

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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AZ CORP COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: November 24, 2015

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RE: IN THE MATTER OF THE APPLICATION OF SAHUARITA WATER COMPANY, LLC ("SWC") FOR AN OPINION AND ORDER OF THE COMMISSION (i) DETERMINING THE FAIR VALUE OF THE UTILITY PROPERTY OF SWC FOR RATEMAKING PURPOSES, (ii) FIXING A JUST AND REASONABLE RATE OF RETURN THEREON, (iii) APPROVING RATES AND CHARGES DESIGNED TO PRODUCE REVENUES SUFFICIENT TO RECOVER SWC'S COST OF SERVICE AND AUTHORIZED RATE OF RETURN, AND (iv) PROVIDING FOR THE RECOVERY OF CERTAIN FINANCING AND OPERATING EXPENSES THROUGH A SURCHARGE AND A PASS-THROUGH TARIFF, RESPECTIVELY (DOCKET NO. W-03718A-09-0359)

Subject: CAGR D ANNUAL FEE ADJUSTMENT

I. INTRODUCTION

On October 15, 2015, pursuant to Decision No. 72177 (February 11, 2011) and as modified by Decision No. 73283 (July 30, 2012), Sahuarita Water Company, LLC ("SWC" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR D") adjustor fee.

Decision No. 72177 authorized the Company to implement an adjustor mechanism to recover the costs paid to the CAGR D for replenishment of excess groundwater. The conditions as modified by Decision No. 73283 require the Company to submit, by October 25 of each year, for Commission consideration, its proposed CAGR D fee for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after December 1.<sup>1</sup> The fee for 2015 was approved in Decision 74868, on December 19, 2014. The Company made the instant filing on October 15, 2015, requesting an adjustor reset for sales billed in 2016.

II. BACKGROUND

The CAGR D was established by the Arizona legislature to serve as a groundwater replenishment authority. It provides a mechanism for designated water supply providers, such as SWC, to demonstrate a 100-year water supply. Members pay the CAGR D to replenish any

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<sup>1</sup> Decision No. 73283, page 3, lines 2 through 8.

groundwater pumped by the member that exceeds the specified pumping limits. The CAGR D is recognized as an important tool in Arizona's groundwater conservation efforts.

#### IV. CALCULATION OF THE CAGR D ADJUSTOR FEE

Decision No. 72177 specified nine conditions regarding the CAGR D Adjustor. Condition No. 6 ordered that the adjustor fee be calculated as follows: "The total CAGR D fees paid by the Company for the most current year shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons."<sup>2</sup>

In addition, although the Decision did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the annual adjustor reset. This understanding was confirmed by the Commission's provision for a true-up in Decision No. 72204.<sup>3</sup>

The Company proposes a rate of \$1.46 per thousand gallons ("kgal"). Staff has reviewed the Company's proposed calculations and the supporting documentation submitted with its request. Staff concurs with the Company's proposed rate.

#### True-up

The CAGR D invoice to SWC for the 2013 annual replenishment assessment was \$512,734.32. SWC reports that, as of September 30, 2015, the Company had total collections and interest of \$470,908.87.<sup>4</sup>

This true-up calculation indicates an under-collection of \$81,884.52 as follows:

a. 2012 under-collection of CAGR D invoice	\$ 40,059.07
b. 2013 CAGR D invoice	512,734.32
c. Less: Collections and interest through September, 2015	<u>470,908.87</u>
d. 2014 CAGR D under-collection [a + b - c]	<u>\$ 81,884.52</u>

#### Adjustor Fee

The CAGR D invoice to SWC for 2014 states total fees due of \$582,826.06. The Company proposes a per kgal adjustor charge of \$1.46, based on water produced of 455,501 kgls or 1,397.7 acre feet.

<sup>2</sup> Decision No. 72177, page 41, lines 15-17.

<sup>3</sup> Decision No. 72204, page 2, lines 1-7.

<sup>4</sup> Company's application dated October 15, 2015.

Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$1.46 per kgal.

a.	2014 CAGR D invoice	\$ 582,826.06
b.	Plus under-collection from 2014	<u>81,884.52</u>
c.	Amount to be recovered [a + b]	664,710.58
d.	Total kgal sold in 2014	<u>455,501</u>
e.	Charge per kgal [c ÷ d]	<u>\$ 1.46</u>

**V. CONCLUSIONS AND RECOMMENDATIONS**

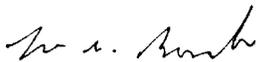
Staff concludes that the Company has duly filed the appropriate request to revise the CAGR D adjustor fee as required by Decision No. 73283.

Staff recommends approval of the CAGR D adjustor fee in the amount of \$1.46 per kgal as proposed by the Company.

Staff recommends that the Company file, within 7 days of a Decision in this matter, a CAGR D adjustor fee tariff consistent with the rate approved herein.

Staff recommends that the Company notify its customers of the CAGR D adjustor fee tariff approved herein within 30 days of the effective date of the Decision.

Staff recommends that the CAGR D adjustor fees authorized herein become effective for all water sold after December 1, 2015.



Thomas M. Broderick  
Director Utilities Division

TMB: DC:nr\WVC

Originator: Darron Carlson

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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 SAHUARITA WATER COMPANY, LLC )  
("SWC") FOR AN OPINION AND ORDER )  
OF THE COMMISSION (i) DETERMINING )  
THE FAIR VALUE OF THE UTILITY )  
PROPERTY OF SWC FOR RATEMAKING )  
PURPOSES, (ii) FIXING A JUST AND )  
REASONABLE RATE OF RETURN )  
THEREON, (iii) APPROVING RATES AND )  
CHARGES DESIGNED TO PRODUCE )  
REVENUES SUFFICIENT TO RECOVER )  
SWC'S COST OF SERVICE AND )  
AUTHORIZED RATE OF RETURN, AND )  
(iv) PROVIDING FOR THE RECOVERY OF )  
CERTAIN FINANCING AND OPERATING )  
EXPENSES THROUGH A SURCHARGE )  
AND A PASS THROUGH TARIFF )  
RESPECTIVELY - )

DOCKET NO. W-03718A-09-0359  
DECISION NO. \_\_\_\_\_  
ORDER  
RE: CAGR D ANNUAL FEE  
ADJUSTMENT

Open Meeting  
December 08 and 09, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On October 15, 2015, pursuant to Decision No. 72177 (February 11, 2011) and as modified by Decision No. 73283 (July 30, 2012), Sahuarita Water Company, LLC ("SWC" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR D") adjustor fee.

1           2. Decision No. 72177 authorized the Company to implement an adjustor mechanism,  
2 subject to certain conditions, to recover the costs paid to the CAGR D for replenishment of excess  
3 groundwater. The conditions as modified by Decision No. 73283 require the Company to submit, by  
4 October 25 of each year, for Commission consideration, its proposed CAGR D fee for the next  
5 twelve-month period (along with documentation from the relevant state agencies to support the  
6 calculations), to apply to all water sold after December 1. Accordingly, the Company made the instant  
7 filing on October 15, 2015, requesting as adjustor reset for sales billed in 2016.

### 8 **Background**

9           3. The CAGR D was established by the Arizona legislature to serve as a groundwater  
10 replenishment authority. It provides a mechanism for designated water supply providers such as SWC  
11 to demonstrate a 100-year water supply. Members pay the CAGR D to replenish groundwater  
12 pumped by the member that exceeds the specified pumping limits. The CAGR D is recognized as an  
13 important tool in Arizona's groundwater conservation efforts.

### 14

### 15 **Calculation of the CAGR D Adjustor Fees**

16           4. Decision No. 72177 specified nine conditions regarding the CAGR D Adjustor.  
17 Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees paid  
18 by the Company for the most current year shall be divided by the gallons sold by the Company in that  
19 year to determine a CAGR D adjustor fee per 1,000 gallons."<sup>1</sup>

20           5. In addition, although the Order did not contain an explicit provision for a true-up, the  
21 parties were in agreement that such an annual true-up would occur at the time of the annual adjustor  
22 reset. This understanding was confirmed by the Commission's provision for a true-up in Decision  
23 No. 72204.<sup>2</sup>

24           The Company proposes a rate of \$1.46 per thousand gallons ("kgal"). Staff has reviewed the  
25 Company's proposed calculations and the supporting documentation submitted with its request. Staff  
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28 <sup>1</sup> Decision No. 72177 page 41, lines 15-17.

<sup>2</sup> Dec. No. 72204, page 2, lines 1-7.

1 agrees with the methodology employed by the Company to calculate the true-up, and it recommends  
2 the Company's proposed adjustor fee of \$1.46.

### 3 True-up

4 The CAGR D invoice to Sahuarita for the 2013 annual replenishment assessment was  
5 \$512,734.32. SWC reports that, as of September 30, 2015, the Company will have total collections  
6 and interest of \$470,908.87.<sup>3</sup>

7  
8 6. This true-up calculation indicates an under-collection of \$81,884.52 as follows:

9	a.	2012 under-collection of CAGR D	\$ 40,059.07
10	b.	2013 CAGR D invoice	512,734.32
11		Less: Collections and interest through September 2015	<u>470,908.87</u>
12	d.	2014 CAGR D under-collection [a+b-c]	<u>\$ 81,884.52</u>

### 13 Adjuster Fee

14 The 2013 CAGR D invoice to SWC states total charges due of \$582,826.06. The Company  
15 proposes a per kgal adjustor charge of \$1.46, based on water produced of 455,501 kgal or 1,397.7 acre  
16 feet. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$1.46.

17	a.	2014 CAGR D invoice	\$ 582,826.06
18	b.	Plus under-collection from 2014	<u>81,884.52</u>
19	c.	Amount to be recovered [a+b]	\$ 664,710.58
20	d.	Total kgal sold in 2014	<u>455,501</u>
21	e.	Charge per kgal [c ÷ d]	<u>\$ 1.46</u>

### 22 Conclusions and Recommendations

23  
24 7. Staff concludes that the Company has duly filed the appropriate request to revise the  
25 CAGR D adjustor fees as required by Decision No. 73283.

26 8. Staff recommends approval of the CAGR D adjustor fee as described herein.

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28 <sup>3</sup> Company's application filed October 15, 2014.



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IT IS FURTHER ORDERED that Sahuarita Water Company, LLC shall notify its customers of the CAGR adjutor fee approved herein within 30 days of the effective date of this Decision.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

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

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

TMB: DC:nr/WVC

Decision No. \_\_\_\_\_

1 SERVICE LIST FOR: Sahuarita Water Company, LLC  
2 DOCKET NO. W-03718A-09-0359

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