they demonstrate the

uncertainty inherent in estimating weather conditions. FAS 071, paragraph 67] [This requirement must also be evaluated in light of the circumstances. For example, if the entity has an exclusive franchise to provide regulated services or products in an area and competition from other services or products is minimal, there is usually a reasonable expectation that it will continue to meet the other criteria. Exclusive franchises can be revoked, but they seldom are. If the entity has no exclusive franchise but has made the very large capital investment required to provide either the regulated services or products or an acceptable substitute, future competition also may be unlikely. FAS 071, paragraph 68]

15-3 [In some cases, the rates set by state regulatory agencies are accepted for Medicare and Medicaid reimbursement purposes. There is some disagreement about the extent to which such rates are based on a provider's costs. If regulatory agencies in those states base rates on the provider's costs and adopt a permanent system of regulation, health care providers in those jurisdictions could be subject to the provisions of this Topic. However, the criterion in (c) in the preceding paragraph also would have to be considered to determine whether this Topic applies to the entity. FAS 071, paragraph 74]

15-4 [If some of an entity's operations are regulated and meet the criteria of paragraph 980-10-15-2, this Topic shall be applied to only that portion of the entity's operations. FAS 071, paragraph 6]

15-5 [Guidance in other Codification Topics that applies to entities in general also applies to regulated entities. However, entities subject to this Topic shall apply it instead of any conflicting provisions of other parts of the Codification. FAS 071, paragraph 7][For example, a regulator might authorize a regulated entity to incur a major research and development cost because the cost is expected to benefit future customers. The regulator might also direct that cost to be capitalized and amortized as an allowable cost over the period of expected benefit. If the criteria of paragraph 980-340-25-1 are met, the entity shall **capitalize** that cost even though Subtopic 730-10 requires such costs to be charged to income currently. That Subtopic shall still apply to accounting for other research and development costs of the regulated entity, as shall the disclosure requirements of that Subtopic. FAS 071, paragraph 7]

15-6 [Section 915-205-45 and paragraphs 915-215-45-1 through 45-3 and 915-235-50-1, which require disclosure of additional information, apply to development stage entities, which are also regulated entities in all cases. FAS 007, paragraph 5]

Pending Content

Transition Date: (P) December 16, 2014; (N) December 16, 2014 | **Transition Guidance:** 915-10-65-1

Paragraph superseded by Accounting Standards Update No. 2014-10

> Transactions

15-7 The guidance in the Regulated Operations Topic does not apply to any of the following transactions:

a. [Accounting for price controls that are imposed by governmental action in times of emergency, high inflation, or other unusual conditions, or accounting for contracts in general. However, if the terms of a contract between an entity and its customer are subject to regulation and the criteria of paragraph 980-10-15-2 are met with respect to that contract, the guidance in this Topic shall apply. FAS 071, paragraph 8]

The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

> Effects of Regulation

>> *Recognition of Regulatory Assets*

25-1 [Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall **capitalize** all or part of an **incurred cost** that would otherwise be charged to expense if both of the following criteria are met: FAS 071, paragraph 9]

a. [It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in **allowable costs** for rate-making purposes. FAS 071, paragraph 9]

b. [Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost. FAS 071, paragraph 9]

[A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date. EITF 93-04, paragraph DISCUSSION]

>> *Phase-In Plans*

25-2 [If a **phase-in plan** is ordered by a regulator in connection with a plant on which no substantial physical construction had been performed before January 1, 1988, none of the allowable costs that are deferred for future recovery by the regulator under the plan for rate-making purposes shall be capitalized for general-purpose financial reporting purposes (hereinafter referred to as financial reporting). FAS 092, paragraph 4][Allowable costs that are deferred for future recovery by the regulator under the plan consist of all allowable costs deferred for rate-making purposes under the plan beyond the period in which those allowable costs would be charged to expense under generally accepted accounting principles (GAAP) applicable to entities in general. FAS 092, paragraph 4]

25-3 [If a phase-in plan is ordered by a regulator in connection with a plant completed before January 1, 1988, or a plant on which substantial physical construction had been performed before January 1, 1988, the following criteria shall be applied to that plan. If the phase-in plan meets all of those criteria, all allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting as a separate asset (a deferred charge). If any one of those criteria is not met, none of the allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting. The criteria to determine whether capitalization is appropriate are: FAS 092, paragraph 5]

a. [The allowable costs in question are deferred pursuant to a formal plan that has been agreed to by the regulator. FAS 092, paragraph 5]

b. [The plan specifies the timing of recovery of all allowable costs that will be deferred under the plan. FAS 092, paragraph 5]