

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

2 COMMISSIONERS

DOCKETED

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

NOV 14 2005

DOCKETED BY



6 IN THE MATTER OF THE APPLICATION OF
7 ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR ADJUSTMENTS TO ITS
8 RATES AND CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS WESTERN GROUP AND
9 FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-04-0650

DECISION NO. 68302

OPINION AND ORDER

10 DATES OF HEARING:

October 15, 2004 (Oral Argument), June 10 and 16,
2005 (Pre-Hearing Conferences), June 17, 20, 21, 22, 23
11 and 24, 2005

12 PLACE OF HEARING:

Phoenix, Arizona

13 ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

14 IN ATTENDANCE:

Kristen K. Mayes, Commissioner

15 APPEARANCES:

16 Norman D. James and Jay L. Shapiro, FENNEMORE
CRAIG, and Robert W. Geake, Vice President and
General Counsel, on behalf of Arizona Water Company;

17 Marvin S. Cohen, SACKS TIERNEY, on behalf of
Pivotal Group, Inc.;

18 Joan S. Burke and Danielle D. Janitch, OSBORN
MALEDON, on behalf of the City of Casa Grande;

20 Daniel Pozefsky, on behalf of the Residential Utility
Consumer Office; and

21 Timothy J. Sabo and Diane M. Targovnik, Attorneys,
22 Legal Division, on behalf of the Utilities Division of the
Arizona Corporation Commission.

23 **BY THE COMMISSION:**

24 **I. INTRODUCTION**

25 On September 8, 2004, Arizona Water Company ("Arizona Water," "Company," or
26 "Applicant") filed the above-captioned application with the Arizona Corporation Commission
27 ("Commission") requesting a rate increase for the Company's Western Group systems. Arizona
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1 of \$10,003,254, for a total revenue requirement of \$10,113,483. Staff is recommending a revenue
2 increase of \$74,152, or .07 percent over test year adjusted revenues of \$10,675,355, for a total
3 revenue requirement of \$10,749,507. Based on adjustments to the Company's filing as set forth
4 herein, we authorize an increase in revenues of \$160,510, an increase of 1.50 percent over test year
5 adjusted revenues of \$10,675,355, for a total revenue requirement of \$10,835,865.

6 **II. RATE BASE**

7 **A. Deferred CAP M&I Capital Charges**

8 **1. Background**

9
10 Arizona Water has four subcontracts with the Central Arizona Water Conservation District
11 ("CAWCD") for delivery of CAP water for municipal and industrial ("M&I") use (Garfield Rb. at 6).
12 Three of the Company's CAWCD subcontracts are for delivery of its CAP allocations for the
13 Company's Western Group systems of Casa Grande, 8,884 acre-feet; Coolidge, 2,000 acre-feet; and
14 White Tank, 968 acre-feet; on an annual basis (*id.*)¹. Under the subcontracts, the Company is
15 required to make two different types of payments for water delivery services: first, whether Arizona
16 Water actually takes delivery of CAP water or not, it must pay, in equal semi-annual installments, a
17 CAP M&I capital charge based on each system's total allotment multiplied by an amount per acre-
18 foot established by the CAWCD; and second, Arizona Water must pay, based on actual CAP
19 deliveries and estimated expenses for the upcoming year, an annual CAP operation, maintenance, and
20 replacement ("OM&R") expense payment in equal monthly installments (Garfield Rb. at 6-7). The
21 purpose of the CAP M&I capital charge is to repay the CAP construction costs to the United States
22 (*id.* at 7). Arizona Water asserts that by making annual CAP M&I payments and thereby retaining
23 the right to use CAP water, which is an alternative, renewable water source, that it has acted
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27 ¹ Deferred CAP M&I capital charges associated with Arizona Water's CAWCD subcontract for delivery of its used and
28 useful CAP allocation for its Apache Junction system are currently being recovered on an amortized basis per the recent
Eastern Group Decision. A portion of the Company's Apache Junction CAP allocation is provided to golf courses as
non-potable water.

1 consistent with State water policy, in addition to ensuring the availability of water for its customers
2 on a long-term basis (Garfield Rb. at 8).

3 CAP water is surface water and therefore requires treatment for potable use in compliance
4 with the United States Environmental Protection Agency ("EPA") and Arizona Department of
5 Environmental Quality ("ADEQ") surface water treatment requirements.

6 2. Current Usage of CAP Allocations

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8 During the test year, the Company delivered 2,279 acre feet of Arizona Water's CAP
9 allocation for the Casa Grande system to commercial and industrial customers for non-potable uses
10 under the Company's non-potable tariff (Hubbard Rb. at 15, 16). In return for the Company's
11 commitment to deliver up to 2,000 acre-feet of untreated CAP water annually to the Desert Basin
12 power plant, Arizona Water's Casa Grande system is reimbursed annually for a portion of its deferred
13 CAP M&I capital charges (Garfield Rj. at 9; Hubbard Rj. at 5). In the absence of a contract requiring
14 a customer to commit to a portion of Arizona Water's CAP allocation, non-potable water customers
15 are not liable for deferred CAP M&I charges, and the CAP allocation remains available to other
16 customers (Hubbard Rj. at 5). The Company proposes that the \$142,896 portion of the Casa Grande
17 system deferred CAP M&I charges related to the delivery of a total of 279 acre-feet of CAP water to
18 two golf courses during the test year be placed in rate base, amortized over 10 years (Hearing Exh. A-
19 28; Tr. at 802).² RUCO does not oppose the Company's requested treatment of the portion of the
20 CAP allocation that customers are receiving and paying for (RUCO Br. at 9), and no party alleges
21 that this portion of the Company's Casa Grande system CAP allocation was not used and useful
22 during the test year. We agree with the Company that serving untreated CAP water to customers who
23 do not require potable water to meet their water needs is a valid use of its CAP allocation, and that
24 the 279 acre feet of the Company's CAP allocation delivered to the two Casa Grande system golf
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28 ² The total amount of the deferred CAP M&I capital charges for the Casa Grande system at December 31, 2003 was \$3,525,803 (Hubbard Rj. Sched. SLH-RJ4 at 8, line 15).

1 course commercial and industrial customers as non-potable water during the test year was used and
2 useful. Therefore \$142,896 in the associated Casa Grande system CAP M&I capital charges will be
3 accorded rate base treatment in this proceeding, on an amortized basis consistent with the
4 amortization period for the CAP Hook-Up Fee discussed below.

5 3. Planned CAP Treatment Facilities

6 a. Casa Grande and Coolidge

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8 Arizona Water states that it has made financial commitments toward design and construction
9 of a CAP water treatment plant with an initial capacity of 10 million gallons per day ("gpd") that will
10 treat both its Casa Grande and Coolidge CAP allocations (Whitehead Rb. at 3), which the Company
11 projects will all be needed to offset growing demand for water in the Casa Grande and Coolidge area
12 (Garfield Rb. at 11). The Company's witness testified that the planned treatment plant will also have
13 the potential to treat CAP water supplies for other water providers holding CAP allocations, such as
14 the City of Eloy and the City of Florence, and that water treated at the planned plant has the potential
15 of ultimately serving Casa Grande, Coolidge, Arizona City, Tierra Grande, Stanfield, and other areas
16 within Arizona Water's certificated areas (Whitehead Rb. at 5). The Company has purchased
17 approximately 68 acres of land southeast of Coolidge about one-half mile west of the CAP canal, and
18 has submitted an application to the Arizona State Land Department for right-of-way access to cross
19 state land from the CAP canal to the planned regional CAP plant site (Whitehead Rb. at 4). The
20 Company plans to construct a 48-inch pipeline to deliver water from the CAP canal to the planned
21 treatment facility, and has completed the initial design of the booster pump station necessary to pump
22 water from the canal and pressurize the pipeline (*id.*). The Company plans to submit the plans for the
23 CAP treatment plant to the CAWCD later this year for review and comment (Whitehead Rb. at 4).
24 Arizona Water's witness testified that the Company plans to bid the treatment plant design in 2007;
25 award a design contract in 2008; bid for the construction of the first phase commencing in 2009;
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1 commence construction in 2009; and complete the project in 2012 (Whitehead Rb. at 9-11).

2 b. White Tank

3 Arizona Water has been working with Arizona-American Water Company's Agua Fria
4 Division on an agreement that would provide for the treatment of Arizona Water's White Tank CAP
5 allocation at a regional water treatment plant planned to be completed in 2008 (Hubbard Rb. at 16),
6 located along the Beardsley Canal (Garfield Rb. at 13). Arizona Water's witness stated that upon
7 completion of the planned treatment plant, its entire White Tank allocation will be used to serve its
8 customers (*id.*)
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10 4. **Application's Request Regarding Deferred CAP M&I Charges**

11 The Company's calculation of adjusted test year net operating income in its application
12 includes CAP M&I charges reflected as a pro forma adjustment to purchased water expense, and the
13 amortization of deferred CAP M&I capital charges reflected as a pro forma adjustment to test year
14 depreciation and amortization expense (Hubbard Rb. at 15). The application also requests
15 authorization to amortize the deferred CAP M&I capital charges accumulated as of the end of the test
16 year over a ten-year period, as follows: \$3,525,803 for the Casa Grande system, which is net of
17 \$989,314 from non-potable test year sales; \$1,046,011 for the Coolidge system; and \$506,268 for the
18 White Tank system, for a combined balance of \$5,078,082 (*id.* at 15-16).
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20 No other party agreed with Arizona Water's application position to place deferred CAP M&I
21 charges for CAP water that is not currently being used in rate base.
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23 5. **Alternative Deferred CAP M&I Charges Recovery Proposals**

24 On May 19, 2005, Staff filed a Notice of Settlement Negotiation indicating that Staff would
25 be entering into settlement negotiations with the Company limited to the subject of how to deal with
26 the Company's past, present and future costs associated with its CAP water allotments. No
27 settlement agreement was filed prior to the hearing. However, both the Company and Staff proposed
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1 alternatives to Arizona Water's request as set forth in its application. In rejoinder testimony filed on
2 June 10, 2005, the Company proposed a hook-up fee to recover the deferred CAP M&I charges
3 (Hubbard Rj. at 4-6, Exhibit SLH-RJ5). The rejoinder testimony proposed recovery of the deferred
4 charges over a 10-year period by means of hook-up fees collected from new customers for a period of
5 ten years in the amount of \$289 for both the Casa Grande and Coolidge systems, and in the amount of
6 \$674 for the White Tank system (*id.*). Under Arizona Water's "rejoinder proposal," the hook-up fees
7 would be collected on new lots in each system, and would be treated as non-operating revenue used
8 both to pay ongoing CAP M&I charges and also to reduce the balance of deferred CAP M&I charges,
9 which for accounting purposes would be treated as allowance for funds used during construction
10 ("AFUDC") (Tr. at 821-822). The Company's rejoinder proposal also shows ongoing M&I charges
11 to the Desert Basin power plant contract, discussed above, as being applied to reduce the M&I
12 charges balance (*id.*).
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14
15 Prior to the hearing, Staff filed its proposal for an alternative hook-up fee to recover the
16 deferred CAP M&I charges over a 20 year period, with hook-up fees of \$220 for the Casa Grande
17 system, \$150 for the Coolidge system, and \$500 for the White Tank system (Olea Suppl. Scheds.
18 SMO-1, SMO-2 and SMO-3).³ At the hearing, Staff presented more detailed schedules showing its
19 recommended hook-up fee recovery methodology. Staff's proposed methodology uses the same
20 projections the Company used in its rejoinder proposal for customer growth, annual CAP M&I
21 ongoing charges, AFUDC estimates based on the 2004 M&I rate, and ongoing M&I charges paid
22 under the Desert Basin power plant contract, but with a 20 year amortization period (Hrg. Exh. S-33).
23 Staff's proposal also includes a set of "Conditions for Approval of CAP Hook-Up Fee," and proposes
24 requirements for a CAP Water Use Plan, the filing and Commission approval of which is one of
25 Staff's recommended conditions for the collection of the CAP Hook-Up Fee (Olea Suppl. Sched.
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28 ³ These hook-up fee amounts are proposed for meter sizes 1-inch and smaller. Larger hook-up fees are proposed for larger meter sizes (Olea Suppl. Scheds. SMO-1, SMO-2 and SMO-3).

SMO-4 and Attachment A).

Casa Grande opposes Arizona Water's recovery of deferred CAP M&I capital charges until Arizona Water prepares a water resource master plan ("WRMP") while giving Casa Grande the opportunity to participate in all stages of the WRMP process, including decisions relating to what the WRMP will include (City Reply Br. at 30).

6. Staff's Proposed Conditions for Approval of CAP Hook-Up Fee and Proposed Requirements for a CAP Water Use Plan

Staff states that the Company's plans to use its Casa Grande, Coolidge and White Tank CAP allocations sufficiently demonstrate a commitment to use its CAP allocations to allow the Company to begin to recover its prudently incurred CAP M&I capital charges, both deferred and ongoing, under the terms of Staff's proposed CAP Hook-Up Fee tariffs, but subject to Staff's proposed conditions (Olea Suppl. at 5-6). The conditions Staff proposes are reproduced here:

Schedule SMO-4

CONDITIONS FOR APPROVAL OF CAP HOOK-UP FEE

- 1) Arizona Water Company ("AWC") must submit by December 31, 2006, or six months prior to submission of its next rate case application, whichever comes first, a detailed Central Arizona Project Water Use Plan ("CAPWUP") for its Western Group water systems.
- 2) AWC must make best faith efforts to include the cities of Casa Grande and Coolidge in the development of the CAPWUP.
- 3) The CAPWUP must address all the issues outlined in Attachment A.
- 4) The CAPWUP must be approved by Staff prior to AWC's next rate case application being declared sufficient under A.A.C. R14-2-103.
- 5) The CAPWUP shall be approved, disapproved, or modified in AWC's next rate case by the Commission. If the CAPWUP is disapproved, the CAP Hook-up Fee shall be terminated and AWC shall refund all CAP Hook-up Fee monies collected to that point along with six percent (6%) interest. The refund method shall be determined by the Commission.
- 6) The approval by Staff or the Commission of the CAPWUP shall mean only that the CAPWUP has adequately addressed all the issues outlined in

1 Attachment A. CAPWUP approval by Staff or the Commission shall **not** be
2 interpreted as a used and useful determination nor as pre-approval of
3 reimbursement of any future expenditures in completing the plan.

- 4 7) In AWC's next rate case the Commission shall reevaluate this CAP Hook-
5 up Fee to determine if it should be continued, eliminated or modified based
6 on the CAPWUP and any other evidence that may be introduced by parties
7 to that case.
- 8 8) If in AWC's next rate case the Commission orders continuation of the CAP
9 Hook-up Fee or any other recovery mechanism designed to recover CAP
10 deferrals, the Commission Staff shall audit the CAP deferral accounts of
11 AWC's systems holding CAP allocations and shall make any necessary
12 adjustments, true-ups, and re-calculations to determine the proper values to
13 carry forward.
- 14 9) Staff will utilize AWC's annual cost of debt to determine the rate for
15 allowance of funds used during construction ("AFUDC") included in the
16 CAP deferrals.

17 Attachment A

18 **CENTRAL ARIZONA PROJECT WATER USE PLAN ("CAPWUP")**

19 The plan should address the following:

- 20 1) Existing water supplies and demand patterns for the last two years (such
21 information as required on the Water Use Data Sheet).
- 22 2) Future water supplies and demand patterns demonstrating how and when
23 CAP water will be used through the year 2025. All future water sources that
24 the Company plans to use* other than CAP should be discussed. All
25 assumptions used to make projections should be clearly explained.
- 26 3) All major infrastructure components required to use CAP water through the
27 year 2025 should be listed and described in as much detail as possible.
28 These would include such items as, but not be limited to, treatment plants,
transmission mains, storage tanks, pumping stations, etc.
- 4) Projected capital and Operation and Maintenance costs for all future water
supplies (including CAP water) through the year 2025 should be listed in as
much detail as possible. All assumptions used to make these projections
should be clearly explained.
- 5) How CAP water will be used to address the arsenic issue (if it will be).

* Staff added the underlined language at the hearing.

1 **7. Casa Grande's Proposed Conditions for Approval of CAP Hook-Up Fee**
 2 **and Proposed Requirements for a Water Resource Master Plan**

3 Casa Grande proposes that Arizona Water's recovery of CAP M&I capital charges be linked
 4 to Arizona Water's willingness to work with Casa Grande in designing and preparing a water WRMP
 5 (City Br. at 5). The City opposes Arizona Water's recovery of CAP M&I capital charges until a
 6 WRMP is prepared, and it expects "real-time" input into preparation of the WRMP (City Reply Br. at
 7 2). Casa Grande asserts that the detail in its WRMP is necessary to implement the CAP Water Use
 8 Plan proposed by Staff (*id.*), and that "[r]eal time input by the City during the design and preparation
 9 of the WRMP (or the CAPWUP) can occur without interference with the Company's business
 10 decisions." (City Reply Br. at 7). Casa Grande submitted as an Exhibit at the hearing a draft outline
 11 of the plan (Hrg. Exh. CCG-7), which is reproduced here:
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13 **DRAFT OUTLINE**
 14 **CASA GRANDE WATER RESOURCE MASTER PLAN**

- 15 I Existing water supplies and demand patterns
- 16 A. Current water supplies
- 17 1. Number of wells, location, annual volume of production over
 18 past five years
- 19 2. Condition of wells, maximum annual production potential,
 20 required capital improvements schedule
- 21 3. Water quality profile and issues, i.e. arsenic
- 22 B. Current water demands
- 23 1. Annual sales by customer type and by meter size over past five
 24 years
- 25 2. Seasonality and peak use, monthly demand patterns over past
 26 five years, peak day use
- 27 3. Losses and unaccounted for water
- 28 II Future demands and net requirements
- A. Demographic/economic projections
1. Population and employment growth trends, 1990 through 2005
2. Published or available projections, developer plans
3. Selection of high and low scenarios through at least 2025
- B. Water demand projections
1. Selection of water demand forecasting approach, i.e. gallons per
 capita per day
2. High and low water demand projection scenarios through at least
 2025

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C. Net Water Requirements—Comparison of water demand projections with available maximum supplies from existing wells, identification of future unmet needs over time

III Additional Groundwater Resources

- A. What is potential for acquiring groundwater rights, developing new wells
- B. Increased production volume potential over time
- C. Infrastructure requirements
- D. Capital, operating costs schedule
- E. Constraints and opportunities

IV CAP Water

- A. Available water volumes, schedule of availability
- B. Infrastructure requirements by component, location
- C. Capital, operating costs schedules
- D. Constraints and opportunities

V Non-potable water (effluent)

- A. Available water volumes, schedule of availability
- B. Infrastructure requirements, location
- C. Capital, operating costs schedules
- D. Constraints and opportunities

VI Other alternative resources-i.e. water purchases or transfers, etc.

- A. Available water volumes, schedule of availability
- B. Infrastructure requirements, location
- C. Capital, operating costs schedules
- D. Constraints and opportunities

VII Arsenic treatment

- A. Current plan
- B. Infrastructure requirements, location
- C. Capital, operating costs schedules
- D. Constraints and opportunities—potential integration with other water supply alternatives, i.e. blending, combined treatment, etc.

VIII Recommended water master plan

- A. Alternative supply scenarios or combination of resources considered
- B. Description of selected future supply plan
 - 1. Volume of new water available over time
 - 2. Infrastructure needs and location
- C. Justification of future supply plan
- D. Schedule for permitting, implementation
- E. Capital cost requirements schedule through 2025
- F. Operating cost requirements through 2025

8. Discussion

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2 The Company is largely in agreement with the CAP Hook-Up Fee mechanism proposed by
3 Staff for recovery of the Company's deferred M&I capital charges, and with some exceptions,
4 discussed further below, agrees with the related conditions and the CAP Water Use Plan requirements
5 proposed by Staff.

6 Arizona Water is opposed to having recovery of its deferred CAP M&I capital charges tied to
7 Casa Grande's Proposed WRMP (Co. Br. at 6-13). The Company asserts that the City's request is
8 extraordinary and unprecedented in that it asks the Commission to force the Company to cede control
9 of fundamental management decisions to a municipality that in the past has tried to condemn its
10 water system and has threatened to do so again (Co. Br. at 6). Arizona Water believes that granting
11 the City's request would violate its right as a public utility to determine the type and extent of service
12 to the public in the exercise of its managerial functions within the limits of adequacy and
13 reasonableness (*id.*, citing *Southern Pacific Co. v. Ariz. Corp. Comm'n*, 98 Ariz. 339, 343, 404 P.2d
14 692, 694-95). The Company points out that the City's witness presented no testimony or evidence
15 that Arizona Water has not adequately planned for water resources or that it has been unable to meet
16 water demands by new customers (Co. Br. at 9). The Company attached an affidavit of William M.
17 Garfield to its Reply Brief as Exhibit B. The Company prepared the affidavit to respond to a copy of
18 a July 21, 2005 newspaper article that the City attached as Exhibit 2 to its Closing Brief. In a
19 footnote, the City "asks the Commission to take judicial notice of the news article," claiming that it is
20 "directly relevant to the need for water resource planning by Arizona Water Company" (City Br. at 8,
21 fn. 2). The Company argues that the statements appearing in the article are not subject to judicial
22 notice (Co. Reply Br. at 9-10), but in a footnote of its own, explains that it has attached the affidavit
23 from Mr. Garfield "containing a detailed discussion of the events referenced in the article and
24 explaining why the City's reliance on the article is misplaced" (Co. Br. at 10, fn. 8).
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1 Arizona Water also points out that pursuant to new legislation passed earlier this year, the
2 Casa Grande system must submit a water plan to the Arizona Director of the Department of Water
3 Resources ("ADWR") by January 1, 2007 for review and approval that must generally "evaluate the
4 water supply needs in the service area and propose a strategy to meet identified needs" A.R.S. § 45-
5 331(H). Arizona Water attached a copy of the new legislation as Exhibit A to its Reply Brief.
6 Arizona Water believes that this new statutory requirement, combined with the CAP Water Use Plan
7 recommended by Staff, should eliminate any concerns that the City may have regarding water
8 resources planning (Reply Br. at 8).

9
10 RUCO supports the proposal made by Staff to address the CAP issue in this case (RUCO Br.
11 at 10) and believes that Staff's conditions for approval of its proposed CAP Hook-Up Fees provide
12 adequate safeguards to ensure that the objectives are met (RUCO Reply Br. at 3-4). RUCO's support
13 of Staff's proposal is contingent upon inclusion of Staff's fifth proposed condition, which provides
14 for a refund of all collected CAP Hook-Up Fees if the Company's CAP Water Use Plan is
15 disapproved (*id.* at 4). RUCO asserts that this condition cannot harm the Company if it intends to act
16 in good faith and present a reasonable CAP Water Use Plan (*id.*).

18 9. Conclusion

19 It is not appropriate to put Arizona Water's deferred or ongoing CAP M&I charges for CAP
20 water that is not currently being used in rate base, as proposed in the Company's application. The
21 amortization of the deferred CAP M&I charges requested in the application will therefore not be
22 adopted.
23

24 We do not believe that it is necessary or reasonable to adopt Casa Grande's recommendation
25 to make any CAP M&I capital expense recovery contingent upon Arizona Water's submission of
26 Casa Grande's proposed WRMP (*see* City Reply Br. at 30). Staff's witness testified that the WRMP
27 proposed by Casa Grande goes into more detail than Staff would need to determine whether the
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1 Company can begin recovering its deferred CAP costs (*see* Tr. at 1201-1203). We therefore disagree
2 with Casa Grande's assertion that development of its WRMP is necessary to implement the CAP
3 Water Use Plan proposed by Staff. While we would not discourage Arizona Water from engaging in
4 a planning process similar to that outlined in Casa Grande's draft WRMP, we agree with Staff that
5 through the planning the Company's witnesses described in rebuttal testimony, the Company has
6 demonstrated a concrete enough commitment to using its CAP allocations to allow commencement of
7 recovery of its deferred CAP M&I capital charges at this point in time through the methodology
8 recommended by Staff, subject to the strict conditions supported by both Staff and RUCO, which
9 include development of a CAP Water Use Plan as outlined above.
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11 Neither do we believe that it is necessary or reasonable to adopt Casa Grande's
12 recommendation to require that Casa Grande be allowed to participate in Arizona Water's decisions
13 relating to what the WRMP (or the CAP Water Use Plan) will include (*see* City Reply Br. at 30).
14 Staff's witness testified that by its proposed second condition for recovery of a CAP Hook-Up Fee,
15 which requires AWC to make best faith efforts to include the cities of Casa Grande and Coolidge in
16 the development of the CAP Water Use Plan, Staff intends for Arizona Water to keep the cities
17 informed and make sure the cities are involved so that the cities aren't caught off guard by something
18 the Company is going to do with regard to the water system (Tr. at 1192). We agree with Staff's
19 stated intent. We also agree with the Company that management decisions regarding the use of its
20 CAP water allocation are its own. We do not intend our adoption of Staff's proposed second
21 condition number 2 requiring Arizona Water to make best faith efforts to include the cities as giving
22 the cities a managerial or decision-making role in the development of the CAP Water Use Plan.
23 Given the contentious litigation history between the Company and Casa Grande, we do not adopt this
24 recommended condition lightly. We adopt it because we believe that the cities' "best faith" input will
25 be valuable to the Company in its planning process. We fully recognize that it is ultimately Arizona
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1 Water that will have the burden of demonstrating the prudence of its business decisions, and not the
2 cities. While we will require Arizona Water to make "best faith efforts" to include the cities in its
3 development of the CAP Water Use Plan, we do so with the hope that Casa Grande will in turn make
4 its "best faith efforts" to keep in mind that Arizona Water, and not Casa Grande, is the party who
5 must ultimately take responsibility for planning the best use of its CAP water allocation.

6 The Company objects to Staff's proposed fourth condition, which requires Staff approval of
7 the Company's CAP Water Use Plan prior to a finding of sufficiency in the Company's next rate
8 case, and to Staff's proposed fifth condition, which requires collected CAP Hook-Up Fees to be
9 refunded in the event the Company's CAP Water Use Plan is disapproved in the Company's next rate
10 case. We agree with RUCO that the fifth condition cannot harm the Company if it intends to act in
11 good faith and present a reasonable CAP Water Use Plan, and find that this rationale also applies to
12 the fourth condition.

13
14 Use of CAP water, which is a renewable resource, should be encouraged. The availability of
15 CAP water comes at a cost, however, as the Company's deferred CAP M&I capital costs balance for
16 its Casa Grande, Coolidge and White Tank systems shows.⁴ The actual use of CAP water requires
17 utilities to undertake substantial infrastructure investments. As Staff's witness testified, the balance
18 of the payments the Company has made to retain the availability of its CAP water supply continues to
19 increase, and if recovery is postponed until CAP water treatment infrastructure is built and the water
20 is actually being served, ratepayers will be struck "twice as hard as they would have to be" (Tr. at
21 1203). This is because the water treatment plant would be placed in rate base at the same time that
22 the Company would begin recovery of the deferred CAP M&I charges (*id.*) We agree with Staff that
23 in order to prevent this "double hit," that with the safeguard conditions recommended by Staff, it is in
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27 ⁴ At December 31, 2003, the deferred CAP M&I capital charge balance for the Casa Grande system was \$3,525,803
28 (Hubbard Rj. Sched. SLH-RJ4 at 8, line 15); for Coolidge, \$1,046,011 (*id.* at 12, line 15); and for White Tank, \$506,269
(*id.* at 10, line 15).

1 the public interest to allow recovery of the deferred and ongoing CAP M&I capital charges to begin
2 now with the collection of a special hook-up fee from new customers who will have the use of the
3 Company's CAP allocation.

4 For all the above reasons, we therefore adopt, and approve herein, the CAP Hook-Up Fee
5 tariffs attached hereto as Exhibits A, B, and C,⁵ subject to Arizona Water's compliance with the
6 requirements set forth in Staff's recommended "Conditions for Approval of a CAP Hook-Up Fee" as
7 set forth above. We also find reasonable, and therefore adopt, Staff's recommended requirements for
8 the CAP Water Use Plan as set forth above. The CAP M&I charges recovery schedules attached to
9 this Decision as Exhibits D, E, and F demonstrate the derivation of the CAP Hook-Up Fee amounts.
10 These are the recovery schedules proposed by Staff, except that the schedule for the Casa Grande
11 system, Exhibit D, has been modified to adjust the test year end balance of CAP M&I capital charges
12 in order to remove \$142,896 associated with the 279 acre feet of the Company's Casa Grande system
13 CAP allocation that was used and useful during the test year and will therefore be accorded rate base
14 treatment in this proceeding over the same amortization period as the Hook-Up Fees, as discussed
15 above. This change results in a reduction of the Hook-Up Fee for the Casa Grande system from \$220
16 to \$208 for 5/8 x 3/4-inch, 3/4-inch, and 1-inch meter sizes. In accordance with Staff's proposed
17 seventh condition, if the CAP Hook-Up Fee is continued, the recovery schedules are subject to
18 amendment in the Company's next rate case, when the projections can be trued-up to reflect actual
19 figures and new projections of CAP M&I capital charges, NP-260 Tariff M&I charges, hook-up fees,
20 and AFUDC. We will require the Company to provide, in its next rate filing, the data necessary to
21 true-up the projections in these schedules for our review.
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27 ⁵ In response to an issue raised during the hearing by Pivotal, Staff's witness added language to its proposed CAP Hook-
28 Up Fee tariffs to clarify the point in time that an applicant for the installation of new water facilities would be required to
advance costs for service connections. This clarifying language has been included in the tariffs.