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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

**DOCKETED**

OCT 21 2009

KRISTIN K. MAYES - Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

DOCKETED BY	nr
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IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY, INC.,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS RATES AND CHARGES  
FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02113A-07-0551

DECISION NO. 71308

**OPINION AND ORDER**

**DATES OF HEARING:** December 5, 2008 (Pre-Hearing); December 8, 9, and 10, 2008, and January 8 and 9, 2009.

**PLACE OF HEARING:** Phoenix, Arizona

**ADMINISTRATIVE LAW JUDGE:** Teena Wolfe

**APPEARANCES:** Mr. Norman D. James and Mr. Jay L. Shapiro, FENNEMORE CRAIG, on behalf of Chaparral City Water Company;

Ms. Michelle L. Wood, Attorney, on behalf of the Residential Utility Consumer Office;

Ms. Robin Mitchell, Ms. Amanda Ho, and Mr. Wesley Van Cleve, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

1 Water received replacement water and wells in that case.<sup>25</sup>

2 As RUCO points out and the Company admits, Wells 8 and 9 are fully depreciated. The  
3 Company and its shareholders have received the full return of and on their investment in Wells 8 and  
4 9 and are entitled to no more. We are cognizant, however, that the Company spent \$30,000 in  
5 attorneys' fees and costs in pursuing the resolution with the FHSD. We hereby grant \$30,000 of the  
6 proceeds to the Company for pursuing the matter on behalf of ratepayers and allocate the remaining  
7 settlement proceeds to the ratepayers.

8 **B. Treatment of the Additional CAP Water Allocation Acquisition Cost**

9 At the end of the test year, the Company had a CAP water allocation allowing it to take up to  
10 6,978 acre-feet of Colorado River water annually.<sup>26</sup> Under that contract, the Company also has the  
11 right to buy excess CAP water,<sup>27</sup> and has exercised that right in each of the last two years.<sup>28</sup> As a  
12 result of the Arizona Water Settlement Act of 2004, CCWC had an opportunity to purchase an  
13 additional CAP allocation of 1,931 acre-feet per year.<sup>29</sup> CCWC states that when presented with the  
14 opportunity, it considered the unavailability of additional CAP water and other renewable water  
15 supplies, and paid \$1.28 million for the additional CAP allocation in December, 2007.<sup>30</sup> As with its  
16 first CAP allocation, its contract for the additional CAP allocation requires the Company to pay  
17 annual Municipal and Industrial ("M&I") capital charges based on the size of the additional CAP  
18 allocation, and to pay purchased water charges based on annual water use.<sup>31</sup>

19 Parties' Positions

20 CCWC states that it acquired the additional CAP allocation to ensure its long-term water  
21 supply, including an increase to its drought buffer from both intrastate and interstate demand for  
22 Colorado River water supply,<sup>32</sup> and to reinforce and continue its reliance on renewable water  
23 supplies.<sup>33</sup> CCWC contends that full cost recovery is warranted because the additional CAP

24 <sup>25</sup> Decision No. 66849 at 34.

25 <sup>26</sup> Direct Testimony of Staff Witness Marlin Scott, Jr. (Exh. S-1), Engineering Report at 11.

26 <sup>27</sup> Tr. at 140-141.

27 <sup>28</sup> Company Brief at 10, fn 36 and Exhibit 1.

28 <sup>29</sup> Direct Testimony of Company witness Robert N. Hanford (Exh. A-1) at 5.

29 <sup>30</sup> Company Brief at 10.

30 <sup>31</sup> Direct Testimony of Company witness Thomas J. Bourassa (Exh. A-3) at 16 and Schedule C-2, page 6.

31 <sup>32</sup> Rebuttal Testimony of Company witness Robert N. Hanford (Exh. A-2) at 6.

32 <sup>33</sup> Direct Testimony of Company witness Robert N. Hanford (Exh. A-1) at 5-7.

1 allocation was offered only in a fixed amount and was a one-time only opportunity at a fixed price.<sup>34</sup>  
 2 CCWC contends that the Colorado River is already overcommitted as a water source, and future  
 3 reductions in CAP water deliveries are a real possibility.<sup>35</sup> CCWC asserts that it must plan for its  
 4 water supply needs not only for the next year, but for the next several decades and longer.<sup>36</sup> CCWC  
 5 believes that the acquisition of the additional CAP allocation should be viewed as an "indivisible  
 6 whole" that produces benefits to the ratepayers that could not have been obtained had the Company  
 7 not paid the \$1.28 million acquisition price, and that the entire acquisition cost is therefore used and  
 8 useful.<sup>37</sup>

9 Staff is in agreement with the Company that the entire acquisition cost of the additional CAP  
 10 allocation should be included in rate base, classified as a plant-in-service component of Land and  
 11 Land Rights, and not subject to amortization.<sup>38</sup> In its Engineering Report on the application, Staff  
 12 found that approximately half the requested additional 1,931 acre-feet per year CAP allocation (966  
 13 acre-feet) would be used and useful within a five-year timeframe.<sup>39</sup> Based on that determination,  
 14 Staff is recommending that the Company be allowed recovery of 50 percent of the associated annual  
 15 M&I charges.<sup>40</sup> Staff contends that the full allocation should be included in rate base at this time,  
 16 however, because reallocation of CAP water occurs infrequently, and CAP water is oversubscribed.<sup>41</sup>  
 17 Staff states that it is imperative to secure an additional CAP allotment when it becomes available, and  
 18 believes CCWC acted prudently in the \$1.28 million purchase of the additional CAP allocation,  
 19 based on the combination of two factors: the CAP reallocation opportunity was for all or nothing of a  
 20 fixed amount, and the additional CAP allocation will allow CCWC to limit or eliminate the use of  
 21 groundwater to serve its customers.<sup>42</sup>

22  
 23 <sup>34</sup> Company Brief at 11.

24 <sup>35</sup> Company Brief at 12, citing Tr. at 131-133.

25 <sup>36</sup> *Id.*

26 <sup>37</sup> Company Brief at 12-13.

27 <sup>38</sup> Staff Brief at 3, Direct Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 15-18; Company Brief at 11.

28 <sup>39</sup> Direct Testimony of Staff witness Marlin Scott, Jr. (Exh. S-1) at *ii*, and Engineering Report at 11.

<sup>40</sup> Direct Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 27-28. As discussed in the Operating Income section below, the Company agrees with the operating expense treatment, and RUCO agrees that M&I expenses should be allowed in an amount commensurate with the portion of the additional CAP allocation that is determined to be used and useful.

<sup>41</sup> Staff Brief at 3, citing Direct Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 18.

<sup>42</sup> *Id.*

1 RUCO disagrees with the recommendations of the Company and Staff, and makes several  
 2 arguments against inclusion of the additional CAP allocation in rate base. RUCO argues that the  
 3 additional CAP allocation should not be put in rate base at all, because doing so would allow the  
 4 Company to expand its service area as requested in Decision No. 68238 (October 25, 2005) for the  
 5 benefit of the State Land Department or a developer at the expense of current ratepayers.<sup>43</sup> RUCO  
 6 argues that if the Company needs a drought buffer, it should “work more diligently to resolve its  
 7 long-standing water loss issue.”<sup>44</sup> RUCO contends that Staff’s growth projections are unreliable,<sup>45</sup>  
 8 and that the Company’s demand estimates do not support placing 100 percent of the additional CAP  
 9 allocation in rate base.<sup>46</sup> RUCO states that its witness’ accounting analysis opinion is that the current  
 10 used and useful portion of the additional CAP allocation “is only about in the single digits.”<sup>47</sup> RUCO  
 11 recommends, however, that “[i]f the Commission determines that some measure of the additional  
 12 CAP allocation is needed for a drought buffer . . . RUCO’s revised recommendation is that no more  
 13 than 35% of the additional CAP allocation be treated as land and land rights in a non-depreciable  
 14 account.”<sup>48</sup> RUCO’s arguments are addressed below.

15 Decision No. 68238 Order Preliminary

16 RUCO advances an argument that the additional CAP allocation should be totally excluded  
 17 from rate base, because putting it in rate base “would allow the Company to expand its service area  
 18 for the benefit of the State Land Department or a developer at the expense of current ratepayers.”<sup>49</sup>  
 19 RUCO is referring to Docket No. W-02113A-05-0178. On October 25, 2005, Decision No. 68238 in  
 20 that docket granted CCWC an Order Preliminary for a Final Order granting an extension of CCWC’s  
 21 CC&N to include approximately 1,300 acres of state trust land located north of the Town of Fountain  
 22 Hills, immediately adjacent to the Company’s existing CC&N area.<sup>50</sup> The Staff Engineering Report  
 23 in this case notes that one of the requirements Decision No. 68238, imposed for the issuance of a

24 <sup>43</sup> RUCO Reply Brief at 2.

25 <sup>44</sup> *Id.* at 7.

<sup>45</sup> *Id.* at 3-4.

26 <sup>46</sup> *Id.* at 5.

<sup>47</sup> *Id.* at 7, citing Tr. at 301-02.

27 <sup>48</sup> *Id.* at 7.

<sup>49</sup> *Id.* at 2.

28 <sup>50</sup> Decision No. 70608 (November 12, 2008) extended the deadline for compliance with the Order Preliminary deadlines established in Decision No. 68238 to April 25, 2010.

1 Final Order in that docket is for CCWC to demonstrate sufficient water source capacity for its water  
 2 system.<sup>51</sup> RUCO charges that the additional CAP allocation at issue in this case is needed not for the  
 3 purpose of satisfying the demands of current customers, but instead to provide a 100-year assured  
 4 water supply to permit the sale of the state trust land to a private subdivision developer.<sup>52</sup> RUCO  
 5 argues that the Order Preliminary indicated that the Company had sufficient source and storage  
 6 capacity to serve up to 18,000 customers,<sup>53</sup> and is concerned that ratepayers will bear the full cost of  
 7 the additional CAP allocation "while the true beneficiaries, the subdivision developer and/or the  
 8 State, receive the benefit."<sup>54</sup>

9 According to the Company, its request for inclusion of the additional CAP allocation  
 10 acquisition costs in rate base was not based on benefiting a subdivision developer.<sup>55</sup> In response to  
 11 RUCO's argument regarding the Order Preliminary requirements, the Company states that in the  
 12 event the property covered by the Order Preliminary is developed at some future date, current  
 13 customers would actually benefit from the potential expansion, both from the increase of the  
 14 customer base over which the Company recovers its cost of service, and from the collection of hook-  
 15 up fees from new customers.<sup>56</sup> Staff's witness testified that the Order Preliminary's requirement that  
 16 the Company demonstrate an adequate water supply in order to receive a Final Order was only one  
 17 item Staff considered in looking at whether the Company's acquisition of the additional CAP  
 18 allocation was prudent.<sup>57</sup> The witness emphasized that Staff's main consideration in its prudence  
 19

20 <sup>51</sup> Direct Testimony of Staff Witness Marlin Scott, Jr. (Exh. S-1), Engineering Report at 11. Decision No. 68238 orders  
 the following:

21 "IT IS FURTHER ORDERED that, prior to issuance of a Final Order, Chaparral City Water Company,  
 22 Inc. shall be required to demonstrate to the satisfaction of the Commission's Director of Utilities that  
 23 the Company is able to meet the water production needs for its system, PWS No. 07-017, for both its  
 24 current customer base as well as expected demand for the proposed extension area. Sufficient capacity  
 may be demonstrated by filing with Docket control a list of pending or future water sources, their  
 anticipated production capacity in gallons per minute, and a time schedule for ADEQ approval of  
 construction and operation."

Decision No. 68238 at 8.

25 <sup>52</sup> RUCO Reply Brief at 1-2, citing Decision No. 68238 at 3, fn 2.

26 <sup>53</sup> RUCO Reply Brief at 1. Decision No. 68238 states that "Staff indicated that Chaparral City currently has sufficient  
 source and storage capacity to serve up to 18,000 customers." Decision No. 68238 at 3, Findings of Fact No. 6.

27 <sup>54</sup> RUCO Reply Brief at 3.

28 <sup>55</sup> Company Reply Brief at 13-1; *see also* Direct Testimony of Company witness Robert N. Hanford (Exh. A-1) at 5-7;  
 Company Brief at 12, citing Tr. at 131-133.

<sup>56</sup> Company Reply Brief at 14.

<sup>57</sup> Tr. at 337.

1 analysis was ADWR's requirement that the acquisition be an all or nothing purchase.<sup>58</sup>

2 RUCO did not raise this issue in its prefiled testimony in this case, and therefore the factual  
3 record on the issue is limited. As stated above, Decision No. 68238 is an Order Preliminary, and not  
4 a Final Order. No request for a Final Order has yet been filed, and it therefore remains to be seen  
5 whether a Final Order will be considered in Docket No. W-02113A-05-0178. It is therefore  
6 inappropriate to base a determination on whether to allow rate base recovery of the additional CAP  
7 allocation acquisition cost on the existence of that docket. We agree with the Company that  
8 regardless of the outcome in Docket No. W-02113A-05-0178, all its customers will benefit from the  
9 additional CAP allocation.

10 Unaccounted-for Water

11 While RUCO recommends inclusion of 35 percent of the additional CAP allocation in rate  
12 base as a drought buffer if needed, RUCO simultaneously argues that if the Company needs a drought  
13 buffer, it should "work more diligently to resolve its long-standing water loss issue."<sup>59</sup> RUCO states  
14 that in 2007, the Company reported unaccounted-for water of 1,030 acre-feet, or 14 percent<sup>60</sup> as a  
15 result of metering inaccuracies either at the homes of ratepayers or at the CAP canal.<sup>61</sup> RUCO does  
16 not agree with Staff the fact that the Company's current CAP allocation was exceeded in 2006 shows  
17 a need for the additional CAP allocation.<sup>62</sup> RUCO argues that "if the Company accounted for the  
18 water in excess of the acceptable loss standard (10%), the Company would have an additional 4% or  
19 315.5-plus acre-feet available to satisfy the needs of its customers" and "[i]f the Company accounted  
20 for unaccounted water there would be no need for additional CAP allocation for drought buffer."<sup>63</sup>  
21 RUCO's position fails to take into account that, as RUCO acknowledges,<sup>64</sup> the Company's test year  
22 unaccounted-for water was not due to "water loss," i.e., leaks, broken mains or maintenance issues.  
23 The non-account water issue is likely to be the result of a faulty CAP meter, an issue that the

24  
25 <sup>58</sup> *Id.*

<sup>59</sup> RUCO Reply Brief at 7.

<sup>60</sup> RUCO Brief at 5, citing to Tr. at 62.

<sup>61</sup> *Id.* at 5-6, citing to Tr. at 67, 320.

<sup>62</sup> RUCO Reply Brief at 6, referring to Direct Testimony of Staff witness Marlin Scott, Jr. (Exh. S-1), Engineering Report  
27 at 11.

<sup>63</sup> RUCO Reply Brief at 6.

<sup>64</sup> RUCO Brief at 5-6.

1 Company is working to resolve with the Central Arizona Water Control District.<sup>65</sup> Staff's  
 2 engineering witness testified that CCWC is well-operated, well-maintained and well-managed, and  
 3 that CCWC is not ignoring water loss issues.<sup>66</sup> As the Company points out, resolution of the likely  
 4 cause of the unaccounted-for water, a faulty CAP meter, will not result in any additional wet water  
 5 for the Company to serve its customers.<sup>67</sup> We agree with the Company on this point, and find that  
 6 RUCO's arguments regarding unaccounted-for water do not justify excluding the additional CAP  
 7 allocation from rate base.

8 Staff's Engineering witness states that the Company is aware of its 15.9 percent unaccounted-  
 9 for water/water loss amount, and that the Company informed Staff it will be installing its own CAP  
 10 water meter at its Shea Water Treatment Plant to determine whether the CAP intake meter is  
 11 accurately registering.<sup>68</sup> Staff recommends that the Company begin a 12-month monitoring exercise  
 12 of its water system after the Company completes its own CAP water meter installation.<sup>69</sup> Staff  
 13 further recommends that the Company docket the results of the system monitoring as a compliance  
 14 item in this case by March 1, 2010.<sup>70</sup> Staff recommends that if the reported water loss for the period  
 15 from February 1, 2009 through February 1, 2010 is greater than 10 percent, the Company be required  
 16 to prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less,  
 17 or alternatively, if the Company believes it is not cost effective to reduce water loss to less than 10  
 18 percent, the Company should be required to submit a detailed cost benefit analysis to support its  
 19 opinion.<sup>71</sup> Staff recommends that the Company be required to docket the report or alternative cost  
 20 benefit analysis, if required, by April 30, 2010, as a compliance item for this proceeding for review  
 21 and certification by Staff, and that in no case should water loss be allowed to remain at 15 percent or  
 22 greater.<sup>72</sup> Staff's recommendations on this issue are reasonable and will be adopted.

23 ...

24

<sup>65</sup> Tr. at 38, 127-131.

<sup>66</sup> Tr. at 312, 319.

<sup>67</sup> Company Reply Brief at 13, citing Tr. at 130-31.

<sup>68</sup> Direct Testimony of Staff Witness Marlin Scott, Jr. (Exh. S-1) at *i*.

<sup>69</sup> Direct Testimony of Staff Witness Marlin Scott, Jr. (Exh. S-1) at *i*.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Id.*

28

1 Need for the Additional CAP Allocation

2 RUCO contends that CCWC's current water supplies, without the additional CAP allocation,  
 3 are sufficient to meet the Company's its current and future demand.<sup>73</sup> At the same time, RUCO  
 4 argues that if it is determined that some measure of the additional CAP allocation is needed to  
 5 provide a drought buffer in the event of future curtailments of CAP water, only the used and useful  
 6 portion of the additional CAP allocation should be included in rate base,<sup>74</sup> and that a current absence  
 7 of growth in CCWC's service area and CCWC's unaccounted-for water should be considered in  
 8 determining the amount of the additional CAP allocation that is used and useful.<sup>75</sup> RUCO  
 9 recommends that "no more than 35%" of the additional CAP allocation be treated as Staff and the  
 10 Company propose.<sup>76</sup> RUCO contends that the Company's demand estimates do not support placing  
 11 100 percent of the additional CAP allocation in rate base,<sup>77</sup> arguing on brief that "by Mr. Hanford's  
 12 optimistic estimates, 18.17% of the additional CAP allocation will be needed by 2010 and 31.43% by  
 13 2016."<sup>78</sup> RUCO also expresses disagreement with Staff's projections, arguing that the growth  
 14 projections Staff relied on in its determination that 50 percent of the additional CAP allocation is  
 15 used and useful do not consider current economic circumstances in the Company's service territory.<sup>79</sup>  
 16 RUCO argues that to reach Staff's projections, CCWC would have to establish 334 new accounts per  
 17 year from 2007 through 2012,<sup>80</sup> but provided no alternative growth projections or evidence to  
 18 support its claim other than the accounting analysis opinion of RUCO's witness that the current used  
 19 and useful portion of the additional CAP allocation "is only about in the single digits."<sup>81</sup> RUCO's  
 20 recommendation on this issue that "no more than 35 percent" of the additional CAP allocation should  
 21 be allowed in rate base is difficult to reconcile with its arguments.

22 The Company states that if it is denied recovery for the additional CAP allocation, the  
 23 Company would receive a message that it should rely on groundwater pumping if shortages occur,

24 <sup>73</sup> RUCO Reply Brief at 7.

25 <sup>74</sup> *Id.*

26 <sup>75</sup> *Id.*

27 <sup>76</sup> *Id.*

28 <sup>77</sup> *Id.* at 5.

<sup>78</sup> *Id.*, citing Tr. at 83-84.

<sup>79</sup> RUCO Reply Brief at 3-4.

<sup>80</sup> *Id.* at 4, referring to Direct Testimony of Staff Witness Marlin Scott, Jr. (Exh. S-1), Engineering Report at 5.

<sup>81</sup> *Id.* at 7, citing Tr. at 301-02.

1 instead of looking out for the long-term interests of its customers and the community of Fountain  
 2 Hills by obtaining additional CAP water supplies.<sup>82</sup> RUCO argues that since the Company intends to  
 3 file a rate case again in two to three years,<sup>83</sup> it is not imperative to include 100 percent of the  
 4 additional CAP allocation in rate base.<sup>84</sup> The Company explains that if it is not accorded reasonable  
 5 cost recovery for its purchase of the additional CAP allocation, it is unlikely that it will be able to  
 6 keep the right that it believes it prudently acquired for the benefit of its customers.<sup>85</sup> The Company's  
 7 witnesses testified that the Company has made an investment and expects a return on the investment,  
 8 and that if full recovery of the acquisition costs is not allowed, the Company will be faced with a  
 9 choice of how to otherwise recoup its investment.<sup>86</sup> If denied regulatory recovery of the investment  
 10 made on behalf of its ratepayers, according to the Company, its choices will be to either: (1) retain  
 11 the additional allocation and look for entities who wish to enter into wholesale water delivery  
 12 arrangements from it; or (2) exchange or relinquish the additional acquisition and get its acquisition  
 13 payment back.<sup>87</sup>

14 The application process for the available additional CAP allocations was a competitive one  
 15 that considered the applicants' needs under the Third Management Plan.<sup>88</sup> Of fifty-three applicants  
 16 seeking a portion of the 65,647 acre-feet of CAP water available for reallocation, only twenty-six  
 17 applicants were considered in the first round, and CCWC was one of twenty who were subsequently  
 18 given the opportunity to purchase an additional CAP allocation.<sup>89</sup> Based on the factual record in this  
 19 case, we agree with Staff's reasoned recommendation, agreed to by the Company, that the entire  
 20 acquisition cost of the additional CAP allocation be included in rate base, classified as a plant-in-  
 21 service component of Land and Land Rights, and not subject to amortization. Our determination is  
 22 based on the Company's need to provide its customers continued access to adequate renewable water  
 23 supplies, and on the fact that CCWC acted prudently under the circumstances in the December, 2007,  
 24

25 <sup>82</sup> Rebuttal Testimony of Company witness Robert J. Sprowls (Exh. A-8) at 5.

26 <sup>83</sup> RUCO Reply Brief at 6, citing Tr. at 121.

27 <sup>84</sup> RUCO Reply Brief at 6.

28 <sup>85</sup> Company Reply Brief at 12.

<sup>86</sup> Direct Testimony of Company witness Robert N. Hanford (Exh. A-1) at 7.

<sup>87</sup> Direct Testimony of Company witness Robert N. Hanford (Exh. A-1) at 7.

<sup>88</sup> Direct Testimony of Staff witness Marlin Scott, Jr. (Exh. S-1), Engineering Report at 11; Tr. at 325-327.

<sup>89</sup> *Id.*

1 \$1.28 million purchase of the additional CAP allocation.

2 **C. Working Capital**

3 The Company did not prepare a lead/lag study to quantify its cash working capital  
4 requirement.<sup>90</sup> Staff contends that in the absence of the cash working capital component of a lead/lag  
5 study, it is inappropriate to consider other components of working capital, and therefore disallowed  
6 prepayments and materials and supplies inventory from rate base.<sup>91</sup> Staff's proposed adjustment to  
7 rate base removes (1) Unamortized Debt Issuance Costs in the amount of \$424,010, (2) Prepayments  
8 in the amount of \$192,485, and (3) Materials and Supplies Inventory in the amount of \$14,521, for a  
9 total reduction to rate base of \$631,016.<sup>92</sup>

10 The Company argues that there is no requirement that it prepare a lead/lag study, and that it  
11 adopted the lead/lag study prepared by RUCO, along with the negative working capital allowance  
12 RUCO derived from its study.<sup>93</sup> RUCO's recommended total working capital is \$95,400, which  
13 consists of a negative Cash Working Capital allowance of (\$111,606), Prepayments in the amount of  
14 \$192,485, and Materials and Supplies in the amount of \$14,521.<sup>94</sup> The Company is critical of the fact  
15 that Staff did not analyze RUCO's lead/lag study, which was presented in RUCO's direct testimony,  
16 and argues that because Staff did not challenge RUCO's lead/lag study, it should therefore be  
17 adopted in lieu of Staff's disallowances.<sup>95</sup> Staff responds that if the Company had prepared a lead/lag  
18 study and submitted it with its application, Staff would have had an opportunity to review it and  
19 make a recommendation on it.<sup>96</sup>

20 The Company correctly states that Unamortized Debt Issuance Costs are actually not a part of  
21 working capital.<sup>97</sup> Staff's witness testified at the hearing that while they are not, they should be  
22 removed from rate base nonetheless, because they are a below-the-line expense, and similar to

23 <sup>90</sup> A company's working capital requirement represents the amount of cash the company must have on hand to cover any  
24 differences in the time period between when revenues are received and expenses must be paid. The most accurate way to  
25 measure the working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days  
attributable to the individual revenue and expenses. Staff Brief at 4.

26 <sup>91</sup> Staff Brief at 5, citing Direct Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 23.

27 <sup>92</sup> Staff Brief at 5, citing Direct Testimony of Staff witness Marvin E. Millsap (Exh. S-2) at 22.

28 <sup>93</sup> Company Reply Brief at 1.

<sup>94</sup> Direct Testimony of RUCO witness Timothy J. Coley (Exh. R-8) at 23-24.

<sup>95</sup> Company Reply Brief at 1.

<sup>96</sup> Staff Reply Brief at 2.

<sup>97</sup> Company Reply Brief at 2.

1 Company shall submit a detailed cost benefit analysis to support its opinion. In no case shall water  
2 loss be allowed to remain at 15 percent or greater.

3 IT IS FURTHER ORDERED that because Chaparral City Water Company, Inc. acted  
4 prudently under the circumstances in its December, 2007, \$1.28 million purchase of the additional  
5 Central Arizona Project allocation, the acquisition cost of the additional allocation should be included  
6 in rate base, classified as a plant-in-service component of Land and Land Rights, and not subject to  
7 amortization.

8 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. shall be allowed  
9 recovery of fifty percent of the Central Arizona Project Municipal and Industrial charges related to  
10 the additional Central Arizona Project allocation, or \$20,306, as an operating expense in this case.

11 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. is hereby authorized  
12 to defer, for possible later recovery through rates, the remaining fifty-percent of its costs, excluding  
13 any interest or other carrying charges, incurred for the annual Central Arizona Project Municipal and  
14 Industrial charges, and absolutely nothing in this Decision shall be construed in any way to limit this  
15 Commission's authority to review the entirety of the acquisition and to make any disallowances  
16 thereof due to imprudence, error or inappropriate application of the requirements of this Decision.

17 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. is authorized to create  
18 a deferral account to accrue the authorized deferral charges beginning on January 1, 2008, which is  
19 the first time the Municipal and Industrial charges are applicable according to the contract.

20 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. shall prepare and  
21 retain accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred  
22 costs recorded as authorized above.

23 IT IS FURTHER ORDERED that the cost deferral authorization granted herein will allow  
24 consideration of, but not guarantee recovery of these costs in future ratemaking proceedings.

25 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc.'s deferral authority is  
26 limited to 48 months from January 1, 2008, unless Chaparral City Water Company, Inc. has a general  
27 rate case pending at the end of the 48 month period, in which case Chaparral City Water Company,  
28 Inc. may continue to defer these costs until such rate case is concluded. Chaparral City Water