



Word on the Street

BY GARY YAQUINTO

We know that many of our readers look forward to receiving this newsletter and have asked about missing issues for October and November. Some readers collect issues for reference on how the ACC has treated various issues, including use of adjustor mechanisms, approval of financing matters for utilities and treatment of rate request applications, among other issues. We report on all utility matters decided by the Commission and include relevant discussions of items among commissioners and their amendments when appropriate.

So, we are issuing this edition of *ACC Open Meeting Monitor* to include the monthly meetings held in October, November and December. The Commission issued several noteworthy decisions at these meetings regarding DG export rates for two electric cooperatives, CC&N extensions for water companies, rate increases and approval of adjustor mechanisms.

Additionally, with Commissioner Doug Little's departure from the Commission in September, Governor Ducey appointed former

state legislator, Justin Olson, who was sworn in to office on October 23.

The Commission has also scheduled a workshop on utility taxes in rates for January 31 to examine how rates are affected by the new tax law enacted at the end of last year. We expect the ACC will also provide guidance to utility companies on how it expects the companies to proceed.

Additionally, the Commission issued its first draft of a code of ethics for commissioners ([LINK](#)). According to Commissioner Boyd Dunn "[t]his

draft is the culmination of months of review and careful consideration of our current laws and the laws and codes adopted by similar bodies throughout the country". The Commission invites interested parties to file comments in the docket by January 19.

The *Monitor* will be back on schedule with monthly reporting this month.

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ARIZONA INVESTMENT COUNCIL

OSBORN
MALEDON

OCTOBER CONSENT AGENDA

The **October 2017 Open Meeting** at the Arizona Corporation Commission convened on October 23, 2017 in the afternoon, after the swearing in ceremony for new Commissioner Justin Olson.

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

**RAILROADS**

The Commission approved the **City of Mesa's** request to modify **Union Pacific Railroad's** grade street crossing at the intersection of Extension Road and Broadway Road in the City of Mesa. The project is considered a Supplemental Safety Measure for Mesa's Quiet Zone Establishment, which entails installing raised medians at both approaches to the crossing, in addition to currently existing automatic gates and cantilever flashing lights. (Docket No. RR-03639A-17-0280).

TELECOMMUNICATION

The Commission canceled **National Directory Assistance LLC's** Certificate of Convenience and Necessity (CC&N) to provide competitive resold interexchange telecommunications services. At National Directory Assistance's request, the Commission canceled the CC&N and waived any customer notice or publication requirements because the Company does not serve any customers in the state of Arizona. (Docket T-04108A-17-0168).

GAS

Graham County Utilities, Inc. (Gas Division) was granted a waiver from filing certain schedules otherwise necessary for finding a rate application sufficient. GCU is eligible to use the streamlined

rate filing procedure for small utilities. However the streamlined process limits total base revenue increases to six percent. GCU needed an increase of around 11 percent to cover its debt service coverage requirements. Therefore, GCU filed an application that met all of the requirements for the streamlined proceeding, not the general rate case requirement, and requested a waiver of that portion of the general rate case rules that require additional schedules be waived and for the matter to proceed without a hearing. The Commission agreed that for GCU to fully comply with the requirements would unduly burden the Company and therefore granted the Company's request. (Docket No. G-02527A-17-0263).

Southwest Gas Corporation received another 45 day extension to submit a tariff and plan of administration to govern a pilot program for an expanded gas transportation service for qualifying SWG non-residential customers. (Docket No. G-01551A-16-0107).

WATER AND WASTEWATER

Liberty Utilities received approval to expand its CC&N to provide wastewater service to the Falcon Ridge and Falcon View II developments in Maricopa County. The developments are located in the western Phoenix metropolitan area and are contiguous to Liberty's existing CC&N. Valley Utilities Water Company will be the water provider to the developments. Liberty will equip each home with a sewer shutoff valve to allow for shutoff in the event of the nonpayment of wastewater bills given the bifurcated water and wastewater systems. Commission Utilities Division Staff ("Staff") had originally recommended that Liberty file a copy of ADEQ's Approval of Construction (AOC) for Falcon View II by June 30, 2019 and Falcon Ridge Phase I by December 31, 2019, and documentation that the first parcels have been served by

June 30, 2020. Liberty opposed the recommendations, and proposed either eliminating the filing requirements completely or at least extending the deadline by two years. The Commission agreed to extend the deadlines for two years and required Liberty to file a copy of the franchise agreement for the extension area by June 30, 2019. (Docket No. SW-01428A-17-0120).

The Commission approved a two year extension of time for **Water Utility of Greater Tonopah, Inc.'s** to comply with conditions contained in a previous CC&N extension Order. The Company had originally filed a CC&N extension application in 2008 to provide integrated water, wastewater, and recycled water to a 22,000 acre area in Maricopa County. The Companies have already received two time extensions to comply with the conditions because development did not materialize as anticipated due to the downturn in the economy. The Companies originally requested a 10 year extension; however, the Commission declined and approved two years in conformity with similar requests by other Companies. (Docket Nos. W-02450A-06-0626 and SW-20422A-06-0566).

Commission Staff received an extension of time to file its investigative report regarding **Far West Water and Sewer and Q Mountain Water, Inc.** Commission Staff has until November 15, 2017 to file the report. (Docket No. WS-03478A-13-0250).

ELECTRIC

Mohave Electric Cooperative, Inc. received approval to incur debt and secure liens on its property in order to finance its Construction Work Plan for 2016-2019. MEC is a Class A non-profit electric distribution cooperative located in Bullhead City, Arizona. MEC provides service to residential, industrial, irrigation, and lighting customers.

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The Company's current rates were approved in January 2017. MEC received authorization to obtain financing in an amount not to exceed approximately \$30 million from either the National Rural Utilities Cooperative Financing Corporation or CoBank. The loan term is expected to be 30-years with a 4.00 percent interest rate. The pro forma capital structure after the issuance of the debt would be comprised of 1.66 percent of short-term debt, 43.70 percent long-term debt, and 54.65 percent equity. Additionally, after the issuance of debt, the Company would have a Time Interest Earned Ratio of 1.21 and a Debt Service Coverage of 1.59. The loan proceeds will be used for upgrades and additions of distribution and subtransmission facilities for reliable operation of its systems, including line upgrades, distribution voltage conversion and the addition of voltage regulations and capacitors. Other improvements include wooden pole replacement, line hardening, and underground cable injections. (Docket No. E-01750A-17-0084).

The Commission approved a reduction in **Mohave Electric Cooperative, Inc.'s** avoided cost rate. The new rate of \$0.02532 per kWh (down from \$0.02552) will become effective December 1, 2107. Additionally, MEC will be required to file a revised Net Metering Service Tariff that clarifies what monthly customer charge is applied to standard net metered small commercial customers. (Docket No. E-01750A-17-0265).

The Commission approved a time extension for Commission Staff to file its Proposed Order on the **Load Serving Entities Integrated Resource Planning and Procurement Plans**. Commission Staff will file it by November 1, 2017. (Docket No. E-00000V-15-0094).

Southwest Transmission Cooperative, now **Arizona Electric Power Cooperative (AEPKO)** received a five year extension of time to construct a transmission line in Trico Cooperative's service

territory. In 2010, the Commission approved a Certificate of Environmental Compatibility (CEC) for the construction of three transmission projects intended to support anticipated population growth. However, due to the economic downturn and other planned transmission projects, two of the previously three approved projects are no longer needed. Therefore, the Commission and the Company have agreed to effectively revoke the approval for the North Loop to Rattlesnake and Sandario Projects by allowing the CEC's authorization to construct lapse. However, the Commission granted a five year time extension, until April 20, 2022, to construct a 115 kV transmission line tap and optical fiber optic group wire installation project, also known as the Valencia Project.

OCTOBER REGULAR AGENDA

The following items were discussed on the regular agenda:

TELECOMMUNICATIONS

The **GoDaddy.com** matter was removed from the Consent Agenda to allow for the Company's attorney to make an appearance. There was no discussion from the Commissioners and they voted 5-0 to grant GoDaddy.com a CC&N to provide intrastate telecommunications services, subject to the standard compliance regulations. (Docket No. T-20981A-16-0283).



WATER

Rate Cases

The Commission declined to approve a rate increase for **Circle City Water Company**. There was significant discussion among the Commissioners, many of whom expressed serious concern in approving a substantial rate increase for a company that declined to come before the Commission for almost 20 years, had overcharged customers since 2008, and has a history of violating Commission rules and regulations. Commissioner Tobin was the most vocal opponent of the rate increase, stating that his opposition was based not only on the amount of the rate increase but on the historical actions (or inactions) of the Company. Both Commissioners Olson and Dunn asked a number of questions as to why CCWC neglected to file for a rate increase for almost 20 years. Commissioner Dunn was even more pointed with Staff on how to prevent situations like this in the future by setting up a system to remind companies to file for rate increases. Ultimately, the Commissioners in a 3-2 vote declined to grant the rate increase. Commissioners Dunn and Burns voted in favor of the Order to provide the necessary funds to CCWC.

Valley Pioneers Water Company received a 22 percent rate increase. VPWC is a non-profit member-owned cooperative that provides water service to approximately 2,500 customers in and around Kingman, Arizona. During the test year, VPWC had non-account water loss of 37.8 percent. The Company and Commission Staff acknowledged that there were many reasons that water loss was this high, including: installation of the wrong type of pipes, old pipes that need replacement, old meters, leaks that are not detected due to the large size of the service area, and potentially theft. To combat this problem, the Company instituted a meter replacement program and agreed to undertake Staff's recommendations to reduce water loss to ten percent. VPWC will institute an inverted three-tier commodity rate design for 3/4 inch and smaller metered customers and an inverted two-tier design for other meter classes. A typical 5/8 x 3/4 inch meter customer will see a rate increase of \$5.75 (22.21%), from \$27.10 to \$32.85 per month. During deliberations, Commissioner Tobin inquired about some of the hardships the Company has endured recently, including losing a large customer and how that has impacted the water loss issue. The matter passed unanimously. (Docket No. W-02033A-16-0412).

The Commission unanimously approved a rate increase for **Harold W. Bullard DBA Verde West Irrigation**. Verde West is a sole proprietorship which provides irrigation service to approximately 175 customers in Camp Verde, Yavapai County, Arizona. The Company has two classes of customers, those who are irrigated by lot and those that are irrigated by acre. The approved rates will increase the monthly bill for lot customers by \$5.00 (41.67 percent) from \$12.00 to \$17.00, and for acre customers by \$10.00 (38.46 percent) from \$26.00 to \$36.00. (Docket No. I-02274A-17-0160).

Time Extensions

Lake Verde Water Company, Inc. received a time extension to file its next rate case. Lake Verde was originally required to file a rate case by June 30, 2017 using a 2016 test year. However, the Company has been focused on constructing an arsenic removal system and other system improvements and believes that a calendar year of 2017 would be a better and more accurate test year. There was a brief discussion concerning this matter; and only Commissioner Tobin inquired if the Commission should expect any more delays. The item was unanimously approved. (Docket Nos. W-01557A-15-0079 and W-01557A-15-0080).

NOVEMBER CONSENT AGENDA

The **November 2017 Open Meeting** at the Arizona Corporation Commission convened at 2:00 p.m. on November 7, 2017.

The following was approved on consent agenda.

RAILROADS



The Commission approved **Union Pacific Railroad's** request for an extension of time to upgrade an existing railroad crossing with the installation of a four quadrant gate system at Dobson Road in the City of Mesa. (Docket No. RR-03639A-16-0005).

TELECOMMUNICATION



The Commission approved **Budget Prepay, Inc. D/B/A Budget's** request to cancel its Certificate of Convenience and Necessity (CC&N) to provide competitive resold interexchange and competitive resold local exchange telecommunication services in Arizona. (Docket No. T-04079A-17-0231)

Quantumshift Communications, Inc. dba vCom Solutions received a CC&N to provide facilities based long distance and local exchange telecommunications services. vCom Solutions' services were deemed competitive and the Company must comply with the Conditions contained in its CC&N. (Docket No. T-03793A-16-0366).

Cox Arizona Telecom, LLC received a waiver for the 2-PIC equal access requirements. When Cox received its CC&N in 1997, it was providing service over a circuit switched legacy network. However, since then, the Company has been transitioning to provide its products through an interconnected fixed Voice over Internet Protocol (VoIP) platform. Historically, a customer could

choose different service providers for their stand-alone long distance and local telephone services. However, the FCC has ordered that the stand alone markets that provide for 2-PIC equal access are no longer cost effective. Therefore, Cox filed this request for a waiver of the 2-PIC equal access requirement set forth in A.A.C. R14-2-1111(A). The waiver for approval was conditioned on a number of things, including: existing residential and commercial customers will be grandfathered up to the date of their transition to the IP platform; existing customers with prescribed carriers who have contracts with Cox will be allowed to terminate their contracts without any financial penalties or repercussion because the loss of 2-Pic equal access functionality is a substantial or material change to their service; notice will be provided to all customers; and Cox will have to submit reports to the Commission on the progress of transitioning grandfathered customers. (Docket No. T-03471A-17-0222)

WATER AND WASTEWATER



Arizona Water Company received authority to implement two new surcharge mechanisms. First, the Commission approved a SIB Surcharge No. 2 for its Eastern Group, intended to recover a portion of the capital costs related to \$412,000 of SIB eligible projects that have been completed and placed into service. This will be the last SIB filing by AWC in this docket because the Company does not contemplate constructing any additional SIB eligible projects in the next 12 month period. A 5/8 x 3/4 inch meter customer will pay a net SIB surcharge of \$0.59 per month. This will increase the average customer's bill in Bisbee by 2.14 percent and a Sierra Vista customer's bill by 2.05 percent. (Docket No. W-01445A-11-0310).

Second, the Commission approved an Arsenic Cost Recovery Mechanism

(ACRM) Surcharge for AWC's Verde Valley System. The ACRM surcharge is needed to recover \$1.6 million in capital costs related to design and construction of arsenic projects in the area. The surcharge will result in an increase to the typical 5/8 x 3/4 inch meter customer's bill of \$1.27 or 3.20 percent, from \$39.70 to \$40.97. The ACRM surcharge consists of a fixed monthly surcharge depending on meter size and a commodity surcharge per 1,000 gallons of water. (Docket No. W-01445A-12-0348).

The Commission approved an extension of time for Commission Staff to calculate a loan surcharge and file a recommended order for **Tierra Buena Water Company, Inc.** (Docket Nos. W-02076A-15-0024 & W-02076A-15-0135).

ELECTRIC



TRICO Electric Cooperative, Inc. received approval to adjust the avoided cost rate used in its Net Metering Tariffs. Based on its purchase power costs, Trico will increase its avoided cost rate to \$0.02585 per kWh, from the current \$0.02568 per kWh. (Docket No. E-01461A-17-0269).

The Commission eliminated **Graham County Utilities'** reporting requirement for an annual Off-Site Hook-Up Fee Status Report. In June 2017, a Commission docket was opened to address requests by Cooperatives for the Elimination of Outdated/Irrelevant compliance items. The request to eliminate this report was made in conformance with that docket. (Docket Nos. G-02527A-09-0088, G - 0 2 5 2 7 A - 0 9 - 0 2 0 1 , W-02527A-09-0033, and E-01749A-09-0087).

The Commission eliminated **Duncan Valley Electric Cooperative's** reporting requirement to file an annual summary on its subscriptions and savings of its Single Phase Time-of-Use customers. In June 2017, a Commission docket

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was opened to address requests by Cooperatives for the Elimination of Outdated/Irrelevant compliance items. The request to eliminate this report was made in conformance with that docket. (Docket No. E-01703A-09-0040).

Commission Staff submitted a brief memorandum addressing necessary modifications to the **Net Meter Rules** in light of the Value and Cost of Solar Decision. The Net Metering Rules can be found in the Arizona Administrative Code R14-2-2301 – R14-2-2308. For new solar DG customers, they will have an export tariff instead of Net Metering and therefore new language will need to be added to the AAC that governs how these customers will be treated going forward. However, since existing solar DG customers will be grandfathered onto their existing Net Metering rate, the existing language will still need to be included as applicable to these customers. The Net Metering Rules should also address how non-residential DG customers and non-solar DG technologies are treated. Additionally, Staff suggested that a waiver provision, which is currently missing from the Net Metering Rules, should be added. Flexibility for Electric Cooperatives should be addressed as well. Commission Staff suggested that informal comments should be collected and workshops should be held prior to Commission Staff drafting new rules. (Docket No. E-00000J-14-0023).

REGULAR AGENDA

The following was discussed on the Regular Agenda:

WATER AND WASTEWATER



The Commission approved a standpipe water tariff for **EPCOR Water Arizona Inc.'s** Anthem Water District to allow water hauling for the residents of Desert Hills and New River communities. To address the potential crisis for these communities when they can no longer haul water from

City of Phoenix hydrants, EPCOR plans to lease an acre of land and build a water station to service the residents of Desert Hills and New River. The standpipe water tariff will be \$9.55 per 1,000 gallons and will only be available to commercial water haulers or individuals using personal equipment to deliver water to their own property. Water from the standpipes is not to be sold or delivered to any person who is within the service territory of another water utility, or municipality providing water.

There were a number of public commenters that elicited discussion among the Commissioners. First, County Supervisor Bill Gates provided public comment to express his thanks to EPCOR for stepping up. Second, the topic for the location for the standpipe received attention. Certain Anthem residents requested that it be relocated from its current proposed location. The Company is not necessarily opposed to relocating it; however, the cost and ability to acquire land may be cost prohibitive. The Commissioners acknowledged this concern, but felt it was necessary to at least approve a rate at this time. The Commission can then engage with the Community of Anthem in working on the location. The Commission acknowledged that it does not have jurisdiction over the specific location of EPCOR's standpipe; however, the approved tariff is based on its current location and the rate would change if the location changed.

Commissioner Burns inquired whether this standpipe would create any issues with EPCOR's renewable aquifers or water allocations. While the Company does not believe the aquifer will be able to support this Community and the standpipe in the long term, it feels that the creation of the standpipe in the short term is appropriate, but acknowledged that a different long term solution is necessary.

Commissioner Dunn's Amendment to clarify the definition of water hauler was approved. Additionally, the Commission

directed Staff to reach out to the City of Phoenix regarding the December 31, 2017 date when hydrant water will no longer be available for hauling.

The item was unanimously approved. (Docket No. WS-01303A017-0326)

Golden Shores Water Company received unanimous approval to institute a loan surcharge. Golden Shores is a Class D water utility that serves approximately 1,500 customers in Mohave County. In December of 2016, Golden Shores received a rate increase and authorization to incur long-term debt to finance infrastructure upgrades and meter replacements. Golden Shores received an over \$500,000 WIFA loan; however, \$257,000 of the loan will be forgiven. In conformance with the Commission's Policy Statement No. 1 contained in Decision 76335, the Commission will treat the forgiven portion of the loan as Capital in aid of Construction (CIAC).

The Commission approved a loan surcharge that includes the debt service costs for the remainder of the loan, approximately \$257,000. A 5/8 x 3/4 inch meter customer will pay \$1.41 per month and 3/4 inch meter customers will pay \$2.11 per month. Because the Golden Shores loan surcharge was authorized in a December 2016 rate case order, prior to the Commission's policy statement regarding treatment of loan surcharges, Golden Shores will follow the directives in its rate case Decision No. 75830 and not the new policy. (Docket Nos. W-01815A-14-0173 and W-01815A-16-0142).

The Commission unanimously approved an order dismissing the majority of a **formal complaint filed against the Commission, Johnson Utilities, LLC, Johnson International, Inc., and R&R Partners**. In June 2017, the Munday Group (comprised of 32 Johnson Utilities' water and wastewater customers) filed a formal complaint at the Commission against the Commission, Johnson

NOVEMBER REGULAR AGENDA, CONT.

Utilities, LLC, Johnson International, Inc., and R&R Partners Inc. The complaint arises from a recent indictment alleging that former Commissioner Gary Pierce accepted bribes from George Johnson in exchange for voting in favor of Johnson Utilities on matters before the Commission. The formal complaint alleged the following eight counts: (1) Johnson Utilities illegally bribed former Commissioner Pierce to obtain the deciding vote to pass Decision No. 72579 and therefore Decision No. 72579 should be rescinded and full reparations for all rate charges (plus interest) should be awarded; (2) Respondents violated Arizona's Racketeer Influenced and Corrupt Organizations Act (RICO); (3) Respondents conspired; (4) Commission and Johnson Utilities engaged in a constructive fraud; (5) Johnson International and R&R engaged in aiding and abetting; (6) Johnson Utilities breached contracts; (7) Johnson Utilities acted in bad faith in breaching its implied covenant of good faith and fair dealings; and (8) joint and several liability amongst all Respondents.

The Commission dismissed, with prejudice, the formal complaint against Respondents Arizona Corporation Commission, Johnson International, Inc., and R&R Partners because the Commission only has jurisdiction to adjudicate complaints against Public Service Corporations. The Commission also dismissed, with prejudice, Counts Two through Eight because the Commission does not have jurisdiction to adjudicate claims based on theories of tort and contract law.

But the Commission stayed Count One against Johnson Utilities until such a time as all criminal proceedings involving the indictment have concluded and all appeals, if any, have been exhausted. Commissioner Dunn's amendment was approved which removed the requirement that the parties file additional substantive pleadings prior to the resolution of the criminal proceeding. (Docket No. WS-

02987A-17-0192).

Agenda Item #6 for **EPCOR Water Arizona, Inc.** was pulled from the consent agenda to be heard on the regular agenda. The Commission approved new depreciation rates for EPCOR that are consistent with previously approved depreciation rates for the Company. (Docket No. WS-01303A-14-0010).

Agenda Item #16 **Rose Valley Water Co.** was pulled from the Agenda. Commissioner Dunn requested that the item be pulled and heard at later date. He requested that Staff and the parties look into the potential for a rate phase-in due to the significant rate increase at issue. (Docket No. W-01539A-17-0060).

ELECTRIC



Mohave Electric Cooperative, Inc. received approval for an export rate for new DG customers. MEC is a Class-A, member owned, non-profit rural electric cooperative. The Company provides electric distribution service to approximately 40,000 customers in Coconino, Mohave, and Yavapai Counties. Of MEC's 40,000 customers, 570 are currently DG customers.

The purpose of Phase 2 of MEC's rate application was to set an export rate for the Company's DG customers based on the methodology approved by the Commission in Decision No. 75859 (VOS Decision). In the VOS Decision, the Commission directed that currently pending electric utility rate cases use the Resource Comparison Proxy (RCP) to determine an export rate. The RCP method is based on a five year rolling weighted average of a utility's (or proxy's) solar purchase power agreements and utility-owned solar resources. However, the Commission provided flexibility to electric cooperatives, allowing for the appropriate method to be determined on a case by case basis. EC currently has

MEC currently has two PPAs in effect; one facility became operational in April 2015 and the other in October 2016. MEC originally requested a RCP that used a rolling average that included 2017 data because that was the first year both PPAs were in effect. However, Staff disagreed with MEC's proposal. Eventually, Staff and MEC agreed that the export rate would be initially set using MEC's base cost of power (\$0.087701) reduced by MEC's current Purchase Power Fuel Cost Adjustor (\$0.01353) for an initial export rate of \$0.074171 per kWh. Instead of filing for a new export rate every year, the Commission has approved an eight percent step down in the rate for the next five years. The chart below shows the Export Rate Transition Plan.

Year	Export Rate	Reduction	
1	2017 – 11/30/2018	\$0.074171	
2	12/1/2018 – 11/30/2019	\$0.068237	8%
3	12/1/2019 – 11/30/2020	\$0.062778	8%
4	12/1/2020 – 11/30/2021	\$0.057756	8%
5	12/1/2021 until changed by Commission Decision	\$0.05700	8%

MEC also received approval that varies from the VOS Decision. First, the Commission waived the requirement that the export rate in effect when each new DG customer interconnects must be frozen for 10 years. Instead, customers on the standard DG tariff will be subject to the annual export rate, including the eight percent step-downs. Second, MEC is allowed to treat non-residential DG customers the same as residential DG customers – meaning net metering will no longer be available to non-residential customers.

During the Open Meeting discussion, the Energy Freedom Coalition of America (EFCA) made public comment taking issue with the ROO's recommendation that MEC not be required to have 10 year tranches.

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There was significant discussion among the Commissioners, EFCA, Staff and the Company. While the Commissioners want the Value of Solar Decision to be enacted as written, they also understand that Cooperatives have dueling priorities. In this specific case, the Commissioners agree that the ROO appropriately analyzed the issues, and approved allowing the export rate to change annually for new DG customers.

The Commission unanimously approved a Hearing Division Amendment that corrected a few typographical errors and added additional language regarding the Plan of Administration. The matter was approved in a four to one vote, with Commissioner Burns being the no vote. Additionally, during the roll call, while Chairman Forese was voting to approve the export rate, he also stated that he does not believe Cooperatives should be regulated by the ACC. (Docket No. E-01750A-16-0207).

Sulphur Springs Valley Electric Cooperative, received approval for a new export rate for DG customers. SSVEC is a Class A non-profit member owned electric distribution cooperative serving customers in Cochise, Santa Cruz, Pima and Graham Counties. SSVEC serves approximately 58,000 customers – 41,500 are residential and 1,300 are DG customers. The Company originally received a rate increase in November 2016 and was directed by the Commission to address proposed changes to the Company's net metering tariffs and rate options for residential distributed generation (DG) customers in a Phase 2 proceeding. SSVEC has two small solar facilities, a PPA with Sun Power, and a PPA for a 20MW solar facility to become effective in late 2017.

The Commission approved SSVEC's proposed initial export rate of \$0.071156 per kWh based on the Company's 2014 test year power costs component for its residential rate. This is the same methodology adopted to establish the

initial export rates for Trico Electric Cooperative and Mohave Electric Cooperative. The Commission also approved SSVEC's proposed six year export rate transition plan that uses both of the Company's PPAs to calculate the target export rate of \$0.041310.

Unlike MEC, the Commission ordered SSVEC to place new DG customers into 10 year tranches, with their export rate guaranteed for those 10 years. While SSVEC requested a waiver of this requirement, the Commission did not believe SSVEC had presented adequate evidence to support its claim that the requirement would be unduly burdensome.

In regards to rate design, the Commission declined to implement a separate tariff for grandfathered DG customers that would have increased their monthly service availability charge from \$25.00 to \$30.00 in an additional fifth phase (the Phase 1 proceedings approved phasing in an increase to the monthly service charge over four years until it reaches \$25.00). Instead, the Commission allowed grandfathered net metering customers to remain on the rates established in Phase 1. For new DG customers, the Commission rejected SSVEC's request to increase the monthly charge immediately to \$35.00 and also rejected Staff's proposed \$0.70 per kW of installed capacity per month grid access charge. Finally, the Commission required SSVEC to continue to allow net metering for new non-residential DG customers.

There was significant discussion among the parties and the Commission regarding the similarities and differences between SSVEC and MEC. However, the Commission determined at the end of the day that SSVEC was significantly dissimilar from MEC to approve a different treatment of DG customers. The matter was unanimously approved. (Docket No. E-01575A-15-0312)

The Commission approved a portion of a project between **Nogales Transmission, L.L.C. and UNS Electric, Inc.** The Commission approved a Certificate of Environmental Compatibility (CEC) that will connect the UNSE Electric transmission system to the Mexican National Electric System (Nogales Interconnection Project). The Nogales Interconnection Project will provide a bidirectional interconnection between the Western Electricity Coordinating Council (WECC) and Mexico. This will facilitate cross-border commercial electricity transactions and enhance grid reliability in southern Arizona. The completed Nogales Interconnection Project is intended to consist of three components.

(1) Construction of the Gateway Substation which consists of the UNSE 138-kV Gateway Substation and a Nogales Transmission 230-kV Gateway Substation, where the High Voltage Direct Current (HVDC) converter equipment will be located.

(2) A new, three mile double circuit 138-kV transmission line constructed by UNSE. One circuit will extend the existing USNE Vail to Valencia line from a point near UNSE's Valencia Substation to the proposed Gateway Substation (Vail to Valencia transmission line), and one circuit to connect the proposed Gateway Substation to the existing Valencia Substation (Gateway to Valencia transmission line).

(3) A new, two mile single circuit 230-kV transmission line to be built by Nogales Transmission on double circuit structures that will connect the Gateway Substation to the U.S. Mexico border (U.S. Mexico Border transmission line). From the border, the line will interconnect with the Red Nacional de Transmisión (RNT), the Mexican state-owned transmission grid operated by Centro Nacional de Control de Energía (CENACE).

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However, the Commission only approved a CEC for subsection 2: the Vail to Valencia 138-kV transmission line and the Gateway to Valencia 138-kV transmission line. A CEC will be sought for the remainder of the project at a later date. Additionally, a CEC for the Nogales Tap to Kantor Upgrade Project was also approved. The project is located in the City of Tucson, Pima and Santa Cruz Counties. The project will upgrade a 27.5 mile segment of transmission line between WAPA's Nogales Tap switchyard in Pima County and UNSE's Kantor Substation in Santa Cruz County. (Docket Nos. L-00000CCC-17-0246-00176 and L-00000F-17-0246-00176.

DECEMBER CONSENT AGENDA

The **December 2017 Open Meeting** at the Arizona Corporation convened at 2:00 p.m. on December 18, 2017.

The following were approved on consent agenda:

TELECOMMUNICATION



The Commission approved the 2018 carrier's monthly surcharges to fund the **Arizona Universal Service Fund**. The surcharge for Category One providers will be \$0.016328 per access line and \$0.163280 per interconnection trunk. For Category Two providers, the monthly surcharge will be 0.3418 percent of intrastate toll revenues. (Docket No. RT-00000H-97-0137).

WATER AND WASTEWATER



The Commission amended **Valley Pioneers Water Company, Inc.'s** November rate case order (Decision No. 76422) to correct a few non-substantive clerical errors. (Decision No. W-02033A-16-0412).

The Commission approved the transfer of assets and Certificate of Convenience and Necessity (CC&N) of **Beaver Valley Water Company** (a sole proprietorship) to Beaver Valley Water Company, Inc. and to name Michael Armstead as its owner and director. (Docket Nos. W-02015A-17-0150 and W-20935A-17-0150).

EPCOR Water Arizona Inc. received approval to implement new Rules and Regulations for its Anthem, Agua Fria, Sun City, Sun City West, Luke 303 and Mohave wastewater districts. The Rules and Regulations contain rules that may vary slightly from the Arizona Administrative Code and a new Rule No. 10: Use of Sanitary Sewers by Industrial Dischargers. The new rule establishes

a separate industrial discharge service agreement required for industrial users, in conformance with the Federal Water Pollution Control Act and the general pretreatment regulations of the Code of Federal Regulations. The new rules will become effective the first day of the month after notice is provided to EPCOR's customers. (Docket No. WS-01303-16-0360).

The Commission approved a reset of **Sahuarita Water Company, LLC's** Central Arizona Groundwater Replenishment District (CAGR) adjustor fee to \$1.74 per 1,000 gallons of water. (Docket No. W-03718A-09-0359).

The Commission approved **Eagletail Water Company, LLC's** request to amend Decision No. 75829 to allow for the construction of a 100,000 gallon storage tank (and additional projects) instead of constructing a 250,000 gallon storage tank. The item was removed from the consent agenda for a minor language change. (Docket No. W-03936A-16-0095 et al).

ELECTRIC



Electric Cooperatives. The Commission eliminated the requirement for electric cooperatives to file an annual report on meter maintenance and testing under A.A.C. R14-2- 209(E)(2). This ruling affects the following cooperatives: Columbus Electric Cooperative, Dixie Escalante Rural Electric Association, Duncan Valley Electric Cooperative, Garkane Electric Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Navopache Electric Cooperative, Sulphur Springs Valley Electric Cooperative, and Trico Electric Cooperative. (Docket No. E-00000D-17-0221).

The Commission approved an extension of time until June 1, 2018 for **Navopache Electric Cooperative, Inc.** to file its

2018/2019 Demand Side Management/ Energy Efficiency Implementation Plan. (Docket No. E-01787A-17-0288).

The Commission approved **Tucson Electric Power Company's** Transition Plan for Small General Service Customers (SGS) moving to Medium General Service (MGS) or Large General Service (LGS) Plans. The plan is similar to the transition plan approved for residential customers, and includes but is not limited to traditional mail, bill inserts, website content, mobile application, and its Customer Care Department personnel. (Docket Nos. E-01933A-15-0239 & E-01933A-15-0322).

Sempra Energy Trading Corp. /Sempra Energy Solutions received approval to cancel, rescind, discontinue and be released from the performance bond requirement contained in Decision No. 65123, and is authorized to cancel the performance bond effective with the date of this Decision. (Docket Nos. E-03675A-00-0951 and E-03964A- 00-0951).

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The following matters were discussed on the Regular Agenda:

WATER AND WASTEWATER



Tierra Buena Water Company, Inc. received authorization to implement a Water Infrastructure Finance Authority (WIFA) loan surcharge tariff. The Company will use a \$660,000 loan to build and install an arsenic treatment facility, which adds to a 2016 loan in the amount of \$210,000 to complete a well rehabilitation and interconnection project. To reflect the \$660,000 loan, the monthly WIFA loan surcharge will be \$43.43, which includes a debt reserve component. Because the Company was concerned about financial hardship if customers switch from a 1-inch meter to a smaller meter, the Commission approved the same surcharge for 1-inch, 3/4 -inch and 5/8 x 3/4 -inch meters. Additionally, the revenue from the surcharge will be recorded as customer-provided funding and will be removed from the Company's rate base in future rate cases. A staff amendment was passed that specifically stated the surcharge will expire when rates from a subsequent rate case go into effect. This item was removed from the Consent Agenda to the Regular Agenda to approve a Staff Amendment that provided a specific expiration date for the surcharge. (Docket No. W-02076A-15-0135 & W-02076A-15-0024).

Sandario Water Company, Inc. received approval to implement a loan surcharge. Pursuant to Decision No. 76071, Sandario will implement a monthly surcharge ranging from \$3.73 to \$9.32 for residential customers to cover the \$139,978 loan and Debt Service Reserve Funding (DSRF) required by CoBank. In conformance with Commission policy, Sandario will record the loan principal portion of the surcharge as CIAC. The DSRF will be treated as a regulatory liability and recognized as a

deferred credit, which will be a reduction to rate base in the Company's next rate case. Commissioner Burns proposed an amendment that would replace the word "loan" with "debt" and clarify a couple of other areas in the proposed order. After significant discussion on the dais about the proposed amendment, and staff's reassurance that the changes do not have any substantive impacts and in fact make certain references more clear, the amendment was passed. (Docket Nos. W-01831A-16-0197 and W-01831A-16-0293).

Pima Utility Company's rate case settlement agreement was approved. Pima Utility serves approximately 10,000 water and wastewater customers in the Sun Lakes community in Chandler Arizona. The settlement agreement signed by Staff, the Residential Utility Consumer Office (RUCO), and Pima Utility granted a revenue increase of 7.20 percent for the water division and 6.58 percent for the wastewater division. For both the water and wastewater divisions, the capital structure will be 65 percent equity and 35 percent debt, a cost of debt of 4.17 percent and a cost of equity of 9.70 percent, with a fair value rate of return of 7.76 percent. The new rates will increase the typical residential water customer monthly bill by \$1.18, or 9.73 percent, from \$12.12 to \$13.30. Wastewater customer monthly bills will increase by \$1.67 or 6.65 percent, from \$25.17 to 26.84. Additionally, to recover the rate case expense, Pima Utility will collect \$150,000 from each division through a monthly surcharge of \$0.244 per customers, for five years or until funds are fully recovered.

Commissioner Burns was concerned that the capital structure's equity and debt percentage was not closer to 50-50. However, Staff reassured that being close to 60-40 ratio was generally okay. The Commission passed Commissioner Olson's amendment which will require Pima Utility to work with the Commission to create a rate adjustment mechanism to enable the pass through of

any benefits of future federal income tax reform. Acknowledging the importance of this issue, the Commission is going to open a docket to address how the tax reform may affect other utilities. (Docket Nos. W-02199A-16-0421 & SW-02199A-16-0422).

Q Mountain Mobile Home Park DBA Q Mountain Vista Water received approval for a rate increase and authority to incur debt. Q Mountain is a non-profit homeowners association that provides water utility service to approximately 220 mobile home customers. The Commission approved operating revenue of \$107,156 and an operating expense of \$99,991, resulting in operating income of \$7,156, annual cash flow of \$9,483, and an operating margin of 6.9 percent. Q Mountain will implement a three-tier commodity rate structure. Prior to a WIFA loan surcharge, a median customer will see an increase of \$11.83 or 59.5 percent, from \$19.88 to \$37.71.

Q Mountain's non-account water loss was approximately 35.8 percent during the test year. Staff attributes part of the water loss to old and/or worn out meters and required the Company to replace meters that are (1) eight years or older, (2) have registered one million gallons, or (3) approaching one million gallons. To finance phase one of the necessary improvements to the system to reduce water loss, the Commission approved Q Mountain to obtain an approximately \$575,000 WIFA loan, not to exceed six percent interest. The item was passed without discussion. (Docket Nos. W-02518A-16-0179 & W-02518A-16-0410).

Rose Valley Water Co. received approval for a rate increase. Rose Valley's rate application Order was originally heard at the December 2017 Open Meeting, but the Commissioners did not vote on the item. Rather, they asked the parties to consider phasing in the rates. Commission Staff and the Company proposed to have 60 percent of the rate

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increase be put in place in year one, and 20 percent phased in over years two and three respectively. Additional interest would be owed Rose Water due to the delay in implementation.

Commission Dunn did not particularly like the three year phase in plan proposed by Staff and Rose Valley. However, considering the necessity of the increase and the minimal complaints received by the customers, Commission Dunn did not pursue his amendment that would have created a longer phase in. The Commission passed Commissioner Olson's amendment, which would require Rose Valley to work with the Commission to create a rate adjustment mechanism to enable the pass through of any benefits of future federal income tax reform. (W-01539A-17-0060).

Arizona Water Company and Cornman Tweedy LLC did not receive approval of a Settlement Agreement that would have resolved a 14-year long dispute over a CC&N extension. Earlier in 2017, the Commission ordered Arizona Water and Cornman Tweedy to engage in settlement discussions to resolve the matter. After more than six months of negotiations, the parties presented a settlement agreement to the Commission. An integral part of the settlement agreement would have required the Commission to remove conditions contained in nine of Arizona Water's CC&Ns, making them final and unconditional. Commissioners Dunn and Tobin expressed concern about this term of the Agreement. Commissioner Burns proposed an amendment that would have rejected the settlement and reinstated the Commission's vote taken on the item in February of 2017. The Burns amendment was moved but not discussed. Rather, Chairman Forese pulled the item and the nine other Arizona Water CC&N matters from the agenda. (Docket No. W-01445A-03-0559)

Agenda Items Pulled

29. Arizona Water Company (W-01445A-05-0389) –

Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 68442 pursuant to A.R.S. § 40-252.

30. Arizona Water Company (W-01445A-05-0469) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 68607 pursuant to A.R.S. § 40-252.

31. Arizona Water Company (W-01445A-05-0700) – Transfer of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 68654 pursuant to A.R.S. § 40-252.

32. Francisco Grande Utility Company (WS-01775A-05-0700) – Transfer of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 68654 pursuant to A.R.S. § 40-252.

33. Arizona Water Company (W-01445A-05-0701) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 68919 pursuant to A.R.S. § 40-252.

34. Arizona Water Company (W-01445A-06-0059) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 69163 pursuant to A.R.S. § 40-252.

35. Arizona Water Company (W-01445A-06-0317) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 69386 pursuant to A.R.S. § 40-252.

36. Arizona Water

Company (W-01445A-07-0291) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 70379 pursuant to A.R.S. § 40-252.

37. Arizona Water Company (W-01445A-12-0424) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 73780 pursuant to A.R.S. § 40-252.

38. Arizona Water Company (W-01445A-16-0437) – Extension of Certificate of Convenience and Necessity. Commission consideration, discussion, and possible vote on proposed order to amend Decision No. 76145 pursuant to A.R.S. § 40-252.

Brooke Water, LLC & Circle City Water Company, LLC received a small time extension to perform maintenance on a water tank. In response to several service interruptions in 2016, Commission Decision No. 76223 required nine engineering improvements or maintenance items to be undertaken on Brooke Water's Lakeside Water System. In October of 2017, Brook Water requested a waiver from one the engineering requirements, to delay the reconditioning of the exterior of its Lakeside 300,000 gallon tank. Brook Water commissioned two separate studies that concluded the tank was in good to excellent condition and that it should be re-inspected in 2020-2022. Commissioner Tobin proposed an amendment that would require the maintenance to be completed by the end of 2018. The Commission approved Commissioner Tobin's amendment and the item. (Docket No. W-03039A-16-0322 & W-03510A-16-0322).

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Circle City Water Company, LLC is required to refund to customers previous over-collections and did not receive a requested rate increase. This item was originally heard during the October 2017 Open Meeting, but the Commissioners did not vote to approve an Order at that time. Because Circle City had not requested a rate increase in over 20 years, the recommendation in the Recommended Order would have been a 200 percent rate increase phased-in over five years. Additionally, between 2008 and July 2017 Circle City was inadvertently charging customers for the first 1,000 gallons of water, when their tariff included 2,000 gallons in the monthly minimum. The Commission held another public comment session in the interim, but despite the potentially large rate increase, only nine customers attended. Commissioner Tobin expressed confusion as to why so few customers would outwardly express concern over the rate increase. An amendment put forth by Commissioner Tobin declining to approve a rate increase for Circle City due to the City of Surprise's intent to purchase the Company was approved. Commissioner Tobin's amendment further required Circle City to issue refunds to its customers for the amount previously overcharged, instead of using it to reduce a rate increase. (Docket No. W-03510A-17-0003).

ELECTRIC

The Commission approved a borderline agreement between **UNS Electric Inc.** and **Mohave Electric Cooperative, Inc.**, allowing Mohave Electric to provide service to one commercial customer. The Customer has two parcels of land, both of which are located within UNSE's service territory. However, one parcel has been served by Mohave Electric since 1996 and now the Customer has requested that Mohave Electric provide service to the other adjacent parcel. The cost to Mohave

to serve this customer is estimated to be less than \$1,000, while it would cost UNSE over \$500,000 to extend its current line to the Customer's parcels. The item was moved to the regular agenda so a Staff Amendment could provide necessary grammatical changes. (Docket No. E-04204A-17-0316 and E-01750A-17-0316).

The Commission granted **Duncan Valley Electric Cooperative, Inc. Gas Division**, a waiver of A.A.C. R14-2-107(B)(1) and (B)(6) so that it may proceed with its rate case under the streamlined Rule 107. While Rule 107(B)(1) only allows Class A, B, or C utilities to file for the streamlined process, the Commission was of the opinion that even though DVEC is a Class D cooperative, it would not impact the validity of its rate application. Rule 107(B)(6) require the cooperative to use a test year ending within nine months before the filing date of the rate application. Because DVEC's rate application was filed four days beyond the nine month deadline, the Commission did not believe that small of delay would impact the validity of the application and therefore it was okay to proceed under Rule 107. The item was removed from the consent agenda to address a question by Commissioner Burns regarding the Commission's ability to waive the rules. The matter was unanimously approved. (Docket No. G-02528A-17-0277).

Graham County Electric Cooperative, Inc. received a waiver of certain requirements under A.A.C. R14-2-107 so the Company may file its rate application under the streamlined rules. Specifically, GCEC received a waiver from A.A.C. R14-2-107(B)(6), allowing it to file a rate application 10 months, instead of a maximum of nine months, after the end of the test year. Additionally the streamlined process normally prohibits rate structure changes or a non-price tariff change. However, here, GCEC has requested an export rate and a tariff for distributed generation. The Commission found this exception acceptable because

it conforms with previous Commission directives. The item was removed from the consent agenda to address a question by Commissioner Burns regarding the Commission's ability to waive the rules. The item was approved unanimously. (Docket No. E-01749A-17-0291).

Duncan Valley Electric Cooperative, Inc. Electric Division received a waiver of certain requirements under A.A.C. R14-2-107 so the Company may file its rate application under the streamlined rules. DVEC required a waiver of A.A.C. R14-2-107(B)(6), allowing the Company to file a rate application nine months and four days after the end of the test year. The item was removed from the consent agenda to address a question by Commissioner Burns regarding the Commission's ability to waive the rules. The item was approved unanimously (Docket No. E-01703A-17-0278).

Garkane Energy Cooperative, Inc. received approval to revise its Net Metering Tariff and TOU rate to substantially conform to the rates the company uses in Utah. Garkane is a member-owned and operated non-profit electric cooperative spread over counties in Utah and Mohave and Coconino Counties in Arizona. Garkane provides service to approximately 1,500 (11%) customers in Arizona. Garkane received a waiver of the Arizona Net Metering Rules to implement the new tariff. Also, Garkane will implement new TOU rates for both customers in and outside of Colorado City. A hearing amendment to correct some typographical errors was approved. The item was unanimously approved without discussion by the Commissioners. (Docket No. E-01891A-15-0176).

The Commission unanimously approved **Tucson Electric Power Company's** 2018 Renewable Energy Standard Implementation Plan. The Commission approved TEP's 2018 Renewable Energy Standard Tariff ("REST") Implementation Plan. The plan is designed to provide eight (8) percent of TEP's retail sales from

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renewable energy, as required by the Commission's REST Rules; however, TEP received a waiver from the distributed renewable energy requirement of the REST Rules.

The proposed budget for the 2018 Plan is \$53.6 million, approximately \$1.6 million more than the 2017 Plan budget. To recover the necessary funds, TEP will maintain its REST surcharge of \$0.01300 per kWh but will increase the customer class monthly caps. TEP will not be providing any new incentives for residential or non-residential DG or solar hot water heating. In the past, TEP requested to fund its Bright Tucson Solar Buildout Plan through the REST Plan. However, since TEP intends to invest its own capital in the projects and seek cost recovery through transitional rate proceeding methods, the funds requested in this budget are only related to previous costs.

There was significant discussion regarding a provision in the Plan and Order that stated "[t]he Company will not permit any loads, technologies, or strategies that consume or divert what would otherwise be considered DG production, before it is metered." A customer wanted this provision taken out of the Order, stating that it was more appropriately being addressed in the Interconnection Rules Workshop. However, TEP encourage the Commission to keep it in the Plan, stating that this provision only put in writing what was common practice. Additionally, if the final Interconnection Rules differed, TEP would follow what was in the rules. The Commission kept the provision. (Docket No. E-01933A-17-0226)