

ORIGINAL EXCEPTION



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AUG 24 2016

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2016 AUG 24 P 4: 25

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BEFORE THE ARIZONA CORPORATION COMMISSION

9 IN THE MATTER OF THE APPLICATION
10 OF TURNER RANCHES WATER AND
11 SANITATION COMPANY FOR
12 AUTHORITY TO (1) ISSUE EVIDENCE OF
13 INDEBTEDNESS IN AN AMOUNT NOT TO
14 EXCEED \$450,000 IN CONNECTION WITH
15 CAPITAL IMPROVEMENTS; AND (2)
16 ENCUMBER ITS REAL PROPERTY AND
17 PLANT AS SECURITY FOR SUCH
18 INDEBTEDNESS.

DOCKET NO: W-01677A-16-0074

15 IN THE MATTER OF THE APPLICATION
16 OF TURNER RANCHES WATER AND
17 SANITATION COMPANY, AN ARIZONA
18 CORPORATION, FOR A
19 DETERMINATION OF THE FAIR VALUE
20 OF ITS UTILITY PLANTS AND
21 PROPERTY AND FOR INCREASES IN ITS
22 WATER RATES AND CHARGES FOR
23 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01677A-16-0076

EXCEPTIONS TO RECOMMENDED ORDER

21 Turner Ranches Water and Sanitation Company ("Turner Ranches" or "Company")
22 hereby submits its Exceptions to the Recommended Order ("ROO") dated August 16, 2016.
23 These Exceptions focus solely on the ROO's recommended treatment of the revenues from
24 the debt service recovery mechanism ("DSRM") as Contributions-In-Aid of Construction
25 ("CIAC"). For the reasons explained, such recommendation should be rejected.
26

1 TURNER RANCHES EXCEPTIONS

2 Turner Ranches and Staff were able to reach full agreement on all issues, including
3 rate base, revenue requirement, rate design, financing approval and approval of a debt
4 service surcharge, and other relief as set forth in the parties' filings in this docket.¹ Turner
5 Ranches appreciates the ALJ's analysis of the parties' filings and the timely issuing of the
6 ROO adopting the parties' recommendations. The Company also accepts the additional
7 Hearing Division recommendations resulting in several future compliance items.²
8 However, the ROO also adds the CIAC requirement and this recommendation is
9 problematic for several reasons.

10 To the Company's knowledge, the only time the Commission has sanctioned debt
11 surcharge funds to be treated as CIAC was in *Southland Utilities Company, Inc.*, Decision
12 No. 72429 (June 24, 2011). However, in a recent rate case for Southland Utilities the
13 Commission effectively reversed this finding.³ The Commission found that "the rate-
14 making treatment for the portion of plant paid for with WIFA Surcharge Funds should no
15 longer be to treat the principal payments as CIAC."⁴ In fact, it appears that, aside from
16 Southland Utilities, Staff has not been recommending such treatment for surcharge
17 revenues. Turner Ranches is aware of several decisions issued since Decision No. 72429

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19
20 ¹ See Rate Application (filed March 2, 2016); Financing Application (filed March 2, 2016);
21 Staff Report (filed June 14, 2016); Response to Staff Report (filed June 24, 2016); Turner
22 Ranches' Notice of Filing (filed June 29, 2016); Supplemental Staff Report (July 8, 2016);
23 Response to Supplemental Staff Report (July 12, 2016).

24 ² ROO at 12-13 (e.g., Turner Ranches' being required to file notice of credits to customers
25 for any overage of funds collected through the DSRM, and having to annually report loan
26 surcharge monies billed and collected until the next rate case).

³ See Decision No. 75700 (August 19, 2016) at 8:20-21. In the 2011 Southland Utilities
case, the Commission required only the principal payments to be treated as CIAC. See *id.*
at 8:10-12. The ROO for Turner Ranches appears to require that all proceeds be treated as
CIAC, which would be even more detrimental to the Company.

⁴ *Id.* at 8:20-21.

1 in which there was the recommendation for and approval of a debt surcharge but no CIAC
2 requirement.⁵

3 This is the appropriate treatment. For one thing, the DSRM revenues do not meet
4 the NARUC definition of CIAC. Amounts that are CIAC can be classified in one of the
5 following ways:

6 271. Contributions in Aid of Construction

7 A. This account shall include:

8 1. Any amount or item of money, services or property
9 received by a utility, from any person or governmental agency,
10 any portion of which is provided at no cost to the utility, which
11 represents an addition or transfer to the capital of the utility,
and which is utilized to offset the acquisition, improvement or
construction costs of the utility's property, facilities, or
equipment used to provide utility services to the public.

12 2. Amounts transferred from account 252 – Advances for
13 Construction, representing unrefunded balances of expired
14 contracts or discounts resulting from termination of contracts
in accordance with the Commission's rules and regulations.

15 3. Compensation received from governmental agencies
and others for relocation of water mains or other plants.

16 4. Any amount of money received by a utility, any portion
17 of which is provided at no cost to the utility, which represents
18 an addition or transfer to the capital of the utility and which is
19 utilized to offset the federal, state or local income tax effect of
20 taxable contributions in aid of construction, taxable amounts
transferred from Account 252 – Advances for Construction,
and taxable compensation received from governmental
agencies and others for relocation of water mains or other
plants shall be reflected in a sub-account of this account.

21 The revenues that will be collected by Turner Ranches via the DSRM do not fall under any
22 of these categories. This is still the Company's money, and the Company still faces the

23
24 ⁵ See, e.g., Orange Grove Water Company, Inc., Decision No. 72734 (January 6, 2012);
25 Sunland Water Company, Decision No. 73254 (July 30, 2012); Sabrosa Water Company,
26 Decision No. 73356 (August 21, 2012); Cienega Water Company, Inc., Decision No. 73574
(November 21, 2012); Montezuma Rimrock Water Company, Decision No. 74382 (March
19, 2014); and Tierra Buena Water Company, Inc., Decision No. 75682 (August 5, 2016).

1 obligation to repay the loan under all conditions. It is just that the revenues collected per
2 the DSRM are earmarked until the next rate case so that the Commission and the utility and
3 the lender can do as much as possible to ensure the money is there to pay the loan. Taking
4 away rate base because the Company cannot afford to finance plant without the surcharge
5 seems punitive and inequitable.

6 Rate base will be reduced because the CIAC collections and recommended CIAC
7 treatment in future rate cases will create a deduction from rate base, which will lead to lower
8 earnings than are necessary to cover capital costs and lower depreciation recovery that
9 reduces the cash flow needed to service the loan. The future loan payments on the
10 approximately \$450,000 will stay the same, but the Company will have less cash flow
11 (depreciation and operating income) to service the loan. Thus, treatment of the debt
12 surcharge revenues collected as CIAC will have the unintended consequence of depriving
13 the Company of the ability to fully recover its investment and its cost of capital on the debt
14 funded investment in the future.

15 **RELIEF REQUESTED**

16 For the reasons stated above, Turner Ranches urges the Commission to adopt the
17 Company's exception to the ROO and eliminate any treatment of DSRM revenues as CIAC.
18 All that is required is to delete paragraph 44 (d) of the ROO's Finding of Facts (found at
19 12:22-26) and the associated ordering paragraph (found at 18:11-13). The remainder of the
20 ROO would result in just and reasonable rates and other reasonable conditions necessary to
21 ensure safe and reliable utility service by Turner Ranches.

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RESPECTFULLY SUBMITTED this 24th day of August, 2016.

SHAPIRO LAW FIRM, P.C.

By: _____


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ORIGINAL and thirteen (13) copies
of the foregoing were delivered
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COPY of the foregoing was hand-delivered
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