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BEFORE THE ARIZONA CORPORATION COMMISSION

- 1
- 2 DOUG LITTLE
Chairman
- 3 BOB STUMP
Commissioner
- 4 BOB BURNS
Commissioner
- 5 TOM FORESE
Commissioner
- 6 ANDY TOBIN
Commissioner
- 7

8 IN THE MATTER OF THE APPLICATION)
 9 OF JOHNSON UTILITIES LLC FOR AN)
 10 INCREASE IN ITS WATER AND)
 11 WASTEWATER RATES FOR CUSTOMERS)
 WITHIN PINAL COUNTY, ARIZONA, RE)
 CAGR D ADJUSTOR FEES)

DOCKET NO. WS-02987A-08-0180
 DECISION NO. 75462
ORDER

Arizona Corporation Commission
DOCKETED

FEB 16 2016

12 Open Meeting
 13 February 2 and 3, 2016
 14 Phoenix, Arizona

DOCKETED BY	<i>MX</i>
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15 BY THE COMMISSION:

FINDINGS OF FACT

Introduction

18 1. On October 8, 2015, pursuant to Decision No. 71854 (August 24, 2010), and as
 19 modified by Decision No. 73284 (July 30, 2012) and Decision No. 74701 (August 21, 2014), Johnson
 20 Utilities L.L.C. ("Johnson" or "Company") filed with the Arizona Corporation Commission
 21 ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District
 22 ("CAGR D") adjustor fees.

23 2. Decision No. 71854 authorized the Company to implement an adjustor mechanism,
 24 subject to certain conditions, to recover the costs paid to the CAGR D for replenishment of excess
 25 groundwater. The conditions, as modified by Decision No. 73284, require the Company to submit, by
 26 October 25 of each year, for Commission consideration, its proposed CAGR D fees for the next
 27 twelve-month period (along with documentation from the relevant state agencies to support the
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1 calculations), to apply to all water sold after December 1.¹ Accordingly, the Company made the
2 instant filing on October 8, 2015, requesting the adjustor reset for usage billed in 2016. On
3 November 6, 2015, the Company filed a notice of consent to extend the time for filing the Staff
4 Report and Proposed Order.

5 3. On January 19, 2016, Utilities Division Staff (“Staff”) filed a Staff Report and Order
6 recommending CAGR D fees different than those proposed by the Company. On January 29, 2016,
7 the Company filed exceptions to the Staff Report and Order.

8 **Background**

9 4. The CAGR D was established by the Arizona legislature to serve as a groundwater
10 replenishment entity for its members, and it provides a mechanism for designated water supply
11 providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGR D to
12 replenish groundwater pumped by the member that exceeds the specified pumping limits. The
13 CAGR D is recognized as an important tool in Arizona’s groundwater conservation efforts.

14 **Calculation of the CAGR D Adjustor Fees**

15 5. Decision No. 71854 specified nine conditions regarding the CAGR D adjustor.
16 Condition No. 6 ordered that the adjustor fees be calculated as follows: “The total CAGR D fees paid
17 by the Company for the most current year . . . shall be divided by the gallons sold by the Company in
18 that year to determine a CAGR D adjustor fee per 1,000 gallons.”²

19 6. Condition Nos. 2 and 3 ordered that the Company “place all CAGR D monies
20 collected from customers in a separate, interest bearing account,” only to be withdrawn for the annual
21 payment to the CAGR D, due on October 15 of each year.³ Decision No. 74701 revised Decision No.
22 71854 in regard to the segregation of CAGR D funds: “In the event of a shortfall, the Company shall
23 only reimburse itself by withdrawing each month from the CAGR D Account an amount not to
24 exceed 1/12th of the shortfall advanced by the Company until the full amount of any advance has been
25 returned to the Company.”⁴ Decision No. 75129 revised Decision No. 74701 in regard to the

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27 ¹ Decision No. 73284, page 3, lines 2 - 8.

28 ² Decision No. 71854, page 38, lines 22 - 26.

³ Decision No. 71854, page 38, lines 12 - 16.

⁴ Decision No. 74701, page 2, lines 14 - 16.

1 CAGR D shortfall reimbursements to remove the limitation “that requires the Company to reimburse
2 itself for advancing shortfalls in the CAGR D account at the rate of 1/12th of the shortfalls per
3 month.”⁵

4 7. In addition, although the order did not contain an explicit provision for a true-up, the
5 parties were in agreement that such an annual true-up would occur at the time of the adjustor reset
6 each year. This understanding was confirmed by the Commission’s provision for a true-up in
7 Decision No. 72634.⁶

8 8. In its 2015 CAGR D adjustor reset, the Company is proposing a new calculation
9 methodology that will match the CAGR D collections for a specific year to the CAGR D invoice that
10 was generated by the usage for that year. The invoice that the Company receives from the CAGR D in
11 October of each year is for the preceding calendar year⁷. Staff’s calculation nets the prior years
12 over/under collection and the CAGR D invoice with the collections and interest from the prior
13 October through September of the current year to calculate a new over/under collection amount.
14 The new over/under collection amount is then added to the most current CAGR D invoice resulting
15 in an amount to be collected. This amount is then divided by the total gallons sold in the prior year to
16 determine the new rates generally effective in December.

17 9. The Company’s calculations show that there has been a large cumulative under-
18 collection from 2011 through 2014 in the amount of \$3,148,054 for its Phoenix Active Management
19 Area (“AMA”) and \$262,915 for its Pinal AMA. As a result of this under-collection the Company has
20 calculated a rate of \$3.22 per thousand gallons (“kgal”) for its Phoenix AMA, and a rate of \$1.76 per
21 kgal for its Pinal AMA. Due to the impact that this level of increase would have on ratepayers, the
22 Company proposes a two year phase in with the first phase at a rate of \$2.57 per kgal for its Phoenix
23 AMA, and a rate of \$1.23 per kgal for its Pinal AMA. Staff has reviewed the Company’s proposed
24 calculations and the supporting documentation submitted with its request. Staff disagrees with the

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⁵ Decision No. 75129, page 2, lines 4 - 7

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⁶ Decision No. 72634, page 4, line 19 through page 5, line 10.

⁷ The October 2015 CAGR D invoice was for the water used in the 2014 calendar year.

1 methodology employed by the Company to calculate the true-up and hence also disagrees with the
2 resulting proposed adjustor rate as discussed below.

3 10. Staff believes that the current Commission-approved calculation methodology is more
4 appropriate than the Company's revised method because the Company's approach effectively ignores
5 the amounts collected in 2015 of \$2,823,428.65 for the Phoenix AMA and \$73,430.78 for the Pinal
6 AMA and actually extends the timing lag associated with CAGR D usage, billing and the subsequent
7 collection of the adjustor fees. In addition, Staff believes that any proposed alterations to the current
8 calculation methodology and any cumulative true-up would be more appropriately addressed within
9 the context of a full rate case where the CAGR D adjustor mechanism can be considered along with all
10 other rate issues.

11 11. The Company asserts that Staff's methodology is flawed because it offsets nearly two
12 years of CAGR D adjuster fee revenue against the CAGR D assessment for a single year, which has
13 created the current situation where the Company has collected \$3,410,969 less from customers than
14 what it has paid the CAGR D for the same time period. In addition, the Company believes that Staff's
15 recommendation to address the issue in a future rate case should be rejected because a delay in cost
16 recovery is contrary to the express language of Decision 71854 which states that CAGR D costs
17 should be recovered timely and in real time, because delaying the issue will make the current under-
18 collection a larger problem to deal with in the rate case, and because the Company's methodology is
19 consistent with Decision 71854 and thus requires no modification of the Decision.

20 **Phoenix AMA – Detailed discussion**

21 *Company True-up*

22 12. The total collections from 2011 to 2014 are \$11,811,594.79. The collections for 2010
23 and 2011 have been revised from what was originally reported by the Company. For 2010, the
24 Company originally reported \$1,722,734.00⁸ in collections which has been revised to be \$150,915.59
25 and for 2011 the Company originally reported \$1,683,480.23⁹ which has been revised to be
26 \$1,591,545.31. This results in a combined overstatement of \$1,663,753.33. The total in CAGR D
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28 ⁸ Decision No. 72634, page 5, line 9

⁹ Decision No. 73617, page 3, line 23

1 invoices from 2011 to 2014 is \$14,959,648.42. The Company received a credit from CAGR D in 2012
 2 for \$672,729 that had not previously been included in the calculation. The Company has calculated a
 3 net under collection of \$3,148,053.63 as follows:

4	a.	2010 & 2011 Collections	\$ 1,742,460.90
	b.	2012 Collections	1,984,962.78
5	c.	2013 Collections	3,741,551.00
	d.	2014 Collections	<u>4,342,620.11</u>
6	e.	Cumulative Collections [A+B+C+D]	\$11,811,594.79
	f.	2011 CAGR D	\$ 3,070,866.12
7	g.	2012 CAGR D	3,113,035.56
	h.	2013 CAGR D	4,176,509.30
8	i.	2014 CAGR D	<u>4,599,237.44</u>
9	j.	Cumulative CAGR D [F+G+H+I]	\$14,959,648.42
10	k.	2011-2014 Net under collection [E - J]	<u>\$(3,148,053.63)</u>

11 *Company Adjustor Fee*

12 13. The 2014 CAGR D invoice for Johnson's Phoenix AMA totals \$4,599,237.44. The
 13 Company's 2014 annual report as submitted to the Arizona Department of Water Resources
 14 ("ADWR") indicates annual water sales of 2,409,289 (1,000 gallons).

15 14. The Company's calculation of the new CAGR D adjustor fee is shown below. The fee
 16 is \$3.22, however, the Company proposes a two year phase-in with a fee of \$2.57 for the first year.

17	a.	2014 CAGR D invoice	\$4,599,237.44
	b.	Plus cumulative under-collection	<u>3,148,053.63</u>
18	c.	Amount to be recovered [A+B]	7,747,291.07
19	d.	Total water sold in 2014 (1,000 gallons)	<u>\$ 2,409,289</u>
20	e.	Charge per 1,000 gallons [C ÷ D]	<u>\$ 3.22</u>

21 *Staff True-up*

22 15. The 2013 CAGR D invoice for the Phoenix AMA annual replenishment assessment
 23 was \$4,176,509.30. The Company reports that collections and interest as of September 30, 2015, total
 24 \$3,985,657.30. Staff agrees with the corrections to the 2010 and 2011 collections and 2012 CAGR D
 25 invoice amounts. This true-up calculation indicates an over-collection of approximately \$718,393.88
 26 as follows:

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1	a.	2012 over-collection of CAGR invoice ¹⁰	\$(909,245.88)
	b.	2013 CAGR invoice	4,176,509.30
2	c.	Less: Collections and interest through September, 2015	<u>3,985,657.30</u>
3	d.	2013 CAGR over-collection [A+B-C]	\$(718,393.88)

4 *Staff Adjustor Fee*

5 16. The 2014 CAGR invoice for Johnson's Phoenix AMA totals \$4,599,237.44. The
6 Company's 2014 annual report as submitted to ADWR indicates annual water sales of 2,409,289
7 (1,000 gallons).

8 17. Staff's calculation of the new CAGR adjustor fee is shown below. The fee is \$1.61.

9	a.	2014 CAGR invoice	\$4,599,237.44
	b.	Less over-collection from 2013	<u>718,393.30</u>
10	c.	Amount to be recovered [A+B]	3,880,843.56
11	d.	Total water sold in 2014 (1,000 gallons)	<u>2,409,289</u>
	e.	Charge per 1,000 gallons [C ÷ D]	<u>\$1.61</u>

13 **Pinal AMA – Detailed discussion**

14 *Company True-up*

15 18. The total collections from 2011 to 2014 are \$348,444.62. The collections for 2010 and
16 2011 have been revised from what was originally reported by the Company. For 2010, the Company
17 originally reported \$62,192.00¹¹ in collections which has been revised to be \$5,743.25 and for 2011, the
18 Company originally reported \$55,133.76¹² which has been revised to be \$50,476.13. This results in a
19 combined overstatement of \$61,106.38. The total in CAGR invoices from 2011 to 2014 is
20 \$611,359.88. The Company has calculated a net under collection of \$262,915.26 as follows:

21	a.	2010 & 2011 Collections	\$ 56,219.38
	b.	2012 Collections	57,719.01
22	c.	2013 Collections	86,274.94
	d.	2014 Collections	<u>148,231.29</u>
23	e.	Cumulative Collections [A+B+C+D]	\$ 348,444.62
24	f.	2011 CAGR	\$ 72,995.62
	g.	2012 CAGR	117,186.64
25	h.	2013 CAGR	99,681.03

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27 ¹⁰ Staff calculates that actual collections from September 2010 through September 2011 should have been \$1,162,785.74
and accepts the Company's revised 2012 CAGR invoice amount. Staff recalculated each year of the adjustor mechanism
28 with the revised amounts using the current methodology to determine a revised 2012 over-collection.

¹¹ Decision No. 72634, page 6, line 10

¹² Decision No. 73617, page 4, line 26

1	i.	2014 CAGR D	<u>321,496.59</u>
	j.	2014 CAGR D [F+G+H+I]	\$ 611,359.88
2	k.	2011-2014 Net under collection [E - J]	<u>\$(262,915.26)</u>

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4 *Company Adjustor Fee*

5 19. The 2014 CAGR D invoice for Johnson's Phoenix AMA totals \$321,496.59. The
6 Company's 2014 annual report as submitted to ADWR indicates annual water sales of 332,894 (1,000
7 gallons).

8 20. The Company's calculation of the new CAGR D adjustor fee is shown below. The fee
9 is \$1.76, however, the Company proposes a two year phase-in with a fee of \$1.23 for the first year.

10	a.	2014 CAGR D invoice	\$ 321,496.59
	b.	Plus cumulative under-collection	<u>262,915.26</u>
11	c.	Amount to be recovered [A+B]	584,411.85
	d.	Total water sold in 2014 (1,000 gallons)	<u>332,894</u>
12	e.	Charge per 1,000 gallons [C ÷ D]	<u>\$1.76</u>

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14 *Staff True-up*

15 21. The 2013 CAGR D invoice for the Pinal AMA annual replenishment assessment was
16 \$99,681.03. The Company reports that collections and interest as of September 30, 2015, total
17 \$108,596.03. This true-up calculation indicates an over-collection of approximately \$19,812.17 as
18 follows:

19	a.	2012 over-collection of CAGR D invoice ¹³	\$ (10,897.14)
	b.	2013 CAGR D invoice	99,681.03
20	c.	Less: Collections and interest through September, 2015	<u>108,596.06</u>
21	d.	2013 CAGR D over-collection [A+B-C]	\$ (19,812.17)

22 *Staff Adjustor Fee*

23 22. The 2014 CAGR D invoice for Johnson's Pinal AMA totals \$321,496.59. The
24 Company's 2014 annual report as submitted to ADWR indicates annual water sales of 332,894 (1,000
25 gallons).

26 23. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.91.

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¹³ Staff calculates that actual collections from September 2010 through September 2011 should have been \$40,735.13. Staff recalculated each year of the adjustor mechanism with the revised amounts using the current methodology.

1	a.	2014 CAGR D invoice	\$321,496.59
2	b.	Less over-collection from 2013	<u>19,812.17</u>
3	c.	Amount to be recovered [A+B]	301,684.42
4	d.	Total water sold in 2014 (1,000 gallons)	<u>332,894</u>
5	e.	Charge per 1,000 gallons [C ÷ D]	<u>\$0.91</u>

6 **Conclusions and Recommendations**

7 1. Staff concludes that the Company has duly filed a sufficient request to revise the
8 CAGR D adjustor fees, as required by Decision No. 73284.

9 2. Staff recommends approval of the CAGR D adjustor fees as described herein, using
10 Staff's calculation following the historical methodology including prior year adjustments.

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

13 4. Staff recommends that the Company notify its customers of the CAGR D adjustor fee
14 tariffs approved in the first bill in which this fee appears.

15 5. Staff recommends that the CAGR D adjustor fee authorized herein become effective
16 for all billings after February 1, 2016.

17 6. We find that the Company's requested CAGR D adjuster fees are reasonable and
18 should be adopted.

19 CONCLUSIONS OF LAW

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

22 2. The Commission has jurisdiction over the Company and the subject matter of the
23 application.

24 3. Approval of the proposed CAGR D adjustor fees is consistent with the Commission's
25 authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

26 4. It is in the public interest to approve the Company's request for implementation of the
27 CAGR D adjustor fees as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the application by Johnson Utilities L.L.C. to implement new CAGR D adjustor fees is approved for all customer billings for water sold after February 1, 2016.

IT IS FURTHER ORDERED that the CAGR D adjustor fee for Johnson Utilities L.L.C. shall be \$2.57 per 1,000 gallons for the Phoenix AMA and \$1.23 per 1,000 gallons for the Pinal AMA.

IT IS FURTHER ORDERED that Johnson Utilities L.L.C. docket with the Commission as a compliance matter, within seven (7) days of the effective date of this Decision, CAGR D adjustor fee tariffs consistent with the rate approved herein.

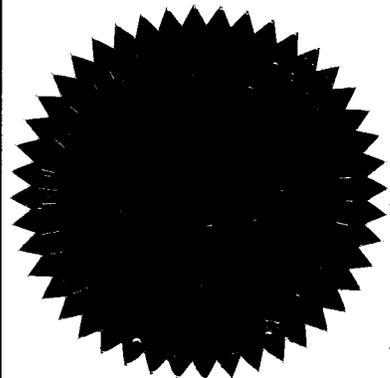
1 IT IS FURTHER ORDERED that Johnson Utilities L.L.C. shall notify its customers of the
2 CAGR adjutor fees approved herein in the first bill in which this fee appears.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
4

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

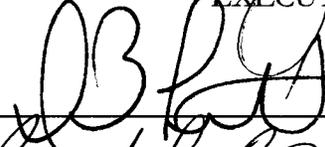
6
7  CHAIRMAN COMMISSIONER

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9  COMMISSIONER
10  COMMISSIONER
11  COMMISSIONER



12 IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of
13 the Arizona Corporation Commission, have hereunto, set my hand and
14 caused the official seal of this Commission to be affixed at the Capitol,
15 in the City of Phoenix, this 16th day of
16 February, 2016.

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18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT: 

21 DISSENT: 

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