

OPEN MEETING



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ORIGINAL

MEMORANDUM

Arizona Corporation Commission

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2017 NOV -1 PM 1:25

TO: THE COMMISSION

NOV 01 2017

FROM: Utilities Division

DOCKETED BY
LW

DATE: November 1, 2017

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA INC. FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF. DOCKET NO. WS-01303A-17-0326

INTRODUCTION

Enclosed are the Arizona Corporation Commission ("ACC" or "Commission") Staff's memorandum and recommended opinion and order for the EPCOR Water Arizona Inc. request for approval of a standpipe water tariff (Docket No W-01303A-17-0326). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

Any party who wishes to comment on this matter may appear before the Commission at its regular open meeting scheduled for **November 7, 2017**, at 10:00 a.m. and **November 8, 2017**, at 10:00 a.m. or may file written comments in Docket Control.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **November 7, 2017**, at 10:00 a.m. and **November 8, 2017**, at 10:00 a.m.

If you have any questions about this matter, please contact Briton Baxter of our Staff at (602) 542-7195, or Elijah Abinah, Director, at (602) 542-6935.

BACKGROUND

On October 5, 2017, EPCOR Water Arizona Inc. ("EPCOR" or "Company") notified the Utilities Division of an emergency that they were seeking the necessary authority to assist with a remedy for the situation. The Desert Hills and New River communities that border the Company's Anthem Water District, are dealing with groundwater wells that have started to go dry. In the past, these areas have used water haulers to supplement their water supply. The water haulers were using City of Phoenix hydrants as their supply source, but the City of Phoenix has banned this practice effective December 31, 2017.

On October 30, 2017, after discussions with Commission Staff, EPCOR filed an application requesting approval of a standpipe water tariff for the Anthem Water District. The Company plans to lease an acre of land adjacent to the Anthem Water District service area. On this land the Company

intends to build a water station, so that the residents of Desert Hills and New River can haul or have water hauled to their residences.

The Company proposes a standpipe water tariff of \$9.55 per 1,000 gallons. It is the Company's intention that this rate recover the full cost of the project so that the Anthem customers are not subsidizing water service for individuals outside of the Company's service area. EPCOR has estimated that the project will require a rate base investment of approximately \$565,000. In calculating the total revenue requirement necessary to operate the water station, the Company used a 6.7 percent rate of return¹ and a depreciation rate of 8.33 percent, which results in annual depreciation of \$47,083. The Company has also estimated \$5,000 in annual maintenance expenses, and monthly sales of 1,000,000 gallons. The Company's calculation results in a total revenue requirement of \$114,544. Taking this total and dividing by the total annual sales is how the Company arrived at the \$9.55 per 1,000 gallons rate. The Company is also proposing the following terms and conditions for the water haulers*:

1. Establish an account through the Application process with EPCOR and pay for water at the tariff rate;
2. Sign an affidavit stating that the hauler is in compliance with all applicable Arizona laws / rules / standards for hauling potable water;
3. Sign an affidavit that indemnifies EPCOR from all liability arising in any way from the delivery or use of the water purchased from EPCOR;
4. Sign an affidavit that no water purchased from EPCOR will be delivered or sold to any person who is within the service territory of any other water utility, or municipality providing water services, or who will use the water outside New River or Desert Hills;
5. In addition to the collection of this tariff rate, the Company will collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule 14-2-409(D)(5); and
6. A 1½ percent late payment penalty will be applied to account balances not paid within fifteen (15) days after the postmark date of the bill.

* A "water hauler" is either: (1) a vendor or provider that distributes potable water for resale to end users by tank truck or trailer; or (2) is an individual who is providing potable water for his or her own purposes (and is not providing or reselling the water to any other individual or entity) through use of personal equipment to deliver water to his or her property.

STAFF ANALYSIS AND RECOMMENDATIONS

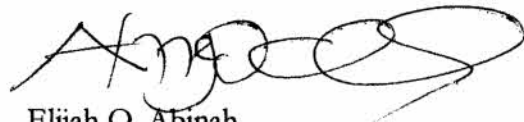
Staff has reviewed the Company's proposal, and has concerns about some of the estimates used in the Company's calculation. For example, the Company used a composite depreciation rate of 8.33 percent applied to the entire cost of the project to arrive at a depreciation expense of \$47,083. Staff does not believe this is appropriate because the cost of the project includes land which does not depreciate and is likely to include other assets that depreciate at much lower rates than 8.33 percent. Staff also believes that the \$5,000 in estimated maintenance expense is likely too low as it does not include the incremental costs for purchasing additional water, chemicals to treat that water, and power

¹ As approved by the Commission for the Anthem Water district in Decision No. 72047, dated January 6, 2011.

to pump the water to the water station. Further Staff does not believe that there is a reasonable basis to accurately project the total sales from the water station and therefore can't verify the Company's sale projections.

While Staff has concerns with the cost estimates and other figures used to derive the proposed rate, Staff recognizes that the endeavor is in its initial stages and that the Company is going above and beyond in an attempt to find a solution for neighboring areas facing a potential water crisis. In considering the entirety of the Company's request, Staff recommends the following:

1. Approval of the tariff with associated terms and conditions as proposed.
2. That sales from the water station be restricted to those residents living in the Desert Hills and New River areas, or those haulers serving only this area.
3. That three months after the Maricopa County Environmental Services Department has issued an Approval of Construction for the water station, the Company file a report with Docket Control for Staff review that includes the total cost of the project listed by NARUC account.
4. That six months after the water station has started serving customers and annually thereafter until such time as the water station can be evaluated within the context of a full rate case, the Company file a report with Docket Control for Staff review that includes at a minimum: total revenues collected from the water station, the total volume of water sold, and all actual operating expenses incurred by the Company for the water station. The Company should make available on request any and all supporting documentation.
5. That regulatory treatment of the water station and any over earnings be deferred until a future rate case.



Elijah O. Abinah
Director
Utilities Division

EOA:BAB:nr/WCVC

ORIGINATOR: Briton Baxter

THE COMMISSION

November 1, 2017

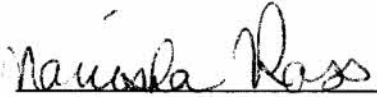
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On this 1st day of November, 2017, the foregoing document was filed with Docket Control as a **Utilities Division Memorandum & Proposed Order**, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not 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.

Jason Gellman
EPCOR WATER ARIZONA INC.
2355 West Pinnacle Peak Road, Suite 300
Phoenix Arizona 85027

Andy Kvesic
Director/Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Elijah O. Abinah
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Arizona Corporation Commission
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By: 
Nanisha Ross
Administrative Support Specialist

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BEFORE THE ARIZONA CORPORATION COMMISSION

- TOM FORESE
Chairman
- BOB BURNS
Commissioner
- ANDY TOBIN
Commissioner
- BOYD DUNN
Commissioner
- JUSTIN OLSON
Commissioner

IN THE MATTER OF THE APPLICATION
 OF EPCOR WATER ARIZONA, INC. FOR
 APPROVAL OF ITS PROPOSED
 STANDPIPE WATER TARIFF

DOCKET NO. WS-01303A-17-0326
 DECISION NO. _____
ORDER

Open Meeting
 November 7 and 8, 2017
 Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes and orders that:

FINDINGS OF FACT

1. On October 5, 2017, EPCOR Water Arizona Inc. ("EPCOR" or "Company") notified the Utilities Division of an emergency that they were seeking the necessary authority to assist with a remedy for the situation. The Desert Hills and New River communities that border the Company's Anthem Water District, are dealing with groundwater wells that have started to go dry. In the past, these areas have used water haulers to supplement their water supply. The water haulers were using City of Phoenix hydrants as their supply source, but the City of Phoenix has banned this practice effective December 31, 2017.

2. On October 30, 2017, after discussions with Commission Staff, EPCOR filed an application requesting approval of a standpipe water tariff for the Anthem Water District. The

1 Company plans to lease an acre of land adjacent to the Anthem Water District service area. On this
2 land the Company intends to build a water station, so that the residents of Desert Hills and New River
3 can haul or have water hauled to their residences.

4 3. The Company proposes a standpipe water tariff of \$9.55 per 1,000 gallons. It is the
5 Company's intention that this rate recover the full cost of the project so that the Anthem customers are
6 not subsidizing water service for individuals outside of the Company's service area. EPCOR has
7 estimated that the project will require a rate base investment of approximately \$565,000. In calculating
8 the total revenue requirement necessary to operate the water station, the Company used a 6.7 percent
9 rate of return¹ and a depreciation rate of 8.33 percent, which results in annual depreciation of \$47,083.
10 The Company has also estimated \$5,000 in annual maintenance expenses, and monthly sales of
11 1,000,000 gallons. The Company's calculation results in a total revenue requirement of \$114,544.
12 Taking this total and dividing by the total annual sales is how the Company arrived at the \$9.55 per
13 1,000 gallons rate. The Company is also proposing the following terms and conditions for the water
14 haulers²:

- 15 1. Establish an account through the Application process with EPCOR and pay for water
16 at the tariff rate;
- 17 2. Sign an affidavit stating that the hauler is in compliance with all applicable Arizona laws
18 / rules / standards for hauling potable water;
- 19 3. Sign an affidavit that indemnifies EPCOR from all liability arising in any way from the
20 delivery or use of the water purchased from EPCOR;
- 21 4. Sign an affidavit that no water purchased from EPCOR will be delivered or sold to any
22 person who is within the service territory of any other water utility, or municipality
23 providing water services, or who will use the water outside New River or Desert Hills;

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27 1 As approved by the Commission for the Anthem Water district in Decision No. 72047, dated January 6, 2011.

28 2 A "water hauler" is either: (1) a vendor or provider that distributes potable water for resale to end users by tank truck or trailer; or (2) is an individual who is providing potable water for his or her own purposes (and is not providing or reselling the water to any other individual or entity) through use of personal equipment to deliver water to his or her property.

- 1 5. In addition to the collection of this tariff rate, the Company will collect from its
2 customers a proportionate share of any privilege, sales or use tax per Commission Rule
3 14-2-409(D)(5); and
- 4 6. A 1½ percent late payment penalty will be applied to account balances not paid within
5 fifteen (15) days after the postmark date of the bill.

6
7 **Staff Analysis and Recommendations**

8 7. Staff has reviewed the Company's proposal, and has concerns about some of the
9 estimates used in the Company's calculation. For example, the Company used a composite depreciation
10 rate of 8.33 percent applied to the entire cost of the project to arrive at a depreciation expense of
11 \$47,083. Staff does not believe this is appropriate because the cost of the project includes land which
12 does not depreciate and is likely to include other assets that depreciate at much lower rates than 8.33
13 percent. Staff also believes that the \$5,000 in estimated maintenance expense is likely too low as it does
14 not include the incremental costs for purchasing additional water, chemicals to treat that water, and
15 power to pump the water to the water station. Further Staff does not believe that there is a reasonable
16 basis to accurately project the total sales from the water station and therefore can't verify the Company's
17 sale projections.

18 8. While Staff has concerns with the cost estimates and other figures used to derive the
19 proposed rate, Staff recognizes that the endeavor is in its initial stages and that the Company is going
20 above and beyond in an attempt to find a solution for neighboring areas facing a potential water crisis.

21 In considering the entirety of the Company's request, Staff recommends the following:

- 22 1. Approval of the tariff with associated terms and conditions as proposed.
- 23 2. That sales from the water station be restricted to those residents living in the Desert
24 Hills and New River areas, or those haulers serving only this area.
- 25 3. That three months after the Maricopa County Environmental Services Department has
26 issued an Approval of Construction for the water station, the Company file a report with
27 Docket Control for Staff review that includes the total cost of the project listed by
28 NARUC account.

- 1 4. That six months after the water station has started serving customers and annually
2 thereafter until such time as the water station can be evaluated within the context of a
3 full rate case, the Company file a report with Docket Control for Staff review that
4 includes at a minimum: total revenues collected from the water station, the total volume
5 of water sold, and all actual operating expenses incurred by the Company for the water
6 station. The Company should make available on request any and all supporting
7 documentation.
- 8 5. That regulatory treatment of the water station and any over earnings be deferred until a
9 future rate case.

10 CONCLUSIONS OF LAW

- 11 1. EPCOR Water Arizona Inc. is a public service corporation within the meaning of Article
12 XV of the Arizona Constitution.
- 13 2. The Commission has jurisdiction over EPCOR Water Arizona Inc., and the subject
14 matter of this filing.
- 15 3. It is in the public interest to approve the standpipe tariff rate.

16 ORDER

17 IT IS THEREFORE ORDERED that the EPCOR Water Arizona Inc. request for a standpipe
18 tariff in the amount of \$9.55 per 1,000 gallons is approved.

19 IT IS FURTHER ORDERED that the terms and conditions for the water haulers as discussed
20 in Finding of Fact 3 are approved.

21 IT IS FURTHER ORDERED that sales from the water station be restricted to those residents
22 living in the Desert Hills and New River areas, or those haulers serving only this area.

23 IT IS FURTHER ORDERED that EPCOR Water Arizona shall, within three months after the
24 Arizona Department of Environmental Quality has issued an approval of construction for the water
25 station, file with Docket Control, as a compliance item in this docket, a report for Staff review that
26 includes the total cost of the project listed by NARUC account.

27 IT IS FURTHER ORDERED that EPCOR Water Arizona shall, within six months after the
28 water station has started serving customers and annually thereafter until such time as the water station

1 can be evaluated within the context of a full rate case, file with Docket Control, a report for Staff review
 2 that includes at a minimum: total revenues collected from the water station, the total volume of water
 3 sold, and all actual operating expenses paid by the EPCOR for the water station. The Company should
 4 make available on request any and all supporting documentation.

5 IT IS FURTHER ORDERED that thirty (30) days after the annual water station report is
 6 docketed, the tariff be adjusted as necessary, thru true-up calculations, to an amount that allows the
 7 Company to break-even on the water station.

8 IT IS FURTHER ORDERED that regulatory treatment of the water station and any over
 9 earnings be deferred until a future rate case.

10
 11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

12
 13 _____
 14 CHAIRMAN FORESE

COMMISSIONER DUNN

15 _____
 16 COMMISSIONER TOBIN

COMMISSIONER OLSON

COMMISSIONER BURNS

17 IN WITNESS WHEREOF, I, TED VOGT, Executive Director
 18 of the Arizona Corporation Commission, have hereunto, set my
 19 hand and caused the official seal of this Commission to be
 20 affixed at the Capitol, in the City of Phoenix, this _____ day
 21 of _____, 2017.

22 _____
 23 TED VOGT
 24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26 DISSENT: _____

27 EOA: BAB:nr/WCVC

1 EPCOR Water Arizona Inc.
Docket No. WS-01303A-17-0326

2

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4 Epcor Water Arizona Inc.
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5 Phoenix Arizona 85027

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11 1200 West Washington Street
12 Phoenix, Arizona 85007

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