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**Memorandum**  
From the office of  
**Commissioner Andy Tobin**  
**Arizona Corporation Commission**  
1200 W. WASHINGTON  
PHOENIX, ARIZONA  
(602) 542-3625

Arizona Corporation Commission

**DOCKETED**

JUN 12 2017

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A handwritten signature in black ink, appearing to be "GB".

TO: Docket Control  
DATE: June 12<sup>th</sup>, 2017  
FROM: Commissioner Andy Tobin's Office  
SUBJECT: Docket No. WS-00000A-17-0094

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Presentation materials of Steve Wene of Moyes Sellers & Hendricks for the Certificates of Convenience and Necessity (CC&N) Workshop.

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**STEVE WENE  
MOYES SELLERS & HENDRICKS**

## MOYES SELLERS & HENDRICKS

- Represent appx. 100 utility providers mostly in rural AZ
- Private companies, districts, municipalities
- Provide water, wastewater, and electric service

## BEGIN WITH SOLUTION

- “If it’s not broke, don’t fix it”
- Current surcharge system is fair to customers & utilities

## HISTORY

- For decades, debt service folded into rates
- Problem began conservation tiered rates → less revenue
- Companies had to choose between paying expenses & debt service (WIFA)
- Companies & lenders wanted a more secure revenue stream
  - Debt service in monthly minimum

# HISTORY

- Staff saw another problem
- Companies were not taking out the entire loan
- Usually because costs rose over 2 years between estimates & loan closing
- Debt service built into rates, could not adjust if the whole loan not taken
- Staff saw potential to over earn at customers' expense

# HISTORY

- Both Companies & Staff saw advantage of surcharge
  - Companies – revenue stream to pay debt service not impacted by conservation rate design
  - Staff – surcharge match debt service

## HOW IT WORKED

- How it worked
  - In First Rate Case surcharge approved
    - Takes 4-6 months to close loan
  - Company applies to ACC for surcharge to match debt service
    - Takes about 4-6 months to approve
  - Company engineers & bids project – 6 months
  - Construction begins about 1.5-2 years after First Rate Case
  - Construction takes about 3-6 months
  - Project completed in 2-3 years



## HOW IT WORKED

- Plant built is **booked** in 3<sup>rd</sup> year
- No change in rates
- The 4<sup>th</sup> year is Test Year for Second Rate Case
- Rate application has new plant in rate base & surcharge goes away

## WHY IS THE CIAC ISSUE BEING RAISED?

- Staff began ordering all companies to come in for a rate case every 5 years
  - Whether or not there was financing
- Commissioners opposed this policy
- Staff reaction to take position that surcharge revenue treated as CIAC until next rate case

## ADVERSE IMPACT TO SMALL COMPANIES


- 2 biggest issues with small companies
  - CIAC – eliminates rate base
  - Rate design – routinely well below revenue requirement
- No rate base
  - Makes no sense for owners to invest in company
  - Makes no sense for someone to buy company & consolidate
  - Typically not owners fault – CIAC result of developers outspending
- Rate design
  - Have to use depreciation to pay electric bill & taxes, so no reinvestment.

## CERTIFICATION OF SERVICE

On this 12<sup>th</sup> day of June, 2017, the foregoing document was filed with Docket Control as a correspondence from Commissioner Andy Tobin, and copies of the foregoing were mailed on behalf of Commissioner Andy Tobin to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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By:



Matthew Rippentrop  
Policy Intern to Andy Tobin

Andy Kvesic  
ARIZONA CORPORATION COMMISSION Director – Legal Division  
1200 West Washington  
Phoenix, Arizona 85007  
[LegalDiv@azcc.gov](mailto:LegalDiv@azcc.gov)

Elijah Abinah  
ARIZONA CORPORATION COMMISSION Director – Utilities Division  
1200 West Washington  
Phoenix, Arizona 85007  
[EAbinah@azcc.gov](mailto:EAbinah@azcc.gov)