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MEMORANDUM

TO: Docket Control
FROM: Elijah O. Abinah
Director
Utilities Division
DATE: October 15, 2018

JFA
FOR

Arizona Corporation Commission

DOCKETED

OCT 15 2018

DOCKETED BY

[Signature]

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RE: STAFF'S RESPONSE TO THE OCTOBER 3, 2018, PROCEDURAL ORDER REGARDING LAKE VERDE WATER COMPANY, INC'S APPLICATION FOR A PERMANENT RATE INCREASE. (DOCKET NO. W-01557A-18-0222)

On March 4, 2015, Lake Verde Water Company ("Lake Verde" or "Company") filed with the Commission an application for an emergency rate increase and a financing application requesting approval to incur long-term debt from the Arizona Water Infrastructure Finance Authority ("WIFA"). Decision No. 75159, dated July 15, 2015, approved the emergency rate increase and a water infrastructure loan surcharge mechanism for Lake Verde. The Decision also required the Company to file a rate case application by June 30, 2017, using a test year ending December 31, 2016. On April 5, 2017, the Company filed a request for an extension of time for the required rate case application from June 30, 2017 to June 30, 2018. Decision No. 76432 granted an extension of time until June 30, 2018 using a test year ending December 31, 2017. On June 28, 2018, Lake Verde filed an application for a permanent rate increase. On September 25, 2018, Staff filed a Staff Report recommending approval of the rate application using Staff's recommended rates and charges. On October 3, 2018, a Procedural Order was issued by the Administrative Law Judge requiring Staff to address the following:

Because the Staff recommended permanent rates are lower than the emergency rates approved by Decision No. 75159, it is appropriate for Staff to make a recommendation as to whether a refund is appropriate and if not to explain why it is inappropriate.

Staff's Response:

Staff does not believe that a refund is necessary. The Company is presently charging the rates that were approved by the Commission in Decision No. 75159. Staff notes that the funds collected through an emergency surcharge are subject to true-up and refund if the Company has an over collection or did not spend the funds for the approved purpose. In evaluating the surcharge, Staff has determined that the Company actually under-collected in comparison with the amount authorized to be recovered in Decision No. 75159 due to a decrease in the number of customers. Moreover, the emergency rates were approved to recover the specific costs requested, without consideration of all of the costs. The delay in filing the rate case was due to the delay of construction of the arsenic removal system and system improvements. The arsenic removal system would not have been used and useful, and the costs associated with arsenic treatment would not

have been reflected in the expenses if the rate case was filed in 2017 with a test year ended December 31, 2016. For this reason, Staff recommended and the Commission approved the extension of time requirement.

Further, in this permanent rate case, Staff has recommended a revenue decrease primarily due to the adjustments that Staff has recommended be made to the operating expenses after examining in more detail all of the Company's expenses. The rates approved in the instant case would be applied prospectively.

EOA:PNT:red/BH

Originator: Phan Tsan

On this 15 day of October, 2018, the foregoing document was filed with Docket Control as a **Utilities Division Response to Procedural Order**, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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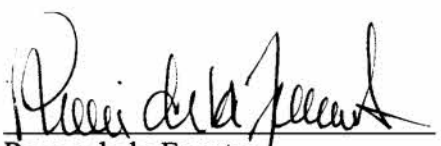
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