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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE, CHAIRMAN

BOB STUMP, COMMISSIONER

BOB BURNS, COMMISSIONER

TOM FORESE, COMMISSIONER

ANDREW TOBIN, COMMISSIONER

Arizona Corporation Commission

DOCKETED

MAR 21 2016

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS WESTERN GROUP AND
FOR CERTAIN RELATED APPROVALS.

Docket No.: W-01445A-15-0277

NOTICE OF ERRATA

Abbott Laboratories, through its undersigned counsel, filed the Direct Testimony of Dan L. Neidlinger on March 18, 2016. The exhibits to the filed copy were unintentionally omitted. Filed with this notice is a complete copy of the testimony that includes the exhibits.

RESPECTFULLY SUBMITTED this 21st day of March 2016.

RYLEY CARLOCK & APPLEWHITE

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1 An original and thirteen copies of the
2 foregoing filed this 21st day of
March 2016 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, Arizona 85007

7 Copies of the foregoing mailed this
21st day of March 2016 to:

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28

1 ARIZONA CORPORATION COMMISSION
2 ARIZONA WATER COMPANY
3 DOCKET NO. W-01445A-15-0277
4

5 Direct Testimony of Dan L. Neidlinger
6 Cost of Service and Rate Design
7

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9
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I. BACKGROUND

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

Q2. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A2. A summary of my professional qualifications and experience is included in the attached Statement of Qualifications. In addition to providing testimony before the Arizona Corporation Commission ("ACC" or "Commission"), I have presented expert testimony before regulatory commissions and agencies in Alaska, California, Colorado, Guam, Idaho, New Mexico, Nevada, Texas, Utah, Wyoming and the Province of Alberta, Canada.

Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A3. I am appearing on behalf of Abbott Laboratories ("Abbott") located in Casa Grande, Arizona. Abbott receives most of its water service from Arizona Water Company's ("AWC" or "Company") Pinal Valley System under AWC's 6" Industrial Rate Schedule. A detailed description of Abbott's operations, its water treatment system and its water conservation program is provided in the direct testimony of Mr. Kevin Kemp, Manager of Manufacturing Engineering for the Casa Grande plant. Abbott is AWC's largest customer and one of the largest water customers of any investor owned water utility in Arizona.

Q4. DID YOU PRESENT TESTIMONY ON BEHALF OF ABBOTT ON COST OF SERVICE AND RATE DESIGN ISSUES IN ONE OF THE COMPANY'S PREVIOUS RATE CASES, ACC DOCKET 08-0440?

A4. Yes, I did. I also provided consulting assistance to Abbott on cost of service and rate design issues in its most recent case, ACC Docket No. 10-0517.

1 **Q5. WHY HAS THE COMPANY FILED FOR INCREASED RATES AT THIS TIME?**

2 A5. As summarized on the attached Exhibit DLN-1, the Company's return on rate base for the Western
3 Group has declined from the 8.44% finding in Docket No. 10-0517 to 3.50% for the test year ended
4 December 31, 2014. This decline is primarily attributable to a 48% decrease in operating income and a
5 27% increase in rate base.

6 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

7
8 A6. My testimony addresses the results of the cost of service study ("COSS") prepared by the
9 Company for the Pinal Valley System and the Company's related rate design and class revenue
10 recommendations. More specifically, I will discuss the Company's costing and pricing of the 6" meter
11 rate for Abbott served under the Large Industrial Class. I will also provide rate design recommendations
12 and comment on the Nitrate and CAP surcharges proposed by the Company. I did not perform a revenue
13 requirements study and accordingly have no opinion on this issue.

14 **II. COST OF SERVICE**

15 **Q7. WAS THE COMPANY REQUIRED, PURSUANT TO ACC RULE R14-2-103, TO FILE A**
16 **COSS FOR EACH OF ITS OPERATING SYSTEMS?**

17
18 A7. Yes. All large utilities, including AWC, are required to file a COSS supporting their rate design
19 proposals for each class of customer. When Rule14-2-103 was adopted in the 1970s, the Commission
20 recognized the need for such studies in setting fair and equitable rates. Although the Rule has been
21 amended from time to time since its initial adoption, the COSS series of schedules remain today an
22 important component of any rate filing package for all large utilities, including water utilities.

23 **Q8. WHY IS COST OF SERVICE IMPORTANT?**

24 A8. In a regulated environment, cost of service is the single-most important criterion in the
25 development of revenues by customer class and the development of rates that will produce those
26 revenues. If rates are not cost-based, the inevitable results are subsidies among classes of customers and
27 customers within a class. Although other factors, such a continuity, simplicity and stability, are valid
28

1 considerations in the rate design process, the primary guideline should be cost of service. Rates
2 developed based on cost of service are equitable because each customer pays its fair share of the utility's
3 total cost.

4 **Q9. DID YOU REVIEW OF COSS AND RATE DESIGN TESTIMONY OF COMPANY**
5 **WITNESS JOEL REIKER?**

6 A9. Yes. I am in general agreement with Mr. Reiker's costing and rate design proposals for the various
7 customer classes except, as I shall discuss later, for his cost allocations to the Large Industrial class in
8 the Pinal Valley system that includes Abbott. Abbott's water usage represents approximately 78% of
9 that class.

10
11 At the bottom of page 7 of his testimony, beginning at line 25, Mr. Reiker accurately points out that the
12 owners of utilities are forced to "pick up the tab" or subsidize the utilities' customers should revenues
13 fall short of the utilities' cost of service. There is a corollary with respect to setting revenue targets
14 among customer classes. Some classes of customers may be forced to "pick up the tab" for other classes
15 of customers should revenue targets fall short of their cost of service. As discussed later, Abbott is
16 currently providing large subsidies to other classes of customers.

17 **Q10. BRIEFLY DESCRIBE THE NATURE OF WATER SERVICE PROVIDED TO ABBOTT**
18 **BY AWC.**

19 A10. Abbott receives over 98% of its water requirements through a 6" non-potable water main and a
20 dedicated well. These facilities were financed primarily through contributions from Abbott to AWC.
21 The remaining 2% of water used by Abbott is sourced through a 6" standby meter and a 1" meter.
22 Except for these ancillary deliveries, Abbott does not use AWC's water distribution system.
23 Accordingly, Abbott presents a unique set of costing and pricing issues that need to be addressed in this
24 case.

1 **Q11. DOES THE COMPANY'S COSS FOR THE PINAL VALLEY SYSTEM ACCURATELY**
2 **REFLECT THESE UNIQUE COSTING ISSUES?**

3 A11. No. The Company's COSS for the Pinal Valley system allocated distribution costs to the Large
4 Industrial class, including arsenic-related costs, assuming all of the customers in that class used the
5 distribution system. The largest component of the cost allocation to this class, 65%, is commodity-
6 related. The commodity allocation factors for the Pinal Valley system included Abbott's water usage.
7 As previously stated, Abbott represents 78% of the total commodity usage for the Large Industrial class
8 but does not use the distribution system. Accordingly, the Large Industrial class was allocated a very
9 large amount of potable treatment and distribution system costs that properly belong to other customers.
10 The rate base allocation to the Large Industrial class is similarly affected but to a lesser extent since the
11 commodity component of rate base is 36%.

12 **Q12. DID YOU ASK THE COMPANY TO PREPARE AN ANALYSIS THAT MORE**
13 **ACCURATELY REFLECTS THE COST TO SERVE ABBOTT?**
14

15 A12. Yes and the Company did prepare a stand-alone cost of service analysis that better reflects the cost
16 to serve Abbott. Before discussing that analysis, however, I would like to demonstrate the effect on
17 Abbott's annual water bill of the allocation of one major cost component, arsenic costs, to the Large
18 Industrial class and ultimately to Abbott. The water Abbott buys from AWC is not treated for arsenic
19 yet the Company's present and proposed rates for Abbott both include these costs. Abbott should
20 receive either a bill credit or lower fixed rates in recognition of this improper cost assignment.

21 **Q13. HAVE YOU PREPARED AN ANALYSIS THAT SHOWS THE MAGNITUDE OF THIS**
22 **ARSENIC CREDIT AND ITS IMPACT ON ABBOTT'S ANNUAL BILL?**

23 A13. Yes. A calculation of the arsenic credit is shown on Exhibit DLN-2. At proposed rates, the credit
24 is \$0.23 per 1,000 gallons. At present rates the credit is slightly smaller at \$0.21 per 1,000 gallons due
25 to a lower current return on arsenic rate base.

26 The impact on Abbott's annual water bills is significant. As shown on Exhibit DLN-3, at present rates
27 the annual credit is \$78,125 resulting in a 13.33% bill reduction. At proposed rates, the annual credit
28

1 increases to \$85,566 resulting in an annual bill (\$586,480) that is essentially equivalent to the current
2 annual bill of \$586,240. Abbott has in the past and continues to subsidize other customers for the costs
3 incurred by the Company for arsenic treatment. These subsidies need to be addressed in this case.

4 **Q14. PLEASE DISCUSS THE COMPANY'S STAND-ALONE COST OF SERVICE ANALYSIS**
5 **FOR ABBOTT THAT YOU EARLIER REFERENCED.**

6 A14. The Company prepared, at my request, a cost of service study that addresses Abbott's unique
7 service characteristics. This study is provided in the Appendix attached to this testimony. The results of
8 the study are summarized on Exhibit DLN-4.

9
10 The Company's cost analysis is a blending of test year operating expenses and utility plant together with
11 projected capital expenditures required to service Abbott through the year 2018. Included in the
12 development of the \$1.03 million rate base shown on Exhibit DLN-4 are \$1.25 million of main
13 replacements in years 2015 and 2018. These mains were originally constructed through contributions
14 from Abbott and recorded as CIAC in the Company's plant records.

15 The cost study shows a revenue requirement for Abbott of \$365,700 using the Company's requested
16 return on rate base of 8.93%. This amount is \$220,540 or 37.62% less than current annual billings to
17 Abbott and represents a very large revenue subsidy to other customer classes.

18 **Q15. EXPLAIN THE ADJUSTMENTS TO THE COMPANY'S STUDY SHOWN IN THE**
19 **SECOND COLUMN OF EXHIBIT DLN-4.**

20 A15. The adjustments to the Company's stand-alone cost of service study eliminate the effect of the
21 projected \$1.25 million of main replacements in 2015 and 2018 thereby showing a calculation of
22 Abbott's revenue requirement using test year operating expenses and rate base. On a test year basis,
23 Abbott's revenue requirement is only \$217,626 or \$368,614 (62.86%) less than current annual billings.
24 This revenue requirement results in price per acre foot (AF) of water of \$191 which is essentially
25 equivalent to the Company's average sales rate of \$192 per AF during the test year for non-potable CAP
26 water.
27
28

1 **Q16. WHAT ARE YOUR CONCLUSIONS BASED ON THE PRECEDING ANALYSES?**

2 A16. Based on my review of the Arsenic issue and the results of the Company's stand-alone cost study,
3 I conclude that a rate decrease for Abbott is necessary at this time to begin reducing the large subsidies
4 provided by Abbott under present rates. Because of its unique service characteristics and non-typical
5 cost of service profile, a separate rate should be designed for Abbott that is 15% lower than current rates
6 for the Large Industrial class.

7 **III. RATE DESIGN**

8
9 **Q17. HAVE YOU DESIGNED A RATE FOR ABBOTT THAT IS ACHIEVES YOUR**
10 **RECOMMENDED 15% RATE REDUCTION?**

11 A17. Yes. My proposed rate design for Abbott is provided on Exhibit DLN-5. The rate would be
12 applicable to all non-potable water deliveries. I am recommending an increase in the monthly basic
13 service charge from the current \$800 to \$1,200. In that regard, I agree with Mr. Reiker's rate design
14 testimony. Increases in basic service charges are needed for all of the Company's rates to improve fixed
15 cost recovery percentages. The recommended commodity rate is \$1.30 per thousand gallons or \$0.25
16 per thousand less than the current rate of \$1.55. As indicated on Exhibit DLN-5, Abbott's total annual
17 billings are reduced by \$88,207 but Abbott would continue to provide, as shown by the Company's cost
18 study, over \$132,000 in revenue subsidies to other customers at these lower rates.

19 **Q18. HOW WOULD OTHER CLASSES OF CUSTOMERS IN THE PINAL VALLEY SYSTEM**
20 **BE AFFECTED BY YOUR RECOMMENDED REDUCTION IN ABBOTT'S RATES?**

21 A18. I suggest that the amount recovered from other classes be based on revised commodity allocators
22 for each class. Exhibit DLN-6 shows the effect of allocating Abbott's \$88,207 revenue reduction to
23 other classes using revised commodity allocation factors. The impact is small. Except for the Large
24 Industrial class, all classes would receive an increase of less than 1%.

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IV. OTHER RATEMAKING ISSUES

Q19. THE COMPANY HAS PROPOSED A NUMBER OF RATE ADJUSTORS IN THIS CASE INCLUDING A \$0.073 PER THOUSAND GALLONS SURCHARGE FOR CAP WATER. DO YOU SUPPORT THIS SURCHARGE?

A19. I support, in general, the funding of the Company's CAP program since, in my view, it is a vital resource necessary to fulfill customers' needs now and into the future. I have not, however, analyzed the economics of the Company's proposal in this regard and accordingly have no opinion with respect to the level of the proposed surcharge.

Q20. WHAT ABOUT THE COMPANY'S PROPOSED SURCHARGE FOR NITRATES?

A20. This is a surcharge needed to meet federal water quality standards that parallels the arsenic surcharge. The bulk of Abbott's water purchases from AWC should be exempt from this surcharge as they are from the arsenic surcharge since Abbott's non-potable water supply is not treated for nitrate.

Q21. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A21. Yes, it does.

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-15-0277
Test Year Ended December 31, 2014

Comparison of Decision in Docket No. 10-0517 With Current Filing
Western Group (\$000)

DESCRIPTION	10-0517 DECISION (1)	CURRENT FILING (2)	DIFFERENCE	PERCENT DIFFERENCE
Revenues	\$21,863	\$21,217	-\$646	-2.95%
Operating Expenses	\$17,368	\$18,860	\$1,492	8.59%
Operating Income	\$4,495	\$2,357	-\$2,138	-47.56%
Rate Base	\$53,234	\$67,418	\$14,184	26.64%
Return on Rate Base	8.44%	3.50%	-4.95%	-58.60%

NOTES:

- (1) ACC Decision No. 73144 Dated May 1, 2012
- (2) Company Filing Schedule G-1, Page 1 of 8

**ARIZONA WATER COMPANY
DOCKET NO. W-01446A-15-0277
Test Year Ended December 31, 2014**

**Abbott Arsenic Credit Calculation
Pinal Valley System**

DESCRIPTION	LARGE INDUST. AMOUNT (1)	ARSENIC PERCENTAGE (2)	ARSENIC AMOUNT
Water Treatment Rate Base	\$273,348	78.00%	\$213,211
Revenue Requirement Percent (3)			9.78%
Revenue Requirement - Proposed Rates			\$20,852
O&M Expenses	\$159,899	55.00%	87,944
Total Arsenic Costs			\$108,797
Large Industrial Sales (000) Gallons			479,680
Arsenic Cost Per 1,000 Gallons (4)			\$0.23

NOTES:

- (1) Response to Abbott Data Request 2.8
- (2) Response to Abbott Data Request 3.4
- (3) Proposed Rate of Return of 8.93% and income Taxes of 8.64% of Revenues
- (4) Arsenic Cost at Present Rates is \$0.21 per 1,000 gallons

ARIZONA WATER COMPANY
DOCKET NO. W-01446A-15-0277
Test Year Ended December 31, 2014

Impact on Annual Water Bill to Abbott
Arsenic Credit

DESCRIPTION	BILLING UNITS	RATE	ANNUAL AMOUNT
PRESENT RATES:			
Basic Service Charge	12	\$800	\$9,600
Commodity Rate Per 1,000 Gallons	372,026	\$1.55	576,640
Total Bill - Present Rates			\$586,240
Less: Arsenic Credit	372,026	\$0.21	-78,125
Revised Bill			\$508,115
Percentage Change			-13.33%
PROPOSED RATES:			
Basic Service Charge	12	\$1,750	\$21,000
Commodity Rate Per 1,000 Gallons	372,026	\$1.75	651,046
Total Bill - Proposed Rates			\$672,046
Less: Arsenic Credit	372,026	\$0.23	-85,566
Revised Bill			\$586,480
Percentage Change			-12.73%

ARIZONA WATER COMPANY
DOCKET NO. W-01446A-15-0277
Test Year Ended December 31, 2014

Stand-Alone Cost of Service Analysis
Abbott Laboratories

DESCRIPTION	COMPANY COS ANALYSIS (1)	ADJUSTMENTS (2)	ADJUSTED TO TEST YEAR
Abbott Laboratories Revenues	\$365,700	-\$148,074	\$217,626
Operating and Maintenance Expenses	\$167,256		\$167,256
Depreciation	48,148	-28,157	19,991
Property Taxes	19,195	-7,770	11,425
Income Taxes	36,225	-31,709	4,516
Other Taxes	2,655		2,655
Total Operating Expenses	<u>\$273,479</u>	<u>-\$67,636</u>	<u>\$205,843</u>
Operating Income	\$92,221	-\$80,438	\$11,783
Rate Base	\$1,033,213	-\$901,286	\$131,927
Return on Rate Base	8.93%		8.93%
Abbott Revenues at Present Rates	\$586,240		\$586,240
Revenue Subsidy to Other Customers	\$220,540		\$368,614
Percent of Present Rates	37.62%		62.88%

NOTES:

- (1) Per Attached Cost of Service Study Prepared by the Company
(2) Adjustments to Eliminate Projected Replacements of Water Mains Serving Abbott Included in Cost Study

ARIZONA WATER COMPANY
DOCKET NO. W-01446A-15-0277
Test Year Ended December 31, 2014

Abbott Rate Design

DESCRIPTION	BILLING UNITS	RATE	ANNUAL AMOUNT
PRESENT RATES:			
Basic Service Charge	12	\$800	\$9,600
Commodity Rate Per 1,000 Gallons	372,026	\$1.55	576,640
Total Bill - Present Rates			\$586,240
PROPOSED RATE FOR ABBOTT:			
Basic Service Charge	12	\$1,200	\$14,400
Commodity Rate Per 1,000 Gallons	372,026	\$1.30	483,634
Total Bill - Abbott			\$498,034
ANNUAL BILL DECREASE:			
Amount			-\$88,207
Percent			-15.05%

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-15-0277
Test Year Ended December 31, 2014

Impact on Other Customer Classes of Rate Reduction to Abbott
Pinal Valley System

CUSTOMER CLASS	REV. AT PRESENT RTS.(1)	COMMODITY PERCENT (2)	ALLOCATION OF RT. REDUCTION (3)	PERCENT INCREASE
Residential	\$11,298,423	63.76%	\$56,241	0.50%
Commercial	5,412,847	31.15%	27,476	0.51%
Industrial	161,824	1.35%	1,191	0.74%
Large Industrial (Excluding Abbott)	209,905	2.45%	2,161	1.03%
Other	215,938	1.29%	1,138	0.53%
Total	<u>\$17,298,937</u>	<u>100.00%</u>	<u>\$88,207</u>	<u>0.51%</u>

NOTES:

- (1) Schedule G-1, Page 3 of 8
- (2) Commodity Allocation Factors Excluding Abbott
- (3) Revenue Effect of Proposed Rate Reduction for Abbott

APPENDIX

**Stand-Alone Cost of Service Study
Abbott Laboratories**

ARIZONA WATER COMPANY

Test Year Ended December 31, 2014

Abbott Laboratories - Estimated Stand-Alone Cost of Service

Line No.		Abbott Laboratories
1	Revenue Requirement/Cost to Serve Abbott	\$ 365,700
2		
3	Source of Supply Expenses	\$ 510
4	Pumping Expenses	131,610
5	Water Treatment Expenses	10,088
6	Transmission & Distribution Expenses	22,954
7	Customer Accounting & Sales Expenses	690
8	Administrative & General Expenses	1,403
9	Total O&M Expenses	\$ 167,256
10		
11	Depreciation Expense	\$ 48,148
12		
13	Property Taxes	\$ 19,195
14	Income Taxes	36,225
15	Other Taxes	2,655
16	Operating Income	\$ 92,220
17		
18	Required Operating Income	\$ 92,266
19		
20	Total Rate Base	\$ 1,033,213
21		
22	Rate of Return	8.93%
23	Required Rate of Return	8.93%
24		
25		
26		
27	Total Source of Supply, Pumping & Water Treatn	\$ 142,208
28	Total Gallons Sold to Abbott (x1,000)	372,026.0
29	Variable Cost Per 1,000 Gallons	\$ 0.3823
30		
31	Total Fixed Costs	\$ 223,492
32	÷ 12 Months	12
33	Monthly Fixed Costs	\$ 18,624
34		
35		
36		
37		
38		
39		
40	<u>Other Information from Rate Application:</u>	
41	Weighted Cost of Equity	5.77%
42	Weighted Cost of Debt	3.16%

43	Combined Federal & State Income Tax Rate	37.82%
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Line No.	Description	[A] Adjusted - End of Test Year 12/31/2014	Pinal Valley		Notes
			[B]	[C]	
			Allocated to Abbott Laboratories	Depreciation	
			Plant	Factor	
1	Intangible Plant				
2	Organization	\$ 82,969			
3	Franchises				
4	Other Intangibles	1,903,294			
5	Subtotal Intangible Plant	\$ 1,986,263			
6	Source of Supply Plant				
7	Water Rights	366,071			
8	Other Source of Supply Land	298,548			
9	Wells - Other				
10	Wells	6,982,428	51,740	0.0074	See Plant Worksheet
11	Subtotal Source of Supply Plant	\$ 7,647,047	\$ 51,740	0.0068	1,619
12	Pumping Plant				
13	Pumping Plant Land	31,897			
14	Pumping Plant Structures & Improvements	366,670	2,895	0.0079	83 See Plant Worksheet
15	Electric Pumping Equipment	16,229,982	328,734	0.0203	19,330 See Plant Worksheet
16	Gas Engine Equipment	20,026			
17	Subtotal Pumping Plant	\$ 16,648,575	\$ 331,629	0.0199	19,412
18	Water Treatment Plant				
19	Water Treatment Plant Land	680,718			
20	Water Treatment Structures & Improvements	1,898,025	12,610	0.0066	315 See Plant Worksheet
21	Water Treatment Equipment	11,482,553	7,755	0.0007	222 See Plant Worksheet
22	Subtotal Water Treatment Plant	\$ 14,061,296	\$ 20,365	0.0014	537
23	Transmission & Distribution Plant				
24	Transmission and Distribution Land	1,653,038			
25	Transmission & Distribution Structures	1,333			
26	Storage Tanks	4,515,209			
27	Transmission & Distribution Mains	77,680,282	1,673,842	0.0215	29,962 See Plant Worksheet
28	Fire Sprinkler Taps	2,775,607			
29	Services	25,122,555	48,071	0.0019	1,144 See Plant Worksheet
30	Meters	3,922,237	7,303	0.0019	332 See Plant Worksheet
31	Hydrants	9,647,072	2,120	0.0002	39 See Plant Worksheet
32	Subtotal Transmission & Distribution Plant	\$ 125,317,332	\$ 1,731,335	0.0138	31,477
33	General Plant				
34	General Plant Land	8,772	1	0.0001	Allocated based on % of total customers (3 + 31,691)
35	General Plant Structures	477,283	45	0.0001	1 Allocated based on % of total customers (3 + 31,691)
36	Leasehold Improvements	51,930	5	0.0001	Allocated based on % of total customers (3 + 31,691)
37	Office Furniture & Equipment	380,638	36	0.0001	2 Allocated based on % of total customers (3 + 31,691)
38	Warehouse Equipment	22,958	2	0.0001	0 Allocated based on % of total customers (3 + 31,691)
39	Tools, Shop & Garage Equipment	426,127	40	0.0001	2 Allocated based on % of total customers (3 + 31,691)
40	Laboratory Equipment	106,387	10	0.0001	1 Allocated based on % of total customers (3 + 31,691)
41	Power Operated Equipment	102,919	10	0.0001	1 Allocated based on % of total customers (3 + 31,691)
42	Communication Equipment	2,808,912	2,364	0.0008	158 See Plant Worksheet
43	Miscellaneous Equipment	204,420	19	0.0001	1 Allocated based on % of total customers (3 + 31,691)
44	Subtotal General Plant	\$ 4,590,347	\$ 2,533	0.0006	165
45	Total Plant in Service	\$ 170,250,860	\$ 2,137,602	0.0126	\$ 53,210
46	Accumulated Depreciation	(43,254,490)	(543,086)	0.0126	
47	Net Plant in Service	\$ 126,996,370	\$ 1,594,516		
48					

49	Advances & Contributions	116,340,179	506,196	0.0044	(10,124)	CJAC Amortization rate of 2.00%	Exhibit -
50	Deferred Income Tax	12,343,427	154,979	0.0126			Schedule G-7
51	Working Capital	1,561,902	19,611	0.0126			Page 2 of 4
52	Net Regulatory Asset	4,753,804	59,687	0.0126		3,132 Sch. B-2 Appdx., pp. 9-10	Witness: Reiker
53	Phoenix Office & Mtr. Shop Net Plant Allocation	1,638,678	20,575	0.0126		1,930 Phx. Offc. & Mtr Shop Depr. Exp. Per Sch. C-2 Appdx. Pp. 30-31, lin	
54	Total		<u>\$ 1,033,213</u>				
							<u>\$ 48,148</u>

Line No.	
1	Intangible Plant
2	Organization
3	Franchises
4	Other Intangibles
5	Subtotal Intangible Plant
6	Source of Supply Plant
7	Water Rights
8	Other Source of Supply Land
9	Wells - Other
10	Wells
11	Subtotal Source of Supply Plant
12	Pumping Plant
13	Pumping Plant Land
14	Pumping Plant Structures & Improvements
15	Electric Pumping Equipment
16	Gas Engine Equipment
17	Subtotal Pumping Plant
18	Water Treatment Plant
19	Water Treatment Plant Land
20	Water Treatment Structures & Improvements
21	Water Treatment Equipment
22	Subtotal Water Treatment Plant
23	Transmission & Distribution Plant
24	Transmission and Distribution Land
25	Transmission & Distribution-Structures
26	Storage Tanks
27	Transmission & Distribution Mains
28	Fire Sprinkler Taps
29	Services
30	Meters
31	Hydrants
32	Subtotal Transmission & Distribution Plant
33	General Plant
34	General Plant Land
35	General Plant Structures
36	Leasehold Improvements
37	Office Furniture & Equipment
38	Warehouse Equipment
39	Tools, Shop & Garage Equipment
40	Laboratory Equipment
41	Power Operated Equipment
42	Communication Equipment
43	Miscellaneous Equipment
44	Subtotal General Plant
45	Total Plant in Service
46	Accumulated Depreciation
47	Net Plant in Service
48	

49	Advances & Contributions	
50	Deferred Income Tax	
51	Working Capital	
52	Net Regulatory Asset	
53	Phoenix Office & Mtr. Shop Net Plant Allocation	nes Pinal Valley 3-factor (.3317)
54	Total	

55
ARIZONA WATER COMPANY
 Test Year Ended December 31, 2014
 Development of Allocation Factors - Abbott Laboratories

		Pinal Valley		
Line No.	(A) Adjusted - End of Test Year 12/31/2014	(B) Direct Abbott Laboratories	(C) Factor	
1	Operating Expenses			
2	Source of Supply Expenses:			
3	Purchased Water	1,085,544	-	Allocated based on % of Source of Supply Plant
4	Other	75,424	510	
5	Pumping Expenses:			
6	Purchased Power	2,071,310	91,967	See Purch. Power Worksheet
7	Purchased Gas	878	-	
8	Other	892,848	39,643	Allocated based on Purchased Power
9	Water Treatment Expenses	1,404,743	10,088	See Chemicals Worksheet
10	Transmission & Distribution Expenses	1,661,471	22,954	Allocated based on % of T&D Plant
11	Customer Accounting Expenses	1,251,024	690	Allocated based on % of General Plant
12	Sales Expense	2,093	1	Allocated based on % of General Plant
13	Administrative & General Expenses	2,543,213	1,403	Allocated based on % of General Plant
14	Total Operations & Maintenance Expense	<u>\$ 10,988,547</u>	<u>\$ 167,257</u>	
15	Depreciation & Amortization Expenses	3,963,576	48,148	See depreciation calculation above
16	Income Taxes	2,153,140	36,225	Calculated on Summary Sheet
17	Property Taxes	1,062,879	19,195	Calculated on Summary Sheet
18	Other Taxes	174,445	2,655	Allocated based on % of total O&M
19				
20				
21				
22	Total O&M	<u>\$ 18,342,587</u>	<u>\$ 273,481</u>	
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				

	<u>Year</u>	<u>Original Cost</u>	
1-8013 Construct Well No. 20			
314 Original Cost	1978 \$	76,342	
314 Retirements	1995	-	
271 CIAC		-	
314 In Service	2014 \$	<u>76,342</u>	
325 Original Cost	1978 \$	45,493	
325 Retirements	1992	(4,502)	
325 Retirements	1993	(4,608)	
325 Retirements	1994	(21,709)	
325 Retirements	2003	(6,616)	
271 CIAC		-	
325 In Service	2014 \$	<u>8,058</u>	
2-9167 Install Service & Hydrant at Ross Abbott Labs			
345 Original Cost	1983 \$	6,135	
345 Retirements		-	
271 CIAC	1983	<u>6,135</u>	
345 In Service	2014 \$	6,135	
348 Original Cost	1983 \$	2,120	
348 Retirements		-	
271 CIAC	1983	<u>2,120</u>	
348 In Service	2014 \$	2,120	
2-9303 Install Main to Serve Ross Abbott Labs			
343 Original Cost	1984 \$	486,920	
343 Retirements	2015	(34,780)	WA 1-5171 Replaced 2,640 LF of 36,960 total LF
343 Retirements	2018	(69,823)	2018 Budgeted project to replace 5,300 LF of 36,960 total LF
271 CIAC	1984	<u>486,920</u>	
343 In Service	2018 \$	382,317	

2-9353 Tie Over Wells 15, 17 & 20 to Serve Ross Abbott Labs

Well 15 replaced by Well 26 in 1997

325 Original Cost	1984	\$	26,263
325 Retirements			-
271 CIAC	1984		<u>26,263</u>
325 In Service	2014	\$	26,263
343 Original Cost	1984	\$	40,123
343 Retirements			-
271 CIAC	1984		<u>40,123</u>
343 In Service	2014	\$	40,123
345 Original Cost	1984	\$	9,477
345 Retirements			-
271 CIAC	1984		<u>9,477</u>
345 In Service	2014	\$	9,477
346 Original Cost	1984	\$	2,099
346 Retirements			-
271 CIAC	1984		<u>2,099</u>
346 In Service	2014	\$	2,099
397 Original Cost	1984	\$	8,986
397 Retirements			(8,986)
271 CIAC	1984		<u>8,986</u>
397 In Service	2014	\$	-

1-9543 Replace Pump at Well 20

325 Original Cost	1986	\$	17,430
325 Retirements	1997		(17,430)
271 CIAC			-
325 In Service	2014	\$	-

1-2253 Replace Pump at Well 20

325 Original cost	1997	\$	55,886
325 Retirements	2001		(16,275)
271 CIAC	1997		-
325 In Service	2014	\$	<u>39,611</u>
321 Original Cost	1997	\$	811
321 Retirements			-
271 CIAC	1997		-
321 In Service	2014	\$	<u>811</u>

1-2992 Install Calcium Hypochlorinator at Well 20

331 Original Cost	2001 \$	12,610
331 Retirements		-
271 CIAC	2001	-
331 In Service	2014 \$	<u>12,610</u>
332 Original Cost	2001 \$	7,755
332 Retirements		-
271 CIAC	2001	-
332 In Service	2014 \$	<u>7,755</u>

1-3123 Replace Pump at Well 20

325 Original Cost	2001 \$	20,113
325 Retirements	2012	(20,113)
271 CIAC	2001	-
325 In Service	2014 \$	<u>-</u>

1-3558 Replace Electrical Panel at Wells 20

325 Original Cost	2004 \$	34,744
325 Retirements		-
271 CIAC	2004	-
325 In Service	2014 \$	<u>34,744</u>
397 Original Cost	2004 \$	2,364
397 Retirements		-
271 CIAC	2004	-
In Service	2014 \$	<u>2,364</u>

1-4000 Install Electrical Starter at Well 20

325 Original Cost	2007 \$	133,237
325 Retirements		-
271 CIAC	2007	-
In Service	2014 \$	<u>133,237</u>

1-4248 Construct Block Wall at Wells 17 & 20

314 Original Cost	2007 \$	390
314 Retirements		-
271 CIAC	2007	-
314 In Service	2014 \$	<u>390</u>
321 Original Cost	2007 \$	2,084
321 Retirements		-
271 CIAC	2007	-
321 In Service	2014 \$	<u>2,084</u>

1-4943 Replace Pump, Clean & Inspect Casing at Well 20

325 Original Cost	2012 \$	86,821
325 Retirements		-
271 CIAC	2012	-
325 In Service	2014 \$	<u>86,821</u>

5-0672 Install Emergency Backup Service & 6" Meter at Abbott Labs

345 Original Cost	2013 \$	32,459
345 Retirements		-
271 CIAC	2012	<u>32,459</u>
345 In Service	2014 \$	32,459
346 Original Cost	2013 \$	5,204
346 Retirements		-
271 CIAC	2012	<u>5,204</u>
346 In Service	2014 \$	5,204

1-5171 Replace 2,640' of failing main on Cottonwood Ln

343 Original Cost	2015 \$	551,402
343 Retirements	\$	-
271 CIAC	2015 \$	-
343 In Service	2015 \$	<u>551,402</u>

2018 Budgeted Project - Replace 5,300 LF of main used to serve Abbott (Kortsen between Peart & Trekell)

343 Est. Original Cost	2018 (est.) \$	700,000
343 Est. Retirements	\$	-
271 Est. CIAC	2018 (est.) \$	-
343 Est. In Service	2018 (est.) \$	<u>700,000</u>

Summary & Totals

	Totals	Well 20 <u>Alloc. Factor</u>	Abbott Labs - <u>Allocated</u>
314 In Service	2014 \$ 76,732	0.67	\$ 51,740
321 In Service	2014 \$ 2,895		\$ 2,895
325 In Service	2014 \$ 328,734		\$ 328,734
331 In Service	2014 \$ 12,610		\$ 12,610
332 In Service	2014 \$ 7,755		\$ 7,755
343 In Service	2018 \$ 1,673,842		\$ 1,673,842
345 In Service	2014 \$ 48,071		\$ 48,071
346 In Service	2014 \$ 7,303		\$ 7,303
348 In Service	2014 \$ 2,120		\$ 2,120
397 In Service	2014 \$ 2,364		\$ 2,364
Total In Service	2014 \$ 2,162,425		\$ 2,137,433
	\$ 2,162,425		
271 CIAC	\$ 506,196		\$ 506,196

ARIZONA WATER COMPANY
MONTHLY POWER DETAIL

Power Company
Rate:

ELECTRICAL DISTRICT NO. 2

ED2
Acct. No. Month

Segment1 Segment2 Segment3 Desc.

System

System	Segment1	Segment2	Segment3	Desc.	ED2 Acct. No.	Month	Customer Charge	kW Demand	Demand Charge 9.45/000	Tier 1 kWh usage 0.06840	First 5,000 kWh usage	Tier 2 kWh usage 0.03346	additional kWh usage	Tier 1 A kWh Charge 0.06583	additional kWh usage	Tier 2 A kWh Charge 0.07537	Power Cost Adjuster 0.00505	Total Electricity Charges	Total Tax	Total Billed Amount	
PV	41	62310	0000	Well 20	50320	RATE-General Service Industrial GSS															
					Jan		\$ 13.46	170.460	\$ 1,610.28	34,088	\$ 2,351.07			\$ 52.146	\$ 5,407.23		\$ 586.91	\$ 6,449.66	\$ 666.55	\$ 10,615.58	
					Feb		\$ 13.46	176.040	\$ 1,666.88	34,088	\$ 2,326.15			\$ 62.216	\$ 6,453.39		\$ 692.36	\$ 7,145.75	\$ 705.50	\$ 12,190.89	
					Mar		\$ 13.46	176.640	\$ 1,672.55	34,128	\$ 2,334.36			\$ 58.811	\$ 6,487.72		\$ 598.11	\$ 7,085.83	\$ 693.06	\$ 10,336.80	
					Apr		\$ 13.46	169.500	\$ 1,601.78	35,960	\$ 2,438.76			\$ 82.360	\$ 5,423.08		\$ 587.21	\$ 5,944.28	\$ 606.27	\$ 6,550.55	
					May		\$ 13.46	168.990	\$ 1,599.67	35,792	\$ 2,411.97			\$ 74.206	\$ 4,883.11		\$ 545.40	\$ 5,428.51	\$ 526.32	\$ 6,354.83	
					Jun		\$ 13.46	167.760	\$ 1,583.53	35,552	\$ 2,289.86			\$ 60.508	\$ 3,901.79		\$ 520.91	\$ 4,422.80	\$ 428.45	\$ 5,351.25	
					Jul		\$ 13.46	168.660	\$ 1,585.81	35,752	\$ 2,307.27			\$ 67.068	\$ 4,352.11		\$ 572.66	\$ 4,924.77	\$ 481.65	\$ 5,406.42	
					Aug		\$ 13.46	151.440	\$ 1,431.11	30,288	\$ 2,091.79			\$ 47.992	\$ 2,866.80		\$ 459.63	\$ 3,348.43	\$ 330.41	\$ 3,678.84	
					Sep		\$ 13.46	166.980	\$ 1,488.17	33,612	\$ 2,366.69			\$ 63.588	\$ 3,889.90		\$ 601.35	\$ 4,491.25	\$ 431.01	\$ 4,922.26	
					Oct		\$ 13.46	166.720	\$ 1,484.48	33,584	\$ 2,371.22			\$ 63.104	\$ 4,132.16		\$ 590.25	\$ 4,722.41	\$ 461.01	\$ 5,183.42	
					Nov		\$ 13.46	169.680	\$ 1,604.48	33,884	\$ 2,327.94			\$ 66.608	\$ 4,318.60		\$ 710.33	\$ 5,028.93	\$ 483.39	\$ 5,512.32	
					Dec		\$ 13.46	170.160	\$ 1,608.31	34,032	\$ 2,327.94			\$ 66.608	\$ 4,318.60		\$ 710.33	\$ 5,028.93	\$ 483.39	\$ 5,512.32	

\$ 130,958.51
0.67
\$ Allocated to Abbott \$ 88,331.36
\$ Allocated to Abbott \$

Pro Forma Charges

Customer Charge	Energy Charge						Demand Chg. \$/KW	Power Cost Adjuster \$/KWh 0.00505	Total Electricity Charges	Total Tax	Total Pro Forma Charges	Increase / (Decrease)
	Commercial		General Svc. Industrial		Step-2 \$/KWh>5,000kWh 0.0784	Step-1 \$/KWh<201KW1 0.0711						
	Step-1 \$/KWh<5,001kWh 0.0868	Step-2 \$/KWh>5,000kWh 0.0784	Step-1 \$/KWh<201KW1 0.0711	Step-2 \$/KWh>200kWh 0.0685								
Industrial: \$ 50.00	\$ 1.675.03	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 586.91	\$ 10,359.70	\$ 694.10	\$ 11,053.80	\$ 438.22	
Commercial: \$ 18.00	\$ 9.83	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 692.36	\$ 11,890.86	\$ 796.69	\$ 12,687.54	\$ 496.66	
	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 1,671.49	\$ 568.13	\$ 10,088.73	\$ 675.95	\$ 10,764.68	\$ 427.88	
	\$ 1,666.19	\$ 1,666.19	\$ 1,666.19	\$ 1,666.19	\$ 1,666.19	\$ 1,666.19	\$ 587.21	\$ 10,354.78	\$ 693.77	\$ 11,048.55	\$ 438.00	
	\$ 1,649.08	\$ 1,649.08	\$ 1,649.08	\$ 1,649.08	\$ 1,649.08	\$ 1,649.08	\$ 545.40	\$ 9,740.52	\$ 652.62	\$ 10,393.14	\$ 414.53	
	\$ 1,657.93	\$ 1,657.93	\$ 1,657.93	\$ 1,657.93	\$ 1,657.93	\$ 1,657.93	\$ 576.31	\$ 10,177.96	\$ 681.93	\$ 10,859.89	\$ 431.19	
	\$ 1,488.66	\$ 1,488.66	\$ 1,488.66	\$ 1,488.66	\$ 1,488.66	\$ 1,488.66	\$ 695.99	\$ 11,929.48	\$ 799.28	\$ 12,728.75	\$ 498.08	
	\$ 1,652.03	\$ 1,652.03	\$ 1,652.03	\$ 1,652.03	\$ 1,652.03	\$ 1,652.03	\$ 572.06	\$ 9,947.04	\$ 666.45	\$ 10,613.49	\$ 421.83	
	\$ 1,658.52	\$ 1,658.52	\$ 1,658.52	\$ 1,658.52	\$ 1,658.52	\$ 1,658.52	\$ 659.63	\$ 11,393.99	\$ 763.40	\$ 12,157.39	\$ 477.62	
	\$ 1,667.95	\$ 1,667.95	\$ 1,667.95	\$ 1,667.95	\$ 1,667.95	\$ 1,667.95	\$ 601.46	\$ 10,553.99	\$ 707.12	\$ 11,261.11	\$ 445.58	
	\$ 1,672.67	\$ 1,672.67	\$ 1,672.67	\$ 1,672.67	\$ 1,672.67	\$ 1,672.67	\$ 510.25	\$ 9,236.35	\$ 618.83	\$ 9,855.19	\$ 395.31	
							\$ 710.23	\$ 12,152.32	\$ 814.20	\$ 12,966.53	\$ 506.64	
										\$ 136,390.05	\$ 5,391.54	

% Allocated to Abbott 0.67

\$ Allocated to Abbott \$ 91,966.84

	Well 20 Production x1,000 Gals	Total Abbott Usage x1,000 Gals	
201401	51,780.0	31,044.0	
201402	49,101.0	30,487.0	
201403	46,410.0	30,455.0	
201404	55,157.0	27,464.0	
201405	44,908.0	30,784.0	
201406	44,855.0	26,046.0	
201407	50,935.0	27,957.0	
201408	44,315.0	37,344.0	
201409	50,189.0	32,835.0	
201410	49,319.0	31,912.0	
201411	40,983.0	35,409.0	
201412	51,362.0	30,289.0	
	579,314.0	372,026.0	0.67

2014

Total Gallons Pumped x 1,000 - PV		5,318,719.3
Total Chlorine Cost - PV	\$	137,363
Chlorine Cost per 1,000 Gallons	\$	0.0258
1,000 Gallons Pumped to Abbott		390,627.3
Chlorine Cost Allocated to Abbott	\$	10,088