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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
CHAIRMAN
BOB STUMP
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BOB BURNS
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ANDY TOBIN
COMMISSIONER

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
LIBERTY UTILITIES (LITCHFIELD PARK
WATER AND SEWER) CORP. FOR AN
ACCOUNTING ORDER AUTHORIZING THE
DEFERRAL OF COSTS ASSOCIATED WITH
EFFORTS TO ADDRESS THE POTENTIAL
CONTAMINATION OF WATER SUPPLY IN
MARICOPA COUNTY ARIZONA.

Docket No. W-01427A-16-0200

RUCO'S COMMENTS

The Residential Utility Consumer Office ("RUCO") hereby submits the following comments in response to Liberty Utilities Corporation's (on behalf of Litchfield Park Water & Sewer, ("Company," "Liberty" "LPSCO") request for approval to remediate certain contaminants. RUCO recommends that the Commission approve an accounting order deferring the costs associated with the remediation with the exception of the carrying costs, and deny the Company's other requests.

INTRODUCTION

The Company is requesting that the Arizona Corporation Commission ("ACC") issue an order directing the Company to undertake any and all necessary measures to remediate Perfluorooctanic Acid ("PFOA") and Perfluorooctane Sulfonate ("PFOS") potentially impacting the Company's water supply located in Maricopa County, Arizona. The Company seeks pre-

1 approved recovery of all costs and additions and improvements related thereto in its next rate
2 case (See paragraph 28 of Company's application). The Company further seeks an accounting
3 order deferring all the costs including carrying costs until an upcoming rate case. (See
4 paragraph 29).

5 On May 17, 2016, the United States Environmental Protection Agency ("EPA") issued a
6 new Health Advisory lowering the levels of PFOA and PFOS from 400 parts per trillion for
7 PFOA and 200 parts per trillion for PFOS to 70 parts per trillion for PFOA and PFOS
8 combined. EPA's health advisories are non-enforceable and non-regulatory and provide
9 technical information to state agencies and other public health officials on health effects,
10 analytical methodologies and treatment technologies associated with drinking water
11 contamination.

12 On or about April 11, 2016, the EPA notified LPSCO that the Unregulated Contaminant
13 Monitoring Rule ("UCMR 3") study showed elevated levels of PFOA and PFOS in two of the
14 Company's wells located in the Airline well field. At the time the wells were originally tested
15 the new procedures were not in affect but on May 17, 2016, the EPA issued the Drinking
16 Water Health Advisory for both PFOA and PFOS and the new standards of 0.07 micrograms
17 per liter was recommended and the rule also cited a number of potential health effects
18 associated with both contaminants. The EPA also recommended a number of potential
19 treatment options, including granular activated carbon ("GAC").

20 The Company has estimated the cost for mobile GAC units includes a one-time
21 commissioning and decommissioning costs of \$462,130, ancillary improvements of \$350,000
22 to the sites and approximately \$17,500 per month for use of the GAC units. The Company
23 expects to use the mobile GAC units for approximately three months, until permanent GAC
24 can be approved and installed. The mobile GAC units potentially can be incorporated into

1 permanent GAC treatment facility. In addition, in the Company's proposed order, the Company
2 recommends, maximum costs to be deferred of \$1.2 million unless otherwise approved by the
3 Commission and capital costs no longer be deferred after June 18, 2018.

4 **THE COMPANY SHOULD BE ALLOWED TO DEFER THE COSTS ASSOCIATED WITH**
5 **THE REMEDIATION BUT ITS OTHER REQUEST SHOULD BE DENIED**

6 The Company requests that the Commission issue an accounting order authorizing the
7 Company to defer 1) any and all litigation costs incurred by the Company; 2) any and all
8 litigation costs related to seeking restitution from third parties; 3) increases in operation and
9 maintenance costs from alternative (replacement) water sources; 4) capital costs of acquiring
10 and/or constructing alternative (replacement) sources of water; 5) capital costs and/or
11 operating expenses to treat contaminated water supplies, including mobile and permanent
12 GAC treatment facilities; (6) deferral of depreciation and post in service AFUDC; and 7) any
13 other associated costs. The Company also seeks authority to record all incurred costs as
14 deferred debits in LPSCO accounting structure with express authorization to include those
15 costs as capital costs in a future general rate case.¹

16 RUCO understands the safety issues raised by the EPA advisories and believes that a
17 special circumstance exists which warrants non-traditional ratemaking, but not nearly to the
18 length the Company requests. Traditionally, a Company builds plant and improvements that it
19 believes are necessary to provide safe and reliable service. It is only after the plant and
20 improvements are made, that the Company seeks recovery in a rate case. At that point the
21 Commission reviews the costs and expenses incurred in the historical test year that the
22 Company chooses and determines the prudence of the plant and improvements as well as the
23 amount of the recovery. To the extent the Company takes a risk associated with the initial
24

¹ See Company Application page 10, lines 13 through 26

1 capital outlay, that risk, like all financial risk, is considered and addressed in the Company's
2 Cost of Capital recommendation.

3 Here, the Company seeks not only a deferral of the remediation costs but a pre-
4 determination of the prudence as to its decisions on what plant and improvements will be built
5 with absolutely no ability for any party to question the Company's decisions in the future rate
6 case when it seeks recovery. Second, the Company seeks a determination now that any cost
7 associated with the plant and improvements be recovered in some future rate case. The
8 Company cannot even identify whether it will be the next rate case it will seek recovery,
9 leaving a very perplexing concern of just how long the costs will accrue. Third, the Company
10 seeks an accounting order deferring all costs including carrying costs.

11 RUCO cannot support the Company's overall request. To begin with there is no
12 mandate by the EPA to remediate PFOS/PFOA contained in LPSCO's water supply. RUCO
13 believes that any expense incurred by the Company for remediation of these substances be
14 treated as normal operating expense and/or capital expenditures. These types of costs are
15 part of the costs of doing business and should receive no special treatment. Second, while the
16 Company has identified approximately \$812,130 in decommissioning and ancillary costs, plus
17 an estimated \$17,500 in monthly operating expenses there has not been adequate support for
18 the expected expenditures. Third, while the Company has stated that the EPA identified
19 alternative methods of remediation they have not provided an estimate of the costs of these
20 alternatives.

21 **CONCLUSION**

22 RUCO's recommendation acknowledges that there is a need to address the safety
23 issue while at the same time assuring that ratepayers as well as the Company is protected.

1 RESPECTFULLY SUBMITTED this 4th day of August, 2016.

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Daniel Pozefsky
Chief Counsel

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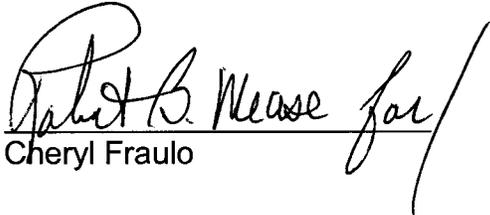
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