

SYTF

Examples of CAP and CAGR D Cost Recovery Methods for Regulated Water Companies

I. CAP / CAGR D Fees:

- A. Central Arizona Water Conservation District (“CAWCD” or Central Arizona Project – “CAP”) municipal and industrial (“M&I”) fees for CAP water:
 1. CAP M&I capital charges based on the subcontractor’s CAP entitlement multiplied by an amount per acre-foot; and
 2. An annual CAP operation, maintenance, and replacement (“OM&R”) expense payment based on actual CAP deliveries and estimated expenses for the upcoming year.
- B. Central Arizona Groundwater Replenishment District (“CAGR D”) replenishment fees:
 1. Assessment that a CAGR D member must pay the CAGR D to replenish any groundwater pumped by the member that exceeds the pumping limits imposed under Arizona’s Assured Water Supply regulatory framework. The amount due is based on CAGR D’s total cost per acre-foot of recharging groundwater, including the capital costs of constructing recharge facilities, water acquisition costs, operation and maintenance costs and administrative costs.

II. Case Examples

A. Hook-Up Fees to Recover CAP M&I Capital Charges

Arizona Water Company (“AWC”)

Docket No. W-01445A-04-0650

Decision No. 68302 (November 14, 2005)

- For purposes of this discussion, at issue were proposed hook-up fees that would allow AWC to recover deferred CAP M&I capital charges for three of its systems (Casa Grande, Coolidge, and White Tank).
- At the time of this decision, AWC was not fully utilizing its CAP allocations but had plans for water treatment and increased CAP use at all three systems.
- Both AWC and Arizona Corporation Commission Staff (“Staff”) filed hook-up fee proposals; among other differences, Staff’s proposal included a set of “Conditions for Approval of CAP Hook-Up Fee.”
- The Arizona Corporation Commissioners (“Commissioners”) agreed with Staff’s proposal and concluded that AWC’s plans to use its Casa Grande, Coolidge, and White Tank CAP allocations “demonstrated a concrete enough commitment to using its CAP allocation to allow commencement of recovery of its deferred CAP M&I capital charges at this point in time through the methodology recommended by Staff, subject to the strict conditions supported by both Staff and [the Residential Utility Customer Office],” Decision at 16.
- The Commissioners further justified their decision by distinguishing costs between: (1) the “substantial infrastructure investments” necessary for treatment and actual use of CAP water; and (2) CAP M&I charges, noting that:

[I]f recovery is postponed until CAP water treatment infrastructure is built and the water is actually being served, ratepayers will be struck “twice as hard as they would have to be.” This is because the water treatment plant would be placed in rate base at the same time that [AWC] would begin recovery of the deferred CAP M&I charges. We agree with Staff that in order to prevent this “double hit,” that with the safeguard conditions recommended by Staff, it is in the public interest to allow recovery of the deferred and ongoing CAP M&I capital charges to begin now with the collection of a special hook-up fee from new customers who will have the use of [AWC’s] CAP allocation. Decision at 17-18 (internal citations omitted).

- See also Arizona Water Company, Docket No. W-01445A-08-0440, Decision No. 71845 (August 25, 2010). Extending AWC’s CAP hook-up fees for the Casa Grande, Coolidge, and White Tank systems until the its next rate case, or by December 31, 2012, whichever comes first. Decision at 79.

B. Costs for Acquiring Additional CAP Allocation Included in Company Rate Base

Chaparral City Water Company (“Chaparral”)

Docket No. W-02113A-07-0551

Decision No. 71308 (October 21, 2009)

- For purposes of this discussion, at issue was Chaparral’s payment for an additional allocation of CAP water and Chaparral’s request for full cost recovery of such payment.
- Pursuant to Section 104(b)(1)(C) of the Arizona Water Settlements Act (2004), the Secretary of the Interior reallocated 1,931 acre-feet of Central Arizona Project M&I Priority Water to Chaparral; Chaparral paid \$1.28 million for the additional CAP allocation in December 2007.
- The additional CAP allocation was offered in a fixed amount and was a one-time only opportunity at a fixed price.
- The Commissioners agreed with Staff’s determination that Chaparral acted prudently in the \$1.28 million purchase of the additional CAP allocation because “the CAP reallocation opportunity was for all or nothing of a fixed amount, and the additional CAP allocation will allow [Chaparral] to limit or eliminate the use of groundwater to serve its customers.” Decision at 10, 16-17.
- Consequently, the Commissioners allowed “the entire acquisition cost of the additional CAP allocation [to] be included in rate base, classified as a plant-in-service component of Land and Land Rights, and not subject to amortization.” Decision at 16.

C. **Recovery of CAGR Tax Assessment Through the Use of an Adjustor Mechanism, Subject to Certain Conditions**

Johnson Utilities (“Johnson”)

Docket No. WS-02987A-08-0180

Decision No. 71854 (August 25, 2010)

- For purposes of this discussion, at issue was Johnson’s requested approval of a CAGR adjustor mechanism that would allow Johnson to recover its CAGR assessments.
- Staff recommended that an adjustor mechanism be established, but with specific conditions that would require Johnson to keep the Commission closely informed of the CAGR fee calculation and would allow the Commission to closely monitor Johnson’s collection of the fees and its treatment of monies collected to pay such fees.
- The Commissioners noted that it has previously approved adjustor mechanisms where appropriate to advance important policy concerns that protect the public interest. Decision at 43.
- The Commissioners concluded that “[t]o not allow [Johnson] to recover its CAGR cost in real time may threaten [Johnson’s] ability to participate in the CAGR program and would send a negative signal to water providers regarding this Commission’s support for sound regional approaches to achieving safe yield in Active Management Areas.” Decision at 44.
- The Commissioners approved the CAGR adjustor mechanism as proposed by Staff. Decision at 44.