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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SOUTHLAND UTILITIES COMPANY, INC.
FOR APPROVAL OF AN INCREASE IN
RATES.

DOCKET NO. W-02062A-15-0224

NOTICE OF FILING
SUPPLEMENTA STAFF REPORT

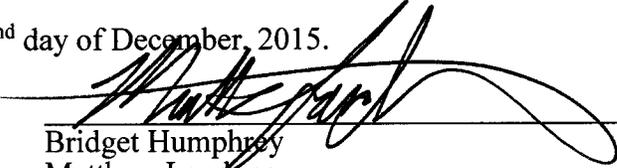
The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the *Supplemental Staff Report In Response To Response To Staff Report For Southland Utilities, Inc.'s Request For An Increase In Rates*, in the above-captioned matter.

RESPECTFULLY SUBMITTED this 22nd day of December, 2015.

Arizona Corporation Commission
DOCKETED

DEC 22 2015

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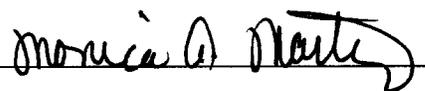

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ORIGINAL and thirteen (13) copies of the foregoing filed this 22nd day of December, 2015, with:

Docket Control
Arizona Corporation Commission
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COPIES of the foregoing mailed this 22nd day of December, 2015, to:

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MEMORANDUM

TO: Docket Control Center

FROM: Thomas M. Broderick 
Director
Utilities Division

DATE: December 22, 2015

RE: STAFF SUPPLEMENTAL STAFF REPORT IN RESPONSE TO RESPONSE
TO STAFF REPORT FOR SOUTHLAND UTILITIES COMPANY, INC.'S
REQUEST FOR AN INCREASE IN RATES (DOCKET NO. W-02062A-15-
0224)

Attached is the Supplemental Staff Response to Staff Report for Southland Utilities Company, Inc.'s Request for an Increase in Rates. Staff continues to recommend approval of its recommended rates and charges.

TMB:JRA:red\BH

Originator: James Armstrong

Service List for: SOUTHLAND UTILITIES COMPANY, INC.
Docket No. W-02062A-15-0224

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SOUTHLAND UTILITIES COMPANY, INC.

DOCKET NO. W-02062A-15-0224

APPLICATION FOR A PERMANENT RATE INCREASE

DECEMBER 22, 2016

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Southland Utilities Company, Inc., Docket No. W-02062A-15-0224, was the responsibility of the Staff members listed below. James Armstrong was responsible for the review and analyses of the Company's Response to Staff Report. Del Smith was responsible for the engineering and technical analysis.



James Armstrong
Chief of Financial and Regulatory Analysis



Del Smith
Engineering Supervisor

TABLE OF CONTENTS

PAGE

INTRODUCTION 1

COMPANY ISSUE – CIAC AND CIAC AMORTIZATION:..... 1

COMPANY ISSUE – CASH FLOW ANALYSIS: 2

COMPANY ISSUE – RATE DESIGN: 2

COMPANY ISSUE – BEST MANAGEMENT PRACTICES (“BMPS”) 2

COMPANY ISSUE – THE COMPANY’S CONCLUDING REQUEST:..... 3

STAFF RECOMMENDATIONS..... 3

INTRODUCTION

In this Procedural Order dated December 1, 2015, Staff was directed to file a response to the objections raised by Southland Utilities Company, Inc. ("Southland" or "Company") in the Company's November 24, 2015 response to the Staff recommendations contained in the Staff Report dated November 9, 2015. The comments contained in this Supplemental Staff Report comply with this Procedural Order directive.

COMPANY ISSUE – CIAC AND CIAC AMORTIZATION:

Southland describes the issue as determining how to account for the Contributions in Aid of Construction ("CIAC") and the associated amortization resulting from the Water Infrastructure Finance Authority of Arizona ("WIFA") loan and noted that in Decision No. 72429, the Arizona Corporation Commission ("ACC" or "Commission") ordered that "the portion of plant paid for with WIFA Surcharge Funds shall be to treat such plant as Contributions in Aid of Construction."

The Company also accurately acknowledges that in its rate application, Southland failed to address this specific Commission Directive.

The Company also notes accurately that near the end of the discovery process, the Utilities Division ("Staff") asked the Company to explain how it was applying this ordering language from Decision No. 72429 since it appeared to Staff that the Company had failed to follow this directive.

Staff agrees that this ordering language may be unique and suggests that some additional regulatory accounting might be required to identify and track the "level of plant paid for with the WIFA surcharge funds."

The \$40,715 difference in the level of WIFA loan-related CIAC captured by Staff of \$104,130 and the \$63,415 level of such CIAC recommended by the Company is attributable to the fact that the balance advocated by the Company is the level as of the end of the selected test year, December 31, 2014, and the balance advocated by Staff is as of the end of January, 2016, when a Commission Decision is expected. The level of such CIAC will continue to grow beyond the end of the test year. The language in that Decision does not suggest that the directive was only to apply through the end of the Company's next test year. Likewise there is no language in the Commission's previous Decision that asserts that this directive should only be applied to funds paid to WIFA, but not to funds being held by the Company ahead of making payments to WIFA, as the Company also argues in its response to the Staff Report.

Staff's accumulated CIAC amortization adjustment is higher than the level of such accumulated CIAC amortization advocated by the Company because of the additional WIFA-loan CIAC that is being recognized under Staff's recommendation. All of such CIAC is subject to amortization.

Staff's approach to identifying the level of plant paid for with the WIFA surcharge funds was to rationally conclude that the portion of funds used to pay interest on the WIFA loan was not used

to pay for plant, so only the residual WIFA surcharge funds were considered to be available to fund or pay for plant. Staff's recommended Adjustments A and B to rate base, shown on Staff Schedule JLK-2, are reasonable and necessary to assure compliance with the Commission's previous Decision.

Staff rate base Adjustment B is necessary to reflect amortization of the CIAC imputed in rate base Adjustment A.

The Company's comments on page 5 of its response to the Staff Report, regarding how Staff reached its \$78,605 level of Amortized Contributions compared to the \$72,721 identified by the Company can be answered quite simply. This represents recognition of Staff's rate base Adjustment B, which amounts to \$5,884.

COMPANY ISSUE – CASH FLOW ANALYSIS:

The Company suggests that its current WIFA loan debt service requirement is \$91,752. Staff is unclear where this \$91,752 was supported by the Company, but notes that the principle and interest payments components that made up the \$83,953 used by Staff align with the information shown on page 24 of the Company's application.

COMPANY ISSUE – RATE DESIGN:

The Company suggests that Staff's rate design is in error because its results exceed the revenue target. Staff discovered late in its analysis that its recommended rate design could result in revenue recoveries slightly in excess of the targeted annual revenues, but Staff chose not to refine its recommended rates due to lack of materiality considerations and also due to the fact that the rates of only a very small number of customers would have been affected. By Staff's estimate, the potential over-recovery would approximate \$2,000 on an annual basis, which is 1/2 of 1 percent of total annual revenues. However, if the Company prefers to lower the Staff proposed rates to remove this potential over recovery of revenues, Staff would not oppose the Commission making this refinement.

Staff's recommended rates for service line and meter installation charges are contained in the engineering report and are the same as the Company's current and proposed rates. The rates contained in Schedule JLK-4 at Page 2 of 2 are inconsistent with Staff's recommendation; this inconsistency appears to be an error in Schedule JLK-4 which was then inadvertently incorporated in the Staff report.

COMPANY ISSUE – BEST MANAGEMENT PRACTICES (“BMPs”)

Staff acknowledges that the Commission has frequently removed the BMP requirement when it has been opposed by the Company. Staff no longer recommends the Company file BMP tariffs.

COMPANY ISSUE – THE COMPANY’S CONCLUDING REQUEST:

The Company suggests, on page 8 of its filed comments to the Staff Report that it be allowed to forgo compliance with the previously discussed provisions of Commission Decision No. 72429, dealing with the WIFA loan CIAC treatment, to avoid incurring additional costs. The Company has not requested any different treatment in its application herein nor sought to rescind or modify the order. Neither has the Company presented any support for such a change, other than that the methodology is complex and costly. This long after-the-fact request should be rejected.

STAFF RECOMMENDATIONS.

Staff continues to support the recommendations set forth in its Staff Report of November 9, 2015, with the exceptions of removing the BMP requirement, allowing next billing cycle effectively, and finalizing the CIAC issue in the case’s decision by ceasing CIAC accumulation at January 2016.