

JUNE 2017



Word on the Street

BY GARY YAQUINTO

On June 20, weather watchers in Phoenix were anxiously anticipating breaking the 120 degree barrier. As the temperature rose, the extreme heat grounded planes and had air conditioners struggling to cool homes and businesses. While the temperature that day only reached 119 degrees – a record for that date -- Arizona utilities were breaking records of their own. Salt River Project reached a record peak demand of 6,981 MW and APS's demand peaked at 7,350 MW.

The record heat in June also meant water utilities were taxed with meeting the state's increased demand for water in summer months.

Arizona summers also mean the State's utilities must be prepared to react to the potential of forest fires and seasonal monsoon storms. It's critical that they protect utility infrastructure and restore service in the unfortunate case of unavoidable outages.

Against this backdrop, the ACC is responsible for ensuring those investor-owned utilities under its rate setting jurisdiction are meeting these seasonal challenges. This means utilities must be positioned to attract necessary capital for infrastructure investment for growth as well as repairing and replacing

aging infrastructure. An important consideration in acquiring capital at favorable rates and terms is whether

*Get more news and 'like'
Arizona Investment Council on
Facebook!*

utility regulators establish a fair and balanced regulatory climate in their treatment of utilities. Arizona's regulatory climate has improved in recent years, leading to improved credit ratings for the State's largest utilities and a lowering of the cost of capital, which is reflected in customers' rates.

At this month's Open Meeting, the Commission decided a lingering and important matter regarding rates consolidation of EPCOR Water's five waste water divisions. Our June report documents the Commission's discussion leading to its decision.

In other news, AIC's new website is now online at ArizonaIC.org and Arizona Investment Council is now on Facebook, so please visit and "like" us there.

a|i|c

ARIZONA INVESTMENT COUNCIL

OSBORN
MALEDON

CONSENT AGENDA

The June 2017 Open Meeting of the Arizona Corporation Commission convened at 10:00 a.m. on Tuesday June 13, 2017 in the Phoenix Office.

The following items were approved on the Chairman's Consent Agenda:

RAILROADS



The Commission approved the following modifications to railroad grade crossings : (1) **Union Pacific Railroad Company** will remove the at-grade crossing on SR347 in the City of Maricopa within 30 months and ADOT will install a new at-grade crossing (Docket No. RR-03639A-17-0020); (2) ADOT will removed two existing grade separated bridges and replace with one new bridge along SR87 near Picacho (Docket No. RR-03639A-17-0148); and (3) ADOT will remove two existing grade separated bridges and replace with a new bridge along I-10 near Casa Grande. The replacement must be completed within four years. (Docket No. RR-03639A-17-0149).

TELECOMMUNICATION



The Commission approved **Gold Line Telemanagement, Inc.'s** request to cancel its Certificate of Convenience and Necessity (CC&N) (T-04091A-17-0019). Ymax Communications Corp. received approval to terminate its \$110,000 performance bond or irrevocable sight draft letter requirement (T-20434A-17-0056). **ANPI Business, LLC** received approval to discontinue all of its residential long distance services as of June 1, 2017 (T-03924A-17-0086). **Cox Arizona Telecom, L.L.C.** revised its Payment Assistance Fee, the fee charged when using a live representative to make a payment, to a maximum of \$6.00

(T-03471A-17-0005). The Commission approved **Consolidated Telecom, Inc.'s** and **Crown Correctional Telephone, Inc.'s** separate applications to provide customer owned pay telephone (COPT) service (T-20965A-16-0133 and T-21009A-17-0085).

WATER AND WASTEWATER

Arizona Water Company received a CC&N extension to include approximately 88.5 acres in Pinal County. The area is known as the White Gregg area in the City of Casa Grande and it will be occupied by a convenience store and a recreational vehicle storage facility. Casa Grande will provide wastewater to the area. (Docket No. W-01445A-16-0437).

Red Rock Utilities, LLC received a CC&N extension to serve parcels known as the Hook M Ranch and Wilmot Park in Pima County. Both Hook M Ranch and Wilmot Park are owned by real estate developers that have requested service from Red Rock and believe this area is ripe for development. The parcels are not adjacent to each other and an engineering firm has determined that construction of a separate water system for each project is the most reasonable option. The Developers have received an analysis of assured water supply for both parcels from ADWR. The CC&N extension area includes an 80 acre parcel of land situated between Hook M Ranch and Wilmot Park that will be designated as open space. Even through the Commission has historically not granted CC&N extensions to land without current plans for development, the Commission noted that Red Rock would be the only logical water provider if future need arose. Therefore including the 80 acres now would prevent the expenditure of unnecessary time and money in the future. The Order lists a number of future dates by which the Company must file ADEQ/Pima County DEQ Certificates of Approval

to Construct for certain phases. (Docket No. WS-04245A-16-0392).

The Commission approved **Picacho Water Improvement Corporation** application for approval to sell and transfer its assets to Picacho Domestic Water Improvement District and cancel its CC&N. Considering the deteriorated state of the water system, the Commission assessed that the District will have better access to grants and bonds from county, state, and federal programs to facilitate the necessary system improvements. (Docket No. W-01774A-16-0450).

ELECTRIC



Graham County Electric Cooperative, Inc. received approval to transfer certain assets to the Town of Thatcher and cancel its CC&N for the area being transferred. GCEC will transfer its metering assets within the annexation area to Thatcher, share customer specific information with Thatcher, and waive the \$10 disconnect fee in GCEC's current rates for member within the annexation area. (Docket No. E-01749A-16-0337).

The Commission approved a borderline agreement between **Tucson Electric Power Company & Sulphur Springs Valley Electric Cooperative, Inc.** The borderline agreement allows TEP to provide parasitic loan and incidental electric service to the Red Horse Wind 2 and Red Horse III wind and solar facility. While the Red Horse facility is located in SSVEC's service territory, TEP is power purchaser under a Purchase Power Agreement. The Commission found it was in the public interest for TEP to serve the Red Horse facility. (Docket Nos. E-01933A-17-0083 & E-01575A-17-0083).

Mohave Electric Cooperative, Inc. received approval of its 2017-2018 REST Plan. It will continue the following components from the 2016 plan: (1)

CONSENT AGENDA, CONTINUED

voluntary renewable energy program; (2) member self-directed renewable energy program; (3) SunWatts residential and commercial incentive program; (4) PV for schools loan repayment; (5) geothermal resources; (6) SunWatts large scale program; and (7) distributed generation solar installation within Mohave's service territory. The Commission approved a budget of \$936,932 and a residential energy surcharge of \$0.0023006 with a monthly cap of \$0.75. (Docket No. E-01750A-16-0230).

Tucson Electric Power Company and UNS Electric Inc. both received extensions to file their 2018 Energy Efficiency Implementation Plan until August 1, 2017. The extension is needed because TEP and UNSE are conducting a comprehensive and strategic review of EE programs and measures to analyze (1) the cost-effective potential of EE as a resource in TEP's long-term integrated resource plan, (2) new programs and technologies designed to manage or reduce peak demand, and (3) the associated impact on customers. TEP received a related extension for filing a residential or feeder level demand response or load management program. TEP intends to file the program with its 2018 EE Plan. (Docket Nos. E-01933A-17-0128, E-04204A-17-0125, (E-01933A-15-0239 & E-01933A-15-0322).

The Commission approved an order clarifying what and how Utilities Division Staff should publish on the Commission's website confidential inputs used in Staff's RCP analysis spreadsheet models. When the inputs are confidential, Staff will publish a redacted version of its RCP analysis spreadsheet, in an aggregate form whereby the confidential information cannot be determined. If redaction is not possible, Staff will provide the information to parties in the case who have signed a confidentiality agreement. Finally, Staff may satisfy its publication requirement by providing a link to the utility's website where the spreadsheet model is located. (Docket No. E-00000J-14-0023).

Finally, the Commission voted to approve Ted Vogt, as Executive Director, to sign and enter, on behalf of the Commission, a settlement agreement resolving a lease dispute between the Commission and MBC Properties No. 1, LLC. (Arizona Department of Administration Claim Number: G201602017).

REGULAR AGENDA

WATER

EPCOR Water Arizona received approval for a rate increase and authorization for full consolidation of its Agua Fria, Anthem, Mohave, Sun City and Sun City West wastewater districts over a period of five years. The first phase of residential rates will go into effect on July 1, 2017 and on July first of each subsequent year until the fully consolidated residential rate becomes effective. A Settlement Agreement on rate base and revenue requirement issues was entered into by the majority of the parties, but not RUCO. There were a number of important provisions contained in the Settlement Agreement, including: (1) 12 months of post-test-year plant; (2) approval to file a SIB application in this docket; (3) a Purchase Power Adjustment Mechanism (PPAM); (4) a Property Tax Adjustment Mechanism; (5) a low income program, and (6) a Deployed Service Member Credit program which provides a bill credit to deployed services members.

The aggregate revenue increase is 11.44 percent, which broken down by districts is: 1.66 percent for Agua Fria, 9.02 percent for Anthem, 18.65 percent for Mohave, 9.23 percent for Sun City, and 23.15 percent for Sun City West. Commissioner Tobin proposed an amendment that changed the capital structure agreed to in the Settlement Agreement to include the Company's short-term debt. The Commission adopted Commissioner Tobin's amendment, resulting in the following capital structure: 55.21 percent

long-term debt, 2.04 percent short term debt and 42.75 percent common equity. Additionally modified by Tobin Amendment # 3 was the return on equity, which reduced the 10.0 percent ROE contained in the settlement to 9.7 percent. By using a long term debt cost of 4.29 percent and short-term debt cost of 0.32 percent, the resulting weighted average cost of capital is 6.52 percent. A fair value increment of 0.48 percent was also adopted.

Based on a letter from the IRS, EPCOR will not take a pro forma adjustment to ADIT that would result from bonus depreciation for the 2016 post-test year plant at this time; any benefit to ratepayers from the ADIT caused by bonus depreciation on the 2016 post-test year plant will be preserved and recognized in EPCOR's next wastewater rate case. Additionally, EPCOR will not be required to create either regulatory liabilities or assets to eliminate existing credit and debit accumulated depreciation balances.

The Commissioners' proposed amendments made a number of significant changes to provisions of the Settlement Agreement. Tobin Amendment #1, which increased the number of customers eligible for the low-income assistance program, unanimously passed. Tobin Amendment #2, which after modification by Commissioner Little will require the Company to justify in future rate cases why post-test year plant should be included, also passed unanimously.

There was significant discussion around Tobin Amendment #3, starting with Commissioner Tobin's vocalization of his dislike of settlement processes that make it difficult for the Commissioners to make modifications at open meeting. The Amendment would lower the cost of capital numbers and include the Company's short-term debt. Despite the Company's rationale that there was a lot of give and take during the settlement process to arrive at these numbers,

REGULAR AGENDA, CONTINUED

Commissioner Tobin, Commissioner Little, and Commissioner Burns all voted for the amendment.

Burns Amendment #1 would have required the docket in this matter to remain open regarding the issue of ADIT resulting from bonus depreciation, and to allow an adjustment to rate base, revenue requirement, and rates. Commissioner Little voiced his concern that treating one tax issue differently than other tax issues may be a slippery slope to treating all tax issues differently, and since this would at best be a 0.30 cent a month credit, it was not worth the change here. Commissioner Burns and Tobin were the only two commissioners to vote in favor of the amendment.

Finally, Dunn Amendment #2 passed in a 4 to 1 vote. The amendment modified the percentage of revenue apportioned among the five districts for years 1 through 4 to further gradualism. Commissioner Little, the only dissenting vote, believed that the Recommended Order and Opinion had adequately apportioned the phase-in.

The Commission approved EPCOR's rate case order in a 4 to 1 vote. Commissioner Burns was the dissenting opinion, stating that he was supportive of consolidating small, distressed water companies, but that he did not think that consolidation of EPCOR's wastewater systems here was appropriate. (Docket No. WS-01303A-16-0145).

The Commission ordered Staff to conduct a rate review on **Johnson Utilities, LLC**. Before settling on a rate review, there was significant discussion about whether a rate review or a rate case was the appropriate tool for the Commission to conduct their investigation. Commissioner Dunn was originally in favor of ordering a rate case because the Commission has more authority in that context. However, other Commissioners made persuasive arguments that a review was the better first step because the Commission would have answers sooner and then could make

a more informed decision as to next steps. The item unanimously passed. (Docket No. ACC-00000B-17-0062)

The Commission, through a third party consultant, is going to undertake a review and analysis of **Decision No. 73739** in Docket No. W-00000C-06-0149. The decision allowed **tax pass-through entities, such as S corporations, limited liability companies, and partnerships, to impute income tax expense into the cost of service**. The analysis will include at least an (1) evaluation of whether the decision is sound public policy; and (2) examination of all public service corporations who, pursuant to the policy described in the decision, are currently recovering an income tax expense from ratepayers. In connection with this agenda item, Commissioner Tobin docketed a letter requesting affected utilities reserve funds received under this policy in an interest-accruing bank account effective July 1, 2017 and prepare quarterly reporting of income received from this policy starting in the third quarter of 2017. Commissioner Tobin's letter further stated that depending on the outcome of this investigation, utilities that received income under this policy may be required to refund their customers for the full amount received. The item was unanimously approved. (Docket No. ACC-00000B-17-0062)

The Commission granted **Payson Water Co., Inc.**'s request to extend the requirement in Decision No. 74567 to file a permanent rate case, until June 30, 2018. The Company will be required to use the most practicable and recently available test year. The item was unanimously approved. (Docket Nos. W-03514A-13-0111 & W-03514A-13-0142).

At **Beaver Valley Water Company's** request, the Commission has appointed Michael Armstead of Management Systems LLC as the interim manager of the Company. Mr. Armstead has already begun taking actions to correct

compliance deficiencies, such as outages, leaks, water quality, water pressure inconsistencies, and lack of customer communications. Commissioner Tobin thanked Commission Staff for holding a customer comment session in the community, where over 60 customers attended. He supports providing Mr. Armstead the opportunity to remedy the situation, while the Commission has the ability to keep an eye on the situation. The item was unanimously approved. (Docket No. W-02015A-17-0126).

ELECTRIC



The Commission approved a Certificate of Environmental Compatibility (CEC) for **Pinal Central Energy Center, LLC's** generation tie-in line project at Pinal Central Substation. The CEC includes the construction and operation of an approximately 0.40 mile 230 kV alternating current generation transmission tie-in line (Gen-Tie) and associated substation facilities to be constructed on approximately 0.34 acres of private land, with an additional acre required for battery components. The Gen-Tie is needed to deliver power from a proposed combined 20 MW solar facility and 10 MW/40Mwh advanced battery storage system. The solar facility has a 20 year purchase power agreement with SRP. The CEC has a five year expiration date. (Docket No. L-00000BBB-17-0073-00174).

An intervenor brought up the issue of the Line Siting Committee's lack of jurisdiction over siting photovoltaic panel arrays. In response, Commissioner Tobin asked Chairman Chenal to have the Line Siting Committee look into jurisdictional modifications necessary for the Commission to review or potentially site photovoltaic panel arrays.

REGULAR AGENDA, CONTINUED

TELECOMMUNICATIONS



In furtherance of the **Arizona Universal Service Support for Schools and Libraries-Proposed E-Rate Broadband Special Construction Project Matching Fund Program**, the Commission ordered Utilities Division Staff to initiate a permanent rule making process. Staff was ordered to file with the Office of the Secretary of State a Notice of Rulemaking Docket Opening and a Notice of Proposed Rulemaking by June 23, 2017. The Commission further ordered the Hearing Division to hold a public comment session on the Proposed Rulemaking on August 14, 2017, or as soon as practical thereafter. Interested parties should provide written comments by July 24, 2017 and written reply comments by August 3, 2017. Commissioner Tobin

thanked Commission Staff and Legal for moving this matter along so quickly. The item was unanimously approved. (Docket No. RT-00000H-97-0137).

To fund the **Schools and Libraries-Proposed E-Rate Broadband Special Construction Project Matching Fund Program**, the Commission had previously approved surcharges that would be applied to all telecommunications providers. The Commission has now approved the monthly surcharge starting July 1, 2017 that will continue for a period of no more than 12 months or until the surcharge collections produce the required \$8 million in funding. The monthly E-rate Broadband Program surcharge for Category One providers is \$0.117032 per access line and \$1.170321 per interconnecting trunk line. For Category Two providers,

the monthly surcharge will be 3.0735 percent of intrastate toll revenues. The Commission will allow Category One and Category Two providers to combine this surcharge with any current AUSF surcharge line item on customers' bills. The item was unanimously approved without discussion. (Docket No. RT-00000H-97-0137).