



Word on the Street

BY GARY YAQUINTO

Later this month Arizona will lose one of its most thoughtful and hard-working commissioners on the Arizona Corporation Commission. Commissioner Doug Little has accepted a job with the U.S. Department of Energy and will leave the ACC after having served three years on the bench – one year as chairman. He begins his new position with DOE as deputy assistant secretary for intergovernmental and external affairs on October 2. It's a position he's well suited for given his recent activities on several regional and national energy committees.

In his three years at the ACC, Commissioner Little developed a reputation for seeking balance in Commission decisions involving utility rates and other matters that came before the Commission. His thoughtful consideration of weighty issues involving utility rates have helped create decisions that fairly treat utility customers, while also ensuring safe, adequate and efficient delivery of utility services. As ACC chair during 2016, a year in which the agency dealt with major controversies on several fronts, Commissioner Little exhibited calm, yet firm control of ACC meetings, while showing utmost respect for his colleagues on the bench.

His presence at the Corporation Commission will be sorely missed. We wish him well in his new endeavor.

Meanwhile, rumors swirl about his replacement. Governor Ducey will appoint someone to fill-out the remaining year of Little's term. An announcement should be forthcoming soon.

In other news, Phase II of the TEP and UNS Electric rate cases related to determining the export value of distributed generation sent back to the grid will go to an evidentiary hearing in late October. Also, the ACC Staff report on water company CC&Ns is expected in the next few

days, although the next workshop on this topic is yet to be scheduled.

The Commission held its second workshop on developing a code of ethics for commissioners on September 15. At the workshop, Commissioners were presented with information about ethics guidelines established in several Arizona jurisdictions as well as ethics guidelines existing in several other public service commissions. The staff presentations and commission discussion can be downloaded from the video archive located on Commission's website.

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ARIZONA INVESTMENT COUNCIL

OSBORN
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CONSENT AGENDA

The September Open Meeting of the Arizona Corporation Commission convened at 10:00 a.m. on Tuesday, September 12, 2017 in the Phoenix Office. Commissioner Tobin appeared from Greenlee County.

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

TELECOMMUNICATION



The Commission approved the transfer of TTI National, Inc.'s customers to Verizon Business Services. The transfer is part of an internal corporate reorganization where approximately 140 customers will be transferred to Verizon on November 1, 2017 without any changes to their rates, terms, or conditions. The Commission also provided a waiver for the FCC "slamming regulations" and the notice and publication requirements under the Commission's rules, because actual notice of the proposed transfer was already provided to all customers in July. Finally, the Commission approved the cancellation of TTI National's Certificate of Convenience and Necessity (CC&N). (Docket Nos. T-03197A-17-0249 & T-03394A-17-0249).

WATER AND WASTEWATER



The Commission lifted the stay and reinstated Liberty Utilities' (Litchfield Park Water and Sewer) System Improvement Benefit mechanism, as approved in Decision No. 74437. (Docket Nos. SW-01428A-13-0042 and W-01427A-13-0043).

GAS



Southwest Gas Corporation received approval to reset its Energy Efficiency Provision

(EEEEP) from a credit to a surcharge. The purpose of the EEEP rate, otherwise known as a decoupling mechanism, is to reconcile the difference between SWG's authorized revenue and the revenue actually received over the course of a calendar year. During the time January 1, 2016 to December 31, 2016, SWG collected approximately \$1.7 million more than its authorized revenue; however, this was offset by the EEEP refunds given to customers during 2016, with SWG experiencing an under collection of \$950,000. Therefore, the Commission authorized the adjustor to reset from a credit of \$(0.04053) per therm to a surcharge \$0.00213 per therm. A residential customer with average usage will see an average \$1.11 per month increase. The surcharge will automatically cease if the balance reaches zero. During SWG's most recent rate case, the title of the EEEP was changed to Delivery Charge Adjustment (DCA); going forward, this filing will refer to the DCA instead of the EEEP. (Docket No. G-01551A-10-0458).

ELECTRIC



The Commission approved an accounting order authorizing the deferral of costs associated with Graham County Electric Cooperative, Inc.'s Post-Retirement Benefit Obligation (PRBO). GCEC was not keeping its books and records to reflect the Company's full PRBO obligation, even though they were providing the benefit. The Company's analysis calculated approximately \$350,000 of net PRBO for the 2017 fiscal year; this is \$240,000 more than the \$110,000 approved for recovery in base rates. If GCEC were to recognize this additional cost in conformance with GAAP principles, it would cause the Company to violate its Debt Service Coverage loan covenant with the National Rural Utilities Cooperative Finance Corporation. Therefore, the Commission authorized a variance from GAAP

treatment to treat this cost as a regulatory asset and approved an accounting order that defers the additional costs for two more years, until such a time as GCEC can develop a long term solution. (Docket No. E-01749A-17-0091).

REGULAR AGENDA

The Commission approved its Policy Statement No. 2 regarding an updated and more collaborative approach to water loss methodology. Policy Statement No. 2 is organized into four sections: (1) updating the audit methodology and data collection; (2) encouraging collaboration between different regulatory bodies; (3) creating a culture of conservation between the regulators and the regulated utilities; and (4) areas of continued research. In passing Policy Statement No. 2, Commissioner Tobin expounded on the importance of water conservation and believes that the collaborative efforts not only between the Commissioners' offices but also between agencies will benefit all of Arizona.

The Policy Statement begins by stating that the Commission needs to re-establish best practices in audit methodology, data collection, and data validation. It recommends adopting some or all of the water loss methodologies contained in the Manual of Water Supply Practices (M36) released by the American Water Works Association. The Water Infrastructure Finance Authority of Arizona (WIFA) has initiated a pilot project to explore the applicability of M36 in Arizona. Commission Staff should become familiar with M36 and assist in the pilot project to ensure that it and small water companies are adequately represented. The M36 methodology uses a top-down approach to auditing, where a relatively quick assessment of available records and data regarding system parameters, supply, consumption, and loss is considered in addition to system size, water pressure, and other salient factors. This is more inclusive of total circumstances than the Commission's current calculation of water loss, which is simply the unbilled authorized consumption added to total revenue water, then divided by net production.

Second, the Commission and other water related agencies such as ADEQ and ADWR need to work more collaboratively. For example, the Commission's method

for calculating water loss is different than the methods used by ADEQ and ADWR. Therefore, the Policy Statement recommends that Commission Staff establish a Water Reform Working Group with ADEQ and ADWR to formalize and institutionalize water reform efforts. Also, Staff should work more closely with the Rural Water Infrastructure Committee and the small water industry on technical and financial assistance initiatives.

Third, the Commission wants to create a culture of water conservation as opposed to a culture of finger pointing and blame. They believe that updating the audit methodology will help, but also that information sharing and training will support small water companies to refocus their efforts on water-efficient practices. The Policy Statement recommends that Staff help by providing training seminars or workshops on proper audit compliance, advance leak management techniques, data collection, validation, and auditing methodology reforms.

The Policy Statement concludes by directing Staff to explore a few additional concepts and report back to the Commission. These concepts include: addressing the water-energy nexus; surveying other states' approaches to water loss methodology; and looking for more financing options to help small water companies institute methodologies and technologies geared at water loss prevention, including having system improvement funds available to Class D and E utilities. (Docket No. W-00000A-17-0152).

The Commission approved an emergency rate increase for **Gonzales Utility Services, LLC dba Carter Water Company**. Gonzalez Utility Services acquired Carter Water Company in April of 2016. Carter's rates had been set in 1992 and consisted of a flat charge of \$20.00 per month for unlimited usage. The Company currently serves 11 residential customers. Repairs were needed to replace a well pump, a leaking

pneumatic storage tank with two pressure storage tanks, a two inch well source meter, and storage tank floats. The Commission determined that an emergency situation existed since the Company did not have adequate income to fund the repairs. The Commission approved a 12-month emergency surcharge of \$42.72 per customer per month. As a condition to the surcharge, the Company must file a permanent rate case by January 2, 2018. Considering the limited number of customers served by this utility, Commissioner Tobin wanted Staff to look into out of state customers who may turn off their water service for 12 months in an effort to evade the surcharge. The matter was unanimously passed. (Docket No. W-20940A-17-0124).

Lake Verde Water Company, Inc's CC&N will be reinstated when it can demonstrate that it is in compliance with ADEQ. Lake Verde Water is a Class E water utility serving 62 residential customers in Yavapai County. The Company had its CC&N revoked in 2006 for failure to file its 2002 Annual Report. Subsequently, when the Company filed an emergency rate case in 2015, the Commission was informed that Lake Verde Water's system produced water with an arsenic level significantly exceeding ADEQ and the EPA's authorized levels. Additionally, the Commission discovered that Lake Verde Water had been out of compliance with ADEQ since 2010. In response to the 2015 emergency rate application, the Commission authorized Lake Verde to obtain a loan, instituted a surcharge to pay for debt service on the loan, and set multiple compliance deadlines.

Over the years, Lake Verde Water has missed a number of compliance deadlines or filed belated requests for extension of compliance deadlines. However, Staff believes the Company has worked extremely hard during the past two years to obtain financing to make the necessary repairs, and generally has made significant improvements in the management of the Company. Unfortunately, Lake Verde

REGULAR AGENDA, CONTINUED

continues to be out of compliance with ADEQ and will remain so until there is a full year of data to demonstrate that the new equipment has reduced the arsenic levels. Because the Company continues to have a history of late filings and is still out of compliance with ADEQ, the Commission declined to reinstate Lake Verde's CC&N at this time. However, the Commission unanimously approved Commissioner Tobin's Amendment No. 1, which allows the Company's CC&N to be reinstated on June 1, 2018 or earlier if the Company files documentation demonstrating compliance with ADEQ. (Docket No. W-01557A-16-0471).

ELECTRIC



The Commission awarded a Certificate of Environmental Compatibility (CEC) to Salt River Project for the construction and operation of approximately 4.8 miles of new 230 kV double circuit transmission lines from the Knox Substation (near Interstate 10 and State Route 202) to the a new RS-27 substation. The new RS-27 substation will be located on 38 acres of land adjacent to the Gila River Indian Community east of Price Road and south of Germman Road, in the city of Chandler, Arizona. The transmission line and substation are needed to support future customer needs and economic development along the Price Road Corridor. The Commissioners were impressed that all of the parties involved supported the CEC. The Commission voted unanimously to approve the CEC. (Docket Nos . L-00000B-17-0182-00175).

Arizona Public Service Company received approval for the AMI-Opt Out program contained to in its Rate Case Settlement Agreement. If an APS customer does not want to use a standard meter, he or she may request a non-AMI meter for a one-time \$50 installation fee and a \$5 monthly fee. The Order concluded that the evidence presented did not support allegations that AMI

meters pose a risk to public safety or health beyond those risks inherent to the delivery of electricity to homes and businesses, and those inherent to the use and enjoyment of modern electrical appliances and conveniences. The new AMI Opt-Out program will take effect on October 1, 2017.

In a 4-1 vote, the Commissioners approved the program. Commissioner Burns was the sole dissenting vote, having renewed his previous objection to proceeding with the APS rate case while his civil case is pending in Superior Court. (Docket Nos. E-01345A-E-16-0036 & E-01345A-16-0123).

TELECOMMUNICATION



The Commission unanimously approved new rules allowing for the collection of additional Arizona Universal Service Fund (AUSF) surcharges to fund the E-rate Broadband Special Construction Project Matching Fund Program (State Matching Fund Program). All the Commissioners expressed gratitude to each other's offices and congratulated all of the parties who worked together to get these rules passed quickly. The State Matching Fund Program makes available state matching funds for special construction projects involving the deployment of broadband to schools and libraries in Arizona, so those schools and libraries may be eligible for federal matching funds under the FCC's Universal Service Fund's Schools and Library Program. The Commission had originally adopted rules for this program through a Notice of Emergency Rulemaking that became effective on March 29, 2017. Subsequently, the Commission filed for a regular rulemaking, and this Decision is the Commission's final action regarding that regular rule making.

The purpose of the AUSF is to ensure that the high cost of providing wireline local

exchange service in rural areas would not diminish the availability of affordable service. All telecommunications service providers that interconnect to the public switched network are required to fund the AUSF. In 2014, the FCC revised its rule to modernize the E-Rate program to focus on providing better internet access for public schools and libraries. When a state government provides funding for special construction charges for a broadband connection to a school or a library, the Universal Service Administration Company (USAC) will match the state's contribution dollar for dollar. Therefore, the Commission undertook this rapid rule making process to ensure Arizona's rural schools and libraries would have the opportunity to participate in this program.

In addition to renumbering and relocating parts of A.A.C. R14-2-A1201-1217, the following new rules were created in Part B:

- Restrictions for applications for state matching funds to funding years 2017 and 2018, and establishes funding availability-related requirements;

- Procedural requirements for obtaining state matching funds as well as the disbursement period for state matching funds awarded;

- Administrator's responsibilities for the State Matching Fund Program, the manner and duration of collection of AUSF surcharges to fund the State Matching Fund Program, a requirement for telecom providers to acknowledge their duty to pay the new surcharges and procedural requirements related to the allocation and disbursement of State Matching Program funds; and

- Limits the duration of the State Matching Fund Program and allows for the State Matching Fund Program to be discontinued earlier or later than specified if required by the FCC or USAC. (Docket No. RT-00000H-97-0137).

REGULAR AGENDA, CONTINUED

Without discussion, the Commission unanimously approved an Order dismissing some of North County Communications (NCC) complaints against Qwest d/b/a Century Link (CenturyLink). NCC and CenturyLink have been engaged in complaint proceedings since 2012, where NCC alleged that CenturyLink had not paid for local call termination services as required under the parties' 1997 and 2011 Interconnection Agreements (ICAs), used an inappropriate formula for determining which calls were subject to local termination charges, improperly billed for multiplexing fees, circuit installations charges, and Call Detail Records; and CenturyLink alleged that NCC over charged for call termination, and failed to pay for local interconnection trunks and transmitting records. In this Decision, the Commission granted CenturyLink's Motion to Dismiss NCC's claims that (1) Century Link refused to transmit Automatic Number Information over Multi Frequency signaling which led to NCC under-billing under the 1997 ICA, and (2) if CenturyLink charges for multiplexing, than NCC should be allowed to charge for multiplexing. The Decision also granted Century Link's Motion to Dismiss NCC's claims of unlawful charges for circuits and unlawful and anticompetitive charges for Call Detail Records with respect to the 2011 ICA, but denied it in regards to the 1997 ICA. The Administrative Law Judge will schedule a hearing to hear the remaining issues. (Docket Nos. T-03335A-12-0368 & T-01051B-12-0368).