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27 March 2022

The June Open Meeting at the Arizona Corporation Commission convened at 10:00 a.m. on June 12, 2018. Commissioner Burns was excused.

Water & Wastewater

Rate Applications

The Commission approved a rate increase for **East Slope Water Company**. East Slope is a Class D water company serving approximately 974 customers south of Sierra Vista, in Cochise County, Arizona. The Commission approved an operating revenue of $427,532, an increase of $126,389 or 42.0 percent, resulting in an operating income of $71,039. This provides a 6.87 percent rate of return and an operating margin of 16.62 percent. Based on the rate increase alone, the average residential water customer bill will increase by $11.43 per month, or 54.3 percent, from $21.05 to $32.48. The Commission also approved the discontinuance of a previously approved WIFA surcharge of $18.48 per month; however, the loan surcharge mechanism will remain in place should the Company need to draw on the remaining funds.

Since the Company's last rate case, East Slope was purchased by Potable Products, Inc., a Texas qualified sub-chapter S corporation. Commissioner Olson offered an amendment that would remove the allocation for income tax in the Company's revenue requirement because, per Commission policy, it no longer allows pass through tax treatment for S corporations. However, East Slope stated that it has filed with the IRS to restructure as a C-Corporation. In discussing his amendment, Commissioner Olson proposed holding the item until the Company could provide proof of its changed corporate structure so the appropriate tax treatment could be implemented. Ultimately, the Commission allowed the rate increase and modifications to take effect subject to the Company making a compliance filing regarding the new corporate structure. The item was unanimously approved as amended. (Docket No. W-01906A-17-0317).

Biasi Water Company received approval to increase its rates for water and wastewater service. Biasi currently provides service to approximately 200 water customers and 115 wastewater customers and an RV park with 43 lots near Littlefield in Mohave County.

For Biasi's water division, the Commission approved a 10.0 percent rate of return on the company's fair value rate base of $212,305. A 40.01 percent increase over test year revenues of $70,792 to $99,116 will produce an

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Meghan H. Grabel

(602) 640-9399
E-mail

Kimberly A. Ruht

operating income of $21,230 and an operating margin of 21.42 percent. An approved three-tier inverted commodity rate structure will increase the typical residential customer's bill by 35.4 percent, from $26.42 to $35.77 – an increase of $9.35.

For Biasi's wastewater division, the Commission also approved a 10.0 percent rate of return on the company's fair value rate base of $116,395. A 41.48 percent increase over test year revenues of $56,430 to $79,837 will create an operating income of $11,640 and a 14.58 percent operating margin. The new rates will increase the typical residential customer's bill from a flat rate of $40.00 to $48.00, an increase of $8.00 or 20.00 percent. Additionally, the commercial rate for the RV park will increase the flat rate of $60.00 to $72.00 and charge a monthly RV Lot tariff of $24.00.

The item was unanimously passed. (Docket No. WS-02812A-17-0321).

Financing

Payson Water Co., Inc. received financing approval to fund the Cragin Project, a joint project with Salt River Project to transport and treat water stored in the Cragin Reservoir (owned by SRP) to the Town of Payson, Payson Water, and other stakeholders. Payson Water may issue long-term debt to the Water Infrastructure Financing Authority (WIFA) in an amount not to exceed $875,000, for a term not longer than 30 years, and at an interest rate not to exceed 4.8 percent. The Company was also ordered to file its next general rate case no later than June 30, 2018. (Docket No. W-03514A-18-0062). *Approved on the consent agenda.*

The Commission amended **Box I Inc. dba Lazy C Water Service's** Decision No. 76676 *nunc pro tunc* to correct an inadvertent typographical error. (Decision Nos. W-01536A-17-0302 & W-01536A-17-0339). *Approved on the consent agenda*.

The Commission amended **Graham County Utilities, Inc. & Eden Water Company, Inc.'s** Decision No. 76546 *nunc pro tunc* to amend the inadvertent reversal of the legal descriptions set forth in Exhibits B and C. (Docket Nos. W-02527A-17-0199 & W-02068A17-0199). *Approved on the consent agenda*.

Electricity

Renewable Energy Plans

Arizona Public Service received approval of its 2018 Renewable Energy Standard Implementation Plan (REST Plan). APS did not propose any new programs. Therefore, the REST Plan only includes legacy performance based initiatives, renewable purchase power costs and ongoing programs, including costs associated with a high volume of rooftop solar interconnection applications. APS will also extend its Green Choice Program, where revenues collected from the program are used to offset the amount of budget funds collected through the RES adjustor. The REST budget is $92 million dollars; $81.6 million will be collected through the RES adjustor surcharge and the remaining funds will come from roll-over funds from the 2017 Plan. The monthly REST surcharge will be $0.007513 per kWh with a residential cap of approximately $3.00 per month.

In March 2018, the Commission directed Staff and the utilities to develop a plan to consider biomass generation in each Utility's REST Plan. APS intends to address biomass generation in its 2019 REST Plan filing. Currently, APS has 14 MW of third-party owned biomass generation in Snowflake, Arizona. By the end of 2018, APS projects that it will have

(602) 640-9376
E-mail

Agenda Items Held

Item 23. UNS Electric, Inc. (E-04204A-15-0142): Order Relating to Phase-2 Rates.

Item 24. Tucson Electric Power Company (E-01933A-15-0239 & E-01933A-15-0322): Order Relating to Phase-2 Rates. The Commission began discussing the recommended new rates for distributed generation customers in conjunction with an amendment proposed by Commissioner Tobin. During the discussion, Commissioner Tobin made clear his frustration at the continuing contentiousness of these rates despite the issuance of the Value of Solar Decision. As he saw it, his proposed amendment was an attempt to create continuity in distributed generation rates by staying as close to the Value of Solar Decision and the APS settlement as possible. However, considering the parties continuing divergent positions, he requested that the Chairman hold the item so he could continue to evaluate the facts of the cases. Chairman Forese agreed to hold the item.

Item 20: Johnson Utilities, LLC (WS-02987S-06-0667) Order Extending the Time Deadline in Decision Nos. 70411 and 74976. All Commissioners present expressed their serious concern regarding Johnson Utilities' ability to function as a fit and proper entity. While there are developers within the currently certificated area that would like to see the time extension given so the utility can comply with the requirements in its CC&N Extension Decision, the Commissioners are more concerned with the type of water service these future customers may receive. The Commissioners were uncomfortable voting on the matter considering the on-going Order to Show Cause, and therefore the Chairman pulled the matter from consideration.

3,391,856 MW of renewable energy production in its service territory, not including non-incented distributed generation installations.

During the open meeting discussion, Commissioner Olson asked a number of questions clarifying the details of the implementation plan budget. He also asked about the cost of new bidirectional meters and the field team necessary to support it. Additionally, the Commission discussed APS's practice of recovering research costs through the REST surcharge, something the Company states is directly related to its REST standard compliance.

The item was unanimously approved. (Docket No. E-01345A-17-0224).

The Commission approved **Navopache Electric Cooperative, Inc.'s** 2018 Renewable Energy Standard (RES) Tariff Plan and budget. NEC's RES energy surcharge and monthly cap remain at $0.00 for all customer class categories. The Company's avoided cost on its Net Metering Tariff was reduced from $0.04424 to $0.03865 per kWh. NEC's budget for the RES plan is $372,000, which will be funded by the $695,000 currently held-over from the 2017 REST budget balance. NEC's REST Plan consists of a combination of utility and member owned renewable resources. As of December 2017, NEC had 192 member-installed renewable energy systems in operation for a combined capacity of 1,859 kW. NEC continues to offer an Up-Front Incentive (UFI) for its Residential and Commercial PV and Wind programs of $0.50 per installed watt, with a maximum payment of $5,000 for residential and $12,500 for commercial. NEC continues to offer a UFI of $0.75 per kWh of estimated savings for solar hot water heaters. (Docket No. E-01787A-17-0318). *Approved on the consent agenda.*

Graham County Electric Cooperative, Inc. received approval to follow its 2017 Renewable Energy Standard Tariff (REST) Plan through 2018. No changes were made to GEC's current surcharges or monthly maximums; the current surcharge for residential customers is $0.000900 per kWh and the monthly cap is $2.00. GEC's avoided cost rate was set at $0.02337 per kWh. GEC markets its renewable energy programs as SunWatts. The approved plan decreased funding for distributed generation projects, solar hot water heating, wind generation and other renewable technologies. Up-Front Incentives (UFI) for PV and small wind systems were reduced from $0.015 per Watt up to $1,500 to $0.02 per Watt up to $200. UFIs for solar water heating and solar daylighting have been discontinued. GEC has reallocated those funds to support the large scale purchase power and generation program and the photovoltaic for government, schools, and non-profits program. Approximately 5.51 percent of GEC's retail sales come from renewable energy standard resources. (Docket No. E-01749A-17-0063). *Approved on the consent agenda*.

Adjustor Mechanisms

The Commission approved a new Lost Fixed Cost Recovery (LFCR) Tariff for **UNS Electric, Inc.** The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency (EE) savings and distributed generation (DG) that is required by the Commission and is determined to have occurred. UNSE's LFCR charge for EE will change from 1.693 percent to 1.1042 percent, and the LFCR charge for DG will change from 0.2761 percent to 0.3160 percent. This should result in an approximate recovery of $2,266,079 for the 12-month period beginning in July 2018. (Docket No. E-04204A-15-0142). *Approved on the consent agenda.*

The Commission approved a reduction in **UNS Electric Inc.'s** avoided cost rate contained in its Rider R-3. Rider R-3 specifies the method of calculating the ratio to be paid for purchases of excess energy from net metering facilities and is used in conjunction with Rider R-4, the Net Metering for Certain Partial Requirements Services (NM-PRS) tariff. Each calendar year, Net Metering customer bills produced in October or for a customer's final bill are credited an amount equal to the balance of excess kWh remaining. The payment for the purchase of these excess kWh is at UNSE's applicable avoided cost. UNSE has defined its avoided cost as its Market Cost of Comparable Conventional Generation (MCCCG), specified on its Rider R-3. UNSE's newly approved Rider R-3 rate reflects a lower MCCCG and therefore decreases the avoided cost rate from $0.0262112 per kWh to $0.025121 per kWh for purchases of excess energy from Net Metering Facilities. (Docket No. E-04204A-18-0079). *Approved on the consent agenda*.

The Commission approved a new Transmission Cost Adjustor (TCA) rate for **UNS Electric, Inc.** The new TCA rate for non-demand customers will be a credit of $(0.000142) per kWh and for demand customers the credit will be $(0.06) per kW. (Docket No. E-04204A-15-0142). *Approved on the consent agenda*.

Transmission

The Commission approved a number of modifications to conditions contained in **Salt River Project Agricultural Improvement and Power District's** Certificate of Environmental Compatibility (CEC) authorizing its expansion of the Santan Generating Station in 2010. The Commission concluded that the current emission controls at Santan Generating Station are appropriate and that no new control technologies are required at this time. The two newest units already contain the best-state-of-the-art controls that would apply for a plant constructed today; there is no need for any changes to fuel storage tanks, abrasive blasting equipment, emergency engines or cooling towers; and there is no need to upgrade the oldest four units because the cost of such upgrades would significantly outweigh any benefits. The compliance filing requirement to incorporate the monetized value of all externalities that would be eliminated due to new emission controls being evaluated was also removed.

Staff Proposed Amendment No. 1 provided an end date of 2020 for SRP's annual $20,000 contribution to the Pipeline Safety Revolving Fund. There was significant discussion at open meeting regarding both this contribution by SRP as well as the requirement to make an annual payment of $50,000 to the surrounding neighborhood to maintain landscaping improvements. Commissioner Tobin believed it was bad policy to continue to have SRP pay into these funds, and was encouraged to see an end date. Commissioner Dunn understood there was significant controversy around this facility during the siting proceeding and understands the rationale behind the requirements, but expressed that he would also like to see an end date and was comfortable with 2020. The San Tan Neighborhood Committee stated that they were in support of the amendment. Chairman Forese would have liked to have worked out a different solution, but the amendment was approved in a 3 – 1 vote.

Staff Proposed Amendment No. 2 modified the time frame for SRP's review of the Santan Generating facility operations and equipment from every five years to every 10 years. Commissioner Dunn thought this was a logical proposal considering that other agencies monitor the facility's emissions as well. The amendment was approved.

The item ultimately was approved in a 3 -1 vote, with Chairman Forese voting nay. (Docket No. L-00000B-00-0105-00000).

The Commission approved two modifications to **Arizona Electric Power Cooperative fka Southwest Transmission Cooperative, Inc.'s** ("AEPCO") Certificate of Environmental Compatibility (CEC) No. 142: the San Manuel Project. The time to construct the line was extended from July 16, 2018 to July 16, 2023. Additionally, AEPCO received approval to reduce the authorized voltage level of the project from 230 kV to 115 kV. The item was unanimously approved without discussion. (Docket No. L-00000CC-09-0158-00142).

Gas

The Commission approved a rate increase for **Graham County Utilities, Inc. (Gas Division).** Graham is a member-owned, non-profit natural gas distribution cooperative located in Pima and Graham Counties. The Company provides service to approximately 5,139 members. Graham filed for a rate increase to maintain the financial integrity of the Company and meet its debt service coverage ratio (DSC) of 1.15 to maintain compliance with the terms of its loan from the National Rural Utilities Cooperative Finance Corporation. Graham received an increase of $224,038 to its annual revenue requirement, from $3,109,690 to $3,333,728 or 11.08 percent. This proposed revenue should produce a DSC of 1.359. While there will be no changes to the present per-therm rate or any miscellaneous charges, the Commission approved increases to the monthly service charge for the residential, commercial and irrigation customer bills. For residential customers, the monthly charge will increase from $16.35 to $19.00, an increase of 19.5 percent. *Approved on the consent agenda.*

Telecommunications

The Commission ordered that the last surcharge assessment collection for the **Monthly E-rate Broadband Special Construction Project Matching Fund Program** will be in August 2018 for July assessments, at which point the $8 million is projected to be collected. The surcharge for Category One providers is $0.117032 per access line and $1.170321 per interconnecting trunk line and the surcharge for Category Two providers is 3.0735 percent of interstate toll revenues. The last assessment is projected to over-collect approximately $109,631.95 above the $8 million cap. The excess amount will be applied towards the state matching funds commitments authorized by the State E-rate Director for the Arizona Department of Education. (Docket No. RT-00000H-97-0137). *Approved on the consent agenda.*

Railroads

The Commission dismissed the Order to Show Cause against **Burlington Northern & Santa Fe Railway**. The City of Phoenix, BNSF and Commission staff met and agreed that the pre-signal at issue would be moved south of the 35th Avenue crossing. Commission Staff visited the 35th Avenue crossing on May 29, 2018 and confirmed that the pre-signal was moved as agreed upon. Because the pre-signal had been moved to the location originally approved in Decision No. 74043, the Commissioners agreed that no further proceedings were necessary. Chairman Forese expressed his gratitude to all those involved in getting the situation resolved. The matter was approved unanimously. (Docket No. RR-02635B-18-0102).

Taxes

The Commission approved a plan for **Epcor Water Arizona, Inc.'s wastewater district** to refund tax savings to its customers due to the Tax Cuts and Jobs Act. The Company's reported tax savings of $1,106,392 will act as a reduction to its authorized revenue requirement of $33,786,762. This reduction will result in a monthly bill credit of $1.26 until Epcor's wastewater division's next rate case. The Company will provide a one-time bill credit of $7.56 to account for tax savings accrued from January through June 2018. Based on the Company's filed exceptions, Commissioner Olson sponsored an amendment that would approve tariff riders for the monthly and the one-time bill credit as set forth in Schedules 1 and 2. The item passed unanimously as amended. (Docket No. WS-01303A-18-0085).

The Commission approved a plan for **Far West Water & Sewer, Inc.** to refund tax savings to its customers due to the Tax Cuts and Jobs Act. The annual tax savings for the water division will be $180,181 and the wastewater division will be $98,635. Both divisions will provide a one-time bill credit to capture the savings from January 2018 through June 2018 in the July billing cycle; the average bill credit for water customers will be $5.25 and $5.80 for wastewater customers. On a going forward basis, both divisions will use a monthly bill credit to account for the annual tax savings. For most water customers the credit will be $0.88 and $1.45 for wastewater customers. As approved, Staff's Proposed Amendment No. 1 requires both divisions to file for rate cases no later than June 1, 2019, using a 2018 test year. The item was unanimously approved without substantive discussion. (Docket No. WS-03478A-18-0090).

The Commission approved a plan to refund tax savings to customers of **Lago Del Oro Water Company** due to the Tax Cuts and Jobs Act. The Company will issue a one-time bill credit to capture savings from January through June of 2018. The total amount of tax savings is $64,869, and the average customers will receive a bill credit of $9.43. Additionally, the Commission approved a 10.839 percent reduction to the monthly minimum charge for each meter size to address Lago Del Oro's anticipated annual tax savings of $129,738. The Company will also create a regulatory liability to account for excess accumulated deferred income taxes for consideration in its next rate case. The item was unanimously approved without discussion. (Docket No. W-01944A-18-0141).

The Commission discontinued recovery of both state and federal income tax expenses in **Pima Utility Company's** authorized revenue requirement, through a revision to its current rate. The revised rates will reduce the water division's revenue requirement from $2,606,983 to $2,508,761, a decrease of $98,522; and the wastewater division's revenue requirement from $3,636,892 to $3,529,018, a decrease of $107,874.

The Commission also approved a one-time bill credit to refund tax savings from the Tax Cuts and Jobs Act (January – March), the elimination of all tax recovery for Class A through Class C pass-through entities (April- June), and the tax savings related to the exclusion of 20 percent of the Qualified Business Income (January – March). The average residential customer will receive a one-time bill credit of $2.40 for the water division and $2.99 credit for the wastewater division.

Staff Amendment No. 1 corrected a minor typographical error. The item was approved unanimously. (Docket Nos. W-02199A-16-0421 and SW-02199A-16-0422).

The Commission waived any further filing requirements contained in Decision No. 76619 for the following utilities: **Arizona Electric Power Cooperative, Inc., Dixie-Escalante Rural Electric Association, Inc., Duncan Valley Electric Cooperative, Inc., Duncan Valley Electric Cooperative, Inc. (Gas Division), Graham County Electric Cooperative, Inc., Graham County Electric Cooperative, Inc. (Gas & Water Divisions), Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc., Trico Electric Cooperative, Inc., and Garkane Energy Cooperative, Inc.** Decision No. 76619 required non-profit cooperatives to make filings regarding the effect of the Tax Cuts and Jobs Act and how they intended to pass through the savings to rate payers. However, Cooperatives do not pay federal income tax nor do their Commission-approved rates include the recovery of federal income tax. Staff had a small verbal clarifying amendment that was approved. The item was unanimously approved. (Docket Nos. E-01773A-18-0146, E-02044A-18-0146, E-01703A-18-0146, G-02528A-18-0146, G-02527A-18-0146, W-02527A-18-0146, E-01750A-18-0146, E-01787A-18- 0146, E-01575A-18-0146, E-01461A-18-0146, and E-01891A-18-0146).

2929 N. Central Ave., 21st Fl., Phoenix AZ 85012 | (602) 640-9000 | www.omlaw.com