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**ARIZONA CORPORATION
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April 22, 2014

RE: Arizona Water Company (Rates Phase 3) Docket No. W-01445A-11-0310

Dissent by Commissioner Bob Burns

During my time here at the Commission, I have expressed support for a System Infrastructure Benefit Charge ("SIB") as a means for water companies to make crucial infrastructure improvements to their systems. In my view, the ability to pursue more timely improvements will benefit ratepayers by reducing rate shock and ensuring system integrity and reliability. In our decision in Phase 1 of this case, we specifically stated that we were not granting a SIB but instead authorized a higher cost of equity ("COE") of 10.55% based upon our conclusion that "the age of some of [the Eastern Group's] systems and the resulting increased need for infrastructure replacement and improvement" warranted a higher rate of return. (Decision #73736, at 61, lines 15-17.)

This Phase 3 decision, however, allows for both a SIB mechanism and a higher return on equity, the 10.55% amount approved in Phase 1, which leads to duplicative recovery by the company. This double recovery is something I simply cannot support. I would have, however, supported the SIB with a 10.0% COE, as was proposed by Administrative Law Judge Nodes. As noted by Commissioner Brenda Burns in her Phase 2 dissent letter filed on June 17, 2013, even a 10.0% COE would be fifty basis points higher than the median COEs authorized by the Commission for seven Class A water companies and six Class B water companies in our recent decisions. Moreover, RUCO's witness, David Parcell testified that most of the Commission's water company ROE determinations were 10.0% or below, "with most being in the 9.0 percent to 9.5 percent range in 2010-2013." (Rehrg. RUCO Exh. 5, at 4.) As I see it, the SIB authorizes the company an opportunity to pursue infrastructure improvements in a more timely manner, and thus, achieves the same goal that was envisioned in awarding the company a higher ROE in the first place.

I believe that RUCO met its burden of proving that in light of the SIB, as well as facts specific to this case, modifying the ROE downward is the only reasonable course of action. Permitting the company to receive both a SIB and an elevated ROE is not in the best interest of the ratepayers. Thus, I must dissent.

Sincerely,

Robert L. Burns
 Commissioner

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ARIZONA CORPORATION COMMISSION

June 17, 2013

RE: Arizona Water Company (Rates Phase 2) Docket No. W-01445A-11-0310

Dissent by Commissioner Brenda Burns

Decision #73736 did not grant DSIC. Instead, the Decision stated:

[W]e conclude that the Eastern Group, due to the age of some of its systems and the resulting increased need for infrastructure replacement and improvement, necessitates a somewhat higher COE (page 61, lines 15-17)

However, this Decision allows for a different mechanism to fund that infrastructure replacement and improvement (SIB) and preserves the same ROE from Decision #73736, thereby authorizing double recovery.

In this case:

AWC proposed a cost of common equity of 12.5%
RUCO proposed a cost of common equity of 9.4%
Staff proposed a cost of common equity of 9.4%

Decisions, since 2010, have granted the following ROEs, for Class A and Class B companies (not including this AWC case):

Class A: 9.37% (average, of seven companies)
Class A: 9.50% (median)

Class B: 9.52% (average, of six companies)
Class B: 9.50% (median)

The results, reflected above, are remarkably consistent. Therefore, if we had awarded 10.0% to AWC, in this Decision, we still would have granted an ROE that is fifty basis points higher than recent history's median. It must also be noted that current interest rates have been at historic lows. On top of that, we awarded SIB.

During my tenure, I have been receptive to and advocated for crucial water reforms. This Commission, over the last two-plus years, has done an admirable job of meeting the challenges

of adopting new policies by doing so in a prudent and cogent manner. Due to years of workshops, meetings with stakeholders, evidence presented in various rate cases and discussions in Open Meetings I have been persuaded that a DSIC-like mechanism is a reform proposal worth executing. I believe, when appropriate, a properly implemented DSIC/SIB mechanism can help ensure infrastructure integrity, provide stability for a water company and lessen rate shock for customers.

If AWC had originally been awarded a 10.0% ROE, in tandem with this Commission's first ever DSIC-like mechanism, as suggested by the ROO, it would have been a fair outcome. The AWC ratepayers should not be asked to pay for an elevated ROE while also being the test case for a newly approved SIB.

This Decision is not in the best interest of the ratepayers and now potentially exposes the Commission to litigation that could jeopardize the worthy features of SIB. I would hate to see a lot of good work, performed by stakeholders and ACC staff, fall by the wayside because of this action. For the reasons stated above, I must dissent.

Sincerely,



Brenda Burns
Commissioner